Road to Growth: House of Brands, Branded House, or House Blend

Nikhil Raval and Ajay Srinivasan

Introduction

There is a sea change which is currently undergoing the Indian Financial services industry. With the advent of technology and changing regulations, a growing younger population which is underserved in their financial needs is creating opportunities to go forth and capture the customer's additional share of the wallet for firms in this space. However, the point of differentiation is becoming more and more difficult with huge commoditization happening, which are making both the product life cycle and innovation life cycles shorter. Added to this, a growing organization creates its own challenges of collaborating which becomes increasingly difficult with size, scale, and different cultures and sub cultures that exist under a firm. In these conditions, how leader takes decision becomes the key differentiating factor.

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While there is a lot of material on the topic of Decision Making and the importance and relevance of how key decisions are taken, much of this focuses on the classical approach to decision making—i.e., using decision trees, looking at probabilities, and arriving to a conclusion. This reliance on data has worked well in the past decades; however, given the rapid pace of change and uncertainty businesses face today, of what is often called the Volatile, Uncertain, Complex, and Ambiguous (VUCA) impact, this approach alone is not enough. In the recent years, a lot of work has been done on behavioral biases which also impact the decision-making process and how the success or methods of past cannot guarantee same results in future.

The case has been written to bring forward the decision making process in senior executives who often fall prey to their own biases of past when making decisions. The focus of the case is to have students and participants apply a process rather than the accuracy or pros and cons of a particular solution.

An Evening at the Club

It was a Sunday evening and Ajay had just finished his weekly tennis game at the club. He was excited as he had a win in straight sets. With an ice cold drink in hand, he and his friends headed towards the lounge to relax and watch some television. What not surprisingly, and as is prevalent in talking circles these days in India, "discussion about Brand India" was on one of the channel. In the news was the mention of India's recent climb on the Global "Ease of Doing Business" report, the Reserve Bank of India (RBI) Chief's decision to reduce the repo rate, the government's decision on relaxing foreign direct investment (FDI) norms on 15 key sectors, and how India has become the top destination for FDI in 2015. In 2016, the government made some key reform changes like introducing the Jan Dhan Yojna (Prime Minister Modi's scheme of India's mission for financial inclusion to ensure access to financial services, namely, banking, savings and deposits, remittance, credit insurance, pension in an affordable manner) for the unbanked and "Demonetization" (which is the act of stripping currency unit of its status legal tender and done often to combat inflation, corruption, and discourage a cash system). And in 2017, the government imposed an all-important introduction of one flat structure of taxes called "Goods and Services Tax" (GST). At the table with some snacks, all these news

items got Ajay thinking of the implications and opportunities it posed for his own business. This included all the different products and services: Insurance, Asset Management, Mutual Funds, Home Loans, etc. He shared the thoughts on his mind and went on…

Understanding the Indian Economy, Financial Services Landscape, and the Opportunities

When India achieved independence in 1947, India was primarily an agricultural country with a weak industrial base. The national consensus was in favor of rapid industrialization of the economy which was seen as the key to economic development, improving living standards and economic strength. Until the early 90s, the era is often known as the "License Raj" period where companies were given licenses by the government to operate and compete which came to an end. This was a fairly protectionist view, and companies survived despite remaining unproductive, inefficient, and without competition.

After 90s, the Indian government made a sea change in its approach and opened the Indian shores to what is commonly called as: LPGization—Liberalization, Privatization, and Globalization of Indian economy. This move primarily led to domestic companies being more global in their outlook, competing with their western multinationals and making products which are acceptable beyond the Indian borders. These key reforms also lead to building of strong institutional infrastructure which would provide the base for trade within and across borders. Among many such institutions, the government also put in the regulatory and control framework for a robust banking system and more broadly the financial services sector.

Today India's financial services sector consists of capital markets, non-banking financial companies, and insurance sector. India, however, remains an underserved country when it comes to meeting financial needs of the individual. There is a huge opportunity in urban, semi-urban, and rural areas of the country where financial inclusion is still required. Prime Minister Narendra Modi recently introduced the "Jan Dhan Yojna" which allows the population below the poverty line to be part of the financial system. Despite this, one witnesses a rapid growth in the sector as individual citizens increase savings to create more disposable income. Some of the data that suggest this trend include the following:

- The asset management industry in India is among the fastest growing in the world. The AUM of the mutual fund industry stood at US$299.04 billion.
- Corporate investors accounted for around 43%, while High Net-Worth Individuals and retail investors account for 29 and 25%. In the Asia-Pacific, India is among the top five countries in terms of HNWIs.
- The insurance penetration in India is roughly at only 4% of the population. Schemes like Pradhan Mantri Fasal Bima Yojana are introduced to bring uninsured population in the ambit.
- Raising capital is a strategic priority and the rising FII inflows indicate there is a huge potential for capital markets as right now only 2–4% of population account for retail investors and the lowest strata of the pyramid remains still untapped.
- For the financial services sector, relaxation of foreign investment rules has received a positive response from, with many companies announcing plans to increase their stakes in joint ventures with Indian companies.

Foray in Financial Services

Given all the macro trends, the decision to be part of this growing sunrise sector was fully justified by ABG. Aditya Birla Financial Service Group was created and it offered services across the spectrum starting with debt, investing, and advisory products (Life Insurance, Housing Finance, Broking, Wealth Management). But as Ajay recalled some of these reforms, he knew the game was only going to get intensified. Further, with the recent advent of payment banks on the horizon, it put more pressure on existing players and incumbents to increase their share of the pie.

Conquering the Key Success Factors

Financial Service businesses offer a slew of products and services. Whether one does a small boutique firm or a large operator, understanding the key factors that shape the success of its industry are very critical. For ABFSG, these included being on top of their game with the following four points as follows:

1. *Focus on Needs*
   In India, the market place is not only large but also the demographics are very diverse. This means, catering to each segment is not just important but equally challenging, for example, sensitizing the young population on the need to grow and invest; providing the necessary working capital needs for the unorganized and small-medium sector; for many of the home grown companies which wish to expand also require support in trade financing as they expand their foot print outside India.
2. *Brand Image and Communicating Brand*
   With a slew of providers entering the market, how one creates a distinct brand is very important for customer pull and retention. The customer has the switching power and the need to build service innovations and communicating them strongly is vital in a commoditized market. Companies have to create tangible, intangible, and total value propositions to separate themselves in the market place.
3. *Measuring Marketing Efforts*
   Given the rapid commoditization of product and services, the innovation cycles in the market places are becoming shorter and shorter. When companies use marketing money to communicate their brand and services, it is essential to track spend being made against the return they get. Though a lot is being said and written about the potential of big data and analytics and how customer data can be used to create segments, the use of promotion and outreach strategies will only be as successful as the return on such initiatives. Companies will have to be both cautious and nimble at the same time.
4. *Differentiation Through Service Delivery*
   All players in the financial services industry today realize that the advantages companies want to establish through their core products are quickly copied and they operate in an environment which is highly commoditized. In such a scenario, excellence in customer service is emerging as a valuable way to differentiate oneself from competitors. Great firms whether in financial services or others make customer service experience as the backbone and commitment by providing value added services to both internal and external customers including attitude, knowledge, technical support, and quality of service in a timely manner. One can have the best

service philosophy in the world, but if you don't have a unified organizational mindset, processes, and systems to deliver service excellence, you have lost the game.

An Opportunity to Go Deep "Vertically" in the New Business Landscape

Financial Services Industry had seen its share of crisis dating back to the 80s with the Savings and Loan failures to the most recent 2008 global crises which completely shook the consumer confidence in the companies. In the Indian context, however, the regulator had done a good job of laying the rules which shielded the banks and the financial services industry as a whole. In many instances, there has been more than one regulator (such as in insurance, structured finance, investments) which laid strict guidelines companies had to comply with. This was a double edged sword. It was necessary to keep consumer confidence and trust high but it also often posed more compliance requirements for companies in the business.

Well such was the reality of the companies competing in this space, but the market was rife for picking. For ABFSG which was a part of India's most iconic brand—a $42 Billion behemoth in 36 countries, there was a lot going for them. A group known to set audacious goals ABFSG had its mandate clear. A Vision "2020" strategic document was created which spelled out the aspirations of ABFSG. This included INR 25,000 Crores of top line, 20 Million Customers, 4× products per customer, and Service in advance. The road to achieving "Vision 2020," however, was not easy. ABFSG wanted to be single integrated provider of choice "The Power of One." The customer base was growing but more needed to be done as the objectives it had set for them were clearly distinct and high from their competitors:

- *Every customer to be an ABGFSG Customer*
- *Once with ABGFSG always with ABGFSG*
- *Maximize revenue from customers*
- *Minimize cost of Acquisition*

In financial services, it is an open secret that commoditization of services was leading to client attrition and high customer acquisition rates.

Numerous studies have shown that the cost of acquiring customers is generally estimated at five times the rate of retaining existing ones. Also known is that reduction in customer churn can boost net profits significantly.

What this means is companies have be smart on monetizing customer churn and consistently touch clients to keep them connected to the brand. Some external benchmarking of successful brands such as Wells Fargo in the US and HDFC in India indicated there were gaps which the company can plug to be the best. One such metric was the ratio of cross sell of products.

Cross Selling is the concept of selling additional products and services to existing clients to increase sales. If a firm uses its customer data wisely, cross selling can be become a huge revenue generator for the company. Most companies understand the concept but are poor implementers. The reason could be many for this, but primarily, it is the lack of understanding customer better and the need to work collaboratively if a firm is selling individual products separately. Companies that have done this successfully do this by making customer centricity as their core philosophy and not necessarily increase the cross-sell ratio, as in the long run, the company loses out and customers would leave.

Globally, Wells Fargo was the benchmark who is able to sell 6.5 products per customer. In India, HDFC has the best number with 4 products per customer. For ABFSG this number was at 1.5. Ajay knew even the 1.5 was not a result of a conscious effort, but more a number which has come by chance. Specifically, he had few questions which weighed on his mind which needed to be answered if cross selling was to happen successfully?

(a) *Leveraging Technology and Its ROI*

With digitization gaining prominence, customers want instant access and prefer transacting online versus the traditional brick-n-mortar format of doing business. For this to happen, companies have to make substantive technology investment to serve the need of the customer while ensuring they protect the customer safety and privacy. The investment in technology is not only imperative, but also has to be done carefully as each new wave of technology makes the older one obsolete. Proactive anticipation of technology trends and training customers to become savvy with this are critical part of gaining and retaining customers.

Technology also provides and generates new sets of data of the customers. Firms today also use sophisticated predictive analytics techniques to predict customers likely to churn and taking action that prevent churning from occurring. Through these data, companies can segment those customers by profitability, volume, and length of engagement. Through this segmentation, firms can optimize marketing campaigns ensuring correct incentives are offered to each class of clients resulting in higher retention at lower cost, improving customer experience, by offering promotions that appeal to them. For example, Bank Itau had created several segments using technology successfully.

Additionally, firms also use analytics for risk management on things like non-compliant trading, creditworthiness, valuations, and volatility. Altogether, analytics presents a 360-degree forward looking view of the customer and is a quick reliable tool for checking ROI in the business.

While all this made sense on the front end for a seamless customer experience, how much would this cost the firm internally? There were instances where small firms had managed this by using basic existing technology and yet one could argue as a firm grew in size and scale IT had to be looked differently. Investments would need to be made in IT systems, which ensured it carried through client data across entities and the technology would serve ABFSG its mission in the coming years. If one does invest in such a technology, how much is the investment, what is the technology and what would be the payback period for such investment.

(b) *Creating a Ready Sales Bench*

One of the key pivots of cross selling underscores the notion of providing the customer a "one-stop" product and service experience. A sales rep who is traditionally trained and expected to sell a particular product (say insurance, annuity) will now also recommend and sell a mutual fund, pension, or other investment product as needed by the customer. Successful firms not only spent significant time and money in training their sales reps on understanding the features and benefits of products but also all aspects of customer servicing and relationship management. With more and more product offerings coming into the market place, continuous investment in sales and service can become a key differentiator. If a firm has to consciously adopt cross-selling, how do you go about getting your sales bench ready which is able to sell not only the products of its own entity but also across entities. A quick market entry with a trained sales team may provide a competitive advantage against incumbents. The question looming of course was do we do this in-house (which can be quite time consuming and exhaustive) or do we source ready talent from market. If we do the latter, will the new sales force assimilates quickly to ABFSG culture and systems? What is the cost and what are the pros and cons to this route?

(c) *Overcoming Regulatory Hurdles*

Financial services globally are a highly regulated industry. Regulatory bodies play a critical role in ensuring compliance and customer safety and trust elements. In India, tight regulation by the various agencies has served the country generally well—withstanding all the financial scams, scandals one has seen over the years in North America and Europe. ABFSG which has eleven independent entities offering different products has to deal with multiple agencies. For the insurance business, one has to comply with rules laid by Insurance and Regulatory and Development Authority (IRDA). The Mutual Funds business is overseen and regulated by Securities and Exchange Board of India (SEBI). The Home Finance and NBFC business need to comply with RBI guidelines. The Regulatory framework in India is one of the most complex and strict. Rules are fairly water tight yet there are rules and conditions which allow firms to cross sell if done correctly. For example, Mutual fund houses have offered term life insurance as an add-on free product to cover customer's insurance needs. It is complex maize and requires careful treading. A deep understanding of rules and adhering to all the right guidelines is a must. If one were to cross sell, how do you navigate through the various regulatory hurdles, be legally compliant, and yet give customer the options. Please see Appendix.

(d) *Equitable Compensation*

Globally, most financial services firm adopt a commission or a variable pay model to increase the sales of products. The advisory and financial planning parts of the business normally are fee based; however, product implementation is attached to commissions based on the products sold. The industry has often suffered bad reputation when wrong sales practices have been adopted (often known as churning) in lure of higher commissions. If successful cross sell has to occur—it implicitly assumes a great fiduciary responsibility on part of the sales rep for not selling products which fetch higher commissions, but selling the "right services" which is best in the interest of customer. Further, if a sales rep now sells a product beyond its own entity (a mutual fund rep selling insurance)—how do you reward him? The rep could be an employee of one entity but may end up selling more products of another entity. How do you justify the fixed compensation from the originating entity and what is an equitable compensation for cross selling other services. This is a vital element and a careful study would need to be done as high performance and motivation are quite clearly linked to compensation in a big way.

Ajay knew the immense potential that lay in a successful implementation of cross sell programs. However, the execution of this wasn't as simple as is the concept of the idea. Successfully managing and balancing regulatory boundaries, overcoming compensation issues, cross training the sales force, managing the attrition, responding quickly to new market innovations, and creating a deeply customer centric mindset above was a tall order to achieve. It could be done, but the road to success would require persistence as it was the road often less travelled.

Conclusion

Ajay knew it was time to go deep in cashing the existing customer base. There were many questions, many answers, and a few unknowns. He knew strategy should not be made any more complex than it is but just a good swipe at improving cross sell ratio would mean a sea change in numbers, profit, and brand reach.

Several factors were swaying in Ajay's head given all the different options, its advantages, and disadvantages. A careful evaluation was required. Each choice had its trade-offs and what would be the best way to make this decision. A good decision making framework would help clear the options. He shared the options with his tennis mates at the club as they closed out the night knowing this is a match which will have a few more rounds with a winner undecided.

Appendix I

Decision Making Framework

- **Leading in Context**: Decision Making: Process Trumps Analysis
  - The case for Adhering to Process Organizing Framework
  - Presenting the Framework: Define, Gather, Develop, Select
- **De-biasing the Decision Making Process**: Overcoming Bias in Defining the Problem and Clarifying Decisions
  - Widen the Frame
  - Align Mental Models
  - Reduce Anchoring/Stability Bias
  - Promote Diversity of Perspective
- **De-biasing the Decision Making Process**: Overcoming Bias in Gathering and Analyzing Data:
  - Challenge your Assumptions
  - Remove Confirmation Bias
  - Avoid Availability/Recency Bias
  - Pick Unknowns to Convert to Knowns
- **De-biasing the Decision Making Process**: Overcoming Bias in Developing and Evaluating Alternatives:
  - Attain Distance,
  - Beware of Loss Aversion
  - Counterbalance Commission Regret
  - Decide on Selection Criteria
- **De-biasing the Decision Making Process**: Overcoming Bias in Selecting and Agreeing on Most Beneficial Cause of Action:
  - Prepare to be Wrong
  - Ostracize Over Confidence and Optimism
  - Watch for Social Bias
  - Reel in Influencers
- **Conduct a Process Audit and Debrief**:
  - What Biases got in the Way the Most?
  - What can you do to avoid this in the Future?

Appendix II

Decision Choice 1: Take the "House of Brands" Route
ABFSG has created separate entities for the 11 different lines of business and offering it makes. Each entity has grown and positioned itself as a unique brand in the market. Continuing to offer services in the current set up means customers deal with a familiar product, brand and service structure. Internally for ABFSG sales forces and advisors serving these customers would be clear about the product knowledge, compliance, and their target audience. They would also know the commission structure associated with the products they sell and the clear KPIs laid by the firm to achieve their targets.

The down side of this set up is multiple (ABFSG) brands are etched in the minds of one common customer. The company misses out on the opportunity to cross sell and there is no holistic advice given to the client. Each company would work in isolation and resulting in potential "conflict of interest" as multiple channels sell a product.

Decision Choice 2: Take the "Branded House" Approach
ABGFSG takes a branded house approach with focus and emphasis on cross selling. Cross selling will allow the firm:

- A great opportunity to increase the revenue.
- Benefits of efficiency in serving one account over many.
- With more services the customers are less likely to be displaced by competitors.
- The more a customer stays with ABFSG the higher the switching cost.

Benefits of Cross Selling to Customers

- Efficiency and Leverage by using a single provider for multiple products.
- Finger pointing is eliminated. One firm reduces the finger pointing which is often a common problem which can often straddle between two firms.

Downside and Barriers to Cross Selling

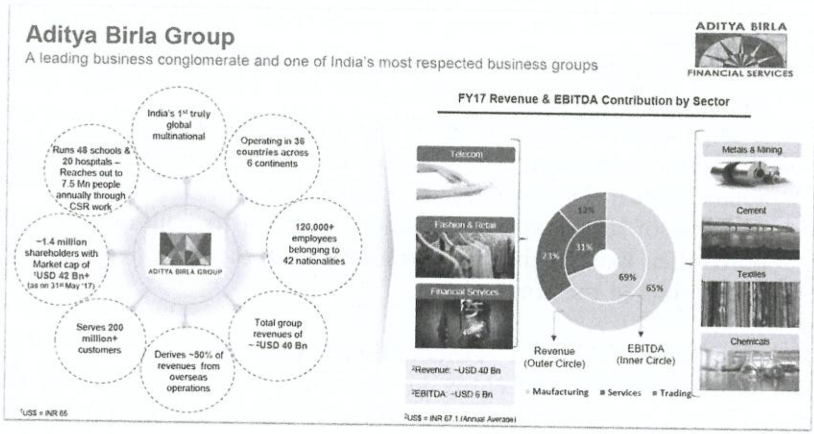
- Ineffective control and monitoring of cross-sell activities affects every stage of value chain: enrollment, benefit fulfillment, servicing and billing.
- Lack of process will lead a feeling of deceptive marketing practice and miserable customer experience.
- Lack of internal communication and product knowledge.
- Different purchasing points within an account, which reduce the ability to treat the customer like a single account.
- The fear of the incumbent business unit that its colleagues would botch their work at the client, resulting with the loss of the account for all units of the firm.

Decision Choice 3. Take a "House Blend" Option
ABFSG creates a separate entity in which key customer segments are created which can give "bundled products". This would be a hybrid of option 1 and 2. The bundled product gives customer the choice of key products under one offering which saves the time of dealing with multiple agents and advisors. The cost of transaction would become smaller and the servicing to be easier.

The downside of this approach would be the regulatory hurdle of creating and managing another entity and ensuring all compliance rules of different products are intact and adhered to. This would also throw the question of consolidating some entities. This approach also calls for cross product training and advisors willing to sacrifice their own targets to do what is right for the customer.

APPENDIX III

Image 1



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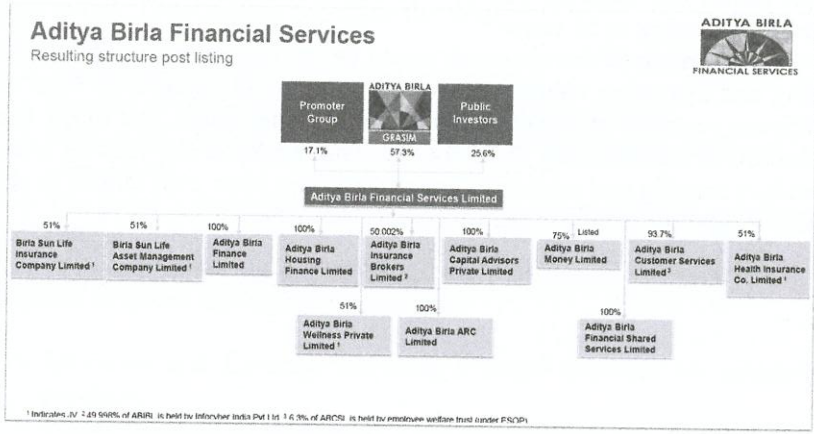

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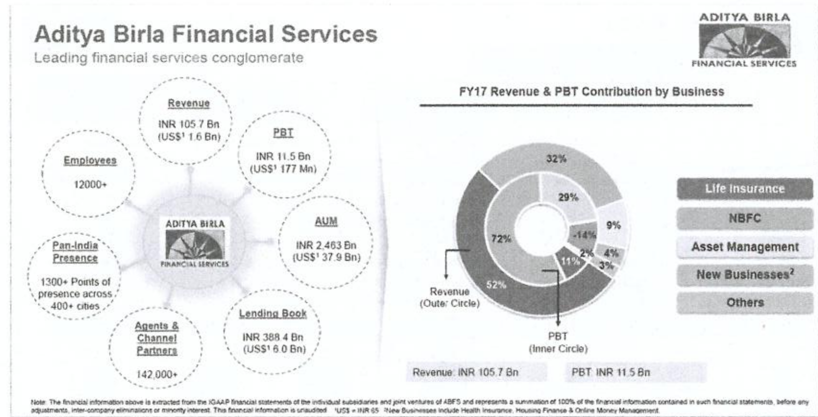

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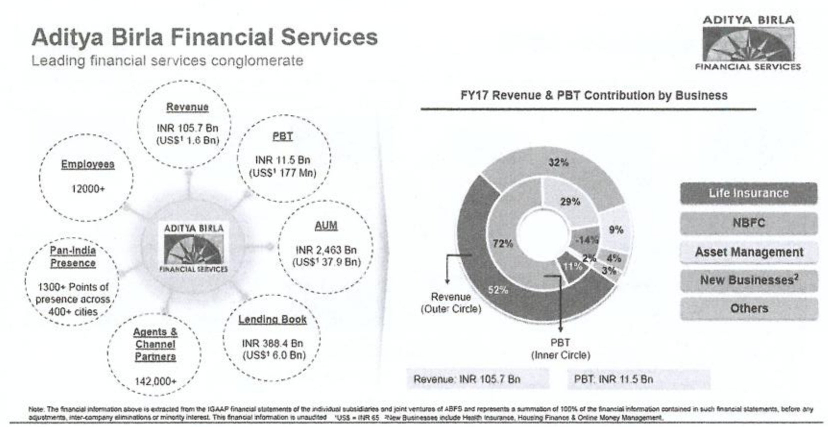

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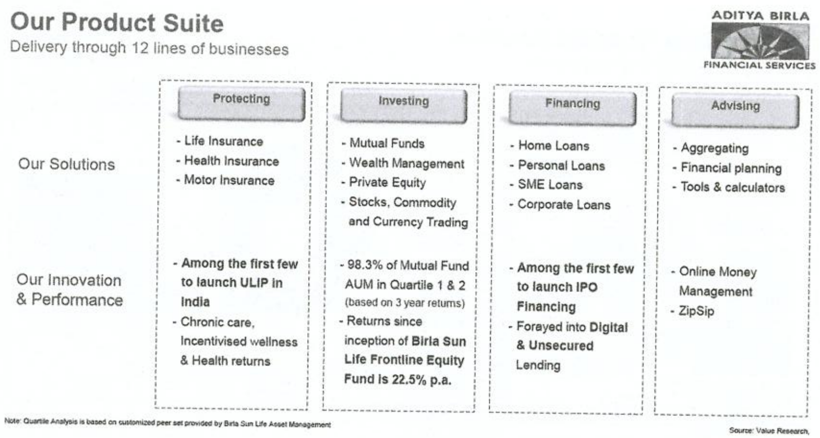

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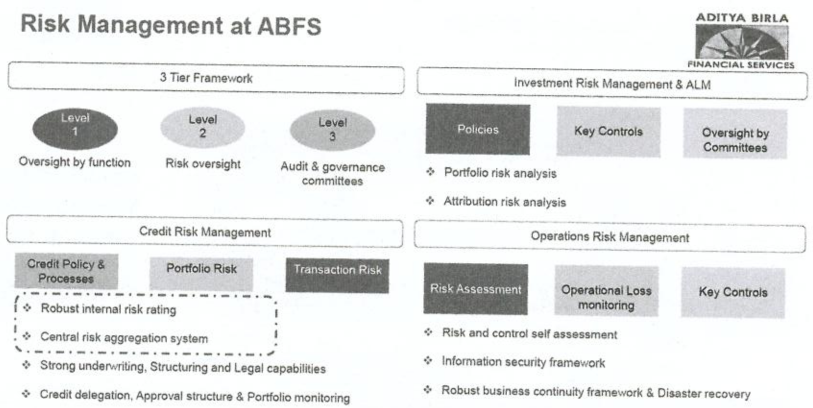

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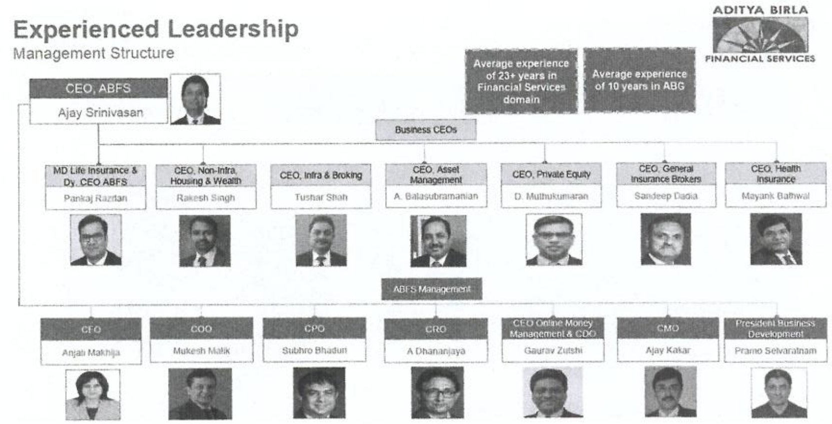
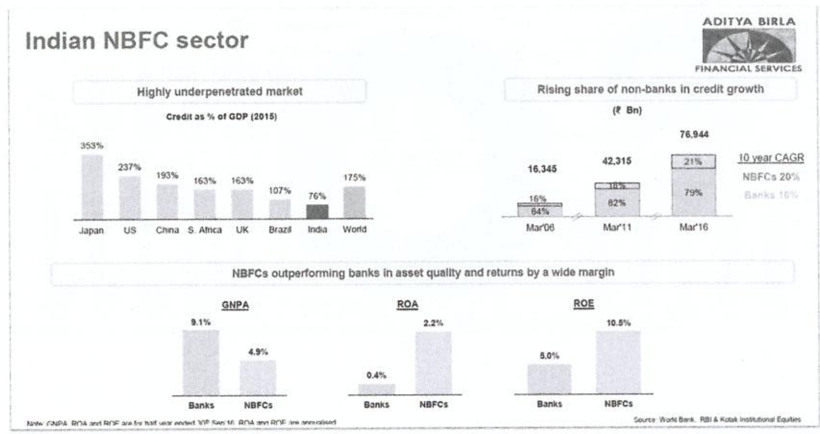


Key Business Segments Snapshot

Image A



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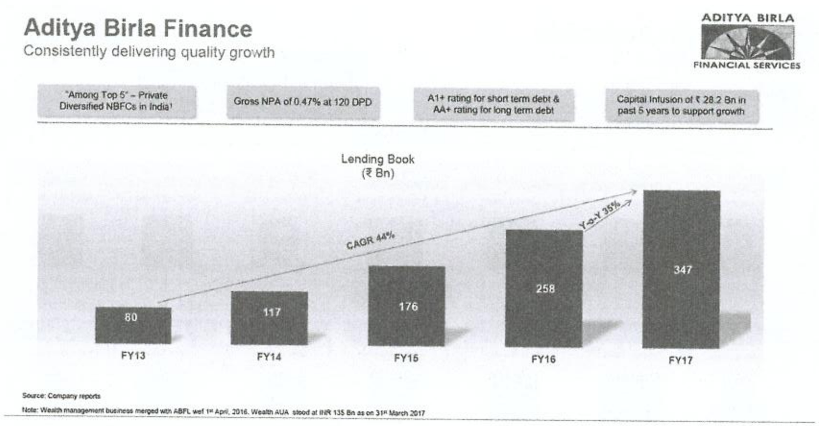

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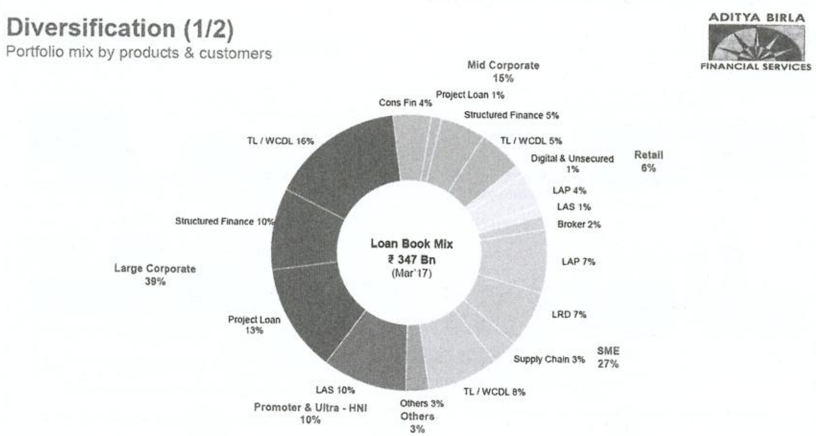

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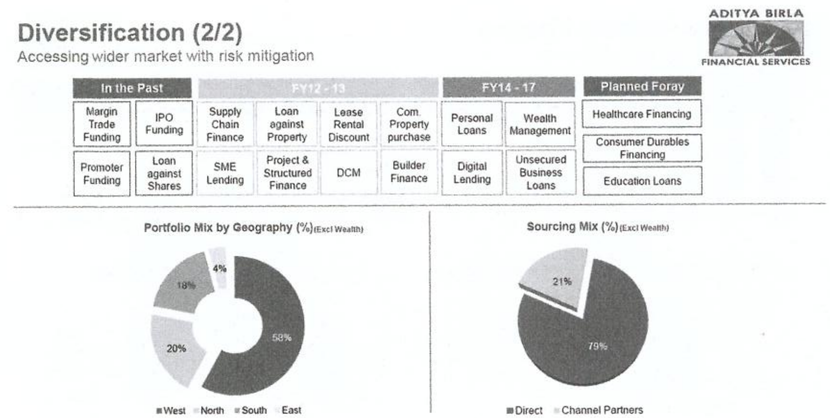

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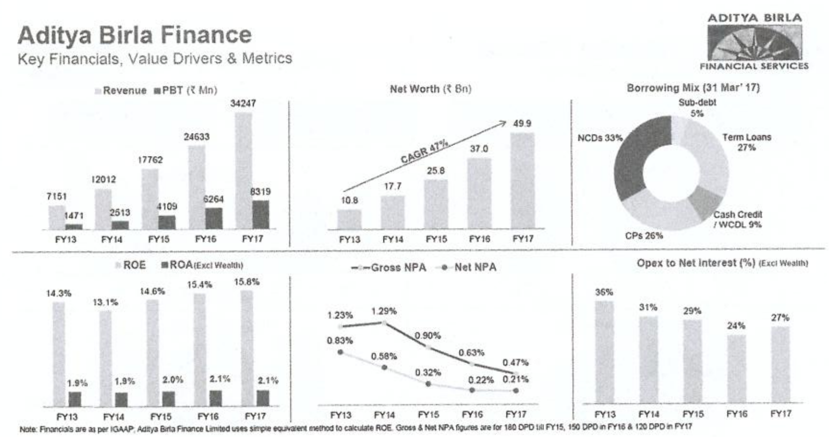

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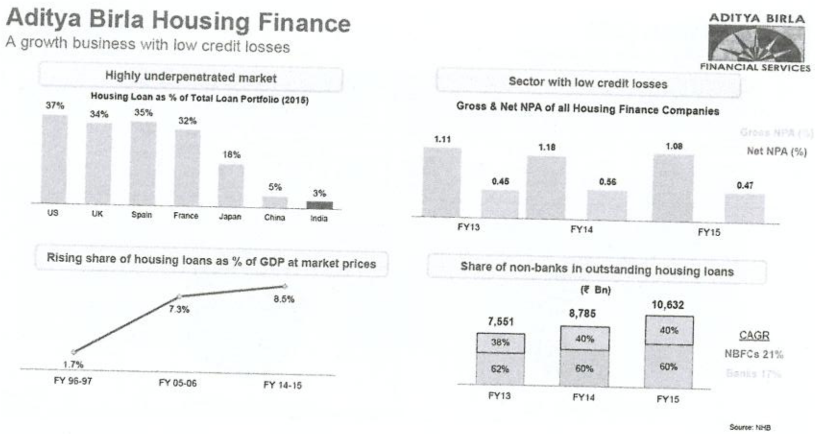

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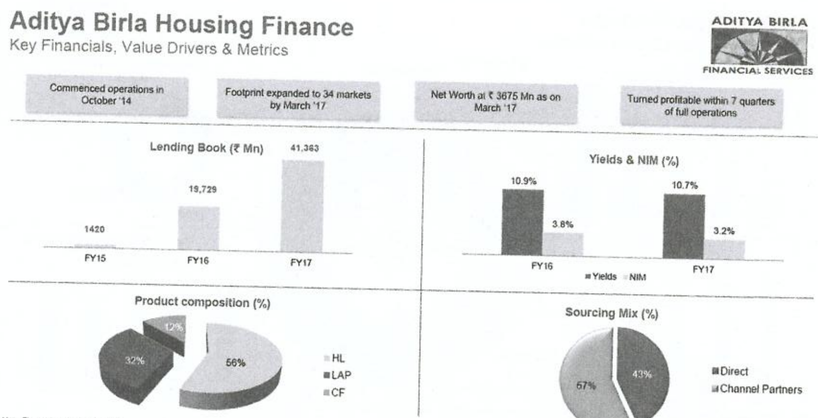

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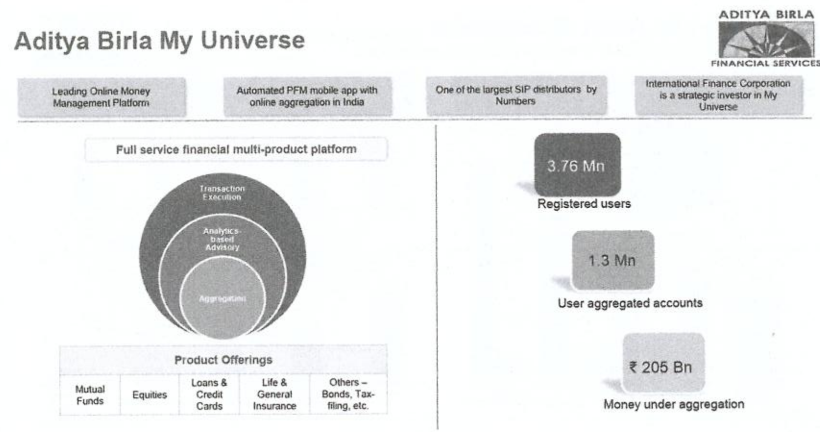

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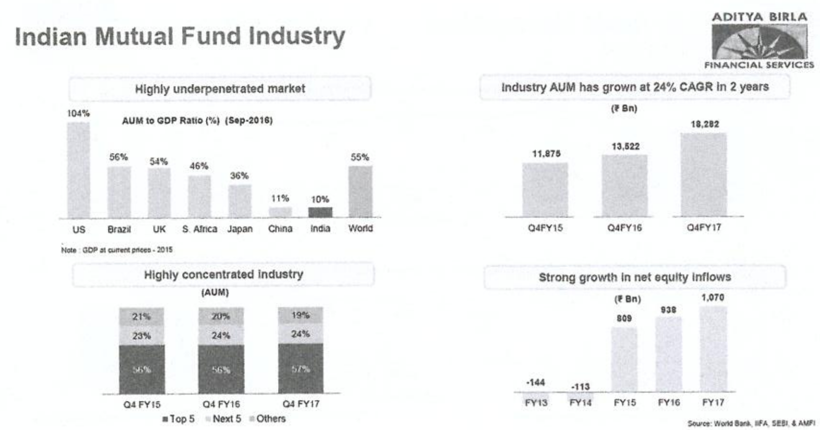

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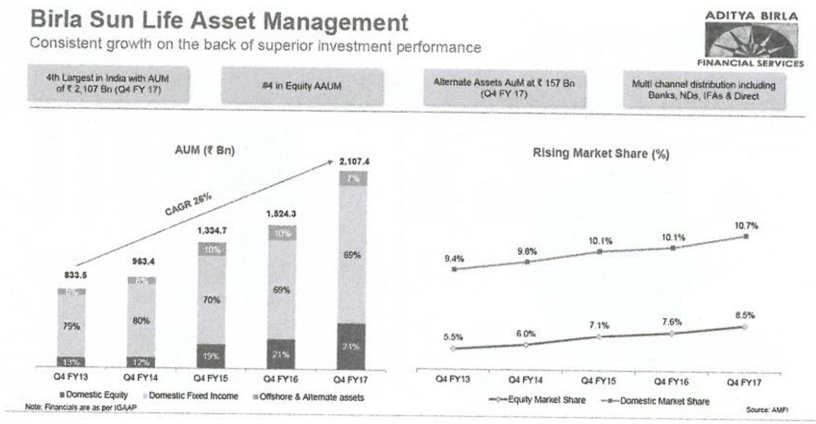

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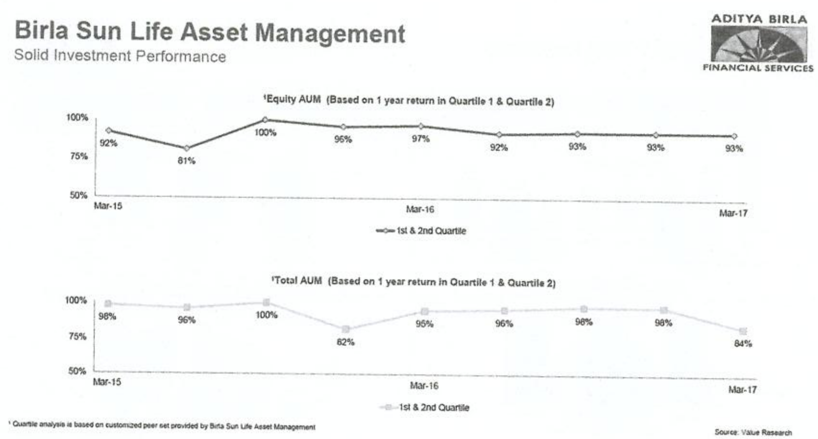

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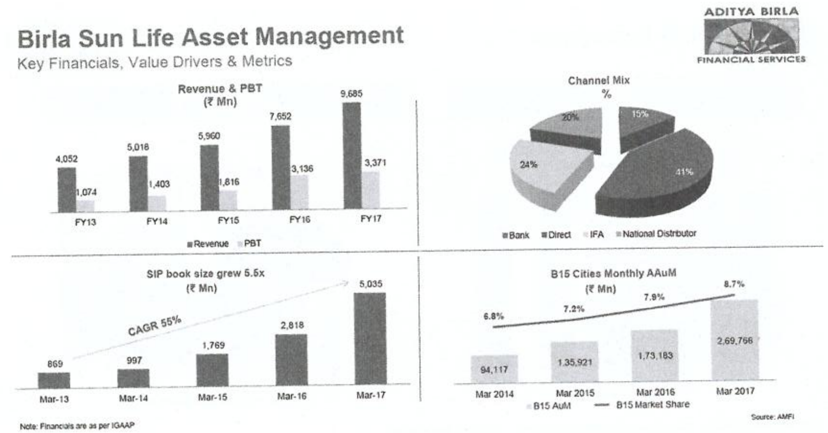

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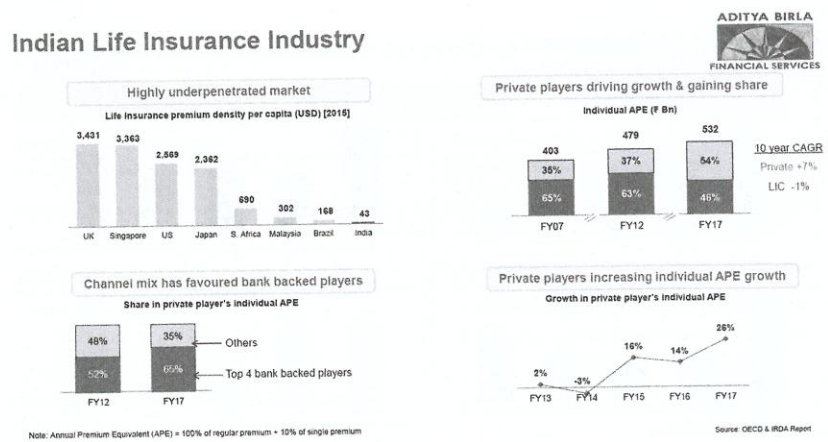

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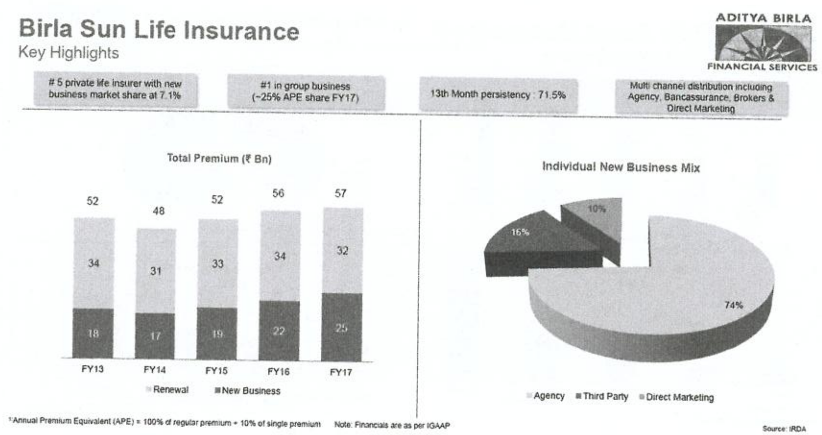

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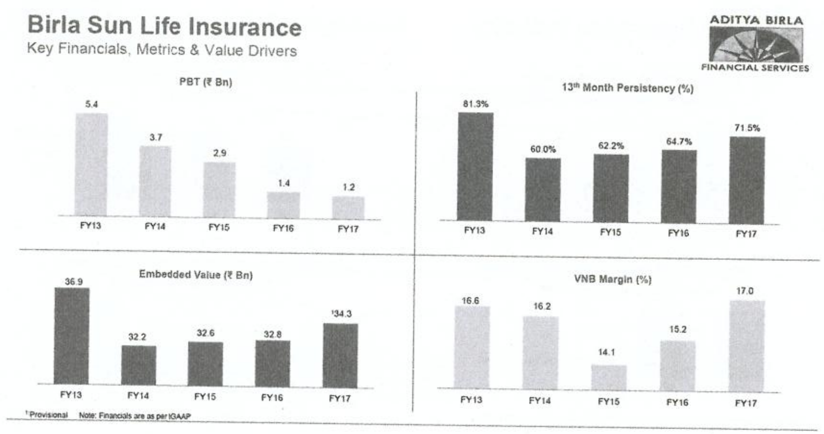

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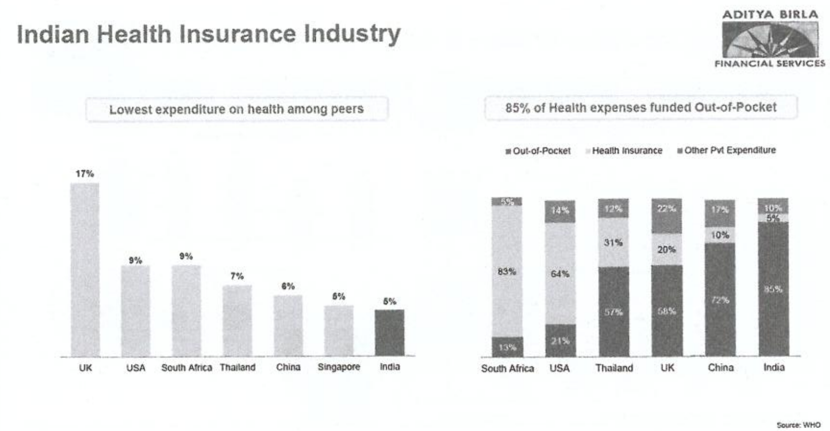

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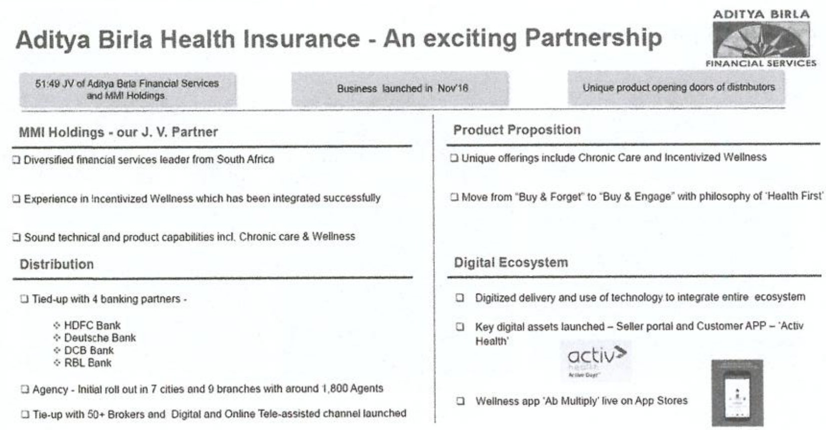

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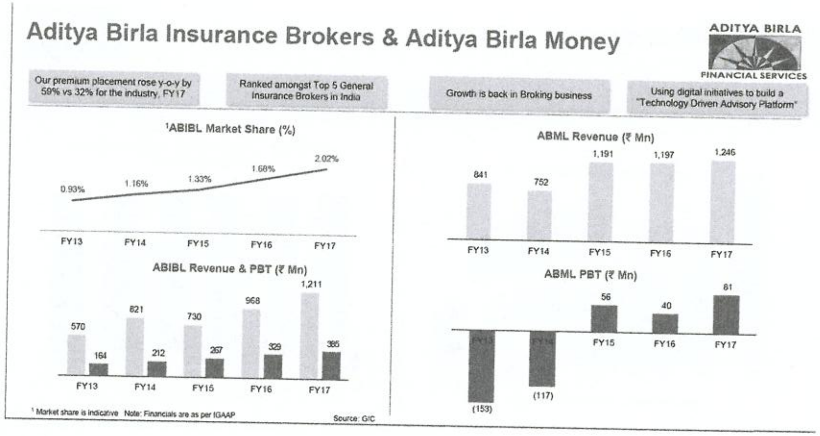

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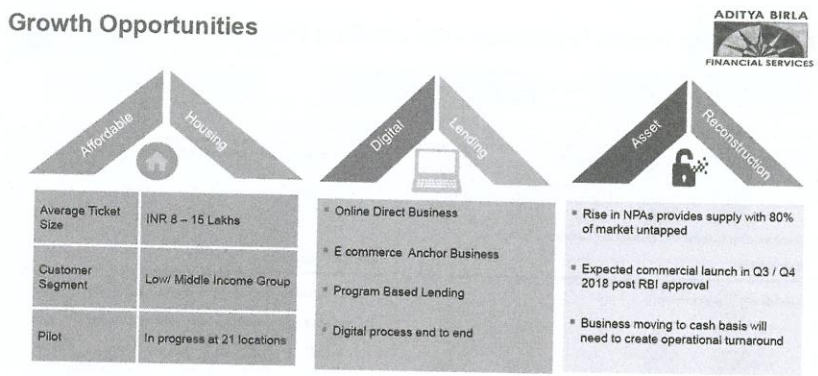

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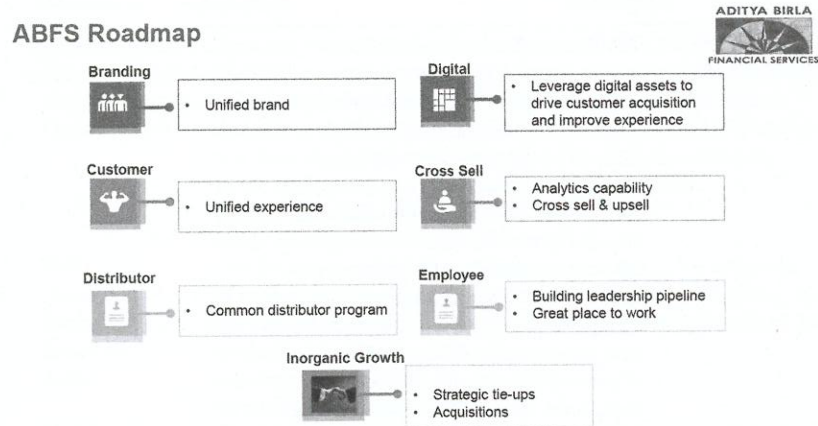

References

Definitions and Glossary

Abbreviation	*Definition*	*Reference*
FDI (Foreign Direct Investment)	Foreign direct investment (FDI) is an investment made by a company or individual in one country in business interests; in another country, in the form of either establishing business operations or acquiring business assets; in the other country, such as ownership or controlling interest in a foreign company. Foreign direct investments are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies. The key feature of foreign direct investment is that it is an investment made that establishes either effective control of, or at least substantial influence over, the decision making of a foreign business	http://www.investopedia.com/terms/f/fdi.asp

(continued)

Definitions and Glossary (continued)

Abbreviation	*Definition*	*Reference*
RBI (Reserve Bank of India)	The Reserve Bank of India (RBI) is India's central banking and monetary authority. RBI regulates loans offered by banks and non-banking financial institutions to government entities, businesses, and consumers and controls the availability of funds in the financial system for credit. RBI sets the direction for interest rates and price stability and conducts fund raising activities for the central and the state governments through the auction of government securities. Reserve Bank is also responsible for monitoring the foreign exchange flows into the Indian economy, managing currency exchange rates, and supervising how banks and non-banking financial institutions function	http://whatis.techtarget.com/definition/Reserve-Bank-of-India-RBI
GST (Goods and Service Tax)	Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India	https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)
GDP (Gross Domestic Product)	Gross Domestic Product (GDP) is the broadest quantitative measure of a nation's total economic activity. More specifically, GDP represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time	http://www.investinganswers.com/financial-dictionary/economics/gross-domestic-product-gdp-1223

(continued)

Definitions and Glossary (continued)

Abbreviation	*Definition*	*Reference*
CAGR (Compounded Annual Growth Rate)	The compound annual growth rate (CAGR) is a useful measure of growth over multiple time periods. It can be thought of as the growth rate that gets you from the initial investment value to the ending investment value if you assume that the investment has been compounding over the time period	http://www.investinganswers.com/financial-dictionary/financial-analysis/compound-annual-growth-rate-cagr-1096
SEBI (Securities Exchange Board of India)	The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India. It was established in the year 1988 and given statutory powers on 30 January 1992 through the SEBI Act, 1992	https://en.wikipedia.org/wiki/Securities_and_Exchange_Board_of_India
IRDA (Insurance Regulatory Development Authority of India	The Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous, statutory agency tasked with regulating and promoting the insurance and re-insurance industries in India. It was constituted by the Insurance Regulatory and Development Authority Act, 1999, an Act of Parliament passed by the Government of India	https://www.irdai.gov.in/Defaulthome.aspx?page=H1
AMFI (Association of Mutual Funds in India)	The Association of Mutual Funds in India (AMFI) is an industry standards organization in India in the mutual funds sector. It was formed in 1995. Most mutual funds firms in India are its members. The organization aims to develop the mutual funds market in India, by improving ethical and professional standards. AMFI was incorporated on 22 August 1995	https://en.wikipedia.org/wiki/Association_of_Mutual_Funds_of_India
Repo rate	Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation	http://economictimes.indiatimes.com/definition/Repo-rate

(continued)

Definitions and Glossary (continued)

Abbreviation	*Definition*	*Reference*
Cross selling	Cross-selling is the action or practice of selling an additional product or service to an existing customer. In practice, businesses define cross-selling in many different ways. Elements that might influence the definition might include the size of the business, the industry sector it operates within, and the financial motivations of those required to define the term	https://en.wikipedia.org/wiki/Cross-selling
Demonetization	Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency	http://www.investopedia.com/terms/d/demonetization.asp
NBFC (Non-Banking Financial Company)	A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services, and sale/purchase/construction of immovable property	https://www.rbi.org.in/Scripts/FAQView.aspx?Id=92

Teaching Note

Background and Synopsis

This case is a story of a large financial services firm which offers a portfolio of products and services under different legal entities. Firms in financial services business have existed in this format across the globe partly driven by the regulatory requirement; however, it can often lead to a non-unified experience for the customer. The firm is now contemplating the decision in looking at the pros and cons associated with selling all services under one umbrella, continue operating under different entities, or adapt something in between (a Hybrid model if possible) to make it convenient for the customer. Each decision has a trade-off and requires careful analysis of all aspects before coming to the conclusion (e.g., regulatory barriers, training sales force for cross selling, compensation issues, etc.).

The case presents to the reader an overview of the Indian Financial services landscape which is currently undergoing a sea change. With the advent of technology and changing regulations, a growing younger population which is underserved in their financial needs is creating opportunities to go forth and capture the customer's additional share of the wallet for firms in this space. However, the point of differentiation is becoming more and more difficult with huge commoditization happening, which are making both the product life cycle and innovation life cycles shorter. Added to this, a growing organization creates its own challenges of collaborating, which becomes increasingly difficult with size, scale, and different cultures and sub cultures that exist under a firm. In these conditions, how leader takes decision becomes the key differentiating factor.

While there is a lot of material on the topic of Decision Making and the importance and relevance of how key decisions are taken, much of this focuses on the classical approach to decision making: i.e., using decision trees, looking at probabilities, and arriving to a conclusion. This reliance on data has worked well in the past decades; however, given the rapid pace of change and uncertainty business face today, of what is often called the VUCA impact, this approach alone is not enough. In the recent years, a lot of work has been done on behavioral biases which also impact the decision making process and how the success or methods of past cannot guarantee same results in future.

The case has been written to bring forward the decision making process of senior executives who often fall prey to their own biases of past when making decisions. The focus of the case is to make students and participants apply a process rather than the accuracy or pros and cons of a particular solution. Readers are expected to apply a decision making process to break free of their own biases avoiding gut-based decisions to arrive more conclusively and consciously to a decision.

Teaching Purpose and Objectives

- The Case is designed to provide a standardized decision-making framework to improve quality and expediency of decisions for working executives.
- To explore the role that bias can play in derailing the decision-making process.
- To discuss the leadership opportunities and challenges associated with making rapid-fire collective decisions.
- To identify what leaders must do more, better, and differently to improve decision-making outcomes at their firms.
- Lead and influence to get consensus buy-in in decisions taken.

Additional Readings Suggested

There is a lot of good material on the subject of Decision Making. The instructor can customize the content based on the need and fit for their respective audience. In addition to the blocks below, the instructor can also consider using a self-assessment instrument on predominant Decision Making styles. The DMSI instrument by Johnson and Coscarelli is widely used. It gives user an accurate view of his or own style and how to manage effectively with others of similar and different styles. Once the user learns them, the user can begin to understand himself or herself, adjust their own style, and manage personal and professional relationships effectively.

1. Sibony, O., & Lovallo D. (2010). "The Case for Behavioral Strategy", *McKinsey Quarterly*.
2. Hammond, J., Kenney, R., & Raiffa, H. (1998, September–October). "The Hidden Traps in Decision Making", *Harvard Business Review*.

3. Morse, G. (2013, April). What Ron Johnson Got Right, *Harvard Business Review*.
4. Snowden, D., & Boone, M.E. (2007, November). A Leaders Framework for Decision Making, *Harvard Business Review*.

Discussion Questions and Analysis:

The key questions for the instructor in the facilitation are as follows:

1. What are the different choices that one can take in this situation? What are the pros and cons of each of these choices?

Answer: There are effectively three options the firm can pursue. Each has its advantages and disadvantages. Each choice and their pro/cons are explained below:

Decision Choice 1: Take the "House of Brands" Route

ABFSG has created separate entities for the 11 different lines of business and offering it makes. Each entity has grown and positioned itself as a unique brand in the market. Continuing to offer services in the current set up means customers deal with a familiar product, brand, and service structure. Internally, ABFSG sales forces and advisors serving these customers would be clear about the product knowledge, compliance, and their target audience. They would also know the commission structure associated with the products they sell and the clear KPIs laid by the firm to achieve their targets.

The down side of this set up is multiple (ABFSG) brands are etched in the minds of one common customer. The company misses out on the opportunity to cross sell and there is no holistic advice given to the client. Each company would work in isolation and resulting in potential "conflict of interest" as multiple channels sell a product.

Decision Choice 2: Take the "Branded House" Approach

ABFSG takes a branded house approach with focus and emphasis on cross selling. Cross selling will allow the firm the following:

- A great opportunity to increase the revenue.
- Benefits of efficiency in serving one account over many.
- With more services, the customers are less likely to be displaced by competitors.
- The more a customer stays with ABFSG, the higher the switching cost.

Benefits of Cross Selling to Customers

- Efficiency and Leverage by using a single provider for multiple products.
- Finger pointing is eliminated. One firm reduces the finger pointing which is often a common problem which can often straddle between two firms.

Downside and Barriers to Cross Selling

- Ineffective control and monitoring of cross-sell activities affects every stage of value chain: enrollment, benefit fulfillment, servicing, and billing.
- Lack of process will lead to a feeling of deceptive marketing practice and miserable customer experience.
- Lack of internal communication and product knowledge.
- Different purchasing points within an account, which reduce the ability to treat the customer like a single account.
- The fear of the incumbent business unit that its colleagues would botch their work at the client, resulting with the loss of the account for all units of the firm.

Decision Choice 3: Take a "House Blend" Option

ABFSG creates a separate entity in which key customer segments are created which can give "bundled products". This would be a hybrid of option 1 and 2. The bundled product gives customer the choice of key products under one offering which saves the time of dealing with multiple agents and advisors. The cost of transaction would become smaller and the servicing to be easier.

The downside of this approach would be the regulatory hurdle of creating and managing another entity and ensuring all compliance rules of different products are intact and adhered to. This would also throw the question of consolidating some entities. This approach also calls for cross product training and advisors willing to sacrifice their own targets to do what is right for the customer.

2. Please share the process on how you arrived at the decision? (Individually first) and then as a group?

Answer: The facilitator must assess if the student applied the framework thoroughly (shared in Appendix 1). Question any part of the process in which they skipped or rushed the framework. The objective here is to point that decisions are made using the process and not through intuition or gut.

3. Where the solutions sets different in doing this exercise individual vs. as a group?

Answer: If the solutions to the problem have brought forward different answers, doing this individually vis-à-vis as a group, it is likely person from different domain areas have their own rationale of why it would work or not work. The instructor should hear the pros and cons and the strength of each of these arguments. Also, see in the process that if the group overcame each other's biases to come to a collective decision.

4. Were you able to uncover the biases as part of this activity?

Answer: Facilitate any biases the class is able to acknowledge or how students have become self-aware in the process. Ask how they would ensure they would continue practicing this method going forward.

References

Insurance-at-Digital 20x by 2020 BCG & Google by Alpesh Shah & Burjor Dadachanji.

The (PFRDA) Pension Fund Regulatory and Development Authority Act, 2013 No. 23 of 2013. Published by Gazette of India (Ministry of Law and Justice, Legislative Department, September 19, 2013).

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