



Successful Web Portals in Retail Banking

REGISTER	
Account No.	12345678901234567890
Account Type	Checking
Account Balance	\$1,234.56
Overdraft Protection	Yes
Direct Deposit	Yes
Auto Bill Payment	Yes
Online Banking	Yes
Mobile Banking	Yes
Branch Location	123 Main St, New York, NY 10001
Branch Hours	Mon-Fri 9am-5pm, Sat 10am-4pm, Sun Closed
Branch Phone	(212) 555-1234
Branch Fax	(212) 555-5678
Branch Email	branch@bank.com
Branch Website	www.bank.com/branch



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About the Authors

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Chapter 1

Getting the Vision Right

Retail banking web sites at the beginning of the new millennium represent a promising response to an increasingly competitive and unfamiliar environment. Traditional banking must change, and is changing, in response to decreasing regulation, eroding geographic and product boundaries, and the exploding amount of financial information available to consumers in one electronic form or another.

Our analysis of 1,753 U.S. bank web sites operating in the last half of 1999 suggests that these web sites are not as effective as they might be. Banks in general do not appear to recognize the strategic and operational implications of this tool for improving bank performance. If banks do recognize this, the difficulties in reconciling what brings success in an Internet world with what brings success in the bricks and mortar world seem too great to overcome. As a result, most bank web sites have turned in disappointing results.¹

The 1,753 banks covered in this study were evaluated on a scale of from 1 to 100 on each of the five following criteria: portal attractiveness, customer empowerment, community service, content from the consumer perspective, and entertainment. Detailed information about the results of our analysis are provided in later chapters. The logic supporting this classification is developed in Chapter 9.

The distribution of these scores (with the five components equally weighted) was bimodal. The first mode was comprised of about 200 bank web sites that were completely unsatisfactory on any of the indicated components. The second mode consisted of about 1,000 banks that scored well on some, but not all, of the survey components. The dispersion around each mode was relatively narrow. No bank scored in the highest category for all five components.

If banks only competed against themselves for the consumer's financial services dollar, this scale would not be appropriate. However, the essence of the Internet is that everybody gets to compete against everybody else. There are plenty of non-bank financial institutions on the Internet who are offering products and services in direct competition with banks. On the criteria used above, there are plenty of these non-bank financial institutions that are scoring in the 90s (Paytrust (paytrust.com, 95.6) Nextcard (nextcard.com, 91.7), GE Financial Network (gefhn.com, 94.1), and Intuit Corporation (quicken.com, 92.3)). The reasons for the relatively poor performance of banks in this arena and what can be done about it are the subject of this book.

¹ Jim Bruene reports that despite the dramatic increase in web banking sites since 1995 and the addition of six to eight million online bank users, "...the impact on industry market share has been negligible." *Online Banking Report*, 52, August/September, 1999, p.1.

Internet users are a tough audience. Experienced, knowledgeable, and sensitive to information overload, they surf with a cynical eye and quick hand on a mouse, ready to click away from whatever they find tedious, boring, or irrelevant to their needs. An opening page with a picture of the bank, leading to a list of products, and featuring a picture of the aging, overweight President suggests incompetence and ignorance. An opening page with four animated images, presenting 23 different products, categories, and messages that are arrayed in eight jazzy colors similarly suggests incompetence and ignorance. Worse, it's proof that the bank doesn't know how to help the consumer in this medium. While such is not the intention of the bank, it is the effect.

Contrary to what many people think, making effective use of the web is not a high-tech challenge, prohibitively expensive, dangerous, and beyond the competence of those who did not grow up with a mouse in their hands. Making effective use of the web is really an exercise in common sense and an extension of good business practice.

For most community banks, making effective use of the web in their business will be a requirement at some point in the future. The reason for this has to do with the increasingly competitive environment that will inevitably characterize the financial services industry. Even in the face of a substantial decline in the number of community banks, many community banks remain quite profitable today because they are blessed with an environment that has forestalled these competitive pressures or because they have developed strategies to minimize the effect of that competition. This does not mean they have won the war. They may be winning the battle, but the war goes on.

WEB SITES FOR SUSTAINED COMPETITIVE ADVANTAGE

The web is a tool that may be used to create competitive advantage and differentiate the bank from its competitors. Most community banks have already made significant efforts to increase the value and desirability of their products and services to their customers through a variety of policies and activities (e.g., extending banking hours, developing an automated telephone response system, providing complimentary products and services such as mutual funds and insurance, and "friendly" personalized customer representatives). Such approaches to creating a sustainable competitive advantage have had only mixed success because they are so easily duplicated by competitors. The web has a special role to play for community bankers because it represents a potentially quantum leap in the ability of the bank to interact with its customers. The leap is quantum because the web provides the capability for an extraordinarily comprehensive exchange of information on an exceptionally cost-effective basis. A successful bank web site will foster the creation of communities of interest that will serve to truly differentiate a bank from its competitors.

Successful web sites create value for present and potential customers. Saving customers time and money can create value. Making life more convenient and pleasant can create value. Respecting and honoring the integrity of the individual can create value. Value can be created through empowerment, giving individuals control over their choices, lives, and destinies. Value can be created through community service. Using the web as a fully integrated part of their business strategy, community bankers have the ability to increase the attractiveness of their products and services as a way to offset the increasing commoditization of financial products and services. Indeed, the web has sufficient potential to allow community banks to become even more profitable in an increasingly hostile and competitive environment.

WEB SITES AS A STRATEGIC COMPONENT FOR RETAIL BANKING

It should be clearly understood, the web is not an end in and of itself. If the point of being on the web is to be on the web, don't bother. Being on the web is meaningful only if it is an extension of the bank's business strategy. Numerous potentially successful business strategies are available to community banks. An effective business strategy requires a plan targeting specific market segments with specific goals in mind. Just "doing what you have always done" is not a business strategy. Nor is "doing what others seem to be doing." It may be that such "drifting" approaches to doing business were sufficient in the past. Present trends suggest this will not be so in the future. A community bank will be categorically unable to remain successful and independent in the coming competitive environment without a well thought-out business strategy, with the web as an integral component of this strategy.

As a part of the bank's business strategy, the web should be deployed in such a way as to have a measurable, predictable impact on the bank's operating results. A web site is not "pie in the sky" stuff. A web site should not be an unfocused technological development that produces vague results. Properly used, the web can focus laser-like on the needs and desires of specific market segments, the effects of which can be documented and quantified. If the web is used properly, it makes business sense. The costs associated with the use of this tool should result in identifiable revenue streams that return a profit to the bank. Correctly assessing both the costs and revenues associated with the use of the web is critical to assessing the propriety and effectiveness of the bank's business strategy.

Successfully implementing the use of the web as a component of the bank's business strategy is not a matter of all or nothing. Effective organizations generally should not make radical changes. Changes within the organization should strike a balance between preserving what the organization does well and adapting to new realities in the competitive environment. The integration of the web into the bank's business will have a profound impact on the culture of the

bank, its relationship with its consumers, and the products and services it offers. To be effective, such change should be gradual, impacting operations on the margin, and more directed toward improving existing products and services than creating new products and services. Properly implemented, a bank web site is a tool for doing things better, not necessarily for doing things differently.

RECOGNIZING THE POWER SHIFT IN RETAIL BANKING

The major impact of the web on retail banking is its potential for shifting power from the banking organization to the customer. Historically, banks have given great lip service to the importance of its customers. The reality has more often than not been that the bank was a price maker and the customer a price taker. To the extent an "imperialist" culture drives the bank's behavior, successful web sites will prove illusive and the financial services traditionally provided by banks will increasingly become the province of non-banking financial institutions that recognize the transformation that has taken place.

It's not that the basic factors required for bank web site success are hard to understand or hard to do, but that banks generally just don't buy into the necessity for recognizing this power shift. It is a matter of will. Given the will, the rest is mechanics.

Banks have not been taking advantage of the opportunities provided by the growing popularity of the Internet. The problem is not the absence of technology or the lack of willingness to spend money. The problem that banks have is that their culture is generally inconsistent with the cultural paradigms of the web. Their view of the universe is not consistent with the values and beliefs that will make for success in the eCommerce age.

The transcending values of this new age follow.

Beauty is in the Eye of the Beholder

Making the web site attractive is not a matter of what the bank thinks is attractive, but what its current and potential customers think is attractive.

Sell the Sizzle, Not the Soap

People love to buy and hate to be sold. Products and services need to be packaged in such a way as to allow consumers to see the advantages and benefits to themselves in purchasing them.

Community Banks Exist to Serve the Community

A community bank can never compete with a megabank in terms of the depth or breadth of its product offerings, it can't pay more for deposits, it can't lend for less, it can't spend as much for marketing, and it can't afford as sophisticated a technology. In a competitive world of commoditized financial products and ser-

vices, the community bank will lose! The one advantage the community bank has over the megabanks is its knowledge of, and affiliation with, its community. This advantage can be a tremendous competitive weapon if properly deployed. The web provides a superb mechanism for fielding this weapon.

Life is a Journey, Getting there is Half the Fun

What banker would not like to think a visit to their bank is a pleasant experience? The lobby should be attractive and create a pleasant mood. Time and money are spent on the décor. Coffee and tea are offered. People are greeted pleasantly, with a smile and handshake. Pleasantries about the weather and local conditions are passed. If bank personnel know the individual, they are greeted by name and acknowledged for who they are. The goal is to create an ambiance that people will find relaxing, pleasant, and enjoyable, so they will want to do business there and to return to do business again. A bank's web site is its electronic lobby. Visiting it should be enjoyable, for exactly the same reasons that visiting the bank's lobby should be. Or, since the web visitor enters anonymously and can be gone with a mouse click to a competitor in an instant, it should be even more enjoyable than the physical lobby.

The Consumer is King

In many retail markets the sovereignty of the consumer is diffused through the operation of market forces and does not express itself directly and immediately. In the short run consumers are price takers, not price makers. In the short run, consumers can be buffaloed, ignored, treated with disrespect or contempt, manipulated, and taken advantage of. Been to a car dealer lately? Where such firms are exposed to the forces of competition, they don't last long.

The Internet makes the short run a lot shorter. The Internet empowers the consumer by increasing the amount of, and ease of access to, information. The fact that the Internet effectively shifts the power from the seller to the buyer is one of the key factors in the rapidly growing popularity of this method of shopping with buyers. Surfing the Internet for the best combination of price and quality for airline tickets, hotel rooms, beanie babies, and now mortgages and consumer loans thrills the consumer, for they are truly in charge. This reality needs to be recognized and acknowledged in the formulation of bank strategy on the web.

It's Not the Product; It's the Whole Experience

A person may go into a restaurant for a meal, but the quality of the meal is not simply a function of the quality of the meat and potatoes ordered. The quality of the meal has to do with the cleanliness and décor of the restaurant, the friendliness and timeliness of the service, the price, the parking, and a host of other factors large and small.

A person obtains a mortgage loan because it is a necessary component of the larger process of buying a house. The quality of the mortgage is not the issue

to the consumer, as much as the quality of the total process. Wouldn't it be of added value to the consumer if a bank supported its underwriting of the mortgage with advice on, and access to, real estate services, title services, inspection services, and other community services and utilities associated with home ownership? If a banker says "All that other stuff, that's not my business," they are ignoring an opportunity to add value to their product for the consumer. If the only basis on which the bank has to underwrite the mortgage is price, then if the market is competitive and the consumer informed, the bank will have to have the lowest price to make the loan.

Communication is a Two-Way Process

Communication is not simply telling someone something. Communication also involves listening. To be effective, communication must be an interactive process. Communication is an important element in creating value for the customer. The Internet is an ideal medium for communication because it fosters interactivity independently of time and place. This makes it desirable from the customer's point of view because it is so convenient. It is also a great way to communicate from the bank's point of view because it is not labor intensive. Talking face-to-face with customers allows wonderful interactivity, but is very expensive. The same, or even better, degree of interactivity can be accomplished on the web at far less cost.

STRATEGIC PROCESSES ON THE WEB

Effective overall bank strategy now needs to include the web. In seeking higher profitability through increased customer retention, higher wallet share, or greater market share, the strategic process should involve the establishment of product differentiation through the creation of customer value. Community banks need to offer branded products and services in order to avoid falling into the commoditization trap. This does not require a radical departure from what the bank has done in the past, but rather an extension of what it has always tried to do in terms of customer service. It is an extension, however, that uses a new, incredibly powerful communication medium.

The attributes of the web will be found to allow the bank to personalize the delivery of its services to an extent never before possible — to create a dialogue with its customers that creates value for the customer and profits for the bank. While there are numerous ways for the web to facilitate the creation of customer value, none holds greater promise for the community bank than its identification with the community itself. In particular using the web as a platform to publicize the ways in which it serves the community and positioning the web site to become a community resource allows the community bank to access the mainstream market for financial services customers.

Accessing the mainstream market with a differentiated product that creates customer value is the key to maintaining margins and increasing profitability in an ever more competitive market. The most effective manner for the community bank to implement its web strategy will be to build a latticework of sub-markets in which the use of the web interface demonstrably and dramatically enhances the value of its financial products and services for its users. These successes can be used to reference the more reserved components of the market majority to win them over. The best part of this approach is that it builds on those areas where the community bank is already strong, thus allowing the smooth integration of its web site into the bank's larger strategy.

Community banks essentially have strategic opportunities for creating customer value on the web. Such strategies may be either customer-based or community-based. As customer expectations rise over time with the continued move toward eCommerce in all retail areas, all financial service institutions will be driven by the competitive exigencies to increase customer value at their web sites through superior ambiance, greater convenience, and increased consumer empowerment. Here the community banks will be at a disadvantage to their larger competitors as they lack the technical sophistication and funds to be at the cutting edge. Community banks will have an advantage over their larger rivals in creating customer value through community service. Properly addressed, community service may become a life-saving sustainable strategic competitive advantage for community banks.

THE IMPORTANCE OF ESTABLISHING "COMMUNITIES OF INTEREST"

Bank web sites will be successful by virtue of their generating substantial continuing traffic that results in increased sales of bank products and services. Such sales will result from the use of the bank web site to create value for its customers in a manner that effectively differentiates the bank from its competitors.

Creating sustainable competitive advantages at the web site requires creating communities of interest for web site users. The creation of such communities of interest requires bank customers crossing the high-technology gap. It is proving exceptionally difficult and expensive to push customers across this gap with mass advertising and promotion.

Community banks have a viable alternative to this approach. That is, they can use their web sites to create identifiable and substantial value for very small sub-groups in community. These sub-groups in turn can serve as reference groups for the larger community. In this manner, over time, small groups will join together to form larger groups of consumers who find it advantageous to utilize the bank's web site as a financial portal. The attributes of the web site necessary to sustain this continuing flow of traffic will require that the site be attractive as a portal, empower and entertain customers, have relevant content, and serve community interests.