

@Banks: Stay Tuned With Your Customers

*How Smart Financial Institutions Exploit the
Communication Advantage*



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Executive Summary

Considering the turmoil that hit financial institutions profitability and reputation in the last years along with the global attention on strengthening regulations and more severe capital requirements, banks need to capture new competitive advantages.

Two main ways could be undertaken: differentiate and renew value proposition with innovative services and products and make customers and their needs the focal point of the business model.

Banks can effectively achieve these challenging targets implementing an innovative communication model that makes them focused on a new and simplified relationship to enhance customer experience and magnetize new prospects.

This results in more effective cross-selling and up-selling strategies (+15%) ensuring also an improved retention rate.

Through communication, financial institutions can improve their performances both outside with their customers (enhancing their relationships, interacting with them, capturing their feedbacks and sharing their experiences) and inside the organization (creating an open working environment, sharing ideas, actively participating in the knowledge creation process and streamlining business processes). The focus on core activities and operational process rationalization coming from an innovative communication model allows an average 10% cost saving.

Financial Institutions need to understand the communication advantage and start to exploit this extraordinary opportunity becoming a “smarter” bank and playing a leading role in the “new normal” competitive arena.

The Communication Advantage

After the recent crisis that hit financial institutions reputation and profitability and the renewed global attention on strengthening regulations, banks must win new challenges: be more customer-centric, differentiate value proposition, improve transparency and quality and simplify business and operational model against a complex market contest.

As this “new normal” scenario is figuring out, banks prepare their organizations to compete in a knowledge-based economy: the competitive advantage will become much less a function of natural resources contributions and capital-labour ratios and much more a function of mobilizing knowledge.

The strategic lever to compete effectively relies on the ability to set up an open organization that is able to listen to its customers, differentiate properly its product-service mix, simplify and innovate its operational model.

This target is achievable for banks with a new communication model that combines two complementary perspectives: communicate with customers in order to bring value to them

and get feedbacks or receive their contributions; communicate with employees in order to align them with the business strategy, encouraging active participation in service innovation and make them more flexible to changes.

To exploit the communication advantage, financial institutions need to work on the three key elements that compose the communication model (see Figure 1):

1. **Knowledge.** Banks have to be prepared and equipped in order to create, empower and codify knowledge inside and outside the organization. For instance, customers can participate in the content creation process as “co-producer”.
2. **Tools.** Information and communication technologies have greatly reduced the cost and increased the capacity of organizations to codify knowledge, process and communicate information. For example, the Enterprise 2.0 technologies enable employees and customers to interact in a quick and dynamic way.
3. **Processes & Resources.** A structured organizational model is necessary to ensure a constant and updated focus on delivering a value-added communication.

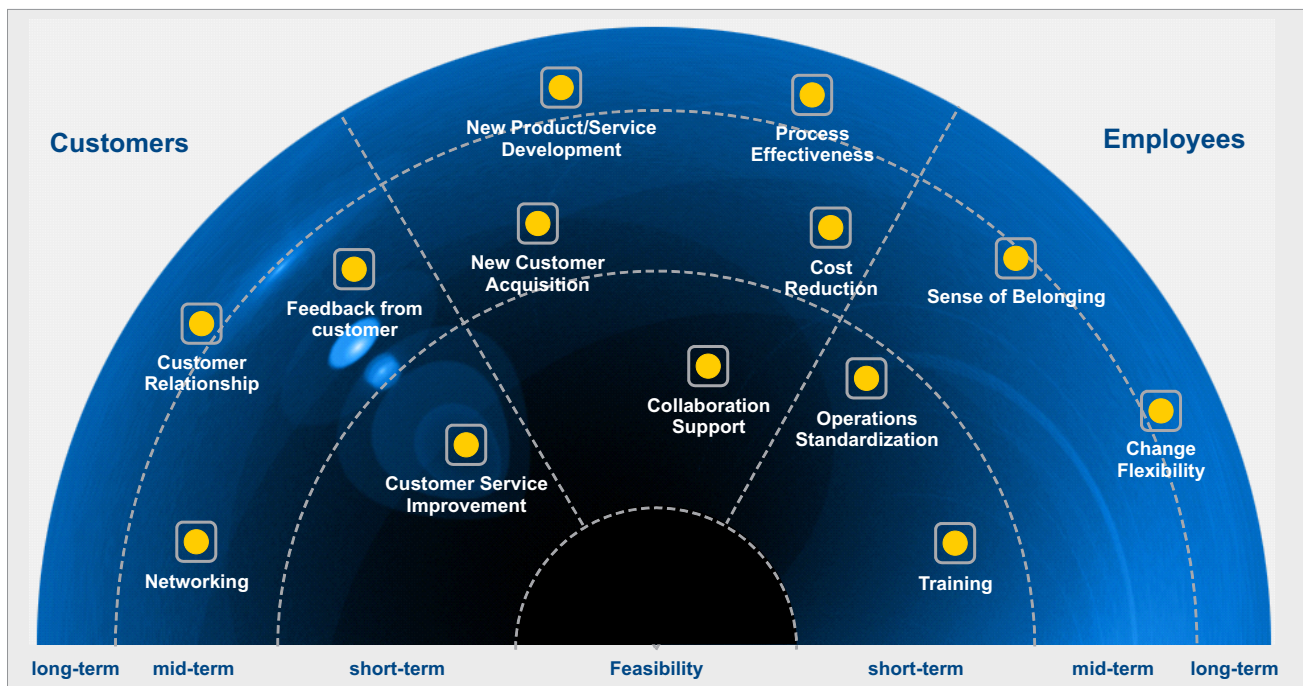
Figure 1: The Communication Model



Source Arthur D. Little Analysis

- **Customer Excellence.** The communication model enhances the relationship with customers, interacting with them, capturing their feedbacks, capitalizing their experiences, and creating knowledge.
- **Operational Excellence.** The communication model promotes an open working environment, where employees share their ideas, collaborate with other people, actively participate in knowledge creation, and streamline the business processes they are involved in.

Figure 2: Inside and Outside Benefits



short-term = within 3 months mid-term = 3 to 12 months long-term = >12 months

Source Arthur D. Little Analysis

If banks do not recognize it, this can be a fierce threat to their profitability and success. Inconsistent communication could affect customers' loyalty and trust in financial institutions activities.

In the last years customer satisfaction fell sharply, also because clients are now more receptive to relevant proactive contacts.

As of today, financial institutions need to capture the great potential and value of communication and move forward into a galaxy of very attractive benefits classified in two complementary perspectives as shown in Figure 2:

- Outside Benefits - customer side. The communication model enables the financial institution to establish a direct and constant interaction with customers in a one-to-one model: the bank can potentially manage individually every customer, proposing the right service/product mix and

immediately detecting feedback on that. Adopting this approach, the customer is definitely at the centre of the bank business model (Customer Excellence).

This results in more effective cross-selling and up-selling strategies (+15%) ensuring also an improved retention rate.

- Inside Benefits - employee side. The communication model enables the financial institution to improve collaboration and knowledge sharing processes: the organization is more responsive and flexible (Operational Excellence).

The new communication model allows an average 10% cost saving due to:

- More productivity: focus on core activities and information availability.
- Operational process rationalization: simplification on documents elaboration and production, information spread and no lead time process.

Communication Design Framework

Capturing the communication advantage starts with a structured methodology aimed at designing the suitable communication model.

According to the framework (see Figure 3), it is important to establish the strategic communication objectives aligned with the business targets of the financial institution. A clear assessment regarding where organization is now and where it wants to get to is required.

The second stage identifies the new 2.0 communication targets according to the strategic objectives. At this phase the financial institution has to state what its target positioning should be and what evolution trend should take.

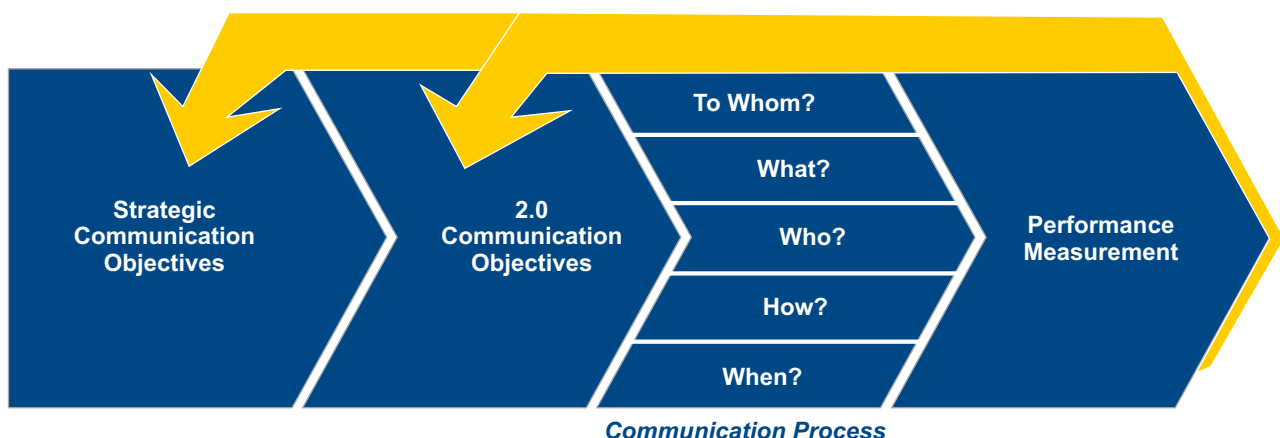
After the strategic statements, the bank needs to implement a consistent and effective communication process in order to achieve these targets. This process should answer to the following questions: to whom, what, who, how and when.

- Firstly the financial institution identifies **to whom** the communication is targeted (customers, employees, ...). The target audience can be grouped according to several dimensions (needs, age, technological equipments, ...) and subsidiary clusters can be targeted with proper communication contents, messages and channels.

A challenging trade off occurs between the opportunity of targeting large groups of people and the contact management complexity when volume are too high.

- For each target audience the bank needs to define **what** to communicate in terms of contents and forms. Contents need to be aligned with the communication objectives and should be interesting and usable for the target audience. Complementary, the form of the messages should be appropriate for the recipients in order to build a relationship with them and establish a regular two-way channel.
- Another important phase of the communication process is to identify **who** communicates to the target audience. For instance, communication regarding investment strategies should involve the best financial consultants of the bank.
- **How** to communicate with the target is related to which tools and channels work properly for the financial institution. Here it is very important to understand the great potential of web 2.0 technologies which enable the bank to interact directly with the customers, get immediately their feedback and enhance clients collaboration and participation in the communication

Figure 3: Communication Design Framework



Source Arthur D. Little Analysis

process. For instance, the bank can create just the infrastructure where customers or employees are able to bring freely and spontaneously contents and share knowledge (virtual communities).

- The right timing of communication obliges the bank to define **when** it is important to start with the defined communication messages. Nowadays people want information right when they need it and so the bank has to settle the appropriate schedule in function of their preferred channels.

These five elements are the heart of a good process aimed at exploiting the communication advantage. The financial institution is challenged to align these five levers with the business goals.

The last step of the Communication Framework Design consists in measuring the performances of the communication process in order to evaluate if the taken actions are effective and identify the possible corrective tasks.

Some initiatives in banks around the world

1. An American Banking group created a Small Business Online Community that enables small businesses to exchange ideas and information, networking and benefiting from the experience of others. It is possible to join a conversation in a forum or posting thoughts in a review. The site includes columns by business experts and reader-submitted stories. The mission is to create a community where members gain knowledge and connections that give them a competitive advantage in developing businesses
2. A Spanish bank developed a personal money management solution very revolutionary in the way users manage their finances and make decisions in banking. The new tool can be installed on mobile devices as iPhone and provides instant snapshot of financial and non-financial information, aggregating all types of information relevant to the customer (such as electricity and phone consumption). Customers will therefore have a global overview of their household economy, enabling them to manage their savings. They can also compare anonymously their finances with a group of their choice (similar customers cluster), allowing them to make a comparison of different expense categories with the chosen group
3. An Italian bank designed a website where teenagers can describe how their ideal bank should be. This direct communication channel with young people changed completely the bank approach with this customer segment through the use of web 2.0 tools, such as community and forum. Collecting all the posted inputs and messages, the bank acquired important information and spurs on how to design financial products and services fitting young needs
4. A leading American banking group set up a new social media strategy. In order to promote its credit card to students, the bank entered into a partnership with Facebook building a direct and positive relationship with customers. Another innovative initiative is the use of Twitter to answer customer questions, while providing customers with the ability to send a private message containing their telephone number to arrange for an agent callback.

Communication Positioning Matrix

Arthur D. Little developed the Communication Positioning Matrix that helps organizations to establish the communication strategy roadmap starting from their current positioning according to medium / long term business targets.

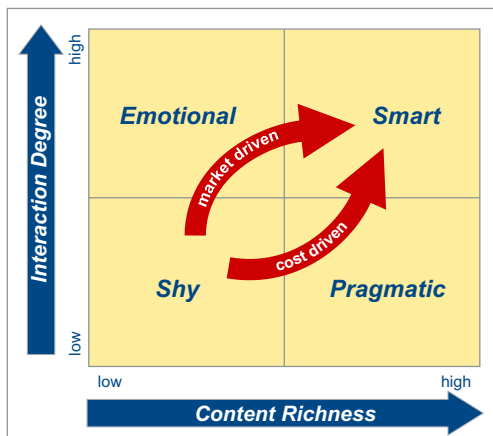
This matrix is characterized by the following dimensions:

- **Interaction Degree.** High degree of interaction is ensured if people can participate in the communication process adding contents or sharing their own views. In this case the financial institution is ready to manage a bidirectional communication flow and face the discussion in a constructive and respectful way. Then the interaction decreases when people become more “passive” and the financial institution messages have a one-way directional feature. The interaction degree is strongly related to the adoption of technological tools that can enable banks to create a real interactive communication (web, mobile, etc.).
- **Content Richness.** As communication results in a process of transferring knowledge from one to another, contents cover a central role and financial institutions should be properly equipped to enrich them. Banks need a structured process aimed at adding new knowledge and experience to their contents through people (employees, customers and suppliers) participation and sharing.

The Communication Positioning Matrix sets four key communication states (see Figure 4):

- **Shy.** Communication is limited to institutional messages with a top-down approach. Their interaction with customers and, internally, among employees is very low and no significant knowledge is produced or codified by these organizations.
- **Pragmatic.** Communication is recognized as a value; they designed a formal communication management system. These banks result to be very poor in interaction degree as they invest only in unified communication systems for cost efficiency. Top management doesn't clearly understand the value of interacting with their customers or creating an open organization. The flow is still top-down.
- **Emotional.** Communication is the mean to create strong relationships with their customers and to deploy a new open organizational structure between customers and employees. Investments in social network and community tools do not go with a comprehensive approach to the communication process.
- **Smart.** Communication model is a two-way paradigm that enables participating in knowledge creation and sharing. Customers are confident that can interact with the bank wherever they want and however they prefer. CEOs fully capture the opportunity of this new communication age and clearly envision the innovation path to chase.

Figure 4: Communication Positioning Matrix



Source Arthur D. Little Analysis

- **Market driven.** The “shy-emotional-smart” path is usually sponsored by Marketing Departments that understand the communication value and want to adopt these new initiatives toward current and potential customers.
- **Cost driven.** The “shy-pragmatic” path is usually sponsored by IT Departments that decide to launch unified communication programs in order to reduce infrastructure spending achieving efficiency targets. The “pragmatic-smart” shift takes at a second stage.

The Enterprise 2.0

The communication model is supported by new technological tools recapped with the name of Enterprise 2.0.

It's useful to provide a quick insight into this new model and create a constructive link with the communication model so that all business units in the financial institutions can speak the same language and find together the appropriate strategic actions to take.

Enterprise 2.0 is a model centred on people (customers, employees, suppliers and other stakeholders) aimed at collecting pieces of knowledge in a whole, promoting consistent and quick knowledge sharing.

This paradigm encourages financial institutions to promote integration and collaboration, create, mobilize and share knowledge in a structured and dynamic way.

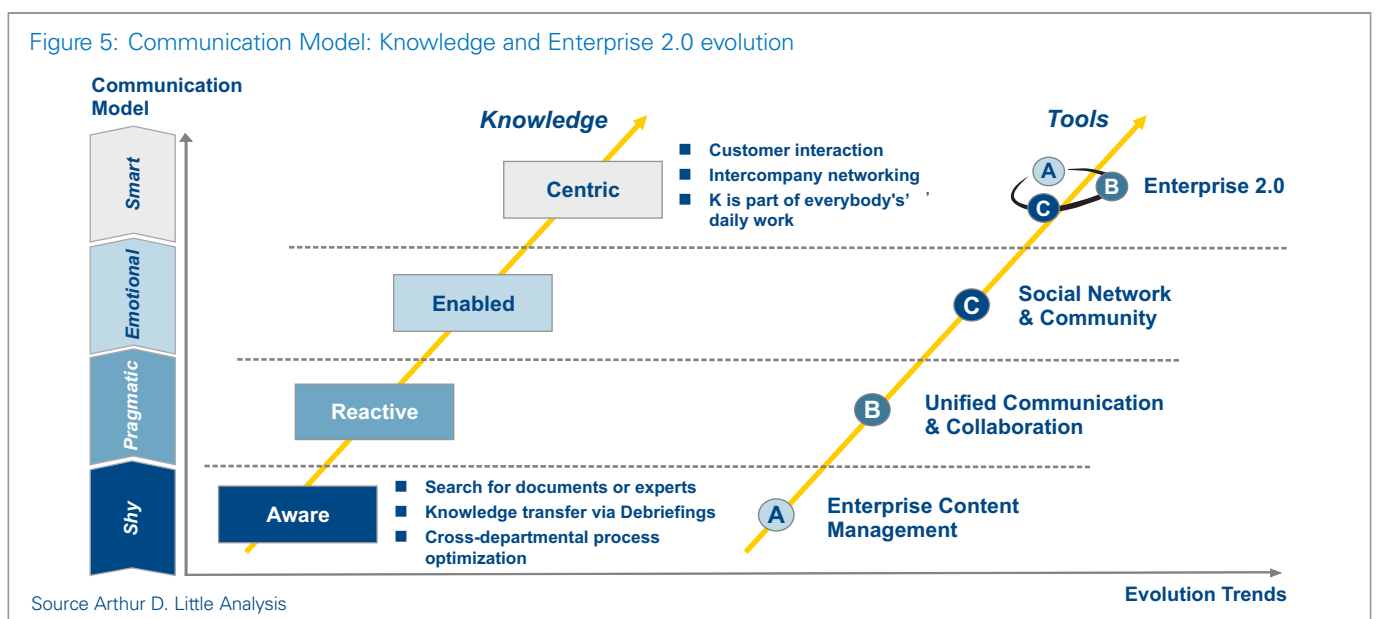
It is useful to classify Enterprise 2.0 tools in 4 different clusters:

- a) **Enterprise Content Management** is the most mature cluster and it related to document management system (forms, financial reports, sales information, contracts, client dossiers, files, etc...).
- b) **Unified Communication & Collaboration** tools facilitate both internal communication to employees and external communication to customers and third parties.

- c) **Social Network & Community** represents the most innovative initiatives aimed at enhancing relationships and networking inside and outside the bank.
- d) **Enterprise 2.0:** a real customer integration is guaranteed, intercompany networking is qualified and knowledge is a part of everybody's daily work.

Each Enterprise 2.0 cluster, see figure below, enables a different kind of knowledge: this represents the link between the communication model and the advanced technological tools that banks can implement to find the right position in the Communication Positioning Matrix. Thinking about Enterprise 2.0 and the communication models, shy financial institutions are probably just focused on Enterprise Content Management projects targeted to document management and intranet improvements, whereas pragmatic ones invest mainly in Unified Communication & Collaboration due to their focus on knowledge creation and cost reduction.

Emotional financial institutions, on the other hand, will have their marketing staff employed in the sponsorship of new and innovative Social Network & Community tools in order to enhance relationships with their customers. Only smart banks are able to face up consistently the Enterprise 2.0 clusters and exploit the communication advantage.



“The words of language, as they are written or spoken, do not seem to play any role in my mechanism of thought. The physical entities which seem to serve as elements in thought are certain signs and more or less clear images.” Albert Einstein

“The great creative eras were those in which communication had become adequate for mutual stimulation by remote partners.” Claude Levi-Strauss

“The strong man is the one who is able to intercept at will the communication between the senses and the mind.” Napoleon Bonaparte

“Words ought to be a little wild for they are the assaults of thought on the unthinking.” John M. Keynes

“I’m a great believer that any tool that enhances communication has profound effects in terms of how people can learn from each other, and how they can achieve the kind of freedoms that they’re interested in.” Bill Gates

“Works of imagination should be written in very plain language; the more purely imaginative they are the more necessary it is to be plain.” Samuel Taylor Coleridge

“We must have a better word than “prefabricated”, why not “ready-made”?” Winston Churchill

“Good communication is as stimulating as black coffee, and just as hard to sleep after.” Anne M. Lindbergh

“Who does not know another language, does not know his own.” Goethe

Delivering ever-more effective solutions to the customers under tighten regulations and fierce competition will be the competitive dilemma for top managers of financial institutions.

If ever there was a time for innovative thinking, that time is now.

At Arthur D. Little, we believe that exploiting the communication is a great opportunity for financial institutions to master complexity in a rapidly changing environment. Our experienced approach helps financial institutions to capture this advantage and identify their proper strategy.



Contacts

If you would like more information or to arrange an informal discussion on the issues raised here and how they affect your business, please contact:

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Arthur D. Little

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