

Shotgun weddings, mergers and other boardroom entertainment

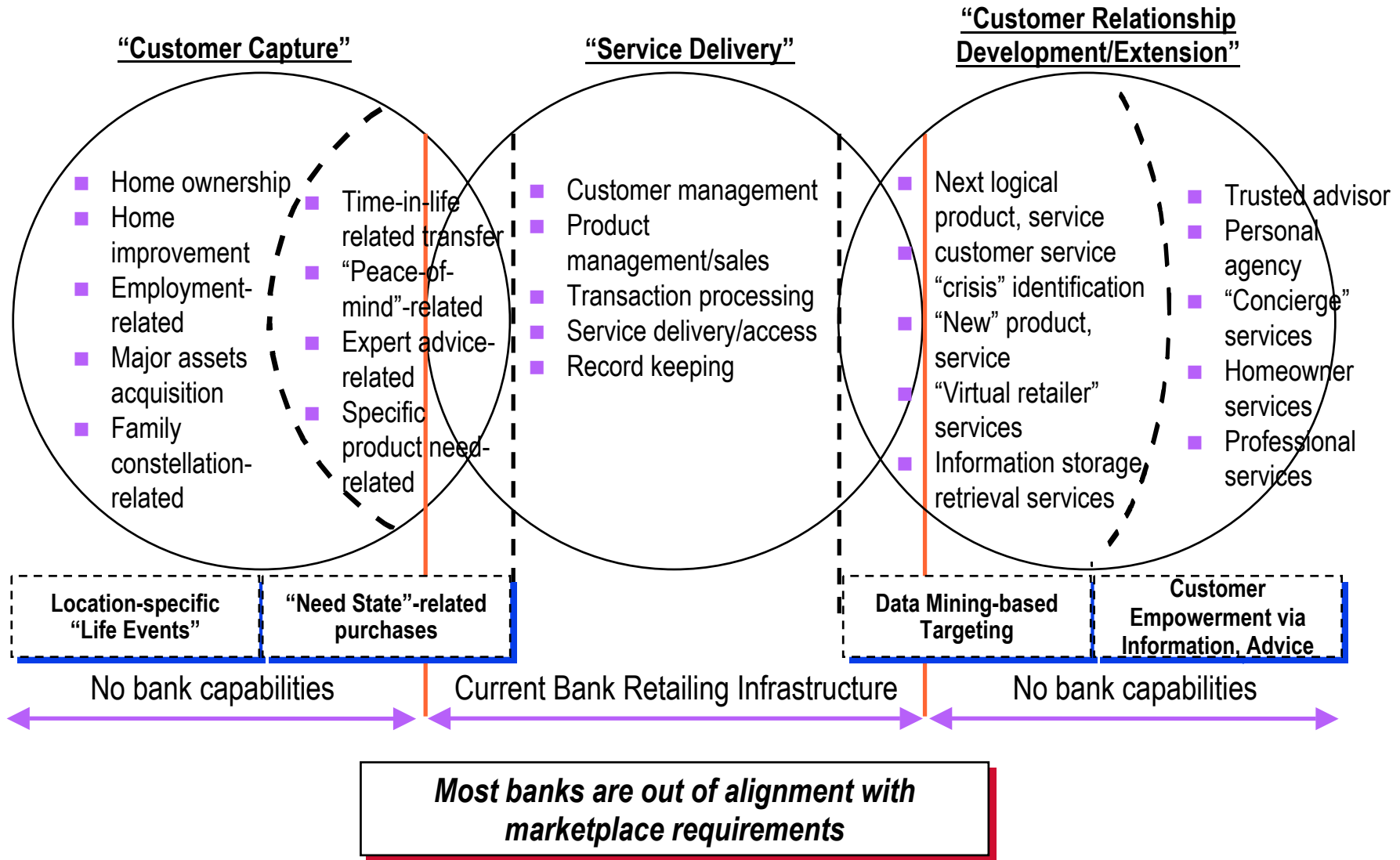
Industry Consolidation and Strategic Alliances

Strategic Management Society, Berlin, October 4, 1999

Banking at all levels is at a crossroads today; what is clear is that fundamental, structural change has begun, driven in part by the emergence of the e-marketspace

Business Banking Businesses	Primary Value Proposition	Competitive Threat	E-Marketspace Opportunity
Corporate Banking	<ul style="list-style-type: none"> ■ Payment systems ■ Credit sources, capabilities ■ Risk management 	<ul style="list-style-type: none"> ■ Investment bankers with better technology ■ Non-bank technology businesses 	<ul style="list-style-type: none"> ■ E-commerce -- various ■ Information intermediation
International Banking	<ul style="list-style-type: none"> ■ Credit risk management ■ Payment systems 	<ul style="list-style-type: none"> ■ Structural bypass by technology businesses 	<ul style="list-style-type: none"> ■ E-commerce -- various ■ Intermediation business extensions
Cash Management Services	<ul style="list-style-type: none"> ■ Systems, processes ■ Reduced cost, risk 	<ul style="list-style-type: none"> ■ Non-bank technology businesses 	<ul style="list-style-type: none"> ■ Reduced cost to deliver via Internet
Small Business Banking	<ul style="list-style-type: none"> ■ Credit ■ Cash management ■ Peace of mind 	<ul style="list-style-type: none"> ■ Non-bank competitors ■ Out-of-market banks 	<ul style="list-style-type: none"> ■ "Retail Enabler" ■ Business process outsourcing/EDI
Capital Markets Product Businesses	<ul style="list-style-type: none"> ■ Capital access ■ Risk management 	<ul style="list-style-type: none"> ■ E-market based structural bypass 	<ul style="list-style-type: none"> ■ Reduced cost/improved profits/enhanced capabilities
Payment Systems	<ul style="list-style-type: none"> ■ Transaction products, services ■ Information 	<ul style="list-style-type: none"> ■ MSFDC ■ Non-bank technology businesses 	<ul style="list-style-type: none"> ■ Expanded platform supporting business process outsourcing/EDI
Private Banking/Business Banking Customers	<ul style="list-style-type: none"> ■ Need anticipation ■ Broad set of products, services ■ "Peace of Mind" 	<ul style="list-style-type: none"> ■ Merrill Lynch ■ I. Bankers ■ Technology-based businesses 	<ul style="list-style-type: none"> ■ E-marketspace business expansion-- new services; new revenue streams

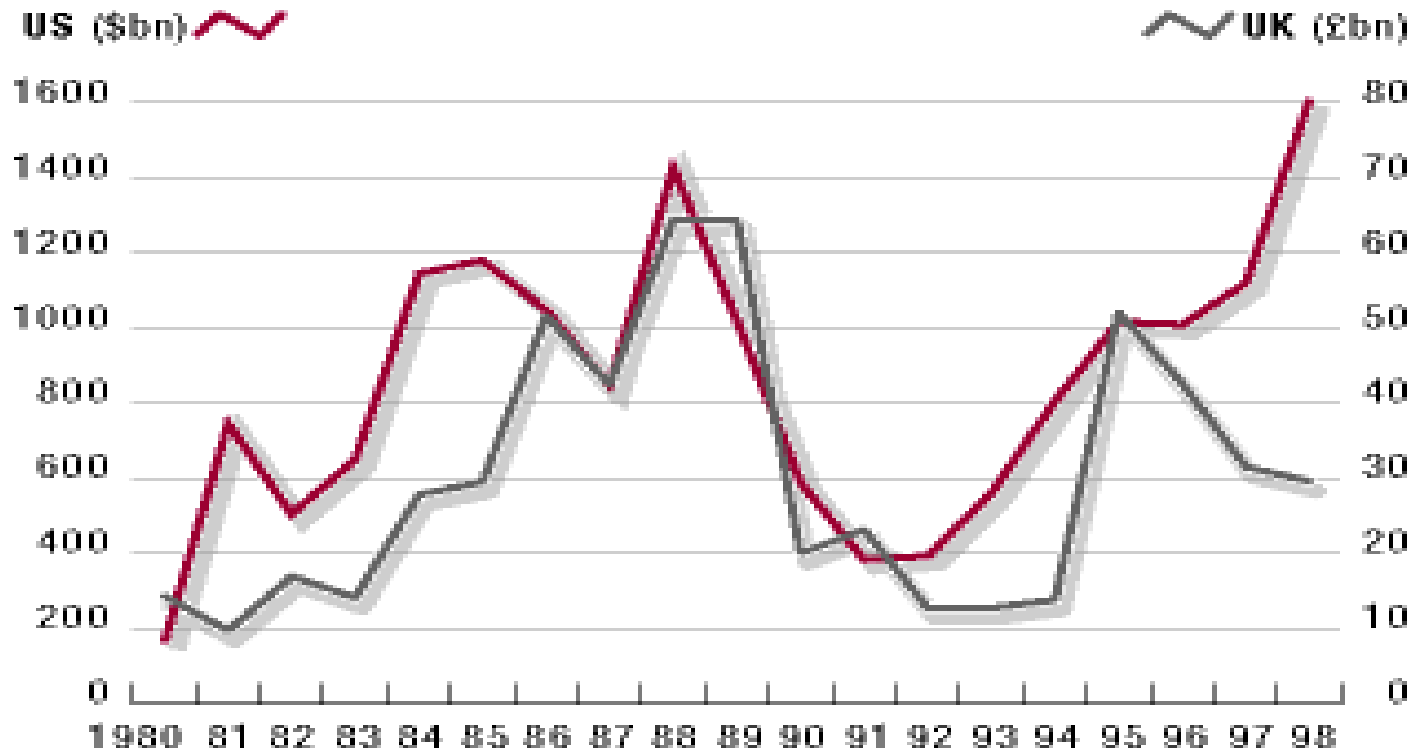
Increasingly, financial services retailing will require management of three overlapping business processes: customer capture, product/service delivery (customer “service”), and customer relationship development



Are mergers here to stay?

Mergers and acquisitions

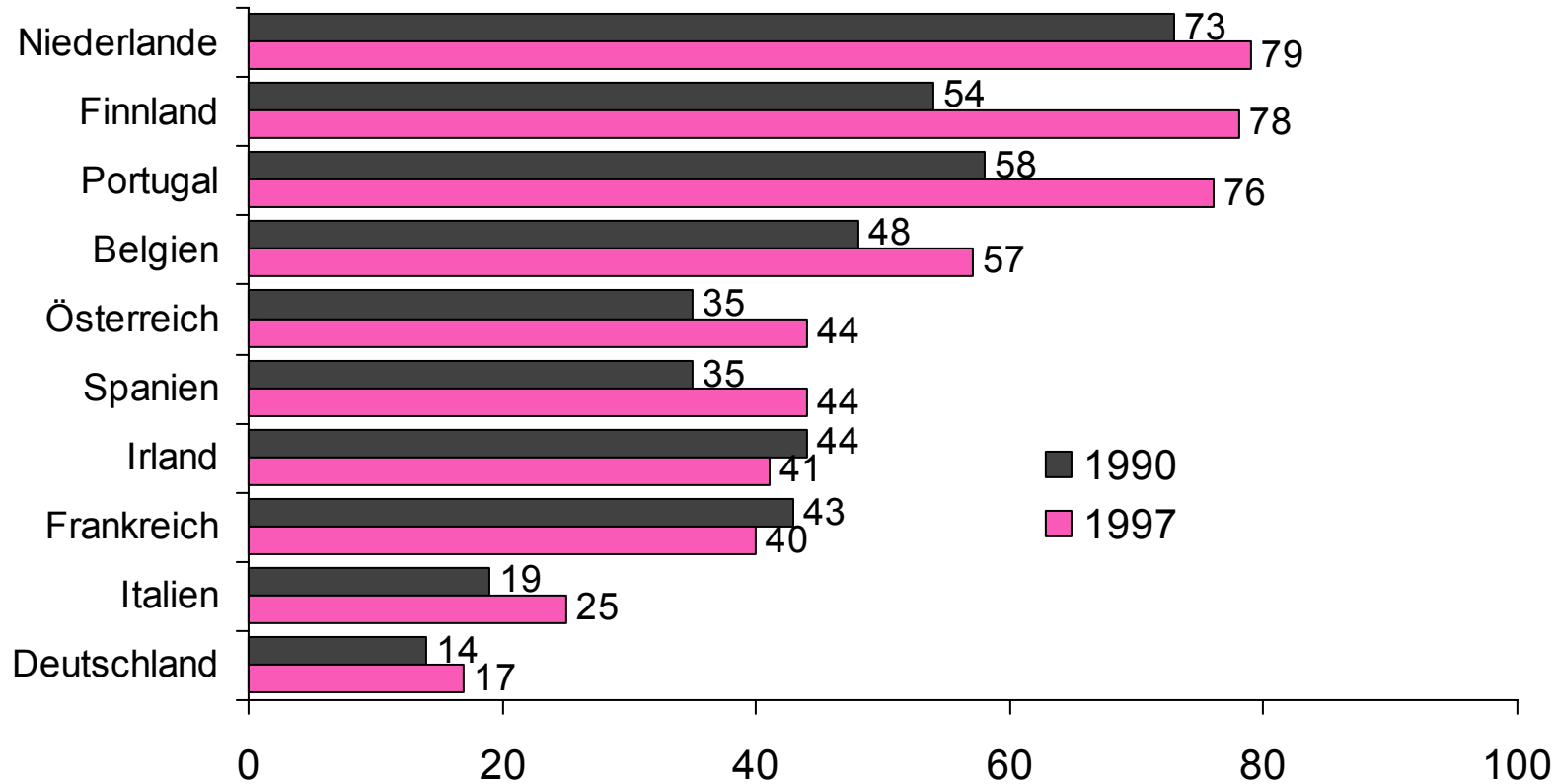
Adjusted for stock market performance, in 1998 terms, deflated by annual average of S&P Composite and FTSE All-Share respectively



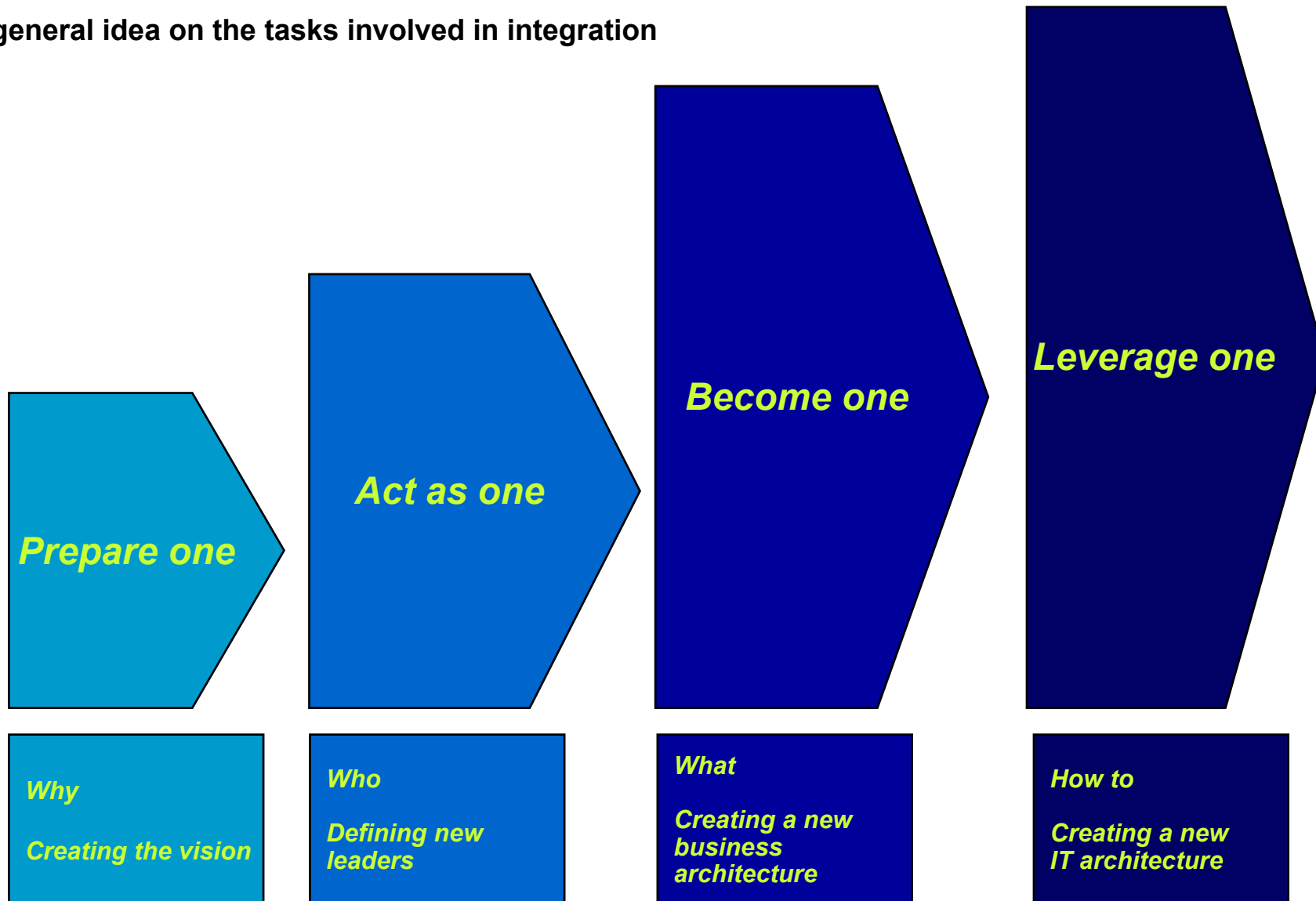
Source: Thomson Financial Securities Data; FT

Are mergers here to stay?

Retail banking market share of the 5 largest banks per country

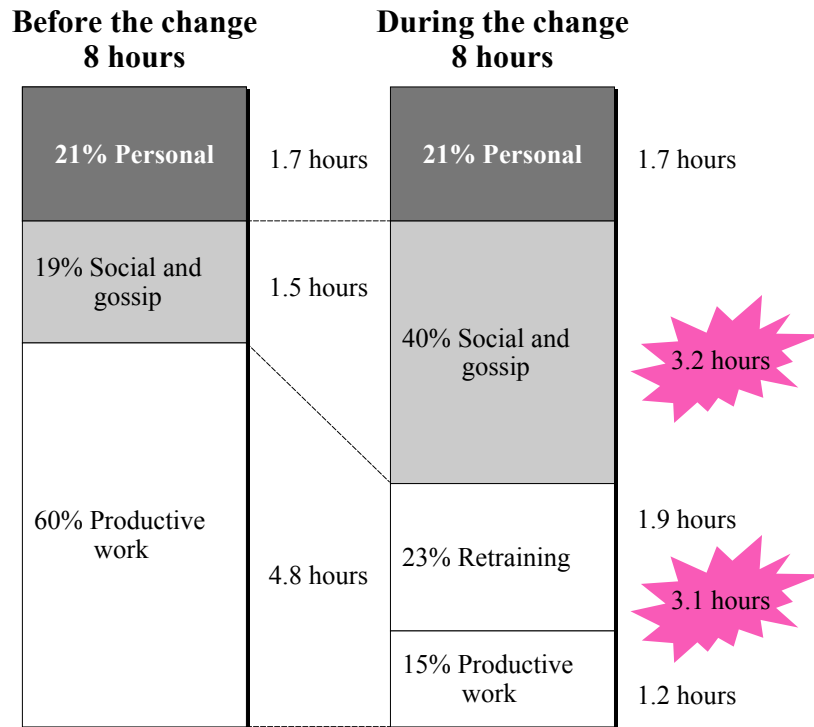


A general idea on the tasks involved in integration



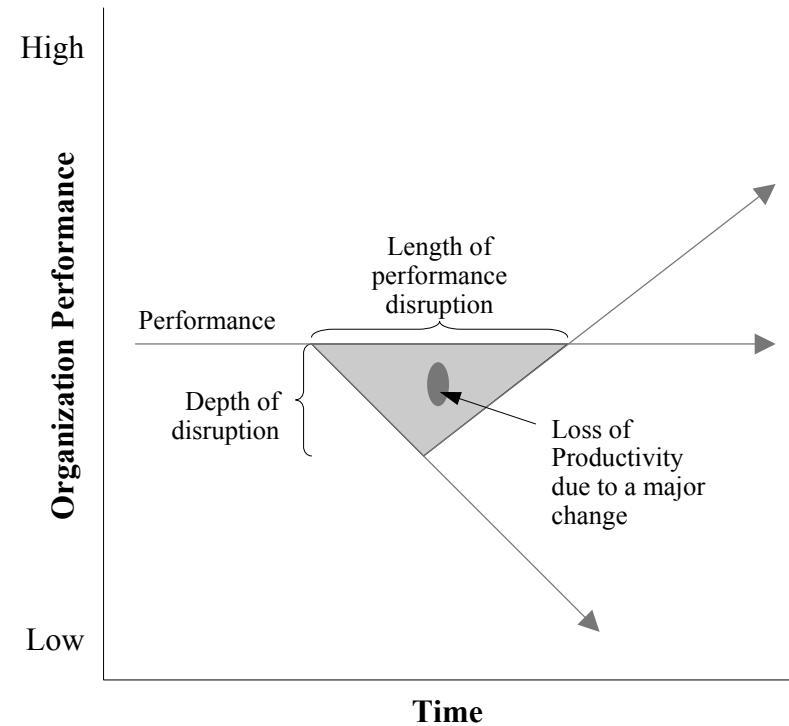
During the merger transformation, banks are vulnerable to competition

Work and productivity impact during significant change

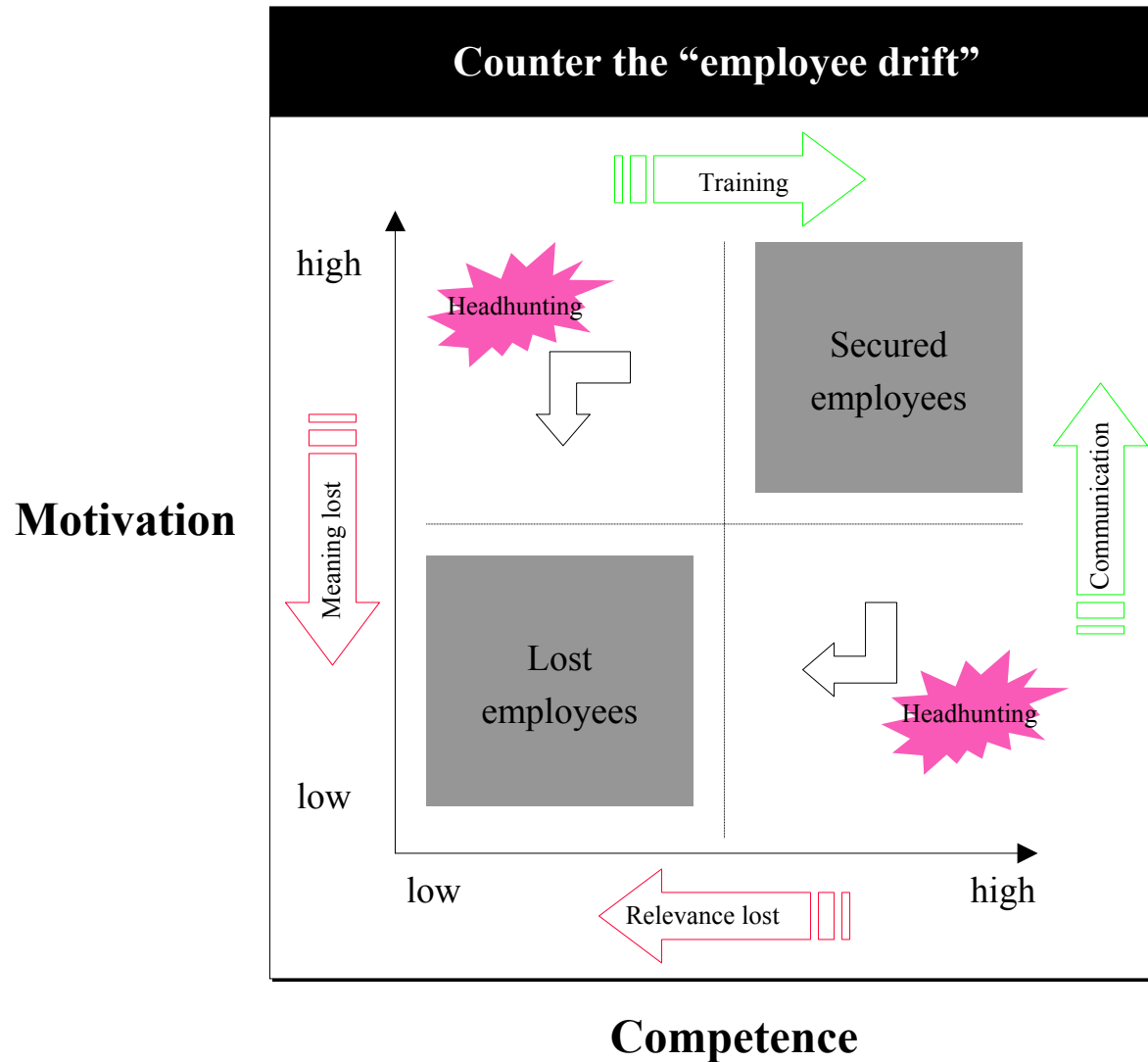


Source: Bureau of Labor Statistics Study - 1990

Organization performance



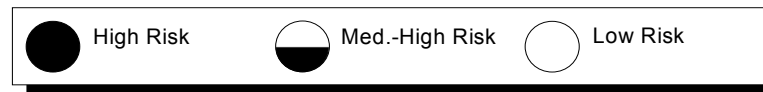
Change Management and Communication are key to retain key employees



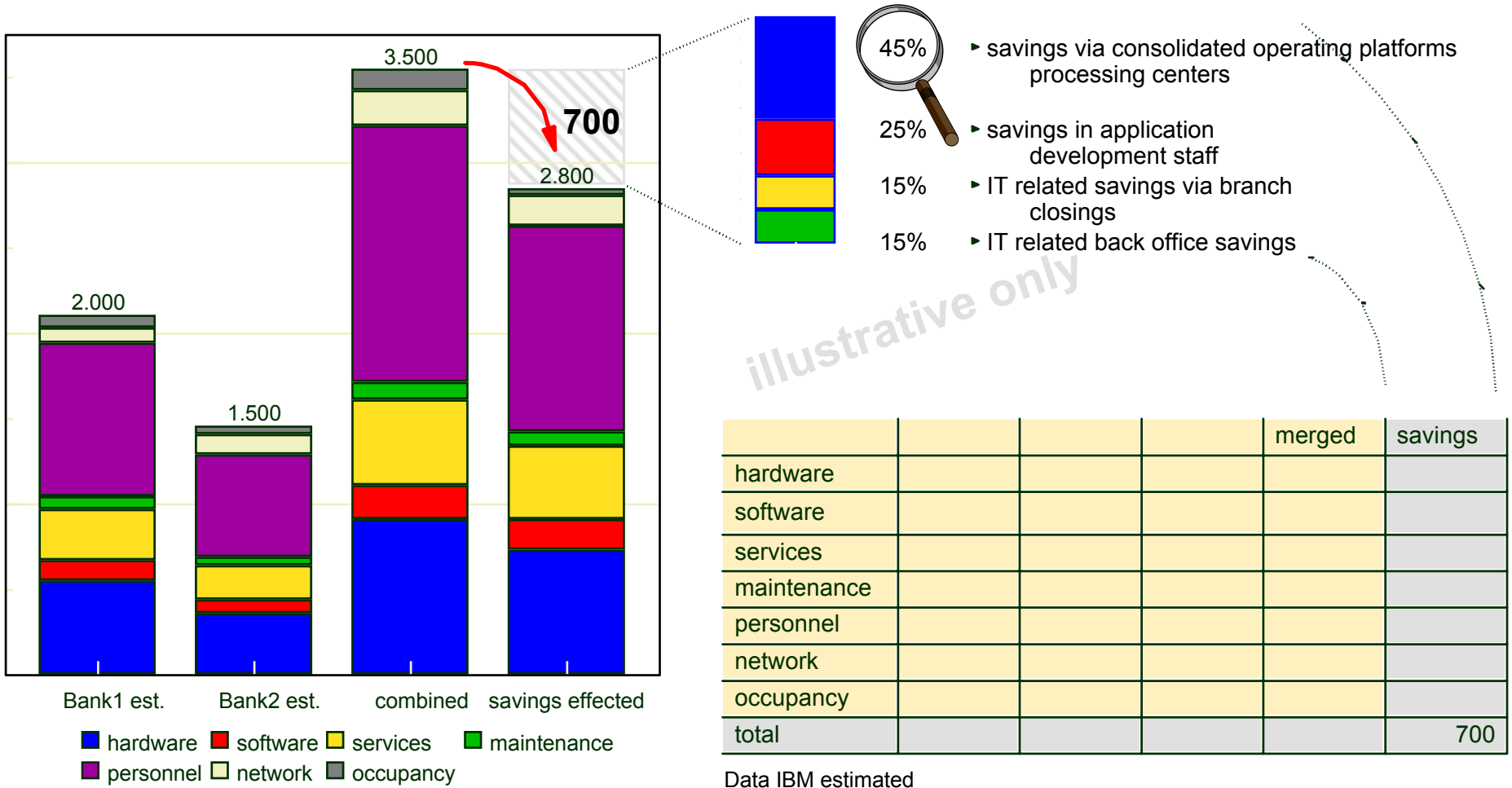
We recommend a „Legacy“ or „Application Suite“ phased approach

Risk Criteria	Approach		Holding Company				Merged Entity			
	Method		Legacy		Application Suite		Best of Function			
	Big Bang	Phased	Big Bang	Phased	Big Bang	Phased	Big Bang	Phased		
Stability	○	○	◐	◐	◐	◐	●	●		
Scalability	◐	◐	●	◐	●	◐	●	◐		
Decision Making Speed	○	○	○	○	◐	◐	●	●		
Implementation Speed/Efficiency	○	◐	●	◐	●	●	●	●		
Ongoing Efficiency	●	●	○	○	○	○	◐	◐		
Functionality/Intro of new functions	●	●	○	○	○	○	○	○		

Potential Risk:



Mergers hold significant potential for cost reduction



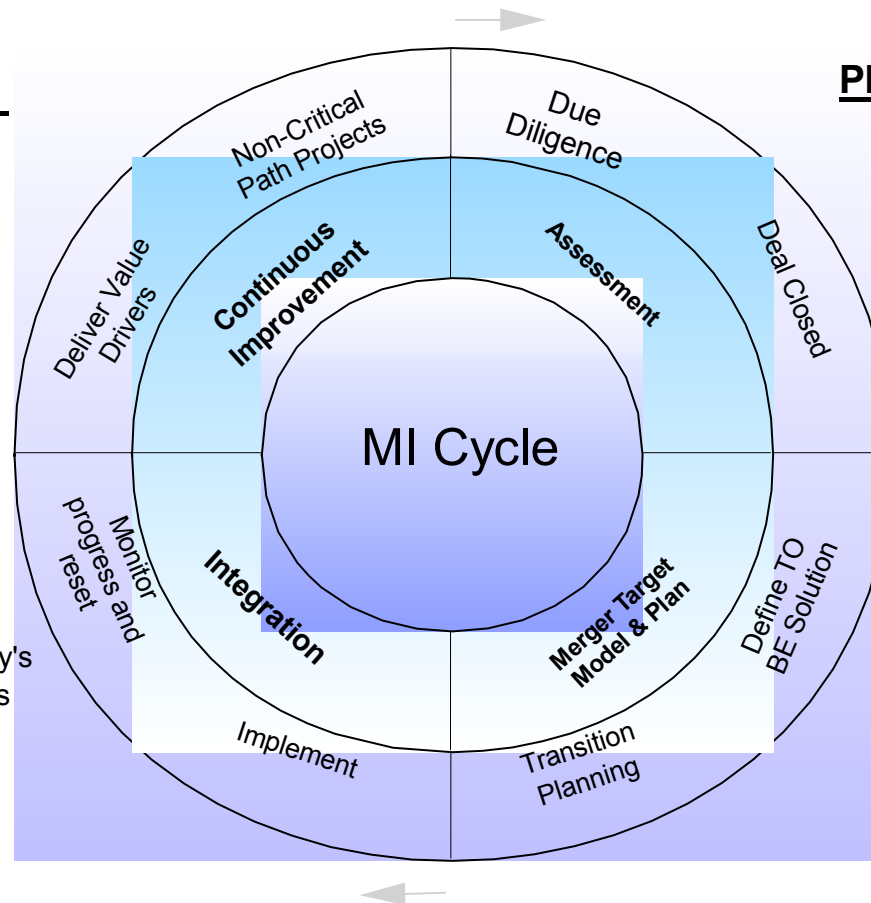
IBM approaches Merger Integration with a “4 phases model”

Phase 4: Continuous Improvement

- Execute Non-Critical Path Projects
- Assess Business Results
- Process Improvements

Phase 3: Integration

- Execute Defined Projects
- Track Progress and Synergy's
- Identify Non-Critical Projects



Phase 1: Assessment

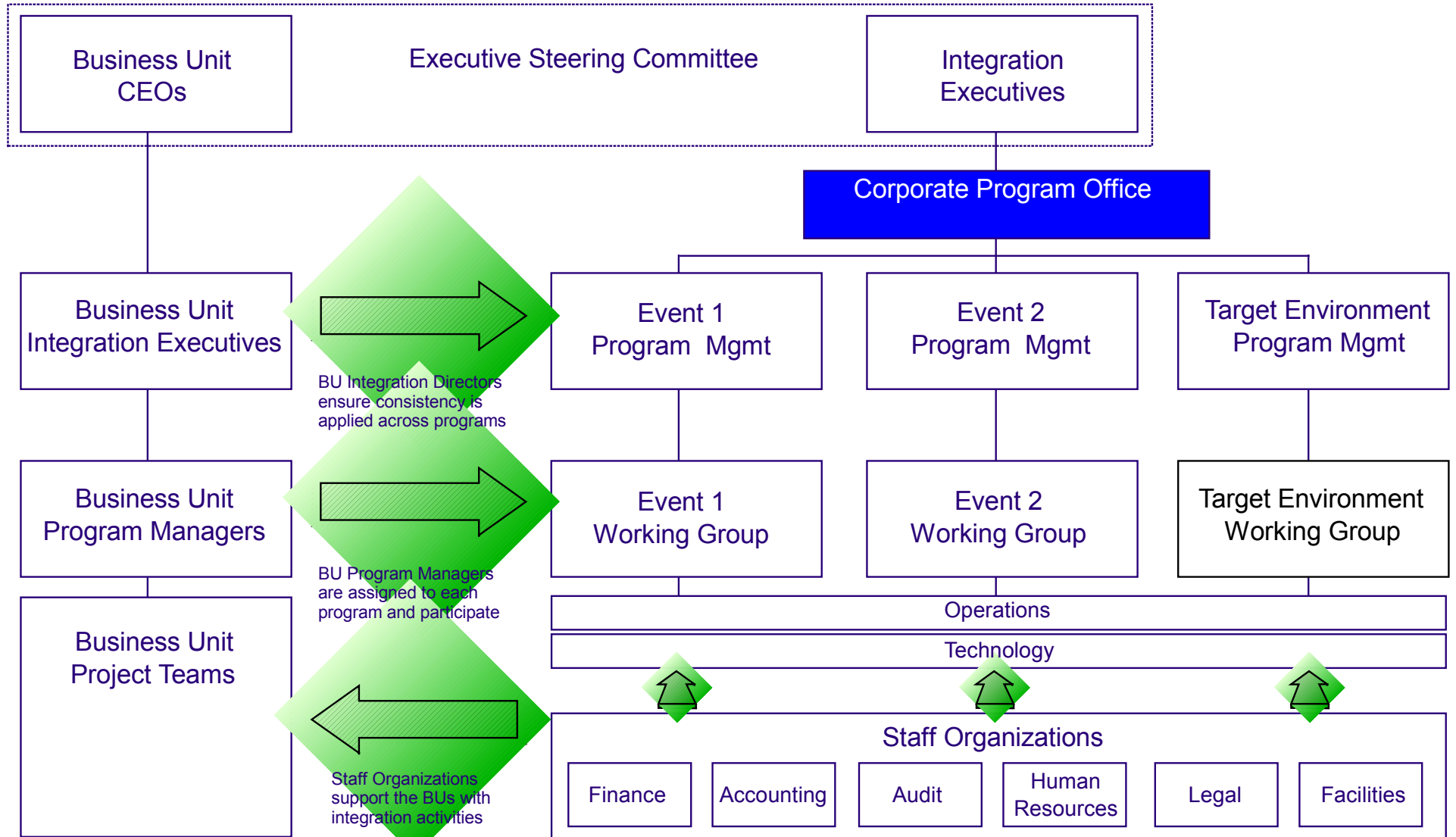
- Acquirer Baseline
- Target Assessment
- Company Comparison
 - Validate Hypotheses
 - Gap Analysis
 - Action Plan

Phase 2: Merger Target Model & Plan

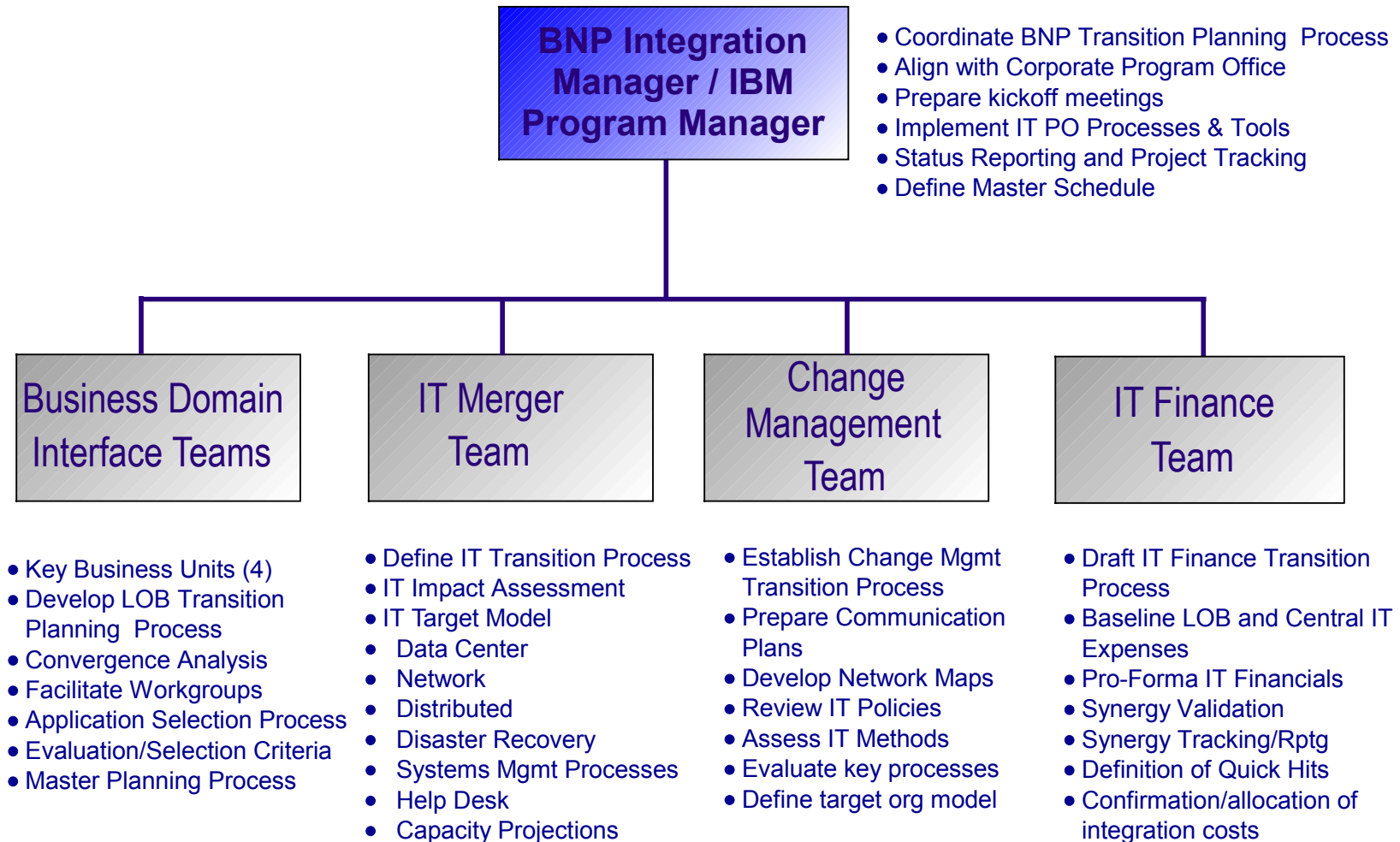
- Establish Program Office
- Create TO BE Business Model
- Define Enabling IT Solution
- Build Transition Roadmap

Results were published in ICM in Mach 99

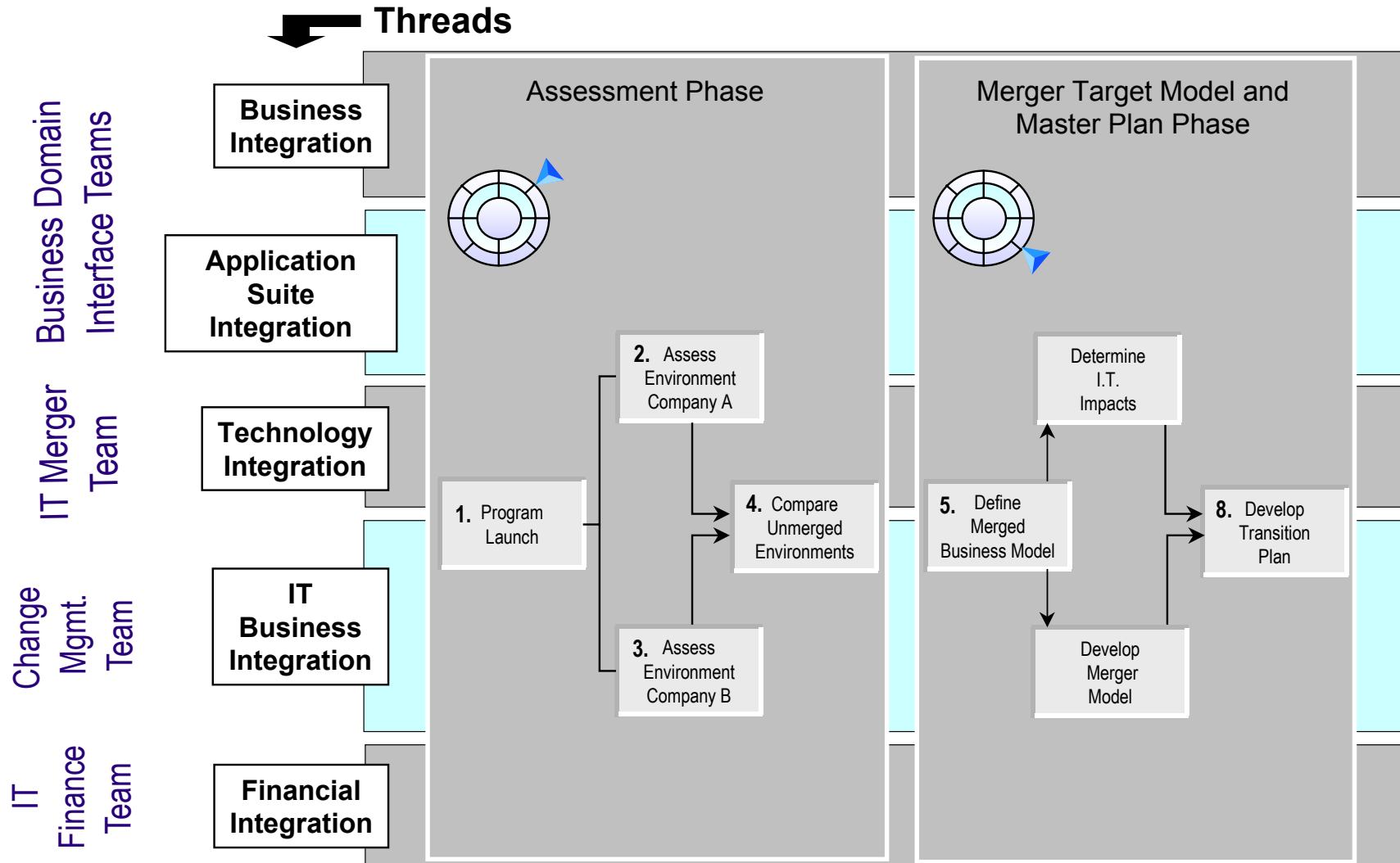
We are facing competition from BCG in the corporate program office, they also try to address the IT program office context



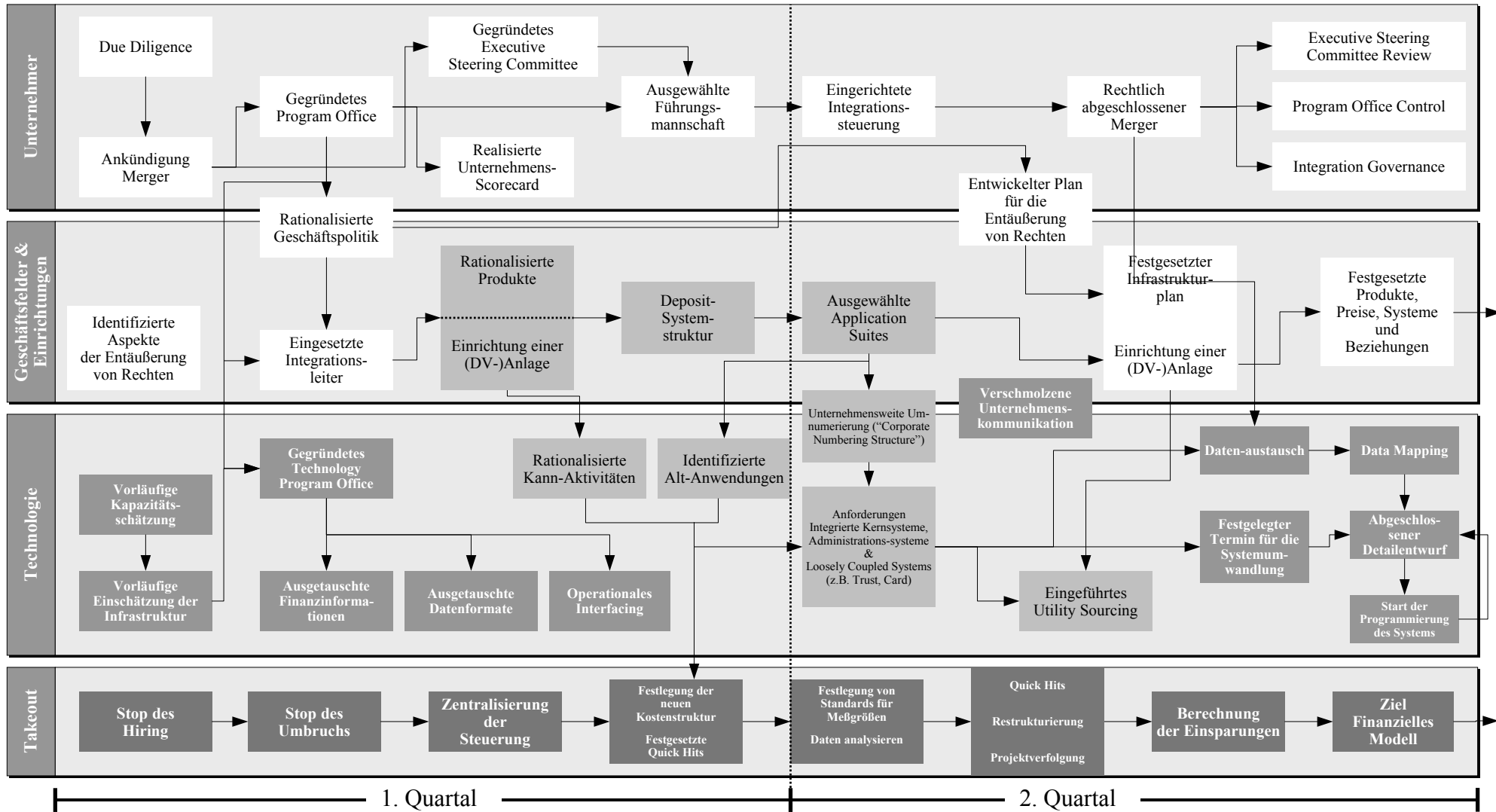
IT Program Office definition - BNP



We currently focus on pre-implementation activities, and uses "threads" of competencies



Threads are broken down to activities on a time line



12 plus one “golden rules” which may be suggested to consider in Merger Integration

- Ensure senior management involvement in integration activities
- Appoint strong executive to clearly lead the integration program
- Build a robust plan detailing integration activities
- Compress change duration by taking bold strokes early
- Set out credible milestones and maintain pressure for progress
- Provide for real incentives to reach targets
- Get task forces interacting as soon as possible
- Move quickly with regard to personnel changes
- Keep momentum with regard to personnel, customers and markets
- Emphasize the transfer of critical capabilities to capture value
- Adopt best practices in key functions from either bank or external source
- Define success criteria and frequently use them in the communication of success

- Plus one... Communicate, communicate, communicate!