Banking on Digital: Enabling a digital first mindset

Digital Operating Model

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Established financial services providers have a complex web of product and service touchpoints, third-party vendors, and marketing processes across channels and offerings. In many cases, multiple teams take responsibility for digital operations across one or many business units. The challenges involved in coordinating digital operations often lead to inconsistent messaging, process and infrastructure inefficiencies, security concerns, higher operating costs—and a disjointed digital experience for customers.

As companies scale-up digital operations to offer a differentiating experience, lack of coordination, dedicated resources and prioritization can create a roadblock for execution and innovation. The ability to provide a compelling customer experience and a high performing digital organization hinges on selecting the right digital operating model for your business and developing the right capabilities to efficiently execute against the strategy.

**Why Does the Digital Operating Model Matter?**

With an effective digital operating model and robust execution capabilities in place, financial services companies can achieve the following:

**Greater agility, speed and innovation at scale:** With powerful execution capabilities, digital strategies can be delivered at scale and speed, with streamlined processes and well-defined governance. Reusing assets and best practices help spread innovation. Teams can design, test and launch new services and products quickly before scaling across the organization.

**Improve sales and customer intimacy:** Coordinated execution capabilities allow companies to get a single view of customer activities and preferences across products and channels. This can enrich customer interactions and boost sales opportunities through cross-selling, up-selling and timely offers.

**Reduce costs:** A well-defined operating model helps drive economies of scale. With structured and robust execution, companies can expand or contract resources to meet business needs, maximizing best use of digital talent and resources.

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Determining the most effective operating model for your business can prove challenging. But it’s important to think about the capabilities required to execute, as much as the strategy.

Before companies decide which model to adopt, they will need to answer the following fundamental questions:

- Does it make sense to centralize, and to what extent?
- What is the level of maturity in digital operations, and what role does digital play in future business plans?

The degree of centralization that a company adopts for its digital operating model depends on its priorities, level of desired control, business model (global vs. regional), and common synergies from the customer’s perspective. Financial institutions will also need to consider how their approach could help develop digital skills, launch new customer propositions, and rapidly and cost-effectively advance technology change.

Companies can select one of the four digital models (Figure 1) most appropriate to their needs. Each model will have a dedicated digital execution arm within or across business units to coordinate operations and deliver against the strategy.

Committing to a digital model is not irrevocable and, as a financial institution grows or changes, it is possible to adopt a different, more suitable model.

**Figure 1: Four Digital Operating Models**

- **Decentralized**
  - Digital is low priority/early stage of development
  - Corporate
  - Business unit
  - Digital strategy
  - Digital execution
  - Technical infrastructure

- **Shared Services**
  - Digital is minor priority
  - Corporate
  - Business unit
  - Digital strategy
  - Digital execution (shared services)
  - Technical infrastructure

- **Center of Excellence (CoE)**
  - Digital is major priority
  - Corporate
  - Business unit
  - Digital strategy
  - Digital execution (as shared services)
  - Technical infrastructure

- **Centralized**
  - Digital is core to the business
  - Corporate
  - Corporate
  - Integrated Digital Platform
  - Strategy & execution
  - Technical infrastructure
Option 1. Decentralized Model

Financial services companies may choose this option if they prefer their digital strategy and execution to be tied to individual business units, and where complexity between departments is relatively minimal. Each business unit manages its own digital strategy and delivers digital activities separately, with little exchange between them.

**Pros:**
- Digital strategy, resources and assets remain very close to the individual business unit's or function's needs

**Cons:**
- Companies have little opportunity to reuse or scale-up digital assets or content
- Development cycles are long with little flexibility
- IT costs can explode with growth

Option 2. Shared Services Model

In this model, each business unit manages its own digital operations and priorities. Business units have their own digital marketing services and digital technology investments, while the centralized shared services, that are IT-driven, focus on the execution.

**Pros:**
- Digital strategy remains close to the business unit's needs
- Helps develop a scaled pool of skilled resources to quickly and flexibly ramp-up digital technology needs across different business units
- Provides a degree of cost efficiency

**Cons:**
- Accountability between business and IT is split, and success is dependent on the effective collaboration between the two organizations

Option 3. Center of Excellence (CoE) Model

A CoE provides central access to digital skills and delivery, combined with close links to other business units. Business units set their digital strategy and will manage specific digital technologies, while the CoE standardizes and shares applications, processes, data and business functions to drive greater consistency. The CoE offers a range of digital business services (e.g. social media, analytics) and marketing campaigns across business units.

**Pros:**
- Central access to digital skills and delivery help improve IT and business alignment
- Improved consistency by adopting best practices across business units

**Cons:**
- Dual reporting may limit business unit control
- Requires heavy governance

Option 4. Centralized Model

In this model, digital products and services are well integrated across channels. The IT platform and business services are centralized, and a dedicated team takes responsibility for digital strategy and execution. The organization has moved to a standard digital platform, which allows rapid and cost-effective implementation of new digital campaigns and tactics. Business services encompass a range of more sophisticated capabilities, such as digital marketing outsourcing, loyalty management services and analytics-as-a-service. Marketing communications are designed for digital channels first, then deployed to others.

**Pros:**
- Drives business agility, growth, cost reductions and innovation
- Provides a dedicated focus of resources and mandate to execute digital across the organization

**Cons:**
- Smaller business units' priorities may not get the dedicated focus and attention of larger business units

Building Robust Digital Execution Capabilities

Selecting a digital operating model is not enough to create a high performing digital organization. Regardless of the digital model adopted, financial services institutions will need to develop a robust digital execution arm within or across business units. The digital execution capabilities should encompass all of the following areas:

**Innovation, Strategy and Governance**
- Provide central focus and leadership on digital strategy
- Own digital governance and all customer insights
- Foster digital innovation by collecting and socializing digital ideas that can originate anywhere

**Execution and Expertise**
- Accountable for tactical expertise and project execution within the digital channels
- Responsible for each channel's deployment and the resulting customer experience

**Digital Foundation**
- Plan, build and maintain the foundational elements of all data, content and technology

**Digital Management**
- Manage the processes, priorities and approaches of digital deployment and maintenance. Coordinate logistical aspects of user experience projects, including planning, budgeting and program management

**Change Management**
- Execute organizational change management and associated communications related to the digital organization and strategy

**Digital Knowledge Management**
- Organize, archive and disseminate customer experience documentation and digital standards from expert groups

A digital execution engine encompassing all of these areas is one of the critical components necessary to drive the digital organization forward.
Conclusion

Understanding the role of digital in their organisation and moving to the right model can help financial services companies transform operations and place digital at the heart of their business.

Doing so can help them make the most of new enabling technologies to better engage with customers. Companies who successfully create a culture of digital innovation and experimentation are also better prepared to respond more flexibly to the changing financial services market.

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