A Smarter Way to do Business

Know and act based on your customer

Carlos E Wanderley

We hope that you enjoy this extract from ‘A Smarter Way to do Business Know and act based on your customer’

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1 – It's about the Customer, not the Product

When you wake up in the morning, what is the first thing that you do? Do you think, "I am going to buy a personal loan today," or, "I am going to buy a mortgage"? Even before you brush your teeth, or shower, or have breakfast? Probably not. Very few people do, any more than they wonder whether their deodorant will really last all day.

These are automatic processes. You wake up, you have a shower, and you brush your teeth. You do not think about the brands you are using. You are doing these things to fulfil needs. You are using a deodorant to prevent perspiration and to avoid damage to your clothes, not because it is the leading brand.

Financial services are the same. People don't want a personal loan: they need the money so that they can buy something that they do want, or so that they can pay some bills. People don’t want a mortgage: they want to buy a home and need to get a mortgage so that they can fulfil that dream.

Financial service products are fungible. This means that they are interchangeable. Money borrowed as a personal loan is exactly the same as money borrowed on a credit card, which is exactly the same as money borrowed as a mortgage. And money borrowed from one bank is exactly the same as money borrowed from another bank. Ok, there may be different prices and conditions, but in essence it is the same.

Why isn’t this clear to so many financial service product managers? We still have many companies trying to justify why their credit cards are special, and why their credit cards are so much more special than those of their competitors.

It is amazing, how sometimes the advertising of a product becomes an exhaustive list of gimmicks and benefits that means nothing to the audience, to the customer, so many that no one remembers even 15% of them! Half of the acronyms used to describe ‘special features’ are gibberish to the audience. Sometimes, I do have the impression that professionals make advertisements for themselves, because they are the only ones that understand it.

I have nothing against any particular product. It is important to emphasise that. But products are a means to an end, not an end in themselves. The end is: how to solve a problem for the customer. How to make life easier, simpler.

A problem – from the customer's point of view – can be positive or negative. How customers fulfil their dreams and desires is as much a problem to them as how they pay their bills or clear their debts.

So why do customers choose a particular bank? It is not because its products are better than those of its competitors (unless the audience can perceive, understand and see value in it)!

There have been a number of academic and industry studies of the reasons why customers choose a bank, for example:

Table 1 – Reasons for the choice of financial institution

Rank	Factor	Percentage
1	Have checking account(s) there	81.0
2	Use direct deposit there	59.8
3	Branches located close to home	48.2
4	Better customer service there	42.5
5	Has the financial services that I need	30.5
6	Have the electronic banking services that I need	30.2
7	Branches located close to work or school	25.2
8	Better rates on loans	23.2
9	Attractive rates on savings	14.9
10	Have mortgage loan there	8.0
11	Too much trouble to transfer accounts	5.9

Source: Sciglimpaglia and Ely 2006

More recently we have the survey that appears on the next page and brings us up to date by including modern ways of banking by different cohorts.

Table 2 – If you were looking for a new checking account, which three factors would be most important to your decision?

	Young Millennial (1998 – 1996)	Old Millennial (1980 – 1987)	Gen X (1964 – 1979)	Baby Boomer (1945 – 1963)
Lowest monthly fee	42%	39%	48%	47%
Best overall value for money	35%	35%	39%	42%
Best online and mobile banking tools	32%	38%	34%	36%
Best rewards program	32%	29%	27%	23%
Most convenient branch locations	30%	35%	41%	50%
Best combined debit and credit card rewards in a single program	22%	20%	17%	14%
Recommendations from friends and/or family	17%	13%	9%	9%
Best capabilities and tools to help me manage my financial life	16%	16%	12%	9%
Best mobile payment tools and capabilities	16%	18%	15%	11%
Best in-branch experience	13%	14%	13%	13%
Best P2P payment tools	8%	7%	4%	1%
Best international money transfer capabilities	6%	8%	4%	1%

Source: Cornerstone Advisors survey of 2,015 US consumers, Q3 2017

This is just one of many pieces of academic and industry research on this subject that I have come across during my years working in a retail bank in more than thirty different countries a specific product has ever come in the top five.

The above list of features or factors is no different, and things like value for money, online and mobile banking capabilities and tools that help customers better manage their money are becoming more and more important aspects of the proposition. This is due to consumers increasingly using price comparison sites over the last six years that make evaluation of pricing, value for money and features easier. Old factors, such as the location of a branch to their place of work and home are still highly relevant. In the 2006 survey, the combined ‘located close to home, work or school’ made it the second most important reason with 73.4%. By 2017, it still rated very highly amongst all age groups (including the digitally native Millennials!). During this period, customers’ needs for branches have changed significantly from the channel where almost all interaction took place, to the channel where they valued the opportunity to meet bank staff to receive more personalised service or have more complex problems resolved – and even become a ‘comfort blanket’ during periods of financial instability. For banks, branches still act as a strong brand attractor due to their physical presence on most high streets. Despite banks closing or consolidating many branches they appear to be a key part of the channel mix for the foreseeable future.

Since 2013 Digital Banking has become an intrinsic component of any customer delivery, either in services or physical products. We just need to understand the share of sales of products through digital channels and the participation of digital channels in service delivery. More and more transactions, consultations and basic advisory are done in a digital format.

Back to product centricity. I tried to remember an occasion when a stand-alone product offering – one developed by the bank solely driven by a market opportunity with no customer input or insight has significantly changed a company's market share. I thought that I had come up with an example, but I later realised that it was not valid, as the product was actually developed as a combination of understanding both market trends and customer behaviour. It was a major mortgage campaign launched in the middle of the 2008 crisis.

Whilst working in Latin America, due to market volatility and the speed of change, I became very much attuned to the importance of liquidity to a bank's financial outlook and to the factors that indicate future changes in it. When I arrived in the UK, I could not reconcile the Real Estate market value growth, the banks liquidity status and the economy rate of growth. For me, the need to adjust the business' A/D ratio (Asset and Deposits ratio – the measure of a bank's liquidity level) to a more conservative position became a quest, in order to ensure continuity, to prepare for, in my opinion, an imminent bank liquidity crisis. Such a decision was criticised by many in the bank I used to work for, as by keeping a larger amount of idle deposits, in the view of some locals, was a practice preventing the bank to make more money. I simply made a decision to not use the volatile and unreliable money market to fund lending, and on top of that preserve some deposit monies for investment opportunities, that may come from an imminent liquidity crisis.

The local market was heavy leveraging its loans books, mainly in mortgages, with using money market funds, paying volatile market prices for the money, exposing their P&L and Balance Sheet to potential instability, vis-a-vis a portfolio with a long-term profile, mortgages, for some reason the money market capacity at that moment was seen as "infinite". To me, this was a high risk when analysed from the perspective of the country's economic growth, employment statistics and the speed of growth of deposits. I could not see how such a risky practise could continue, with so many banks with A/D ratios above 100%. Gradually we started to reverse the A/D ratio from above 100% to one below 100%, a common practice in emerging markets, where we are more often exposed to liquidity crises, preparing ourselves to take advantage of a potential money scarcity.

I knew that a liquidity crisis was close, but I could never have imagined the proportions of the 2007 to 2009 crisis. But when it came, we were liquid and we were in a very good position.

Immediately local banks started to increase their interest rates, revising and adjusting all the contracts. At the same time, we knew by interacting with our customers, that a main factor when choosing a mortgage was the certainty of the rate and therefore the monthly repayments. It was fundamental to individual's planning and budgeting and no other factor, such as the term of the loan or additional products such as insurance deals came close. The combination of previous experience in Latin America and the customer behavioural insight, enabled us to launch one of the most successful mortgage campaigns ever. The success of the campaign was due to the message hitting customers' hearts and minds on a vital decision point regarding mortgages, in a moment of huge uncertainty. We were providing an answer to an important problem, one that was keeping customers awake, and without the customer knowledge and constant interaction, we would not have been able to pinpoint the right variable to be the key of our message.

Research, such as that shown above, tells us that the important reasons why customers choose financial institutions are external factors, over which the banks have little control. Where are their salaries paid? Is there a branch near to their home or places of work? Where did their parents bank? However, with the increasing importance of digital delivery of services and products by most companies, customers now expect the use of customer insight to deliver in a much more personal, flexible and dynamic way. This, together with the use of 'guerrilla marketing' and social media, to reach them are becoming more and more important as decisive elements of success. Look at the success of some Fintechs, such as Monzo bank in the UK (building massive 'word of mouth' demand for their account through their 'golden ticket' to invite friends and family to priority sign-up) and retailers, such as Nike's broken park bench 'guerrilla marketing' campaigns (that encouraged people to run) recently.

What I very rarely see is a customer choosing a bank because that bank has differentiated itself from its competitors, it has a message that appeals to the customer's curiosity at least or has the potential to solve a problem that is at the top of his mind. It's a well-established fact that banks look pretty much the same to most customers. This makes it very difficult to create a unique selling proposition (USP) – an overwhelming imperative for customers to choose your company and your proposition in preference to a competitor. The paradigm is shifting more and more, and we are seeing new digital challengers building their business from the customer and threatening the traditional leaders of sectors in the economy. The same can be said for any other company: how many messages and advertisements have you seen lately that really called your attention and made you move to try, or even consider the product? Ok, the advertisement may be funny, or interesting, but has it driven you to action?

USPs should be something specific that you can communicate to customers through an advertisement or a campaign; they should be unique in that your competitors don’t or can't offer them; and they should be sufficiently attractive that large numbers of customers will buy your solution for that reason.

Creating a USP is one of the methods by which a company can differentiate its offering from that of its competitors.

The classic means of differentiation are price and quality. Charging a lower price than your competitors over the long term is only possible if your costs are lower, for example the low-cost airlines operate differently from their higher cost rivals.

Differentiation based on quality does not depend on the absolute quality of the product or service, it depends on how well your customers perceive the quality of your product or service as matching their needs, solving their problems, and the price they are being asked to pay. The better you understand your customers, the better you are able to achieve differentiation based on quality. And the greater your ability to respond satisfactorily to the customer's problem, desire or need at a fair value. It is not a matter of expensive or cheap, but the customer's perceived value for money.

Quality has to do with perception: if you are able to solve a problem, or satisfy a desire or need, within the price or value perceived by him, you will be successful.

The same principle applies to any commercial company. It does not matter whether it provides services or products. Unless it can meaningfully differentiate itself from its competitors, the customer will not care who provides the service or the product.

Companies must be obsessed with differentiation if they are to avoid the risk of commoditization. Commoditization means that customers see products as commodities, with no difference between them other than price. So, of course, customers buy the cheapest product.

Even companies selling water have been able to avoid commoditization. If they were not able to differentiate themselves, why would someone pay more for a Perrier or a Pellegrino? If companies selling bottled water can differentiate themselves, why are you not able to do so in your business?

Coming back to the financial service industry, the fact is that any bank can build a credit card, a personal loan or a mortgage. It is easy, certainly much easier than designing consumer goods or constructing buildings. It is just a matter of putting the right systems and processes in place.

So how do we attract customers? Let us turn the usual paradigm around.

Instead of creating a selling proposition that is unique to the bank, let us create a selling proposition that is unique to the customer. Propositions are solutions that have a perceived value and uniqueness from the customer's point of view.

Banks, along with supermarkets, digital retailers, Telcos and a few other companies, have access to a lot of data about their customers. Analysing this data carefully and interacting with their customers helps them to understand their target market and to develop better ways to attract them and to service them.

This, in turn, increases customer satisfaction – the customer's perception of the value provided by the bank or commercial company – customer loyalty and, in consequence, the contribution per customer.

Every time you positively surprise your customer, you increase your chance of a next purchase, increase customer loyalty and generate positive comments about your product or service. And, in a world more and more influenced by social media, good reviews and spontaneous customer positive opinions, are very important on building a brand, the positive perception of a company. The narrative commonly created about your company or your solution in the social media tends to become the reality.

Due to the ability of social media to influence people for good or bad purposes, great care should be exercised using it, either as a marketing or an opinion forming tool.

This is because the technology and psychology behind social media platforms interacts with often subconscious psychological biases that makes many of us vulnerable to influence through our social alliances that overweighs information from those sources over all other sources. The prime reason that social media sites use these psychological biases is to drive their advertising revenues.

In addition, merely seeing a news headline multiple times in a news feed also makes it more credible before it is ever read carefully, even if it is a fake item.

However, there is a more sinister purposes and we all know about the 'click-bait', misinformation and hoaxes that have become commonplace on social media. These subconscious biases work in the same way when faced with politically motivated fake news items and hoaxes.

In a report titled the *Influence of fake news in Twitter during the 2016 US presidential election by Alexandre Bovet & Hernán A. Makse Nature Communications 10, Article number: 7 (2019)* the authors identified that from a dataset of 171 million tweets in the five months preceding the election day they identify 30 million tweets, from 2.2 million users, that contain a link to news outlets. They found that 25% of these tweets spread either fake or extremely biased news.

In a report published in September 2019, *'The Global Disinformation Order: 2019 Global Inventory of Organised Social Media Manipulation'*, co-authored by Professor Philip Howard, Director of the Oxford Internet Institute (OII), and Samantha Bradshaw, Researcher at the OII, highlighted the following findings, that:

- Organised social media manipulation had more than doubled since 2017, with 70 countries using computational propaganda to manipulate public opinion;
- In 45 democracies, politicians and political parties have used computational propaganda tools by amassing fake followers or spreading manipulated media to garner voter support;
- 25 countries are reported as working with private companies or strategic communications firms offering a computational propaganda as a service;
- Facebook remains the platform of choice for social media manipulation, with evidence of formally organised campaigns taking place in 56 countries.

Professor Philip Howard, Director of the Oxford Internet Institute, University of Oxford said: "The manipulation of public opinion over social media remains a critical threat to democracy, as computational propaganda becomes a pervasive part of everyday life. Government agencies and political parties around the world are using social media to spread disinformation and other forms of manipulated media. Although propaganda has always been a part of politics, the wide-ranging scope of these campaigns raises critical concerns for modern democracy."

The outcome of such fake news can be distasteful, but increasingly the 'weaponization' of social media is resulting in innocent people dying.

Every day on the investment market, stocks and exchange-traded fund (ETF) prices change just based on statements, or perceptions.

Due to the increasing prevalence and impact of 'fake news' and deliberate manipulation by governments or commercial organisations there is a risk that social media loses its relevance with consumers.

This reinforces the fact that banks and commercial companies need to know their customers better and transform the data that is already available to them into rich information. And based on that create the narratives, the base for the interaction with prospects and customers.

Creating a strong narrative about your business, gives you a fairly good chance of reinforcing consumer sentiment and purchase decisions in favour of your company and brand: moreover, it is also the first line of defence against negative stories.

By analysing the raw data and interacting with your customers allows you to reinforce your proposition, place the right weight in factors that are relevant to the customer choosing your proposition, as well as being able to use the right 'tone of voice', increasing the rapport with your customers, prospects and sympathisers and advocates.

Another advantage of understanding the customer is that it allows companies to deploy the resources available to them more effectively, increasing the return on the money invested.

What I mean by this is that once you understand what drives your customers, how your customer behaves and you understand their profitability, you naturally place your money where it has the most value in their eyes – not where your competitors are placing it or where conventional wisdom would place it. I hate copycat managers who read or hear about something new and start to try it out without looking at it from the customer's point of view. What is the point of investing in the digital world if your customers do not use computers, or if the perceived value of your service and or product lies in the face-to-face approach? The same applies if your customers are heavy users of the web and you decide to invest in bricks and mortar because that is what a competitor has done.

In my most recent experience working in Nigeria, a lot of expatriates and international consulting companies have failed or not lasted in the job as they might have in other countries, because they try to do another practice that I criticise a lot: the one I call 'copy and paste'. They start from the misconception that what works in one country or set of countries must work anywhere.

Maybe because I have been exposed to many different cultures in my career, I do see that different scenarios and cultures demand different solutions, or a combination of tools used in other places; not a simple 'copy and paste'. That will not work. You have to genuinely invest personal time in observing, listening and experiencing the local culture and realities of live within that culture. Only when you have a good understanding of the issues and problems; of the cultural environment where you are working; and of the business values and infrastructure; can you select what practices, tools, or combination of them to solve the problems, or create a proposition.

Moreover, in places like Nigeria, where you have multiple challenges, a chronic lack of basic infrastructure and where the majority of the population have very little amounts of discretionary money: no matter how fast it is growing, you see a low penetration of the usual western world customer capabilities, experiences and habits.

It is imperative to understand whom you trade with, how they think, what they value, and how and where to talk to them. And, once you do, start to make decisions based on such understanding.

Having this rich source of information allows you to do that. It enables you to create a meaningful channel of communication and build trust. As well as providing solid answers to customer issues and problems, creating a successful customer proposition.

When I moved to Europe, I noticed that efforts to provide customers with financial advice were perceived by the customers as a bureaucratic exercise that was too long that did not add value. Without proper interaction with the customers, the local managers interpreted the problem as a lack of products. They thought that a new group of super-duper products would be attractive enough to entice customers, to engage them. In a very short period of time hundreds of products where created, re-named, re-shaped. However, nothing changed as a result; customers were still disconnected, confused.

This also happens in consumer goods companies, where professionals believe that creating new products will enable the company to increase the number of different customers interested in their brands, increasing market share as a result. Actually, all you end up having is a very long and complex range of products, usually saying the same, promising the same. By coincidence, when I arrived in Nigeria, I was faced with the same, if not worse problem, there we had the same product, the exact same product with many different names in the same company. And still a culture that all you had to do for women to buy the product was name it 'woman something'. I wish it was so easy!

However, the majority of customers do not get the point of it and the only certainty is the enormous cost to the company of maintaining, controlling and promoting such a huge range, not to mention the vast amount of merchandising money and sales promotion funds needed to ensure enough shelf space and attention to so many variations of the same product.

You add to that the difficulty of taking products 'off the shelf'. Why companies find this difficult, normally, is that they are concerned that they may upset customers who buy such products, or who are opinion makers, and that can hurt the brand. Very few companies do a periodic analysis of units sold to identify how many products produce enough sales to pay at least the variable cost. And, as part of such, eliminate products periodically, reducing the cost of managing them and creating room to test new ones, based on customer interactions. Further in the book we will talk about how to have consistent customer interactions, and how to make controlled decisions as a consequence.

The worst case is when companies rely on sentimental attachment to justify the continued existence of dead products. Believe me, I once talked to a very famous entrepreneur who, despite the fact that the sales of a specific product where going down every year, kept it because it was launched in honour of a specially loved person. Crazy! I worked with a bank that once had more than forty different types of mortgage. Quite a creative bunch, some portfolios had maybe sixty customers or even less. It was still not easy to get the point across.

Back to the financial advice issue: when we talked to the customers, we discovered that there was no rapport (the ability to have a sympathetic relationship) and that they never understood why there were so many products. The customer could barely understand the differences and, to make things worse, they questioned the value added by the advisors themselves. Why was that?

The majority of customers wanting financial advice were individuals who were at least forty-five years' old. They could not believe that someone who had just left school had enough experience to understand their issues, their concerns and the problems in their lives, or had lived enough to understand the challenges, conflicts and situations they were facing, such as divorce, imminent retirement, kids going to school etc.

Also, they were seeking advice and solutions, not a boring description of hundreds of investment funds, expressed in complex financial language. At the end they only used the financial advisors because this was required by law and was the only way for them to have access to the products that they believed they needed to face such issues. It was no surprise that more than 80 per cent of them were looking for quite boring, capital guaranteed, fixed income products! We will discuss this example in more detail later.

A major benefit of understanding your customer is that you establish a relationship, and eventually trust and complicity, which reduces misunderstandings, incorrect solutions and attrition.

When a company is able to create such a relationship it is seen as a blessing by customers, as customers do not like changing suppliers. It is too difficult, and gets harder by the day, to understand the options available. Have you tried to figure out a cereal box in a supermarket aisle these days, or a toothbrush, or even a simple yoghurt? Hard isn't it? Financial products are even harder, even more difficult to differentiate and, along with the change, comes all the bureaucracy, producing documents, changing direct debits. It is not easy. This behaviour, this resistance to changing suppliers, is called inertia.

Inertia is high in most industries, but financial services' customers are especially reluctant to change supplier. Even though many banks provide 'switcher' teams to help them, customers dislike the paperwork and worry about whether direct debits and standing orders will be paid on time.

So why do customers leave their banks? Conventional wisdom says that it is because of price issues. But is this true? I believe that it is not so much about price – other surveys suggest that customers are willing to pay for a better service – but about value. It is also due to customers not believing that they have been treated fairly, or no-one being available to speak to them, or the bank failing to communicate with them; and, as a consequence, perceiving no value in the relationship. Price complaints are due to perceived lack of value – anything is expensive if one does not see value in it! One recent survey suggested that both price and service are a factor, but that it was a history of perceived poor service that made customers particularly sensitive to price. Another identifies the following reasons for customers leaving their bank:

Table 3 – Reasons why customers leave their bank

Rank	Factor	Percentage
1	Quality of service	55
2	Ease of use	51
3	Fees	50
4	Interest rate	49
5	Quality of advice	45
6	Accessibility/convenience	45
7	ATM locations	39
8	Product availability	36
9	Branch/bank locations	36
10	Personal relationship	35
11	Brand image	27
12	Rewards/loyalty programme	24
13	Peer recommendations	19

Source: 2011 Retail Banking Voice of the Customer Survey, Capgemini, 2011

The effect of reducing customer attrition is dramatic. A study published in the Harvard Business Review argued that reducing customer attrition by 5 per cent would increase the company's profits by between 25 and 85 per cent. H. Eugene Lockhart (President and Chief Executive Officer of MasterCard Europe) once said that he could double profits by extending the average time a cardholder stayed with the organization from five years to seven.

Why do these failures happen? If a bank does not use the information that it has about its customers, it cannot deploy its resources wisely. It will allocate resources to activities that are of little benefit to the customer, while starving the activities that the customer wants of the resources they need. This inability to use its resources effectively ends up working against the interests of the bank and its shareholders: something that applies to any business. Such an understanding, such a conclusion is a very important outcome from the effort to be customer-centric. The ability to deploy resources wisely can, not only increase margin, but also improve satisfaction, efficiency and as a consequence, profitability.

Every one of our customers has a value to us – the customer value. This is the difference between what we earn from the customer and the cost to us of providing the customer with products and services. Provided that we earn enough from the customer to meet this cost, the customer is ‘paying the bill’. In practice, most banks find that at least 20 per cent of their customers do not ‘pay the bill’.

Unless we properly address the customers’ problems, issues and aspirations we won’t be able to derive value from them. And without them ‘paying the bill’ we cannot meet the cost of any business, ultimately causing the business to fail.

I am convinced that to be successful a company must understand its customers and use this knowledge to define its target market, i.e. the type of individual to which you intend to provide solutions. You need to enchant them, to keep investing in knowing them and to keep positively surprising them. Such an exercise, investing in customer knowledge and proper answers, will provide differentiation and sustainability, and ultimately commercial success.

Of course, you need to understand the size of the target market, whether it has the possibility of replenishment, be attuned to changes of behaviour etc. There is no point in being recognised as the best provider of valves for electric devices, when valves are no longer used, unless you have a small business that will provide valves to collectors for a premium price. It is a matter of understanding the size of the market, cost, and how and what the market will pay for someone to solve their problems, fulfil their dreams, and solve their issues.

Once you have defined which customers 'pay the bill' and made sure that your company is relevant to them, you should concentrate your efforts and investments towards them, being bold enough to not invest time on non-profitable customers, or those for whom you cannot answer their problems.