SigmaSense Consulting

Applying Quality to the Customer

What Your Business Needs to Learn from the Collapse of the Mortgage Industry

By Kirk Collingwood

SOLUTIONS

On a cold morning in late November, the Congressional Subcommittee on Domestic Policy was convening to hear more testimony in search of answers to the nation's mortgage collapse. Yet another financial executive sat before the panel facing the onslaught of microphones and camera lights. However, on this day, the Committee was not preparing to grill an executive on lack of oversight, excessive pay, or misspent TARP funds. The Committee was there to listen and to learn. They were hearing from Larry Litton Jr., President and CEO of Litton Loan Servicing. His company was not only making money in the mortgage business, they specialize in servicing sub-prime loans – the very toxic assets that had led the rest of the industry to ruin.

In September 2008, The State Foreclosure Prevention Working Group, a coalition of 37 states and the Conference of State Bank Supervisors, put out a grim report on foreclosure prevention efforts concluding, "Nearly eight out of ten seriously delinquent homeowners are not on track for any loss mitigation outcome." "Loss mitigation" is the industry term for getting paid as the landscape changes. It means keeping people in their homes to make good on their loan – the original product sold to them. If you're not getting paid today, and are not working with 80% of your customer base which is at risk, you are not going to get paid tomorrow.

What has Litton Financial Services done right that major financial firms across the country missed? The learnings are universal for any type of business. Many of them seem basic on the surface, but we will see how they were misapplied or applied too narrowly to be effective.

Know (Who's) Your Customer

It's one of the most basic mantras for any business, and as leaders we've uttered the phrase a thousand times in marketing and sales plan meetings. However, in this case, the mortgage and securities firms didn't understand who their customer was to begin with. As loan originators began marketing and selling more loans than they held, their definition of who their customer was navigated away from the borrower and toward the securities firms who purchased the notes. With that shift followed all the motivations and metrics used to guide and measure success.

Your definition of "customer" will determine all of the downstream metrics and motivations that guide success throughout the company.

Unfortunately, many of these institutions turned around and invested in securities written on loans they had previously sold. These were assets they should have had an intimate understanding and resulting accurate valuation of. Instead, investors were left with only a general label of risk covering the block purchase of debt. That risk label was glaringly inaccurate because it had been applied by a marketer and not treated as a receivable.

Who's Paying?

With a single customer transaction being stretched through multiple re-sales, then being used as security for new debt paper, and then being leveraged to back other debt as a multiplied asset, it even smells like a house of cards. However, today we see stretched value chains in many industries. A core requirement of any business is to understand who's paying and how their preferences or capabilities may change going forward. That means the ultimate customer is always the consumer. Dig deep into your value chain to maintain an intimate understanding of consumer behavior and preferences. They may not be signing your revenue checks, but they are still the ones paying the bills.

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Knowing the ultimate consumer requires a live person through whom a relationship can be formed with the consumer. What are the touch points you have with your ultimate consumer? Are the people making that contact trained in how to evaluate changes in consumer needs and capabilities? Is there a feedback loop to the management team?

Litton maintains direct personal contact with every one of its customers. They speak to them regularly on the phone and maintain histories of those interactions which can be reviewed by the relationship agent to better assess their needs. Key words from the customer or inclinations by the service agent automatically trigger new interaction profiles which can both guide the process and open new opportunities for solutions or products that may otherwise be overlooked.

About the author:
Kirk Collingwood is the founding partner of SigmaSense Consulting, a firm dedicated to unlocking strategic value contribution in its clients' businesses. Prior to his consulting career, Kirk spent 20 years in international management, contributing to and leading businesses for Philip Morris International on three continents.
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Sales must be Accountable for Revenue

Lenders encouraged aggressive sales techniques to boost loan rates. That focus shifted attention away from revenue generation (loan payments). A similar phenomenon occurred during the long distance wars of the l990s. As AT&T, MCI and Sprint competed to sign-up new long-distance customers, anything-goes sales tactics left their own Customer Service representatives unwinding more than half of the plans the Sales departments had "sold." Such short-term, departmentalized tactics led to a nadir in customer service ratings, public mistrust, and a short-fall in revenues that contributed to eventual industry consolidation.

Performance metrics for Sales must include customer retention, revenue, and customer satisfaction measures linked to the accuracy and validity of the original sale.

Adapt Processes as the Market Changes

The market is never static. Customers' behaviors and their ability to pay are not consistent. As the customer monitoring process detects these changes, structured alterations must kick-in to improve the likelihood of success – to improve your ability to continue getting paid or getting paid the value planned for.

Leading indicators have the pulse of the business by monitoring the consumers in addition to the customers.

Based on feedback from customer representatives, Litton automatically adjusts a host of processes for dealing with the customer. Options may include increased frequency of customer interaction and tracking, new scripts, or altered payment plans and terms. These actions aren't triggered by default – they are seeking to avoid default and keep the loan (and the resulting relationship) good.

KPIs Must Reflect Critical Deliverables for the Business

You would think that the term "key performance indicators" would naturally be "key" for most businesses that select them. However, a majority of the businesses we have worked with monitor lagging indicators with little or no warning of changing market conditions. If your KPI index looks like most, it includes sales volume, market share, revenue, costs, project progress, and some organizational development milestones. None of these KPIs is a leading indicator. Lagging indicators simply tell you where you have been. By the time the alarm bell goes off, you are already behind for the quarter on your shareholders' deliverables.

Leading indicators have the pulse of the business by monitoring the consumers in addition to the customers. They are focused on specific market segments, specific consumer groups, or specific individuals whose behavior is likely indicative of future events or behaviors for the broad portfolio.

The Marketing and Sales departments are an excellent source of KPIs. They have identified early adopters and influencers within their key product segments for communication and product intro purposes. Expand your interaction with these individuals or customers and broaden the monitoring points to include risk factors.

Get Quality

A quality process is essential. You must have one.

Quality programs have gotten a bad rap, stereotyped as initiatives for the factory floor or just for engineering companies. True, they got their start on the factory floor, but only because there were clearly defined processes already in place within production environments to work with. Quality is a total company commitment to improving processes with the objective of optimizing the achievement of the company's core strategies.

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The executive team has defined the core strategies that will deliver on the company mission for the next five years. These strategies have been filtered down through departmental metrics and individual performance objectives. Everyone knows what has to be done. But that isn't enough. Quality is the lens through which every employee looks when making a decision – it asks one of two questions, "will this move enhance the company's ability to meet Strategy X?" or "does this process support Strategy Y?" It applies to finance, to legal, to public relations, to IT, to every corner of the business.

As all of us know, 80% of most anyone's workday is consumed by processes, leaving us precious little time for true value added. Quality seeks to optimize every one of those critical processes to ensure they are supporting the business' core commercial strategies. Instead of trying to wring more and more value out of your employees 20%, optimize their processes to meet your goals.

We do not advocate every company implement Six Sigma or ISO. Litton uses neither. What is required is an understanding of where to focus process improvement and measurement, along with a commitment to apply process alignment across the board. Litton brought in an external quality advisor who set up a team to methodically work through every department in the company identifying, analyzing, and improving each major process. Don't forget, "improving" means aligning to core strategies. Once complete, the process was made continuous, with the Quality Group responsible for tweeking processes on an on-going basis as the company's tactics respond to market needs.

References:

Analysis of Subprime Mortgage Servicing Performance, State Foreclosure Prevention Working Group, 2008.

Home Ownership Preservation Summit Statement of Principles, United States Senate Committee on Banking, Housing, and Urban Affairs, 2007.

Hearing: Is Treasury Using Bailout Funds to Increase Foreclosure Prevention, as Congress Intended?, Subcommittee on Domestic Policy 110th Congress, 2008.

Larry Litton Sr., Litton Loan Servicing, 2009.

Such a thorough understanding of the processes critical to the core business provide Litton with a wealth of knowledge. It has enabled the executive team to drill down their KPIs with pin-point accuracy. Litton tracks over four hundred KPIs on an on-going basis! The ability for all that data to be meaningful is directly linked to a detailed understanding of the processes that drive revenue and profitability.

It's easy to dismiss the embarrassing collapse of the financial sector as an industry anomaly. These were some of the brightest minds in industry, with intense analytical capabilities, and deep resources. However, as business models evolve, as market conditions change, and as the search for new revenue streams broadens portfolios, any business is at risk of losing focus on these core principles.

Getting Help

If your business needs help identifying and implementing a quality approach that directly supports your strategies, please contact us. SigmaSense Consulting specializes in creating value by assisting companies establish and optimize quality programs which focus all activities on supporting the mission.

You can contact Kirk Collingwood directly at 800-765-0399 or via kcollingwood@sigma-sense.com.

You can access additional resource articles and white papers on the SigmaSense Consulting web site.