



Three Imperatives for Optimizing Retail Banking Channels

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By Orkun Oguz and Marc Ruggiano

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Executive Overview

Retail banking, as we've come to know it, has reached a turning point. Customers are deciding how and when to access their accounts through the channel or channels of their choice, including the Web, IVR and smartphones.

Traditional retail banks are being forced to modernize their distribution strategies in the face of changing customer dynamics and rising competition. For instance, prior to the mid-1990s, retail banks predominantly competed with one another for customer wallet-share.

Thanks to the proliferation of high-speed networks and intelligent mobile devices, banks are now competing with new entrants such as mint.com, mPay, Obopay and Paypal.com that are changing the way financial services are being delivered. These newcomers are also gobbling up customers with low-cost, high-value services.

Case in point: Since it was founded in 2005, mint.com, which provides online personal finance services, now tracks \$175 billion in transactions and is adding more than 3,000 new customers each day.

This type of disintermediation has become rampant in financial services. It's also forcing established retail banks to develop a better understanding of what their customers want. Unfortunately, most banks lack such insights. According to a new study conducted by Peppers & Rogers Group and the European Financial Management Association (EFMA) of more than 100 banks across 37 countries in Europe, Middle East and Africa, just one-third of banks perceive their ability to measure the level of customer as satisfactory.

In tandem with expanding consumer appetites account for access through multiple channels, these trends are forcing banks to re-assess their retail distribution strategies. Customers are demanding more and more from the financial services firms they choose to do business with.



In this position paper, Peppers & Rogers Group explores the three imperatives for banking leaders to optimize retail banking channels, including:

- **Refocus** branch banking to meet segmented customer needs.
- **Recast** channel strategies to meet customer preferences.
- **Seize** upon opportunities to drive innovation to meet customers' future needs.

Reinventing the Branch Environment

To underscore just how dramatically retail banking has changed in recent years, one needs to look no further than the industry's original channel: the branch. Despite dire predictions of its death by skeptics following the introduction of automated teller machines (ATMs) in the early 1970s, branches have not only survived, they've flourished. According to the FDIC, brick and mortar, drive-through and other types of branch offices have expanded from 74,478 in 2004 to 86,480 last year.

Retail banks can leverage these branch investments more effectively while taking advantage of the changing demographic landscape by revolutionizing the role that branches can serve. In

addition to smaller footprint mall-based and supermarket outlets, banks can transform targeted branches or (sections within branches) to cater to specific customer segments with specialized needs. These could include Spanish-language consumers, affluent customers and pre-retirees who are in need of personalized retirement planning and investment services.

Retail banking leaders can seize upon these opportunities to transform branches into relationship centers where customers can receive personalized services to educate them about current products they're using and additional investment vehicles they may be interested in utilizing. By accommo-

Alternate Channels Emerge

The number of "Other" banking offices rose sharply last year.

	Brick and Mortar Offices	Retail Offices	Drive-Through Facilities	Other Office Types	Total
June 2004	66,697	4,359	2,845	577	74,478
June 2008	75,720	4,992	2,366	606	83,684
June 2009	78,150	5,338	2,330	662	86,480
1-Year Growth Rate	3.2%	6.9%	-1.5%	9.2%	3.3%
5-Year Compound	3.2%	4.1%	-3.9%	2.8%	3.0%

Sources: FDIC Summary of Deposits and OTS Branch Office Survey.

*Note: Commercial banks only.

dating targeted sets of customer needs where certain customers segments are geographically concentrated, retail banks face huge opportunities to expand their product revenues and drive higher cross-sell and upsell.

Leveraging Opportunities with Web, Mobile

As 80 million U.S. Baby Boomers edge closer to retirement age and another 75 million tech-savvy GenYers continue to flood the job market and expand their incomes, bank executives have incredible opportunities for creating customer-centric retail distribution strategies that are aimed at playing off their core strengths while catering to customer preferences and differentiating their products.

For younger customers, this includes opportunities for retail banks to provide rich, interactive online and smartphone applications that play into consumers' usage preferences. Although only a fraction of U.S. retail banking customers with smartphones are currently using downloadable banking applications, these adoption rates will soar in coming years as growing numbers of GenY and Millennials enter the workforce and demand greater mobile interactivity with the financial services providers they choose to work with.

Emerging opportunities like these demonstrate why it's so critical for retail banking executives to stake out 3-to-5 year retail distribution strategies by examining the needs of targeted customer segments along with their current and anticipated channel usage.

Future channel usage and preferences by existing customers and high-value prospects can be determined by:

- **Applying sophisticated analytical tools.** This includes the use of sentiment and predictive analytic tools to examine customer transaction histories and other interactions with banks to determine their current and future behaviors and preferences.
- **Using market research to determine customers' current and future needs.** Analytical tools and techniques can help decision-makers to formulate product and channel strategies based on anticipated product needs and channel usage by segmented groups of customers (e.g. 35 percent of our affluent customers in the Southwest U.S. are expected to need additional retirement investment vehicles in the next X years that we can offer to them through online and contact center interactions).

Channel Role and Functionality Matrix

The map below helps a company visualize which products and services should be offered through which channel.

	Access to Customer Information	Basic Transactions	Product Information	Advice	Basic Sales	Complex Sales
Branch	x	x	(x)	(x)	(x)	(x)
ATM	(x)	(x)	—	—	x	—
Telephone Banking	x	x	x	(x)	(x)	—
Internet Banking	(x)	(x)	(x)	—	x	x
Mobile Banking	x	(x)	x	—	—	—

x Channel Scope (x) Channel Focus/Priority — N/A

Source: Peppers & Rogers Group

As consumers have become more demanding, retail banking leaders need to closely determine the role that each channel plays for each type of customer segment.

Historically, bank leaders have developed channel strategies around products. But as we'll explore in

more depth in the next section, what they need to do is to focus more on customer needs and to develop product and channel approaches based on clearly defined customer segmentation strategies in order to satisfy customers' needs and to maximize their current and future lifetime values.

Designing Channel Strategies Around Customers' Needs

In order to optimize the full business potential for each retail banking distribution channel, decision-makers first need to develop a 360-degree view of each of their customers. This includes building a full picture of all of the accounts currently being held by customers as well as the channel or channels they prefer to use.

Meanwhile, customer loyalty and their perceptions of retail bank brand images continue to decline, according to the J.D. Power and Associates *2010 U.S. Retail Banking Satisfaction Study*. According to the study, poor customer service is cited as the top reason why customers have switched banks this year (37 percent versus 29 percent who switched banks due to high fees).

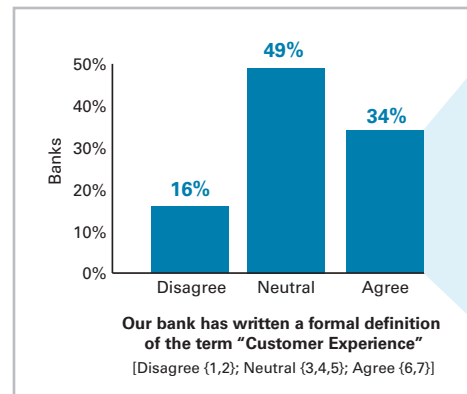
We recommend deploying a segmentation study to better understand channel usage by customer groups. These studies yield valuable information to banks, including detailed information on specific customer segments and how they're using various channels for products and support. Moreover, segmentation studies provide banks with critical forward-looking information to help them determine which channels customer groups are expected to use in coming years.

Lacking that kind of understanding about customers, the products they're using and their channel preferences places retail banks at a distinct disadvantage. For instance, when European banks began to push emerging channel options to their customers, many banks quickly discovered that high-value customers migrated to online, mobile and automated banking channels faster than other lower-value customers who continued to rely heavily upon cost-intensive branch banking to support their needs. As a result, retail bankers in Europe are finding that they need to devise

relationship-building strategies with high-value customers who now come into branches less frequently in order to engage them, fulfill their needs effectively, and maintain their loyalty.

A Common Understanding

Few banks have formally defined "Customer Experience."



- 79% incorporate "operational excellence" and a "positive reputational presence" in their formal definition
- only 55% acknowledge "customizations to meet customer needs" as part of CE

Source: Peppers & Rogers Group

One example of a European bank that has met these challenges effectively is Intesa. The Spanish bank has assigned dedicated agents to work with high-value customers who reach them both through its call centers as well as through online banking interactions to provide these customers with personalized support through both channels.

Acting on Channel Preferences

Placing customers in the center of a retail distribution strategy is critical to developing the right set of products and support for customer segments across the

channels they're most likely to use. Since high-value retail banking customers tend to use multiple channels for their product and support needs, it's important to establish a strategy that rewards customer-facing employees in each channel accordingly while guiding customers to potential cross-sell and upsell opportunities in those channels.

For instance, there are tremendous opportunities for providing contact center agents with additional training to help guide customers to new product opportunities in the channels of their choosing. That will require some contact center agents to develop a different set of skills related to sales. It should also lead decision-makers to create new incentives and key performance indicators (KPIs) for contact center agents to be evaluated on instead of relying solely on the efficiency of their call handling or customers' problem resolution.

Although customers will ultimately determine which channels and products they use, there are proven techniques for incenting customers to use certain channels. For instance, some customers are driven by ease of use while lower product pricing will resonate with other customers based on their preferences. In Europe, some types of bill payment and wire transfer services are offered for free when conducted online. Meanwhile, tech-savvy branch employees can be trained to offer visiting customers how to utilize mobile banking applications.

Scenario Development Methodology

The methodology below highlights factors to consider for each product line and customer segment.

Scenario Development Laundry List

- ✓ Based on segmentation and customer survey data, identify different customer profiles
- ✓ Simulate possible cross-channel scenarios based on that particular customer profile's needs
- ✓ Do not limit scenarios to a single channel/product
- ✓ Base your channel experience design on these scenarios

Sample Process

Product: Loan Application

Customer Profile: Male between 25-30 years old, single white-collar office worker

- 1 Customer does research on the Web on interest rates
- 2 Customer checks rates and payment schemes from call center
- 3 Customer initiates online application but does not complete
- 4 Outbound call center receives the lead and calls customer
- 5 Agent arranges a meeting with a branch representative
- 7 Customer meets the representative and applies for the loan
- 8 Application status tracked online and outcome communicated via SMS or personal call

Source: Peppers & Rogers Group

Driving Innovation

Despite the emergence of alternative retail distribution channels such as Web, mobile and IVR, banks have done very little to drive innovation with respect to the products they've created or ways in which customer needs can be served more easily through these channels.

Although the complexity of some types of retail banking products appear to make them a tough fit for certain channels such as online and mobile, decision-makers need to recognize that product and channel challenges that may seem insurmountable today can likely be made easier through future technical advanc-

es. It's critical for bank executives, including CMOs and other CXOs, to stay on top of emerging technologies to help them to identify and meet customer needs ahead of the market.

For instance, banks could be making much more extensive use of video to help answer frequently-asked questions posed by customers online and using their mobile devices. Research has shown that customers will increasingly demand video interaction and support services from companies they choose to do business with, particularly as growing legions of consumers purchase smartphones in coming years.

Conclusion

There are myriad opportunities for retail banks to utilize existing customer information to help them to determine current and future product opportunities and channel preferences with customers and prospects. But decision-makers need to beware that retail channel strategies that are poorly devised can lead to increased customer churn, lost sales and lower profits. It's critical for bankers to recognize and accept that customers rule the channel relationship and that

banks need to shape their multichannel strategies accordingly. As such, they need to customize their multichannel strategies to accommodate these preferences and to meet customer expectations more effectively than they have historically.

Retail banks that develop focused, customer-centric distribution strategies will be more likely to differentiate themselves from their competitors and maximize their product and channel opportunities. ■

About the Authors



Orkun Oguz, *Managing Partner*, Peppers & Rogers Group leads the firm's Financial Services Practice and has extensive experience helping the world's largest financial institutions design customer-facing processes, develop effective channel strategies and establish technology and analytical platforms to support those strategies and tactics.



Mark Ruggiano, *Partner*, Peppers & Rogers Group brings deep experience in the financial services industry. His expertise in data, database marketing, analytics, and related technologies have served some of the world's largest banks as well as *Fortune* 500 companies across other vertical segments.

About Peppers & Rogers Group

Peppers & Rogers Group is dedicated to helping its clients improve business performance by shifting focus from transactions to managing relationships. As products or services become commodities and globalization picks up speed, customers have become more demanding and harder to satisfy. They hold the keys to higher profit today and stronger enterprise value tomorrow. The same applies to governments. Constituents hold the keys to public institutional trust today and higher competition and quality of life tomorrow. We help clients achieve these goals by building the right relationships with the right customers over the right channels.

We earn our keep by solving the business problems of our clients. By delivering a superior 1to1 Strategy, we remove the operational and organizational barriers that stand in the way of profitable customer relationships. We show clients where to focus resources and efforts to improve the performance of their marketing, sales and service initiatives. For more information, visit www.peppersandrogersgroup.com.