

## About Watson Wyatt

*Strategy matters* is brought to you by Watson Wyatt's Insurance & Financial Services strategy group.

In today's intensely competitive environment, staying ahead of the competition is vital. Understanding and exploiting sources of competitive advantage, from the overall positioning and direction of the organisation to the detail of operations and distribution, is a challenge for any company in today's rapidly changing environment.

Focusing exclusively in the fast moving and challenging financial services world, the Watson Wyatt strategy group is comprised of industry experienced specialists, who combine hands on 'client side' experience with professional consulting skills. We work with clients across the financial services spectrum, bringing an external perspective, expertise, experience and, above all, the dedicated resource necessary to solve problems and realise opportunities quickly.

Watson Wyatt's global Insurance & Financial Services practice provides wide-ranging consulting advice on strategic matters, management issues, the sources of value and all aspects of financial condition/risk management within insurance and financial services businesses.

Combining broad practical experience with leading edge technical and actuarial expertise, the practice advises a wide range of clients including major financial institutions, life, non-life and health insurance companies, reinsurers, fund managers, banks, bancassurers and companies involved in the purchase or distribution of insurance and financial services.

The Insurance & Financial Services practice is part of Watson Wyatt Worldwide, a global consulting firm focused on human capital and financial management, with more than 6,300 associates in 88 offices around the world.

For more information, visit [www.watsonwyatt.com](http://www.watsonwyatt.com)

## Who's who in strategy

In this issue we feature Colette Dunn who is head of the UK strategy group, and Mike Williams, author of the article on Operational Strategy in this issue. Future issues will profile our other strategic consultants.



**Colette Dunn**

+44 (0)1737 274302

[colette.dunn@eu.watsonwyatt.com](mailto:colette.dunn@eu.watsonwyatt.com)

Colette is head of the UK strategy group at Watson Wyatt. She has over twelve years strategic management experience within the financial services sector. Colette applies rigorous strategic processes to situations in order to develop innovative solutions.

Prior to joining Watson Wyatt, Colette worked for Accenture within the financial services strategy group. She consulted to organisations addressing strategic challenges in a wide range of areas. Colette has managed projects in the UK, Belgium, France, Poland and pan-European.

Previously Colette spent six years at NPI, a UK life and pensions specialist, where she held a number of marketing and strategy roles. During this period Colette gained significant operational experience.

Before entering financial services Colette held strategic consulting roles in two manufacturing organisations. She also lectured at Bath University on the Business Studies and MBA courses.

Colette has an MBA from Warwick Business School.



**Mike Williams**

+44 (0)1737 274304

[mike.williams@eu.watsonwyatt.com](mailto:mike.williams@eu.watsonwyatt.com)

Mike works with clients in the areas of strategy and marketing. He has consulted on a range of issues including market assessment, market entry strategy, outsourcing/partner selection and strategy development. He has particular product expertise in health insurances and related programmes.

Prior to joining Watson Wyatt, Mike spent 10 years in a number of senior positions with Guardian Health, including operations and marketing, latterly running the company and joining PPP healthcare's senior management team during the merger of the two businesses. He has also worked at a strategic level within a major

international broker and as an independent consultant. He has significant experience of strategic and operational issues at subsidiary and group level, managing rapid growth and change as well as heading cross-company projects.

Before entering the insurance industry Mike worked in senior marketing and communications positions in other industries.

Mike has a degree in mechanical engineering, subsidiary degree in mathematics and a post graduate diploma in marketing. He is a member of the Chartered Institute of Marketing.

Authorised and regulated by the Financial Services Authority.

The articles in *Strategy matters* are for general interest. No action should be taken on the basis of any article without seeking specific advice.

To unsubscribe, email [unsubscribe@eu.watsonwyatt.com](mailto:unsubscribe@eu.watsonwyatt.com) with the publication name as the subject and include your name, title and company address. You can manage your Watson Wyatt subscriptions at [www.watsonwyatt.com/membership](http://www.watsonwyatt.com/membership)



# Strategy matters

Issue 1 • March 2004



Operational strategy

## Operational strategy

By Mike Williams

In what seems like an irreversible flow, it is estimated that some 15 percent of financial services headcount could move offshore, equating to more than seven hundred thousand positions in Europe and two million globally<sup>1</sup>. Companies already on this path include AXA, Aviva, HSBC and GE Capital.

In the last few years, outsourcing deals by UK insurers worth in

excess of £1 billion have been announced, including the likes of Royal & SunAlliance, Lincoln Financial, Abbey Life and Barclays, between them accounting for the bulk of this figure.

But what does this all mean? Are these essential steps to survival or a dangerous game of 'follow my leader' in which there will be losers as well as winners?

*Continued on page 2*

## Partnership development – a science not a chance event

By Frank Fletcher

Business partnerships in financial services sometimes develop by accident. In our experience, *successful* partnerships do not just happen. They are the result of rigorous work in advance and disciplined on-going attention to detail.

Collaboration, flexibility and understanding are the key ingredients in successful maintenance of partnerships. Rigour, objectivity, research and preparation are the foundations of successful development.

The economics of doing business in retail financial services are increasingly demanding but, at the same time, regulation is changing to allow more imaginative configurations of providers and distributors. As a result, organisations involved in the market are seeking to gain competitive advantage by focusing on their main strengths. To maximise the benefit they must then seek partners with complementary skills and competencies.

*Continued on page 3, column 2*

 **Watson Wyatt**  
Worldwide

## What are the options?

Outsourcing and offshoring are often talked about in the same breath, but the two can be very different.

**Outsourcing** (or BPO – business process outsourcing) has been the domestic solution, contracting the administration of usually closed books of business to a third party, frequently transferring staff and systems in the process. The outsourcer can generate savings through more efficient processes, management and economies of scale if the business is consolidated with other books. An estimated nine million life and pensions policies are already outsourced to four major providers in the UK.

**Offshoring** is the permanent or long-term location of owned operations in low cost environments such as India, although this is spreading to other countries such as South Africa, China and the Philippines, as well as Eastern Europe. The main advantages are cost of operation due to local wage levels, good availability of well qualified staff and potential time zone arbitrage.

The combination of outsourcing and offshoring – offshoring – has been slower to emerge, but is a potentially powerful and attractive offering to companies.

On the flip side there is also *insourcing*, taking on the administration of other companies' books of business to maximise internal scale and efficiency of systems and processes. The focus to date has been on outsourcing administration to specialist providers, but there could be moves in the other direction by companies who have made, or are contemplating significant investment and can demonstrate cost advantage.

## Strategic rationale

The reason most commonly cited for going down these routes is, of course, cost. The importance of

operational efficiency is not new – business process re-engineering was big business in the 1990s – and today's 'one percent world' continues the cost pressure. Furthermore, as pioneers reap the benefits of lower costs, competitive pressure will increase on those that have not. But in the rush for cost saving and keeping pace with competitors, insufficient attention may be given to the strategic view with potentially disastrous consequences.

It is important to recognise that outsourcing and offshoring should not be ends in themselves, but outcomes of a clear operational strategy, which is itself completely aligned with corporate strategy. Operational strategy is often described in terms of Porter's value chain<sup>2</sup>. The primary functions are illustrated as arrows at the top of the diagram, while supporting functions are shown below in this version adapted for financial services (Figure 1).

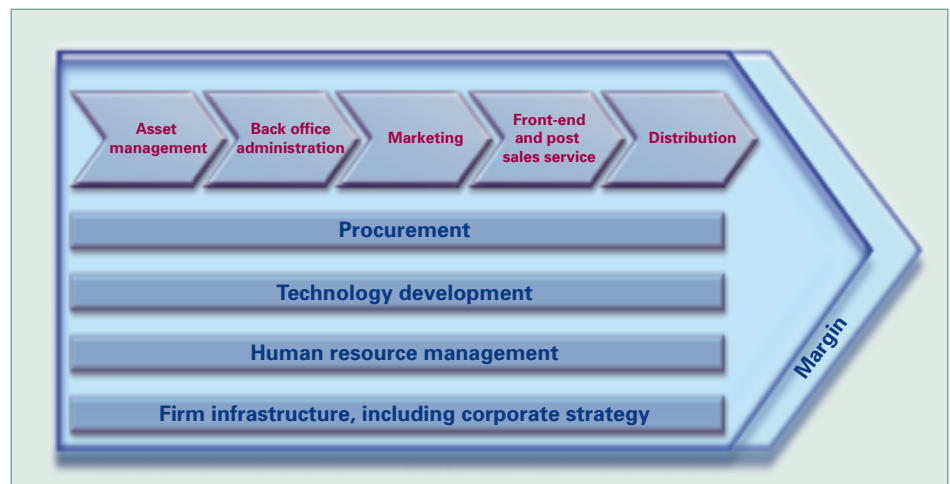
be brought in from other manufacturers to extend ranges; distribution can be handled through intermediaries or partners, from banks to supermarkets. Wittingly or not, the traditional models are being broken down and outsourcing or offshoring are the latest manifestations of this.

## How to succeed

Fundamental to success is clarity as to where an organisation positions itself in the value chain. If a company's success is built on customer service reputation, it would be a very brave, or perhaps foolish, move to entrust this to a third party.

Defining what is core in the value chain is fundamental to a clear operational strategy, and this is not only about cost. Organisational capability and business focus are two other key considerations in evaluating which business elements should be retained. This doesn't just

**Figure 1. Operational strategy value chain**



Historically, companies have fulfilled every function in the value chain in an integrated approach. This has had the advantage of retaining control, but companies have progressively realised that while they may have been expert in one or several areas, they are rarely expert (or best in class) in all. Asset management can be readily outsourced. Products can

need to apply at a company level, as these considerations may also be relevant at product and territory level.

Provided there is clarity around these strategic issues, the logic for outsourcing (or offshoring) should be robust. But what about offshoring? In essence this retains integration,

but at a practical level it can feel a lot like outsourcing, with a remote operation providing services that must integrate back into the overall corporate proposition. Despite the in-house nature of offshoring the cultural alignment, service levels and customer interaction can still prove challenging. Although the value chain may look unchanged, the decision to go offshore requires the same analysis and understanding as a decision to outsource.

And in the rush overseas, the customer should not be forgotten. Recent research into attitudes to offshoring<sup>3</sup> indicates reservations, with some 78% of interviewees believing that companies have not clearly addressed customer opinions in this area. Benefits have to be demonstrable – 81% believe that cost savings should benefit customers, but only 17% think that they actually do. Communication also needs to be clear – 79% consider that companies have a duty to inform customers that they are dealing with an offshore facility, but only 7% were aware of the offshoring trend from company literature. The real crunch, however, is that 63% would take offshoring into account when making purchase decisions.

## Conclusion

Outsourcing and offshoring will undoubtedly have a major influence on the future shape of businesses in this industry, but as the dot.com revolution illustrated, one approach does not work for everyone and merely flocking to emulate the leaders does not guarantee success or, indeed, survival. The key to success is a clear operational strategy that aligns these decisions with the strategic direction of the business. ■

## Sources

<sup>1</sup> Deloitte Research

<sup>2</sup> *Competitive Advantage* – M E Porter

<sup>3</sup> Amicus/Performance House

## Partnership development continued from page 1

Efficient distribution has been the driver of much development to date – for example, Legal & General providing product for Barclays Bank – but there are signs the partnerships world could become a lot more complex in the future. For example an efficient manufacturer might complement its core range with niche products from specialist manufacturers – and then work with a distribution specialist to ensure efficient sales and marketing.

Based on over five years of research and experience, Watson Wyatt has developed a thorough and independent process to support clients through the partnership development minefield.

In truly successful partnerships, each party is marketing itself to the other and has to be clear about what it is able to offer. Our experience demonstrates that it is crucial to ultimate success for an organisation to understand and be fully committed to its own partnership proposition. Moreover, the proposition has to flow from and be fully integrated with the organisation's corporate strategy. It must have full buy in from all senior managers and stakeholders. Hence the process should begin with examination (and, if necessary, modification) of the corporate strategy.

The next step is to understand areas of competence and articulate the proposition. Gap analysis (understanding areas of lesser capability) will then define the characteristics, skills and expertise sought from a partner. Precise selection criteria should also be specified and quantified.

A screening process will lead to the elimination of obviously unsuitable partners from the universe created through the previous stage and a long list can be agreed for invitation to tender. The selection process should then be objectively based on evaluation of the tender responses against the key selection criteria, generating a short list for due diligence work.

Negotiation and implementation follow with the chosen prospective partner(s).

The key benefits of the process include:

- control
- clear understanding of corporate aims
- objectivity
- ability to re-evaluate (if necessary) before commitment
- framework for monitoring/controlling on-going arrangements. ■

**Figure 2. Partnership development process**

