Reflection 9. Why Are We Not More Profitable?

Successful financial service providers wish to grow, serve more people, with better products and services, reduce their risk, become more efficient, build a better brand and become more profitable.

From 30 years providing services to financial service providers among the most common constraints to achieving these goals relate to strategy and the implementation of strategy, more specifically:

a) Poorly implemented institutional strategy, with slow project execution, low levels of alignment of staff to the strategy. Cost overruns.
b) Poor branding strategy: Low visibility and excitement, insufficient focus on understanding customers, marketing and communications and limited brand building
c) Poor product strategy, the institution is not aware of where it makes its money, its core customer base, and therefore, where and what to sell. Limited focus on identifying core customers, and on building a winning value proposition.
d) Misaligned channel strategy: A channel strategy, often legacy driven, which is high cost, low return and fails to align with existing or potential customers.
e) Insufficient investment in human resources, in building the team.
f) Poor credit risk management. This is often exacerbated by failings in credit decisioning, low levels of compliance to credit processes and poor delinquency management.
g) Expensive deposits - an issue compounded by product strategy, positioning and limited brand building.
h) IT strategy – investments in expensive, legacy systems, this is especially an issue for small to medium sized institutions which find it more difficult to leverage expensive technology infrastructure.

Underlying these factors is the rapidly changing competitive environment with an explosion of transaction-based lenders and short-term credit. There has been a rapid shift towards digitisation without the experience (yet) to be able to assess risks in the new environment.

These generic challenges fall into several categories:

Strategic alignment: A failure to identify key challenges, and to align strategy and institutional resources to respond to these challenges.

Management information: Information systems which have failed to provide key insights into driving key strategies. Internal and external awareness is low.

Human resources: Human resources incorrectly applied or built, insufficiently incentivised, and not aligned to the institutional strategy.

Inward focus: An inward focus which leads to a failure to focus on the customer, all the way through from identification, profiling, products, channels, service delivery, marketing, communications, and the investments made in these areas.

Adaptability: Challenges in adapting to change. It the one constant we have now in financial services.

Solutions start in focusing on who we are, on strategic alignment, on resetting the customer at the centre, in making strategic decisions based on critical information.

First Principles Consulting can provide strategic advice, and work with you to identify where and how to change.

If this reflection speaks to you… speak to me so that we can inspire change, together.

David Cracknell

Additional reflections in this series can be downloaded from www.firstprinciplesinfinance.com

FIRST PRINCIPLES CONSULTING
42 Riverside Drive
Nairobi
Box 76436 - 00508
Kenya
+254-733-713380
davidjcracknell
david@firstprinciples.consulting
@davidjcracknell
www.firstprinciplesinfinance.com