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***Switching the focus: driving income growth in the Australian financial services industry through strategic operations rather than traditional product development***

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**Abstract**

Strategic operations can help businesses to gain a competitive advantage because its processes involve the way in which an organisation interacts with customers and generates revenue. The purpose of this research is to quantify the value that can be gained through a focus on strategic operations, and test if this value can be greater than the value generated from new product development, which is often the alternative approach adopted by some organisations to drive the bottom line. The case study involves the credit card and personal loan operations at a financial services organisation in Australia. The research uses a phone survey and secondary data to demonstrate that an operations approach will generate more new revenue than a new product approach. So it demonstrates the benefits of strategic operations as a revenue driver for financial services organisations in favour of further product development.

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## **Introduction**

Organisations have formal and informal operations and processes to deliver goods or services to customers. A strategic focus on these operations and processes can deliver outstanding returns for organisations; however, it is often the last place that senior managers look for competitive advantage or income opportunities (Bessant et al. 2005). In Australia, the financial services organisation X has a history of developing new products when faced with an income challenge or increased competition. More often than not, this development has meant that processes and operations are not reviewed when systems and legislation change.

To gain competitive advantage in the hyper-competitive finance and banking markets, organisations must think outside the box to offer customers not only great products, but simple, convenient and fast service, ensuring no opportunities are wasted (SMH 2010). While research has been undertaken to demonstrate that a focus on operations can deliver benefits, X maintains that an alternative focus on new product development will drive income performance and growth. This research project aims to quantify the value that can be created by improving operations and processes that deliver personal credit products for X. These benefits will then be benchmarked against the income generated from an average new product launch. The research highlights that new product development is only one component of a sound, sustainable business strategy.

## **Orientation - strategic operations**

To begin, this research project focuses on the process side of operations management and the need to view activities from a 'process perspective' - a focus supported by research by Niven (2004). This strategic operations approach is characterised by the input-transformation-output model that simplifies every process into three basic steps (Niven 2004):

1. Inputs: the flow into the process
2. Transformation: the arrangement of resources and tasks to complete the process
3. Output: the flow out of the transformation stage and completion of the specific task.

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Using this model, X is currently experiencing difficulties in processing personal credit products like personal loans; output is significantly lower than input, with application conversion rates (approved to opened) of only 58%. This low figure suggests the current arrangement of resources to transform the input into output is not working as well as it needs to be (Bessant et al. 2005).

In addition, processes need to be designed and managed based on their volume, variety, variation and visibility (Slack 2009). X's current processes are all designed similarly, despite quantifiable differences in input volume into the process and differences in the variety of processes; some are completely manual and others are highly automated.

The literature also highlights that an operations strategy should define performance objectives such as quality, speed, dependability, flexibility and cost (Slack et al. 2009). The fact that X is achieving such poor conversion rates indicates that something within one of these areas is wrong or perhaps that the organisation hasn't set correct/suitable operations performance objectives (Lowson 2002). A preliminary reading of the literature would suggest that speed and dependability could be the reasons for the vast wastage and lost opportunity.

### **Organisation background**

Consider organization X in more detail. X commenced operations over 100 years ago and in the past five years has embarked upon a rapid growth strategy to grow its customer base at a faster rate than the rest of the market. Growth was driven through 'hero' price-led products, as well as cost effective distribution that includes an online presence and smaller footprint points of presence, including kiosks. Since the global financial crisis, credit growth has slowed, resulting in fewer new customers or new loan accounts and a need for financial service organizations to maximise opportunities, drive customer retention and reduce costs (Henry 2011). Indeed, the current product-specific focus has created poor, slow and wasteful fulfillment processes that are not customer-centric or efficient because products were

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developed and incorporated into the existing operating model, processes and culture, as noted above. This focus is now impacting results and customer experience, no longer aligning the organisation's vision to its strategy.

The organisation offers multi-channel (branch, online and phone) product application processes for its credit card, personal loan and savings products, allowing potential customers to apply for products through the channel that offers the greatest convenience. For the purpose of this research project, credit card and personal loan processes will be explored because both products are similar, with similar requirements, yet results are vastly different. The organisation receives approximately 1,100 approved personal loan applications per week, however, with credit growth falling and competition in the banking industry at an all-time high, these application volumes are half of what they were two years ago (News 2011). Whilst X is receiving 1,100 approved applications per week, only 638 new accounts are generated from these applications (a 58% conversion rate). On the other hand, credit cards receive around 820 approved applications per week, generating 640 accounts (a 78% conversion rate). During the period of high credit growth in the early 2000s and low competition, the organisation consistently achieved its sales and growth targets. However, with the dramatic decline in applications, the organisation is no longer achieving the required results. This represents waste in marketing, process and product development costs as well as reduced customer satisfaction and missed income opportunities. So reviewing the processes involved is important.

Thus, this research project will focus on answering these three questions:

- Why is conversion of some products so low compared to others, and how can these processes be improved to increase conversion?
- What is the value of these process improvements?
- Is the value of these process improvements greater than the value of the average product launch over a three year payback period (standard payback period used for a project or product launch)?

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**Research methodology of data collection**

The focus of this project will be to quantify the opportunity that exists within personal credit processes, to determine if it holds greater value than an average product launch that is the organisation's usual growth and income generation avenue. A deductive approach to research was used to answer the research (Skinner 2010). This deductive approach was utilised in the following way:

1. Theory: The literature suggests poor product conversion is the result of ineffective process design. The lack of focus on strategic operations, and in particular process performance and design, is the result of a singular focus on product development. The theory then formed that X could achieve greater income by shifting some focus from product development to strategic operations.
2. Express a hypothesis in operational terms: If X focuses on strategic operations of personal credit products, then it will achieve greater income levels than an average product launch.
3. Test hypothesis: The hypothesis was tested by first mapping the processes as they currently are, and then contacting customers who had not converted to participate in a questionnaire to understand the root cause of the issue and the gaps in the current process. This information was then used to re-design the process and quantify the process improvements in conversion uplift and annual income generation. The average income generated from all product launches over the last 12 months was then sourced to compare against the calculated process improvement benefits.
4. Examine outcomes; the outcomes are explored in the Key learnings and findings section of this report.

Surveys were predominantly used for large amounts of data to be collected and analysed (Lewis et al. 2009). These surveys ensured that real feedback was sourced from customers to understand the actual reason for drop out, which could inform decisions for process re-design and improvement. This method was also selected because there is an easily identified, specific group of people to be targeted for feedback about a very specific problem. The

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questionnaire was short enough that people were comfortable responding, with enough questions to provide insight and solve the problem (Lewis et al. 2009). A survey was more relevant than focus groups because it was important to understand the issues that each customer faced and to identify trends, rather than risk 'group-think' where members of a focus group may simply agree with the view of the majority. In addition, it was not important to meet with people face to face due to the specific nature of the questions (Skinner 2010).

**Data collection – process mapping**

Structured observation was used to map the end-to-end value chain to understand the current state of fulfilment processes for personal credit products. The structured observation of the process must occur first to understand the current state's process and customer experience. This observation was conducted by following 50 applications, recording the events that happen at all points along the way; this observation resulted in a process map for the 'as-is' fulfilment process. This step was done first so that when customer phone surveys were done later, the interviewers understood the process and could see the point in the process that caused the issue for the specific customer (Skinner 2010).

**Data collection – surveys**

Next, customer questionnaires were completed over the phone, with customers whose applications had not been converted into accounts. The questionnaire can be found in Appendix 1. This research method produced customer insights which were used to understand the opportunities within the processes and to outline what needs to be changed to meet customer expectations. These items were then built into improvement opportunities/process change plans and these helped quantify the associated additional sales and income opportunity (Lewis et al. 2009).

A cross sectional approach was selected to understand performance at a point in time. Because the processes were static and not changing, this time frame was a three month

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period (January – March 2012) to ensure customers were being called within an acceptable period after the event, to gain quality of feedback. Also, a cross-sectional approach was suitable to draw out the common, on-going issues (Lewis et al 2009).

Once the cross-sectional approach was selected, the participants were any customer during the January to March 2012 time frame who had applied for a personal credit product, been approved, but had not progressed to account opened. This group needed to be influenced – it was critical to hear from them directly to ensure the process improvements addressed the issues that resulted in non-conversion (address the root cause) (Cohen et al. 2007).

Call centre staff were provided with a script and a set of questions to ask all customers (Appendix A). The target survey size was 100 respondents; however, 185 attempted calls were required to achieve this required contact rate. In addition, several customers returned calls resulting in a total of 117 survey responses.

Survey questions were a range of yes/no or multiple choice questions to ensure that the responses could be compared and analysed for trends. Survey responses were then aggregated into a spread-sheet so that trends and common responses could be easily identified. This procedure also allowed easy manipulation and analysis of the data. Some open ended questions were also used to ensure the survey catered for each customer's unique scenario or situation.

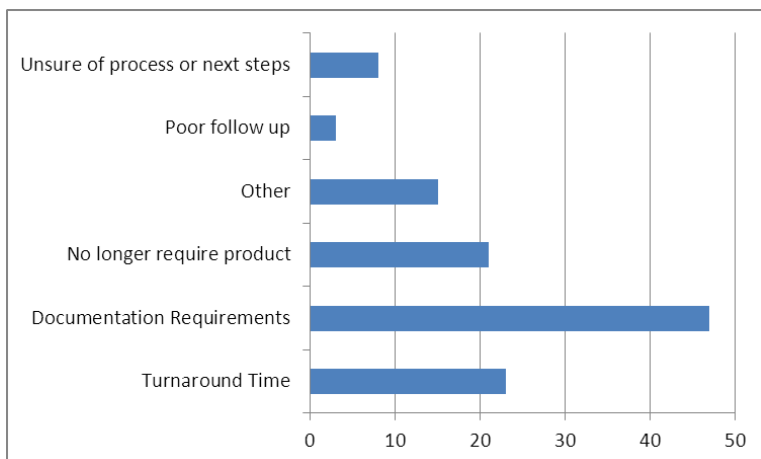
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**Key learning and findings**

The following graphs represent customer responses to the phone survey conducted.

**1. What was the main reason that you did not finalise your product application?**



**Source:** Customer research conducted for this report.

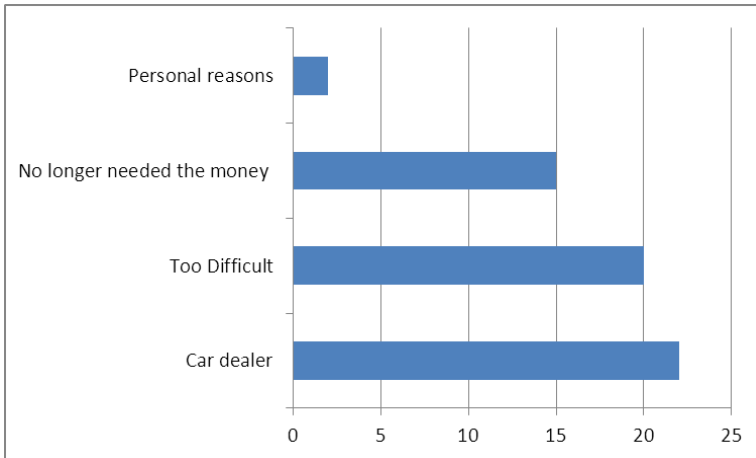
In their answers to question 1, the main reason customers did not finalise their application was because of the documentation they were asked to collect and provide (40% of respondents), with turnaround times being the second most common reason (20% of respondents). It was unclear after the first question if turnaround time could have been a result of the documentation requirements.



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**2. Were there other reasons that influenced your decision to abandon the application?**



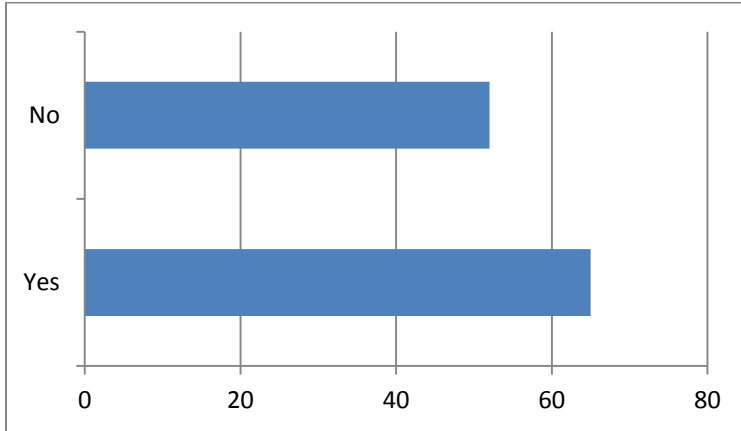
**Source:** Customer research conducted for this report.

Question 2 was an open-ended question where customers were not prompted to choose a response, however, only four different themes came out from all 59 respondents that said there were other reasons (than those in question 1) that influenced their application. 90% of the respondents (the 59 who responded to this question) that said ‘too difficult’ were only repeating the sentiment already captured in their response of ‘documentation requirements’ in the previous question. The question did show that car dealers who were offering on-the-spot finance and simple applications were a large contributor to the loss of business; despite in many instances their rates not being as competitive. Also, of the 15 respondents that said they “no longer needed the money”, 40% or 6 of these said so because it had been easier to source the money from family, friends or salary sacrifice arrangements.

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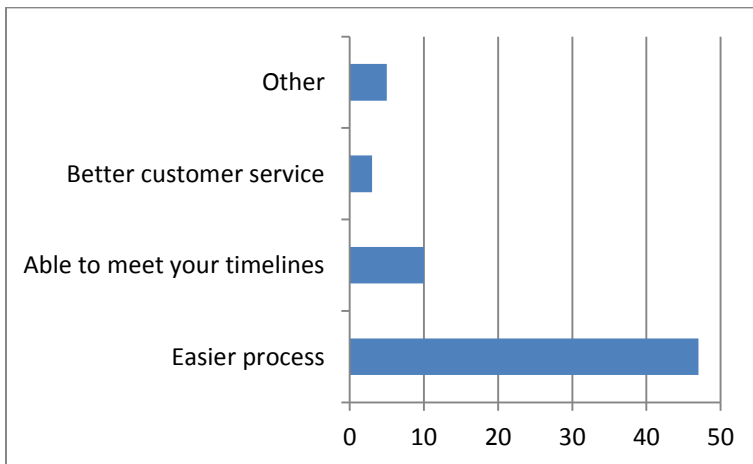
**3a. Did you apply for the product through another organisation?**



**Source:** Customer research conducted for this report.

When asked if the customer had gone on to apply at another organisation (question 3a), 56% of customers (65 customers) stated that they did, whilst 44% of customers (52 respondents) said they did not apply through another organisation, however, 18 respondents in this group mentioned they did go on to get the money, but chose to do so through means other than banks (aligned to the responses to question 2). These customers increased home loans, borrowed from friends or family or opted for salary sacrifice arrangements. Overall, this meant 71% of the customers that chose not to proceed went on to get the money from another source, highlighting the missed business opportunity for X.

**3b. If 'yes', what made you choose this organisation?**



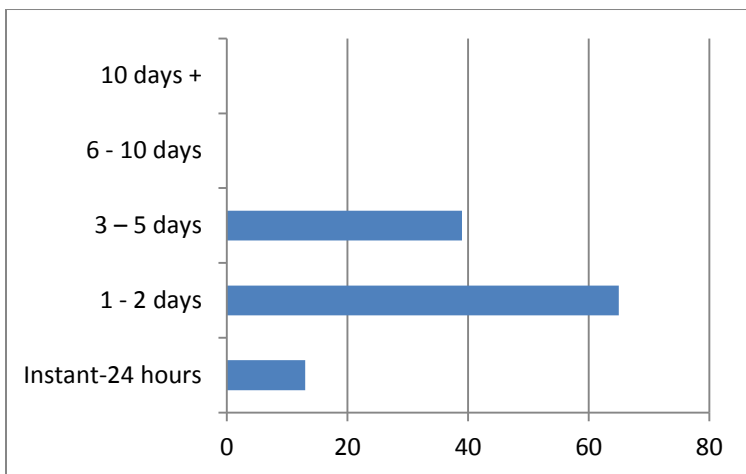
**Source:** Customer research conducted for this report.

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When customers that went on to apply at other organisation were asked why, as many as 72% said it was because the process was easier at the chosen organisation, with a further 15% saying they chose the organisation because it was able to meet their timelines.

**4a. How long do you think is an acceptable time between applying for a product and having the funds made available to you?**



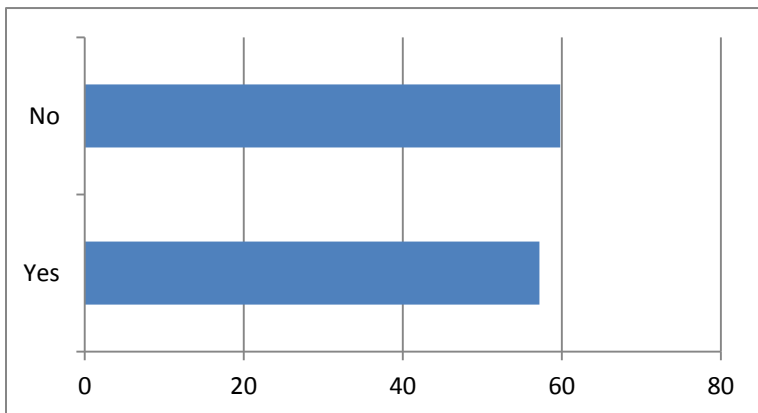
**Source:** Customer research conducted for this report.

Customers unanimously agreed that they expect a personal loan to take no longer than five days between applying and having the funds made available to them; this finding is at odds with the current median turnaround time of 10 days.

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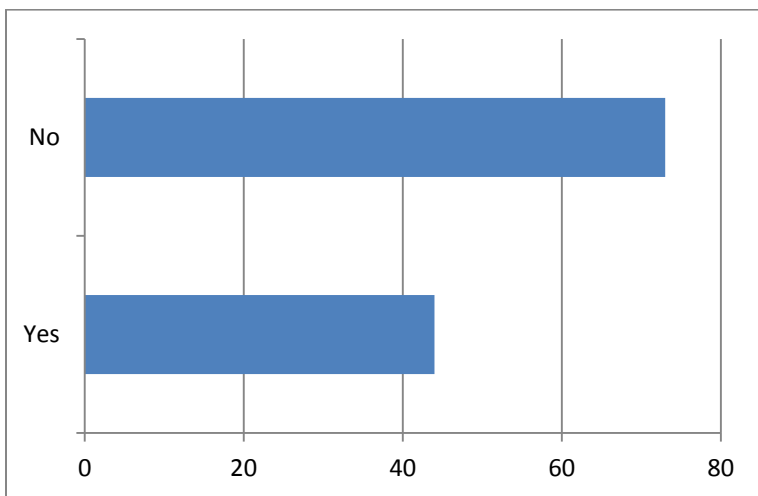
**4b. If X could have finalised your application within the acceptable time you mentioned above, would you have completed your application?**



**Source:** Customer research conducted for this report.

While customers expected the process to take 5 days or less, only 49% of customers would have proceeded with their application if X was able to meet their turnaround time preferences, suggesting the documentation requirements/complexity is a bigger problem than the time applications are taking (as well, the turnaround time is perhaps largely driven by the documentation requirements, rather than an issue in its own right – a symptom of the core issue, rather than a cause of the low conversion).

**5a. Did you find the documentation that you were requested to provide acceptable?**



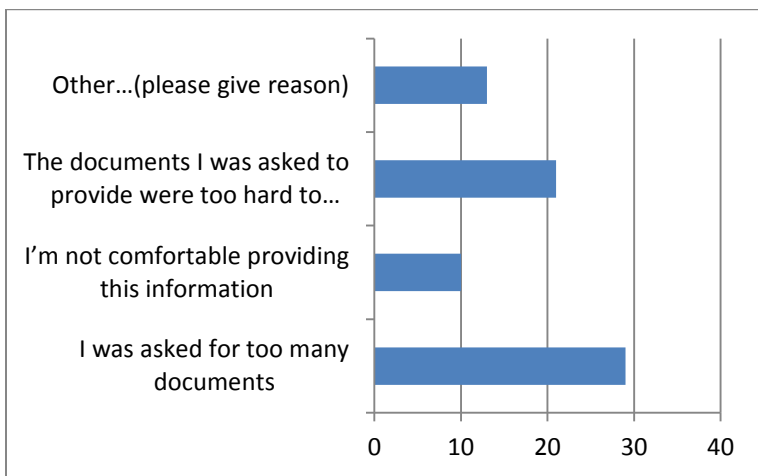
**Source:** Customer research conducted for this report.

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Question 5a confirmed the root cause of the low conversion, with 62% of respondents stating they did not find the documentation requirements to be acceptable and that X was asking the customer to do more than they were willing to do.

**5b. If not, why did you consider this unacceptable?**



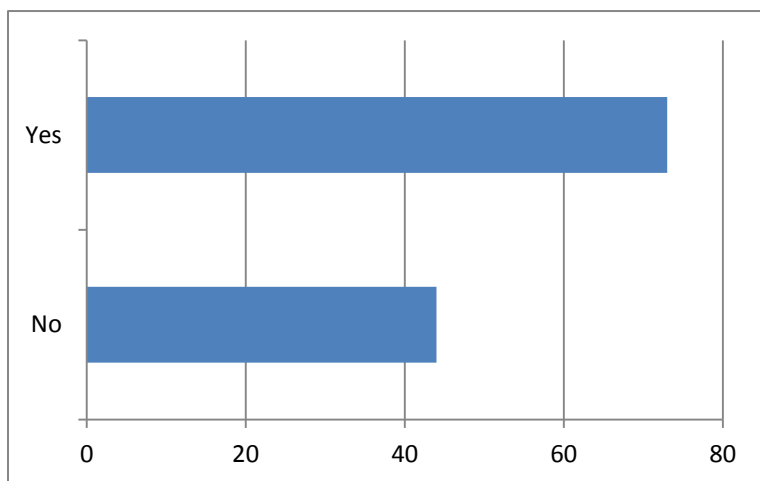
**Source:** Customer research conducted for this report.

Graph 5b demonstrates that of those that found the documentation requirements to be unacceptable, 70% went on to say that they were either asked to provide too many documents or the documents asked for were too hard for them to source. That is, the effort involved was too great for the customer to see the value or to compel the customer to complete the tasks.

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**5c. If you were required to provide significantly less (or even nothing) would you have continued with your application?**



**Source:** Customer research conducted for this report.

Finally, in question 5c, 63% of respondents went on to say they would have completed their application if the requirements were not as labour intensive.

In the summary Table 1, at least 63% of withdrawn customers stated that they would have progressed if the process had been easier.

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Table 1 Summary of findings from customer surveys

Research Summary	Description
Business Issue	Low conversion of Personal Loans (lost income) and high level of wasted processing cost (higher than necessary costs).
Cause	<ul style="list-style-type: none"> <li>• Process is complicated and onerous.</li> <li>• Customers are asked to provide too much documentation, much of which we should already know about the customer, the customer has supplied previously, or we could source without the customer needing to do the work.</li> <li>• Because of the above, things take too long for the customer.</li> <li>• Because of the above, the processing cost is higher than in needs to be.</li> </ul>
Impact	<p>Poor conversion, resulting in lost income</p> <p>Unnecessary cost due to valueless processing tasks (or over processing)</p> <p>Reduced customer satisfaction/brand or reputational damage</p>
Opportunities	<p>Dramatically simplify the process</p> <p>Drive more income, from the same level of customer applications (no additional marketing or promotion required).</p>
Goal	<p>Improve conversions to the same levels as other channels without increasing cost</p> <p>Reduce deal turnaround times and improve customer satisfaction</p>

**Source:** Developed for this project based on Slack et al (2006).

The analysis of the data substantiated that the process design for personal applications is not meeting customer expectations and is causing the large drop off of customers during the application process and the extremely low conversion rates (or process wastage).

In brief, the survey indicated that X has an opportunity to develop strategic operations performance objectives (currently they do not exist). To achieve an operational goal of increasing conversion, and ultimately the project hypothesis that a focus on strategic operations can deliver significant income, X must first implement performance objectives. These objectives are listed in Table 2.

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**Table 2 X's strategic operations performance objectives comparison following consultation with management group**

<b>Performance Objective</b>	<b>Current State</b>	<b>Desired State</b>
Quality	Fulfillment process is error free and thorough to reduce and manage risk	Fulfillment process is error free and thorough to reduce and manage risk, however we will seek to use automation or information we already hold about customers where we can to reduce the burden.
Speed	Slow turn around (10 days+)	Fast turnaround times 1-5 days
Dependability	Poor dependability with no customer ownership	Strong dependability where we do what we say we will, within appropriate time frames and always aim to make it easy for the customer.
Flexibility	Little to no flexibility within current structure or business culture (the rules are the rules and all customers are treated the same, despite what we already know about them or their history)	A flexible process and culture where people do what's right for the business and customer rather than 'what the instructions say'.
Cost	Relatively high processing cost per disbursal from low conversion rate	Low processing cost per disbursal (through higher disbursals and more automation)

**Source:** Developed for this project based on Slack et al (2006).

To achieve these performance objectives in Table 2, the personal loan application process must be improved. Credit cards and personal loan products are similar, and both have the same validation requirements. Secondary data was used to understand credit card conversion rates, which during the same three month period used for the personal loan data was sitting at 85% (compared with personal loans at 58%). With this information and the knowledge that personal loan customers are seeking ease and simplicity, the two processes were compared to



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understand the variance and identify elements of the credit card process that could be utilised to improve ease and simplicity within the personal loan process. Table 3 shows this comparison.

**Table 3 Comparison of Requirements for Credit Cards and Personal Loans**

Requirements	Credit Cards	Personal Loans	Comments
Validated by Back office	✓	✓	
Electronic Income Verification (IV) Accepted	✓	X	Automates part of the income verification to speed up process
Payslips Required if auto IV passed	X	✓	
Comprehensive Employment check	X	✓	Slow are arduous, requiring faxed forms to be completed
Dynamic Employment check	✓	X	
EID (Electronic Identification)	✓	✓	
ABN & White Pages Check	✓	✓	
Bank Statements (in addition to payslips) for Income verification	X	✓	Further documentation requirements unique to PLs
Bank Statements for Debt Consolidation	X	✓	

**Source:** Information was sourced during process mapping

Unsurprisingly, the differences in the two processes in Table 3 are all the items that require customers to submit documentation, which aligns exactly with the customer research. By redesigning these processes to align to the credit card process and introducing the same level of automation, X can meet customer expectations and achieve the required performance objectives and goals. Also, automation will reduce processing times, freeing up capacity to spend more time on value-add activities to make it easier for the customer, or allowing a cost reduction.

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Table 4 has cost details for the 1,100 approved personal loan applications received each week.

**Table 4 Cost of converting personal loan application each week**

<b>Processing Task</b>	<b>Time to complete task</b>	<b>% of deals completed on</b>	<b>Total workload</b>
Manual payslip check	7 mins	100%	7700 min
Manual employment verification	15 mins	100%	16500 min
Bank statement review	5 mins	100%	5500 min
<b>Total</b>			<b>29700 min</b>

By utilising existing technology and process steps that have been created for other product portfolios, X can address the process points causing customer drop out within the personal loan application process in two ways:

1. Manual payslips and bank statement reviews can be eliminated for existing customers who have their salary paid into an existing account and income verification for these customers can be automated with the system confirming salary against credits into the account. This is applicable to 60% of personal loan applications. Furthermore an automatic income check for low risk credit card applications also exists, that can also be used for Personal Loans which will eliminate the need to request payslips from a further 20% of applicants.
2. Employment verification can also be changed, from customers providing physical documents as proof, to a more dynamic approach based on the individual application by utilising the policy in place for other products with the same risk profile. For existing customers who have their salary paid into an existing account, this can be used to confirm current employment (60% of applications). For the remaining 40% 'Organisation X' can contact the employer to confirm customer employment rather than relying on the customer to provide physical proof, removing the effort from this for 100% of customers.

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Estimates of the revised processing times per task after these changes are detailed in Table 5.

**Table 5 Summary of proposed process changes**

<b>Processing Task</b>	<b>Time to complete task</b>	<b>% of deals completed on</b>	<b>Total workload</b>
Manual payslip check	7 mins	20%	1540 min
Manual employment verification	15 mins	40%	6600 min
Bank statement review	5 mins	20%	1100 min
<b>Total (After process changes)</b>			<b>9240 min</b>
<i>Previous processing times (table above)</i>			<i>29,700 min</i>
<b>Benefit</b>			<b>20,460 min</b>

By redesigning the process steps within the chain that customers highlighted through the research the workload required per week to fulfil the 1,100 approved applications reduces by 20,460 minutes or 341 hours (per week).

One more piece of information is needed before comparing the new operation with the existing new product approach to income generation. Table 6 describes secondary data provided by the organisation detailing the income generation for the average product launch for personal loan and credit card products over the last year.

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**Table 6 Average income generated from new product development**

Average incremental account volumes	4,800 new accounts
Average balance of new account	\$6,000
Average margin per account	5% per annum
Additional annual income (Acct vols x Avg Balance x Margin)	\$3,120,000
Average marketing cost per product launch	\$500,000
Benefit over three years = 4,800 card sales per year over 3 years, with 20% attrition of the cards sold in the prior year, minus the upfront \$500k marketing cost	= \$7,045,600
Income generated from product launch	\$7,045,600

**Source:** Calculated for this research using secondary data

All the information above allows a comparison of operations and new product approaches.

### **Comparing values of operations and new product approaches**

For process change to succeed, the operations performance objectives must first be embraced and implemented, as these are what drive the changes and also should be used to continue to monitor, manage and measure the process (Slack 2006). This change will require a cultural shift to treat operations management as seriously as new product development is treated, and this will take time to achieve as the 'new product lever' is entrenched into the layers of senior management as the way to drive income growth.

By implementing the proposed process changes in response to customer feedback, 'Organisation X' could potentially convert 63% of the 462 approved applications each week that previously have not progressed or an additional 291 deals per week.

Incremental Volume – 291 deals per week/15,132 deals per year (average balance of \$13,000)

Margin – 5%

Incremental income - \$9,835,800

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In addition to the additional deals that can be delivered from the process enhancements, 'Organisation X' could potentially save cost from the processing area if the recommendations are implemented.

**Workload Saving**

341 hours per week  
= 341 hours per week / 30 productive working hours p/week  
= 11.4 FTE

FTE Savings = 11.4 FTE @ a full loaded FTE cost of \$69,100 each  
= \$787,740 per year.

**Total potential benefit of recommended process changes**

Increased conversion - \$9,835,800  
Reduced processing cost - \$787,740  
Total benefit - \$10,623,540 per year  
= \$31,870,620 over 3 years.

These results demonstrate that a focus on strategic operations not only are a means to reducing cost, but can also drive significant revenue. Table 7 highlights the benefits of process improvement when compared to new product development.

**Table 7 Summary of income generation from process improvements compared to product launch**

Income from Strategic Ops focus	\$31,870,620
Income from average product launch	\$7,045,600
Difference	\$23,010,620 over three years.

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## **Conclusion**

The customer research conducted provided extremely consistent feedback and the sample size was large enough to ensure statistical relevance, this meant the survey approach quickly uncovered the true problem that customers were facing at X and the things that needed to change to turn the results around. This research proved that the organisation could move to monitoring and investing in how processes are designed, managed and measured in favour of a single, product development focus. By implementing the recommendations within this research project, X could potentially realise almost three times the amount of income than that generated from the average product launch in the last 12 months. The challenge facing THE ORGANISATION to turn this research into results is to add operations to the strategic plan and drive the cultural shift required to treat operations management as a serious and valuable strategic priority and create the capability and skills required to drive the change.

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**Appendix – Customer questionnaire**

Phone questionnaire to customers who did not convert (target group of opportunity that should be used to influence process design and improvement).

As we are calling existing applicants, information about gender, age range, location etc. is already on hand.

1. What was the main reason that you did not finalise your product application?
  1. Turnaround time
  2. Documentation Requirements
  3. Unsure of process or next steps
  4. Poor follow up by Bank staff
  5. No longer require product
  6. Other...(please give reason)
  
2. Were there other reasons that influenced your decision to abandon the application?
  
3. Did you apply for the product through another organisation?

Yes	No
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  - a. If 'yes', what made you choose this organisation?
    1. Able to meet your timelines
    2. Easier process
    3. More suitable product
    4. Better customer service
    5. Other... (please give reason)
  
4. How long do you think is an acceptable time between applying for a product and having the funds made available to you?
  1. Instant – 24 hours
  2. 1 – 2 days
  3. 3 – 5 days
  4. 5 – 10 days
  5. 10 days +

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- b. If your application could have been finalised within the acceptable time you mentioned above, would you have completed your application?

Yes                      No

5. Did you find the documentation that you were requested to provide acceptable?

1. Yes, all requirements were acceptable
2. No, document requirements were unacceptable

- b. If not, why did you consider this unacceptable?

1. I was asked for too many documents
2. The documents I was asked to provide were too hard to source
3. I'm not comfortable providing this information\
4. Other...(please give reason)

- c. If you were required to provide significantly less (or even nothing) would you have continued with your application?

Yes                      No