Industry Studies

We've been talking about change for some time. This makes sense, as process projects are often initiated to help an organization deal with change.

There are different ways of thinking about change – ways of trying to classify it or analyze its impact. One approach is to look at changes in specific technologies. I put a lot of effort into tracking specific IT technologies, since changes in what IT allows organizations to do tends to lead to changes in many different industries. I keep an informal matrix going, with industries on one axis, new technologies on the other axis, and good examples in various cells.

I was particularly interested over the course of the last few years to observe how cloud computing changed the way organizations acquired and maintained software tools. Two decades ago, selling a software tool required that the seller convince the buyer to consider using the tool, and then pay to obtain a copy of the software they could install. The installation took time and represented a real roadblock to software adoption. The Web and Cloud Computing has largely eliminated the problem. Today, if a software sales person pitches a tool and a client is interested, the seller simply provides the potential buyer with Internet access to a version of the tool. The tool itself is on the seller's cloud, or in someone else's cloud and instantly available for us. Several people at the buyer organization can explore the tool with a minimal commitment in time and effort. More important, the cloud and the fact that tools are now maintained in the cloud and not on individual computers, means that updates, that literally used to take years at large companies, can be accomplished incrementally, overnight.

As useful as technology trend studies are, I think today's most interesting area of study is represented by what I term Industry Studies. By this, I simply mean that a growing number of reports are being written describing how companies within a given industry are likely to change. These studies bring together the basics of the industry, political, legal and consumer trends effecting the industry, technology changes and people changes likely to alter an industry. The best Industry Studies tend to be driven by business models that describe how the industry is organized today and changes that are likely to force alternations in the business models common to the given industry. Because these studies are focused on specific industries, they are especially useful to the executives within a specific industry.

Some Industry Studies appear in business magazines. Some are expensive documents offered for sale. One good source of free Industry Studies is McKinsey&Company, and a nice example of the kinds of studies they have published recently is their March 2018 study by Thorsten Ehinger, Promila Gurbuxani, Jonathan

Klein and Mattias Voelkel entitled: <u>A calm surface belies transformation in securities services</u>.

In essence, Ehinger, et al, begin by describing an industry that has averaged 3 percent growth during the past few years, in spite a significant growth in asset value and volume, especially in the Asian area. They go on to describe six major value chains typical of the Securities Services Industry, including: Custody and Asset Servicing, Fund Administration, Interest Income, Corporate, Trust, Prime Services, and Additional Value-Added Services. They then suggest, that growth in the near term will probably be modest, as it has been in the recent past, but that, thereafter, a few firms will do especially well and many others will find themselves out of business. This rather dramatic prediction assumes that leading companies in the Securities Services Industry are in a position to invest in transformative, disruptive technologies and that, as a result of investments in the next few years, the best of them will be able to achieve major breakthroughs, reducing their costs by an estimated $20 billion or more.

Ehinger, et al, propose several technologies that will lead to breakthroughs for major Securities Services firms that are willing to focus and invest. For example, advanced Analytics provides a major source of insight and new revenues. Similarly Distributed Ledger Technologies (DLTs – a specialized version of a Blockchain used in the financial arena) offer major ways of providing new internal efficiencies and new customer services. More broadly, of course, Security Service firms have large amounts of customer data, and new AI techniques are being evolved to analyze that data and use it to identify opportunities and to make decisions with respect to it. Security Service firms are going to find that they can eliminate lots of jobs that consist of analyzing, monitoring and making routine recommendations. Moreover, they may evolve new platforms and associated user interfaces (websites) that will make it easier for customers of all kinds to interact with their firms.

The same article also points to new business models and new opportunities for acquisitions. There are a number of very active Security Service fintech startups pioneering new approaches, most with the intention of selling services to established Security Service firms. The best of these startups offer potential acquisitions. At the same time, the articles reminds us of what Michael Porter said about good business strategies: The best strategies require focus, and require that organizations skip opportunities to focus on what they choose to do best. With that in mind, Ehinger, et al, urge Security Services firms to consider their strategy options and choose one strategy to guide them in the years ahead.

The McKinsey&Company article doesn't provide much in the way of specifics. It certainly doesn't provide advice on how to implement the changes they suggest. (They do sell consultancy services, of course, just as www.bptrendsassociates.com does.) But for a Securities Services industry manager, it provides a nice introduction to some of the changes that will be taking place in the next few years, and some general guidelines for executives who are smart enough to read between the lines and launch an effort to assure that their company will be one of the survivors.

In effect, change is coming more rapidly all the time. More important, it is coming from many different directions. The McKinsey&Company report on the Securities Services industry mentioned, for example, financial returns, geography and the challenges of the Asian market, new regulations like CSDR and T2S, technologies like Analytics and DLTs, the value of data, new business models and new business opportunities, financial ecosystem orchestration, and fintech activities. In a sense

this goes well beyond business process redesign, but, in another sense, this is the ocean in which Securities Services executives swim and anyone who is going to help these executives develop new business processes for the next decade needs to understand all these issues.

Whatever your industry, if you want to do serious, high level process work, you should be looking for some Industry Reports that describe what is happening, and likely to happen in your particular industry. Study the report, understand it, and then begin to sketch new business models and value chains that you can help your organization create during the next few years.

To access the McKinsey industry report, either copy and paste the following into your browser, or simply type in the title of the article into your favorite search engine.

https://www.mckinsey.com/industries/financial-services/our-insights/a-calm-surface-belies-transformation-in-securities-services?cid=other-eml-alt-mip-mck-oth-1803&hlkid=167238a6886d494687bfc4e1251e6acf&hctky=2350162&hdpid=6eb3d4e6-388d-418a-83fd-72a829e5b146

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