GROWTH AND COST TAKEOUT FOR CAPITAL MARKETS SERIES

Article 1 – The Case for Growth and Cost Takeout: Start with Growth Strategy

Speed Read

- Capital markets businesses are facing a growing challenge to maintain growth and become leaner at the same time
- Growth and cost takeout can work hand in hand, and executives should consider a holistic approach to combine both mindsets
- Growth strategy drives for unrestricted, aspirational growth decisions and can lay the foundation for smart cost takeout

INDUSTRY TREND CALLS FOR A CHANGE IN THE STATUS QUO

Competition within the capital markets industry is a matter of survival. The capital markets industry, especially on the sell-side, has struggled to maintain profitability growth since the 2008-financial crisis. On average, capital markets divisions earned less than eleven cents in profit for every dollar in revenue over the last five years[1].

Growth and cost takeout can work hand in hand. In pursuit of higher shareholder value, financial institutions ('FIs') have engaged in cost takeout and growth strategy initiatives, restructuring operations and expanding products to new customer segments. However, without strategic alignment, siloed attempts at streamlining can add complexity and fail to make significant steps towards a leaner operating model.

Digital innovation and market trends offer smarter ways to become leaner and more competitive at the same time. While the future capital markets operating model is unclear, disruptive digital and market trends are catalysts for change, and advanced technical solutions will play an increasing role. Many broker-dealers will soon find it difficult to sustain relevance in the marketplace without embracing automation, embedding the capabilities of machine learning and AI, and exploring blockchain. Adopting these new operational accelerators while achieving a lean operating model will be the key to unlocking profitability in the future.

Capco has a three-step approach to combine both mindsets. The industry can establish their strategy to realize these benefits by examining three phases: market-facing growth strategy, operating model design, and continuous culture of efficiency and cost takeout. In this article, we will explore the first step in your journey.

> *More and more of our capital markets clients are facing headwinds in creating shareholder value. One of the approaches they are excited about is aligning growth and cost takeout in their business development approach.*
>
> – George Black, US Capital Markets Practice Lead

1. SIFMA Capital Markets Factbook 2015-2019

ESTABLISHING THE STRATEGY TO FUEL GROWTH

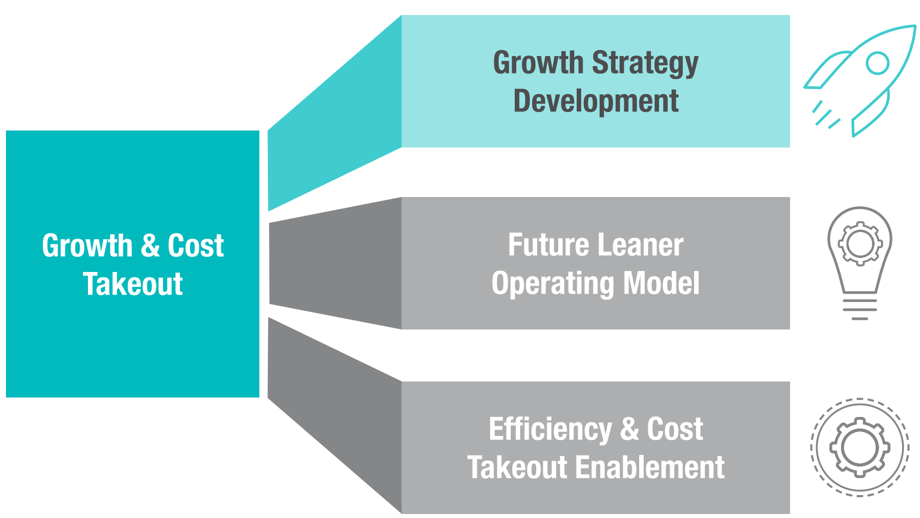
Starting with an unrestricted strategic assessment is the first step to ensure the most efficient resource allocation and corresponding enterprise cost takeout choices:

What is the vision and where to play?

- FIs must maintain a clear path on their long-term financial and non-financial goals through the uncertainty and volatility of our current times
- While it is impossible to predict the future, understanding one's competitive position in the market is imperative to confirming focus areas for growth
- For example, providing an increase in market activity in debt markets, businesses with a strong wallet share may consider expanding coverage to more sophisticated credit products and, equally, consider reducing some non-core areas such as commodities or equity capital markets, thereby realizing savings for investment elsewhere

How to differentiate by focusing on cost takeout?

- FIs must assess market and client needs, rationalize the capabilities that can make them stand out, and find the right balance between investing into or divesting from business infrastructure supporting it
- For example, the depth of specific market expertise or deal-making access are often critical to attracting clients
- Critically, Leadership must develop the discipline of allocating scarce financial resources towards those businesses that will drive future growth, while also investing in cost efficiency in other parts of your business



How can growth strategy translate into success and help you identify cost takeout opportunities?

- Businesses often create strategic plans for the forward three, five or seven years, but without the right implementation even the most forward-thinking strategies fail
- The strategy should be simple, goals-based and well communicated
- FIs should build a clear implementation plan encompassing capital and personnel requirements, identifying areas where more investment or cost takeout may be required to achieve profitability objectives
- A clear strategy will confirm the drivers that determine how growth will be pursued, e.g., capability expansion, infrastructure rationalization, or cost competitiveness

> “*Developing a growth strategy is the first step for broker dealers to consider where they want to focus more and, equally, where to focus less. Starting at this unrestricted stage and working down to what is the optimum future vision can help firms build a competitive edge and become leaner at the same time.*
>
> – Isaac Halpern, US Strategy Practice Lead”

THE STRATEGY IS ONLY THE FIRST PIECE OF THE PUZZLE TO COMBINE GROWTH AND COST TAKEOUT

In the second part of this series, we will explore how businesses can further combine growth and cost takeout by pursuing a leaner and more-customer centric operating model of the future. This will include the latest trends in capital markets and approaches for businesses to organize themselves efficiently to drive growth priorities.

To learn more, visit our Strategy and Capital Markets pages of Capco.com. If you would like to share ideas, please reach us at George.Black@capco.com, Isaac.Halpern@capco.com, and Carl.Repoli@capco.com.

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