

Bank of the future

Driving innovation from a customer perspective

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TIE approach to optimise your product suite

Transparency



- 1 Align all stakeholders on product transformation goals
- 2 Benchmark competitive offering and international best practices
- 3 Analyse competitive strengths and weaknesses (sales survey or workshop)
- 4 Understand customer behaviours / needs by analysing historical transactions

Intelligence



- 5 Develop actionable customer segments based on needs and behavioural patterns
- 6 Measure and understand segment-level packaging preference and price elasticity
- 7 Design candidate product line-ups and forecast financial scenarios
- 8 Finalise the product line-up based on financial simulation and win / loss analysis

Execution



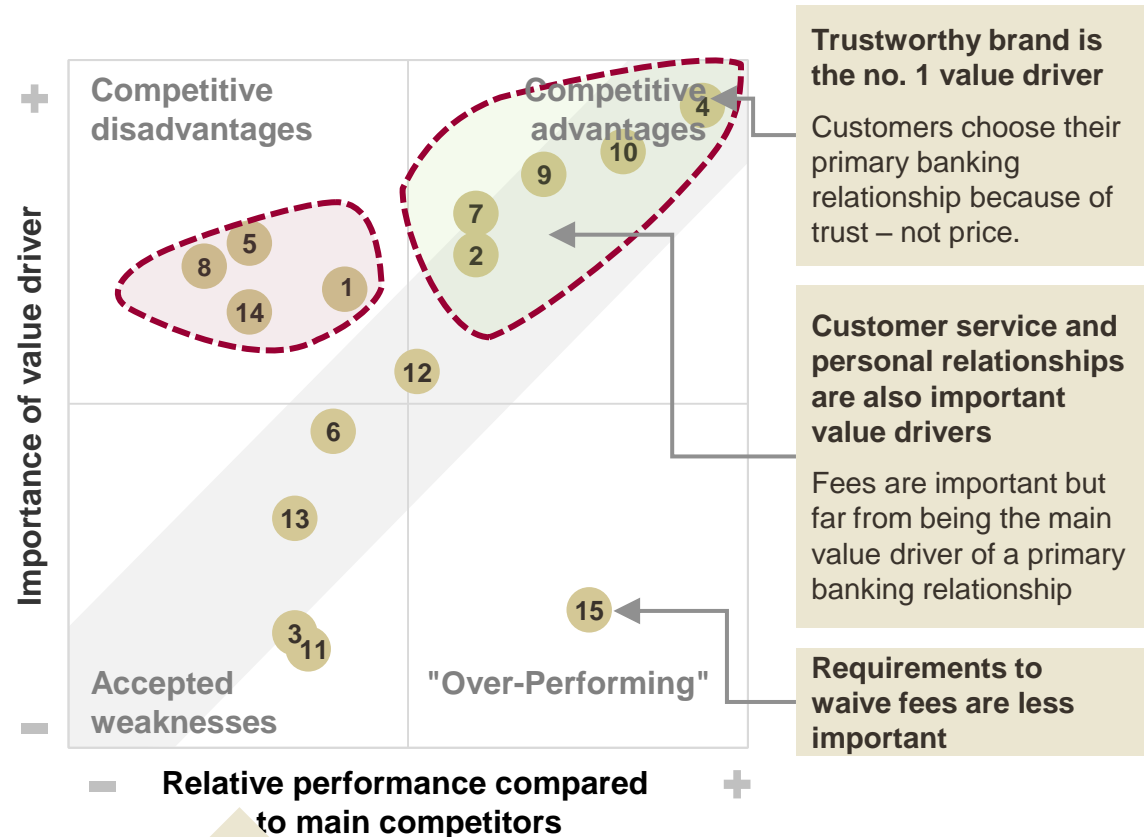
- 9 Outline a detailed customer migration plan
- 10 Define internal (sales force) and external (customer) communication strategy
- 11 Develop sales kit to support successful migration of customers
- 12 Train sales on the new product line-up & monitor market reactions

1 Understand your competitive strengths and weaknesses

Customer value drivers

1. ATM network
2. Branch network
3. Online / Mobile experience
4. Trustworthy brand / reputation
5. Needs-based products
6. Breadth of product portfolio (other financial services products)
7. Reliable execution (getting it right at first time)
8. Usage based incentives and rewards
9. High quality of customer service
10. Good relationship with personal banker
11. Cheap service fees
12. Low fees
13. High interest rates for balances
14. Transparent fees (I know what fees I can expect)
15. Low requirements to waive fees

Matrix of Competitive Advantage



Personal relationships and trust are a more important value drivers than low fees!

6 Deploy choice-based research to quantify feature/price utility

Which of the following offers would you choose?

Alternative A

Interest: **1%**
Mobile phone insurance: **Yes**
Travel insurance: **Yes**
No fee foreign transactions: **Yes**
Access to a £1,500 emergency fund: **Yes**
Seven-day grace on overdraft charges: **Yes**
Price: **£15 per month**

Alternative B

Interest: **1%**
Mobile phone insurance: **Yes**
Travel insurance: **Yes**
No fee foreign transactions: **No**
Access to a £1,500 emergency fund: **No**
Seven-day grace on overdraft charges: **No**
Price: **£8 per month**

Alternative C

Interest: **0.5%**
Mobile phone insurance: **No**
Travel insurance: **No**
No fee foreign transactions: **Yes**
Access to a £1,500 emergency fund: **Yes**
Seven-day grace on overdraft charges: **Yes**
Price: **£5 per month**



- **No direct questions** on price and other attributes of product / service
- Product is **split** into its relevant attributes
- **Respondent** is forced into **trade-offs** and to balance out performance against prices
- **Systematic variation** of all product attributes including price

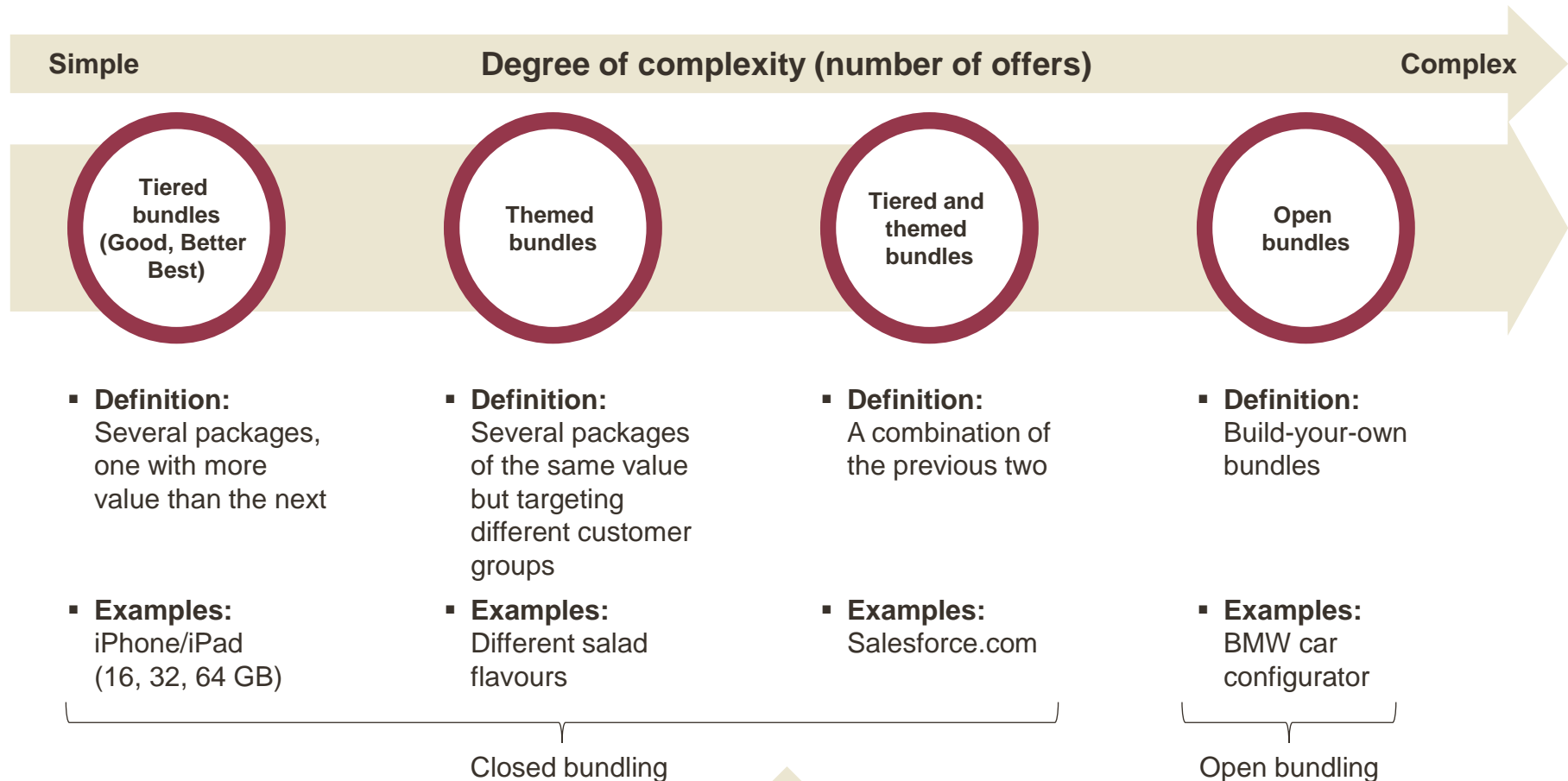


Simultaneous evaluation of customer value perceptions and willingness-to-pay

Choice simulation exercises leverage consumer decision psychology to uncover the true underlying feature utility values and price elasticity measures.

7

Four typical bundling archetypes as a starting point



Mixed bundling: Offering a la cart features on top of the bundles.

7 Prioritise features for account differentiation: Modular architecture

Best Practice

Union Bank enables the customer to 'pick and choose'

UnionBank
Banking By Design™

Learn more about our services: [Personal](#) | [Small Business](#) | [Commercial & Institutional](#) | [The Private Bank](#)

\$3.50/month
total cost with selected features and waivers

Direct Deposit Waiver: We'll waive the \$3 base cost (monthly service charge) when you make a single direct deposit of at least \$250 during the monthly statement period. Yes No

Make your account personal by choosing all the features you want.
(Click any ⓘ symbol below for important feature details.)

Debit Card or ATM Card \$0 / mo	Online Banking \$0 / mo	Online Statements \$0 / mo	Mobile Banking \$0 / mo	Email Alerts \$0 / mo	Text Alerts \$0 / mo
Non-Union Bank ATM Transactions \$3.00 / mo	Online Bill Pay \$0 / mo (\$1.50 after 12/31/13)	Paper Statements \$1 / mo	Unlimited Check Supply \$1 / mo	Savings or Money Market Account \$1.50 / mo	Safe Deposit Box \$2 / mo (small) \$5 / mo (medium) \$6.50 / mo (large)
Incoming Wire Transfers \$1 / mo	Money Orders Traveler's Cheques Cashier's Checks \$1 / mo	Expedited Card Delivery \$1 / mo	Express Phone Customer Service \$1 / mo		

Benefits / Drawbacks

- Customers have flexibility to pick and choose features they want
- Features can be shown selectively, based on expected needs e.g. show budgeting tools to low income family
- Too many features can appear complex and overwhelm customers
- Account finder mechanism required to support the customer in their decision-making process
- Customers tend to 'cherry-pick' only those features that they are likely to use which could impact cost to serve

USA

7 Successful bundles need at least one leader and one filler feature

A successful bundle needs ...



... a “leader” product

A high value product that most customers want to or “must” buy. Customers will buy leaders anyway, so don’t include too many in the bundle.



... “filler” product(s)

Medium value products that most customers consider “nice to have.” Customers transfer excess willingness-to-pay from high value to medium value items.

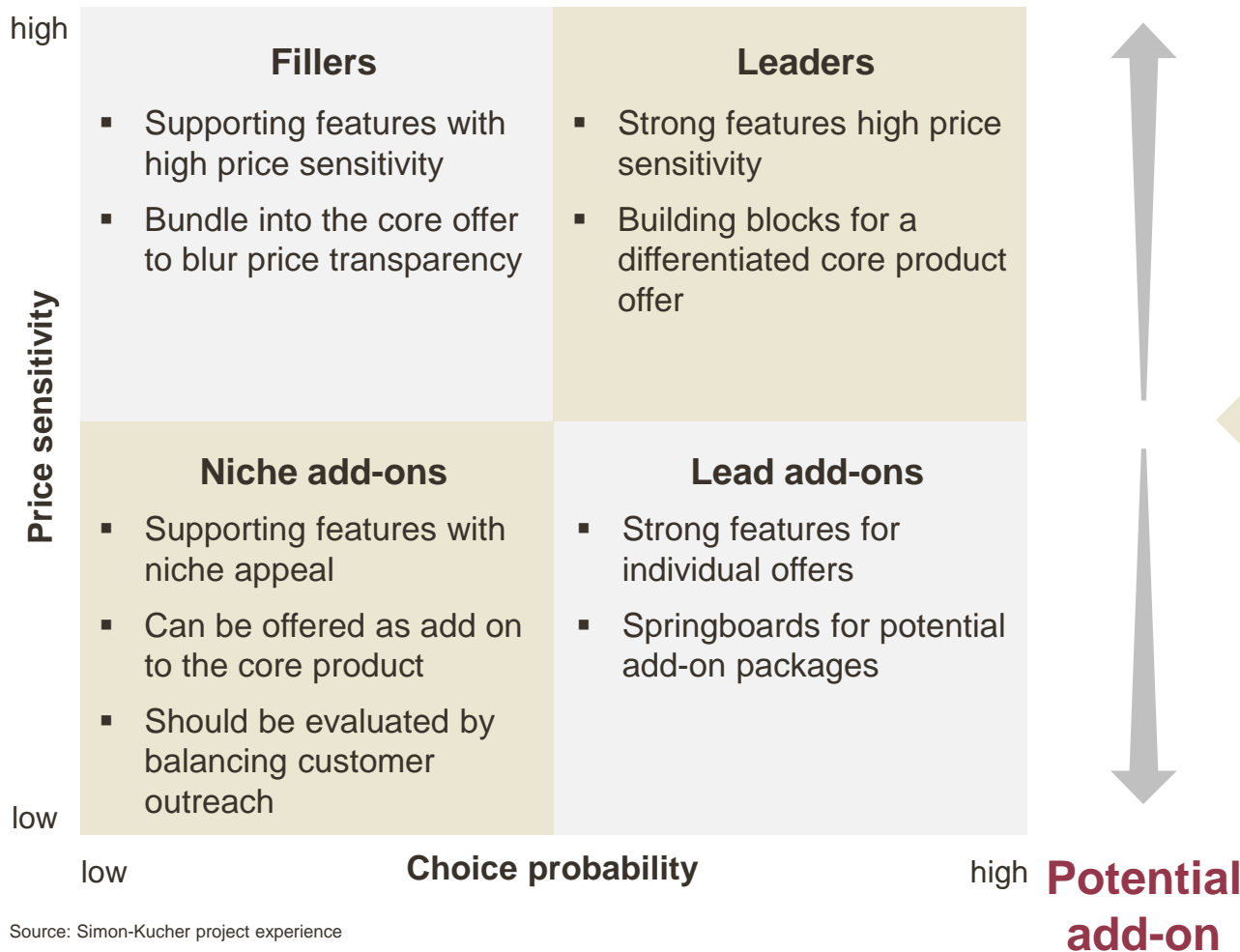


... NO “killer” product(s)

Products for which many have a low willingness-to-pay. The discount would have to be so high that bundling no longer makes sense.

7 Feature leader / filler matrix

Feature leader / filler matrix



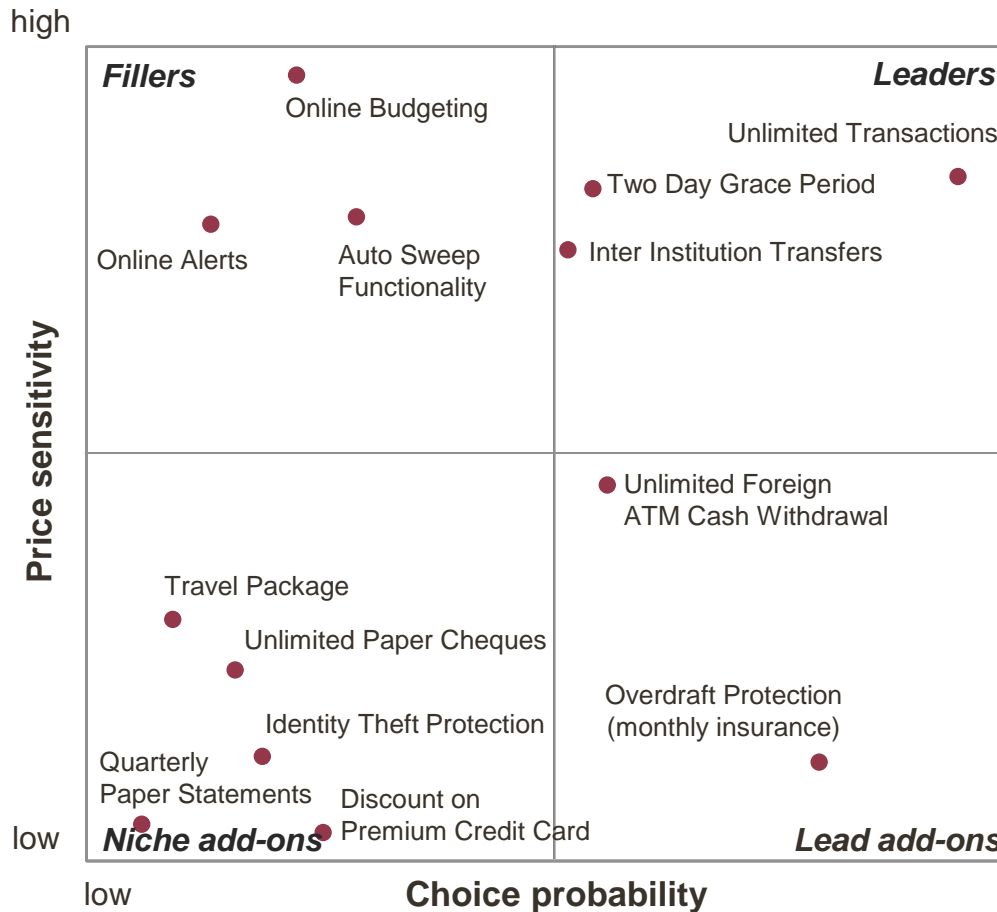
The matrix combines two perspectives

- Choice probability:**
What is the demand for each feature on average?
- Price sensitivity:**
How much deviation is there between the low and the high price in the choice probability of each feature?

7 To bundle or not to bundle: Leader / Filler matrix

Project Example

Feature leader / filler matrix



Potential core



Leaders and fillers

- Have high price sensitivity and could therefore be bundled as part of the core offer
- Customers will buy them "automatically" with the leaders

Niche / lead add-ons

- Have low price sensitivity and could therefore be offered as add-ons
- Lead add-ons can be springboards for marketing steps, i.e. to position / "spice" the new portfolio

Potential add-on



Source: Simon-Kucher project experience. All figures are disguised to protect client anonymity.

9 Common migration scenarios

Revenue is ultimately impacted by migration rules

Project Example

Hard migration - Target account

- Designate a target account and force migrate to that account
- A target account should be structurally similar to the incumbent account, e.g. ECAs go to new base

Asserted migration paths

Hard migration - Best choice

- Designate a “best” account and force migrate to that account
- The “best” account has the lowest fee implications to the customer of all available account choices, as determined through historical usage patterns

Asserted migration paths that optimise fees at the individual level

Hard migration – Free choice

- Customers must migrate to one of new accounts, although they are free to choose any of the new accounts as their new account

Conjoint choice probabilities re-normalised after dropping “no purchase”

Soft migration

- Customers are allowed to stay with their existing accounts if they do not want to migrate to any of the new accounts
- They are also free to choose any of the new accounts as their new account if they so wish

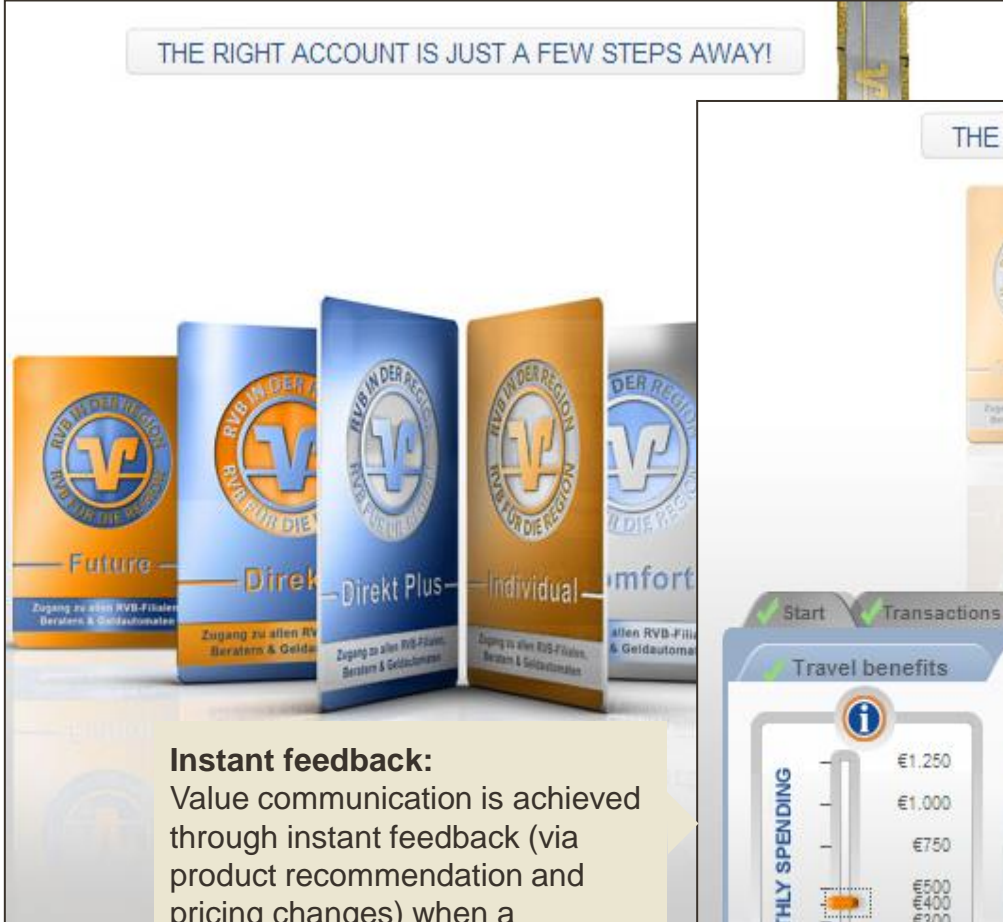
Conjoint choice probabilities

Revenue impact

Customer friendliness

10 Use value communication tools to aid account sales

Project Example



Instant feedback:
Value communication is achieved through instant feedback (via product recommendation and pricing changes) when a customer changes the answers to a probing question on behaviour and preference

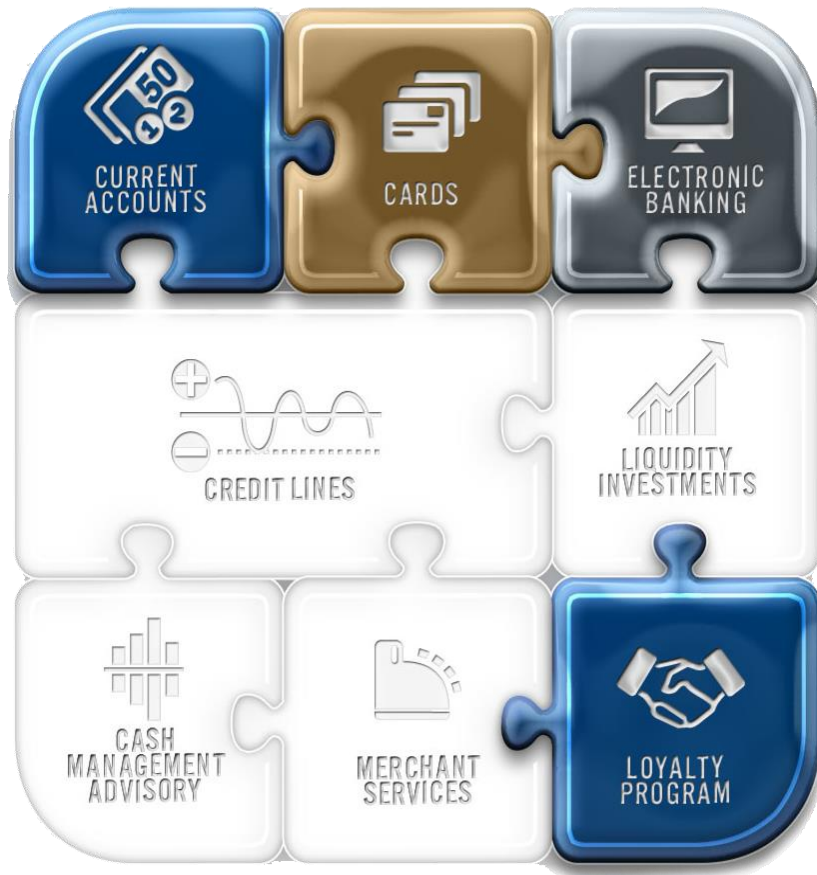
Source: Simon-Kucher project experience

10 Implement nonlinear product presentation to facilitate cross-buying

Project Example

Germany

Volksbank business banking services



Build a product universe:

Each product within the product range is displayed in one of the puzzle pieces. This enables customers to easily understand all products that are available.

Colour code the product / bundle level:

Customers with the basic chequing account will see a "blue" puzzle piece. Customers with the most advanced account will see a platinum piece. The more advanced the bundle, the more value added services are included.

Set incentives:

Customers experience the superior quality of a "platinum" product and also want to become platinum customer in another product area. The puzzle also sets an incentive to have a product across the whole product range.