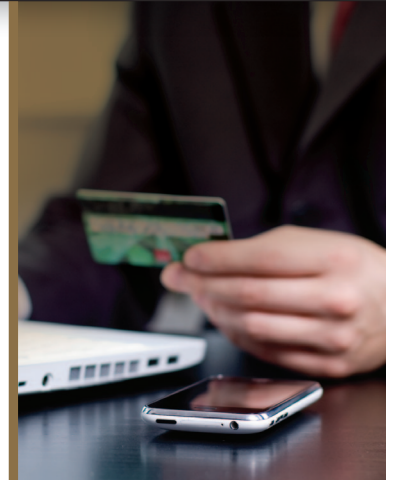


The New Bank Consumer

Managing customer needs, choices and channels in retail banking

Retail bank offerings and channels have exploded over the past 20 years as new products are delivered through a host of new channels—from call centers, the Internet and mobile phones to onsite financial “butlers.” As these new products and channels are added to existing offerings, costs and complexity are going up while margins are going down. Banks today have to find new ways to please their bank customers while maintaining margins. The answer lies in developing new sales approaches to focus on the modern-day consumer.



There are more retail bank offerings today than ever before with the proliferation of new products—from mutual funds, structured funds, and exchange-traded funds to credit and debit cards, electronic purses, and even home equity loans. The channels through which these products are distributed are equally diverse as branch banks use call centers, the Internet, mobile, and in many cases even retailers as distribution partners. Unlike other industries where “in with the new means out with the old” in retail banking, new products and channels are added to existing offerings. This not only increases the complexity of a retail offering but also the costs as margins are under long-term pressure. And there are numerous unresolved conflicts as similar products are often offered at different prices in multiple channels, and sales people forget about building customer relationships as they strive to meet their “numbers.”

What Customers Want

People move through a remarkably similar cycle of financial needs. We all start with simple transactions such as payments, then get loans to build basic wealth (such as owning a home), and accumulate wealth through savings and investments. Later on, we protect our wealth via insurance products and plan to transfer this wealth to the next generation. Although this cycle is almost universally applicable, today’s customers are more dynamic than in the past. People value choice and want instant gratification, especially younger people who can order anything they want on amazon.com and other e-tailing sites. And while consumer behavior continues to be inclined toward loyalty—it is no longer life-time loyalty. Customers are more serial loyalists as they become tied to a social group or supplier for a sustained period of time.

Increasingly banks are developing new sales approaches to focus on the

Retail bankers that understand modern-day bank customers’ preferences and desire for choices can tailor a product, sales approach, and distribution channel to meet their needs.

preferences of the modern-day consumer. As loyal consumers readily share their needs and experiences with their bank, because of long-term trust, the bank can use this depth of information to tailor products and services to meet their needs. For the bank, credit decisions are much less risky when there is a financial history with the consumer.

Young adults are typically more open to online banking as they are ready for a mortgage, have bills to pay, want to build savings and are Internet savvy.

This does not mean that bargain shoppers will go away, or that specialists such as Egg, Direct line, and to some degree ING Direct, will not have some initial success. Yet there are signs that the specialist approach has its limitations. We know, for example, that attracted funds are volatile and established players run the risk of cannibalizing their existing offerings. Moreover, the specialist approach offers nothing in terms of managing an existing infrastructure. Indeed, many specialists that started out as a single product offering moved into

multiple products to support customer profitability, and then even opened branches to support in-customer service. Schwab is an example.

Where are the Natural Sweet Spots?

Understanding consumer preferences and desire for choices can help tailor a product and distribution channel to meet these needs. For instance, technology adoption moves with generations. While the elderly are suspicious of cell phones and the Internet, children are fluent with both by age 8. The best banks approach youngsters through the social networking sites, understanding that they are ready to perform simple transactions even though they have little personal income, credit is not in play, and savings are sponsored by relatives.

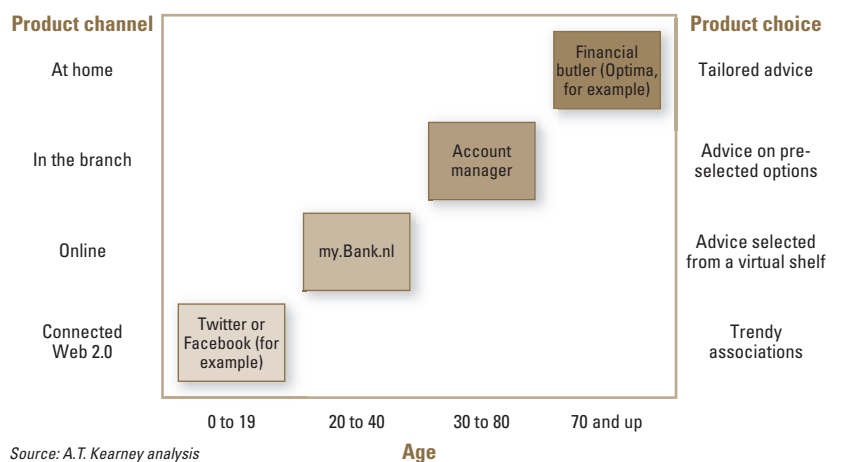
Young adults are typically more open to online banking as they are ready for a mortgage, have bills to pay, want to build savings and are Internet savvy. Online banking offers choice and rudimentary advice for these con-

sumers, and is a cost effective way for banks to interact with a busy group that is willing to pick what they want from a virtual shelf. As young adults mature into middle age, and the structure of their lives becomes more complex, personal advice is valued and the amounts at stake warrant a more human touch. This is also the case for older people as they might become less mobile but still have financial needs. The concept of a financial butler, making periodic house calls, can be quite effective as inheritance planning becomes a focal point (see figure 1).

Together, the financial life cycle approach becomes a relatively simple amalgamation of products and channels to deploy against target groups.

Of course there are always exceptions to the rule: the Internet-savvy grandmother or the young adult who inherits early on in life, or amasses large personal wealth through successful entrepreneurship. The exceptions allow for a private banking offering to be positioned nicely into the larger offering. Figure 2

FIGURE 1: The natural product channel and choice “sweet spots”



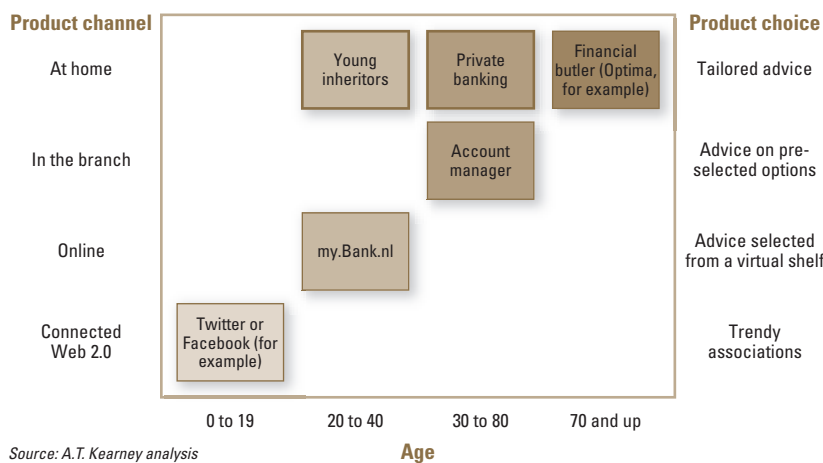
illustrates what dimension young inheritors or private banking might be positioned.

Supporting the modern-day bank consumer also requires new thinking. Inbound call centers can be used all through the product life cycle, while Internet and mobile advertising will appeal to young adults and middle-aged people as they have more complex needs and may appreciate more

types of messages. Later on in life, affinity groups become good marketing and lead generation tools—for example, associations of retired engineers. These groups unite people of similar age groups with similar needs; a high degree of social trust will help build credibility and sustain the ongoing customer relationship. Figure 3 illustrates a fairly cohesive marketing support mix.

A customer relationship management system can help support the marketing mix where leads and inquiries may come in through numerous channels and products or services are delivered in a totally different context. Most younger consumers expect a comprehensive level of service as they have grown up with the embedded intelligence of Google and expect

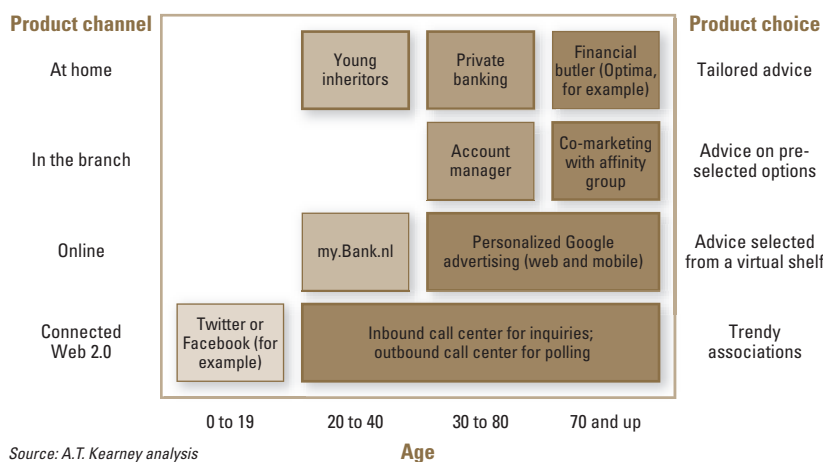
FIGURE 2: There will always be exceptions to the rule



Source: A.T. Kearney analysis

A customer relationship management system can help support the marketing mix where leads and inquiries may come in through numerous channels.

FIGURE 3: Supporting the modern-day bank consumer



Source: A.T. Kearney analysis

a service provider to leverage information derived through such interactions. In this respect, they have a different attitude toward privacy than older generations.

Making It All Work

The marketing mix discussed in this article goes hand-in-hand with rethinking a bank's total IT system. Basically, anything can be done through a web interface. An employee interface allows for more complex transactions, while a unified customer interface and information support

can dramatically simplify a bank's IT architecture. By declaring the web interface the universal interface, with role based access for customer and employees, the feeding of back offices becomes more straightforward.

A unified IT system can provide other benefits as well. Products can be tailored to meet the needs of a target group, for example, using MySpace payment accounts to accommodate the wishes of the Web 2.0 generation, or setting up an online fund shop to offer asset management advice to young adults. A branch bank may advise on complex income protection programs, including life insurance and disability insurance, combining these with a home equity loan. Succession

planning is among the most complex offerings and requires a total overview of all assets. Designing all of these offerings is expensive, but the market is willing to pay. The Swiss firm Optima, for example, does a financial estate audit for people with more than €100,000 in assets, and charges €2,500 for this. People are increasingly willing to pay for these complex services.

Serving specific target customers, such as immigrants, can be accomplished by setting up bank branches in areas where these target populations reside. Customers are served in their mother tongue or according to local customs. Product sub-brands can be created to bring distinctive power to

a generic proposition, supported by the main brand of the bank. ING did this when it entered into an alliance with a social website popular with teenagers in Belgium.

Mastering Complexity

Focusing products and channels on specific age groups, and meeting well-defined needs, allows for cheaper product development and distribution, and more effective sales campaigns. Taking a coherent approach will not only help retail banks master the complexity of a modern financial services organization, but also help manage relationships by reconciling needs, customers and channels.

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