

Beyond “Products & Services” in Banking

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experience is everything

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No industry has more commoditized itself over the past three decades than banking. Banks pushed people out of branches to use automatic teller machines in order to reduce personnel costs. They pushed them out of branches – the one physical space where they could actually control the experience provided to customers – to use telephone response systems, again in a bid to save money.

They pushed them out of branches and onto the Internet to further reduce transaction costs. That's no way to create a lasting relationship. Is it any wonder consumers treat financial offerings as mere commodities to be bought and sold on price, price, price?

Consider, however, a true commodity: the coffee bean. If you convert its commodity price from a per ton to a per cup basis, you will find that a cup of coffee costs just two or three

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cents for those who treat it as a commodity. When a manufacturer roasts, grinds, packages, and puts those same beans on a grocery store shelf, turning them into a physical good, the price jumps to between five and 25 cents a cup (depending on brand, quality, and package size).

Brew the ground beans in a vending machine, kiosk, or corner coffee shop somewhere and that service now sells for fifty cents to a dollar, maybe \$1.50 per cup.

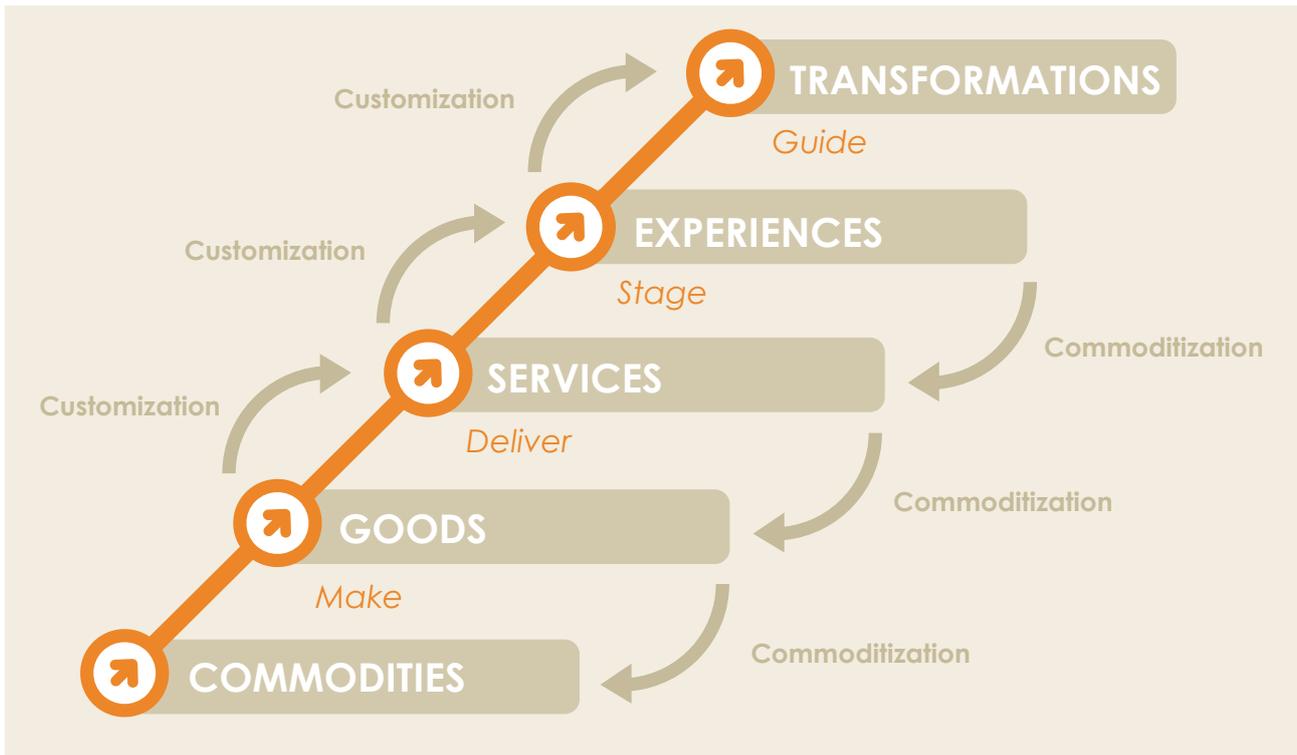
But serve that coffee at a Starbucks or other experiential coffee shop – where the ordering, creation, and consumption of the cup happens with a sense of theatre and within an inviting environment where people want to hang out – and consumers gladly pay anywhere from \$2 to \$8 for each cup. Businesses that ascend to this fourth level of value beyond commodities, goods, and services establish a distinctive

experience that envelops the purchase of the coffee, increasing its value (and therefore its price) by several orders of magnitude over the original commodity.

A New Level of Economic Value

Experiences are in fact a distinct economic offering, as distinct from services as services are from goods. Experiences result when a company uses tangible goods as props and intangible services as the stage for engaging each customer in an inherently personal way, and thereby create a memory, the hallmark of every experience. Experiences include vacationing at one of Disney's theme parks around the world, dining at theme restaurants such as the Hard Rock Cafe, staying at boutique hotels like one of Ian Schrager's properties, shopping at experiential destinations, such as Times Square in New York – and sipping a cup of coffee at the ING Direct Cafe.

Dutch bank ING's North American arm (now owned by Capital One) decided that the industry was so commoditized that it didn't even bother to create branches, choosing to work with customers over the phone and the Internet as so many had become accustomed. But it did want to create places where people actually wanted to spend time talking with bankers, so it created a number of cafes in the US where "financial baristas" serve coffee as they engage visitors in conversation about their financial needs and explain ING Direct's capabilities for savings accounts and mortgages. The cafes work, generating scores of millions of dollars in new



accounts every year at zero cost to ING Direct, for it created places so worth experiencing that customers gladly pay for their coffee, tea, biscotti, and sundry items of memorabilia (mugs, pens, hats, bags, and the like) – so much so that the purchases cover the cost of the places.

Customer Experiences of the Unpleasant Kind

Most banks around the world find themselves so far removed from this fourth level of economic value that they must heed a fundamental principle: The easiest way to turn a service into an experience is to provide poor service – thus creating a memorable encounter of the unpleasant kind. And the surest way to provide poor service is to treat individual clients via rote, impersonal activities that do not vary no matter who they are or what they really need. Customers have received such treatment ever since service providers embraced the very same principles of mass production that manufacturers used to dramatically lower costs. And it's become even worse as the forces of commoditization that hit manufacturing now attack services.

But the opposite principle holds true: mass

customizing a service can be a sure route to staging a positive experience. If you design a service that is so appropriate for each particular person, a service that is exactly what the customer wants and needs at this moment in time, then you cannot help but make him go “Wow!” and turn it into a memorable experience. And that is key to forming lasting relationships with consumers. It's not about the “products and services” you want to push out to consumers (especially since banks actually have no “products” and generally commoditized services); it's about creating unique experiences within them based on knowing more about consumer wants and needs than anyone else – perhaps even more than they know themselves.

Going Beyond Experiences

So what happens when you customize the experience itself? When you customize an experience to make it is just right for an individual – providing exactly the experience he needs right now, at this moment in time – you cannot help but turn it into what we often call a “life-transforming experience,” one that actually changes that individual. As the accompanying figure makes clear, this fifth level of economic

value is transformations, which companies build on top of experiences just as they build experiences on top of services.

With transformations, the economic offering of a company is the individual person or company changed as a result of what the company does. With transformations, in other words, the customer IS the product! The individual buyer of the transformation essentially says, "Change me". The company's economic offering isn't the materials it uses, nor the physical things it makes. It's not the processes it executes, nor the encounters it orchestrates. When a company guides a transformation, the offering is the individual.

That is what consumers truly seek with their finances – even if they rarely look to banks for it today – for the simple reason that money is a means to an end. If you provide the end – helping individual customers understand and then fully realize their aspirations regarding their selves, their lives, and their families – rather than the means, then you will create much more value for your customers, and therefore much more economic value for your bank.

The idea of Mass Customization

So consider how you can combine mass customized solution packages with personal guidance and aspirational advice to help customers achieve their aspirations. Such outcomes rarely result from one life-transforming experience, but rather from a number of experiences that guide customers to meet multiple goals over several periods of time. Think of it in terms of a three-stage process. First comes diagnosis, where you elicit from your customers what their true aspirations are, and then agree on where they are today.

With the knowledge of that gap, you can then design the right solution package and series of experiences – the second phase – that in sum total yield the transformation they so richly desire. Do not forget the third phase: follow-through.

You need to follow through with your individual customers to ensure that the transformation takes hold, that they do in fact achieve their aspirations as circumstances change (including the overall market) over time, and sustain that transformation through time. And as you do so, you will also find that their aspirations grow and expand into new arenas, giving you ever-more opportunities thanks to the lasting relationship you have finally created by focusing on your customers' true needs, rather than on pushing your "products and services."

From Contractual Obligations to Lasting Relationships

Most bank dealings today provide the opposite of this. They are purely contractual, just as with true commodities. As ING Direct and other such banking exemplars show, however, moving from services to experiences provides the opportunity to get close to consumers and create lasting relationships with them. And how much more will consumers desire that relationship when you not only give them the experiences they desire but guide them into achieving their heartfelt aspirations for why they save, borrow, and use money in the first place?

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If you start with your consumers rather than your products and services, you can create a virtuous cycle. As you learn more about what each individual consumer wants and needs, you can better customize to meet those desires. When you mass customize your services, experiences, and transformations to consumers, they benefit greatly. When they benefit, they are much more likely to come back to you when next in need, which means you have the opportunity to learn more about them and mass customize to them. They benefit even more and therefore come back to you again, and so on and so forth until

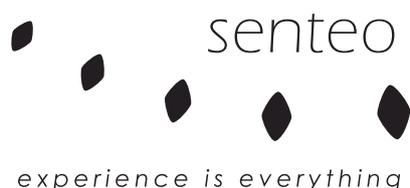
you share a very tight learning relationship. Such a relationship grows and deepens over time based on what you know about your customers and what you can do for them.

The benefits of such relationships with banks are many. Your customers tend to consolidate their financial lives with you, and you gain increased loyalty and revenue. You fulfill more of your customers' needs with your offerings, reduce risk based on a clearer picture of each customer's financial life, and have less to worry about with competitive offers from other banks, as your customers become less sensitive to pricing and much more sensitive to getting what they want and need.

Perhaps the greatest benefit, though, from staging financial experiences and guiding financial transformations is that you thereby change the world, one customer at a time.

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