THE CUSTOMER COMES FIRST

Banks that want to delight their patrons need to invest in product and target market innovation, argues Harshit Jain

Today, you can book a cheap airline flight and a hotel room from the comfort of your home at midnight to fly away the next morning for a quiet weekend getaway with your family for Eid.

This might have seemed impossible just 15 years ago, but by innovating in the way they produce and deliver their services, airlines have allowed the dream to become a profitable reality. Airlines know that they cannot rest on their past innovations, however; they need to continually think about what the next generation will expect of them in 15 years' time.

Banks and financial institutions have a lot to learn about customer service from airlines, hotels and telecommunications companies. The same goes for innovation as well. While successful banking innovations include ATMs and internet banking, banks cannot afford to stand still.

The quest for innovation

According to the World Economic Forum's *Global Competitiveness Report 2012-13*, the United Arab Emirates (UAE) is the only country in the Middle East that can be classified as a Stage 3 (innovation-driven) economy, a classification it has enjoyed for seven consecutive years.

But although the UAE is an innovation-driven economy, a trend towards innovation in banking and financial services here is not as apparent as we might have expected for these reasons:

- Bank-customer relationships have historically been biased in favour of banks.
- Customers have been happy to choose banks based on trust, convenience and pricing rather than innovation and product leadership.
- Decision-making within banks at management level is aligned to the 'bonus-to-bonus' time cycle, which results in a risk-averse culture spreading among employees.
- Prolonged 'short-termism' (ie taking one year at a time) among bank employees and their customers results, at best, in incremental innovation rather than anything too radical or disruptive.
- Low levels of empowerment among bank employees, coupled with country residency laws, encourage them to take the safe option of relying on bank policies and guidelines when it comes to customer service and innovation.

CEOs and general managers of banks in our region must keep their teams focused on being innovative, customer-driven and service-oriented while challenging them to do things differently. This will help to establish them as leaders in a rapidly changing marketplace where customer trust and loyalty are at an all-time low.

Target market innovation

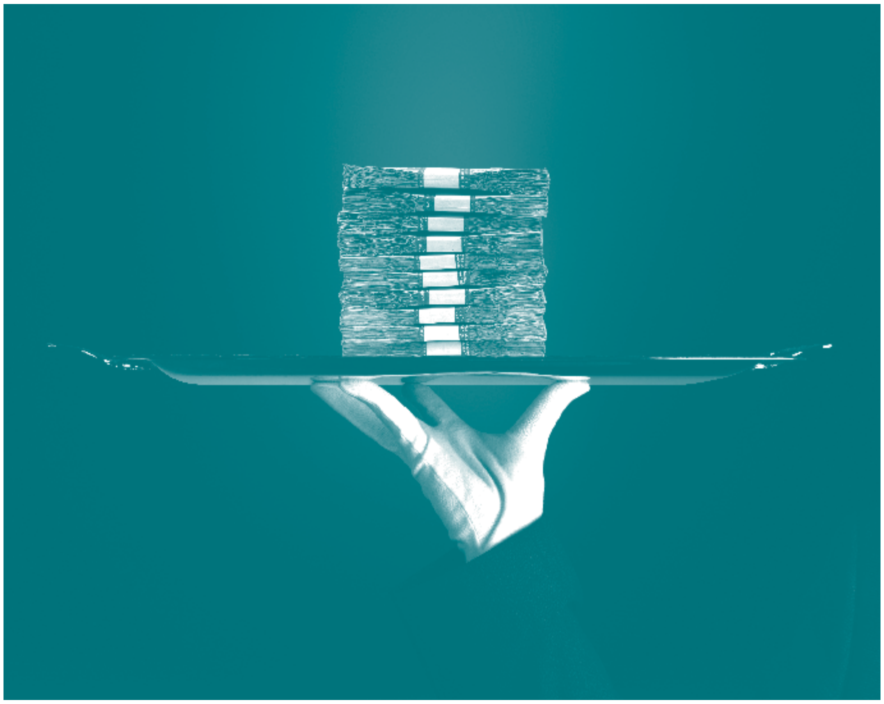
For some reason, many successful banks are imitated by their 'me-too' competitors. Banks that try to compete in a space where intense competition already exists can suffer because a strategy of matching and beating competitors tends to emphasise the same basic dimensions of competition. In their book, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, W Chan Kim and Renée Mauborgne suggest the solution is to look for a market space that makes the competition irrelevant. The challenge is to introduce new dimensions into the market segmentation, positioning and targeting equation that other banks cannot immediately match.

In their eagerness to become all things to all customers, banks sometimes lose focus of what their definition of service is. In their seminal work, *Market Leadership Strategies for Service Companies*, Craig Terrill and Arthur Middlebrooks highlight this as the starting point on a journey to leadership. A simple question, like the one emphasised in the story on page 11, would be the equivalent of a bank asking: "Is our bank really in the service industry?"

GLOBAL COMPETITIVENESS REPORT 2012-13

RANK	TOP COUNTRIES GLOBALLY	GLOBAL RANK WITH STAGE	TOP COUNTRIES IN MIDDLE EAST REGION	GLOBAL RANK WITH STAGE
1	Switzerland	1 — Stage 3	Qatar	11 — Stage 1
2	Singapore	2 — Stage 3	Saudi Arabia	18 — Stage 1
3	Finland	3 — Stage 3	UAE	24 — Stage 3
4	Sweden	4 — Stage 3	Oman	32 — Stage 2
5	Netherlands	5 — Stage 3	Bahrain	35 — Stage 2
6	Germany	6 — Stage 3	Kuwait	37 — Stage 1
7	USA	7 — Stage 3	Jordan	64 — Stage 2
8	UK	8 — Stage 3	Iran	66 — Stage 1
9	Hong Kong	9 — Stage 3	Morocco	70 — Stage 2
10	Japan	10 — Stage 3	Lebanon	91 — Stage 2

Note: Stage 1 economies are factor-driven; Stage 2 economies are efficiency-driven; and Stage 3 economies are innovation-driven.



"In my project several respondents suggested this fact [that service innovations are easy to imitate] as a reason for the low number of innovations in banks. A bank that innovates will not receive much of the profit from the process because competitors quickly imitate the new product [or service]."
B Naslund in his EFI Research Paper/Report

"It is up to you to exceed customer expectations."
Walt Disney in his message to his theme park employees

I was a customer, and I wanted to buy bread.
"No, I cannot take your money. Fill out this form," you said.
"We have policies and processes and credit checks to do. Then, if we find you qualify, we'll make some bread for you."
But all I wanted was to pay with cash, you see, and hurry home with bread because a meal awaited me. "That's not our business practice; you must obey our rules! You customers are all the same, no respect for our schedules!"
I clenched the fist that held my cash, but then I looked away, and saw a sign across the street: "Fresh Bread Sold – Your Way!"
– Your former customer[1]

Once the bank's senior management has clearly articulated its definition of service and communicated this throughout the bank, innovation through precision targeting becomes a simple exercise:

◆ Uncover under-served business segments. In the past, banks did not focus their 'corporate banking' attention on customers such as oil giants and shipping companies because they did not need credit facilities and were too transactional-heavy and therefore service-demanding. Today, banks realise that they need to have such customers in their portfolio, both to build a strong core liabilities base and generate non-funded income.

◆ Unearth customer needs that are not being met. Telecoms company Safaricom noticed that the banking infrastructure in Kenya was poorly developed. So in partnership with Vodafone, it launched the M-PESA mobile banking service in 2007, which allowed its customers to pay bills, deposit cash and send cash to other mobile phone users. The initiative was a runaway success. As many countries in the Gulf Cooperation Council boast mobile phone penetration levels in excess of 200%, the lack of agility among banks in our region to offer m-banking services is very surprising.

◆ Take a narrower focus and become number one with certain 'right' customers. Banks could use one of the six mechanisms below to encourage the 'right' customers and discourage (perhaps even fire) the 'wrong' customers:

1 Offer different levels of service for different types of customers. While it may seem pretty obvious, many banks have uniform service standards that are advertised on their website/branch without any differentiation.

2 Offer different pricing for different types of customers. This is self-explanatory and something banks are generally very good at.

3 Set expectations in advance. Try to under-promise and over-deliver while tailoring the services and environment to the target customer.

4 Provide more convenient access for customers. This needs to take into account what is convenient for the customers, not what is more cost-effective for the bank.

5 Pre-screen customers and accept only those that meet specific criteria.

6 Communicate only in places where target customers will see messages.

For service organisations like banks to attract the 'right' customers, it is imperative that they realise service experiences are intangible and involve 'manufacture' and delivery happening simultaneously. In reality, there can be a large gap between what customers expect and what is actually delivered to them.

Leading the way

For the Middle East to claim its place as the financial centre of the world, banks and financial institutions need to become even more customer-centric and involve customers in the development of new products, services and channels that streamline processes for both the bank and its customers. They also need to create a service-oriented and empowered workforce. Banks that attract the 'right' customers can consistently delight them, which will translate into higher levels of customer loyalty and a more motivated team of employees.

[1] *Who Stole my Customer??* by Harvey Thompson (Singapore: Pearson Education, 2004)

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