

# Inventing the Future of Retail Banking Predicting the Essentials of an Exceptional Customer Experience

Stephen Onufrey, Retail Banking Solution Executive, SRO Group, LLC  
Howard Moskowitz, PhD, President, Moskowitz Jacobs, Inc

October 2008



©2008 SRO Group, LLC and Moskowitz Jacobs, Inc. All rights reserved.

# Table of Contents

Inventing the Future of Retail Banking Predicting the Essentials of an Exceptional Customer Experience.....	1
<b>Table of Contents.....</b>	<b>1</b>
<b>Executive Overview.....</b>	<b>2</b>
It's About Customer Experience.....	2
And It's About Numbers Applied to People.....	4
Closed Loop Customer Experience Management.....	5
Step 15	
Step 26	
Step 37	
Step 47	
Focus on Step 3 - Predicting the Optimal Customer Experience.....	7
The future experience – broad stroke overview.....	9
Creating the customer experience: Banks build the future that their customers design.....	12
The power of systematics – Rule Developing Experimentation (RDE).....	12
So what happens in RDE or 'systematics'.....	13
Getting more deeply to the heart, or rather the mind, of the customer!.....	16
The heart of the matter – what really works for bank customers.....	17
Different strokes for different folks – capitalizing on mind sets.....	18
Segment 1 (self-reliant on-line banking seekers).....	20
Segment 2 (technology and high security seekers).....	20
Segment 3 (collaborative on-line seekers).....	20
Segment 4 (Personal touch with technology seekers).....	20
Dialling a bank opportunity.....	22
Step 1 of 4: Define the target.....	22
Step 2 of 4: Instruct the optimizer to identify the best combination that maximizes the three segments simultaneously, or which maximizes any one segment (for individuated, optimized selling to a specific customer).....	23
Step 3 of 4: Determine how each element drives the overall rating.....	24
Step 4 of 4: Typing a new customer to create an individuated, optimized selling experience.....	25
What comes next in banking?.....	26
Putting it altogether – the view from 20,000 feet.....	27

# Executive Overview

## It's About Customer Experience

What defines a brand? Customer Experience.

Customer experience is everything that the customer sees, hears, touches, smells, thinks and feels – whether planned or not. Customer experience IS the new competitive arena. This precept is embodied as a major principle in creating the Disney theme parks in the phrase, “everything speaks”.

In their seminal work *The Experience Economy*, Joseph Pine and James Gilmore identified Customer Experience as the emerging key differentiator in today's services economy. They point out that 80% of the work force in the United States is employed in the Services Sector, with only 17% in manufacturing and only 3% in agriculture. What is it that they identified to be the next major paradigm shift in the services economy? Customer Experience.

It is customer experience that differentiates similar businesses. Those businesses that can create and deliver an exceptional customer experience will rise to the top, make the big profits, and beat their competition.

By now a well-accepted poster child for customer experience is Starbucks. It is the experience Starbucks has created which enables them to charge two to five times the price for their branded products. Go back to our opening statement – what defines the brand – customer experience. Yes - Starbucks has great coffee, but it is the product presentation, the wafting aromas, the relaxed atmosphere, the personable employee who remembers you, the wireless hookup, the Starbucks stored value card - the entire milieu and experience created in a Starbucks store that turned this coffee house into the smashing success and the icon that they are.

The Bank Administration Institute's 2006 *Frontline Experience Survey*, reported that 83% of bankers they interviewed felt customers view their products and services viewed as *commodities*. So what was needed was a differentiated customer experience to change that perception. Bankers today need and clearly want to create an exceptional customer experience that will differentiate their bank. To the degree that they create a base of customer advocates, these bankers will have succeeded in having their own customers be the best advocate of the bank, recommending it to family and friends.

All is not easy in the banking world. It would be sufficient if the only problems were with customers. But that's far from the truth. Further complicating the ability to create a consistently differentiated experience are tremors in the technology of communications and collaboration. These tremors, sometimes even earthquakes, shake the foundation upon which banking services, primarily information management services, are built, distributed and consumed. **These technologies allow for nearly any service to be consumed anywhere, anytime and on any device.** Any one channel (mobile phone, Smartphone, PC, teller, ATM, etc) can support multiple services. Any one service can be distributed through an increasing variety of channels. This multi-dimensionality increases complexity forcing banking services and product managers to be evermore prescriptive in how new services are contemplated and connected in order to create a pleasant, consistent, and ultimately exceptional customer experience.

Add to changing technology the recent events of the Banking Chaos, and customers are looking at the fundamental issue of trust in the customer experience in banking. With iconic top 10 banks being taken over, customers are wary of the safety of their money. And safety is one of the bedrock attributes of a good customer experience in banking. If the customer does not feel that his money is safe in a bank – that is, if the customer gets a queasy feeling in the pit of their stomach when thinking about money in a questionable bank – this is far from a promoter customer experience.

That positive, differentiated, memorable and engaging customer experience continues to remain an undefined and elusive goal for most banks. Bankers, vendors, technologists, consultants, customer advocates and industry pundits all have opinions on what the key elements are of an exceptional customer experience. But how are those opinions validated with those that will actually have the final vote – the customer? Usually, it is done with focus groups that fine tune financial products and services after they already have been built, when the major decisions are cast in stone, and when the bankers themselves are reluctant to change anything but the superficialities unless they realise they have a potential debacle on their hands.

We present in this paper a new and unique approach to solving the issue of creating an exceptional customer experience in banking. The predictive analytic techniques are not new. They have been proven in successful use in the customer goods and manufacturing sectors for over 25 years. What is new is the application of these techniques to the banking and financial services industry, and to the realm of experience engineering.

## And It's About Numbers Applied to People

To manage something, you must measure it. That is especially true in the business world where the culmination of the myriad exercises in measurement occurs with results delivered to the shareholders. Important statistical indicators such as Return On Assets, Return On Equity, Earnings Per Share and Efficiency Ratio reflect the fundamental financial health of a bank, and influence the stock value. But those numbers only tell part of the story to the shareholders. There are numbers that are derived from two other key groups of people.

Let's go to the people. The Customer and the Employee are the other two key constituents involved in bank metrics. Whether we wish to admit it or not, the employee is the key differentiator in delivering an exceptional customer experience. If the employee is not trained, motivated and provided with rich products and services delivered in a compelling environment via power tools, then the customer senses the constellation of feelings from that employee – both positive and negative. How do we measure the employee and put numbers around the person. Well, we measure the hours of training, salary paid, transactions processed, accounts opened, and employee satisfaction surveys and from this array of numbers we mix them together, and synthesise the 'average' employee, the exceptional employee, the problem employee, etc. Indeed, we numericise the employee, to create a new term, whether or not the numericising even gives us a valid semblance of a measurement.

Next are the metrics of the Customer. For over two decades we have measured customer satisfaction starting with the basics of monetary safety and transaction speed and accuracy. Then several years ago the industry notched up the game and we began to measure customer loyalty which focuses on that which must be done to prevent the customer from leaving the bank. Professionalism of service and developing a relationship became the heart of that initiative.

Today customer experience is the goal; creating a loyal following of customer advocates that proactively promote the bank to family and friends. For the first time we are starting to talk about emotional attributes of the customer such as trust, mind share and share of heart. How does one measure customer emotions in the business world? How do we measure how someone feels? This is what we address in Closed Loop Customer Experience Management.

## Closed Loop Customer Experience Management

SRO Group LLC., Moskowitz Jacobs Inc., and ResponseTek Networks, have developed an integrated approach for understanding experience and inventing the future. We call this the Closed Loop Customer Experience Management Solution. Figure 1 shows a schematic of this approach, designed to create that future by integrating the voice of the customer with the voice of the employee, then defining the experience, and finally building it out with specifics. Ultimately, when the customer presents themselves to the bank, have the capability to identify which segment that customer is in and offer the appropriate package of bank products and services developed for that segment. The aim is to use modern day methods to specify the experience, with an eye to reducing risk and increasing acceptance by the two constituencies – customers and employees.

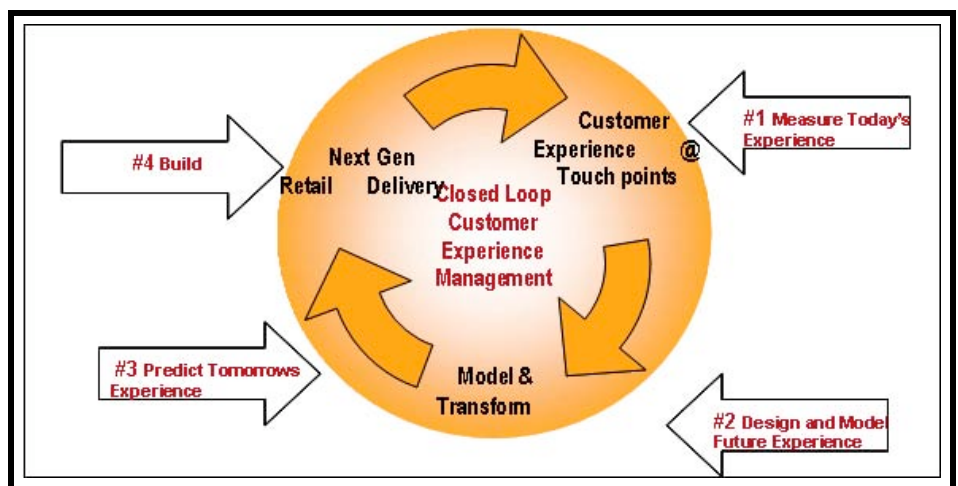


Figure 1: Closed Loop Customer Experience Management

We have developed a knowledge-driven, ongoing learning system which defines, creates, delivers, and refines an exceptional customer experience using a four-step, closed loop solution. The emphasis is knowledge-driven, so that the system can be deployed in the banking world, sensitive to local conditions.

### Step 1

**Step 1 Improve the delivered customer experience** when and where the customer – company interaction occurs. ResponseTek's solution captures the customer's perception of the delivered experience across all channels (in-branch, ATM, contact centre or online) at each critical interaction around the customer lifecycle. Customer-centric measures about the experience and resulting advocacy impact are combined with transactional context, such as agent name, transaction type, location, and time.

Step 1 goes beyond simply monitoring the customer experience. Customer insights are distributed in real-time to the people in the organization responsible for delivering and improving the experience. Immediate action is taken to address issues and prevent loss of customers – stop the bleeding. ResponseTek’s solution enables escalation and resolution to retain at-risk customers.

Aggregate customer experience information identifies systemic problems, which are disappointing customers, as well as highlighting best practices which are delighting them. Step 1 ultimately identifies the improvement projects which will be valued by customers prior to modeling financial impact in step 2.

**In summary step 1:**

- Identifies which experiences are most important to customers and how those experiences affect advocacy
- Pinpoints where, and with whom, good and bad experiences happen as aggregate information about all customer experiences cascades into granular detail about individual experiences
- Is distributed in real time across the organisation and targeted for specific role holders, ensuring that everyone shares a common view of customer experiences.

With this information, the voice of the customer drives experience improvements across the organisation.

---

**Step 2**

**Step 2 models possible future changes** to the existing experience and determines impact to the efficiency ratio by either increasing revenue or decreasing costs. Step 1 identified the problem areas, which Step 2 now addresses as the highest priority. Step 2 uses embedded tools and methods to foster communication between the bankers, technologists and partners, in order to show what specifically may be required to delivery the enhanced customer experience. Best practices identified in Step 1 are used as a foundation to build an exceptional customer experience.

The ResponseTek solution continues to monitor the voice of the customer throughout the change process to ensure that momentum for continuous improvement is achieved. Customer insights are combined with employee experience during step 2. Front-line employees, given their proximity to the customer, are a critical source of the intelligence around process, technology and training requirements, needed to better service customers.

---

### Step 3

**Step 3 predicts the customer experience** to new offerings, by market segment via a unique survey tool with patented algorithms that “deconstructs the algebra of the customer’s mind”. Step 3 develops the range of alternatives, create a database, and use that database to profoundly understand *specifically* what to do. The bulk of this paper will expand on this area. It is important to note that Step 3 produces a database that can be interrogated again and again to solve problems, and to create new, varied experiences that are both feasible to the banker, and acceptable both to the customer and the employee.

Additionally, step 3 identifies “markers” or basic key questions that will be asked of a prospect or customer when they are at a touch point, shopping for banking services at a moment of truth in their life. These markers tie back to the segmentation determined by the predictive analysis survey, and reveal which bundle of bank products and services are optimum for that segment. This “scratch test” determines the DNA of the consumer’s mind, and allows the banker to identify which segment that customer belongs. This identification of mental DNA in turn enables the banker to offer those products and services to that individual in terms that create an advocacy experience for that segment. This is then the opening recommendation of the bank’s offering for that customer. Risk of customer dissatisfaction is reduced and use of the specific bank offerings creates a customer advocate.

---

### Step 4

**Step 4 builds, implements and refines the optimum customer experience solution.** Step 4 is the embodied of the knowledge database produced in Step 3. Once the desired experience is designed, launched and measured both financially and experientially, the challenge again returns to aligning the organization to deliver that experience. ResponseTek’s solution assists with fine-tuning of product and service experience based on customer feedback.

With a methodical process that incorporates the voice of the customer and the voice of the employee and includes balance sheet impact, science is thus applied to understanding and engineering an exceptional customer experience. All techniques generate testable results and databases that can be interrogated to solve new problems.

---

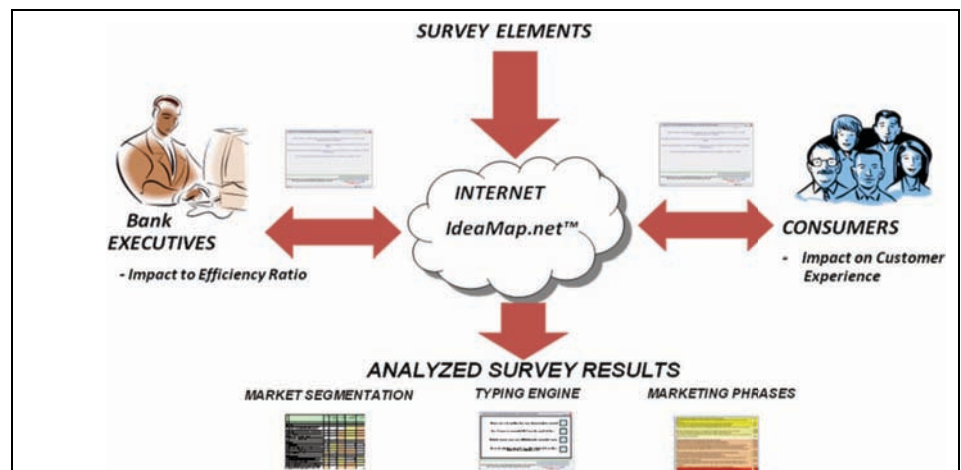
### Focus on Step 3 - Predicting the Optimal Customer Experience

Predicting (and thus allowing for engineering) the customer experience has been done successfully for several decades in the consumer goods and manufacturing sectors. The techniques described in this paper were used in developing the new lines of Prego spaghetti sauces, Vlasic pickles and Maxwell House coffee to name just a few. Can we use this technique in the financial services industry to predict those elements that create an exceptional customer experience? This paper addresses that question.

Let's explore this application of customer experience in banking in actionable terms. We look now at work done using a national customer survey to get the voice of the customer,.

The CTO of that bank was faced with the task of recommending new technologies that would be cost justified and provide an exceptional customer experience, an underlying principle that applies to every new retail delivery initiative. What this means is that every new project undertaken by the bank should simplify the customer's interaction with the bank and make it easier to do business. This outcome creates happy employees and satisfied customers. This simplified customer interaction should deliver an exceptional customer experience which results in a large population of customer advocates. Ultimately, we move forward at minimized risk arrived through a scientific approach.

A predictive analysis study was performed in order to determine the potential impact of certain technologies to the customer experience. Additionally, selected bank management was surveyed to determine potential impact to the efficiency ratio by assessing the services and technology functions that would either decrease costs, or increase revenue, or both (see Fig 3.).



**Figure 3. A national survey developed addressable mind segments**

The survey elements were developed with focus on the emerging technologies that are ready for prime time technically, but have not been generally embraced by main-stream banking. They have the potential to enhance the customer experience. However, conflicting opinions by “experts” – both bankers and vendors – had led to paralyzing inaction.

The internet based survey was taken by both consumers and bankers to hear both the voice of the employee and the voice of the consumer. The analyzed survey generated three outputs:

- 1- Four identified mind-set segments, i.e., response-based ‘addressable minds’.
- 2- The key ‘typing’ questions. In a 60-second scratch test, the customer rates these questions, assigning the customer to one of the four mind-set segments.

- 3- The top rated products and services with the appropriate marketing phrases to create advocates in each segment.

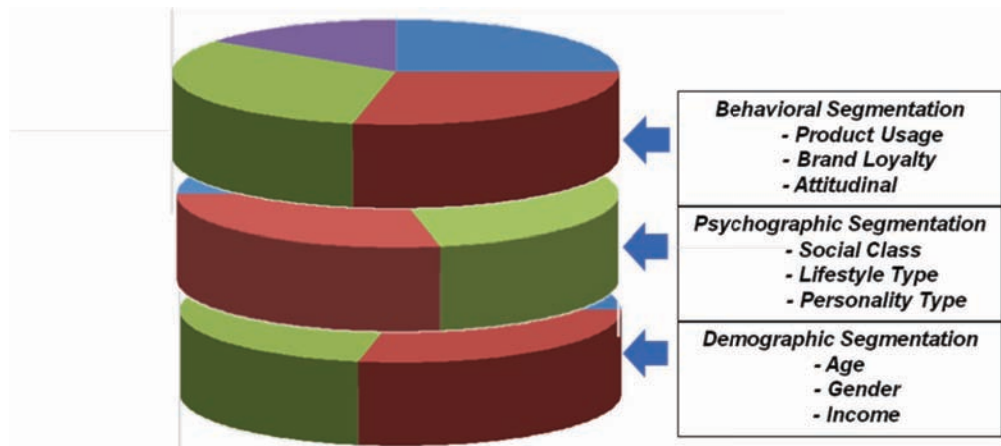
This exercise enables the banker to say the exact right words to the right person. The customer reacts by saying, “the bank really knows me”!

We did this work using rule developing experimentation, but for customer experience rather than for actual products. We first created a database of ideas for the customer experience. The database comprised six silos, or general parts of the experience, and specific, actionable phrases (‘elements’) of the experience in each silo.

Before we go into any detail about the findings, let’s look at what this bank discovered, from a 20,000 foot view. What provided key learning? What’s the future experience that ‘turns on’ the customer? And, perhaps just as important, are there different mind-sets of customers that we ought to attend to?

## **The future experience – broad stroke overview**

1. The total customer base – what wins? Here we find that ‘one size does not fit all’. In fact, no future experience really strongly appealed to or repelled the average person. The average person, as we will see, is a myth. Experience can be engineered, but not by looking at everyone in aggregate. Oh, by the way, the average reaction to ‘new ideas’, the substance of the new experience, was neutral to somewhat negative. Scratch winning ideas for everyone. Not a chance here. We have to dig deeper to engineer a better experience.
2. The traditional demographic subgroups – sex, age, income. Here we started to see a differentiation in the new, technology based ideas appealed more to men under the age of 40 that had an income in excess of \$40,000 per year. Still there is something missing. We see new experiences starting to pop out, but it was clear that going about dividing people the way we’ve always done it just won’t give us the big hits for the future that we need.
3. Self-explicated groups – psychographic and behavioral, who defined themselves as *technophiles* or *technophobes*. We began to hit some paydirt (but not as much as you’ll see in just a minute). The technophiles, as you might gather, liked the new experiences. But still there was something missing.
4. Response-based segmentation, yielding a segmentation we term “Addressable Minds”. Response-based segmentation cuts across the traditional demographic, psychographic and behavioral segmentations (see Fig 2).



**Figure 2. Addressable Mind Segments cut across traditional segmentation**

We divide the group into smaller segments, based upon how they react to the future ideas. This is where we found the paydirt – things that really excited people, and in fact where the best paydirt is to be found for most problem areas. We knew that people differed from each other. We uncovered windows of desire for different customer experiences, and groups of people who would relish them.

Going into the project we were not prepared to expect what we found. Indeed most mind-set segmentations end up producing both startling results, yet results that see to be so obvious once they are discovered. We discovered four radically different groups, for which we could develop different, optimal and hopeful customer-enhancing experiences.

Here are the groups. A-D.

- A. Self-Reliant Online Banking Seekers
- B. Technology and High Security Seekers
- C. Collaborative On-line Seekers
- D. Personal Touch with Technology Seekers.

Looking further, we found that Groups B and D expressed the most positive and negative reactions to future customer experiences. The reactions in these two groups point to two markets segments with the absolutely greatest potential to create customer advocates, by delivering specific product and service offerings which they identified

The customer survey results were eye opening. We repeat for emphasis. The findings all seem so obvious now, like 'of course, this is the way the world divides'. Yet, it was not so obvious at the start –a new offering would create a customer advocate in one market segment, yet that same offering could create a customer detractor to another market segment. For example the use of cell phones to identify customers when entering a branch received the highest vote from one group and the lowest from another. The important thing was the combination of specificity – to know exactly the feature to offer, and to know precisely the response from the segment. It was this straightforward specificity and clarity that predicted the 'optimum' customer experience, or as we would shortly discovered, the set of complementary optimum customer experiences for our segments.

Moving beyond customers, however, we focused on the banker's perception of the customer experience to either reduce cost or to increase revenue. Here the banker looked at the same silos and elements, but with a different eye – the eye of the professional who has to evaluate the experience from a business perspective, not from a customer experience perspective.

So what did the bankers tell us when they worked through the testing? What did we learn from them that we would be able to cross against the customer experience, and engineer the future?

The top three ideas to increase revenue:

- a. Faster loan application process... customers working in real time online with a loan officer
- b. Customers choose secure eye or finger scan to identify them immediately in-branch or at ATM
- c. The bank offers "on demand" status reports for service requests delivered to customer's online e-mail, text or instant messaging.

And the top three ideas to reduce costs:

- a. Offer a Bank issued smart card to recognize customers when entering a branch and process their needs faster
- b. Customers manage their needs via self-service kiosk with branch help available
- c. Recognize customer's mobile phone signal when entering a branch and then recommend best fit products and services.

The key to the predictive analysis is to do it with each individual bank. Each bank has its own corporate DNA that makes it unique. That uniqueness combined with surveying existing and target market segments, using bank unique questions, help the bank define its exceptional customer experience, and ensures the success of these initiatives.

Now let us move to the details of predictive analysis in the banking industry.

## **Creating the customer experience: Banks build the future that their customers design**

Most of us in business recognise that a product needs a blueprint for its design. After all, the features of the product don't just come together in that magic combination that works the first time out. Experts need to know what the product features 'do'. It takes the advertising agency's expertise to communicate the value of this new product. And finally, the customer who buys the product has to want it and like it. Of course, as everyone now realises, it's important to get the customer buy-in, or this new product will be a flop. And so have emerged a plethora of methods that try to tap into the customer's brain to identify the appropriate set of future product features, and of course how best to position it in the marketplace to ensure rapid acceptance.

In the new world of service economy, the experience often dictates the success of the product. Marshall McLuhan was right almost a half century ago – the medium is the message. However, today the medium isn't what we read or hear, but rather what we experience: what happens to us, how we take in the aspects of this experience, and finally how we go about feeling delighted or disappointed.

The real challenge is how to go about creating this experience at the level of the individual customer, and so this paper. In the banking industry we're not going to deal with physical products, nor are we going to focus on the world of today. Rather, we deal with the near-future world of banking as people would like to have... but at the same time a world so full of new technologies that it's hard for people to say what they want. How does one design an experience when technology has a tendency to propel things forward so quickly and dramatically, oftentimes beyond what customers would expect or could describe without prompting?

### **The power of systematics – Rule Developing Experimentation (RDE)**

When the bank decided that it was time to encounter its future through the design of the 'next generation customer experience' it seemed natural to work with groups that were already heavily engaged both in designing what customer wanted (MJI) and inventing the future (SRO Group). It wasn't clear at the start what new technology features would appeal to customers, or even whether customers could appreciate what a bank was offering to them beyond their experiences today.

At this early point in the development cycle the issue on the table was simply 'How' – namely, how to get into the mind of a bank customer to find out what was appealing. There was another issue – not all customers were the same. It was pretty easy to define customers by their banking patterns, and even by the way they described themselves when it comes to technology in banking (E.g. bank by Internet). What wasn't so clear was whether lurking in the background were new, hitherto unexpected mind-sets of bank customers with radically different desires. There were, of course, large-scale studies showing in excess of 40 different customer segments, but for the purposes of this study it was necessary to 'un-refine' this fine differentiation down to a more manageable number – 3 to 5 different mind-sets. *Parenthetically, it was clear from talking to bankers that in no way could they deal with this large number of segments when they were thinking of the technology backbone of a bank.*

The team turned to systematics – a disciplined experimentation with ideas. This approach is called RDE, or rule-developing experimentation. RDE shows the 'algebra of the mind'. The goal was quite simple – learn the rules of the bank customer's mind, when it comes to bank related technology. What ideas really appeal to the customer? Furthermore, it was important to get it right – not just get politically correct answers that are often obtained when bank customers go through batteries of questions asking 'would you like or dislike this experience feature'. We on the team thought differently. What would happen if we were to give bank customers a variety of vignettes or small 'ads', comprising descriptions of a banking experience as the customer would encounter that experience? Some vignettes would be great combinations, some would be just plain lousy. If we could then discover what particular features in a vignette drove 'acceptance of the experience', then we'd be ahead of the game.

## So what happens in RDE or 'systematics'

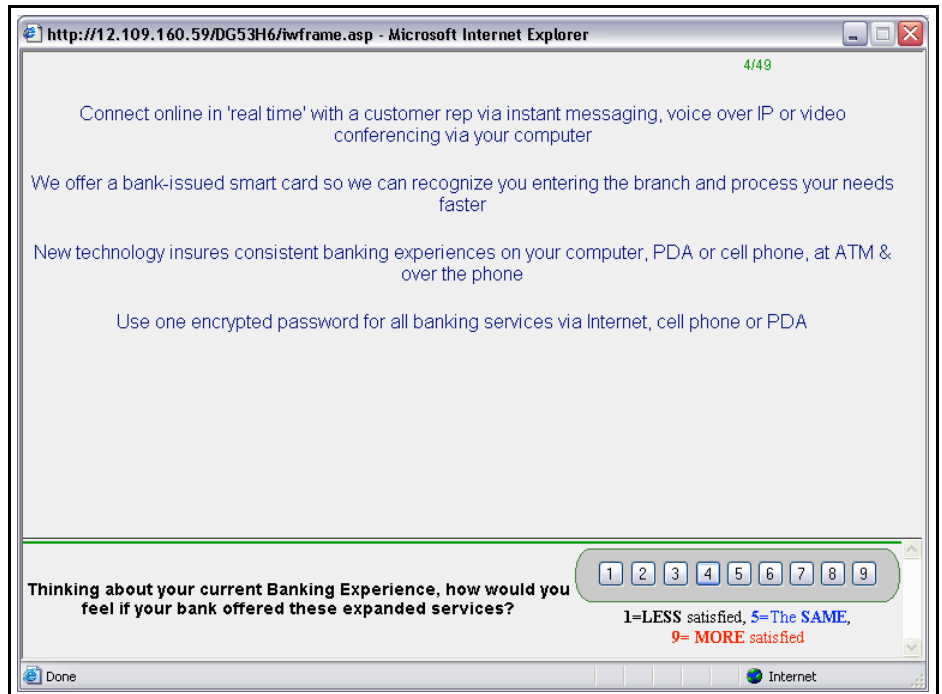
Our approach was very straightforward. Take a look at the different 'silos' in Table 1. You will see six different silos, each with four separate 'options' or elements. These silos are general experience ideas that the bank could feature. For example, one silo is on-line collaborative, where the bank's representative works with the customer to get something done or to solve a problem. An example of this is the element **Connect online in 'real time' with a customer rep via instant messaging, voice over IP or video conferencing via your computer**. Of course there can be other elements as well that reflect this type of collaboration, such as **Use our online tool to find and schedule at your convenience an online working session with an expert such as investment broker, insurance agent, and/or loan officer**. The data show the 'impact' or utility value for each element, for the total group, and for two subgroups – those customers who say they are comfortable with technology, and those who say they are not comfortable. We'll discuss the utility or impact values a bit later. Right now just concentrate on the 24 experience elements.

**Table 1: Silos and elements of the survey, along with the impact or utility values of each for two self-defined groups – tech comfortable, and tech not comfortable. Strong performing elements that add to the customer’s experience are shaded in gray. Poor performing elements that actually detract from the customer’s experience are shaded in pink.**

	Total	Tech Com	Tech Non
Additive Constant	31	34	29
Online collaborative			
Connect online in 'real time' with a customer rep via instant messaging, voice over IP or video conferencing via your computer	0	3	-2
Faster loan application process...work in real time online with a loan officer	0	0	-1
Our bank's customer service reps will help you browse and use our online banking services	-1	0	-2
Use our online tool to find and schedule at your convenience an online working session with an expert such as investment broker, insurance agent, and/or loan officer	-3	-3	-3
Online other			
We will answer all your requests in 'real time' by email, instant or text messaging	1	3	0
We offer 'On demand' status reports for services requests (E.g. loan application) delivered to you via e-mail, text or instant messaging	1	1	1
No more paper mail... We will send you statements and images of transactions securely by email	-2	-1	-2
We allow you to pay bills securely using your mobile devices (cell phone, PDA, Blackberry, etc.)	-4	0	-7
Branch Recognition			0
Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM	4	8	1
We offer a bank-issued smart card so we can recognise you entering the branch and process your needs faster	4	5	3
We have the most secure biometric system that identifies you as you enter the branch so we can process your needs faster	2	5	-1
We will recognise our customer's mobile phone signal when entering a branch so we can recommend appropriate bank products, promotions and special services	-4	1	-7
In Branch – Other			0
We have a secure electronic signature for all in-branch services and transactions...so banking can be done anywhere at anytime	2	3	2
All of our bank departments are connected in 'real time' so we get all your needs met in the branch quickly	1	2	1
'Real time' voice and video conferencing in-branch so you can access our experts in ANY banking department	1	2	0
Manage all you banking needs with self-service state of the art kiosk and be confident that live help is available if needed	-2	-1	-2
Miscellaneous 1			
Securely access and manage accounts or funds transfers by PDA, Internet or automated telephone	3	10	-1
Our priority customers get priority service immediately upon entering a branch	3	9	-1

	Total	Tech Com	Tech Non
New technology insures consistent banking experiences on your computer, PDA or cell phone, at ATM & over the phone	2	9	-3
Our bank employees use dedicated Voice-over IP line so call-in customers get what they need fast with no hassles or loss of information	2	7	0
Miscellaneous 2			
We keep the most secure customer identity system anywhere via biometric identification	3	3	3
Use one encrypted password for all banking services via Internet, cell phone or PDA	1	3	-1
Bank employees use Internet-enabled application for faster service ..one screen shows all relevant customer/bank information	0	2	0
Now you can schedule time online to meet with our banking experts in a branch, online and/or by teleconferencing	-2	-3	-2

The silos contain similar types of elements. We are working with 24 elements altogether, providing a richness and concreteness of the near-future banking experience. Our RDE tool, IdeaMap.Net® creates different combinations or vignettes, with each vignette incorporating either one or no element from each silo. The tool creates a prescribed, unique set of combinations for each participant. A bank customer who participates will see a screen on the web. This screen is a test concept or vignette. Look at Figure 4. You can see right away that the vignette combines elements, so that either one element or no element from each category appears in the vignette.



**Figure 4: Screen shot of a typical concept or vignette for the next generation bank**

Now that we see what our survey participants looked at, let's proceed with what happened and how the data lead us to design the bank experience of the future.

First, take a look at the rating question 'Thinking about your current bank experience how would you feel if your bank offered these expanded services'? You'll see that we put the question as a response to an actual combination of features. We don't ask customers to say 'would you want it or not'. Of course most people want most things, if they're asked. We've accomplished three things here, which might seem a bit subtle at first, but which really help the process along:

1. **We put together a vignette.** People can't be so politically correct and outguess the interviewer. These elements are mixed and matched. We're describing a complex situation, often with some elements that appeal, and other elements that don't appeal. So we force the participant to integrate all of the information and make a judgment. Furthermore, each participant rated 36 different vignettes, one after the other, pretty quickly, with the elements varying. This speed keeps the participants on their toes.
2. **We made this vignette a bit more concrete.** In the rating question we hinted that this vignette would be a set of expanded services. The participants are reacting to something that could be, not saying whether they would like it to be. That is, in the interview we're acting as if the services already exist, and the participant is rating the set of services, rather than selecting from a 'wish list' of possible options.
3. **We allow both good and bad ratings.** Rather than having the participant grade degrees of 'goodness' (from not good to very good), we have the scale move from less satisfied to indifferent to more satisfied. We actually allow the new ideas to be far worse than the current ideas. Further, we ask the participants to compare the new vignette implicitly to what they current are experiencing.

## **Getting more deeply to the heart, or rather the mind, of the customer!**

Ok, now that we've done all this preparation work, what can we learn from these data? Well, if you look at the results from all of our 267 participants, you will see a range of ratings. Some of the vignettes are good, and some of the vignettes are bad.

Let's go a little deeper into these data. First, remember that each one of our participants saw all 24 elements combined into a set of 36 unique combinations or vignettes. Second, even though the combinations looked 'random,' they were not. Rather, the combinations were developed in a systematic way so that the 24 elements really appeared as independent agents. This means that statistically we can discern what each of the elements contributed to the rating.

Finally, before we plunge into the data themselves let's look at the world of the new bank the way the marketer or sociologist would look at it. We mean here the number of people who feel that a specific element is 'better' than current. There is a subtle shift here. Remember that all of our participants rated the vignettes using a 9-point scale. The scale goes from 'worse than current' to 'better than current'. Let's change that scale just a bit. Let's make the 9-point scale a 2-point scale (so-called binary scale). If the participant felt that the vignette was far better than current (rating 7, 8, 9) let's call the rating '100' to denote that it's far better. And, conversely if the vignette is equal to or worse than the current, let's call the rating '0'. A '0' would replace ratings 1,2,3,4,5 and 6, respectively. This results in a measurable polarisation response as 'far better', or 'worse/equal/not much better'.

With this modified data, let's relate now the presence or absence of the 24 elements to each participant's feelings. Perhaps the participant couldn't really articulate what was better or what was worse, but through this analysis of their response patterns we'll quickly discover what's going on. We'll use the statistical method of ordinary least squares regression (OLS) to relate these elements to the binary rating of better or same/worse, respectively. And we'll do this regression analysis for each person. We will discover the 'drivers' for each respondent and uncover themes that recur from person to person.

## **The heart of the matter – what really works for bank customers**

We can get to the essence of the matter by looking at the results in Table 1. The results are shown for total panel, and for those who say that they are comfortable with technology (Tech Com), versus those who say that they are uncomfortable with technology (Tech Non). They tell a lot of the story, although there will be a couple of surprises in a few minutes.

We start with the additive constant. Remember that our analysis uses regression analysis. In regression we try to fit a straight line. What happens when all of the elements are absent? We have a value called the intercept. Of course, that intercept is a calculated parameter, since every vignette that a person evaluates must have some elements. Still, the additive constant is a good measure for a baseline. We see in Table 1 that about 31% of the participants think that the technology will be better as a basic stance. The real improvements versus current are going to come from the elements themselves.

Each element has a utility value that comes from the regression. The utility value is the coefficient in the regression. The utility value shows the percent of respondents who would change their vote from 0 (not much better) to 100 (far better). Sometimes the coefficient or utility is positive, meaning that the element drives a strong positive response. And sometimes the coefficient or utility is negative, so the element actually works to reduce the percent of respondents, so fewer think the idea is far better than current.

*Surprisingly, the elements don't do much. That's pretty clear when we look at the data from the total panel. Nothing pops!!*

The story changes a bit when we look at those who we label Technical Competents. We expect these people to embrace the new bank, and be happy with some of the innovations, if not all of them. Well, what do we learn?

First – they are just like the Technical Non-Competents when it comes to their response to the future. If you don't tell them what you're going to do, it's likely that they're not particularly interested. We know this by looking at the additive constant. It is 29, meaning that 29% of these so-called Technical Non-Competents say that the next gen bank will be better. You must give them specific information to get them interested. But what should that specific information be?

Second – there are a bunch of ideas that appeal to these people. Skim Table 1 and look for the elements shaded in grey, and pick them out yourself. Here are five ideas that can each add at least 8% of the participants who will say '*I'd be more satisfied than I am now*'.

- 1. Securely access and manage accounts or funds transfers by PDA, Internet or automated telephone**
- 2. Our priority customers get priority service immediately upon entering a branch**
- 3. New technology insures consistent banking experiences on your computer, PDA or cell phone, at ATM & over the phone**
- 4. Our bank employees use dedicated Voice-over IP line so call-in customers get what they need fast with no hassles or loss of information**
- 5. Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM**

We'll see later on how choosing and then combining strong elements can really bolster efforts to create the next gen bank.

## **Different strokes for different folks – capitalizing on mind sets**

We just saw that some of the ideas appeal much more to those people who consider themselves Technical Competents. That's very nice, but nothing really exciting. It would be nice to find breakthrough ideas, with impact values of 15 or so, and in fact with a whole bunch of these impact values.

Anyone walking through a supermarket will be struck by the realisation that on shelf after shelf we saw competitor products lined up, one against the other. Just look at the mustard section, for example, and you will see all sorts of flavours, varieties with different additions, put out by marketers trying to entice the buyer. Twenty years ago mustard was mustard, with maybe a Pommery mustard in the lot, along with the standard frankfurter mustard. The category has exploded. Marketers recognise that there are lots of different customer groups out in the population, with different tastes. It's not limited to mustard either. Whether you are looking for tea, for pasta sauce, pickles, coffee, bread, etc., there are different 'minds' out there, responsive to a variety of different sensory characteristics.

Why not for banks? We find it for credit cards, for insurance, and the like. What type of mind-sets can we find for the next gen bank? We're not talking here about those who feel comfortable with technology versus those who don't, but rather about people with truly different needs and wants. These different groups may want very different features. Furthermore, what one group likes the other group may absolutely dislike. We are talking about grouping that go beyond the traditional demographic and psychographic market segments.

Let's see what happens when we divide these individuals by the specific *pattern of elements that appeal* to them. Notice that the emphasis is on patterns, not single elements. There are lots ways to divide people by these patterns, known collectively as clustering or segmentation. To keep things simple, we divided the 267 participants into four different segments or groups, looking at the patterns of their utilities. Individuals in a specific segment (S1 – S4) showed relatively similar patterns. Individuals from different segments showed relatively dissimilar patterns.

Whenever we begin to divide people by their 'revealed mind-sets' (i.e. by how they react to things, not by what they say about themselves), we have to keep three things in mind. First, we want to be able to work with truly different groups of mind-sets that differ radically from each other. Second, we want to be able to interpret these mind-sets. Third, and most important, we want to find opportunities to create a stellar banking experience. Hopefully there will be some elements in these segments that truly break through the clutter, and give us a real chance at creating this stellar bank of the future.

Armed with these rules of the road, let's see what we discovered. We did not start with four segments, but rather started with two segments, then three, then four, then five. We looked at what elements floated to the top for each of the segmentation efforts, and stopped when we could interpret each segment. Two segments and three segments produced some groupings that were easy to interpret, but others that were not. By the time we reached four segments the stories behind each segment were easier to discern, so we stopped in the interest of parsimony. (Don't divide people into more groups than is absolutely necessary, because when it comes time to create new banks and services, fewer segments are better from the viewpoint of operations and marketing).

Let's look at the winning elements for each segment. We see those elements in Table 2. We might have put all of the elements in the table, but we'd have a wall of numbers and the effort involved to understand what's going on might be just too great. We look now into one segment at a time. Note that the additive constant ranges from 26 to 34, meaning that all of the segments have the same ingoing interest in the next gen bank. *It's the elements that will have to do the work to convince the participants that what they are getting will be better than what they have now.* That is very important learning, just at the start. People aren't waiting for the next gen bank – we have to earn their interest.

---

### **Segment 1 (self-reliant on-line banking seekers)**

This segment comprises around 40% of the participants. They really don't respond to much. About the only strong element is the real-time feature. ***We will answer all your requests in 'real time' by email, instant or text messaging.*** It's important to realise that not everyone wants the next gen bank. Virtually 40% of the participants can't be excited by what the bank promises. This first segment provides us with a dose of reality – and cautions us not to think that everyone is waiting for this new bank.

---

### **Segment 2 (technology and high security seekers)**

This segment is about 20% of the participants. They respond strongly to security, and to security backed up by technology. Thus they will really feel that they have an improved experience if the bank can facilitate transfers safely and electronically: ***Securely access and manage accounts or funds transfers by PDA, Internet or automated telephone.*** They also feel strongly about pure security: ***We keep the most secure customer identity system anywhere via biometric identification.***

---

### **Segment 3 (collaborative on-line seekers)**

This segment comprises about 20% of the participants. They like working with the bank's staff, in a collaborative mode: ***Faster loan application process...work in real time online with a loan officer.*** Part of the experience desired by these individuals is the personal touch.

---

### **Segment 4 (Personal touch with technology seekers)**

This segment comprises about 20% of the participants. They want some feeling of connection with the bank, but a feeling that they are recognised as individuals. Thus ideas appealing to them are: ***Manage all you banking needs with self-service state of the art kiosk and be confident that live help is available if needed, and all of our bank departments are connected in 'real time' so we get all your needs met in the branch quickly.***

The segments like different things. It's important to realise, however, that each segment except S1 (Self reliant on-line banking seekers) can be ***truly*** delighted by the correct choice of offerings from this next gen bank. This is what we are looking for – the breakthrough ideas that touch some of the customers, if not all of them. We're likely to have a better bank if we understand the 'rules of the customer mind', what's going on, what delights them. Now we have the building blocks, which are ours to assemble in any way we wish. Yet, we're at an advantage – we have a real sense of how the world works in the customer's mind for these features that we could include.

**Table 2 – Winning elements from four segments of customers faced with the next gen bank. The winning elements all have high impact or utility scores , great than 10. Each winning element will add an additional 10% or more of the respondents in that segment to say that this next gen bank is better. An impact of 15 or higher is a breakthrough.**

	Tot	S1	S2	S3	S4
<b>Base Size:</b>	<b>267</b>	<b>105</b>	<b>50</b>	<b>59</b>	<b>53</b>
<b>Constant:</b>	<b>31</b>	<b>34</b>	<b>28</b>	<b>31</b>	<b>26</b>
<b>Segment 1 – Self-Reliant On-line Banking Seekers</b>					
We will answer all your requests in 'real time' by email, instant or text messaging	1	7	-11	3	-1
<b>Segment 2 – Technology &amp; High Security Seekers</b>					
Securely access and manage accounts or funds transfers by PDA, Internet or automated telephone	3	-3	18	6	-2
We keep the most secure customer identity system anywhere via biometric identification	3	0	17	-7	7
New technology insures consistent banking experiences on your computer, PDA or cell phone, at ATM & over the phone	2	-3	16	-1	-1
Our priority customers get priority service immediately upon entering a branch	3	-2	16	4	1
Our bank employees use dedicated Voice-over IP line so call-in customers get what they need fast with no hassles or loss of information	2	-3	13	6	-2
Use one encrypted password for all banking services via Internet, cell phone or PDA	1	-3	12	-6	4
Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM	4	3	10	-1	3
Now you can schedule time online to meet with our banking experts in a branch, online and/or by teleconferencing	-2	-2	10	-13	-4
We have the most secure biometric system that identifies you as you enter the branch so we can process your needs faster	2	-1	8	-5	6
<b>Segment 3 – Collaborative Online Seekers</b>					
Faster loan application process...work in real time online with a loan officer	0	0	-8	12	-8
Our bank's customer service reps will help you browse and use our online banking services	-1	0	-6	10	-10
<b>Segment 4 – Personal Touch with Technology</b>					
Manage all you banking needs with self-service state of the art kiosk and be confident that live help is available if needed	-2	-8	-8	-3	18
We have a secure electronic signature for all in-branch services and transactions... so banking can be done anywhere at anytime	2	-4	-2	4	17
All of our bank departments are connected in 'real time' so we get all your needs met in the branch quickly	1	-2	-8	3	15
We offer a bank-issued smart card so we can recognise you entering the branch and process your needs faster	4	2	6	-3	13
'Real time' voice and video conferencing in-branch so you can access our experts in ANY banking department	1	-4	-6	6	13
Bank employees use Internet-enabled application for faster service ..one screen shows all relevant customer/bank information	0	-2	7	-11	11

## Dialling a bank opportunity

We'd like to end this piece with a vision of how a bank might engineer the future using the knowledge obtained from this and other similar exercises. Our database provides an excellent tool for this engineering. Let's do an exercise that the bank planner might follow, to create three features of the bank which in total, appeal to our three responsive segments (Segments 2, 3 and 4, respectively). We won't bother trying to satisfy Segment 1 (self-reliant on-line banking seekers) because there is nothing really that appeals to these people. It does, however, make sense to appeal to the other segments, as long as we recognize that each segment has some ideas that really appeal to them. Let's combine the ideas so that the total appeal of a 3-component idea for the bank is as high as can be for the segments, recognising that they differ from each other in what they want.

To do this, we use the 'concept optimizer', a tool that comes with Rule Developing Experimentation. You can think of the optimizer as a means to sift through lots of ideas, and find combinations that work together well.

Then, we'll finish these steps by developing a 'typing tool'. The objective is for a bank representative to sit with a new customer, discover that segment to which the customer, even if this is the first meeting!, and then look at the computer screen to find out what features, what messaging, what 'tonality' appeals to this segment, of which the customer has been identified. Thirty minutes later, we'd like to see the customer and the bank representative deep in conversation about 'now that we together have designed what YOU, *Mr. or Ms. Customer Name* want, which of these others offerings do you think you might want as well!'. Of course those will be the cross-selling offerings that appeal to the segment to which our customer belongs.

Let's begin:

---

### **Step 1 of 4: Define the target.**

Look at Figure 5. The goal was to create a combination of three new features, which satisfy Segments 2, 3 and 4. Recall that each segment responds to different sets of experience features. Is there a combination that appeals to all three segments? Can we, in one combination, create the next gen bank experience for a whole group of people, even though they have different wants?

At the very bottom you see that we have picked three groups (Segments 2, 3 and 4). We want to optimize each of them. We've given them different weights, because prior to this white paper we 'played with the data', and gave the different groups varying weights, so that in the end we make sure that all groups come up reasonably high in satisfaction. The optimizer let's us do this exploratory weighting, and immediately find out that we need to give some groups more weight than others to bring the total scores up as high as possible. Keep in mind we're not creating an average experience. No. Instead, we are creating a far better than average experience, knowing that our target customer groups look for different things. We (or the bank) play the role of master blender of these different needs.

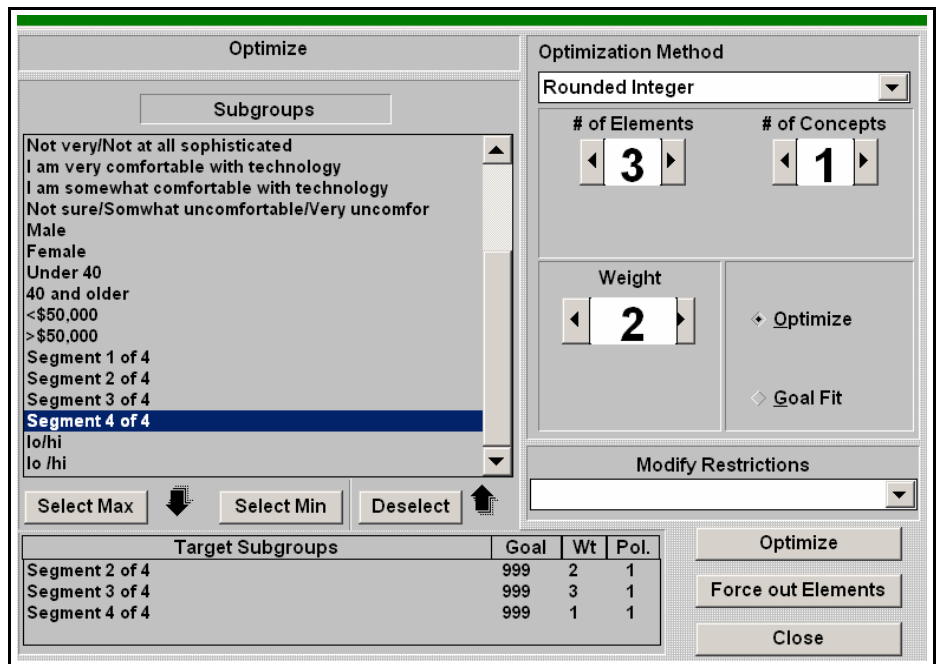
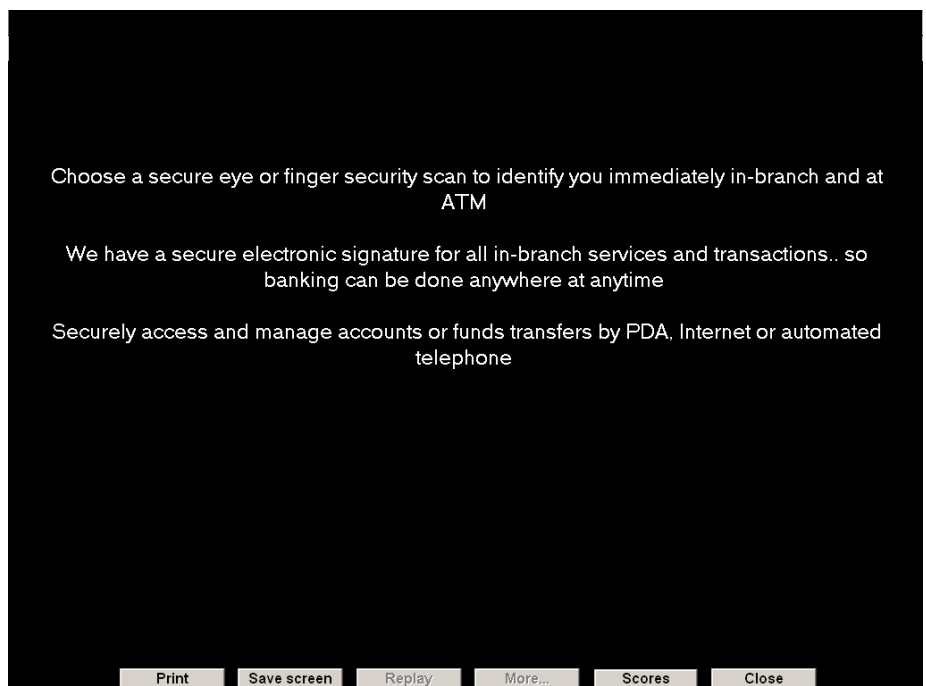


Figure 5: RDE Concept Optimizer

**Step 2 of 4: Instruct the optimizer to identify the best combination that maximizes the three segments simultaneously, or which maximizes any one segment (for individualized, optimized selling to a specific customer)**

We see the best combination in Figure 6. Our concept optimizer looks through the different combinations, weighing these alternatives until it comes up with a combination that appears to satisfy all three segments at the same time. This is critical – knowing the segments allows for a combination that has the ‘right stuff’ for each segment, rather than a mediocre combination that is simply acceptable.



## Figure 6: Concept Optimizer Results

### Step 3 of 4: Determine how each element drives the overall rating.

We see this in Table 3. Let's go through this table in a bit of detail. The top row shows the three elements which together drive the response, and which attract the different mind-set segments. We see immediately that there are no big hits that appeal to everyone. We learned that before, but now it's important to reiterate. Our exercise prevents wasting time, looking for a magic bullet that simply does not exist.

If we look closely, we see that each of our three elements performs either well or poorly in a particular segment. Now that we have chosen these three elements we can take their utilities or impact values and add them to the base interest. The total represents the proportion of people who would say that they feel more satisfied.

Let's go one step further. If we didn't have to satisfy all three segments, but rather only two, we might find a different, even better combination of elements. We wouldn't worry so much about satisfying everyone. In fact, when we look at Table 2 we find that the more we focus on one segment, the more likely it will be to create far more spectacular experiences because we will have isolated a group with a specific mind-set, know what appeals to them, and do not need to worry about the other segments that may be less satisfied. But – that is a business decision – to appeal to a group with a good experience, or a mind-set segment with a great experience.

**Table 3: How the different elements 'drive' the responses of the total sample and the mind-set segments**

	Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM	We have a secure electronic signature for all in-branch services and transactions.. so banking can be done anywhere at anytime	Securely access and manage accounts or funds transfers by PDA, Internet or automated telephone	Base interest (constant)	Total Base + element contribution
Total Sample	4	2	3	31	40
Segment 1 Self Driven On-line seekers	3	-4	-3	34	30
Segment 2 Technology/ High Security Seekers	10	-2	18	28	54
Segment 3 Collaborative Online Seekers	-1	4	6	31	41

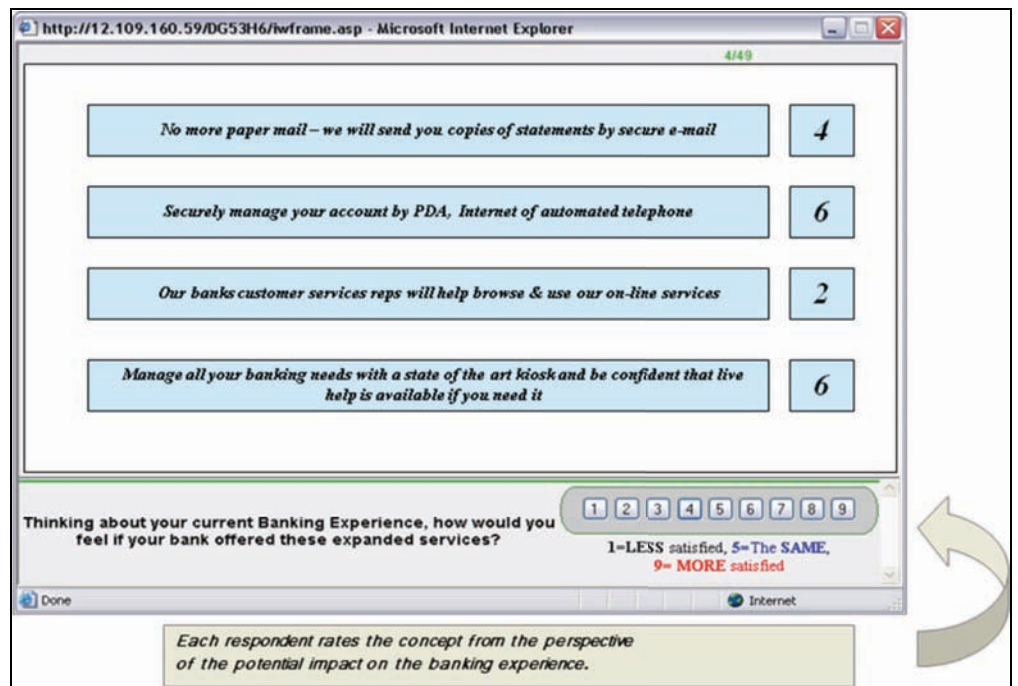
	Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM	We have a secure electronic signature for all in-branch services and transactions.. so banking can be done anywhere at anytime	Securely access and manage accounts or funds transfers by PDA, Internet or automated telephone	Base interest (constant)	Total Base + element contribution
Seg 4 Personal Touch Technology Seekers	3	17	-2	26	43

#### Step 4 of 4: Typing a new customer to create an individuated, optimized selling experience

Let's now fast forward a bit, say three weeks after the experiment has been run, the data analyzed, the segments determined, and the 'hot buttons' or strong selling messages developed. We know from looking at Figure 6 that we can 'dial a product' for any segment, or any combination of segments.

What happens when a new customer comes in, one who may be new to the bank? Can the bank 'type' this new customer as belonging to one of the four segments? And, if so, why not 'dial up' the offer for the customer, once we know to which segment the customer belongs. Imagine the sense of joy in the meeting when the customer realizes that the bank is offering exactly what tugs at the heart of the customer?

It's a matter of typing. Let's use the data to create four questions for the customer to answer in a 60 second "scratch test" to discover the DNA of their addressable mind. We see an example in Figure 7. The questions come from the original survey where we discovered the 'hot buttons', and the segments. ***Once the customer scores each of the questions, which are presented on the Customer Service Representative's screen, the typing engine calculates into which addressable mind segment the customer falls and notifies the CSR.*** The CSR then uses the appropriate marketing material for that segment which is a by-product from the original survey and unique for each mind segment.



**Figure 7. Typing Engine screen used by the CSR and customer at the beginning of their interaction**

## What comes next in banking?

It is clear that those banks that differentiate themselves in the marketplace with an exceptional customer experience are those banks that will set themselves apart from the commodity perception that customers have of banks. However, that exceptional customer experience cannot be done without an eye to the financial impact to the bank, with the key measurement indicator being the Efficiency Ratio.

The bank can change the advertising, marketing and branding. Yet without the individual customer experience to reflect that brand, customers will see through the façade and vote with their feet by leaving. Thus, using a systematic, measurable, closed loop approach to creating a customer experience that reflects the DNA of each bank is necessary to not only survive, but thrive.

The Closed Loop Customer Experience Management system embodies the voice of the customer, and the voice of the employee in that customer experience. It begins by stopping the bleeding and fostering customer retention. It extracts best practices from employees and uses those as the foundation for that next gen experience. With this as a base, the voice of the customer can be determined through future-oriented, predictive analysis techniques. These are straightforward to implement, granular in detail, and operationally meaningful. They reveal what to do and how precisely to say it. Finally, using “as is” and “to be” modeling tools and methods, the bank then measures the impact to the efficiency ratio.

In today's reality few banks are organized around the customer. Traditional bank organizations are modeled around products and delivery channels. The initial challenge is to get these bank silos to act as one in terms of delivering an exceptional customer experience. This is a transformation that can be accelerated by using the techniques outlined in this paper. Each step is a self standing discipline, but perhaps the most important step of all is to maximize the ability to use a scientific approach to predict the next gen exceptional customer experience.

## Putting it altogether – the view from 20,000 feet

We've gone a long way in this paper – from recognizing the future in banking to putting some specifics around what that future should be. We could reiterate what we've done in this concluding section, but that is just restating what we learned, based on our efforts. Let's go in a different direction. Let's talk about what we really tried to accomplish here.

If you read this paper closely you will see that we began with a sense of the present, where things are going. We could have presented trends, and hypotheses. Instead, we worked in a different way. We assumed that we had available to us 'pieces of the future', these short phrases that describe aspects of the customer experience. We could have had the customers rate or rank these phrases individually. We might then have gotten some of their feelings – albeit, in a politically correct mode, where they would have to think about each phrase separately, and never think about the combinations of these pieces. This approach, one by one, leads to politically correct behavior.

Well, we did it in a different way. We combined the elements into vignettes of the future, threw the vignette at the respondents, and forced the elements to fight each other, so that the strongest elements rose to the top. In essence, we created a Darwinian selection of 'slices of the future', where the strongest, most impactful would win. There is no chance for political correctness to bias the efforts. At the end, the winning elements come out strongly and clearly, as do the segments. We can feel comfortable that winning elements truly win in this trade-off battle where all these pieces of the future compete with each other.

And the end, what is the end product? Simply the ability to '**dial up the future**', much in the way that we dial up products, messaging, or package design, in the recently published book by Howard Moskowitz and colleague Alex Gofman. The book -- *Selling Blue Elephants: How to make great products that people want before they even know they want them*".

Ultimately this is all about science based research that is turned into business action. Action by the bank that delivers a better customer experience based on what the customer feels and not guesswork on the part of a corporate team. This translates to greater employee and customer satisfaction resulting in increased revenue – true bottom line impact.

For more information about RDE read about the approach in-depth in [www.SellingBlueElephants.com](http://www.SellingBlueElephants.com)

or contact the authors of this paper:

Steve Onufrey  
Retail Banking Solution Executive  
SRO Group LLC  
+1-215-460-8888  
[Onufrey@verizon.net](mailto:Onufrey@verizon.net)

or

Howard Moskowitz, PhD  
President  
Moskowitz Jacobs, Inc.  
+1-914-421-7408  
[mjihrm@sprynet.com](mailto:mjihrm@sprynet.com)