

On the Horns of a Dilemma

The Challenges facing Mid-sized Global Wholesale Banks

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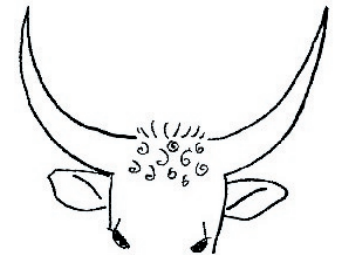
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Abstract

This clip identifies four challenges facing the internationals – the mid-size segment of wholesale banks - as they contemplate which relationship strategy to back with their capital. Internationals are caught on the horns of a dilemma and resolve the answers to four tough questions



Peter F Mathias
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“ The innovative thinking on new business models in the wholesale banking industry will emerge from the **International** segment - as each of these banks is actively experimenting and questioning how best to compete.

There are no clear answers that apply generally; however, there is now a consensus on the four questions that need to be addressed.

Internationals cannot compete effectively on size and scale, so they need to emphasize speed, innovation, quality of coverage, and flawless execution. If they fail to do this, they end up on the horns of a dilemma.

To resolve this dilemma, the Internationals must find honest answers to four tough questions.

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Challenges facing the ‘Internationals’

Internationals cannot compete effectively on size and scale, so they need to emphasize speed, innovation, quality of coverage, and flawless execution. If they fail to do this, they end up **on the horns of a dilemma**.

- Most ‘Internationals’ find they lose money on customers outside their home market. How should they build profitable client relationships outside the home country when there are no obvious “natural” customers with whom they have long-standing relationships?
- How should they develop product businesses of global scale without the customer set that normally are the catalyst for a bank to achieve global scale?
- How should they link different parts of diverse businesses together – few of which might have critical mass on their own – into a focused, flexible, opportunistic, fast moving, innovative rim that is responsive to client and market demands?
- How should they maintain high levels of productivity without having the benefit of either large global customers or a product business of global scale?

On the Horns of a Dilemma

If you are an International and find yourself stranded in “Death Valley” which way do you go?

- To the left, towards specialized client relationships?
- Or, to the right, incurring higher costs of coverage?

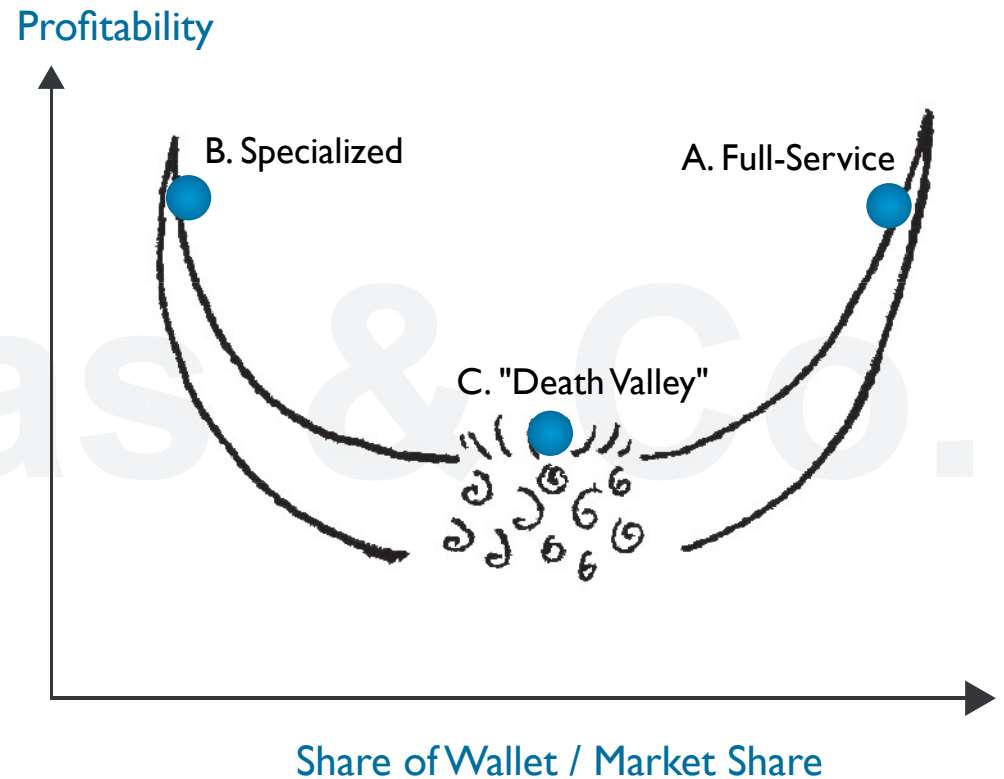


Fig 1: Profitability by Relationship Type

Which Relationship Strategy is right for you?

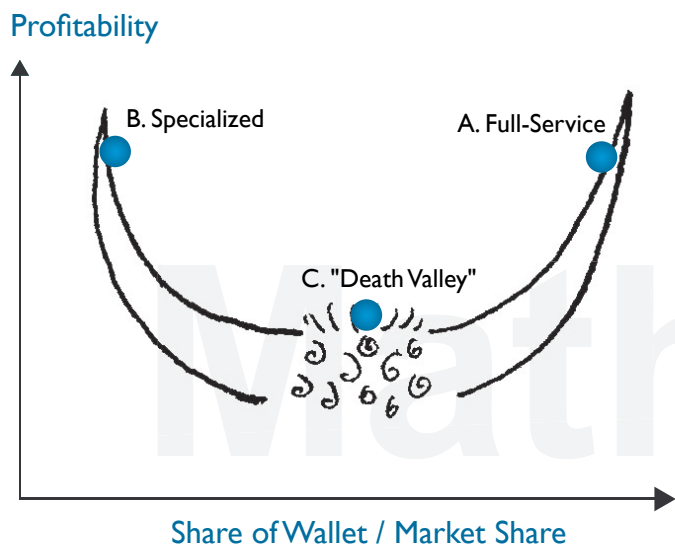


Fig 1: Profitability by Relationship Type

A: “Full Service Relationships” require substantial commitment of capital and coverage resources. The higher the share of wallet is, the higher the returns. Full service relationships require a high fixed cost base, hence the imperative of getting high share from large client wallets. The desire for full service relationships has resulted in dramatic increases in the cost base of Investment Banks, and a structural change in their cost base; from largely variable to largely fixed.

B: “Specialized Relationships” are characterized by low share of wallet and a much more focused, lower-cost of coverage, low usage of other resources. Accordingly returns are higher. In order for this type of client relationship to deliver results the bank must have a value added product proposition that the customer perceives to be distinctive.

C: “Death Valley” – having the costs and capital of A, but the share of wallet of B. This is the typical situation of Internationals outside their home markets, where there is often a mismatch between costs and share of wallet.

Internationals - on the horns of a dilemma

Many of the Internationals have type 'A' relationships in their home market but cannot economically maintain type 'A' relationships outside their home market.

On the other hand Internationals often find it difficult to develop the value-added product set needed to maintain specialized relationships.

Outside the home market do you

1.

Maintain type 'C'; specialized relationships with large global customers?

2.

Opt for type 'A'; more full service relationships, with mid cap, non-global customers?

To resolve this dilemma, the Internationals must find honest answers to four tough questions

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- Who are your natural customers?
(i.e., customers who naturally select you as their 'first choice').
- Why should they select you?
- Do you have enough natural customers?
- What role do you want to play in their banking group (i.e., full service bank vs. specialized bank)?
- What is the most efficient delivery system to manage these customers?
- What happens if you are not the first choice for most of your customers?

Notes

How do you score?

Profitable, sustained growth is the result of having the right customers, the right relationship with them, the right products – all delivered by a sales force that can capture the opportunity with these customers.

These challenges can be summarized in a ‘Strategic Agenda for Internationals’. The senior management of a number of our clients is actively addressing these imperatives:

- Compete on quality rather than size.
- Define your own Model of Success by competing on speed, quality of coverage, innovation.
- Select the “Right” customers – outside the home market.
- Define the “Right” type of relationship for each client set.

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- Create an efficient coverage model that delivers differentiated, superior client coverage and relationship. 'Tune' the coverage model on a client by client basis.
- Provide highly profitable global niche products to complement home market scale.
- Redefine workflow for higher productivity, high quality client coverage.
- Make industry coverage drive superior client origination and relationships.
- Establish partnership economics among business units that deliver premium returns.

Your Rating:

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