

FIGHTING BACK

Lloyds TSB transforms its Cards business and reaches for top slot



Issues:

New entrants to the credit cards market were smaller, more nimble, often with tailored product offerings and higher service levels. They were “cherry-picking” clients, eroding Lloyds TSB’s market share and profitability.

Approach:

Using proven methodologies underpinned by a deep understanding of the credit cards business, both as practitioners and consultants, the team designed a major change programme to enhance competitiveness and profitability, and deliver substantial service improvements.

Benefits:

Lower operating costs; better customer service; better quality customer information; analytical capabilities and tools that will increase revenue opportunities; and a change programme to support the new business.

Lloyds TSB’s credit card subsidiary was the second largest credit/debit card business in the UK, but this position was being threatened by newcomers who were focusing their marketing strategies on attracting high-value customers via tailored propositions. The bank wanted to go further than just retain its market share; it wanted to challenge for the top slot in customers’ wallets.

The issues

Having occupied the number two position in the UK credit/debit card industry for many years, Lloyds TSB could see that new entrants were gaining significant market share. They were targeting the most profitable customers by offering incentives, such as balance transfer options, and then trying to keep them through sophisticated

customer relationship management.

Executives of the Lloyds TSB Cards business realised they needed to defend their current market position and re-energise the business. They also wanted to improve their cost-to-income ratio, their customers’ average balances, turnover and customer profitability, and ultimately the bank’s overall profitability.

The bank realised it had to reinvent itself and equip its employees with the right tools and capabilities to be able to compete effectively in this increasingly tough market and hold on to its impressive franchise.

The Executive team wanted to energise the business, and established an ambitious goal – to secure the number one position in customers’ wallets. But this called for a major change programme and significant investment in processes and IT systems.

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Ron Whatford – managing director
Central Operations, Lloyds TSB

The approach

KPMG Consulting has an established link with Lloyds TSB, and the firm was chosen for this engagement as a result of its knowledge of, and work in, the banking and the financial services industry.

From the outset, it was clear that Lloyds TSB placed great importance not only on the outcome of the work, but also on the way it was delivered. The bank wanted a collaborative approach, where consultants and internal staff worked closely together to develop and deliver the preferred solution. They wanted to encourage skills transfer, so the cards team were involved throughout the whole project, working in partnership with external expertise.

The KPMG Consulting team, led by Andy Mills (engagement partner), used its proven Business Performance Improvement methodology to map current processes and look at service standards and key performance indicators. This provided an overall picture of where the company was and the key issues that needed to be addressed. The next step was to visualise and define where the bank wanted to be, and what steps would need to be taken to achieve it, using experts with an in-depth knowledge of UK and US card markets.

To achieve the future ideal, it was agreed that major investment over two years would be needed to:

- transform the business and develop a new operating model
- re-engineer business processes to deliver more customer-centric services
- develop analytical capabilities to understand and respond more effectively to customer needs
- improve the operational environment for staff
- renew the IT/telephony infrastructure.

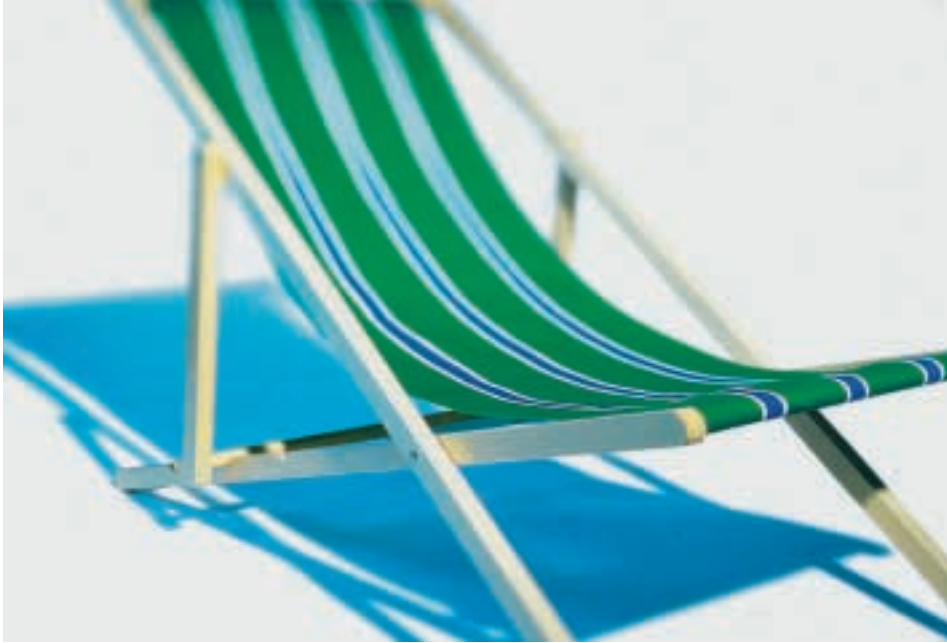
KPMG Consulting split the overall programme into two key areas. The first focusing on cost reduction and new processes and the second on information strategy.

Cost reduction – the team took around 12 weeks to create a clear overview of existing processes and to understand the issues fully, in order to design the new-look operating model. The design is complete, and various programmes are now being implemented using the bank's own methodology.

On the information strategy side, attention was focused on three key areas – marketing, credit policy and fraud.

"We ran a number of pilots to illustrate how processes could be improved to benefit the business," said Len Sinclair, principal consultant. "For instance, direct mail campaigns are much more effective if offerings are tailored to customers' lifestyles and needs. We also looked at the bank's credit policies, to see if profitability was affected by changing the guidelines on how much credit was offered to specific groups of people.

"Fraud is a huge issue throughout the credit card industry, particularly for online trading, and we ran pilots which showed how fraud could be more easily identified and tackled. Implementing advanced trend analysis based on new rules could make dramatic savings."



The benefits

During the initial phases of the project, 83 'quick wins' were identified and almost half of these were earmarked for rapid implementation.

Several millions in savings have already been delivered by implementing the findings of the initial Information Strategy pilots, proving that revenue from the existing customer base can be increased.

Through better quality of customer information – covering spending patterns, behaviour and preferences, for instance – the bank can improve customer relationship techniques and target marketing.

For example, by combining the use of new technology, business processes and information tools within the new structure, the time taken to set up a new account was slashed from seven days to 24 hours.

The revised operational model was defined across four key dimensions:

- Processes & Controls
- Infrastructure
- Information Strategy
- Organisation

In Processes and Controls, the new design provides both increased functionality and cost reduction, and in Infrastructure, the new IT-architecture incorporates technologies which provide the bank with the platform needed to compete.

The Information Strategy pilots are already delivering benefits from the existing customer base, and in Organisation, the new functional and organisation design is integrated seamlessly into the Lloyds TSB Group.

A people-change programme to support the new business will not only help the bank to improve its performance, it will enhance the customer experience. Multi-skilled agents will be the first point of customer contact, and will be enabled through technology and information to resolve customer queries more quickly.

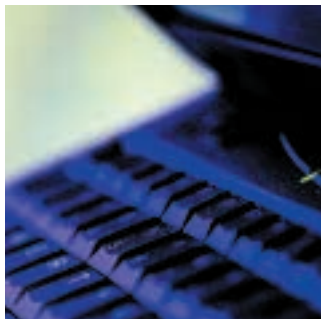
Employees will benefit from the new learning environment and the technology being delivered will make it easier for them to make a real difference to their clients.

'Benefits of several million have already been delivered'

Peter Ayliffe – managing director
Personal Banking & Cards, Lloyds TSB

CONTACT

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KPMG Consulting was chosen because:

- it had a proven, workable approach, which fully involved the Lloyds TSB project team
- its people had deep industry knowledge across cards, credit and the wider financial services business
- it offered a complete solution, incorporating process change, technology and business and people change
- of its delivery focus – work was completed on time and within budget.

The KPMG Consulting team included professionals from the US, where the cards services industry is even more competitive than in the UK.

"This meant they really understood our business, and the issues we are facing," said Ron Whatford of Lloyds TSB. "The combined experience of the team meant we could clarify our objectives very quickly, visualise what had to be done, and move rapidly to implementation."

"It was also important for us that we worked in a collaborative way, rather than the traditional consulting way of doing it all for the client. Overall, the team did a superb job."

KPMG Consulting's reputation as a firm that could provide an end-to-end solution in the most complex of projects, rather than just delivering parts of it, was also crucial.

On the cost reduction side, the bank is now implementing stages of the design programme. On the information strategy side, a number of initiatives have been driven through, and a whole range of work is now under way to refine current processes and build new ones.

The cards services subsidiary is beginning to reap the rewards of new technology, which is improving its ability to identify, retain and optimise its most valuable customers and offer an improved, but lower cost, service.

KPMG Consulting continues to work with Lloyds TSB Cards management, as the business transformation continues and the people change programme gathers pace.

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Ron Whatford – managing director
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