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# Technology

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## Comment: Internet Makes 'Share of Wallet' Strategy Obsolete

By Jay Cross, Omega Performance

Until recently, banks and other businesses were forced to choose between two methods of maintaining relationships with customers: Reach a few people with a deep message or lots of them with a shallow one.

In short, customer communications once followed technology and leadership expert Gerald M. Weinberg's Law of Raspberry Jam: The more you spread it, the thinner it gets.

But that law has been repealed. Technology has advanced to the point that bankers now can spread their jam on a piece of toast the size of Lake Louise and it won't get any thinner.

The relentless progress of digital technology is forcing the cost of deep, rich communication to drop like a stone.

The emergence of a universally understood Internet protocol and the reduction of information to bits and bytes has allowed more and more computers to connect and communicate with one another.

Information flows ever faster to more locations through ever-larger data pipes. These pipes let data flow two ways -- one gushing information to the bank, the other sending out as much data as the bank wants to customers.

So not only does technology let banks spread a never-ending flow of "jam," it helps them figure out how to improve the next batch.

Forming relationships with customers was once time-consuming and costly. But once onboard, customers tended to stay put because working with multiple institutions was a hassle, shopping around wasn't worth the shoe leather, and changing accounts was difficult.

But the repeal of the Law of Raspberry Jam changes things. Because institutions can woo customers more easily and establish new accounts more quickly, customers are likely to become much more mobile.

In addition, the schmooze factor matters less and less as remote delivery takes the place of face-to-face banking.

Not one of 25 banking customers randomly surveyed by Omega knew someone at a local bank branch by name. Bank customers increasingly find traditional branch banking to be a waste of time. Many actually prefer an impersonal banker.

Bank of America's Web site encourages customers to "build your own bank," and many are beginning to do it. They are assembling customized banking services from a range of electronic choices. Customers can pay bills without writing checks, make investments online, and print personal balance sheets.

They can use Quicken or Money personal finance software to analyze their financial state.

This retail banking world will give rise to a shakeout in financial services in which most banks will stop trying to be all things to all customers. Banks will focus on whatever bundle of services they can deliver most profitably.

In short, nimble, niche players will replace full-service banks.

Of course competition for customer relationships will not come only from other banks. Philip B. Evans and Thomas Worster of Boston Consulting Group, the authors of "Strategy and the New Economics of Information," predict:

"In this new world, distribution will be done by the phone company, statements by financial management software, facilitation by different kinds of agent software, and origination by any one of a number of product specialists. The integrated value chain of retail banking will have been deconstructed."

Many retail banks today focus on "share of wallet," striving to get as

much of an individual's financial business as possible.

As full-service banking is toppled, banks and consumers are going to need to get much more selective about how and why they expand relationships.

Consumers will need to avail themselves of the array of financial services that lie just a mouse click away.

Why would they want to place all their business with one institution when getting a better deal may take very little effort?

For banks, expanding relationships with every customer should not be an end unto itself. First Manhattan Consulting Group research shows that banks lose money on 8 out of 10 retail customers.

Though technology makes it easier for a customer to dump a bank, it also has made it easier for bankers to identify and dump unprofitable customers. Technology also will help banks identify lines of business it should concentrate on.

Banks can draw important lessons from leaders in other industries -- for example, Amazon Books. This on-line vendor's business model is pretty well known.

It's open 24 hours a day and has no inventory or retail offices. Order entry is fully automated.

Such a "store" would seem unlikely to appeal to someone like me.

Books are my passion. Independent bookstores stimulate me, and the chain bookstores in the average shopping mall bore me to tears.

But I was attracted to Amazon because of the convenience it offered. In at least two instances -- my father's birthday and a business seminar -- the service helped me select and deliver books on short notice.

And Amazon's computers are getting to know me.

When I log on to their site, Amazon recommends books it guesses might interest me, given the types of books I've ordered.

Such service is more personalized than the treatment I get at my local bookstore. The locals recognize my face and greet me pleasantly, but they rarely remember what I've bought before.

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

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

Some retail bankers tell me they are already marketing "one-to-one."

Why then do all customers receive the same statement stuffers?

And why do salespeople ask every customer the same question about the product of the month?

In the future, many customers will stop using banks that don't personalize.

Because of this, each new transaction is an opportunity to improve a relationship or to hurt it. Winning banks will outserve competitors, not outsell them.

Bankers who aren't "computer people" are going to have to change pretty quickly. A large part of becoming familiar with technology is committing mentally to it.

Like a smoker who must decide "I am now a nonsmoker" in order to quit, a person who wants to get comfortable with technology must change his self-image.

If you haven't already taken the pledge, tell yourself, "I am a computer person. That's who I am."

Get in the game.

Take an immersion course in information age culture. Get on the Internet and surf. Read Wired. Check out what thought leaders in the industry are saying.

Most of all, don't fight high-tech. Think how to use it to your advantage.

Free-flowing two-way communication will enable banks to serve customers in ways as yet undreamed of.

It is tough to plan for a future in which things will change so quickly.

No matter what happens, it's certain that you won't learn to swim if you don't jump in the pool. Get involved. Learn by doing. Create a dialogue with customers. Innovate relentlessly.

Technology marketing consultant Regis McKenna puts it this way:

"Companies will learn about the technologies . . . in the only way they 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 and mortar will fade in importance.

Automation will replace routine workers.

Mass marketing will disappear.

And service will be interactive.

Finally, relationships will be based on mutual gain, much like the evolving relationships between vendors and purchasers.

The only thing worse than learning from experience is not learning.

According to Mr. McKenna, 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."

How should a retail bank executive enter the information age? Just do it.

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