

What Customer Needs Are - the New Paradigm

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Roy Morgan Research

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Today we would like to reintroduce you to the concept of the customer, and then introduce you to Roy Morgan Single Source - arguably the world's largest consumer research database - and show you how to go about identifying your profitable customers, and winning more of their business.

But first the context.



“AMP Bank takes on the Big Four.”
Financial Review January 3-4, 1998

“4.97% p.a. One year Flexi-fixed Home Loan. Ten years ago rates were three times this. Now you can lock in either 4.97%pa fixed for one year or 6.79%pa for three years. You'll also get building insurance, life insurance and a pre-approved Visa Card or MasterCard. It's all in our Stocktake Sale Pack. Offer also open to investors.”

The Age January 5, 1998

“The key sponsor of the scheme is Telstra, which is positioning itself to run a Dutch e-cash technology system called Chipper, alongside up to three rival schemes that may enter the market - Visa's Visa-Cash, MasterCard's Mondex and Belgian company Proton.” The Age January 8, 1998

There are moments in any business when massive change occurs, when all the rules of business shift fast, furiously and forever.

Andrew Grove, President and CEO of Intel, in his recently published book “Only the Paranoid Survive” calls such moments strategic inflection points.

A strategic inflection point can be set off by almost anything:

- mega competition;
- a change in regulations;
- even a seemingly modest change in technology.

In the banking business, we have all these and more.

The world of banking and finance has entered a new era. This new era is one which is defined by globalisation, technology and communication, reduction in traditional boundaries, and stronger focus on quality of service and customer relationships.

Globalisation means that efficient supply is increasingly taking precedence over geographic proximity. Global alignments are increasingly impacting on all service industries including financial institutions. The virtual organisation has become a reality.

Technology has increased the speed with which we do almost everything - from the speed with which a highway or a car must be built, to the speed with which new technology itself can be created. Technology has also increased both the speed and complexity with which information can be transferred and processed with dramatic impacts on the speed of communication.

If globalisation has removed or weakened traditional geographic boundaries, the combined impact of globalisation and communications/technology has weakened the boundaries which separated industries, eg a credit card is now in many ways doing what a bank does; a utility company which installs a direct line to its customers is potentially in the business of telephony; a manufacturer plus internet can be a retailer. There are opportunities and threats in abundance.

We believe today this industry - finance and banking - is at a strategic inflection point. Grove points out that, managed wrongly, a strategic inflection point can mean the end of the game. Managed right, it can turn into a powerful force.

Clearly, we all want to manage it right - so we have tried to address the topic of customer needs within this new paradigm.

If we look back over the kinds of research we've done over the years for various kinds of product development for strategic planning - determining directions, fine-tuning objectives, and a multitude of other problems we've been asked to help with - the one consistent element, the key, in all that research was the consumer.

- Who is the consumer?
- How does the consumer think, and make choices?
- What life goals and aspirations do they have?
- How do they see economic conditions impinging on them?
- What motivates them?
- What channels of communication reach them?
- What forms of communication move them?

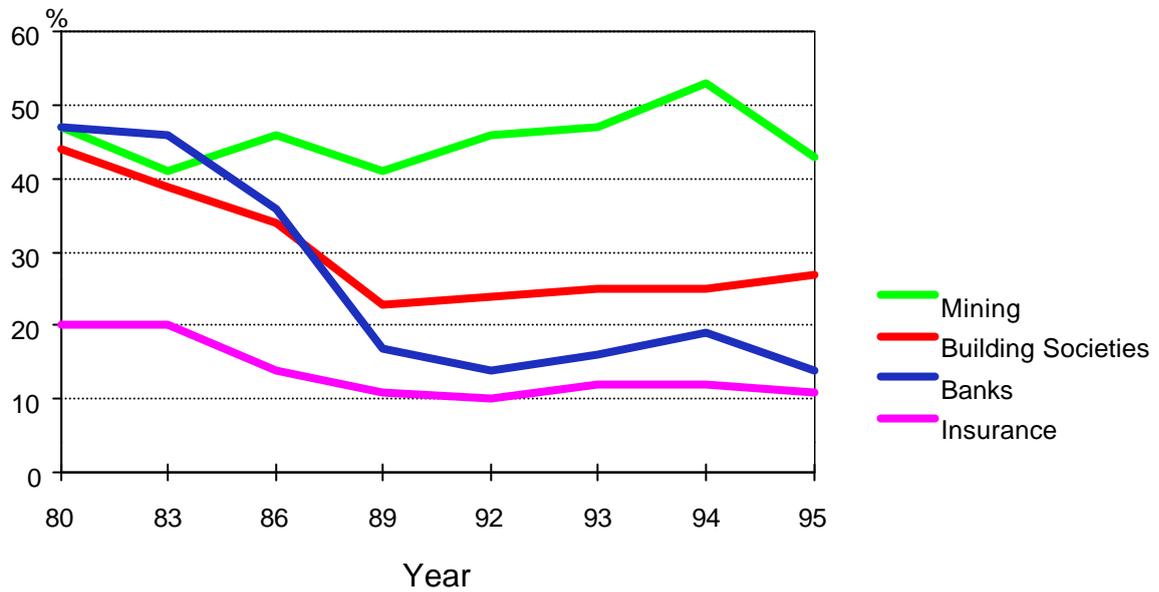
Today the focus on the consumer, or the customer, has been recognised within the banking and finance industry as an essential organisational value. And that an organisational philosophy which focuses on the customer - customer needs and satisfaction - is extremely powerful:

- in terms of maintaining current customers against competitors (the cost of winning a new customer is substantially greater than keeping an existing customer happy);
- in terms of "organic growth", ie gaining more of existing customers' business;
- as a way of differentiating an organisation in a market of competitors (other than just using price wars); and
- perhaps most importantly as a way of providing a powerful positive motivating vision for the people in the organisation.

What then are the customers saying about banks?

In the Roy Morgan Research Image of Industries Survey conducted annually until 1995, Banking headed the list of surveyed industries doing a poor job for Australia. In 1980, Banking topped the list along with Mining as industries doing a good job for Australia (47% of Australians believed the Banking Industry was good for Australia). In 1995, only 14% of people believed the Banking Industry to be doing a good job for Australia. This places the Banking Industry ahead only of Insurance Companies at 11% and Finance, and Hire Purchase Companies at 6%. (Details in Appendix 1).

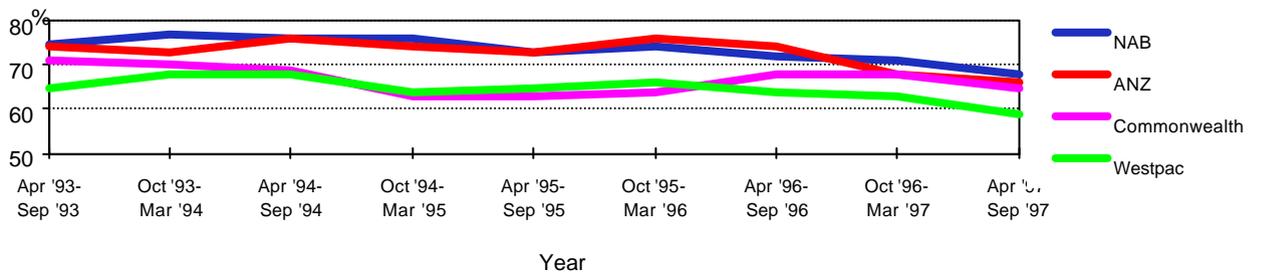
Figure 1 - Industries going a good job for Australia



Source: Roy Morgan Image of Industries Survey

Despite substantial effort being put into customer satisfaction and customer care programmes, evidence suggests a remarkable lack of improvement in customers' satisfaction with their bank. Continuous tracking of customers' satisfaction with their bank since 1992 has shown a slight improvement in 1993/1994, but a falling away since then. (Details in Appendix 1.)

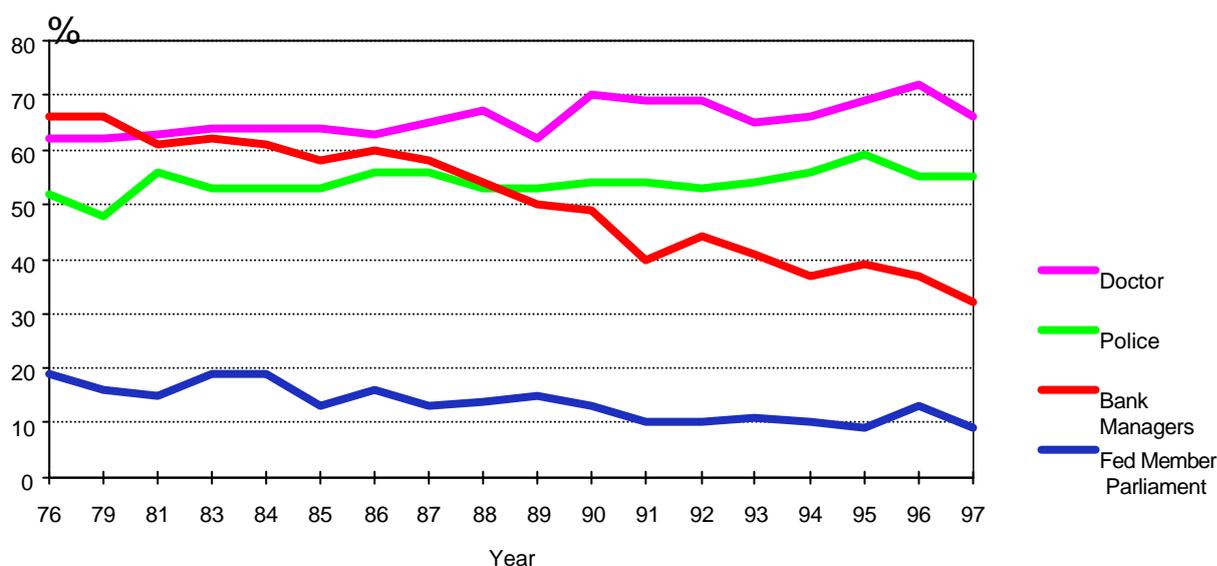
Figure 2 - % Satisfied or Very Satisfied with their bank(s)



Source: Roy Morgan Banking Customer Satisfaction Survey

And what about the ethics and honesty of Bank Managers? In 1976, Bank Managers enjoyed the highest rating for ethics and honesty. Among the Australian public: 66% rated Bank Managers as “very high” or “high” on ethics and honesty. (Doctors and Dentists were rated lower at 62%.) Today, the public’s view of Bank Managers has dropped dramatically - only 32% rate Bank Managers high on honesty and ethics.

Figure 3 - “Very High” or “High” Rating for Honesty and Ethics



Source: Roy Morgan Survey on Professional Ethics and Honesty

These research findings are interesting - but finally they are history. They represent a quantitative description of the view through the rear vision mirror.

They tell us little about how the Banking and Finance Industry will need to grapple with the plethora of issues and the increasingly complex environment within which it operates. They tell us little about the longer term impact on customers’ perceptions of banks, of ATMs and EFTPOS. In the long term will a greater sense of remoteness mean there will be increased paranoia among customers. (“Banks are the only institutions that don’t bill you - they have invisible charges”.)

The research findings provide little help in thinking about the information highway, and the profound, but as yet unidentified or unclear, implications for banking strategies. So how do we go forward? At Roy Morgan Research we believe the way forward is to look at what’s changed or changing, and what’s stayed the same.

We all know what's changing in the financial world - almost everything: products, services, channels, whole markets, ownership, regulations, etc. The one thing which remains "constant" is the reality that at the other end of all the multitude of offerings is a consumer - a consumer making choices.

More than ever before we need to understand that consumer - and the choices he or she will make. We must go beyond asking the customer what he or she wants from a bank. It is essential to understand what he or she wants from life, and to recognise that banks, financial institutions, utility companies, etc, are only a means to an end - instrumental in the person pursuing what he or she wants from life.

In Australia, it is not hard to get a really good understanding of people.

Australia is blessed with good information. We have the second best census information in the world (Canada has the best). We have the world's best single source database - for understanding customers, marketing, advertising, media buying and monitoring in the financial industry - Roy Morgan Single Source, incorporating banking and insurance behaviours, media (print readership, TV rating, radio listening) product usage and lifestyle activities, and Roy Morgan Values Segmentation¹ - a powerful psychological instrument to understand the choices people make.

However, while information can make all the difference, there are no simple answers - no substitute for thinking and planning.

Our view is that regardless of how information has been used historically within the finance industry, well-focused financial organisations are increasingly now taking a very strategic and practical approach.

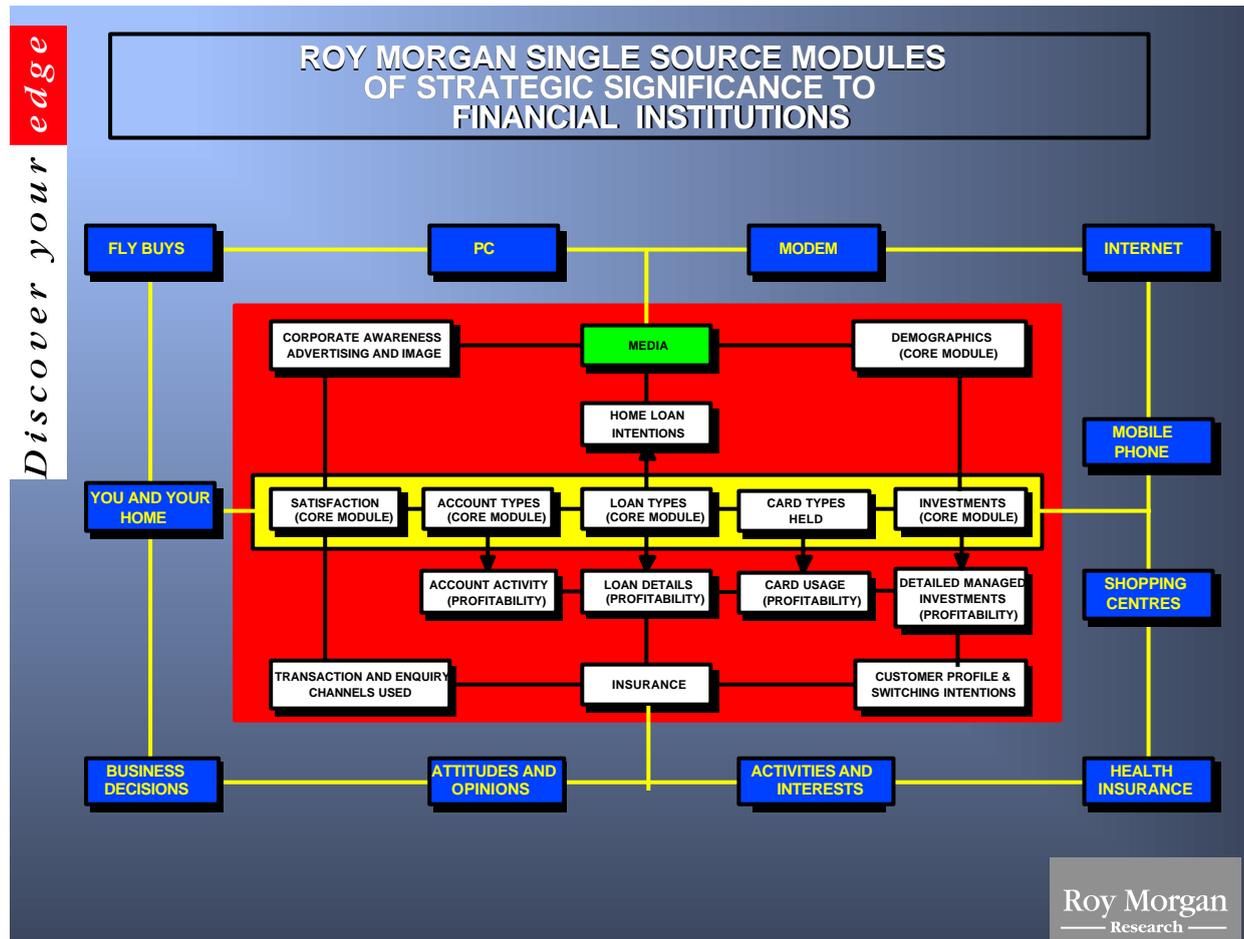
The focus is clearly on the uses to which the information will be put - decisions which will be made based on the data. What kind of decisions?

- "How do we identify and target those segments with the most profit potential?"
- "What are the most appropriate products and services for our target customers?"
- "How do we make sure our people understand the expectations of our target customers and through effective work processes satisfy them consistently better than our competitors?"
- "How do we communicate effectively with our target customer?"
- "Advertising - how much? What kind? Where?"

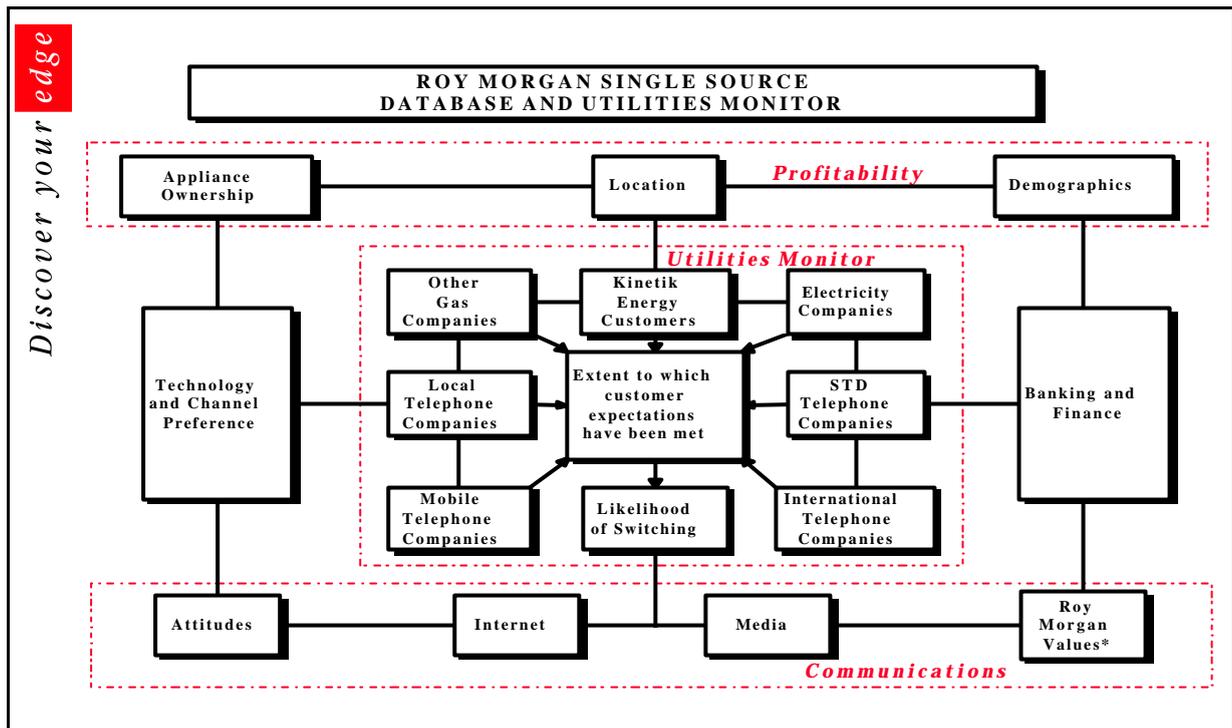
¹ The Roy Morgan Values Segments developed in conjunction with Colin Benjamin of The Horizons Network.

How will our well-tuned financial organisations of the near future use consumer information?

We know companies such as GE Capital, Merrill Lynch, Visa, Amex and Microsoft are looking at research data with the big picture in mind.



We know the more enlightened of the telephone and utility companies are also looking at the big picture - but from a different angle - looking to find their most profitable slice.



Imagine the situation of Telstra approaching Roy Morgan Research and offering to fund our total telephone bill for, say, 8%. Our annual telephone bill is \$1.4 million, we wouldn't need an overdraft at 10.5%. Imagine the situation where the NAB offered Roy Morgan Research access to their telecommunication network (marginally costed).

Core to a company's planning will be a thorough understanding of the customer. The well-tuned organisation will have a structured approach to defining roles of product development, bundling communication, advertising and media within the total mix.

The means is a single focus - from strategic planning through product development, marketing and media planning into media buying - on the customer.

This represents a significant change, a major transformation of culture. While the Banking Industry in Australia is some way along the process of change, there is a long way to go and there is no turning back.

This shift in culture from the “old” to the “new” can be typified as:

- focus on accounts → focus on customers;
- inwardly focused → outwardly focused;
- authoritarian → empowering;
- inflexible, closed → flexible, open;
- paper based → people based;
- organisation by “function” → customer orientation; and
- mass marketing philosophy → market segmentation.