Outsource Fusion: Non-Banking Function Holds Immense Potential for Profitability Improvement

NaviSource Banking Solution

Table of Contents

Executive Take-Aways

- Capitalize on opportunities to significantly improve profitability through a disciplined holistic approach to infrastructure, procurement and resource management.
- Non-core, non-revenue generating, non-banking tasks are generally relegated to second-class status and thus managed as irrelevant, administrative functions.
- A bank can add up to 28% to earnings per share through a best practices outsource managed solution to many non-core tasks.
- Given the potential for positively impacting the bottom line, a bank's non-core activities should not be considered irrelevant.

Not in the Job Description

That bank executives generally tend to ignore the strategic relevance of non-core resource management should hardly be a surprise. Their focus is on growing market share, on the net-interest margin, on revenues, and on managing risks. As a consequence, they recruit, train, and compensate their personnel to fulfill core banking activities: collecting deposits, lending money, providing fee-based services.

Moreover, during their careers, banking executives generally ascend through a series of line positions: credit, deposits, investments, commercial services, accounting, and marketing. It is a safe bet, however, that no bank president has ever done a stint in purchasing, which is unfortunate in that it ignores what banks spend the most money on day-in and day-out: purchased goods, services and supporting infrastructure.

It may come as a surprise to bank management that the purchase of goods and services comprises 50% to 60% of non-interest expense (NIE), with staff expenses comprising almost all of the rest. Furthermore, up to 10% of staff expense is non-banking directly related to the management of goods and services. These employees are not bankers, their daily focus is inventory, supply, fulfillment, distribution, sourcing and procurement.

By nature, bankers know a great deal about the business of banking. What bankers do not generally know, however, is how to procure goods and services with rigor and supply-market knowledge nor are they experts in supply chain management; the process of planning, implementing and controlling the operations of the supply chain as efficiently as possible. This deficiency results in a lack of knowledge, skills, methodologies, tools, and creativity that are the hallmarks of best-in-class procurement and supporting infrastructure practices.

More Than Paperclips

To fully appreciate the savings possibilities, it is important to understand the true scope of outside purchases. Too often, when bank executives think about purchasing, they tend to think of the mundane: e.g., office supplies like paper, pencils, paperclips, etc..

Viewed holistically, however, purchasing and its supporting infrastructure comprise all of the goods and services used by the bank: from temporary help to recruiting; benefits to market research services; direct mail to advertising services; telecommunication services to computer maintenance and repair; security services to utilities; from ATM support to janitorial services. Supporting infrastructure is viewed as a necessary cost of doing business and includes up to 10% of staff, dedicated facilities, distribution infrastructure and specialty software.

And when viewed in totality, the true impact of goods and services on the bank's bottom line is hardly irrelevant.

Banks tend to view purchases, which as a rule are mostly indirect expense items, as non-critical, backwater, and unrelated to the matter at hand. Consequently, this attitude relegates the purchasing function to a low-visibility, purely transactional role – a role generally viewed as necessary but non-banking, and therefore not strategic.

What many bank executives fail to realize is that the vast majority of external spending is buried within line-of business budgets and is managed solely by the line managers most interested and affected. IT buys computers, software and telecommunication services; marketing buys commercial print and direct mail; retail buys armored courier and ATM services; and so on.

And while it is true that the interest and expertise resident in these departments makes it crucial that they be fully involved in the procurement decision, it is also true there is rarely enough procurement sophistication within the departments to ensure optimal results. This leads to a highly fragmented vendor base and the loss of an opportunity to aggregate spending and outsource functions – which is the essence of outsource fusion for dramatic cost reduction.

Outsource Fusion as a Business Strategy

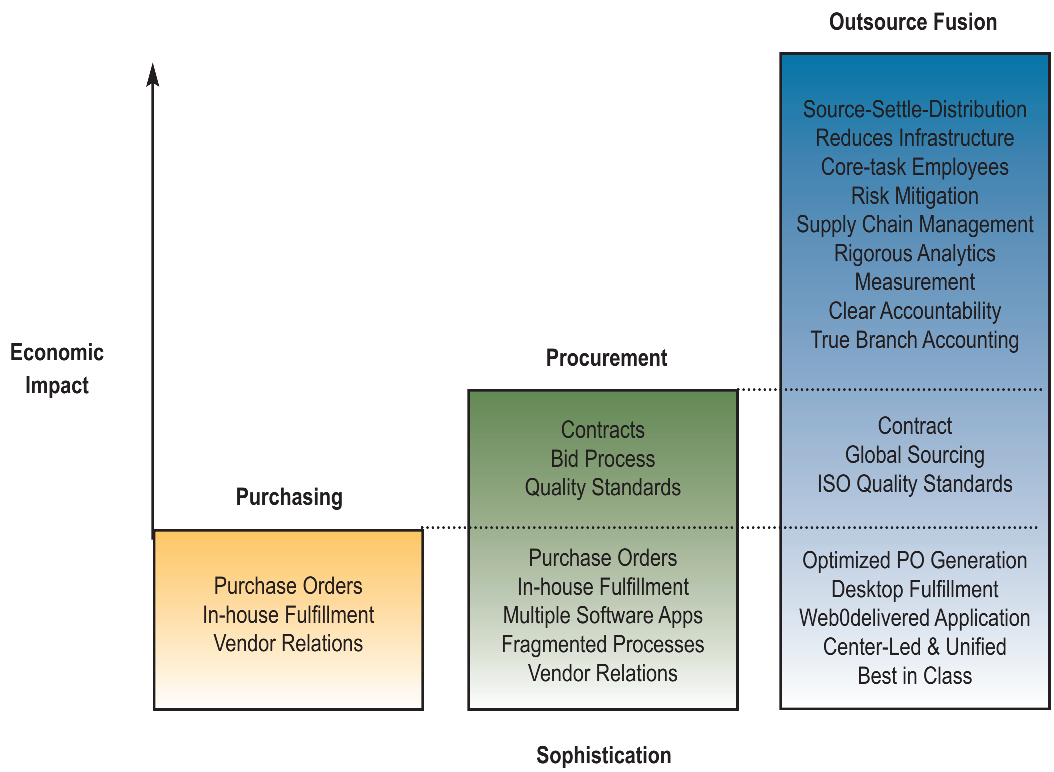
Outsource fusion of resource management is the process of:

- precisely defining actual business needs
- thoroughly analyzing and understanding the economics of the industry from which goods or services will be supplied
- combining spend category expertise, aggregation and arbitrage in a source-to-settle-to-distribution enterprise solution
- codifying all requirements and quantities
- matching appropriate source from a large and vigorously maintained database of ISO9001 manufacturers and service providers
- and elimination of as much non-core, non-revenue generating, non-banking infrastructure as possible refocusing resources on core, revenue generating, banking activities.

In short, outsource fusion of resource management is a coordinated, holistic process that aligns actual business needs and requirements with service acquisition and then measures the entire catalog of goods and services against savings performance. NaviSource Outsource Fusion is an integrated, open, cross-platform technology that maximizes intelligence and efficiency to buy smarter, consume wisely and manage daily operations.

Making Resource Management Relevant

In order to appreciate the transformative power of outsource fusion, it is important to distinguish it from traditional approaches of acquiring, managing, and distributing goods and services. In increasing levels of sophistication, the approaches can be categorized as purchasing, procurement, and outsource fusion, with each category demonstrating increasing levels of strategic awareness and operational sophistication, as shown in the following diagram.



The evolution of resource management fuses outsourcing of non-banking infrastructure, staff reduction and asset re-tasking to best-in-class global procurement, distribution, true branch accounting, and collaboration.

A saving of $500,000 in unnecessary overhead costs can have the same effect on the bottom-line as an increase in revenue of $5,000,000 - and the results can be delivered quickly and sustained for the life of the enterprise. Banks can realize significant savings from non-pay overheads, the kind of goods and services most take for granted, and where they probably do not have the time, expertise or resources to carry out a rigorous review.

By matching best practices with global best sources banks increase profitability. Using a fusion web-delivered application banks can dramatically reduce the cost of conducting business, savings that go directly to the bottom line. When a sales team reports a ten percent increase in profit it is more likely to come from twenty things that contribute one-half percent each than from one thing that gives the full ten percent. It is easier to increase profitability by reducing costs than it is generating new sales and the results are immediate and sustained.

More Impact, Less Disruption

Of all the cost-cutting strategies available to bank executives, capturing the savings through outsource fusion is painless and non-disruptive. When it comes to expense-reduction programs, most bankers' frame of reference is on controlling budgets and managing core headcount. Outsource fusion does not entail displacing core systems or core employees, it focuses exclusively on non-banking, non-core, non-pay disciplines.

As a management discipline, outsource fusion results in a redesigned resource management process with an emphasis on procurement discipline and cost accountability. It realigns the responsibilities and job requirements for the areas with resource responsibilities. These requirements are focused on strengthening the enterprise management function in terms of capabilities and skill sets, methodologies and tools, and responsiveness to the needs and requirements of the internal customers. The end state is a minimal internal non-core organization augmented by a comprehensive outsource platform aligned to the bank's strategic direction. An outsource fusion systematic approach define requirements, selects optimal sources, and proactively manages consumption to provide improved quality of delivery and support, with improved goods and enhanced services at an improved price.

Gauging the Bank's Resource Management Proficiency

- Does a corporate resource management strategy exist and does it link to corporate strategy, goals, and objectives?

- Does a system of strategic resource management exist within the organization, and is it responsible in all supply groups or categories within the organization?

- Does the institution proactively leverage business cycle and volume upturns into more favorable price terms?

- Does the strategic resource management platform incorporate Total Quality Management (TQM) across the entire organization, supply chain, and product life cycle?

- Are all products and services measured by the ISO 9000 family of standards for quality;
    - monitoring processes to ensure they are effective;
    - adequate records and audit trails;
    - checking output for defects, with appropriate and corrective action where necessary;
    - regularly reviewing individual processes and the quality system itself for effectiveness; and
    - facilitating continual improvement?

Closing Thought: The Cost of Disregarding Strategic Resource Management

Reducing cost remains the most lucrative and least painful opportunity for improving bank profitability. Disregarding non-core, non-revenue generating, non-banking task foregoes as much as 28% of earnings per share. This is hardly irrelevant. It is therefore incumbent upon executives to hold management accountable for taking the actions necessary to improve shareholder value through efficient resource management practices. Engaging the NaviSource Outsource Fusion approach is a straight forward easy fix to a non-core, non-revenue generating, non-banking giant in your budget.

For More Information

The NaviSource Solutions Group is comprised of over 4500 resources dedicated to Continuous Improvement (Kaizen), Organizational Change, Revenue Management, Retail Banking, Infrastructure Management, ISO Quality Management Systems (QMS), Project Management, Banking and Finance Technologies, Lean Six Sigma, Restructuring and Turnaround, Facilities Management, Superfactory Practice, Global Sourcing, and Systems Integration. ISO, the International Organization for Standardization, responsible for the ISO 9000, ISO 14000, ISO 27000, ISO 22000 and other international management standards plays a central role in source selection as the managers of these plants and service providers must make commitments to practice and sustain the international quality standards and strive for even higher feats to provide the best service to NaviSource clients.

To learn more, call 1-800-233-5573 and talk to one of our consulting professionals, or visit us at www.navisource.com.