Wells Fargo

Abstract

Wells Fargo, the industry leader in electronic banking, implemented a Balanced Scorecard in its online financial services group (OFS) to track and measure performance. Wells Fargo Online Financial Services (OFS) develops and supports services that allow existing and future banking customers to transact via the Internet. OFS implemented the Balanced Scorecard to measure success in their new online business and make sure that the results they were getting made strategic sense; to strategically prioritize an array of new initiatives; to make the transition from an R&D experiment to a serious service delivery arm of Wells Fargo.

This case study describes OFS scorecard implementation which took place between 1997 and 1998. During that timeframe, they achieved the following results:

- Average cost per customer dropped 22%
- OFS netted 250,000 additional online customers
- OFS banking website downtime decreased 71%

Wells Fargo Online Financial Services exemplifies "Translate the Strategy," and "Make Strategy a Continual Process," two principles of a Strategy-Focused Organization.

Background

Wells Fargo was already an established banking leader at the time they initiated their online service offering. The Online Financial Services division (OFS) was a leader in internet banking as early as 1995. They were the first major bank to go online with full-service operations.

Wells Fargo OFS was established as a relatively self-contained division within Wells Fargo Bank in the early 90's. They had their own marketing, finance, human resources, and investment support, such that they were able to craft a mission and operating philosophy which, though consistent with the demands of an internet-based startup service business (high growth, high investment), nevertheless contrasted with the parent company's historic emphasis (and strength) in coupling innovative approaches with aggressive cost-cutting as the primary financial measure of operating success.

The newly established Online Financial Services banking division had two challenges:

1. How to organize the near endless stream of "great ideas" (over 100 of them) that had been documented and proposed as improvement initiatives for their internet banking startup.
2. How to develop the right business objectives and measures that would support a radically different approach to banking than that of the parent company, yet somehow be compatible with the parent company's culture, business assumptions, and business practices—particularly their emphasis on operational efficiency.

They implemented the BSC to:

- Measure success in their new online business and make sure that the results they were getting made strategic sense.
- Strategically prioritize the bewildering array of new initiatives at OFS.
- Help OFS make the transition from an R&D experiment to a serious service delivery arm of Wells Fargo that had 450,000 customers and was gaining over 1000 new customers per day. In other words: To grow fast, emphasize the right things, and stay in control.

Translate

The leadership of OFS knew that they wanted to become the first major online bank. More importantly, they wanted to *remain* the largest online bank among what promised to be a rapidly growing and fast-changing field of competitors in the online financial services arena. They liked the demographics of the typical online customer:

- Low attrition rate
- More banking products purchased
- Higher balances
- Lower transaction costs

Wells Fargo had been a pioneer since 1995 in offering internet-based banking services such as access to account information and transfers of funds between a client's accounts. By 1997, Wells Fargo OFS had established itself as the industry leader in online banking. They revisited their strategy, elected to use the Balanced Scorecard as a management tool, and analyzed their goals in relation to it.

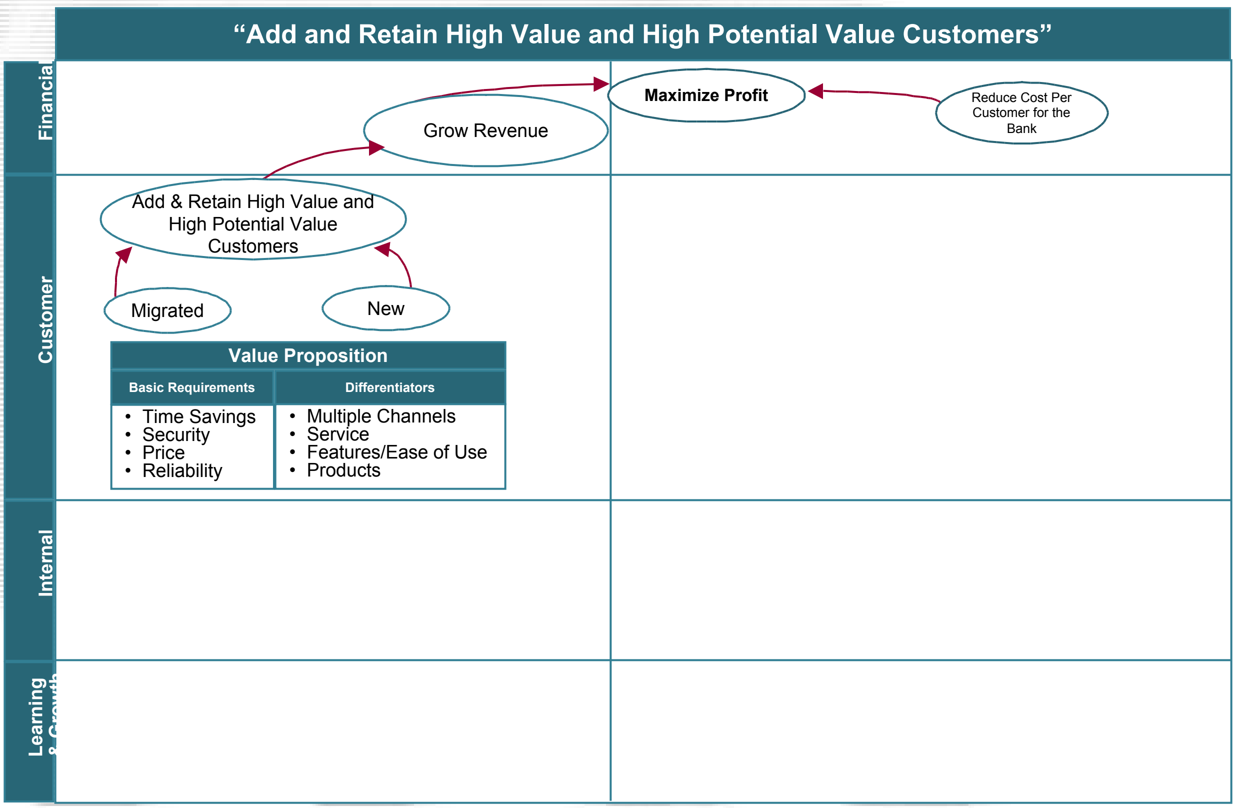
According to Executive Vice President Dudley Niggs, OFS needed the Balanced Scorecard for the following reasons:

"Our culture embraces financial measures …. However, if we only look at financial measures we risk making poor decisions. We would never develop new technologies or product offerings. We would just reduce costs, which would be disastrous in our industry."

"We're operating in an environment where new projects and opportunities come up continuously and our business environment and competitors are changing all the time. We need a tool to help us synchronize our strategy with what we are doing on a daily basis and translate that into measurable results."

Translate

OFS was a "product leadership" focused division – the first among major banks to leverage internet-based technology to capture and serve banking customers. The basic requirements and differentiators of their strategy are exhibited in the "Add and Retain High Value and High Potential Value Customers" portion of their scorecard.



Translate

They further refined their thinking by using a "Competitive Position and Aspirations" matrix. This matrix listed down the left side the service characteristics that were highly valued by the online banking customers that they sought. The center columns of the matrix featured OFS' relative competitive strengths for each of these service characteristics as compared with various competitor groups. The far right column indicated what level of competitive strength OFS desired for each characteristic.

		Competitive Capability					
	High Potential Value Customer Segment Values	Banks on the Net	Banks not on the Net	Full-Service Brokerages (e.g., Merrill Lynch)	Discount Brokerages (e.g., Fidelity Schwab)	Deep Discour Brokerages (e.g., E-Trade	OFS's Targeted Position
1	Multiple Channels	O	+	+	+	+	*
2	Time Savings	O		O	O	O	O
3	Ease of Use	+	++	+	+	+	*
4	Security	O	++	O	O	O	O
5	Price	O	++	+	O/+	–/+	O
6	Service	++	++	++	++	++	*
7	Reliability	O	++	O	O	O	O
8	Features	++	++	++	++	++	*
9	Products	++	++	++	++	++	*

KEY		
	++	Superior (compelling differentiation)
	+	Better
	O	Parity
	–	Weaker
	*	Strategic differentiator objective

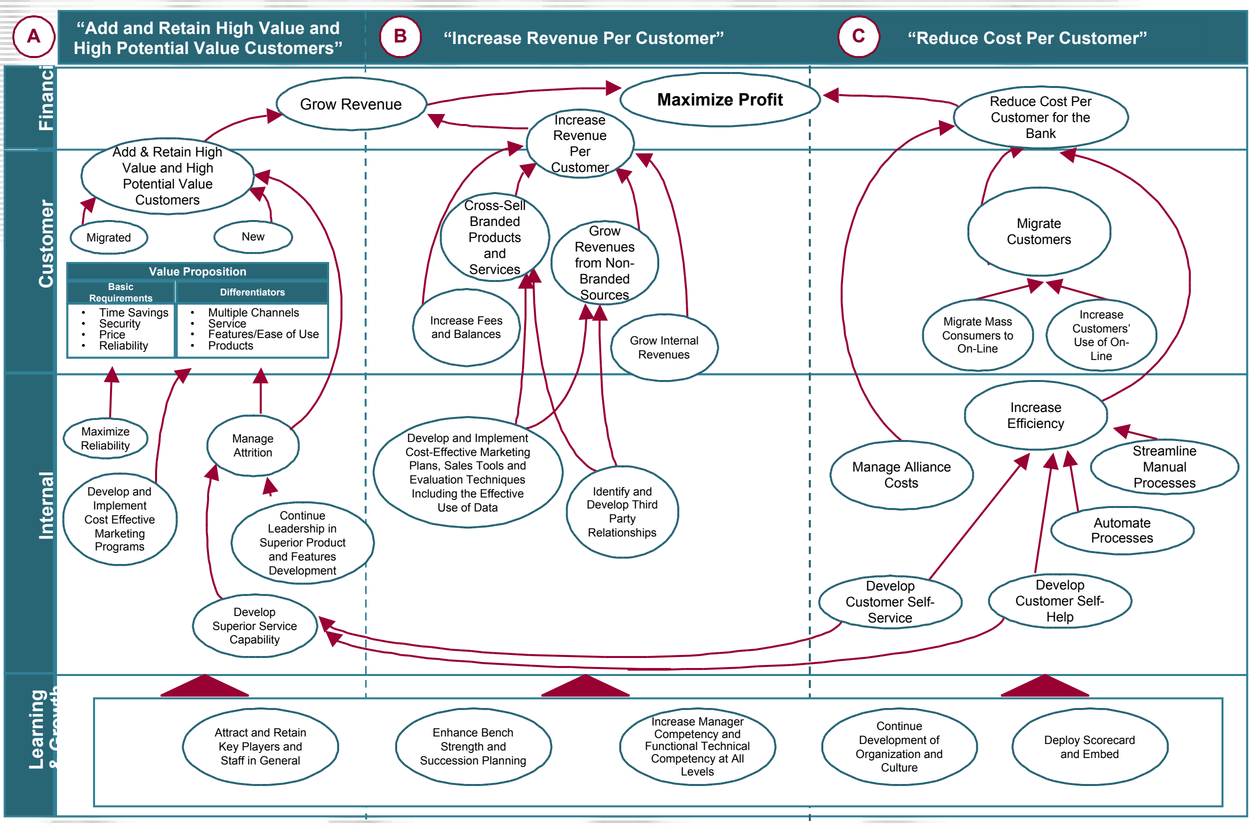
Translate

Strategy Map

To summarize their findings from the "Competitive Position and Aspirations" matrix analysis, Wells Fargo elected to focus on the following themes for the OFS banking business.

- Internet-based banking
- Customer service and convenience
- Add/retain high-value and high potential value customers
- Increase revenue per customer
- Reduce costs per customer

The last three of these became the centerpiece of OFS strategy as depicted on their strategy map below.

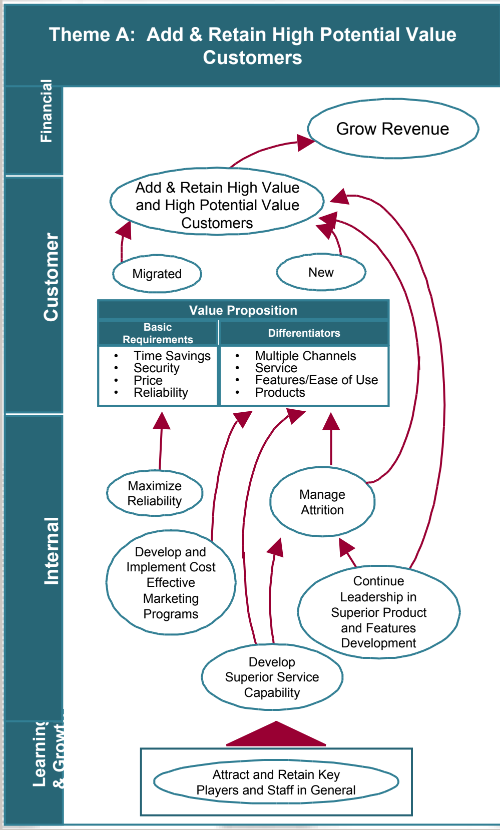


Translate

Balanced Scorecard

Building on its strategy map, Wells Fargo OFS then defined measures for each strategic objective.

Theme A: "Add and Retain High Value and High Potential Value Customers"



Strategic Objective(s)	Measure
Grow Revenue *[owner]*	1. Revenue by product/service *[owner]*
	2. Number and percent of active customers *[owner]*
Add & Retain High Value and High Potential Value Customers *[owner]*	3. Number of incremental and total customers *[owner]*
	4. Profit (value) per customer and portfolio *[owner]*
Maximize Reliability *[owner]*	5. Weighted availability *[owner]*
	6. Response time *[owner]*

WELLS FARGO

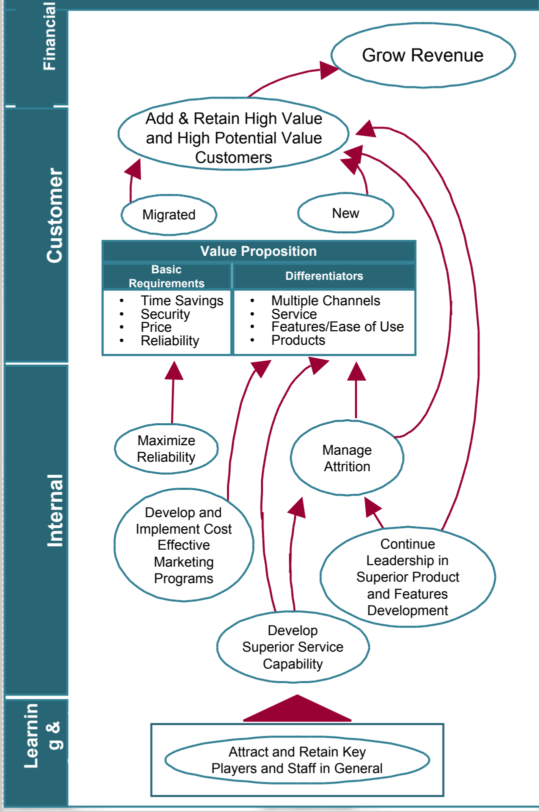
Translate

Balanced Scorecard

Next, they developed sub-measures for the measures.

Theme A: "Add and Retain High Value and High Potential Value Customers"

Theme A: Add & Retain High Potential Value Customers



Strategic Objective(s)	Measure	Sub-Measures
Grow Revenue *[owner]*	1. Revenue by product/service *[owner]*	Revenue by product/service Product Revenue net of Channel exp. Gross Bill Pay Revenue
	2. Number and percent of active customers *[owner]*	# of Active Customers (Avg)
Add & Retain High Value and High Potential Value Customers *[owner]*	3. Number of incremental and total customers *[owner]*	Incremental Customers % New New Migrated Total Customers (ending) Total Customers (average)
	4. Profit (value) per customer and portfolio *[owner]*	Net Product Profit per Migrated Customer Year 1 Year 2 Year 3 Year 4 Net Product Profit per New Customer Year 1 Year 2 Year 3 Year 4
Maximize Reliability *[owner]*	5. Weighted availability *[owner]*	Weighted Availability
	6. Response time *[owner]*	95% of all transactions will be Complete in Under ____ Seconds.

Translate

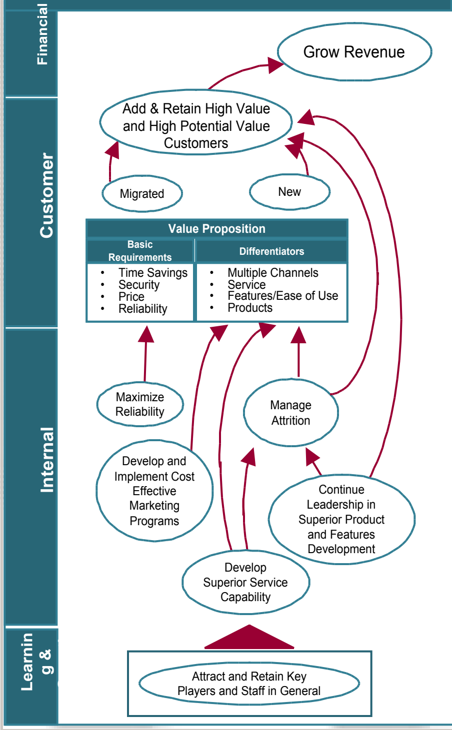
Balanced Scorecard

They then developed targets for the sub-measures.

Theme A: “Add and Retain High Value and High Potential Value Customers”

Data for Illustration Only

Theme A: Add & Retain High Potential Value Customers



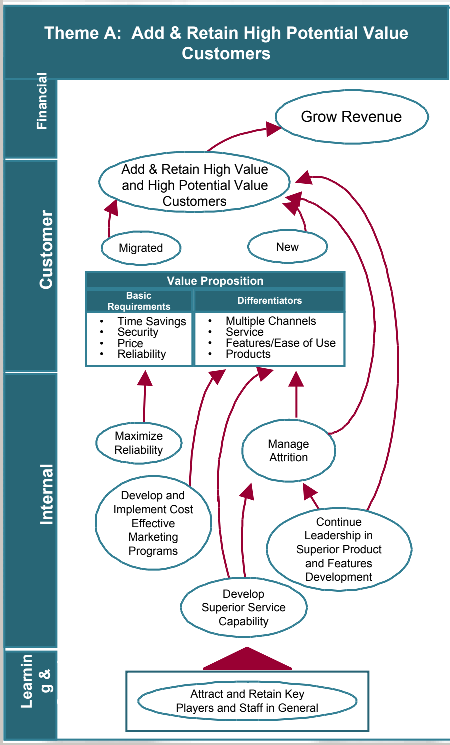
Strategic Objective(s)	Measure	Sub-Measures	1997 Baseline	1998 Targets
Grow Revenue *[owner]*	1. Revenue by product/service *[owner]*	Revenue by product/service Product Revenue net of Channel exp. Gross Bill Pay Revenue	N/A $15,500 $1,276	N/A $92,600 $1,329
	2. Number and percent of active customers *[owner]*	# of Active Customers (Avg)	162,600	483,700
Add & Retain High Value and High Potential Value Customers *[owner]*	3. Number of incremental and total customers *[owner]*	Incremental Customers % New New Migrated Total Customers (ending) Total Customers (average)	127,000 15% 18,000 73,000 186,000 167,000	215,000 20% 41,000 126,000 419,000 356,000
	4. Profit (value) per customer and portfolio *[owner]*	Net Product Profit per Migrated Customer Year 1 Year 2 Year 3 Year 4 Net Product Profit per New Customer Year 1 Year 2 Year 3 Year 4	 $200.00 $250.10 $310.00 $400.00 $120.00 $260.00 $400.00 $460.00	 $250.00 $300.00 $340.00 $490.00 $120.00 $260.00 $450.00 $500.00
Maximize Reliability *[owner]*	5. Weighted availability *[owner]*	Weighted Availability	—	—
	6. Response time *[owner]*	95% of all transactions will be Complete in Under ____ Seconds.	—	—

Translate

Balanced Scorecard

Finally, they created initiatives for taking action to achieve the targets.

Theme A: "Add and Retain High Value and High Potential Value Customers"



Strategic Objective(s)	Measure	Sub-Measures	1997 Baseline	1998 Targets	Related Strategic Initiative(s)
Grow Revenue *[owner]*	1. Revenue by product/service *[owner]*	Revenue by product/service Product Revenue net of Channel exp. Gross Bill Pay Revenue	N/A $15,500 $1,276	N/A $15,500 $1,276	TBD
	2. Number and percent of active customers *[owner]*	# of Active Customers (Avg)	162,600	483,700	Customer Contact Program
Add & Retain High Value and High Potential Value Customers *[owner]*	3. Number of incremental and total customers *[owner]*	Incremental Customers % New New Migrated Total Customers (ending) Total Customers (average)	127,000 15% 18,000 73,000 186,000 167,000	215,000 20% 41,000 126,000 419,000 356,000	Customer Acquisition Database
	4. Profit (value) per customer and portfolio *[owner]*	Net Product Profit per Migrated Customer Year 1 Year 2 Year 3 Year 4 Net Product Profit per New Customer Year 1 Year 2 Year 3 Year 4	$200.00 $250.10 $310.00 $400.00 $120.00 $260.00 $400.00 $460.00	$250.00 $300.00 $340.00 $490.00 $120.00 $260.00 $450.00 $500.00	Cross-Selling Program
Maximize Reliability *[owner]*	5. Weighted availability *[owner]*	Weighted Availability	—	—	TBD
	6. Response time *[owner]*	95% of all transactions will be Complete in Under ____ Seconds.	—	—	Responsibility Monitoring

Govern

One of Wells Fargo OFS' principal strengths as a best practice case is the alignment and prioritization of proposed improvement initiatives with their Balanced Scorecard.

Before the BSC, the planning and budgeting processes—especially for new initiatives—were strictly cost-focused and subject to weekly changes in relative prioritization. This proved to be time-consuming, confusing, and frustrating for everyone involved. There was no explicit tie to strategy.

After installation of the BSC, the prioritization and allocation of resources for improvement initiatives were more rigorous and strategically directed.

Initiatives were classified as "strategic" vs. "business as usual" according to three criteria derived from the BSC:

1. Helps OFS achieve a strategic objective
2. Builds a competitive advantage
3. Builds a sustainable point of differentiation

Those projects passing the first test as "strategic" were then segmented in a second screening as either "function-specific, relatively inexpensive, and/or short-term" or "cross-functional, relatively expensive and/or longer-term". Those that passed even one of the latter three criteria were then supported by an extensively detailed business case which culminated in a net present value (NPV) estimate of future financial returns.

Each passing case was placed in an Initiative Ranking Model with assigned weightings on six factors:

1. Strategic importance	(40%)
2. Initiative cost	(15%)
3. NPV	(15%)
4. Elapsed time	(10%)
5. Interdependencies	(10%)
6. Risk/complexity to implement	(10%)

Govern

Strategic Learning

OFS used a structured plan for both development and ongoing use of their Balanced Scorecard-based management system. Strategic learning from their experiences with it was incorporated into the plan in steps 4-7 of their plan.

The monthly "operating review" meeting was attended by all the OFS leadership team and their direct reports. During this meeting, they discussed last month's financials and the Balanced Scorecard results. Division managers and their direct reports use the BSC reporting spreadsheet each month. It is not published on any company-wide intranet, newsletter, or email distribution system, more because of the publication effort, rather than a desire to keep the data confidential. Division-level communications always include portions of the BSC results, however.

The scorecard was reviewed monthly as a table of measures, initially with numbers, then later with icons indicating current performance "greater than 5% below target" (magnifying glass), "within 5% of target" (bull's-eye with dart in center), and "greater than 5% more than target" (blue ribbon).

Before the Balanced Scorecard, business performance was restricted to financial numbers. After the BSC, it included non-financial measures as well.

The monthly review generated remarkable changes in management focus and interaction, including even the revision of their strategic assumptions and objectives. In one case, the scorecard-based criteria for prioritizing proposed initiatives produced a low score for a proposal that the management team had liked otherwise. After examining their reasons for liking it, they realized that it represented a changed assumption about their business and a course of action that defined a new strategic objective. They modified their thinking and their Balanced Scorecard accordingly.

The BSC became a very powerful management reporting system. OFS leaders used it to educate the chairman's office at Wells Fargo on the OFS strategic objectives and measures, then continuously reported results to them via the scorecard.

Results

Financial Results

- Average cost per customer dropped by 22% from 1997 to 1998.

Customer Results

- Total online customers at end of 1997: 403,000
- Total online customers as of August 1999, 1,000,000
- Several awards received for "Best Online Bank"

Internal Results

- Downtime on the OFS banking website decreased 70% from 1997 to 1998.
- Reductions in downtime caused a corresponding decrease in calls to the back shop (customer service).
- Claim Ratio (payment disputes as percentage of total online bill payments) dropped by 50% from 1997 to 1998.

Learning and Growth Results

OFS leaders decided to conduct their L&G measures on an annual basis, rather than monthly, and on an overall basis, rather than with specific linkages between L&G measures and the various strategic objectives.

Wells Fargo administered a "culture scan" (employee survey) in 1997 and again in 1999. Four key areas were identified and targeted for focused improvement after the 1997 survey. Below you can see the net measured change achieved as a result of their improvement initiatives in the four areas.

Weak Areas for Improvement	1997	1999
Sr. Management	Baseline	+11%
Employee Involvement	Baseline	+9%

Strength Areas to Maintain		
Job Satisfaction	Baseline	Flat
Customer Service	Baseline	+2%

Results

Lessons Learned

Wells Fargo OFS leaders learned some important lessons as they implemented a Balanced Scorecard within what amounted to a self-contained subsidiary of the parent company, Wells Fargo Bank:

Executive Vice President Dudley Nigg characterized the process of designing the specific measures and targets for the scorecard as the hardest work of the project. "We absolutely believe that you have to have targets on every measure. What is very hard is to relate some of them to financial outcomes. Also, in a startup business, establishing them is difficult as compared with an established business where it's too easy to make the targets too easy. In a start-up business, it's easier to set challenging targets. However, we were overoptimistic in setting our targets, and it discouraged people. When they could actually achieve targets, it helped morale."

The process wasn't entirely linear but rather iterative. When defining measures, the team was often forced to go back and more precisely define the objectives to which the measures were being assigned.

Even a year and a half after full implementation of the BSC, there were still some identified measures for which adequate data had not yet been developed. Fully populating the measures with data was hard to do quickly.

Scott Daniel (CFO): "The one thing I would challenge people to do if we were doing the process again is to try to make the measures a little less interrelated, because there were four or five things that we tracked on the scorecard that all moved together. And essentially it was because they were pretty much pulled and calculated from the same data measures at the beginning."

Daniel also commented on the value of having a third-party facilitator to drive the process. "I would highly encourage anyone doing this in the setup process to use the consultant as the facilitator rather than to try and drive it internally. I don't see how we could have done it without some kind of a third party to help mitigate cross-divisional issues, which will likely come up."

Learn More

"Wells Fargo Online Financial Services—A", Harvard Business School Publishing, Case # 9-198-146: http://www.hbsp.harvard.edu/hbsp/prod_detail.asp?198146

"Wells Fargo Online Financial Services—B", Harvard Business School Publishing, Case #9-199-019:
http://www.hbsp.harvard.edu/hbsp/prod_detail.asp?199019

"Wells Fargo Bank & Electronic Banking", Harvard Business School Publishing,

Case #SM-41: http://www.hbsp.harvard.edu/hbsp/prod_detail.asp?SM41

BSCol Hall of Fame

Balanced Scorecard Collaborative Hall of Fame winners have achieved breakthrough performance largely as a result of applying one or more of the five principles of a Strategy-Focused Organization: mobilize change through executive leadership; translate the strategy to operational terms; align the organization to the strategy; make strategy everyone's job; and make strategy a continual process.

Other selection criteria are: implement the Balanced Scorecard as defined by the Kaplan/Norton methodology; present the case at a public conference; achieve media recognition for the scorecard implementation; produce significant financial or market share gains; and demonstrate measurable achievement of customer objectives. Hall of Fame honorees are nominated by the Collaborative's in-house experts and are personally selected by Balanced Scorecard creators Dr. Robert Kaplan and Dr. David Norton.

About Balanced Scorecard Collaborative

Balanced Scorecard Collaborative, Inc. (BSCol) is a new kind of professional service firm dedicated to the worldwide awareness, use, enhancement, and integrity of the Balanced Scorecard (BSC) as a value-added management process. Led by Balanced Scorecard creators Drs. Robert Kaplan and David Norton, BSCol provides consulting, conferences, training, publications, action working groups, software certification, and online services. For more information, please call us at 781.259.3737, or visit us on the web where you can join Balanced Scorecard Online for the latest insight and resources at bscol.com