

by

Muir Sanderson  
sanderson\_muir@bah.com

Piyush Doshi  
doshi\_piyush@bah.com

Christine Korwin-Szymanowska  
cks@bah.com

# Lessons from the Shop Floor

Applying Sales & Operations Planning to Financial Services

# Lessons from the Shop Floor: Applying Sales & Operations Planning to Financial Services

Recently, a large national bank ran a promotion for its mortgage business. The promotion was a huge success, and applications shot up by 250 percent. Good news? Not really. The avalanche of new applications led to a customer-service disaster, because the Marketing department had failed to let the back office know about the expected volume increase. As the application backlog rose, so too did customer dissatisfaction. Eventually, the operations executives increased the size of the back office to better handle additional volumes next time round—but in doing so, they increased processing and servicing capacity to such an extent that it gave the bank a much higher cost structure relative to its peers. A similar progression of events at another company is illustrated in Exhibit 1 (See page 2).

Such incidents would be almost comical if they were not so common. All too often, the different departments of a bank function almost as wholly separate businesses. Marketing assumes that Operations will be able to handle whatever increase in demand a promotion creates; after being burned once too often, Operations develops a defensive stance, adding more capacity to cope with surprises from the front office. Any time you hear an executive say something such as: “In our business, every customer is key and deserves the same level of high-quality service”, or “Marketing cannot forecast what the demand will be, but expects Operations to deliver consistent levels of service regardless”, chances are that the bank is suffering from this kind of miscommunication.

Like many other service businesses, financial services companies often struggle with two issues: how to link demand and supply, and how to make the right trade-offs between service and cost. These are difficult questions to answer, made even more difficult by the fact that they are often discussed only under extreme pressure and in the absence of reliable data or analytical tools. Typically, such issues are addressed only after some kind of crisis, and are resolved either by adding more capacity or by taking a hit on service. When this sort of resolution takes place, either money is spent inefficiently in a hasty scramble to meet demand or customers go unsatisfied and revenue is simply left on the table.

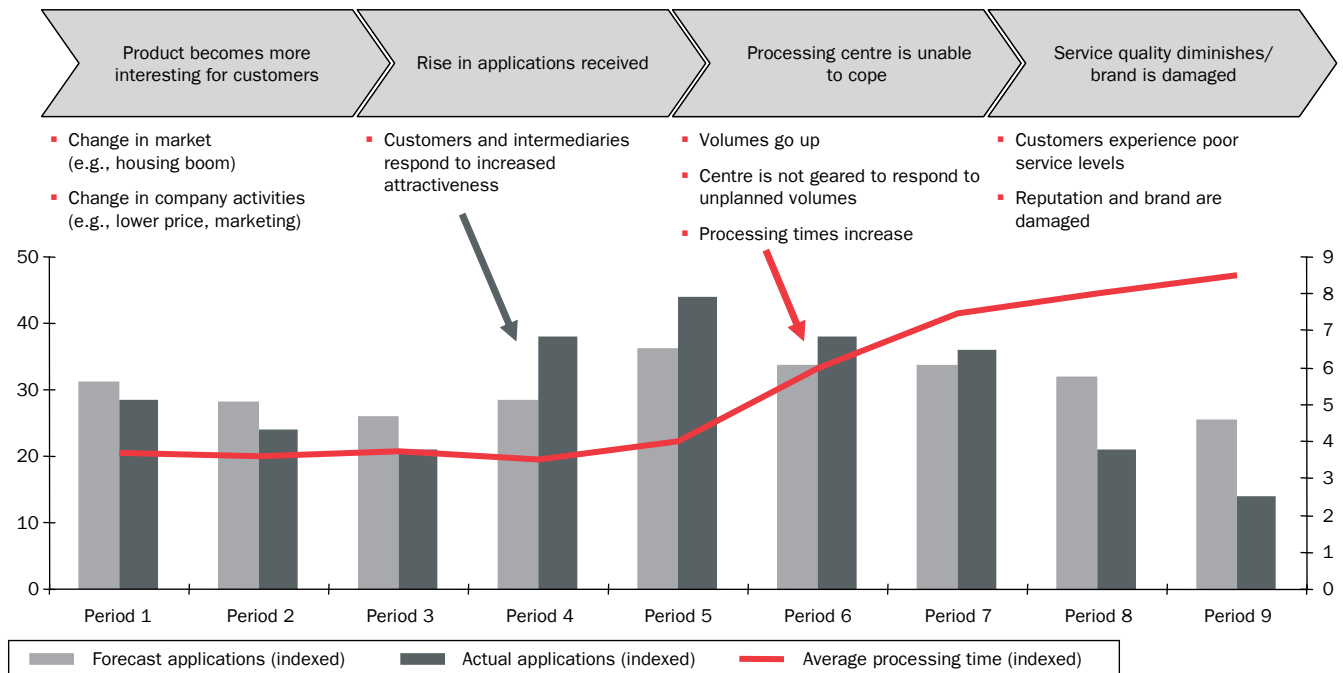
Fortunately, there is a way out. Over the past ten to twenty years, manufacturing businesses have developed a solution to this very problem. Facing relentless pressure on margins, manufacturers have worked out an approach to improve interdepartmental coordination called sales and operations planning (S&OP). Many manufacturers have found S&OP to be of tremendous value, and we believe that with just a few tweaks it could prove just as useful for financial services companies.

## What Is S&OP?

S&OP begins with the recognition that different parts of an organisation have different goals. In a manufacturing company, for example, Production’s desire for limited variety, stable designs, and long lead times is naturally at odds with Marketing’s desire for endless variety, extreme design flexibility, and the ability to make last-minute orders. Of course, both departments can never accomplish all of these objectives at the same time. So what do they do? In the absence of a solid planning system, each unit typically looks out for its own interests. The resulting compromise depends on how much power

**Exhibit 1**

How Unplanned Variations in Application Volumes and Inflexible Processing Capacity Impact Processing Times



Source: Booz Allen Hamilton analysis

each department has to enforce its will, rather than on a collective decision about what is best for the company as a whole.

This ad hoc balancing act works—to a point. When a company follows this approach, sooner or later some customers get at least some of what they need, and the business makes some of the profit it should have made. This practice is sustainable for a long time in a high-margin, protected market. But in the highly competitive world with razor-thin margins in which many manufacturers found themselves a decade ago, many executives saw the need to improve coordination between functions. Smarter players found that better coordination between the Sales and Operations departments could make the difference between profit and loss, and even, sometimes, between survival and failure.

At the strategic level, S&OP begins by forcing executives to answer some tough questions early on: Which segments should we serve? What should our service levels be? How should we prioritise our customers when we have a supply shortfall? Once those decisions are made, a variety of mechanisms must be put in place to ensure that the give and take between marketing and manufacturing happens in a clearly communicated and ongoing way, not in stops and starts.

By taking such an approach, many manufacturing companies have learned to manage their costs better. S&OP programmes have saved manufacturers millions, with no loss to customer service or profitable customer choices:

- A global tobacco manufacturer saved \$120 million from operational improvement initiatives and reduced inventory by \$100 million, largely as a result of S&OP work.
- A North American durable goods manufacturer reduced its inventories by 30 percent, saving \$300 million.
- A European cosmetics manufacturer reduced its working-capital needs by more than 15 percent, while improving its promotion planning.

**How Could S&OP Work in Financial Services?**

Financial services companies' implementation of S&OP must be somewhat different from manufacturers'. Banks, after all, have no inventory, no logistical costs, and no monthly production runs—all key elements of a manufacturing S&OP process. But although the metrics that drive success are different, the fundamental insight remains the same: just as in manufacturing, S&OP for financial services begins with the recognition that compromises must be made throughout the business, and that maximising profitability depends on striking the right balance between competing claims for resources.

As in manufacturing, a financial services S&OP process begins by answering a set of operational questions that have strategic implications. It can be used to address such perennial issues as:

- How much call-waiting time should we allow for different customer segments?
- How long should the queues in our branches be allowed to grow?
- How short does our account-processing lead time need to be?
- How long should it take for our new customers to open an account, or buy a policy from us?
- How accurate should our response rates be across channels?
- How do we prioritise our new product introductions, taking into account operations and information technology (IT) capacity?
- What kind of flexibility should we build into our operational capacity, taking into account the cost and service quality trade-off?

With S&OP, these kinds of questions can all be answered in a thoughtful and thorough way, rather than through improvisation by anxious bucket brigades.

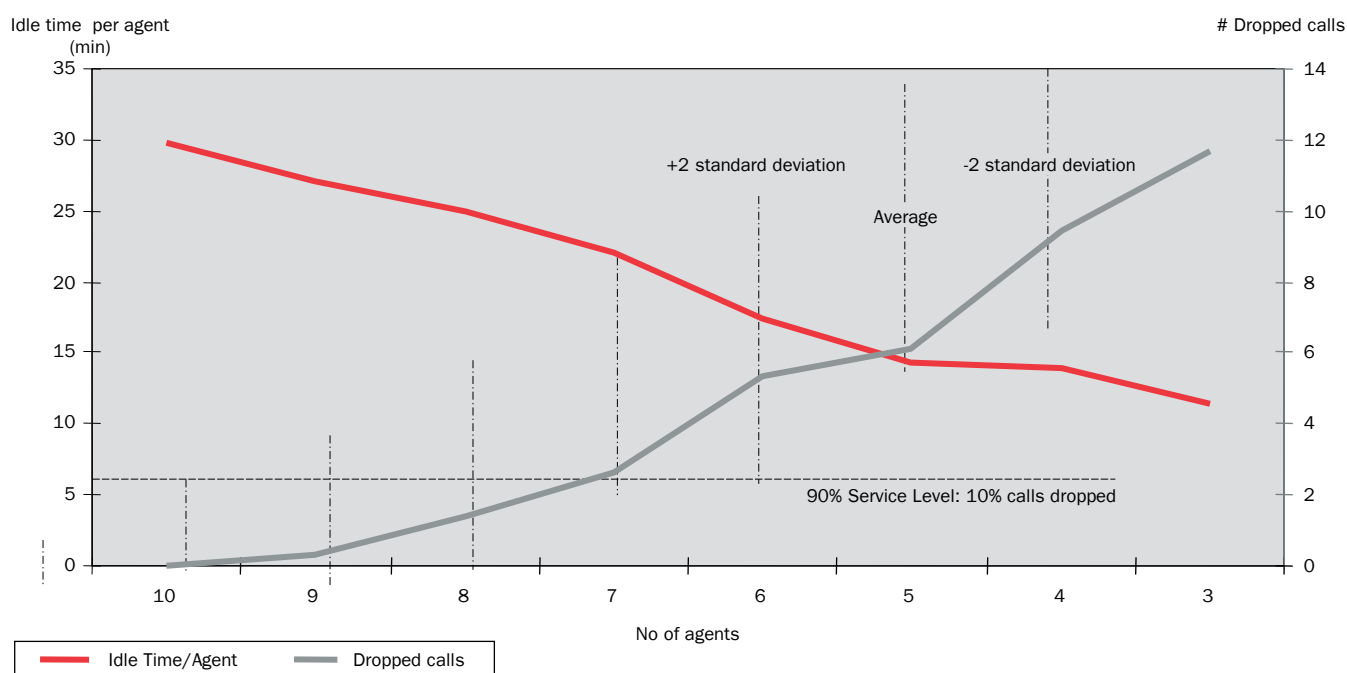
### Establishing an S&OP Programme

Executives setting up an S&OP programme must undertake five tasks, which we think of as building blocks:

- 1. Set service and supply policies.** First, the company must decide what its service requirements should be. In the same way in which managers might negotiate service levels with a third-party vendor, bank executives need to decide what kind of service levels will be acceptable. What should be the maximum time, for instance, that a customer is allowed to queue? How long can mortgage applicants be left waiting before they are given a decision?
- 2. Tighten forecasts.** To make such policies meaningful, demand must be forecast accurately. A company policy of answering queries within three minutes is cold comfort to the customer who has been on hold for half an hour. Often, forecasting accuracy can be improved by focusing on the factors that drive demand volatility (such as promotion, pricing, and advertising) and then examining their degree of past correlation with demand for that product. For many banks, any form of forecast that factors in market information would be a big improvement over current practices.
- 3. Develop analytical models.** Once planners believe their forecasts are robust enough to be relied upon,

### Exhibit 2

Agent Idle Time Versus Dropped Calls Over One Hour Period (Demand = 25 Calls / Hour)



Source: Booz Allen Hamilton analysis

analytical models must be developed to help guide executives in setting the right trade-offs between cost and service. For almost every product or service, there is a point of diminishing returns after which the value created begins to decline relative to its cost. A model for finding that point makes it much easier for managers to set policies that ensure the best trade-offs are made for the business. In the case of manufacturing, one such trade-off might be inventory versus manufacturing responsiveness; in the case of a bank, it could be customer response time versus number of clerks on duty. When the right data is presented in an accessible form, reaching a thoughtful decision about how to use the firm's resources becomes relatively easy. For instance, a simple model, like that shown in Exhibit 2 (See page 3), indicates the number of clerks needed to ensure that the time customers spend waiting on line is kept to specific levels.

**4. Communicate across functions.** Good plans backed by strong analytics can still go wrong, of course—especially if there is little communication across the enterprise. Manufacturers who have had success with S&OP say it is important to schedule a monthly meeting of executives from each department to review their current activities and goals for the next month, discuss whether a forecast is still on track or needs to

be adjusted, and decide whether the models or goals must be modified in light of new results.

**5. Track metrics.** It almost goes without saying, but S&OP requires setting key metrics to monitor the success of the results. The right metrics, identified in the course of the modelling, should be selected to determine how well the plan is being executed and to identify weak spots either in the model or in the process so that they can be repaired. Although each company's goals will differ, average agent utilisation, number of processing errors, or levels of data-entry accuracy are some of the metrics that might be tracked.

Finally, it should be noted that even though these five elements are frequently executed in the order presented above, it is best to view S&OP more as a wheel, since a well-executed S&OP process tends to lead to iterative improvements over time.

#### **S&OP at Work in a Financial Services Company**

The S&OP theory was turned into practice for the securities division of a diversified financial services company that operates in more than 40 locations worldwide. This division, serving brokerage clients, employed about 3,000 staff performing more than 600,000 transactions per month. Before management started using some of the S&OP principles, the service philosophy of their operations department appeared to be “Give everything to everybody, as best we can”. In line with this unspoken philosophy, a sprawling system had developed as Operations tried to serve a variety of different customers with no regard for their individual needs. Further complicating the issue was poor coordination between the field and the Operations teams in parts of the business. The result was wildly inefficient, with services delivered in ways that turned out to be several times more expensive than necessary—for instance, with skilled customer representatives handling almost every client contact.

To create a more streamlined operation, management adopted the five key S&OP building blocks. Operations, working closely with the demand side of the business, created a clear set of service policies around different customer segments. Several tools were implemented to reduce and better manage demand. Processes were also put in place to improve the accuracy of field forecasts and data. Finally, the right sets of metrics were established to effectively measure and manage performance.

#### **Could Sales and Operations Planning Help Your Firm?**

Could your financial services company benefit from better sales and operations planning? The following short diagnostic can give you a sense of whether your organisation needs to improve its interdepartmental communication and planning:

- In general, do you see a high level of communication and trust between product managers, sales and operations, and processing centres?
- Does your firm have a regular forum to discuss and resolve cross-functional issues?
- Are policies guiding day-to-day operations defined in an objective manner, periodically reviewed, and clearly communicated?
- Does Marketing send out timely updates to Operations and IT when a promotion is expected?
- Is there a cross-functional process to set service expectations as business needs change?

The results were significant. Costs decreased by 15 percent. Processes and services were also changed dramatically, not only in terms of efficiency—for example, lead times—but also in terms of effectiveness. While the time it took to open new accounts was reduced by up to 60 percent, document reject rates also improved from 30 percent to 10 percent, and accuracy of response improved across all channels, by over 10 percent.

### Conclusion

As competition for customers grows, both locally and globally, financial services executives must move beyond the old hit-and-miss ‘guesstimates’ now often used to determine the proper level of service and support. While cost pressures will eventually push organisations towards a more integrated approach to interdepartmental communications, a deep understanding that this is the direction in which processes will inevitably evolve can only help financial services executives make better and more consistent choices early on. Companies that are even modestly more adept at S&OP than their competitors will gain share over time, all other factors being equal. Improved sales and operations planning will not solve every problem, but S&OP can provide a better approach for identifying challenges as they arise.

### S&OP and IT in Financial Services Companies

Unplanned product features or unique service agreements inevitably drive stand-alone, subscale additions to the IT architecture or become part of a lengthy and costly process of changing core systems. A clearer and more transparent planning dialogue between Sales, Operations, and IT can start to free the potential of technology from the complex, expensive, and lengthy constraints in which many IT departments find themselves today. Reciprocally, using S&OP techniques to build a longer-term planning horizon allows IT to consolidate fragmented systems and to build process-enabling technologies that automate and support the delivery of agreed-upon service regimes.

An insurance and pensions company adopted these joint-planning techniques to understand the trade-offs across the entire business and formally plan its target product features, service levels, growth ambitions, and marketing campaigns. Over a period of three years, IT was able to consolidate from eight core product systems to two and implement new process tools to support differentiated service levels and improved case management. At the same time, the business was able to subtract 30 percent from its sales, operations, and IT cost base, whilst becoming the fastest growing banc-assurance provider in the UK.

## What Booz Allen Hamilton Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Integrating the full range of consulting capabilities, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.

With 17,000 employees on six continents, the firm generates annual sales that exceed \$3.5 billion. Booz Allen has been recognized as a consultant and an

employer of choice. In 2005 and in 2006, Fortune magazine named Booz Allen one of “The 100 Best Companies to Work For,” and for the past seven years, Working Mother has ranked the firm among its “100 Best Companies for Working Mothers.”

To learn more about the firm, visit the Booz Allen Web site at [www.boozallen.com](http://www.boozallen.com). To learn more about the best ideas in business, visit [www.strategy-business.com](http://www.strategy-business.com), the Web site for **strategy+business**, a quarterly journal sponsored by Booz Allen.

### Contact Information

#### London

#### Muir Sanderson

Vice President

+44-20-7393-3259

[sanderson\\_muir@bah.com](mailto:sanderson_muir@bah.com)

#### Piyush Doshi

Principal

+44-17-1393-3443

[doshi\\_piyush@bah.com](mailto:doshi_piyush@bah.com)

#### Christine Korwin-Szymanowska

Senior Associate

+44-20-7393-3783

[cks@bah.com](mailto:cks@bah.com)

## Worldwide Offices

<b>Abu Dhabi</b> Charles El-Hage 971-2-6-270882	<b>Brisbane</b> Tim Jackson 61-7-3230-6400	<b>Frankfurt</b> Rainer Bernnat 49-69-97167-0	<b>Madrid</b> Mercedes Mostajo 34-91-411-8450	<b>Philadelphia</b> Molly Finn 267-330-7900	<b>Stockholm</b> Per-Ola Karlsson 46-8-506-190-00
<b>Amsterdam</b> Marco Kesteloo 31-20-504-1900	<b>Buenos Aires</b> Ivan De Souza 54-1-14-131-0400	<b>Helsinki</b> Timo Leino 358-9-61-54-600	<b>McLean, VA</b> Eric Spiegel 703-902-5000	<b>Rio de Janeiro</b> Paolo Pignorini 55-21-2237-8400	<b>Sydney</b> Tim Jackson 61-2-9321-1900
<b>Atlanta</b> Lee Falkenstrom 404-659-3600	<b>Caracas</b> José Gregorio Baquero 58-212-285-3522	<b>Hong Kong</b> Edward Tse 852-3579-8222	<b>Melbourne</b> Tim Jackson 61-3-9221-1900	<b>Rome</b> Fernando Napolitano 39-06-69-20-73-1	<b>Tampa</b> Joe Garner 813-281-4900
<b>Bangkok</b> Tim Jackson 66-2-653-2255	<b>Chicago</b> Vinay Couto 312-346-1900	<b>Honolulu</b> Chuck Jones 808-545-6800	<b>Mexico City</b> Carlos Navarro 52-55-9178-4200	<b>San Diego</b> Dave Karp 619-725-6500	<b>Tokyo</b> Steve Wheeler 81-3-3436-8631
<b>Beijing</b> Edward Tse 8610-8520-0036	<b>Cleveland</b> Mark Moran 216-696-1900	<b>Houston</b> Matt McKenna 713-650-4100	<b>Milan</b> Enrico Strada 390-2-72-50-91	<b>San Francisco</b> Paul Kocourek 415-391-1900	<b>Vienna</b> Helmut Meier 43-1-518-22-900
<b>Beirut</b> Charles El-Hage 961-1-336433	<b>Colorado Springs</b> Glen Bruels 719-597-8005	<b>Jakarta</b> Tim Jackson 6221-577-0077	<b>Munich</b> Jörg Krings 49-89-54525-0	<b>Santiago</b> Leticia Costa 562-445-5100	<b>Warsaw</b> Adrian Foster 48-22-460-1600
<b>Berlin</b> Rene Perillieux 49-30-88705-0	<b>Copenhagen</b> Torsten Moe 45-33-18-70-00	<b>Lexington Park</b> Cynthia Broyles 301-862-3110	<b>New York</b> David Knott 212-697-1900	<b>São Paulo</b> Leticia Costa 55-11-5501-6200	<b>Washington, DC</b> Eric Spiegel 703-902-5000
<b>Bogotá</b> Carlos Navarro 57-1-628-5050	<b>Dallas</b> Mitch Rosenbleeth 214-746-6500	<b>London</b> Shumeet Banerji 44-20-7393-3333	<b>Oslo</b> Karl Høie 47-23-11-39-00	<b>Seoul</b> Jong Chang 82-2-6050-2500	<b>Wellington</b> Tim Jackson 64-4-915-7777
<b>Boston</b> John Harris 617-428-4400	<b>Düsseldorf</b> Thomas Kuenstner 49-211-38900	<b>Los Angeles</b> Tom Hansson 310-297-2100	<b>Paris</b> Bertrand Kleinmann 33-1-44-34-3131	<b>Shanghai</b> Edward Tse 8621-6340-6633	<b>Zurich</b> Jens Schädler 41-1-20-64-05-0