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Retail banks can use Facebook, YouTube, and other new platforms to better reach their "Generation C" customers.

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Retail banks can use Facebook, YouTube, and other new platforms to better reach their "Generation C" customers.

by Johannes Bussmann, Paul Hyde, and Jörg Sandrock

Web 2.0 technologies have transformed the way people live and work by making it easier to connect and engage online. They have also enabled major changes in customer behavior, which in turn has revolutionized industries that have successfully incorporated these technologies into their distribution models. In travel, for example, sites such as TripAdvisor combine trip planning with social networking features, and in telecommunications, Internet services such as Skype are finding success by undercutting traditional telephone operators. Yet even as these industries and others have embraced Web 2.0, retail banking has largely remained on the sidelines.

The Internet has already significantly changed many aspects of banking. For example, online banking has grown substantially over the past decade, with online bill payment particularly strong in the United States. But most banks have yet to seize the true potential of today's abundant new technologies and tools. And as consumer preferences and expectations continue to adapt, the imperative for banks to respond with new offerings will only increase. To retain their competitive edge, retail banks need to reach out to younger, more Web-savvy customers (we call them Generation C, or the Connected Generation), devising new products and services that are simpler and more transparent, and using the power of social networking and other digital platforms to improve their marketing. (See "The Rise of Generation C," by Roman Friedrich, Michael Peterson, and Alex Koster, *s+b,* Spring 2011.)

The traditional banking model has long been made up of discrete segments — for example, retail banking, mass affluent banking, and small and midsized enterprise banking. Each segment depends on several sales and distribution channels, including ATMs, branches, contact centers, the Internet, and, more recently, mobile banking. Each segment also offers a range of traditional products, including checking and savings accounts, consumer and small business credit and mortgages, and investment products and advice. These products and services are marketed through traditional centralized functions, including brand management, promotions, and sponsorships.

Now, however, several factors are converging that will force banks to reconsider every aspect of their distribution systems. With Web 2.0 technologies, consumers are changing their behavior, and they are demanding a more user-friendly, networked banking experience, one that provides a greater level of trust, transparency, and interactivity. The banks' goal, ultimately, is to attract new, digitally savvy customers by building their confidence in banks through increased involvement. The greater loyalty such efforts will generate, across all customer segments, will help banks increase revenues and compete more successfully. We have identified three key opportunities that await those banks that are willing to take the leap.

1. Reaching customers. In developed markets, virtually every member of Generation C uses the Internet — and almost two-thirds use social networks — to access information, entertain themselves, and stay in touch with friends and fam-ily. Already, 12 percent of this cohort read dedicated finance and investing blogs and participate in online investing forums. Despite these changes in consumer behavior, most banks still use their websites primarily to provide information and enable standard transactions, limiting real communication to branches and contact centers.

New Web technologies have significantly opened up the possibil-

> **Banks will benefit by using the direct, unfiltered feedback they receive from their customers to develop and improve their services.**

ities for better communication over the Internet and through smartphones. Banks could start blogs, for example, enabling discussions of specific economic developments, new services, or the latest research of interest to target customers. Active participation in social networks could increase loyalty among existing customers and attract new ones. Wells Fargo in the U.S. is an early adopter of these technologies. Its website offers several blogs covering such topics as general financial information and environmental sustainability, and includes a blog especially for students. It also offers YouTube videos about the company, Facebook pages, and the ability to contact the bank through Twitter.

In Europe, Spain's BBVA now offers a personal financial management tool (called *Tú cuentas,* or "You count") that aggregates account balances and transactions in one place, categorizes the transactions, and automatically generates special offers keyed to customers' financial needs. Since the tool's introduction, the amount of time customers spend on the bank's website has doubled. And Fidor Bank, a German startup, relies heavily on technologies, using blogs, forums, and an active presence on social networking sites to communicate with customers. Fidor also offers them such services as e-wallets, which enable fast and secure account access and electronic transactions, and a bonus program for those who participate actively in its community functions.

The benefits of such efforts will have an impact on both the top and bottom lines. Revenue growth will be enhanced as increased transparency, trust, and convenience encourage customers to engage online and compare, evaluate, and discuss different products and offers. Banks will also benefit by using the direct, unfiltered feedback they receive from their customers to further develop and improve their services.

2. Reducing costs. By closing the online communication gap, banks could make real gains in efficiency and effectiveness, since shifting communication to the Web has the potential to drive down the frequency of more costly methods of communication. The most innovative banks will find ways not just to communicate with customers, but to use these new channels to boost loyalty and develop cross-selling and up-selling opportunities.

The classic approach to channel management aligns the complexity of a product with the cost of selling it over a particular channel. Typically, for example, banks try to sell low-margin products through low-cost channels. Web 2.0, however, offers banks the opportunity to change this dynamic, by using the inherent low cost of online channels to sell complex, high-margin products.

Banks can leverage a variety of technologies to reduce the cost of sales. Online forums that bring customers together to discuss various products and explain them to one another can reduce reluctance among buyers. Blogs can be set up to target particular customer segments, introducing them to relevant products and using case examples to help explain those products. Both Deutsche Bank and BBVA already let customers speak directly to bank-

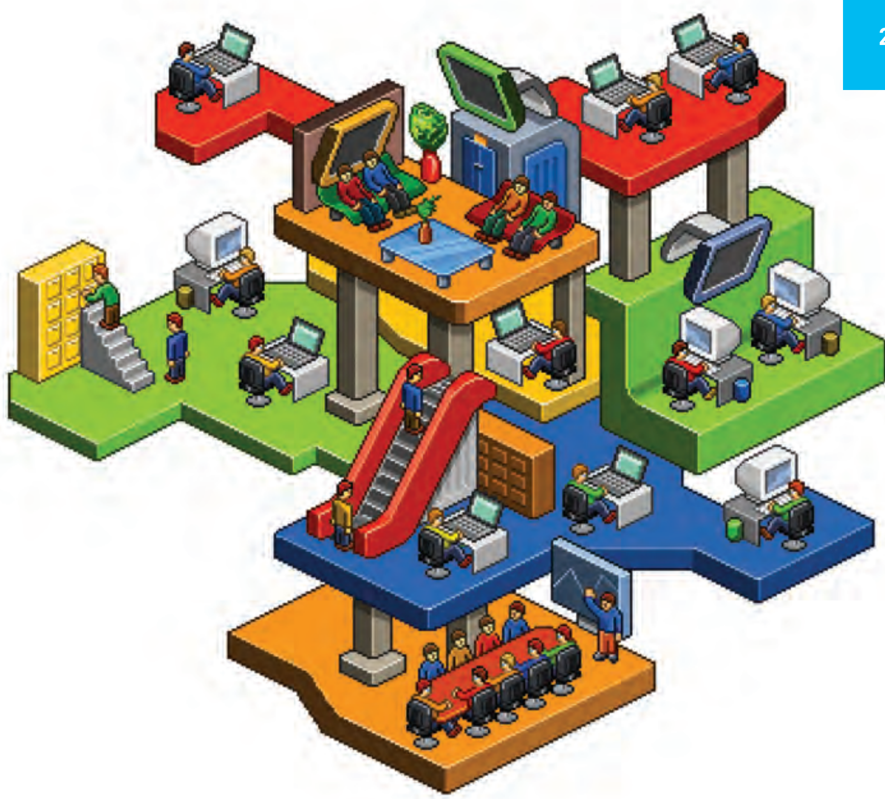

Illustration by Robert Podgorski/BlackMoon Design ers and financial advisors through video chat, providing greater convenience at a significantly lower cost than a branch setting.

3. Restoring confidence. Given the turmoil in the financial-services industry over the past several years, it should come as no surprise that consumers have lost confidence in their banks and bankers. The cause isn't just lack of faith; dealing with banks remains inconvenient, and products are often overly complex. The "I love my bank" marketing campaign and "straight talk" blog of U.S. online entrant Ally Bank symbolize the industry's eagerness to win back skeptical consumers.

Web 2.0 technologies can play a major role in building customers' confidence in their banks, simplifying the process of conducting transactions and finding information, and helping customers understand complex financial products. One recent survey indicated that growing numbers of consumers are turning to online advice from peers as a source of valued financial information. Banks could also produce video clips for their websites to explain products and offer access to financial advisors through video calls. And they could host online communities and finance-related forums on their websites that would enable customers to discuss financial products with one another and with bank representatives.

One U.S. bank set to launch in 2011, BankSimple, sees its competitive advantage in providing straightforward, transparent banking services online. Its home page proclaims, "We're not a bank. We're better." It says it will offer free online bill payment, free online and telephone support, and even the ability to deposit checks through a smartphone, and it promises that there will be no hidden fees. Online account information and transactions are designed to be as simple as possible, and the bank has a blog that already boasts a lively assortment of comments.

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Although some banks have begun incorporating Web 2.0 technologies into their customer offerings, few have succeeded in integrating all their various channels into a seamless customer experience. Indeed, providing customers with a fully integrated experience will not be easy; it means designing a new operating model along with the IT and operational capabilities needed to implement it. Too often, new modes of online communication seem like ad hoc add-ons that are poorly integrated with other online and mobile banking offerings or with branches and contact centers. A consistent user experience must be created across all channels, together with seamless customer contact across channels. This experience must be enhanced by the development of suitable products and service levels for different customer segments. And the entire effort must be tied together through powerful customer analytics, a clear understanding of the key drivers of value, and the ability to measure success.

As the world becomes more and more digitized, new technologies will become particularly attractive to the next generation of "prosumers" — those professional, productive, and proactive consumers who typically offer the most long-term value to retail banks. In their determination to seek out sound advice and good deals, these individuals are especially likely to turn to financial institutions with a strong Web 2.0 presence. +

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