

The Frontline Experience

A Research Report on
Improving Customer Relationships

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The Frontline Experience

A Research Report on Improving Customer Relationships

BAI recently conducted a research project — in partnership with Accenture and SAP — to identify and define the “frontline” experience for U.S. banks and their customers.

This report is a compilation of our findings, which includes recommendations that banks can utilize to enhance the customer banking experience.

OUR RESEARCH METHODOLOGY

Our methodology consisted of a mix of surveys and in-depth interviews. We garnered the thoughts and opinions of 3,748 customers, 38 executives¹ from national and regional banks, and more than 16,700 bank and credit union employees.

The research was designed to:

- Determine how customers define the concept of having a relationship with their bank
- Gauge the importance of customer interactions with branch staff to the relationship-building efforts of banks

- Determine customers’ satisfaction with these interactions.

KEY FINDINGS OF THE CUSTOMER STUDY

The Frontline Experience research asked a fundamental question: *Do retail customers really want to have a relationship with their bank?*

After all, it is the customer — not the bank — that decides if they will have a relationship.

We learned that:

- 69 percent of consumers are not receptive to the notion of having a relationship with their primary banking institution.
- Only 31 percent are receptive to relationship banking.

We further learned that:

1. Customers relate to banks in different relationship stages. This usually begins with customers having

¹ The retail banking executives interviewed for *The Frontline Experience* included heads of retail banking units and regional branch, delivery channel and marketing executives.

basic expectations from their bank (such as safe and accurate transactions), then an increased need for a service based relationship in terms of professionalism and fairness; customers finally reach a relationship pinnacle with their bank when financial advice is sought.

- There are five distinct segments of customers based on their attitudes toward banks. These customers range from the skeptical, to those seeking service and products, to the relationship enthusiast who is confident (or not) in his/her own abilities.

The fact that 25 percent of frontline branch staff is dissatisfied with key components of their employment is troubling when you align it to the fact that 69 percent of consumers do not want to a relationship. From the perspectives of customers, the primary deficiencies with banks' relationship-based approaches are not due to product or convenience-oriented factors — but rather to the quality of interactions with frontline staff.

KEY FINDINGS FROM THE BANKER'S STUDY

If it is your goal to improve your customer's frontline experience, research shows you must first improve your staff's frontline experience.

- 35 percent of frontline employees felt pressure to go beyond needs-based selling.
- 34 percent believe sales goals are unfair.
- 30 percent believe they are not properly prepared to sell.

Executives that participated in our research revealed a variety of approaches to address this disconnect between their com-

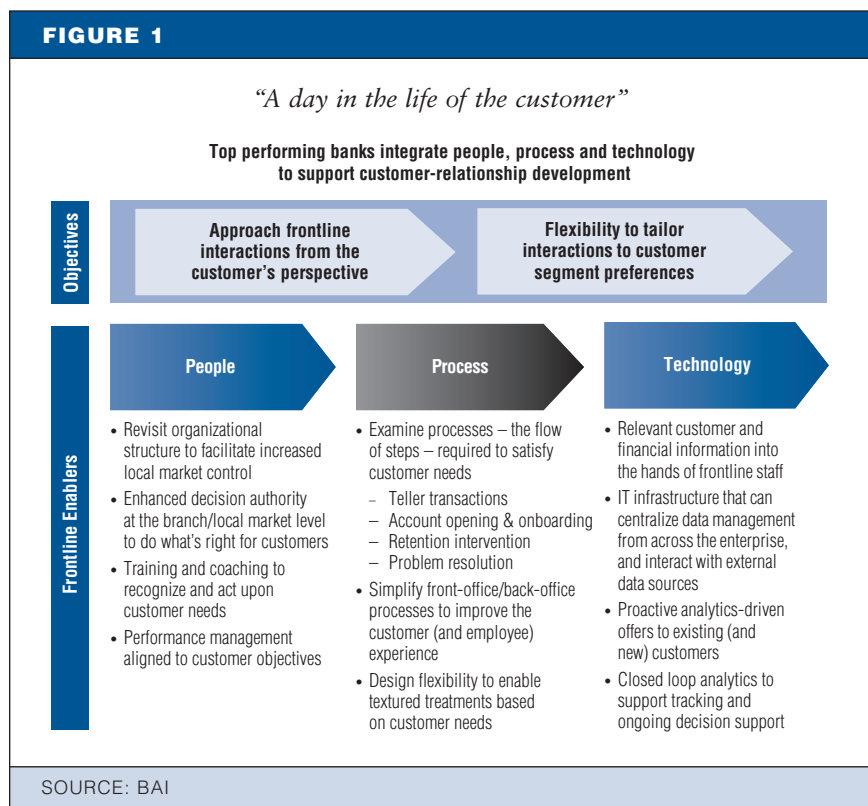
pany's sales goals and frontline employees' attitudes:

- Reduce workflow
- Make tellers responsible for service
- Introduce "soft skills" training (communication, probing)
- Empower employees to make decisions
- Provide budget dollars for local sales/marketing
- Establish best practices sharing programs.

HOW THIS INFORMATION HELPS YOU

By knowing what you need to accomplish on the frontline, you can then revisit your back office and make sure that your business processes, operations and technology systems are closely aligned with customer needs.

Customers are central to your growth and efficiency objectives. And your organizational execution must:



- **Integrate your business processes**
Your people, your processes and your technology should all work from the perspective of your customer.
- **Simplify business processes**
Keep your employees focused on your customers, not on satisfying internal business protocols. Technology must play a key role in simplifying, but only after a customer-centric business process is in place.
- **Standardize processes across the enterprise**
Give your customers a consistent, positive experience in every attended and non-attended channel.

Developing segment-specific business processes is a particular challenge given cost-to-serve issues and specialized treatment protocols needed to serve diverse segments. Our research shows that an executive can:

- Limit specialized business processes to a small number of customer segments.
- Have the necessary infrastructure to gather and disseminate information integrated into the bank's core processing system.
- Have the internal systems integrated and designed in a way that eliminates redundant data entry and processes.

The role of technology in support of your processes cannot be overemphasized. Technology should give all employees a single, integrated view of the customer — *this is the single most important imperative*. Additionally, technology must aggregate customer accounts to provide foundation for analytically driven relationship pricing.

Your core banking system will incur greater demands as you shift to a tighter, more enhanced customer-centric approach. Our research shows that:

- The tendency is to start with less challenging changes (such as organizational and cultural components) and to avoid information technology at the outset.

- In order to pursue your customer strategies, you must consider improving or replacing your core banking system.
- This need not be done wholesale; it can be done in an incremental manner.

In the end, through a disciplined approach of examining the people, process and technology components that underlie your customers' interactions with your bank, it is possible to improve all of your customer relationships — whether they are utilitarian customers or those seeking financial advice.

Customers Relate to Banks in Stages

Traditionally, the underpinnings of competition in retail banking have been convenience, product pricing, service quality and establishing trust between the bank and customers. At present, the potential to sustain competitive advantage through pricing and convenience has become increasingly difficult for many banks. It seems feasible only for banks that possess massive scale and/or superior operating efficiency.

Small wonder, then, that many banks are looking to differentiate themselves through the softer domains of service quality and relationship-building. Once reserved for private banking or high-net-worth individuals, relationship-building approaches have now migrated to the mass market, with the promise of delivering deeper customer loyalty and a greater share of the consumer wallet.

WHAT IS A RELATIONSHIP?

Every customer has some form of a relationship with his/her bank. But our research suggests that customers and bankers have inconsistent definitions of what constitutes a relationship.

For example, many banking executives interviewed for *The Frontline Experience* tended to refer to customer relationships in terms of *bank-oriented* benefits, such as:

- “Having a multi-product relationship with a customer” or
- “Gaining as much of a customer’s business as possible”

Only a few bankers defined relationship in terms of *customer-oriented* benefits, such as “relationships are all about doing what’s in the customers’ best interests.”

HOW THE CUSTOMER SEES THINGS

The consumer’s view is different. *The Frontline Experience* study found that the relationship between a customer and bank can be seen as a process that builds along a hierarchy of five levels of trust and confidence, based on the customer’s experience with the bank.

- **When Transactions Are the Focus** — On the first level of the hierarchy pyramid, basic security is the price of entry for all banks. The customer believes the bank will safeguard their money, assets and personal information. In tandem with safety, customers expect accuracy in transactions and record-keeping. Together, these two expectations are the hallmarks of a transaction-based relationship.
- **Service Becomes Important** — Once basic transactional experiences are satisfied, a customer’s confidence is boosted as interactions are handled in a professional and friendly manner. A subset of this experience is when the customer expects to be treated fairly

and for the bank to keep its promises. How he/she is treated by the bank has now become paramount.

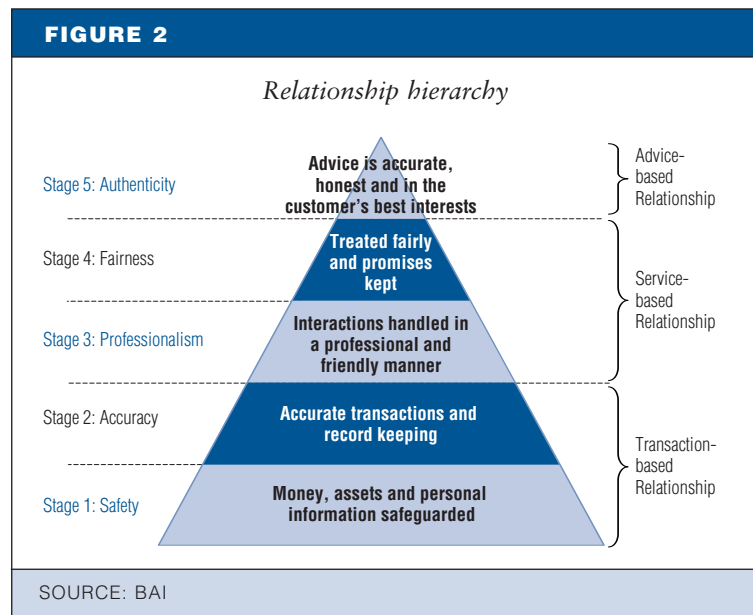
- **Trusted Advice Is the Pinnacle** — When a customer believes their bank's advice is accurate, honest and is made in the customer's best interest, this is the top (the fifth and final stage) of the relationship-building hierarchy.

CUSTOMERS DECIDE ON RELATIONSHIPS

Our research also shows that convenience, product features and pricing remain important. Some major customer segments indicate they are responsive to the convenience and product performance — they are just not interested in forming a relationship with their bank.

It is important to remember that having a banking relationship is a process ultimately determined by the customer.

So obviously, any excellent (or negative) experiences with their routine teller transactions and higher-value interactions with product/service specialists shape a customer's opinion about the bank.



Five Types of Customers

In *The Frontline Experience's* consumer survey, we discovered three basic strata of opinion about establishing relationship with a bank:

- Only 31 percent of customers are highly enthusiastic about the idea of developing a relationship with a bank
- 29 percent of customers are indifferent
- 40 percent of consumers are highly skeptical of the concept having a relationship with a bank.

These strata can be further refined into five distinct customer segments.

1. RELATIONSHIP ENTHUSIASTS (BUT NOT CONFIDENT)

Our research has divided the 31 percent segment of customers who are “Relationship Enthusiasts” into two groups — based on whether or not they are confident in their own abilities to make financial decisions.

Relationship Enthusiasts

- Skew to female and lower-value housing
- Low usage of savings and brokerage accounts
- High usage of drive-through and live CSR telephone
- Deposit/load balances 10% lower than market average

The “Not Confident Relationship Enthusiast” group represents 22 percent of the customer base.

Interested in Relationships

This is the segment where the bank has fulfilled all five stages of the relationship hierarchy, leaving these customers very receptive to advisory overtures from their bank. They are willing to consolidate deposit and loan balances with their primary banking providers.

Prefer People Over Technology

These traditional customers strongly prefer interacting with their bank through people rather than through technology. They view their banks as possessing financial expertise. They tend to have personal relationships with branch personnel and like to be recognized when they enter a branch.

Express Loyalty and Satisfaction

Overall, they are loyal and very happy with the service they receive from their bank. They display a strong tendency to patronize community banks. More than 80 percent of these customers are extremely satisfied with the experience they have with their primary bank; more than 70 percent are likely to recommend their bank to friends or family members.

In Summary: Keep Up the Good Work

Banks have an excellent opportunity to maintain their

relevance with this group of customers — as long as they allow them continued access to traditional channels in which they feel comfortable. Banks also have an opportunity to help these Not-Confident Relationship Enthusiasts navigate developments in financial products and technology to identify what is most relevant to their situations.

2. CONFIDENT RELATIONSHIP ENTHUSIASTS

We've named the second segment of customers, "Confident Relationship Enthusiasts." They comprise nine percent of the population.

Make Their Own Decisions

Members of this group possess high confidence in their own ability to make financial decisions. They will definitely listen to recommendations regarding financial services from their bank or from friends/family, but they are strongly independent and like to make their own decisions on financial matters.

Confident Relationship Enthusiasts

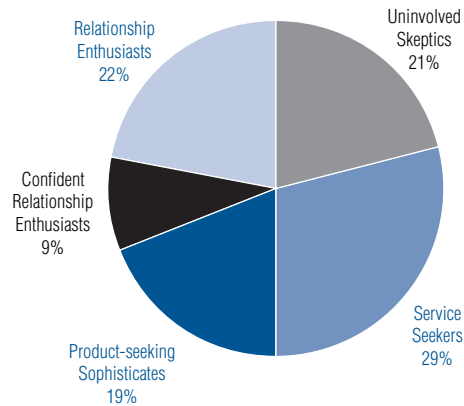
- 54% over 50 years old
- 20% are retired
- Slight female skew
- Lower usage of IRA, 401(k), credit card, student loans
- Lower ATM, foreign ATM, Internet usage
- Deposit/loan balances 2% smaller than market average

Prefer Branches, But Use ATMs

These customers do have strong affinities with their banks and value the interactions and recognition they receive from branch personnel. They strongly prefer branches, but in contrast to the Not-Confident Relationship Enthusiast segment, this group of customers will also use non-attended channels like ATMs and online banking.

FIGURE 3

The attitudes that consumers have regarding the establishment of a "relationship" with their bank can be broken into five segments



SOURCE: BAI

In Summary: Leverage Recommendations

Banks have an excellent opportunity to expand wallet share with Confident Relationship Enthusiasts, who are highly likely to recommend their bank to friends or family members. Banks should strive to provide relevant information and guidance to this group, but realize that this segment will make their own decisions.

3. SERVICE SEEKERS (RELATIONSHIP INDIFFERENT)

The 29 percent segment — which we have named "Service Seekers" — is indifferent to the concept of developing a relationship with their bank.

Choose Service Over Pricing

As the name implies, this segment is highly receptive to service-based value propositions. In fact, Service Seekers display the greatest willingness of all five segments to trade off product pricing and product choice in return for higher service quality.

Are Receptive to Branch Interactions

Branches are very important to Service Seekers. These customers want to be treated well when conducting business within branches and they enjoy personal interaction

with branch staff. In particular, the interactions that Service Seekers have with tellers are critical to their perceptions of service quality. They are also the most receptive to weekend and evening branch operating hours.

Do Not Give High Service Marks

Most are not satisfied with the level of service they are receiving. They also reported only average satisfaction with the transaction capabilities of branch staff, compared to a high rating by the Relationship Enthusiast segment. For this segment, banks have not been able to transcend the third stage of the relationship hierarchy.

Are Attracted to Incentives

Obviously, dramatically improving service quality would increase the resonance that banks have with this valuable group of customers, but it would also be relatively expensive and operationally complex. Yet, there is

Service Seekers

- Skew younger
- Above average student loan usage
- Lower IRA usage
- Lower home ownership
- Deposit/loan balances 9% larger than market average

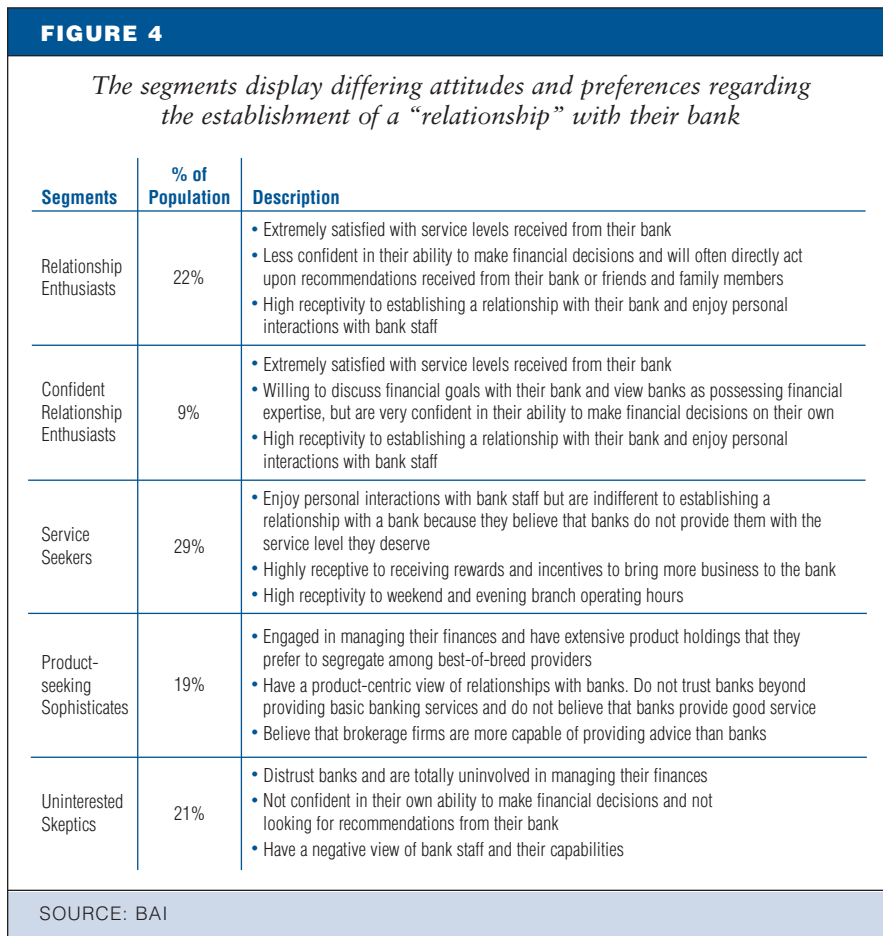
a less costly way to reach this group: rewards programs and incentives. Our research found that across the board, Service Seekers' preferences for all types of rewards programs were 40 to 60 percent higher than the national averages. New account premium/gift programs, targeted interest rate premiums in exchange for new product purchases or balance augmentation and debit card rewards programs are examples of incentives that will most likely appeal to Service Seekers.

In Summary: Entice This Group with Offers

The research demonstrates that Service Seekers have the financial wherewithal and will be receptive to bringing balances for the right reward. The research also suggests that banks should not unduly expend resources on the remaining 71 percent of the population because the customers in the other segments are not particularly drawn to such offers.

4. PRODUCT-SEEKING SOPHISTICATES

The 40 percent of consumers who are highly skeptical of the concept of having a relationship with a bank can be divided into two segments:



“Product-seeking Sophisticates,” and “Uninterested Skeptics” (which we discuss in the following section).

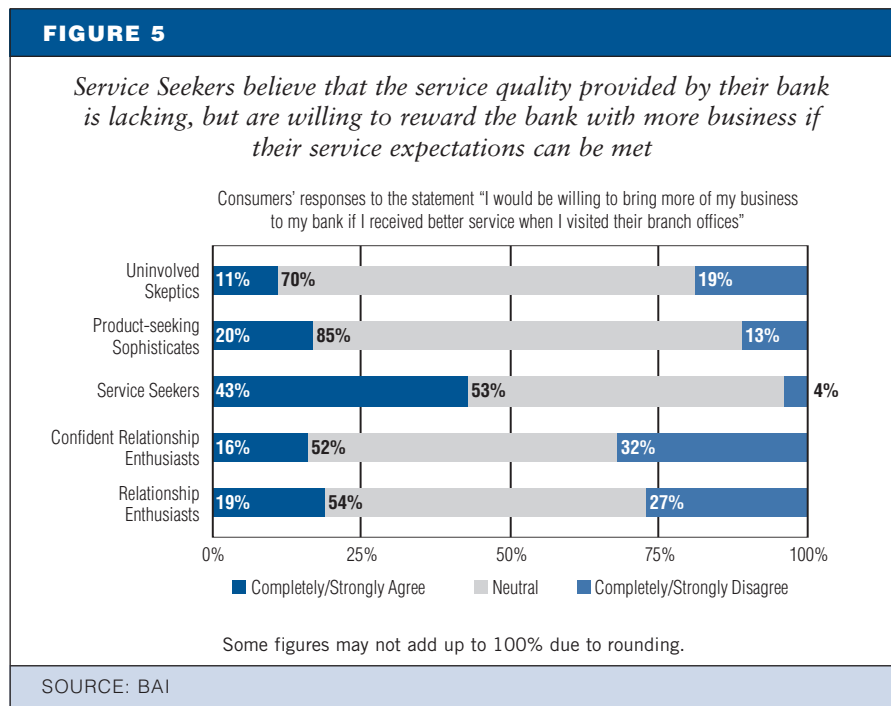
The source of skepticisms held by each of these segments can be traced to their broad dissatisfaction with bank interactions. Both of these segments generated service quality ratings for branch staff interactions that were significantly lower than the two Relationship Enthusiast segments and the Service Seekers previously discussed. Their “extremely satisfied” ratings ranged from a low of 36 percent to a high of 51 percent. These are remarkably poor scores given the tremendous resources that banks have allocated to branch process redesign and staff recruiting and training. Regrettably, these two groups have not even moved beyond the second stage of the relationship hierarchy.

Product-seeking Sophisticates

- Skew to middle age, male and higher incomes
- Highest percentage of home ownership and high-value homes
- Highest usage/balances in most deposit products
- Highest deposit/loan balances — 19% larger than market

Have Assets, But Do Not Trust Banks

Product-seeking Sophisticates comprise 19 percent of the population. They are highly engaged in managing their finances and are the most affluent and technologically savvy of the five segments. They are the customers most likely to be self-employed. They also have annual household incomes and investable assets that are 26 percent and 72 percent higher than the



respective national averages. Given their affluence, Product-seeking Sophisticates have extensive product holdings with a broad range of financial services providers. However, they do not trust banks beyond providing basic depository and lending services and they prefer to segregate their finances among a range of best-of-breed providers. They believe that brokerage companies are much more capable than banks of providing financial advice.

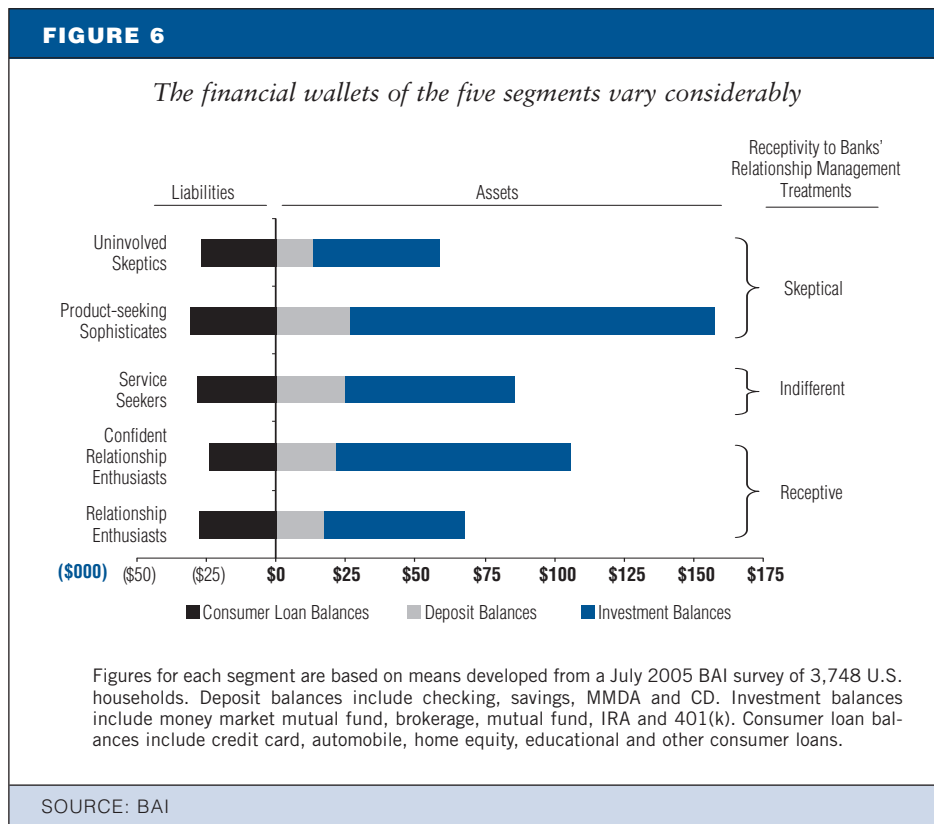
Seek Valuable Advice

Product-seeking Sophisticates are already knowledgeable about financial matters, but they continue to build upon their existing knowledge base and seek providers that can help them to do so. Such customers might entrust more of their wallets with a bank if an advisor provides information to help build their knowledge, reinforce the soundness of their approach, and even challenge their point of view. These skill requirements generally surpass the capabilities of the typical branch employee.

In Summary: Pass This Group's Criteria

Of all five segments, Product-seeking Sophisticates

are the least satisfied when conducting business and transactions with the staff of their primary bank's staff. If a relationship is to be developed with customers in this segment, banks must first earn their trust at the lower tiers of the relationship hierarchy before earning the opportunity to move on to the higher tiers. Two critical elements of the solution are to provide state-of-the-art online tools and financial advisors that pass this group's credibility criteria.



5. UNINTERESTED SKEPTICS

“Uninterested Skeptics,” represent 21 percent of bank consumers. Like Product-seeking Sophisticates, they are very cynical about the idea of developing a relationship with their bank. They are completely uninterested and uninvolved in banking and financial matters.

Uninterested Skeptics

- Lowest incomes
- No high-end housing
- Lowest rate of home ownership
- Highest incidence of homemakers

Are Burdened by Financial Matters

Uninterested Skeptics possess incomes and financial assets that are only slightly lower than the Relationship Enthusiast segment, so the lack of financial resources alone does not explain their high degree of skepticism

and distrust of their bank. For Uninterested Skeptics, dealing with finances is stressful, as they tend to be much more preoccupied with getting by, than planning for the future. They are concerned about what the future may hold and do not feel that they have been treated fairly by banks.

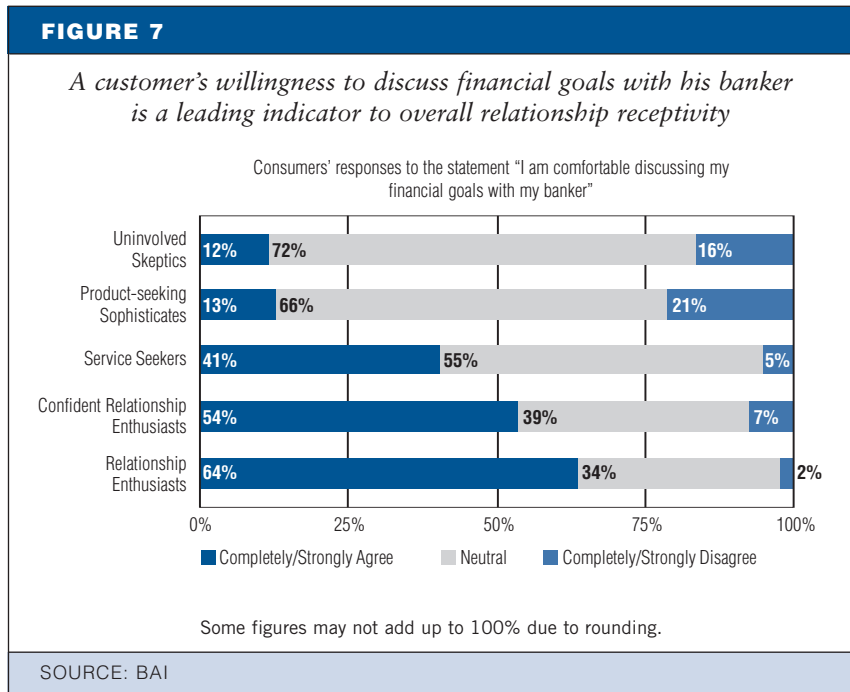
Feel That Banks Take Advantage

Due to their tenuous financial situations, Uninterested Skeptics are exactly the types of customers who have experienced the brunt of banks' fee increases. As opposed to Product-seeking Sophisticates, who view banks and bank staff negatively because of a perceived lack of expertise, Uninterested Skeptics harbor a significant mistrust of banks and their staff because they feel that banks have taken advantage of them.

In Summary: Combine Service and Pricing to Win

For banks, the best proposition for serving Uninterested Skeptics is to offer basic, convenience-oriented and inexpensive banking services. These services

should emphasize basic objectives such as paying bills, getting out of debt, establishing better credit and saving a little money each month. Free checking offers will be appealing to this customer segment, but more likely for reasons of financial necessity than emotive appeal.



Pursue Customer Segment Initiatives

Our research illustrates the importance of pursuing customer-segment based initiatives. Undoubtedly, implementing such a strategy becomes a complex exercise that adds to the already full plates of retail executives and frontline employees.

But, do banks really have a choice? Given the competition for customers and the need to grow organically, it seems clear that retail institutions will be forced to raise the bar.

WHO THE WINNERS WILL BE

Progressive banks will attempt to view relationship-building initiatives from the customer's perspective. Some will reap the rewards of this strategy, if their frontline staffs are equipped with the appropriate tools.

For others, a failure to change their business processes and approaches to customer interactions with the frontline will help perpetuate the commoditization of the retail banking business. This will likely lead to an outcome where these institutions become increasingly more irrelevant to meeting the broader financial aspirations of their customers.

FUNDAMENTAL STRATEGIC QUESTION

How can a retail bank *simultaneously* align its resources to:

- a. adequately serve those customers that want a relationship, while
- b. also satisfying the needs of the more utilitarian set of customers that simply want adequate convenience, products and service?

Rather than relationships, this utilitarian set of customers simply wants convenience, competitive products and good service. The strategic dilemma for banks is that many of these utilitarian customers are exactly the types of customers with whom banks would like to have relationships — they have large financial wallets and can be very profitable customers. These utilitarian customers define their “relationship” with their bank purely within product and/or service constructs, meaning that their bank is viewed as a commodity product/service provide and not as a value-added partner. The study further found that perceptions of inefficient, unfriendly and poorly trained branch staff are key drivers of dissatisfaction and even mistrust, in some cases, among the utilitarian consumers.

In *The Frontline Experience* research, the answers of many bankers to this fundamental question tended to revolve around technology investments, process improvements and more effective frontline employee selection and training.

Give More Control to the Frontline

For some executives we interviewed, the answer to this question of how to simultaneously serve the relationship and utilitarian segments involved deeper structural and organizational issues. These executives believe that more control and authority must be placed with branch managers and frontline employees in local markets in order for relationship-based strategies to take hold and yield the long-anticipated results.

One bank executive summarized his institution's position:

"I think we got too focused on efficiency. We centralized a lot of decisions and took some decision-making authority out of the branches. We reduced expenses, but the downside was that we damaged some customer relationships. Now we are trying to reverse that trend by giving some autonomy and authority back to our branch managers."

BANKING IS A LOCAL BUSINESS

The rationale here is that banking is ultimately a local business. The distance of a branch office from one's home or workplace is quite often the top reason consumers cite for selecting a bank. And the competitors that matter most to a local branch office are branches of other companies located within that neighborhood.

Staff within individual branches will know more about local customers, such as where they live, what they buy and the types of promotions they will find most appealing. Plus, each local market is different and there's no way that highly centralized management structures can be responsive to the relationship-building approaches that will work within local markets.

Executives assert that centralized data analytics and lead generation systems can surely *support* customer relationship-building programs, but they *cannot manage* them.

LOCAL CHALLENGES ACKNOWLEDGED

Yet, executives who advocate local market approaches acknowledge that there are challenges to this approach.

One is devising a way to provide local managers with appropriate information and guidance that enables their staff to provide heightened levels of service to high-value customers, while not alienating customers who maintain smaller balances.

A second set of challenges involves the communication difficulties that are inherent in any effort to delegate authority across a broad span of employees. Our research reveals that frontline employees are 18 percent less likely than senior management to feel comfortable communicating their concerns up the chain of authority.

A third key challenge is the frontline employees' lack of confidence in their authority to resolve customer issues. This was cited by 39 percent of frontline branch staff. It seems that even after more decision-making authority is given to the frontline, management must reinforce this by providing clear processes and substantive latitude. This will enable frontline personnel to fully address customer issues as they arise.

A recommended solution to these local market challenges: Improve the capabilities of frontline employees.

Reach Customers Through Employees

In a previous a research project (*The Frontline Factor*, 2004), BAI found that executives believe that committed, focused frontline staff and managers are the scarcest resources for cultivating long-term customer relationships. In fact, many bankers report that they are continuing to work on the proper alignment of coaching, training and compensation programs and shifting greater control to frontline staff in local markets.

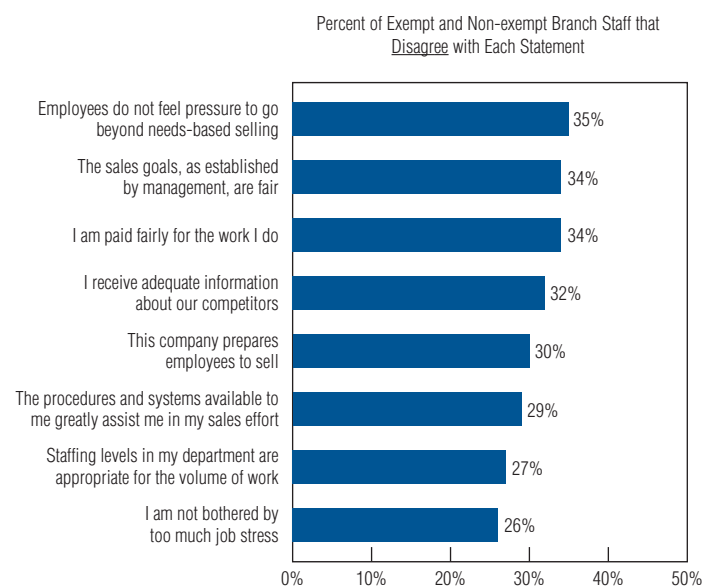
In our current *Frontline Experience* customer survey, our findings clearly show that branch employees and managers are instrumental to the success of bank efforts to build customer relationships. Indeed, the five types of customer segments (addressed in Chapter 2) are classified — to a large extent — by their widely divergent viewpoints regarding the effectiveness of frontline staff.

To find out whether employees feel they've been given sufficient guidance, process and tools, we assembled and analyzed a database of over 16,700 employees from more than 40 banks and credit unions that have participat-

ed in BAI's employee attitude and satisfaction surveys over the past 18 months. This database consists of survey responses from exempt and non-exempt branch staff, including tellers, sales and service staff, supervisors and branch managers.

FIGURE 8

Over 25% of frontline branch staff are dissatisfied with key support mechanisms that are intended to facilitate their ability to deepen relationships with customers



SOURCE: BAI

WHAT THE STAFF TOLD US

Our analysis revealed that more than 25 percent of frontline branch staff are dissatisfied with the key programs that are intended to equip them to enhance customer relationships — such as their employers' sales process, training, goal-setting, staffing and compensation programs.

These findings suggest that there are immense challenges facing the banks as they strive to attain their service and relationship goals. Most important, the numbers indicate that a focus on improving the customer's frontline experience must coincide with a substantial effort to improve the frontline employee experience.

One executive who participated in our research crisply assessed the situation:

“If there is one thing we must absolutely do to improve customer interactions and the customer experience, it's improve the employee experience.”

Initiatives to Improve Frontline Capabilities

Our research found that 35 percent of frontline employees feel pressure to go beyond needs-based selling. One frontline employee said:

“I feel like I’m being invasive and overstepping my bounds. The sales process is too pushy. I feel like I’m being forced to meet certain sales goals even though they may not be in the client’s best interest.”

Our analysis of the employee surveys suggests that a number of factors — misaligned goals and incentive programs, inadequate training and pressure from an immediate supervisor — require executives’ immediate attention.

As many as 34 percent of frontline employees believe that the sales goals established by management are unfair and 30 percent believe that the frontline is not properly prepared to sell.

Our research reveals several initiatives that executives should consider in order to improve frontline staff engagement in relationship-based strategies.

RE-TRAIN SOFT SKILLS

The Frontline Experience research suggests that banks should immediately require training that goes beyond basic product and service quality education to address

soft skills (communication, probing, etc.) and provide frontline staff with competitive information. Revised soft skills training is necessary to address the unique needs of the five customer segments.

The process can begin with aligning new employee selection practices with the personalities and aptitudes needed to effectively communicate with the five customer segments. Training and coaching programs could be designed to provide frontline employees with information and skills which recognize that there is no one-size-fits-all approach to cultivating customer trust and confidence.

MAKE SURE THE CUSTOMER COMES FIRST

Frontline staff workflow considerations should also be examined, since incorporating the segmentation approach into relationship management practices will have productivity implications.

This could include viewing customer-facing interactions from the customer’s perspective, exploring ways to simplify the transactional aspects of frontline employees’ jobs so they have extra time to interact with customers in an exploratory, needs-based manner.

A needs-based approach also involves providing frontline employees with actionable customer information that can be used to initiate dialogues with customers.

The implications of migrating to a contextualized relationship management approach are far-reaching and could certainly extend into a similar set of examinations regarding performance management, goal-setting, customer satisfaction measurement and senior executive communication.

CONSIDER YOUR EMPLOYEES' STRESS FACTOR

At the same time, bankers need to address employee concerns regarding workload and job stress.

A total of 27 percent of frontline branch staff believe that staffing levels are not appropriate given the volume of work; 26 percent cite excessive job stress.

A major contributor to stress is the requirement to simultaneously balance customers' service quality and transaction efficiency demands with banks' operational and compliance procedures. Twenty-nine percent of frontline staff stated that the procedures and systems that are intended to assist sales process are ineffective.

TAKE A LOOK AT MANAGEMENT

The results of our frontline employee surveys reveal a familiar scenario for banks. Low-paid frontline employees deal with heavy workloads and rigid rules to help guarantee transaction accuracy, but these same rules hinder relationship development. With good intentions, bank management has layered on additional responsibilities for customer relationship-building.

However, at the same time management too often fails to adjust workloads, provide adequate training, mentor effectively or supply tools that enable frontline staff to focus on the customer and not just the transaction. This set of circumstances causes tension to build until many frontline staff leave, and then branch issues are compounded by the training requirements and lowered productivity that accompany high turnover rates.

It is difficult and complex for banks to perfect their understanding of customer segment needs and to gear

COMMON ACTIONS TAKEN TO IMPROVE THE FRONTLINE EMPLOYEE EXPERIENCE

- Reduce workflow by simplifying teller transactions and removing operational functions from the branch
- Make tellers responsible for service, and then for referrals
- Introduce "soft skills" training for frontline staff
- Implement agreed-upon service standards between the branch and supporting administrative and operational departments
- Empower employees by letting them make decisions (such as fee waivers or problem-resolution remedies) up to a certain dollar limit
- Provide budget dollars for locally developed marketing, sales and community involvement initiatives
- Establish best-practices sharing programs among branches and allow employees to visit other branches to learn

frontline execution to those diverse needs. But, in the end, banks have no choice but to take up this task by constantly searching and testing for answers.

In the words of one executive who participated in the research:

"If you are truly attempting to become an exceptional service provider, you're not doing it at the management level; you're doing it with the frontline staff that provides day-to-day service to clients. So we have to find ways to inspire that group of employees and help them develop pride in the organization and believe that their jobs are a critical component to our success."

Integrate Back-Office Vision with Frontline Execution

The most successful banks tend to have one thing in common: The objectives of executives, frontline employees and supporting back-office staff are closely aligned with customer needs.

What does this mean, particularly in light of the very different needs and preferences exhibited by the five customer segments that emerged from the study?

HAVE A CLEARLY DEFINED CUSTOMER STRATEGY

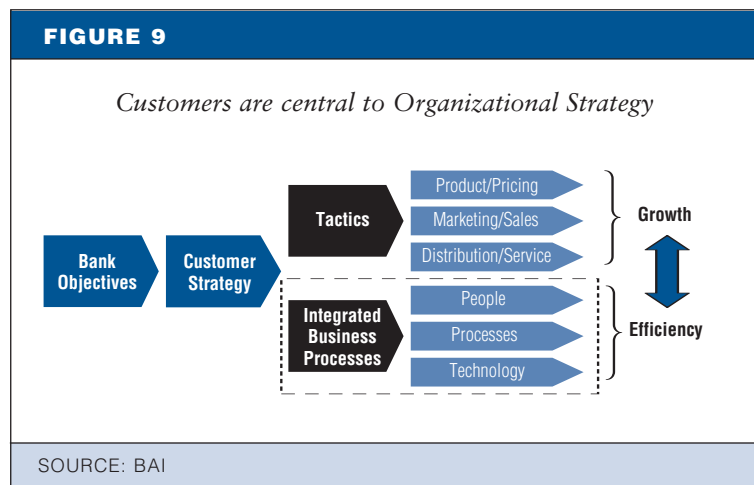
The effort to energize a banking franchise must begin with a clearly defined strategy that is grounded in the bank's various customer segments and their unique needs. Beyond the crucial first step of truly placing customers at the center of organizational strategy, three critical elements are needed to ensure that a customer-centric strategy actually delivers results.

- **Develop robust, integrated business processes** — This is the glue that will hold together the execution of strategy with the performance required by consumers.

As described in Figure 9, growth is driven by customer-friendly execution

tactics and integrated business processes. Integrated processes provide the foundation and the support systems by which product/pricing, marketing and distribution become customer-centric.

- **Simplify business processes** — This helps to ensure that frontline and back-office employees can focus on customer needs rather than internal process protocols. Technology must play a key role in the simplification of processes and the integration of processes with intelligence and customer information (needs, segments, behaviors, and propensities) — but only after a customer-centric business process and workflow is in place.



A CLOSER LOOK AT BUSINESS PROCESSES

While business processes provide the “oil” for a “well-oiled” execution engine, banks are well advised not to over-engineer them. Although such processes should be designed to address segment needs and the relationship hierarchy, care should be taken to ensure that they are not overly burdensome, particularly for frontline personnel who deal with customers face-to-face.

By simplifying these processes, banks benefit from the ability of frontline staff to spend more quality time with their customers. They also benefit by reducing the training and learning costs associated with new employees, a rather significant reality.

Rather than focusing on internal functional domains and organizational constructs independently, banks must focus on simplifying and standardizing processes across the enterprise. Only then can a consistent experience

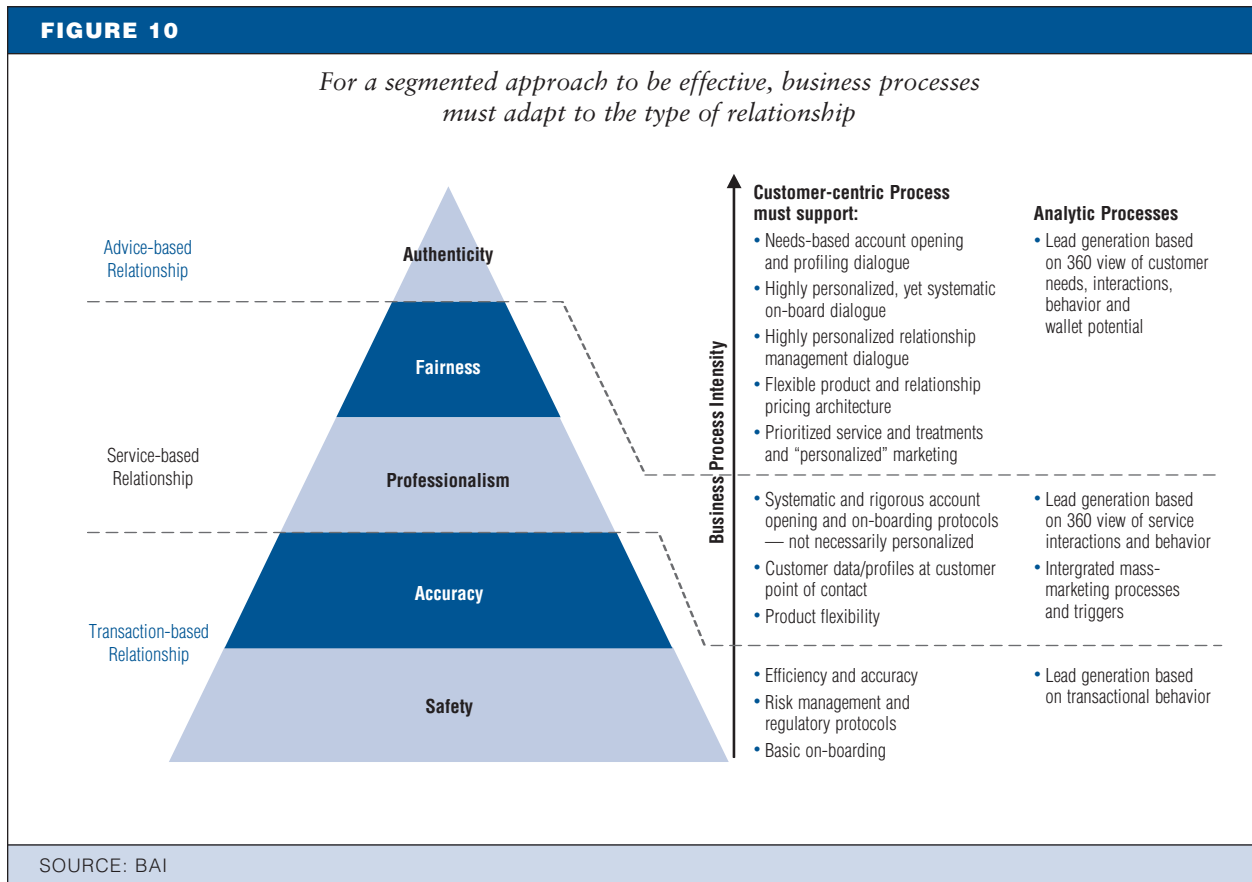
be expected by customers, no matter the branch or alternate channel with which they interact.

This is particularly important as banks’ footprints span expansive geographies and diverse constituencies. The consistency of a positive, standardized and simplified experience can help banks rein in operational costs without dampening the execution elements that support organic revenue growth.

REVIEW YOUR BUSINESS PROCESSES

The design of business processes should begin with customers, not one’s existing product and distribution legacy.

The inability of banks to integrate systems (a consequence of organization silos and mergers) causes far more manual interventions than should be needed. These manual interventions from skilled personnel



not only detract from high-value customer interactions, but they also increase the overall cost of administering such a business process.

Even more important is the customer perspective. If a customer gets the feeling that the bank is not integrated in its approach to managing the relationship, then the incentive to stick with the bank becomes purely performance based (i.e., rates and fees). Banking such a customer is difficult in the best of times.

Designing business processes that will enable banks to realize the benefits cited above must incorporate two key components.

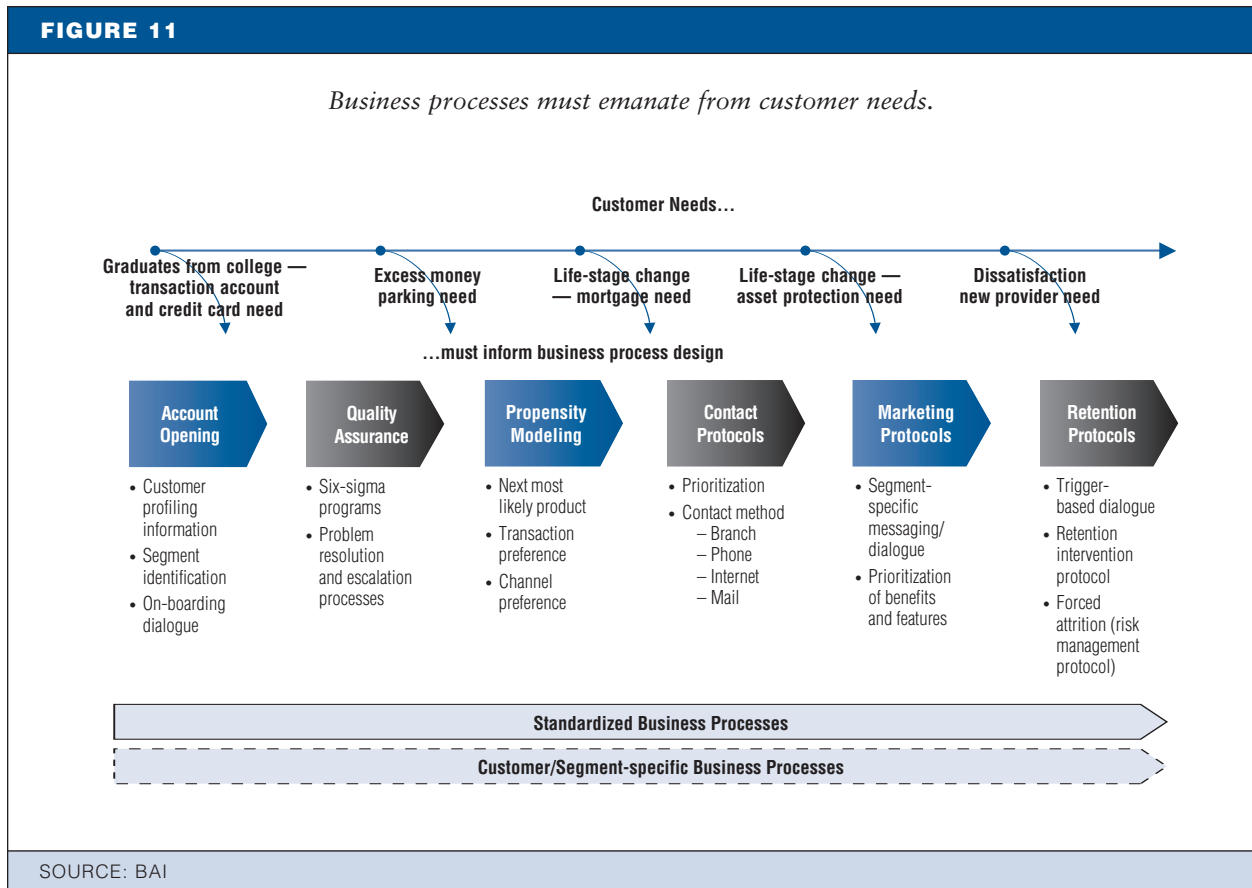
RETOOL CUSTOMER-CENTRIC APPROACH

First, all processes must emanate from general customer needs through a “day in the life of a customer” approach. For example, every customer, regardless of

his or her segment profile, still has some basic banking needs, typically associated with transactional-relationship hierarchy elements. At the core of these processes lie the basic foundation of a bank’s value proposition — information security, transaction accuracy and access.

As mentioned earlier, customer perceptions of inefficient, inaccurate and poorly trained branch staff during routine transactions are key drivers of dissatisfaction and even mistrust among the 69 percent of consumers that are either indifferent or highly skeptical of the notion of developing a relationship with their bank.

Thus, for banks to make progress in moving some portion of these indifferent and skeptical customers up the relationship hierarchy, it is imperative that the transactional elements of customers’ day-to-day inter-



actions with their bank be streamlined, simplified and executed consistently across the retail franchise.

KEEP SEGMENTS TOP-OF-MIND

Second, these processes must be tailored to the needs of customer segments, provided that one factors in the cost-to-serve dynamics. For example, interactive selling guides and triage processes can be extraordinarily helpful to frontline staff. These processes can better enable staff to differentiate the transaction-oriented customer from the advice seeker and tailor the conversation to the type of relationship that the customer desires.

Obviously, heightened relationship treatments for the advice seeker will be appropriate only if the financial potential of that customer offsets the cost to serve. But, if an interactive selling guide is driven by business rules that are integrated with business processes, then these difficult cost-to-serve issues (that are incredibly important to the bank, but not at all important to customers) become significantly easier for the frontline employee to manage in a manner that meets customer (and bank) expectations.

Clearly, it is a challenge to develop segment-specific business processes. This challenge is exacerbated as one goes up the relationship hierarchy — the advice seekers would require processes and technologies that are inherently flexible (i.e., complex to implement). To further complicate this issue, specialized segment-based treatment protocols require that the frontline staff thoroughly understand the nuances of segment needs and preferences, a tall order under the best of circumstances.

What can an executive do?

- For one, an executive might limit such specialized business processes to a small number of customer segments that fit into the bank's brand and personality.
- The executive might also consider having the necessary infrastructure to gather and disseminate information integrated into the bank's core processing system.

- Finally, the executive would have the internal systems integrated and designed in a way that eliminates redundant data entry and processes, a source of considerable disdain at the frontlines.

Any efforts to give frontline employees the tools they need to pursue strategies based on the segmentation of customers is going to involve providing them more and better access to the data the bank has on its customers. And, in turn, systems capable of providing data on the performance of both front and back office employees need to be accessible to managers.

THE ROLE OF TECHNOLOGY

In the spring of 2005, Accenture and SAP conducted a research project entitled, *North American Core Banking Systems Landscape*. They interviewed 36 senior banking executives from banks with assets greater than \$30 billion.

One of the key findings of that study was that the banks that are re-positioning themselves to build customer relationships tend to have the highest customer-centric focus and are more likely to improve or replace their core banking system in order to pursue their strategy.

The relationship between processes and the underlying supporting technology infrastructure cannot be overemphasized. A frontline banker who has an incomplete view of a customer is disadvantaged, no matter how well the bank's business processes are defined. Perhaps the one most important technology imperative to have is a single, integrated view of the customer. Similarly, technology can play a critical role in aggregating customer accounts and providing the foundation for analytically-driven relationship pricing and rewards programs. Taken together, these can form the foundation for creating durable customer relationships.

The *Core Banking Systems* study also found that bankers who are shifting their focus to one that is more customer-centric are more likely to start with organizational and cultural components because these

components, although challenging, are less difficult and costly to undertake than the Information Technology (IT) component.

The banks in the *Core Banking Systems* study reported they are addressing the technology issue incrementally instead of attempting the wholesale replacement of the core banking system. While only two of the banks interviewed were preparing to replace their core banking systems, the shift to a customer-centric strategy will put increasing demands on their systems because the needs will become increasingly complex. Instead of a single view of the customer, banks will need to do more complex tasks such as consolidated statements. Bank will also need to perform highly-complex tasks, such as relationship-based pricing and reward programs.

Make Relationship Segments Actionable

There are a number of ways to divide customers that comprise a market into different segments. In the past, when customers had fewer options, it was sufficient for institutions to segment their customer base using conventional approaches, such as demographic or product and channel usage data. Today's complex environment requires a more sophisticated approach to understanding customer needs.

In other mature, highly competitive industries, the companies that can identify and deliver against the key benefits and experiences that their target customers desire are the ones that capture a disproportionate share of profits. Companies such as Southwest Airlines, Nike, Starbucks and Dell serve as excellent examples of this approach, as do financial services firms such as Commerce Bank, USAA, Vanguard and Northwestern Mutual.

The first step that each of these companies has undertaken is to understand their customer segments better than their competitors. Through this understanding, they are better equipped to prioritize targets, design business processes and technology infrastructure, focus activities on the sales/service experiences that matter most to customers, and ultimately satisfy customer needs profitably.

PREDICTIVE INSIGHTS

The three most common segmentation approaches in retail banking are demographic, behavioral and attitudinal. While each approach has its advantages and disadvantages, only attitudinal segmentation provides sufficient predictive insight into customer needs, motivations and the experiences that will resonate.

By predictive insights, we mean an understanding of the “whys” that lie behind consumers' decisions, how consumers think, how they will respond to product, sales and marketing messages, and what they may do in the future. By building our perspective on how customers define the concept of having a relationship with their bank, we have chosen consumer attitudes to play the primary role in our segmentation.

While we fundamentally believe in the lead role of attitudes, we recognize the significant value of demographics and behaviors. First and foremost, banks have invested considerable financial resources in building operational and analytic databases that capture valuable internal and third-party demographic information and extensive customer behavior data. Second, demographic and behavioral characteristics help considerably in “finding” customers based on their targetable characteristics.

UNDERSTANDING YOUR CUSTOMER BASE

No matter what type of segmentation an institution decides to deploy, that the first step in making segmentation actionable is to understand what the bank's customer base looks like.

For example, Product-seeking Sophisticates represent 19 percent of the adult population in the segmentation generated in *The Frontline Experience*. It would be highly beneficial for an institution to understand whether its customer base is significantly over or under represented in Product-seeking Sophisticates. Such insights could influence a range of resource allocation decisions, including: marketing/brand emphasis, product management and pricing tactics, distribution planning and branch staff configuration and training.

In the case of an attitudinal segmentation, such as the one generated through *The Frontline Experience*, the best approach for understanding the composition of a bank's customer base is to develop a questionnaire and to survey its customers.

Ideally, the bank would gather a minimum of 4,000 to 5,000 completed surveys from its current customers and at least an additional 2,000 surveys from non-customers that reside within the bank's branch footprint. Surveying non-customers will enable the bank to determine if it has higher concentrations of certain customer segments than the surrounding marketplace.

USING THIRD-PARTY DATA

In addition to gathering a robust set of survey data on consumers' attitudes regarding relationship treatments and preferences for service and sales interactions, the bank should strive to overlay the database of completed surveys with customer-level demographic and behavioral data from internal and third-party sources. A bank's data warehouse, MCIF and transactional data files contain robust customer demographic, product ownership and other behavioral data that can greatly improve the actionability of attitudinal segmentation. In addition a host of external data

services providers can append a wide range of customer-level and geodemographic data.

Given customer privacy regulations, the current industry practice is to gain the permission of surveyed customers before marrying their survey responses with internal or third-party data. Our experience is that over half of surveyed customers will grant permission as long as the survey contains a statement which clearly communicates that the customer's survey responses and data will only be utilized for marketing research purposes.

SMART ANALYSIS OF CUSTOMERS

After all available internal and external data have been appended to the database of customer survey responses; the bank is now ready to conduct statistical clustering analysis to generate the attitudinal segments.

In addition to creating attitudinally-defined segments, the bank should also generate detailed profiles of the demographic and behavioral characteristics of the attitudinal segments and develop a predictive model that enables the bank to assign a customer into an attitudinal segment based on demographic and behavioral characteristics.

In other words, this model can be used without any interaction between the consumer and the institution to assign all of a bank's customers into attitudinal segments based on data that the institution already has collected in its customer files, or with demographic and behavioral data that can readily be purchased from data vendors.

Utilizing a well-designed consumer survey and analytics process should yield a demographic/behaviorally-derived model that is capable of predicting an individual customer's membership within an attitudinal segment with an accuracy level of 60 to 70 percent.

Once segment memberships have been assigned across a bank's database, the institution can retain customers' segment memberships in their systems and

apply it across multiple fronts. This, in turn can help enable the bank to achieve the following:

- Better alignment of in-person or telephone service efforts with how the customer wants to be served and relationship managed;
- Improved marketing communications — within centralized marketing initiatives as well as initiatives that are managed within local markets;
- More targeted and focused delivery of new and existing products and services.

Conclusion

Relationship-building in the financial services industry is a significant challenge. After all, it is the customer who decides if they want a relationship, not the other way around.

But within every challenge, there are opportunities for banks to achieve their customer relationship management goals.

The Frontline Experience research project has revealed that those banks that focus on —

- Enhanced training for their frontline staff
- Better alignment of their systems and processes, and
- Leveraging technology for smarter customer analytics —

will come out ahead of their competitors and will improve the frontline experience for their customers.

About BAI



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BAI is the financial services industry's leading professional organization focused on enhancing employee and organizational performance. Through ground-breaking research and an award-winning magazine, *Banking Strategies*, BAI provides the latest insights on complex, strategic issues in financial services. Through seminars, graduate schools and conferences — including the industry's premier event, BAI's Retail Delivery Conference & Expo — BAI reaches thousands of financial services professionals each year to deliver content designed around critical business needs and to facilitate vital connections between financial services professionals, industry experts and solutions providers. Focusing on business issues and performance drivers, BAI applies its extensive line of training, metrics and employee assessments to help clients leverage their most important asset — their employees.

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