

The Titanium Economy and Banking

by Charles B. Wendel

The Titanium Economy, a book written by three current and former McKinsey consultants, focuses on describing existing and proposed activities that, to paraphrase the book's subtitle, will allow industrial businesses to create a better, faster, stronger America." It's no surprise that banks and other financial services providers can adapt some of the practices and operating philosophies of these innovative industrial companies to their own world.

By "Titanium Economy" the authors' mean business-to-business companies that share many of the characteristics of the namesake metal: "extremely durable and corrosion-resistant...incredibly strong relative to its weight...many have persisted for decades", weathering numerous economic storms yet emerging stronger.

These companies are more likely to be featured on Mike Rowe's *Dirty Jobs* program rather than receive a spotlight on CNBC. Those mentioned in the book operate in areas including waste management, preconditioned air systems, fire retardant insulation, and custom-made cranes, among other critical albeit unsexy activities.

What are some of the lessons that banks could take away from these companies?

- Many operate in what the authors call "micro verticals," that is, "clusters of similar companies defined by product and end market," for example, fluid handling equipment: pumps, valves, meters, etc.
Questions for financial institutions: Have you chosen your product/market focus based upon your distinctive capabilities and quantification of market growth opportunities? Is your approach sustainable or easily undercut by others?
- These companies, some of which are family-owned, "blend a strong sense of purpose and culture with a long-term focus on customer-centric value creation as the driver of growth...they don't suffer from 'short-termism.'"
Questions for FIs: Have you or can you demonstrate your commitment to the customer's current and emerging needs? Have you challenged yourself in this and related areas or do you risk deceiving yourself related to customer loyalty?
- They "nurture a culture of appreciating the employees."
Questions for FIs: Do your employees feel under attack by increased and repetitive reporting requirements? Do they fear for their jobs? How are you ensuring that the best employees remain and remain enthusiastic? Would employees agree that your company has a positive and innovative culture, one that encourages experimentation and respectful push-back?
- They "created a talent pipeline by investing in the workforce...so people have an array of skills to carry them into the future."
- *Questions for FIs: In recent years, more bankers have shifted to non-banks or left the industry. Why should your employees remain? How are you "handcuffing" them so they want to stay?*

- They “don’t have to navigate bureaucratic corporate structures to make decisions on the direction of the business.”

Questions for FIs: What steps are you taking to ease the decision-making process? Do employees see these positive changes or are the changes just assertions by senior management and not viewed as real and/or substantial by employees?

- And they use technology to differentiate themselves, “leveraging technology to use data more intelligently and to create products that add substantial value for their customers, assuring they will pay more for them.”

Questions: Do you have an IT strategy that been communicated to employees and has their support? Does it rely on core processors who often “call the shots” or does it allow flexibility for the bank? How do you attract and retain top IT people rather than bureaucrats who take direction from core processors?

Answering these and similar questions often requires an independent perspective, justifying the limited use of a consultant or the outsider. Too often, all of us answer tough questions with a bias toward a positive answer or spin. The companies mentioned in this book seem to be willing to challenge themselves and shine a bright light on issues that need resolution rather than looking through rose-colored glasses.

FIC works with senior management and Boards on issues that are critical to a bank’s sustainability and growth. We emphasize practical solutions that we customize to a company’s capabilities and culture. Reach FIC at cwendel@ficinc.com.