Founders Forum

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Speech Notes

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Celebrated business author Peter Drucker once said: “Business has only two functions, marketing and innovation.”

Now, I don’t necessarily agree with his premise, but I understand where he is coming from. Regardless of your product, no matter which widget you are pushing, even if it is a world beater, it is nothing if it doesn’t find a market, and have the capability to grow and change as the market grows and changes.

After all, the penny farthing bicycle was an innovation once, and I am sure someone made a lot of money out of it, I just hope they made enough to evolve the business into something with a little more longevity.

Speaking to an audience of such innovators and entrepreneurs as I am today, I feel able to dwell on that which is so often glossed over when we speak of business success, and that is the need to constantly evolve.

And so the title of my speech, Innovate or Die, which has a feel of Darwin’s survival of the fittest about it, and that’s no accident.

Because, as most of us here would know, it is a jungle out there, and innovation, coupled with execution, are key fundamentals in the fast-moving and modern business world.

So today I want to pass on a little that I have learned in more than 35 years of business and, specifically, in the last four years running Bank of Queensland.

Because what I have learned can be broken down to three words, two of which I have already mentioned.

They are:

- Innovate – think outside the square, look to differentiate yourself and your product;
- Execute – implementation is a key platform of success, and;

- Persevere – never give up, even if it means changing tracks to get around obstacles rather than trying to bulldoze through them.

Let me speak on the last word first – perseverance.

Ray Kroc, the founder of McDonalds, said it well: “Nothing in the world can take the place of persistence. Talent will not – nothing is more common than unsuccessful men with talent. Genius will not – unrewarded genius is almost a proverb. Education will not – the world is full of educated derelicts. Persistence and determination alone are omnipotent.”

That is a great quote, and sums up the issue beautifully.

Like you, I have read many, many business and success books. You know the ones – “How to take over the world in 40 days with a calculator” and “How to become a millionaire by writing a book on how to become a millionaire”, and even “40 habits of successful people, by a previously unsuccessful person.”

There are a million of them.

One which you might not have read, but which is worth having a look at, is “Don’t die with the music in you” by Broncos coach Wayne Bennett.

Apart from the fact that I love a good quote, and so does Wayne, it is full of the sort of practical advice on life and business which you would only expect from rugby league’s most successful living coach.

The fact that he’s a Queenslander probably won’t hurt for most of you either.

In his book Wayne has a chapter called “Keep going until the siren sounds” in which he outlines the value of perseverance in football, and in life.

In it he says, and I quote: “Almost every successful person could not remember doing anything great he or she had achieved without, at some stage, having wanted to turn it up and quit.”

He goes on: “That is the difference between the success and the failure….those who won’t take risks and go for it, who won’t see things out, they’re the ones who come home early, never answering the challenge and never going anywhere.” End quote.

Good stuff. So, perseverance goes hand-in-hand with risk at times, because it is often all too easy to take the easy path, or give up when the going gets tough.

When I joined Bank of Queensland in 2001, there were a number of paths I could have taken as a new Managing Director and CEO.

One was the tried and true path of new CEOs – slash and burn. Blame everything on the last guy, cut costs, and become a darling of the market through increased profit.

Usually when a banker talks about cutting costs it comes down to shutting branches and sacking staff. That is what is often expected of an incoming new executive in today's tough world of corporate business.

After all, a low cost-to-income ratio means a happy market.

Or, I could take the other safe path of slowly building on the strengths BOQ had in the market, looking to leverage off a well-known brand through low-risk growth strategies which, while not as spectacular, would still have built value.

It means an easy story to tell to the market, and analysts can build a standard model in which to place Bank of Queensland.

Or I could take a more radical, riskier path. Well managed risk combined with perseverance, perhaps, could win the day.

What if we built shareholder value through dramatically increasing revenue?

What if we built value through cutting costs without cutting people?

What if we came up with a new way to do banking in Australia, rather than follow the pack?

And do we have the courage to see that new way through, even though it may be so different from the way the rest of the banking sector is doing it, that it may be a while before others see the benefit.

Luckily I had a board who understood the vision, and an executive team I was able to bring on board and drive the changes.

We had confidence in our vision, and belief in our ability to execute, but there were some dark days as we put up with the scepticism of the analysts, media and our competitors.

At one stage our largest shareholder, then the Commonwealth Bank, sold its shareholding of 11 per cent, helping to drive our share price from the high $11 down to about $9.30.

But we stuck to our guns.

On another occasion Australia's most senior banking analyst said the BOQ model would not work, but we persisted and continued to push on.

And when our plan to replace our entire core banking IT platform created some heartache amongst our customers, many in the industry smirked quietly behind their hands and talked of our inability to manage our growth.

And even when we bought a couple of companies, one in ATMs and another in equipment finance, there was the claim that we had no integration experience and that the purchases could prove to be costly duds.

And finally, when we announced that we would spread the BOQ story interstate, there were the claims that the brand would never work, and that the model was somehow distinctly Queensland, and couldn't possibly translate to the more sophisticated markets of Sydney and Melbourne.

Our competitor banks, which are all larger than us by the way, went on, often patronising our novel attempt to bring personal service and branch banking back to Australians.

While we undertook to open branches rather than close them, to drive more employment rather than less, our results showed a marked improvement, and the market began to respond, driving up our share price.

So, a share price of around $5 is now between $11.50 and $12, our market capitalisation has more than doubled to almost $1.2 billion and net profit after tax has jumped from $24 million in 2001 to $64 million in 2004.

We were rewarded for our persistence

So, perseverance, mixed with a little risk, paid off for Bank of Queensland, but it was built on innovation and execution.

So the real question is, how did we use innovation and execution to underpin our perseverance and support our calculated risks?

Well first, to innovation.

In 2001 Bank of Queensland had 93 branches, in Queensland only, of which 35 were an agency model. Now, these agencies looked exactly the same as the corporate-owned branches, and provided full banking services.

The problem for the Bank was that these agencies had little incentive to actually drive value for the bank as they were remunerated on a transaction rather than a sales basis.

Having worked and studied the banking system in America, I had, when I came to BOQ, a different idea of branch banking from many of my contemporaries.

In the US the branch was making a big comeback as a retail outlet, a viable sales channel, instead of the Australian perception of a branch by the big banks as a drain on profitability.

US banks were opening hundreds of new branches across the country, expanding their footprint and opening themselves up to literally millions of new customers.

Here in Australia, the banks were still closing branches.

I thought a small bank like BOQ could make its mark by being different, but, being small, we still faced issues around how to pay for a fast branch roll-out while also continuing to reduce our cost-to-income.

The answer was the Owner-Managed Branch, or O.M.B.

What we did was turn our agency model on it head, and at the same time, turned Australian banking on its head.

We turned the tired-old agency model into a thriving, value-driving machine by changing it into a franchise model, and attracting the very best banking entrepreneurs to come on board.

Rolling out a bank branch franchise network is unique to Bank of Queensland in Australia, and our model is actually unique in the world.

Some background might be handy here on what has happened to the humble bank branch in Australia, and overseas.

In 1992 the major banks had about 5400 branches across Australia.

By 2002 almost 2000 of those branches were gone.

In 1993-94, according to Macquarie Research, a total of 343 branches were closed. The closure rate peaked in 96-97 with 385, and jumped again in 99-2000 when 327 branches were closed.

As the results in public relations terms of their branch closures began to bite, Australia's Big Four banks took a number of different approaches. In-store branches in rural towns became one method, supermarket banking another.

However, a new competitor had entered the finance sector mix in a big way. The major banks had left the service and reputational door open, and new entrants arrived to take advantage of the opportunity.

In a highly visible sense, these included John Symons' Aussie Home Loans, Wizard and RAMS.

They were joined by a host of mortgage brokers such as Mortgage Choice and others who also capitalised on the opportunity the banks had offered.

While these were single product, essentially home loan, sales entities, they were competitive and leveraged the growing feeling of disquiet over the major banks into a significant market position.

Most of the market determined that the true growth of these brokers came because of price and choice, and that is largely true.

But I firmly believe that there was another reason these new entrants flourished – and that was service.

The brokers gave the customer one-on-one personal service. They actually helped them with the complex decisions around the purchase of a home, and they had a name, a face and a direct phone number.

I don't think this key difference between the brokers and the major banks, which were resorting to electronic channels and call centres, can be underestimated.

I know all of you here know and understand the power of personal service. The broker market did too, and they filled the vacuum left the banks quickly and, in many cases, efficiently.

So much so that, in the last 12 months, we have seen a return to the big banks actually opening new branches, and a halt to their policy of closing them down.

However, in many cases it seems the horse has well and truly bolted. The brokers are here to stay, and have become an essential part of most banks' sales strategy for mortgages.

So, while this change occurred across the Australian finance sector, two of the smaller regional banks, Bendigo and Bank of Queensland, took a different approach.

Instead of closing branches and pushing customers to call centres, these two banks took the franchise route – Bendigo with community franchises and Bank of Queensland with personal franchises.

Bank of Queensland's path to becoming a franchisor was a long, and at times, twisted one.

The Bank, which has been around since the 1870s, had, by the late 90s, more than 30 agency branches.

As I said earlier, the problem was that the model failed to adequately reward the agent for performance and had, in fact, become a drain on the Bank's profit and shareholder value by the time I became Managing Director in 2001.

The agents were rewarded for the number of transactions their branch undertook. This actually drove some strange behaviour and some poor results.

In 2001 with the OMB model we created a very different culture, a franchise culture supported by rigorous banking controls.

Branch managers were now rewarded on performance – lending and deposits – sales and service.

As many of you in this room know, once you have genuine "skin in the game", your attitude and performance change.

What we have seen is a service-driven model in which the bank branch managers bent over backwards to find out what their customers wanted, and then provide it.

It did lead to many of our former agents moving on to new pastures, but it also led to an influx of brilliant bankers both from within BOQ, and from our competitors.

These bankers had, for many years, been top performers, but were often frustrated by their inability to build strong retail relationships with their clients.

Whenever they performed well as a branch manager, they were inevitably transferred somewhere else. Whenever they built up strong a client base in business or private banking, those clients were then shuffled off to call centres or to another banker.

The problem was that they had nowhere to go, except to another bank where the same problems would eventually occur.

They were actually becoming victims themselves of some of the problems that had been facing their customers over the previous decade as banks forgot that they were in a service industry.

As Mark Twain once said:

"A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain."

Now their big bank employers were demanding the customers' umbrellas back and they, the bank employees, were on the end of a wave of righteous customer anger.

Their options were to stick it out, leave the finance industry completely, or take up as a mortgage broker. Many found the idea of leaving a full banking environment for a single product sales job less than appealing.

That's where Bank of Queensland comes in.

Our owner-managed branch model allowed these bankers to run a full-service branch with all the supporting bells and whistles, but in an old-fashioned, customer-facing, service-orientated way.

Consequently, we have been flooded with offers for bankers in Queensland to take up the challenge of becoming a BOQ owner-manager. The Bank accepts about one in every 10 applicants, which means we can choose the best of the best.

The success of the roll out of owner-managed branches in Queensland through the variable cost model we developed, and the speed at which we were able to undertake the roll out, soon had us looking for new markets.

My plan all along was to ensure we attained the required reach and depth in the Queensland market. At 139 branches, we now match or exceed almost all the other banks in Queensland branch presence. We've opened 80 new franchised branches overall, including 33 in NSW, ACT and Victoria, since beginning the roll-out four years ago and now have a total network of 172 branches.

It has been one of the fastest retail roll-outs in Australia, in any industry, and is built on the innovation of our OMB model.

We have matched the branch roll-out with a business banking roll out which has seen us return face-to-face banking to people like many of you – those running small and medium sized business.

So, innovation has driven our success, our resurgence as a company, and our emergence as a confident, stand-alone regional bank in one of the country's most competitive industries.

But it wouldn't have been possible without the ability to actually execute our plans.

And so I will speak briefly on execution, and how vital it is.

As the old military axiom goes, no plan survives contact with the enemy, and so it is true that in business your plan is only as good as its implementation, or execution.

In Bank of Queensland's case it didn't matter how revolutionary, how innovative we were, we had to make our plans, our vision, work.

It is actually the part of the most recent BOQ story of which I am most proud.

As I alluded to earlier, many in the industry either did not realise we existed, or had quietly written us off as a force in banking.

It was one thing to come up with the OMB model, to realise we needed to dramatically improve business banking, introduce a new computer system, upgrade our ATMs, revamp our entire product suite – it was another thing to actually achieve the results we expected.

Not what others expected, but what we expected. The expectations of others were fairly low initially, now they are much, much higher.

So, to bring together a small team, inspire that team with the vision and the mission, and to see the results has been deeply gratifying.

As franchised bank branches had never been done before in Australia, we had to learn the execution side as well.

The key is to never forget your goal, the end game. Never let the details get in the way of the overall vision.

And don't form too many committees – that's particularly important.

While we have had many overseas financial gurus ask us about our model, and whether it can be transported into an overseas market, the hardest thing for us to explain is that it is more than just the model.

It is knowing what works and what doesn't. It is knowing who will work, and who won't, in a franchised bank branch.

Franchising can be a tough game if you are selling fruit juice or sandwiches. It can be an even tougher game when you MUST have a talented banker as one of the equity partners in every branch you open.

It limits the pool available. If you then take the uncompromising stance we have taken, it limits it even further.

But it is more than just the branches. In the last two years Bank of Queensland made its first major acquisitions with the purchase of ATM Solutions Australasia Pty Ltd and UFJ Equipment Finance.

Again the nay-sayers said that our lack of acquisitional experience in our executive team may cause us problems.

Again, due to the dedication of my team, and our ability to never lose sight of the end goal, the vision, both companies were integrated into the BOQ stable extraordinarily well.

UFJ now forms the bedrock of our booming equipment finance business, which has doubled in size in less than two years and is one of our fastest growing product lines.

ATM Solutions, which owned 900 ATMs when we bought it, now has more than 2400 machines across Australia, of which 1800 are branded BOQ and complement our own 170 store-based ATMs.

The fact that we just sold ATM Solutions for a net profit of $15.5 million, compared to a purchase price of $18 million, while retaining the BOQ branding and revenue advantages of ownership, is testament to the value of strong execution skills.

Conclusion

In conclusion let me say that, with all this talk of execution, innovation and perseverance, one thing may be forgotten.

And that is, in business, it's all about people.

No matter what it is you make, how you market it, you must never forget that it is all about people.

The big banks forgot that for a decade or so.

At Bank of Queensland, we know that we are only as good as the people who work for and with us, and that our entire strategy is based on getting more customers. Not more accounts, not more businesses, not more dollars.

More people, that's what we want, that is our goal.

So, as I started saying today, Innovate or Die. Continue to develop and grow or you face stagnation and a slide into obscurity.

I know that won't happen with this crowd, because the very reason you are here today, and a member of this forum, is because you understand the value of innovation.

Marry it with perseverance and execution, and one day I'll be listening to you speak on why your business has proved such a success.

Thank you.