Lloyds TSB's credit card subsidiary was the second largest credit/debit card business in the UK, but this position was being threatened by newcomers who were focusing their marketing strategies on attracting high-value customers via tailored propositions. The bank wanted to go further than just retain its market share; it wanted to challenge for the top slot in customers' wallets.

**The Issues**

Having occupied the number two position in the UK credit/debit card industry for many years, Lloyds TSB could see that new entrants were gaining significant market share. They were targeting the most profitable customers by offering incentives, such as balance transfer options, and then trying to keep them through sophisticated customer relationship management.

**The Approach**

Executives of the Lloyds TSB Cards business realised they needed to defend their current market position and re-energise the business. They also wanted to improve their cost-to-income ratio, customers' average balances, turnover and customer profitability, and ultimately the bank's overall profitability.

The bank realised it had to reinvent itself and equip its employees with the right tools and capabilities to be able to compete effectively in this increasingly tough market and hold on to its impressive franchise.

The Executive team wanted to energise the business, and established an ambitious goal – to secure the number one position in customers' wallets. But this called for a major change programme and significant investment in processes and IT systems.

**FIGHTING BACK**

Lloyds TSB transforms its Cards business and reaches for top slot

**Issues:**

New entrants to the credit cards market were smaller, more nimble, often with tailored product offerings and higher service levels. They were "cherry-picking" clients, eroding Lloyds TSB's market share and profitability.

**Approach:**

Using proven methodologies underpinned by a deep understanding of the credit cards business, both as practitioners and consultants, the team designed a major change programme to enhance competitiveness and profitability, and deliver substantial service improvements.

**Benefits:**

Lower operating costs; better customer service; better quality customer information; analytical capabilities and tools that will increase revenue opportunities; and a change programme to support the new business.
The firm had an established link with Lloyds TSB, and the firm was chosen for the engagement as a result of its knowledge of, and work in, the banking and financial services industry.

From the outset, it was clear that Lloyds TSB placed great importance not only on the outcomes of the work, but also on the way it was delivered. The bank wanted a collaborative approach, where consultants and internal staff worked closely together to develop and deliver the preferred solution. They wanted to encourage skills transfer, so the cards team were involved throughout the whole project, working in partnership with external experts.

The KPMG Consulting team, led by Andy Mills (engagement partner), used its proven Business Performance Improvement methodology to map current processes and look at service standards and key performance indicators. This provided an overall picture of where the company was and the key issues that needed to be addressed. The next step was to visualise and define where the bank wanted to be, and what steps would need to be taken to achieve it, using experts with an in-depth knowledge of UK and US card markets.

To achieve the future state, it was agreed that major investment over two years would be needed to:
- transform the business and develop a new operating model
- re-engineer business processes to deliver more customer-centric services
- develop analytical capabilities to understand and respond more effectively to customer needs
- support the company's performance
- improve the operational environment for staff.

The KPMG Consulting team then used its proven Business Performance Improvement methodology to map current processes and look at service standards and key performance indicators. This provided an overall picture of where the company was and the key issues that needed to be addressed.

The team looked at cost reduction and new processes and the need for new and improved service delivery. They also looked at the need for new and improved service delivery. They also looked at how the bank wanted to be in the future, and what steps would need to be taken to achieve it.

They really understood our business and the issues we are facing,” said Ron Whatford, managing director of Lloyds TSB’s Central Operations. “We ran a number of pilots to illustrate how processes could be improved to benefit the business,” said Len Sinclair, principal consultant. “For instance, direct mail campaigns are much more effective if offerings are tailored to customers’ lifestyles and needs. We also looked at the bank’s credit policies, to see if profitability was affected by changing the guidelines on how much credit was offered to specific groups of people. And we looked at how to improve fraud prevention in the credit card industry, particularly for online fraud, and how on-site staff could prevent fraud from being more easily identified and tackled. Implementing advanced fraud and authentication techniques could save millions of pounds.”
During the initial phases of the project, 83 ‘quick wins’ were identified and almost half of these were earmarked for rapid implementation. Several millions in savings have already been delivered by implementing the findings of the initial Information Strategy pilots, proving that revenue from the existing customer base can be increased through better quality of customer information – covering spending patterns, behaviour and preferences, for instance – the bank can improve customer relationship techniques and target marketing.

For example, by combining the use of new technology, business processes and information, back office services were cut from 7 days to 24 hours. The revised operational model, defined across four key dimensions:

- Processes & Controls
- Infrastructure
- Information Strategy
- Organisation

In Processes and Controls, the new design provides both increased functionality and cost reductions, and in Information Strategy, the Information Strategy pilots are already delivering benefits from the existing customer base. In Organisation, the new functional and organisational design is integrated seamlessly into the Lloyds TSB Group.

A people-change programme to support the new business will not only help the bank to improve its performance, it will also benefit employees. Multi-skilled agents are a key part of the new operational model and all will benefit through technology and information to make a real difference in their roles. Employees will benefit from new training environments and the technology being delivered will make it easier for them to make a real difference to their clients.

Benefits of several million have already been delivered.

Peter Ayliffe
Managing Director
Personal Banking & Cards, Lloyds TSB
KPMG Consulting was chosen because:

- it had a proven, workable approach, which fully involved the Lloyd’s TSB project team
- its people had deep industry knowledge across cards, credit and the wider financial services business
- it offered a complete solution, incorporating process change, technology and business and people change
- of its delivery focus — work was completed on time and within budget.

The client’s viewpoint

“KPMG Consulting has a reputation as a firm that could provide an end-to-end solution in the most complex of projects, rather than just delivering parts of it, as was done with

our past education cost. The KPMG team is one that can implement high and process change, technology and business and people change

and of its delivery focus — work was completed on time and within budget.

The KPMG Consulting team included professionals from the US, where the cards services industry is even more competitive than in the UK.

“This meant they really understood our business, and the issues we are facing,” said Ron Whatford of Lloyds TSB. “The combined experience of the team meant

we could clarify our objectives very quickly, visualise what had to be done, and move rapidly to implementation.”

“It was important for us to work in a collaborative way’

Ron Whatford
– managing director
Central Operations, Lloyds TSB

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