





It's harvest time!

Sowing the seeds of a fruitful 2019 through benchmarking

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The noun “harvest” comes from the Old English word “haerfest”, meaning autumn, and it describes the activity of reaping, gathering, and storing grain and other produce. It also represents the moment in which a farm or farmer reviews the past year, understands how successful it was, and makes detailed plans for the next year, planting the seeds for the following year's harvest.

As the end of the year approaches, banks also embark upon their own harvest process. They consider the past year, evaluate what went well or less well, and anticipate future cycles as they outline their strategic plans for the year to come. Confronted with the ongoing challenges of regulatory recalibration, a low interest environment, new technologies and FinTechs, as well as a changing workforce, banks need to continue their journey of transformation in this harvest period. 2018 and 2019 may prove to be pivotal years for banks in terms of considering the macro trends requiring particularly detailed planning. Evaluating past and current performance and comparing it to benchmarks will highlight the areas in which banks need to act and how they can sow the seeds of a successful harvest in 2019. [➤](#)



Was it the weather or was it me?

As the harvest approaches, farmers evaluate the quantity and quality of their crop and compare it to other years and to their expectations. If it is better or worse than previous years' crops or the crop the farmer was expecting, it will be essential for the farmer to understand why this was the case. Was the weather better or worse than in past years? Did unexpected events occur? Or was it maybe something the farmer did themselves? To understand the answers to these questions, farmers must compare their crop harvest to that of farmers in the same area—i.e., engage in benchmarking¹.

In a similar way, by the third quarter of the year, banks are able to have an overview of the general trend of results and understand whether they are likely to be above or below expectations in terms of overall bottom line. They are also in a position to understand the specific drivers of their bottom line. In the majority of cases, however, a bank's insights into the reasons behind its performance are at best hypothetical and unclear, and

at worst completely obscure. This is the point at which the benchmarking becomes particularly valuable for banks, as it helps them to understand the reasons for divergences. For example, a bank could be aiming to improve its operational efficiency in order to decrease its costs by a certain percentage. During the year, the bank realizes that it is lagging behind its expectations², but does not understand why. Are poor results due to the increasing regulatory burden across the board, or are they specific to the bank?

Of course, the number of benchmarks that could be considered to gain a better understanding of the situation is extremely large. To select a quality benchmark with a clear taxonomy, the bank needs to define the problem further. It is here that artificial intelligence (AI) can support companies. AI-based benchmarking tools enable a huge amount of data crunching based on public data in a very short time, allowing initial conclusions to be drawn as input for a more detailed benchmark and a detailed root-cause analysis. Let us look again at our bank seeking to improve its operating margin.

¹ Benchmarking is defined by the APQC as the process of comparing and measuring your organization against others, anywhere in the world, to gain insights into measures, performance, and practices in a way that can rapidly improve the journey to world-class performance

² Fictional actor. Any resemblance to a real Luxembourg actor should be considered as coincidental

Deloitte's AI-based benchmarking tool, Smart Report, creates an initial benchmark based on companies' operating margins as stated in their annual reports by looking at the following topics:



Improve customer interaction efficiency

- Customer service & support
- Marketing & advertising
- Order fulfilment & billing
- Sales interaction



Improve development & production efficiency

- Materials
- Product development
- Production



Improve logistics & service provision efficiency

- Logistics & distribution
- Merchandising
- Service delivery



Improve shared service efficiency

- Business management
- Financial management
- Human resources
- IT Telecom & networking
- Procurement
- Real estate

The results show that, overall, the bank considered above is extremely focused on improving its operating margin³. Turning to its annual statement, 40.6 percent of the strategies and initiatives mentioned in its annual report pertain to this, while only approximately 30 percent of the strategies and initiatives mentioned by companies in the financial and insurance activities sector in general relate to this subject. Delving further into the details, however, the benchmark generated by AI highlights some interesting findings. While more than half of the industry actors assessed mention HR strategies, this bank makes no references at all to HR strategies, and it may therefore want to take a closer look at this angle.

In order to do this, the bank may, for example, want to benchmark elements linked to HR. The bank might consider:

- **The overall workforce:** Size and composition of the workforce compared to other comparable actors in Luxembourg and abroad, etc.
- **Individual departments:** Size, composition, skills, and efficiency of

different departments, compared to other comparable departments within the bank or similar departments in other comparable banks in Luxembourg or abroad, etc.

- **Training:** Training time and expenditure within the bank and compared to other banks in Luxembourg or abroad, efficiency gains following training, etc.

Collecting data related to these questions and regularly validating it before compiling the data on itself and its competitors allows the bank to draw and present conclusions, which will then enable the bank to identify areas in which anomalies may exist. Once these positive and negative anomalies are identified, a deeper qualitative analysis needs to be carried out to understand any reasons or specificities that may exist. As an article by Harvard Business School states: "Numbers in a vacuum are dangerous. Or another way to look at it: in benchmarking, context is king". In the right context, however, these numbers can be extremely valuable. The bank may realize, for example, that its current training expenditure compared to the training time

that its employees are receiving is extremely low and want to consider reviewing its training plan and program. ➔

Was the weather better or worse than in past years?
Did unexpected events occur?
Or was it maybe something the farmer did themselves?

Results and an understanding of how these results were achieved will enable organizations to use the collected data to prioritize initiatives based on expected return on investment.

The grass is always greener...

Should I use my neighbor's fertilizer?

But let's get back to our farm. Farming is a traditional business, where know-how is passed down through the generations and acquired over lengthy years of experience. A farmer will have tips and tricks on how to make sure that their crops grow best and are resistant to external influences. However, from time to time, the farmer needs to make changes to stay competitive in the market. Currently, for example, the digital value chain is influencing the entire value chain of agriculture, and a farmer can only stay competitive by "combining the power of a farmer's instinct with cutting-edge technologies ..., [so that] a farmer can make better informed choices that lead to higher yields". Farmers must therefore look at what other farmers are doing and understand whether they can apply their ways of working to their own business.

This is not so dissimilar to banking. Banking is a traditional industry. The financial crisis, more stringent regulation, new entrants and technology have shaken up the industry, and these disruptive trends represent an opportunity for banks. By selecting a few local competitors, as well as some best-in-class examples and benchmarking what they are doing, banks can gain insight into the opportunities that may exist for them.

So, let us look again at the example of our bank in Luxembourg that would like to review its training plan based on the AI-based initial benchmark and a detailed quantitative benchmark focusing on HR KPIs. How can it use benchmarking to improve what it is doing? At this stage of the process, benchmarking will become more explorative and executives need to be open-minded. While each organization is special, it can still benefit from seeing the advantages of another organization's way of doing things.

Best performers identified during the quantitative benchmark process can provide a good starting point. Different methods of data collection, such as carrying out desk research, in-depth interviews with experts, and even mystery shopping or asking the organization for further information exist. By using these, it is possible to establish an overview of the different best practices that exist on the market. Results and an understanding of how these results were achieved will enable organizations to use the collected data to prioritize initiatives based on expected return on investment and fit with the organization creating actionable input for the strategic planning process for the upcoming year.



Conclusion

Let the harvest begin

Over the course of 2018, banks should take inspiration from the farming industry and the harvesting ritual. In a pivotal period for banking, re-evaluating one's actions in the quest for continuous improvements is a crucial driver of competitiveness and transformation. As a result, benchmarking is an essential component of banks' strategic planning processes, with the potential to significantly bolster the improvement of the bottom line if banks remember the following:

- **Take advantage of new technologies**

Especially in the initial stages of the root-cause analysis, new technologies can support the analytical process.

- **Context is king**

Isolated numbers can be dangerous, and can distort essential specificities of the organization. Understand the organization and the situation before drawing conclusions.

- **Adopt a learning mind-set**

Although each organization is special, each organization can learn from every other. Have an open mind and be prepared for change.

- **Collaborate**

Benchmarking is a valuable tool. Contributing to market benchmarks can provide you with access to valuable data. ●