

11 Basic logic can generate an 80% accurate answer before detailed analysis is required

Get comfortable using business judgement and logic to narrow the scope of the problem

Banking products

I have had 3 separate calls with each team member to see how they are doing prepping. My main focus is to ensure everyone can read, manipulate and model an income statement, cash flow statement and balance sheet.

I spent a good 75 minutes talking Peter through what I expect on the case studies. I have high hopes for the work he will do.

We also spoke to the client, Guillermo who agreed with the rough changes I plan to present next week for the overall scope but he kept coming back to the focus on the retail option. It is very clear the client believes the retail structure will work, since they are citing the success of the existing retailers, DFIs, which they do not own, but which they lend money to, to lend to entrepreneurs in the US and Mexico.

We have been promised the financials of the DFIs who borrow from them to lend to the end-borrower, yet I am surprised that intermediaries they do not own are so open to sharing their financials.

Those financials had better be audited, and not by an audit firm whose cousin is a relative of the DFI owner!

We will just have to see what the numbers say.

I will refer to the independently owned businesses that borrow from the banking client to lend to entrepreneurs as distribution financial intermediaries (DFIs), financial intermediaries or retail financial intermediaries. The banking client also distributes capital via other very small outlets but we need to see the data to decide how to categorize them.

The client offers 3 major products:

- (1) Loans (Debt instruments)
- (2) Equity investments (LAB will fund an entrepreneur by taking an equity stake in the business)
- (3) Credit guarantees (LAB will guarantee the unsecured loans private banks offer to entrepreneurs. This is not available in the US. However, LAB also will guarantee the unsecured loan the DFI's issue to borrowers in Mexico who cross the border and open businesses in the USA.)

Simple logic tells me the credit guarantee scheme is being abused due to moral hazard. **What is the incentive for the banks to find worthy borrowers if the loan is guaranteed?** Of course, it depends on the percentage guaranteed. Hopefully, the pain is evenly shared between the bank and the distributors.

Although we are reporting directly to the CEO on this study, we have been assigned a very capable special projects manager to serve as our direct liaison.

We teach business strategy in compelling and creative ways.
Our client's solve mankind's toughest problems.

Guillermo is a 43-year-old veteran of the banking client and a former McKinsey associate. He is considered, sincere and very determined for the bank to fulfill its mandate of creating jobs while building a sustainable business. He has expressed frustration with the slow pace at which the bank is moving and the poor results they have achieved.

Fraud is a massive problem and he is convinced most of the numbers we are seeing in the industry will not pass a basic audit.

A skeptical client is always a good client.

I think we have been lucky to have such a committed person assigned to the study on a day-to-day basis. We spent most of this evening discussing his career aspirations and the future he sees for himself at the bank.

It helps to have a client team committed, capable and considered in their approach.

17 days remain until we start the study. This weekend and most of next week will be an effort led by myself as I plan and structure the study. The overall approach needs to be fairly clear in my head before the team arrives.

In the final week before the study, I have set up an on-boarding process for the team to teach them the core strategy skills needed, then we have the weekend and the 16 June arrives in all its glory.

Millions will be impacted either way from our findings. We have to be right in our findings.

QUESTION(S) OF THE DAY: What are the dangers of a client team that is not skeptical?

We answer this question, additional reader questions and discuss more issues raised in this article on the accompanying episode on the *Strategy Skills* podcast channel on [iTunes](#), [Google Android Podcasts](#), [Libsyn](#), Spotify, [Acast](#), [Podbay](#), [Podbean](#) and [Listen Notes](#). This is the world's #1 ranked business strategy podcast channel.

If you have a question, please post it as a comment on iTunes and we will respond in a podcast.

If you would like **sample episodes** of our most advanced strategy programs all taught by ex-McKinsey, BCG *et al.* senior partners please visit the FIRMSconsulting.com homepage and provide your contact details at the top.