

Distinct^o Breakfast Briefing

WEDNESDAY
21ST APRIL 2010
8.00AM

LOCATION:

ORIENTAL ROOM,
LONDON CAPITAL CLUB,
15 ABCHURCH LANE,
LONDON EC4N 7BW



London Capital Club

INNOVATION IN FINANCIAL SERVICES: WHAT CAN WE LEARN FROM OTHER INDUSTRIES?

SPEAKERS:

Josh Dean

Global Brand Manager, Axe Skincare, Unilever

Lindsay Thomas

Head of Risk and Regulatory practice, FD LLP

On Wednesday, Distinct hosted a Breakfast Briefing on the theme of "Innovation in financial services – what can we learn from other industries?". Senior executives from the banking and insurance sectors discussed how the financial services sector innovates and how it could do it better. We had the benefit of two guest speakers, from very different backgrounds, to provide views from the FMCG sector and also the risk and regulatory perspective.

The FMCG view

The first speaker was Josh Dean, Global Brand Manager for Axe Skincare at Unilever. Axe is marketed in the UK as Lynx, and is one of Unilever's seven €1bn+ brands. Innovation is embedded within the culture at Unilever – it's not restricted to a single function or specific group of people. Josh stressed that a disciplined and structured approach is required for innovation to be successful; however, structure mustn't stifle creativity. The Unilever mantra of 'Take the RED PILL' – to take the adventurous and unconventional path, rather than the blue pill which leads to the continuation of the status quo (recalling the line from the cult movie 'The Matrix') – reflects the need to constantly think outside of the box.

Build the core, then complement with non-innovation led growth

Unilever's focuses on 'building and reinforcing the core', so for Lynx this is its deodorant products. Having established, protected and grown the core product set, the aim is to

'aggressively expand' into other segments or categories which can leverage the power of the brand. In this case, Lynx has expanded into shower products. Innovation can then come from anywhere – an example being the realization that because women like chocolate, that's what men should smell of, thus spawning the highly successful Dark Temptation product range!

Constant engagement with your customers

A critical element in the innovation process is developing a cycle of continuous engagement with end customers – to ensure that not only does the product meet the identified needs – but to create an ongoing dialogue. Through constant engagement, which nowadays entails the use of social media, the organization can build a better profile of its customers and deliver more and better products – the holy grail of cross – and up-selling.

Three tips on how to innovate

As a take-away Josh gave three tips to help organisations innovate:

- 1) Start from the core – refresh the core brand frequently, and from a position of strength
- 2) Complement with non-innovation led growth – which is usually cheaper than an innovation led process
- 3) Bigger, fewer, better – concentrate on a small number of projects, but make them worthwhile in terms of both size and quality

Legal and Compliance functions are the problem

Lindsay Thomas, Head of Risk and Regulation at FD, spoke next. Having worked for over 20 years at the FSA and predecessor supervisory organisations he has first-hand experience of almost all the recent successes and failures in the UK Financial Services industry. He began controversially by accusing Legal and Compliance functions and regulatory consultants of stifling innovation within financial services. The root cause of this is that regulation brings some but not total certainty. It is a codification of standards but is not, in



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itself, legislation. Within the financial services sector some parts of organizations want flexibility whilst others want prescription ('exactly how must I interpret these rules?')

Insurance is better at innovating than banking

Innovation within financial services is, generally speaking, sporadic. Although wholesale banks have been truly innovative in the way that they deliver process execution, retail banks have not changed the marketing and delivery of their current and savings account products for years. The example given was the age-old lure of a free young person's railcard, which banks first started giving away in the 1980s. The insurance sector, however, has moved forward and in some instances this has been radical. The insurance aggregators have managed to both create a product which provides obvious value through the savings it helps customers achieve as well as delivering multi-media marketing campaigns involving TV, radio, web and social media.

The FSA is going to interfere much more in the product approval process

The FSA has indicated that in the future it is going to take a much closer interest in product approval than it has done in the past. Historically regulated organisations rarely thought about how a customer might interpret key features of a product i.e. what the 'precipice' in a precipice bond actually is. Whether this will stifle product innovation is obviously yet to be seen, but experience would indicate that adding another regulatory step is very unlikely to speed the process up and may well dilute, if not stifle, innovation.

Innovation must be embedded within an organization's culture

From our speakers and the discussion in the room, it is clear that the financial services industry can learn from other sectors. Innovation in financial services tends to be product driven, whereas in other sectors (and in particular in FMCG) it is driven by engagement with customers.

To be truly successful, therefore, an organization's innovation must be:

- Part of its DNA – it mustn't be restricted to a small group or function
- 'Innovative' – build from the core but remember to 'take the red pill!'
- A process. Discipline and focus will drive success
- Part of an ongoing dialogue between the company and its customers. This ensures that their needs will be fully incorporated within the innovated product. This, in turn, will cement brand loyalty

Taking the business environment's 'Pulse'

At the end of the session we asked our guests to answer a set of Pulse questions, focusing on subjects such as their prognosis for the business operating environment in Q2 2010; whether they expect their organizations to increase the amount they spend on change initiatives in Q2 2010; whether the General Election in the UK will remove political and economic uncertainty facing firms; and highlighting which of a group of initiatives are high currently high priority for them.

Same old, same old

From the Pulse questions it would appear that there is an expectation that operating conditions will remain the same over the rest of Q2 and that there won't be substantial investment (yet) in change programmes.

Building for growth

It's clear, however, that building for growth is firmly back on the agenda for most executives, but this growth will be organic as M&A is the lowest indicated priority. This is not really surprising given that most firms are still concerned that whilst the worst of the financial crisis is over there is still a great deal of uncertainty and they are focusing on rebuilding their own profit and loss accounts and balance sheets rather than looking at potential acquisitions. Outright cost reduction is also low on the priority list.

I expect business operating conditions to get better in the next quarter?

Score

Strongly agree	0%
Agree	29%
Neither agree or disagree	43%
Disagree	28%
Strongly disagree	0%

My organisation will increase its spend on change initiatives during the course of Q2 2010

Score

Strongly agree	0%
Agree	56%
Neither agree or disagree	44%
Disagree	0%
Strongly disagree	0%

The outcome of the UK General Election will remove political and economic uncertainty impacting my organisation

Score

Strongly agree	0%
Agree	0%
Neither agree or disagree	41%
Disagree	59%
Strongly disagree	0%

Please rank the following in order of importance for your organisation

Score

Revenue growth	1=
Risk Management	1=
Operational efficiency and effectiveness	3
Cost reduction	4
M&A	5

Distinct's next quarterly Breakfast Briefing will be held on Wednesday 7th July when theme will be customer dialogue and experience. Speakers will be representing the banking, insurance and media sectors. If you, or a colleague, would like to attend what promises to be another stimulating discussion, please email David Powell at david.powell@distinctpartners.com to receive an invitation.