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Performance

Retail Banking and Raspberry Jam

by Jay Cross

Retail banking is built upon relationships and a revolution in communications is reshaping the way customers will relate to their banks. Computers, networking, and digital information are turning the economics of communicating on its head, changing how we sell, how we buy, and how we work with one another

Until quite recently, communicators had a choice of spreading messages widely or drilling them deep. You could reach a few people with a deep message or lots of them with a shallow one.

Millions of people see a Budweiser commercial during the Superbowl but the frogs don't have much to say. We all hear the same ribbits. That's shallow communication.

By contrast, your piano teacher gave you personalized, one-on-one lessons. Lots of content, customized to your needs, and interactive; that's deep.

In short, communications followed "The Law of Raspberry Jam," Gerald Weinberg's observation that, "The more you spread it, the thinner it gets."

Repealing the Law of Raspberry Jam

Thanks to the exponential progress of digital technology, the cost of deep, rich communication is dropping like a stone. Reducing all information to the common denominator of bits, helped along by the common protocol of the Internet, enables all computers to speak the same language and connect to the same giant network.

Technology has repealed The Law of Raspberry Jam. Now you can spread your jam on a piece of toast the size of Lake Louise without it getting thin!

Everything is becoming connected to everything else. Information flows ever faster to more locations through ever-larger data pipes.

Well, "pipe" is not quite right because now information flows both ways. It's more like two pipes, one gushing information at you and the other spewing as much as you can provide right back out. Not only do you get a never-ending flow of jam, but you can simultaneously be advising the jam-maker how to improve the next batch.

Interactive Banking

"You know something's happening. And it's happening without you."
-Bob Dylan, 1966

Retail banking is built on relationships. The relationships were glued together by constraints imposed by the Law of Raspberry Jam. Forming a relationship was time-consuming and costly. Banks sought to lock customers into relationships because repeat business was profitable. Customers welcomed relationships with banks because it was convenient.

Working with multiple institutions was a hassle, shopping the competition wasn't worth the shoe-leather required, and money transfers were laborious and slow. Relationship banking was a win/win proposition, and banks sought to become financial

supermarkets selling every financial treat a customer might want.

The repeal of the Law of Raspberry Jam changes what the customer considers convenient. One-stop shopping is not a benefit when you can let your fingers do the walking. And if it's just as easy, who wouldn't prefer buying directly from the baker, the greengrocer, and the wine merchant, instead of the white-bread "super" market? Specialty shops generally sell superior goods, at a better price.

The goals of the bank and the goal of the customer are no longer the same.

Ah, but what about the human element? Alas, the schmooze factor matters less these days. Not one in twenty-five customers in an Omega survey could even name their banker. John Ryan Company filmed people walking along city streets and found that they sped up when passing in front of a bank. More and more people in our hectic world find face-to-face banking a needless waste of time. They prefer an impersonal banker

"The computer revolution hasn't started yet."

Bank of America's web site encourages customers to "Build your own bank." The retail banker's nightmare: Customers are beginning to do it.

Customers can pay bills without writing checks, set up personal electronic funds transfer, make investments on-line, and print their own balance sheets. Quicken prints statements that show their total financial picture, not solely their position with one institution. A balance sheet that sums up balances with Wells Fargo, Schwab, Vanguard, and Countrywide on one page provides more information than individual paper statements that show only part of the picture.

The not-so-distant future will see the emergence of "personal financial agent" software. The software agent will get to know its master's financial goals, preferences, and risk profile intimately. The agent will

shift balances from one account to another to optimize the return on its master's personal sweep account. It will allocate assets to maintain a properly balanced portfolio.

By the way, the personal financial agent will be a merciless rate shopper. It sees no value in a bundled relationship when it can easily piece together the same services on the open market at a reduced price. It does not respond to schmoozing.

Curtains for retail banking?

Banking will jump borders just as currency trading and pop culture before them. In a world where customers pick and choose their financial service provider transaction by transaction, Singapore or Lima or London may be a better bet than a bank down the street.

An open, easily-accessible financial marketplace will foster hand-to-hand combat among financial service providers. This will thin the ranks of banks until only those who are very, very good at what they do are left standing.

Soup-to-nuts banks will break down into their component parts and reassembled into specialty businesses. Nimble niche players will replace "full service banks." Banks will cease trying to be all things to all people, each focusing on what it can deliver best.

The goals of bank and customer will once again converge.

"Share of Wallet" is Out of Date

People will always need financial services, so they will always need retail banks. None will look like today's banks. The days of the "full service bank" that sells, processes, and services every type of financial transaction are drawing to a close.

Many retail banks have focused on "share of wallet," striving to get as much of an individual's financial

business as possible. As full-service banking is toppled, maximizing share of wallet will generally be bad for the bank and bad for the consumer.

Each bank should concentrate on things it is particularly good at. Why should the bank sell a customer unprofitable services? First Manhattan Consulting teaches us that banks lose money on eight out of ten retail customers. When it's easy for a customer to dump their bank, it's also easy for the bank to dump a customer.

In the information age, customers will select financial service providers with a click of the mouse. Why would they want to do all their business with one institution? If it takes no more effort, why not go for the best deal?

How will the focused, limited service bank prosper? Perhaps by taking a few lessons from my bookseller.

My Relationship with My BooksellerXXX

Want to make me late to a meeting? Put a good bookstore between me and the meeting place. I count myself fortunate to live in a university town that's chock full of independent booksellers.

Books are my passion. I make pilgrimages to famous bookstores. Non-chain bookstores charm me, and I boycott the likes of Waldenbooks, in hopes that they'll wither and die. On my list, mall booksellers are to books as McDonald's is to food. I am fanatic.

As you might imagine, it took some compelling advantages to convert me into a customer of "the world's largest bookstore," Amazon Books.

Amazon is an automated book ordering service you reach over the Internet. You've probably read about their Information-Age business model. (Amazon went public in September.) No inventory. No branches. Automated order entry. Always open. A license to mint money.

Economics didn't drive me to start buying books from Amazon (although their discounts are good.) Convenience did. A few snapshots:

- At home one evening, I completed the outline for a seminar on multimedia I would be conducting the following week. Scant time to get pre-work to participants. I got on the Net and instructed Amazon to FedEx a newly-released book on multimedia to my associates in London, Sydney, New York, and Toronto. They read it on the plane a few days later.
- On a Thursday this summer, I realized that I'd forgotten to send my father a gift for his 80th birthday three days hence. I logged into Amazon and began reading book reviews in his favorite categories of mysteries, investment books, and current fiction. Bingo! Ten individually gift-wrapped books arrived in time for his birthday that Saturday.
- Amazon's computers are getting to know me. When I log in, Amazon makes recommendations of books I might be interested in, titles recently ordered by people whose past purchases mirror mine. Amazon recognizes my computer and provides "One-Touch Ordering." When I see a book I'd like, I push a single button. Amazon bills the credit card they have on file and mails the book to my house. Last week I noted a book in the Sunday New York Times ö and had ordered my copy five minutes later.

The service I receive from Amazon is actually more "personalized" than the treatment I get from my local booksellers. The locals recognize my face and greet me pleasantly. They're fun to talk with ö but they don't remember what I've bought before. They certainly never survey my literary likes and dislikes in order to recommend what I might like from the New Books shelf.

Amazon keeps me coming back by using what it knows about me to provide a better level of service.

What would a typical bank be doing about this time in our relationship? Probably pushing overdraft protection and a home equity loan ö something to help the bank, not something they've discerned would be of particular value to me.

The Customer/Banker Partnership

Banks of the future will stop trying to sell customers something they don't want or need. Like Amazon, they will make recommendations based on what they know about the individual. They will strive to be the most convenient financial partner for the customer to work with.

Some retail bankers tell me they are already marketing "one to one. " Ha! Psychologists call this "denial." Why do they send every customer the same statement stuffer? Do all customers have the same needs?

Why do these banks enlist the aid of a "sales guru" who tells their sales people to ask every customer the same question about this month's product? (Think about doing this in another profession and you will see how misguided it is. You tell a realtor you're looking for a 3-bedroom house in a quiet neighborhood with a yard and pool. At the end of the conversation, the realtor inquires, "Would you like some commercial property with that? We have a great deal for you this month.")

Why do banks keep calling and writing me to offer their credit cards? A little analysis would show that I already have enough no-fee Platinum cards for a lifetime and I am a low-potential customer since I always pay off my balances. Credit card executives say the numbers justify the effort. Well, the numbers would be just a teensy bit better if they didn't bother soliciting my business every month. The more you know about your prospect, the better informed your decisions.

In the future, customers will stop dealing with banks that don't take advantage of the information they can gather about their customers to make life easier.

Winning banks will outserve competitors, not outsell them. Each new transaction is an opportunity to deepen the relationship or to curtail it.

**If you're already a computer person,
skip to the next section.**

"When the steamroller of new technology comes along, you're either driving the steamroller or part of the road."

--Steward Brand

You say you're not a "computer person?" Get over it. This isn't a yes/no proposition; it's a range. On one end of the spectrum are the half of the world's population that have never heard a dial tone. On the other end are Bill Gates, Andy Grove, and maybe Steve Jobs. All the rest of us are somewhere in the middle.

Fifteen years ago I had plenty of reasons to give up my two-pack a day cigarette addiction. Customers didn't like it. The health risk was impossible to overlook. My wife made me smoke on the back deck. But I was unable to give up the filthy weed until the day I told myself, "I am a non-smoker. That's who I am."

If you haven't already taken the pledge, tell yourself "I am now a computer person." Get in the game. One day at a time if you find it taxing. Take an immersion course in Information Age culture. Get on the Internet. Surf the web. Look some things up. Read Wired. See how the stock market's doing. Check out what the thought leaders in the industry are saying.

Don't fight high-tech, think how to turn it to your advantage. Free-flowing two-way communication can enable banks to serve customers in ways yet undreamed of.

Charging into the Fuzzy Future

"Cyberspace is - biological, taking its character more from flora and fauna than from the unnaturally

straight-line geometry in artifacts of human design.
Picture the loose-V formation of ducks flying south.
But ducks don't run banks."

Nicholas Negroponte
Wired, October 1997

It's tough to plan for a future where the only certainty is that things are going to be a lot different than they ever have been before.

You can't be assured that you won't learn to swim if you don't hop into the pool. Our parting advice is to get involved. Learn by doing. Create a two-way dialog with customers. Innovate relentlessly.

Regis McKenna states this well in his new book, Real Time:

"Companies will learn about the technologies in the only way they truly can -- by adopting them and putting them to practical use. They will deploy them not to predict the future but to live virtually on top of changing patterns and trends affecting every sphere of their business environment, making rapid and continuous refinements in their way of doing business."

Retail banking will continue to be a relationship business, but the relationship will be different. Bricks & mortar will fade in importance. Automation will take the place of routine workers. One-to-one interaction will mass marketing.

Relationships will be shorter and less binding, much as the world of employment has shredded the implied employer/employee contract.

Relationships will be based on partnership for mutual gain, much like the evolving relationships between vendor and purchaser.

The ducks are flying in formation and we're not sure why. The only thing worse than learning from

experience is not learning from experience. Here's Regis McKenna once more:

"Winning organizations will expect relentless shifts and readjustments in the marketplace, in customers' expectations, and in the behavior of competitors. They will anticipate surprises six times a day before breakfast."

Just do it.

Books

Regis McKenna's *Real Time* or Donald Tapscott's *The Digital Economy* will provoke your thoughts.

Check out Kevin Kelly's "New Rules for the New Economy" in the September '97 issue of *Wired*. He makes convincing arguments that "wealth in this new regime flows directly from innovation, not optimization." Business will be a roller-coaster in a world where "success is nonlinear."