GRAB THAT WALLET!

A Book on Financial Services Marketing

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Sushil Sharma

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To

The long suffering financial services consumer

PREFACE

The ideation of this book has been contemplated over the past 15 years, which now, finally is taking shape.

It all started when I worked in a bank. It was a time of declining interest rates. Every day depositors would stop by at my desk and ask for higher interest rates and complain that rates at our bank were actually dipping quite low.

Simultaneously, at internal management meetings, the pressure was upon us to take in deposits at lower rates, thereby managing the bank's costs.

The contrast with my prior experience was quite dramatic. Did I really now work in a business where my goal (lower deposit rates) was in direct conflict with my customer's goal (higher deposit rates)? Could it really be possible that this was an industry in which the real goal of the business was quite the opposite of customer satisfaction and delight? But that was just the beginning.

As this idea germinated, I came across similar situations in the financial services industry. Lenders wanted to charge a higher rate of interest. While those working in credit cards were figuring out ways to debit charges to the customer in ways he wouldn't notice or couldn't complain about.

If a person had bought shares in Infosys for about a lakh of rupees in 1990 and had stayed invested all through doing nothing at all, that sum would be worth about ₹25 crores today. But, his broker would have become a pauper. A customer who actually buys and holds for the long term does no trading and pays no brokerage. Hence, the broker does not let too many of his customers stay invested, which is directly against the customer's interest.

A similar conflict of interest existed in the mutual fund distribution industry but it was not like distributors were wrestling with their conscience. Distributors made more money from getting customers to jump in and out of schemes than merely staying invested. Even blue chip banks (which would not dream of doing anything similar in their European home grounds) churned customer portfolios regularly every three months. The list is pretty much endless.

I have often joked that having worked in banking, fund management, insurance and other financial service organizations, I would really prefer to keep my money in a pillow, and honestly, that is not entirely a joke, but I have no choice. Treating it with humour reduces the pain.

When we choose a service provider who is a large and respected name, we expect institution-type behaviour, behaviour which will retain and grow our trust not just for our lifetime, but for generations, like the advertisements show but what we actually get are profiteering companies.

This is not a phenomenon restricted to any one country or any one sector within financial services. The headlines are similar in the US as they are in the UK. The feelings are similar in the East as well in the West.

One suspects, that the financial services industry survives, more because their services are essential in the modern economy and not because they have endeared themselves. In fact, most of us settle down with the least bothersome provider, not the best, but the least of the bad choices.

These are generalizations. There are exceptions and there are examples of companies that have got it right, or of certain products which work right. They are simply not enough in number to make a difference to the broad society. There is a surfeit of companies vying for our business but a dearth of institutions doing the same. Rather than complain about this state of affairs, it makes sense to apply one's mind to the issues that surround this industry.

Management thinkers have often required us to adapt their theories to our specific industry or company. However, there is no roadmap on how to specifically do that.

This book attempts to build those bridges and answer questions bedeviling the industry as much as its customers.

It is fair to assume that companies want customers for life. It is an even greater certainty that salespersons want to achieve mega-sales. And for sure, relationship managers want to hang on to their relationships. This book shows how.

The hope is that businesses will align completely to the long-term interests of their customers despite the inherent conflicts of interest. The hope is that those in customer serving positions will do what is right for the customer and find a profitable and sustainable way of doing so by using the approach advocated in this book. By being like that, it is hoped that the employers will become institutions, and that employees represent institutions rather than mere companies.

SUSHIL SHARMA

ACKNOWLEDGEMENTS

A book which has been more than 15 years in the making, owes a lot to everyone I encountered over this period. That would include every employer, every salesperson that called on me and every book, magazine and journal I read in this period.

Clearly, that is a lot to acknowledge and I am not going to attempt the impossible.

As with any work of mine, my father's influence and the effort he put into educating me and making me what I am cannot go unacknowledged.

Neither can that of my brother, Ashok, who has filled that space for me ever since my father left us.

My wife Kamala, as you would expect, ends up listening to all my ideas and helps me focus on those which could be beneficially developed into something meaningful, like this book.

My good friend Mahender Yogender provided a critique and it helped me make up my mind on what this book was and was not about.

My colleague B.T. Rajan once again demonstrated patience with another of my far-into-the-future projects. Raghav P., another patient colleague assisted with lots of research requirements necessary for a project of this sort.

To all those named and unnamed, I hope you can spot yourself in my effort which you so ably supported. All the shortcomings of the book merely underscore what you already know about me!

SUSHIL SHARMA

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CHAPTER 1

IS THERE A PROBLEM?

MANKIND'S OBSESSION

Money is man's obsession. It has been so from the beginning of time and will remain so till the end of mankind.

However, something has changed in the last couple of decades. While the earlier obsession was with one's own money (and on ways to earn it), the obsession now is with other people's money.

Our latest and growing obsession is to make money by helping others make their money. The business of separating us from our money, be it to manage it for us, grow it for us, move it around for us, or to merely separate us from it permanently, is now an industry. It is called the financial services industry.

This obsession is reflected in economic data. If we look at the percentage of gross domestic product contributed by the financial services industry and consider the numbers employed in that industry, adding to this the number of employees in the information technology (IT) and business process outsourcing (BPO) sectors that support the core financial services industry, we are talking of a significant proportion of the modern economy.

It also dominates the media. For the last several years, we have had sustained headlines with the financial world at the centre of attention.

There was a frenzy that preceded the global financial crisis, followed by the appalling events and headlines surrounding the financial crisis itself—and now the aftershock and public outrage and battle to control, regulate and tame the sector.

The obsession continues.

You would have thought that as an industry whose job is to obsess with other people's money, the business of financial services would be well understood by its practitioners. With that you would expect that the art of separating me from my money is being practised with finesse.

It is not.

The outrage over profits made by financial companies and the distrust with which their business practices are being examined are evidence that many practitioners in the financial services industry fall short of standards set by their counterparts in other industries.

For instance, if Apple Inc. reports excellent profits, it is attributed to their innovation and design excellence; there are no protests of the kind which accompany similar announcements by commercial banking or investment banking companies.

Previously (before 2008) when main street bankers reported huge profits, there were protests that those profits came from indefensible charges levied on members of the public as customers of those financial institutions. Post 2008, there were still louder protests when losses were made. Those losses too had to be paid out by the same members of the public—this time through the public exchequer.

Then, as the crisis abated, if any financial company reported profits, that too was met with horror: we bailed them out and now they are making money? What about repaying us, the tax-payers?

Damned if you do, damned if you don't.

As you read through this book, it will become clear to you that many of those working in the financial services industry do not understand the nature and dynamics of this industry well enough. You probably already know this, given the kind of customer service you receive. But read on.

If you are a consumer, then you will want to know why you are subject to the kind of experiences you have faced and which are recounted in this book.

All professionals know that a sustainable business can be built only on a base of satisfied customers. A financial services professional must answer the question: why is customer satisfaction so elusive in this industry? Can my company and I achieve that goal?

Financial products are different from physical products. How consumers respond to products in this space is different too. Financial companies behave differently towards their customers than other companies do. These differences give sleepless nights to consumers, while the service provider spends sleepless nights worrying about building a business on the back of a gaggle of fickle consumers.

Let us understand the reasons for these sleepless nights.

Ram and Shyam have been friends since childhood. They have lived in the same neighbourhood, studied at the same school, and both resolved to become lawyers. They worked together on their preparations and were admitted to the prestigious National Law School. Ram joined the credit documentation department at an American investment bank. Shyam joined the law office of a Supreme Court trial lawyer of some repute.

Their salaries were different, but not by that much. The two friends now decided it was time to fulfil a childhood dream of buying a zippy car. The choice was made; they would buy two of the same model—one in a dazzling blue and the other a flashy yellow.

Loan applications were filled out to take a loan from a large national bank which regularly advertised on the front pages of the daily newspaper. "Our car loan product is designed to fulfil your dream!" screamed the ad from the right bottom quarter.

Ram's loan was sanctioned within 48 hours; Shyam's was rejected within the same 48 hour window.

What happened? The two had seemingly identical profiles; how did one get rejected while the other was approved?

Ram is the bank's ideal profile: well-educated and working for a multinational corporation earning a six figure salary every month.

Shyam is categorised as a lawyer; lawyers are considered to have a negative profile, as a litigious lawyer can prove difficult to recover loans from.

"No the ATM does not dispense loans and that is not what we mean by 'Easy Withdrawal Program'!"

Nothing is as easy as it seems!

TRANSPLANT AND WITHER AWAY

The direct transplant of the term "product" into the financial services industry is a significant disservice to evolution of the field of financial services marketing.

It would appear that the use of the word "product" has led to a tendency to directly apply concepts and experiences from consumer and industrial marketing to the financial services sector. Physical products and financial products are substantially different. The pitfalls in transplanting ideas from one field to the other without understanding the differences are, of course, significant.

DON'T WALK IN, DON'T BUY

You cannot just walk in and buy a financial product. You can walk into a supermarket and buy a tube of toothpaste; you cannot walk into a bank and buy a savings account.

As a customer, you have to qualify for the financial product. There is no guarantee that you will qualify, even if you consider something as obvious as placing a deposit in a bank. If you fail to meet a bank's "Know Your Customer" and "Money Laundering" standards, that bank may turn you away; never mind the millions you were going to place. In fact, the larger the deposit, the more deeply you are likely to be scrutinised. This is not the industry's fault; it is the state of the post 9/11 world. Terrorists and drug smugglers are a matter of caution.

Two friends go into a supermarket with a shopping list. So long as each has the money needed to pay for the goods they pick up, both can pick a similar tube of paste, the same brand of soap, shampoo, cologne and anything else they choose to pick. They do not have to qualify for the product. The manufacturer may have intended it for rural markets. There is nothing to prevent an urban dweller from picking it up and putting it to use, or vice versa.

In the financial services space, the problem commences right after the salesperson convinces a prospect to try a product. The prospect must now apply for the product and hope to qualify. The impact of a rejection at this stage is quite severe on the brand and the person representing the brand, namely, the salesperson.

TELECALLER: "Good morning, Sir! I am calling from YCY—not Bank".

YOU: (cautiously) "Good morning".

TELECALLER: "Sir, you have qualified for a pre-approved home loan from our bank for ₹20,00,000. You have to provide no documentation for this loan as you are recognised as a valued customer of our bank, and we already have your records with us".

YOU: (pleasantly surprised) "Oh? Thank you!"

At this point, you feel that all your years of brand loyalty and integrity are recognised by at least by someone on this planet.

TELECALLER: "Sir, I just need to verify a few facts. Do you have any other home loan?"

YOU: (taken aback) "Yes, I do. In fact, from your bank only!"

TELECALLER: (after suspiciously long pause) "Sir, someone from our sales team will call you back". (Click)

You never do hear from them again. In fact, if you call back, it will be impossible to trace the person who originated that call or the person, process, system or software which put you on that "pre-approved" list.

In fact, you are angry now. The bank showed you how little they know of you, whereas they should have known you only too well. That home loan is six years old and you have faithfully paid every instalment, never overdue, not even by a day. And they don't even know you have that loan?

Why did they phone you and whip up that dream of a second home? The human brain is amazing: in that brief instant, it conjures up castles in the air. The disappointment is instantaneous too.

Financial products are, indeed, different.

Ask any insurance salesman who brought in a prospect willing to pay a fancy premium only to have the underwriter reject the proposal.

Ask any relationship manager who brought in his best customer as part of a "cross-selling" campaign run by his bank only to have the relationship soured by a blunt rejection on the basis of some criteria.

ARE YOU AT MY DOORSTEP?

Physical products *do not* require continuous interface with the seller.

A lady buys a hair dryer from Philips. No one from Philips is needed to help her whenever the product has to be used. She uses the product daily several times independent of any interaction with the producer. The only interface might be when any repairs or servicing is needed. This is true of televisions, cars, planes, mobile phones, electronic gadgets of all varieties and, indeed, any physical product.

The same lady, when she used her credit card to pay for that hair dryer, communicated with her card issuer through the little machine at the cashier's desk. It might well have happened that the first card she tried to use was rejected: an embarrassment for the lady and a resolve on her part never to use that card again when someone important was around. She might have shuffled through the cards in her bag till one worked. The causes for rejection of her first card could range from technical glitches to suspension of her limits for non-payment of dues.

In contrast to physical products, every use of a financial product involves sustained and periodic—if not continuous—contact with the producer. The promise of a financial product is fulfilled—or fails—at each of those interfaces.

You interface with your bank every time you draw cash at an ATM. Payment of monthly instalments for loans due involves contact with the bank. Acting on the advice of your broker to invest in a particular stock involves routing orders through that broker. And the ownership of a life insurance product involves the minimum contact that an annual payment involves.

In fact, insurance products, whether general insurance or life insurance, are tested for the delivery of promised benefits only when a critical event has occurred in the customer's life. If the product is going to fail, this is a critical time at which it fails—just when it is needed the most.

A person travelling abroad buys travel insurance. He is given a little card with a variety of numbers which he can call in from different countries of the world, depending on where he runs into trouble.

He loses his luggage and his passport in Spain. Fortunately, the little card is in his pocket and has a listed number in Spain where an English-speaking person will be available. The insurance policy promises a specified sum of money which will help him buy clothes, pay his hotel bill and he should be able to buy tickets to reach the consulate.

But there is no response from the emergency phone number provided. Usually such emergency services are provided by third party service providers. These third parties are contracted by the insurers to provide the emergency service. The reasons for failure in the cited instance could be many. The service provider was changed and the new information was not updated; the Spanish telephone system underwent a number changes which were not updated with the insurer; and so on.

To the traveller, the reasons are no consolation. At his critical moment of need, the product has failed him.

Financial products need constant interface with the provider, and any of those interfaces could fail at a very inconvenient moment.

HOW LONG HAVE WE KNOWN EACH OTHER?

The possibility of failure exists with physical products too. But the failure of a financial product creates another completely different situation which alienates the customer quite completely. And in this, the contrast with physical products is particularly dramatic.

Mr. Bose bought a Hyundai car several years ago. On a rainy night, due to his careless and negligent driving, his car spun out of control and slammed into a wall.

Miraculously, the sidebars in the car prevented him from being impacted in any way. In fact, even the exterior of the car looked quite perfect. Mr. Bose was very pleased with his purchase. The car served him well for all those years, with only routine visits for regular service at the dealer.

One day when he moved his car he spotted a wee drop of oil on the ground below. It had been quite a few years. Perhaps the vehicle was now going to need more maintenance. His children too had started pestering him; they were bored with the same old car. Mr. Bose resolved to trade up, but it would have to be a Hyundai. The experience was flawless and guess what—the car was engineered for safety. Remember that incident all those years ago?

The long years of satisfied usage had made him brand loyal. Hyundai was going to reap the rewards of building a great product. Not only did it win repeat purchases from Mr. Bose but he also waxed eloquent of the car's safety features while recounting his hairy experience to friends and relatives for years after that rainy night several years ago.

Mr. Bose also enjoyed long years of satisfying service from his old bank at the corner of his street. He made no unusual demands and most of his normal needs were met promptly. Mr. Bose never overdrew his account, had never bounced a cheque and had an impeccable record with his bank.

Unknown to him, modernisation had overtaken his bank. Cheques which used to be cleared at the branch near his house were bulk processed at the cheque servicing utility that his bank had established downtown. The regional processing centre methodically processed cheques with mind-bending efficiency. Every customer was a number, every cheque a transaction, and every process had a service delivery level that had to be strictly adhered to.

One day a cheque came up for clearing which had been signed imperfectly by Mr. Bose. Owing to the rigorous method at the processing centre, the cheque was rejected. It happened to be a cheque written out to his wife's brother and caused him no end of embarrassment. ("How come a cheque issued to ***my brother*** was bounced, while no other cheque has ever bounced before?" she wanted to know.)

Mr. Bose was furious with his bank. "Don't they know me? They have known me for so many years! Could they not have checked this with me once? All those years of loyalty and this is how they treat me!" Mr. Bose thought in anguish.

Years of experience, all flawless, turn negative in financial services with a single incident. The same feelings would be provoked if an old customer of the bank was refused a loan.

One mistake (or even a valid judgement) of the service provider can quickly become an insult, and the customer might decide to change to another bank, broker, or other provider.

The contrast with years of flawless experience with a physical product is dramatic.

PRODUCTS OR PROCESSES?

Many of these issues can be understood and handled differently if it is acknowledged that financial products are not products; they are processes designed to deliver an outcome.

They are closer to "service" than "product". Furthermore, service and process failures can happen.

The service industry aspires to six-sigma standards in delivery. However, it also recognises that a failure may happen one in a million services. The response to a service delivery failure and how the customer is handled is far more important than the failure itself.

Many a customer loses his sting if offered an apology and a cold glass of water before a discussion of his problem. Quite often, all that customers want to see is empathy and patience. If that is present, there is lots of scope to handle the issue.

These differences are well understood by champion salespersons and relationship managers at financial services companies.

The champion befriends the insurance underwriter, understands his processes, and gets a sense of which considerations cause a policy to be rejected. Loan originators maintain a negative list so that those loans which are sure to be rejected are not sourced in the first place.

Many salespersons do not participate in "cross-selling" campaigns despite management exhortations unless they are sure of the careful and exact process by which their precious relationships will be handled.

In the financial services industry, there are those who own the client (salespersons, relationship managers) and those who have to push product and sales (product managers and other seniors). The relationship managers spend considerable energy insulating their client relationships from their own company's products of which they are unsure. The product managers have to invest considerably in convincing their colleagues on the sales side. The customer lies beyond.

Concept by Mr. P. Kora Ipe

"Never mind your sales success. Your ideas are all very well in practice but they will never work in theory!"

We often pay for surveys to find out what our people already know.

Let's kill the goose that lays the golden egg.

A blue chip bank with a wealth management practice decided to make the most of newly available life insurance products. Banks had only just been allowed to earn commissions from insurance sales.

The business unit head set ambitious insurance sales targets for the team. The relationship managers, motivated by the blandishment of spectacular bonuses, pushed large ticket insurance products to their clients using "clever" selling pitches.

It worked—in the short run. Clients bought insurances with spectacularly large annual premiums. A bulk of the first year premium was paid out to the bank as fee income by the insurance company. It turned out, however, to be a scorched earth policy. In the cold light of day as the sales pitch receded in memory, the clients found the annual premium bill to be quite hefty. In fact, it sucked out any excess liquidity and did not permit them to pursue any asset allocation strategies for the next few years.

The relationship managers were to rue the sales-led approach to their relationships as the clients refused to commit more money through them for newer investment ideas the following year. Whether due to the insurance plans sucking up liquidity or due to a sense of exploitation the insurance sales plan turned out to be a scorched earth policy.

LONG-TERM CUSTOMER SATISFACTION

Several generations of modern managers are reared on management texts which exhort us to achieve customer satisfaction, customer delight, and other such business utopia.

It is now well-accepted wisdom that if you keep your customer happy, he will keep you in business.

There are several ways in which businesses become customer-focussed. Firstly, the company could simply be business-savvy. The Toyota Motor Company is a good example (though not the only one) of a company intensely focused on giving customers what they want (quality, reliability) at a decent price.

In other cases, customers have made sure that companies learn the hard way: complain, walk away, and sales figures drop. It forces the company to take note and to refocus on what the customer really wants. Or perish. The latest in this club is Starbucks, the US coffee chain which is reinventing itself and going back to its basics as sales dipped in recent years.

Management education too has played its role in reinforcing the idea that customer satisfaction is a cherished ideal for any business organisation. For instance, case studies on Toyota and Apple find their way into business school classrooms and freshers arrive on shop floors indoctrinated to aspire for customer satisfaction.

It is indeed a happy state for customers to be in. Their product and service providers are scrambling to find ways to keep them happy and make them happier. Quality improves and/or prices drop, and customer satisfaction soars.

Every day, a product design manager at Toyota wakes up and thinks of ways to make his car faster, cheaper, more fuel efficient, greener, snazzier, peppier, and so on.

In fact, Toyota's much serenaded research and manufacturing processes focus on incremental continuous improvements to find new ways of delivering customer delight. Such sustained focus has in the long run led to Toyota sitting on a pile of cash and industry leadership where others are scrambling for cash to survive.

CUSTOMER SATISFACTION? WHAT IS THAT?

Contrast the above with a possible product management function at a financial services organisation.

Every morning the bank gets up and thinks of ways by which a customer can be convinced to place a deposit with it ***for lesser interest***. This is in direct conflict with the customer's goal of earning ***more interest*** on deposits placed.

A "product manager" for loans is constantly seeking ways to charge the customer more interest—once again in direct conflict with the customer's goal of paying less.

In fact, the banking industry is unique in its quandary. It must borrow for less from depositors and lend for more to borrowers if it is to make money.

In all other industries, those you source input materials from are your suppliers. If you face intense price competition or margin pressure you can call in your vendors and work creatively to reduce costs.

A manufacturer will bluntly ask for price reductions from suppliers. He can also rework production strategies (automotive industry) with vendors to achieve cost savings.

Usual examples of this are redesigned production steps that shift an assembly step to the vendor's site, or different packaging that saves money in a non-value-added step. Porter's Value Chain analysis is used to great effect to achieve such savings. The entire success of Swatch as a watch manufacturer is based on reengineering design (reduce the number of moving parts and sub-assemblies) so that production can be reengineered and cost savings are achieved.

However, in banking, the supplier of money—the depositor—is also your customer. The supplier is *not* your vendor. It would have hilarious and tragic consequences if an organisation were to herd in all its depositors and ask them to creatively find ways to charge the bank less, merely because the bank was facing pricing pressure on its loans! ("Dear Customers, we have called this meeting to save 2% on the rate we pay you on deposits. Please be back in six weeks with your plans on how we are going to make this happen together!")

The insurance industry has its own version of this dilemma, but they have finessed it with brilliant product packaging and selling. There are situations, as a result, in which the client's interest is not served by buying a particular product. Because insurance salespersons are so adroit, skilful and persuasive, most countries allow for a "cooling off" period in which the client can reverse any decision at no cost to the client. In the cold light of day, if the client feels he has been sold something which leaves a less savoury taste in the mouth, he can change his decision.

A share broker's ultimate nightmare is that a customer will in fact actually stick to the advice of investment gurus like Warren Buffet: *Invest for the long term. Do not jump in and out of stocks like a rabbit. Do not churn your portfolio; buy and hold. In the long run you will make money.*

If the client did that, the broker would earn no commissions! It is in the broker's interest to balance those investment mantras with a suggestion to reallocate investments and portfolios from time to time. This will result in customer buying and selling from time to time earning the broker commission. This need on the broker's part for customers to churn their portfolios is in direct conflict with the customer's long-term interest of staying invested.

How companies work to avoid these situations is discussed later.

However, the conflict of interest between the companies and consumers is in the genetic code of the financial services industry.

A LAW TO PREVENT YOU FROM KILLING YOUR CUSTOMER!

The inherent conflict of interest in this industry has led to the legislation in Europe, followed by similar (though weaker-willed) moves in the USA.

Europe implemented in late 2007 what is known as "Conduct of Business Rules". The cut and thrust of the legislation on both sides of the Atlantic is similar: an investment firm must place its customer's interest above its own. *Those are the exact words.*

Similar legislation, as "in-the-face" as this, in other industries would sound ridiculous. Imagine the food industry being asked to swear that its consumers would not die and that the industry would try to ensure they do not get poisoned. Of course, there are laws for food standards, hygiene, use of ingredients, and labelling. But those are the equivalent of disclosures in the financial industry.

Here is the difference: it is not in the interest of a food company that its customers die from consuming their products. Therefore, an enlightened business, if it wanted to thrive, would ensure that the basics are met and then aspire to create delight by way of the total customer experience which includes taste. Those companies which violate the food standards tend to be fly-by-night operators.

However, in the financial industry, keeping the consumer in a sub-optimal state is necessary owing to the direct conflict of interest in almost every financial product situation. The companies which are now asked to pledge to a higher code of conduct are not fly-by-night operators. They are main street financial services companies.

> General insurers delight is in their genuine desire for their customer's well-being. Many a senior manager has inducted a rookie salesperson into the organisation telling the kid that he is doing social good in selling insurance. If anything bad were to happen to the customer, the insurance policy can soften the blow and, in some cases, set the client completely back in his pre-loss position.

Having made the sale, every morning the insurer wakes up and prays that his customer is fine. No accidents, no fires, no explosions, no heart attacks. God bless my customer. A fortunate customer is not a loss experience.

An unfortunate customer is a loss experience.

In the financial services space, insurers are almost unique!

HOW DO COMPANIES HANDLE THIS?

As we will see in later sections, some companies in the financial sector handle this well. They work ceaselessly for the long-term good of their consumers and over the years, acquire the label and brand image of an "institution". An institution is one which rises above the ordinary. It aspires to standards which are timeless and do not focus on short-term corporate profits. Do the right thing for your customer and you cannot possibly be at a loss. The role model is, in many ways, Toyota.

Toyota thinks customer-centric in a timeless fashion. When oil was $ 16 a barrel, no one thought of fuel efficiency. American car companies were selling gas-guzzlers and Americans were buying them. Toyota spent money during those years developing hybrid car technologies. The first implementation of that is the Prius. In a world in which cars stand unsold for months, there is a waiting period for buying the Prius. Toyota is an institution.

Unfortunately, there are only a handful of companies worldwide which would fit this standard in the financial services space.

Goldman Sachs is a brilliant company. Cases will be written in the years to come on how an organisation of that size can "turn on a dime" and change its business model in weeks to match a changed environment.

The company is also an expert risk manager. They were one of the early companies to spot the incoming wave of the US mortgage industry crisis. They sold their positions long before others even knew a crisis was at hand. They sold their positions at a profit; their peers and competitors would find just months later that those same positions were simply unsaleable at huge losses, let alone at a profit.

The story would end with a sense of marvel—but for the other little thing that Goldman did. They sold their positions to their own customers. Their sales team called on investors asking them to buy what they themselves were getting out of.

In 2010, Goldman settled the case brought by the US Securities and Exchange Commission for such practices by paying a fine of $550 million.

India in the 1990s had institutions. Some of them used to think for a couple of decades at a time. Indeed, they are the investors in most of the market infrastructure companies that India built in those early years of transformation. The National Stock Exchange and all the other related structural entities (NSDL, CCIL, etc.) that were needed to build out India's modern and state-of-the-art capital market were created in that era.

What we have now are no longer institutions; they are merely banks. And surprisingly, quite a few are happy to be identified as that. In the quest to run faster and harder, we as a nation lost something. We just do not know it yet.

NO WAY BUT TO STAY STUCK

Consumers, even if discontented, do not have viable options. A customer changes a service provider a couple of times and finds that there is no significant difference between one organisation and the next. The problem is not at the organisation level; it is an industry issue.

Consumers have no real choice. They need a bank, an insurer, a broker. After a series of indifferent experiences, each consumer settles down with the least bothersome service provider.

And the financial organisations plough on.

"But you will have to wait. All the executives are away in a program on 'Delivering Customer Joy'!"

Meetings consume time meant for business.

WHY DOES IT HAPPEN IN FINANCIAL SERVICES?

Philip Kotler, Michael Porter, Robert Kaplan and many others, through their seminal and path-breaking work, established the framework for modern marketing management and strategic thinking.

Many industries have benefited tremendously from this rich repository of thought. These thinkers applied the concepts that they developed for many industry, consumer and service situations and showed us how to apply these concepts at work.

Institutions, organisations, companies and individuals have studied and applied these concepts. P&G, Unilever, Intel, Toyota, GE, Apple and several others have shown how to do it.

The management thinkers have articulated several times over that the models need to be adapted to a company's specific situation.

We have not worked adequately, indeed failed, in thinking our way through how these concepts apply to the financial industry.

MAKING THE ADAPTATION

This book is an attempt to bridge the gap between the existing body of knowledge in strategy and marketing and its applicability to the financial sector.

Do you want to rapidly acquire customers? Would you like to grow your business? How about wanting to increase your share of the customer's wallet? Do you think you should retain customers for life?

You might be a CEO of a financial services company. You might be the chief of strategy. You might head sales and marketing. You might be a salesperson.

Whoever you are, the answer to each of those questions has to be "Yes!"

Turn the page. Let's figure out how to do this.

Let's get salespersons into the boardroom.

After all, a sale is where strategy is delivered. Robert Kaplan's balanced scorecard approach makes the crucial link between operational detail and an organisation's strategic intent. Nowhere is this more so than in the case of sales. Sales is "strategy delivered".

Champion salespersons chart a tactical course quite their own. They succeed regardless of the organisation they work in and are usually snapped up by competition for that reason.

Many companies spend vast sums on surveys to arrive at insights that they could very well glean from their own sales force. The salesperson knows exactly which products sell and which don't, and why. They know operational glitches in sales and service because their customers get right back to them if something goes wrong.

And yet, one often gets bewildered looks if one narrates a field experience to a corporate staffer.

It is a pity that many salespersons and managers do not make it to positions in marketing, marketing strategy— and the boardroom. The usual reason is a lack of education and many a successful salesman fattens on his bonuses and does not invest in learning those skills needed for the transition to management.

Many companies have persons in charge of strategy and marketing who have never come face to face with a customer. If they met a customer who was dying for their product they wouldn't know it.

If that sounds implausible, ask any salesperson about what he thinks of the folks who set strategic targets and create campaigns in his organisation.

If Unilever is an admired company with a staggering talent pool (that quite often others feed off), it is because every management trainee spends his first few years selling the company's wares in all sorts of locations, remote and urban. When this person arrives in the boardroom you can expect realism and a close understanding of the ground realities of being in that business.

Yet, there is a chasm to be crossed in transplanting a distribution manager from FMCG into a financial services company.

CHAPTER 2

WHAT DO OTHER INDUSTRIES DO?

It is an inescapable feeling that Steve Jobs must be smiling to himself about the price that his fans are willing to pay for every product that Apple launches. It is a position all of us as producers (whether of products or services, financial or otherwise) want to be in.

Imagine: Being able to sell a product for several times what it cost to make!

Still more incredible, imagine each of us as consumers being thrilled at being able to buy an Apple product at all—never mind the price. We must secretly hope that the producer doesn't discover how thrilled we are; if he did, he might charge more. But even if he charged more, you would still be willing to pay more. Witness the queues at the Apple stores on launch dates and the eye-popping numbers racked up by the i-Pad.

Imagine: Both the seller and the buyer are delighted as they feel they have struck a deal. This is the business utopia called win–win. Most of us recognise this as the accepted way to negotiate and strike larger business deals. But it is equally true of products and services. Things that are bought off-the-shelf are negotiations too, the difference being that the producer is not present and so does not get a chance to renegotiate. Either the customer agrees or he walks away.

Only those businesses *endure* which *leave something* on the table for the consumer. Only those businesses *prosper and flourish* which *take something* extra away from the table at which the consumer is.

The financial industry needs to make special note of this.

"Oh, but we already know this!"

Maybe you do. After all, marketers in the consumer space are masters of this art, like Apple mentioned above and others that will be discussed later. However, the concept defies a direct transplant to financial services and the outcomes are visible in the industry. Read on.

CONSUMER SURPLUS

If you are to take something extra away and leave something extra on the table, there needs to be enough on that table to do both of those things. A marketer must create a feeling that whatever is the cost of making a product, it is worth a lot more to the consumer.

This is the concept of "consumer surplus" which is elegantly defined in the field of economics: the value derived by a consumer in excess of the price paid for the product.

One part of the equation here is to handle the feeling of "value derived". For most products, value derived is a feeling, a mental state. Apple handles this expertly by cloaking its product launches in secrecy. When Apple was a lesser company, secrecy was not such a big deal. Back then, it was an element of surprise. Now that Apple has shown that it can surprise, secrecy works.

"How is he going to surprise me now?"

There is a sense of excitement in that exclamation; it is not a question at all. The craze results in fans queuing for blocks overnight. Each wants to be the first to hold, touch, feel and use Apple's latest.

The central theme of marketing as a field is to create that sense of value and possibly isolate that sense from the price paid. This aspect has benefited immensely from work done in Brand Positioning as an area.

There are many different ways of creating that sense of value. Happily for marketers, the measurement of perceived value is an imperfect science. It allows them to play with value preceptors and brand signals. The concept of "positioning" (Al Ries/Jack Trout) creates a sense of value. All put together, the brand experience can create a feeling in the customer that he got more than what he or she paid for.

Luxury brands provide a great example. The customer often feels that the brand attributes are transferred to him or to her. If the shoes are Louboutin or if the handbag is Hermes, the person is making a statement.

Toyota's brand position is that if you buy a car from them, it would be a value for money proposition which would serve you for a number of years with no hassles and minimal maintenance needs and costs (notwithstanding recent hiccups).

It is an exhilarating experience to be a manufacturer whose pricing is rarely challenged and sales just happen. It is an equally exhilarating experience to be a consumer who gets more than what he paid for.

These ideas and their application have to be transplanted to the financial services if there is to be any hope of achieving consumer surplus in this industry. It is not an easy task—here is why.

The cost of manufacturing beer just about reaches double digits (in rupees). A chilled bottle retails for approximately ten times that cost. An avid consumer might shop around to identify an outlet that sells the beer properly chilled rather than for one that sells it for a wee bit less. (No one really sells it for less. In that sense, it is a perfectly marketed product!)

Now imagine this: You are lounging by the pool side on an island in the middle of the Indian Ocean. The sun is slowly setting and the sky is radiant with a riot of colours. Birds lazily flap past, homeward bound. Life is perfect.

The resort's elegant stewardess materialises at your elbow and asks: "Would you care for a bottle of chilled beer, sir?"

You are hardly likely to ask the price. This is what you work hard for! This is what you put up with your crappy boss at work for! These are the moments you really live for!

> The human brain rationalises. Once it wants to pay, it pays—no matter what the price is. You will happily pay ten times the retail price at that moment. Consumer surplus is created by offering the product in that setting; the product price dips into the consumer surplus you experience and the hotel gets away with a well-justified premium.

PERCEPTION ELIMINATED!

Customers of financial companies have precise measures of what they paid; they have this data for all other products and services that they buy or consume too. However, unlike for the other products they consume, in financial services customers also have a precise value for how much they gained: interest earned, value of investments, net asset values gained and so on. If the customer is the type who obsesses about money as most of us do, he keeps a close eye on these numbers. So not only is value measurable, it is also closely observed.

This poses significant problems for marketers in the financial space.

The customer of a bank has a precise measure of how much he has earned on a deposit. The customer of a brokerage or a fund house has an exact measure of the value of his investments. This is easily compared with the cost of the brokerage or advisory fee paid. And so it is with every single business and product within the financial services space.

Financial companies, of course, keep trying to make small sums of money from each customer by charging amounts that they hope the customer will not notice. The tactic works. Often customers that do notice are unable to do anything about it. Over a period of time, this inability to stop those little charges adds up to a seething resentment.

Do you own a credit card? How does it feel to see all those little charges which are so mechanically added to your dues? The rules are applied ruthlessly, including an “over the limit” charge.

(Many customers cannot understand how they could have gone over the limit at all, much less how they could be charged for it. By the time they figure it out and stop using the card beyond the “approved limit” they have already paid over a tidy sum to the card issuer.)

Now pent-up resentment is hardly the sentiment a business wants its customers to have! But there you are. The only feeling which is worse than the one of being cheated is the feeling that the other guy is getting away with it. The bank may convincingly argue that they are hardly cheating the customer; it does not change the way the customer feels.

Banks do work hard at creating a sense of value by providing a range of ways in which customers can access their money at the bank. But the nature of money is such that the customer quickly takes the new facility for granted. The mental position is: "It is my money and they are doing me no favour by letting me access it".

If any company in this space has an opportunity for creating a sense of value that is immeasurable, it is insurance companies. There can be no value placed on an insurance plan that pays cash on a hospitalisation cash plan. The money comes in handy for medical treatment precisely when it is needed. Similarly, there is no measure of value for a life insurance plan that pays the survivors a much needed sum of money to tide over the irreplaceable loss of a loved one.

(Of course, in the case of life insurance, the customer must die for the sense of value to be realised. There's a thought. Dead customers are no good. You cannot charge them anymore.)

And thus, the sense of surplus, which allows the producer to charge more (or at least make his customer less price sensitive), eludes the financial services marketer.

To be sure, there are financial services companies that have succeeded in creating viable businesses. We must learn from what they have done; but equally we must learn from the limitations they have faced. We must understand how they have done what they did; we must also examine what else could be done.

APPLYING PORTER'S MODEL TO FINANCIAL SERVICES

We saw in the previous chapter instances of financial companies focusing on short-term approaches for making money off their customers. The stated goal of a business is to create value for stakeholders through a process of delivering customer satisfaction in the long term.

Strategically speaking, a business needs to create a long-term sustainable business position.

Michael Porter's seminal work on creating and sustaining competitive advantage is designed to help companies to do just that. Let us see how it might be adapted to the financial services industry.

Reproduced below is the chart presented by Porter in his book *Competitive Advantage*:

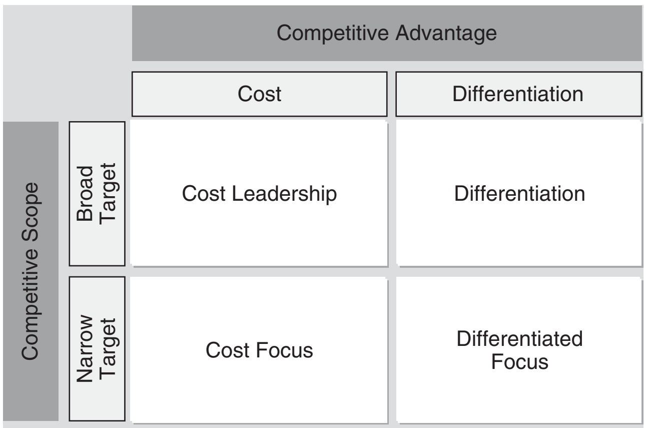


Figure 2.1: Approaches to Strategy

While a brief description does no justice to the depth of his work, let us quickly make sure we understand what this chart stands for. There are two ways in which you can define the scope of what a business wishes to do: either have a broad target market that offers scale and size or have a narrow focused market which you can serve really well. Then you could choose to be either a cost leader or a differentiator whose products stand out differently from those of the next guy.

Place them in a matrix and the four boxes give you four different ways to approach the marketplace and create a sustainable position for your business.

Cost Leadership

In banking, cost leadership, as visualised by Porter, is achieved if a bank can lend at rates far lower than competition—profitably and sustainably so. Quoting lower rates for loans blindly is neither profitable nor sustainable. Moreover, in the accepted paradigm for bank regulation, a bank which does not price the risk in a loan correctly is subject to additional capital requirements by the regulator.

Selling a product deliberately at a loss has to be paired with a deeper strategic intent. The so-called "loss leader" must result in customer acceptance of the brand, and other products are expected to be sold to that customer down the road help recoup losses in the introductory product.

This concept is to be used with great care and products should be sequenced in a specific order to execute this strategy to perfection. At a later point, we will examine how to apply such strategies specifically to financial services.

The ability of a bank to *profitably and sustainably* offer cheaper loans comes from achieving control over the one or more of the five forces described by Porter which are shown in the diagram below:

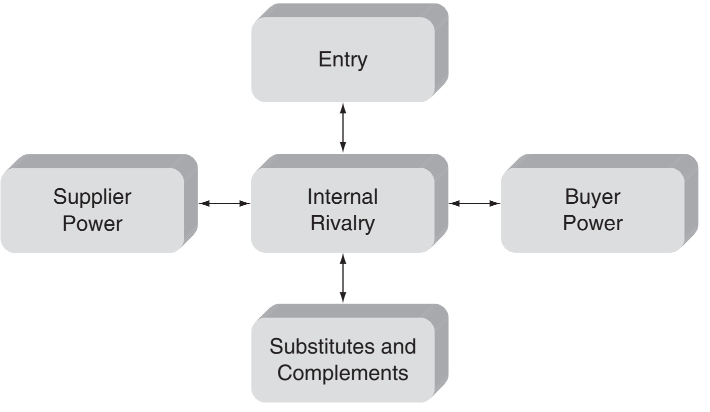


Figure 2.2: The Five Forces

Once again, this is another powerful concept and in attempting a quick explanation one is taking liberties. Simply put, a business's position and sustainability depends on how much influence and pressure each of the five exerts on the business: (1) What existing competitors are doing (internal rivalry)? (2) Are customers powerful? (3) Are those who supply the business powerful? (4) Is there threat from new entrants weaning away a business's customers? (5) Finally, can other products substitute the business's product and undermine the business?

For a business to build a sustainable position, it should have control over one or more of these five forces.

Earlier on, we noted a piquant situation bankers are faced with. With Porter's five forces model alongside, that situation can be appreciated better. The supplier of money to a bank is a customer group known as depositors. The user of money from a bank is a customer group known as borrowers. In this manner, bankers are faced with the situation where the supplier is actually a customer.

Therefore, a bank's customer on the deposit side is a source of costs. Managing this cost involves getting the customer to part with his money for lesser. If you offer his lesser rates on his deposit, he is likely to take his custom elsewhere. In the normal course, customers are only a source of revenue. Normal experiences do not equip us to handle this situation.

In a highly competitive scenario, if both depositors (asking for more interest) and suppliers (asking for lower interest) flex their muscles, it puts the banker in a bind.

Banks which pursue a robust plan of acquiring savings accounts in large numbers reap benefits as these accounts supply money which is essentially low cost. Such offerings involve bundling of a number of free services which encourage the customers to keep their accounts with the bank.

The large pool of low-cost customers gives a bank the possibility to offer loans at a cheaper rate. This, then, is sustainable competitive advantage.

The alternative is to be strong in the lending market. If that allows the bank to charge more from borrowers, the banker may be able to pay more to its depositors.

You have to be strong in one of the two to play the other.

And if you are strong at both borrowing as well as at lending, take a look at HDFC Bank.

HDFC Bank leads the pack in Indian banks in having gained control over its supply of money. Current and savings accounts constitute up to 49% of the total deposits of the bank. The bank has achieved this by executing a brilliant strategy of selling its products in bundles.

By contrast, the traditional Indian public sector bank enjoys a high proportion of low-cost funds for certain historical reasons.

The banks have a proliferation of branches and these banks did not enforce any minimum balance requirements on customers. As a result, millions of account holders have small balances quite often unclaimed for years on end. The state-owned banks are also bankers to the State and Central Governments, which provide a large pool of low-cost funds.

In the Western experience, shockingly, many banks operated their loan portfolio without the backing of a deposit book. In the UK, Northern Rock which was a mortgage lender (home loan giver) funded its business almost entirely with short-term borrowings from banks in the interbank market. When the markets froze up in August 2007, Northern Rock was unable to repay or rollover the loans. The company needed massive funds infusions and eventually was nationalised to save it.

The same has been the experience with many US banks. This is a situation quite unimaginable in the Indian banking milieu.

During the worst of the crisis, the large investment banks like Goldman and Morgan Stanley saw that banks with large deposit bases (like JP Morgan and Bank of America) were not buffeted by the stresses faced by those more reliant on the institutional borrowing market. Goldman "turned on a dime" and changed its business model from the traditional investment banking structure to a commercial banking plan. Morgan followed suit.

Strategic imperatives compelled Goldman to subject itself to more of regulation; something which it abhorred, avoided and lobbied against for a number of years.

Let us take one more instance of cost leadership from the financial services industry, from insurance.

In the insurance industry, *sustainable* cost leadership comes from the ability to manage risks better. An insurance company with a diversified portfolio, backed by prudent reinsurance plans is more likely to suffer fewer losses. The better loss experience can be passed on to customers in lower premiums in the following periods.

The ability to manage risk portfolios prudently is a skill, not so easily replicated. An insurer typically avoids concentration of risks (geographic, categories, classes of insurance and customer profiles) avoiding large scale losses. Thus, this form of competitive advantage is sustainable.

What is unsustainable is offering discounts across the board to lure customers—a phenomenon which we saw recently in the Indian general insurance industry. This could again be a case of "loss leader" strategy, one which needs careful execution if at all it is to be pursued.

The Indian insurance industry went through a period of de-tariffing in 2007–08. The lack of a long-term sustainable approach is visible in the steep decline in insurance premium realisations. This kind of pricing is unsustainable not only because of the losses that will result. Insurers typically reinsure risks in the reinsurance market. In doing so, they must part with some of the premium that they had collected from their customers.

If the rates charged to customers are unprofitable, the reinsurance market will not accept those prices from the insurance company. The reinsurers will walk away from the insurers. If the insurer continues to price risks unprofitably, the reinsurance market will shut out that insurance company or insurance market.

Rates will pick up—if not from strategic reorientation of the companies, then from the pressures of the reinsurance market. If premiums are unsustainable, still more devastating would be to have insurance exposures without the back-up of reinsurance. Any catastrophic losses like the tsunami of 2005 or the Haitian earthquake of 2010 would wipe out the insurance companies.

Thus, the reinsurance market will make the insurance companies change their pricing policies.

In the shorter run, the insurer who is charging lower will take away the customers. In the longer run, this company will most probably close. It is the same in any industry. Those who charge unsustainable prices can win only in the short run, only to close in the longer run.

A great example of sustainable cost leadership is at the forex trading desk.

Foreign exchange desks which have a large base of customers automatically have better pricing power. This pricing power allows the desk to attract more customers. The presence of a greater number of customers allows the forex dealer to get still sharper with its pricing. And thus, the strength of the forex desk feeds itself. Here is how it works.

Imagine Infosys contacts SBI and asks to convert a million dollars into rupees. At that moment, suppose that in the interbank market, dollar quotes at ₹54.00 to the dollar. Let us say SBI offers to convert the dollars at ₹53.99. The banker will whine to Infosys that he is making only ₹0.01 (one paisa) margin by buying from Infosys at ₹53.99 and selling it in interbank at ₹54.00

Now Infosys is a customer with plenty of muscle. It might not agree for this rate. The whimpering banker will argue that well fine, for this one deal, since Infosys is upset it will abandon all profit. It agrees to convert the dollars at the interbank rate itself.

In reality, the bank might have issued 1,000 software engineers travelling abroad USD1,000 each. This totals to a sale of a million dollars. Since this is a retail transaction, the bank would be able to charge well above the interbank rate to the engineers. Imagine that rate to be ₹56.25

If this be the rate at which it disposes off the dollars it bought from Infosys, then the bank actually made a tidy ₹2.25 for every dollar it bought from Infosys.

SBI is a giant in the Indian forex market. If it wanted to flex muscles and corner the Infosys deal in competition to keep any other bank from breaking into Infosys, SBI could offer Infosys as a special "one-time" price to convert the dollars at ₹54.75, which is seemingly better than the interbank rate.

It would be notionally impossible for a competing bank to convert dollars for a client at a rate higher than that in the interbank market. Forex dealers, in fact, routinely use the interbank rate as their last line of defence against any client aggressively seeking better rates on forex transactions.

Now imagine the other big client for forex in the market, IndianOil (IOC). If IndianOil wanted to buy a million dollars, SBI could sell the dollars at ₹54.01, suggesting that it was making only one paisa on the trade (buying in the interbank market at ₹54.00 and supplying it to IndianOil at ₹54.01). Pushed by IndianOil, SBI could offer to sell dollars for lesser at ₹53.25; it would be playing against the large number of small and medium enterprises that convert their export dollars at SBI's counters.

These smaller companies have no bargaining power against SBI and will be happy to convert their million dollars (say 10 companies converting $100,000 each) at say ₹53.00. Thus, SBI, in fact, sourced the dollars it sold Indian Oil at ₹53.00 and sold them at ₹54.01 making a profit of ₹1.01, not ₹0.01 that it claims to make.

If pushed to shut out any competitor, SBI would price the sale to IOC against the buys from the exporters. SBI could offer IOC dollars at ₹46.25 if it wanted to; way below interbank and unthinkable for competitors.

Banks that have lots of retail forex sales and forex purchases are able to build positions at attractive prices that helps them bid for the bigger deals from the Indian Oils and Infosys' of the world. Adding those big deals adds to SBI's pricing power. Thus, the big get bigger.

It explains the marketing spend on getting retail forex business.

Cost Focus as a Strategy

As a strategy, it implies a narrow focus on a small market segment led by cost as a competing factor. A small shop which specialises on my mother's recipe for pickles is likely to be a very successful business, *at that scale*. My mother provides me knowhow just for the recognition charging no royalties whatsoever. As a cottage industry, I have no significant overheads. The personal attention and passion show through. It works.

You will find chocolatiers, couturiers and maybe art film-makers deploying this kind of strategy. There are possibly fashion labels which at the back-end have large production facilities and contract manufacturing which help achieve lower costs of production. However, the market in each geography is very limited; this size limitation can be overcome by targeting the whole wide world. And thus, Mont Blanc might succeed with a handful of outlets in a country of a billion people.

A small market is not a terribly attractive position in the financial services industry. As Niall Fergusson notes in his book "*The Ascent of Money*", financial companies must grow big and grow powerful.

In the era of scale, the only way to offer a narrow segment a product based on cost is, if there is a large processing backbone that enables low-transaction costs. Using technology as a means of providing access, the same capability can be made available to a narrow market.

It is possible that no one else might be able to serve that narrow market, since the cost-efficient infrastructure base is not available to everyone. However, having such a large infrastructure base implies other products and customer groups. This means the cost focus product is one in a basket of offerings, which is not, strictly speaking, a cost focus strategy at all.

Differentiation as a Strategy

A product is differentiated from another if it occupies a distinct mental position in terms of the value perceived/offered.

A BMW or a Mercedes is indeed differentiated from a Santro from Hyundai. But then a Rolls Royce is a class apart. We know the brand position of these iconic products from advertising, the price tag, the method in which they are projected and sold and from folklore. Each of these (and many other production details) adds up to the effort that goes into differentiation.

Consumer products are easier to differentiate than financial products, though one is not suggesting that any differentiation exercise is simple.

Cars based on new technologies, music systems on new sound processing algorithms, differences in colours, shapes, sizes, flavours, aromas, locations and so on, are all wonderful examples of differentiation. Some differentiators could be easily replicated while others might be sustainable.

For instance, design excellence and the aura of magic and fantasy that surround Apple's products are hard to replicate, though competitors are trying hard. In fact, Apple is a great example of how to build differentiation through a number of reinforcing steps so that no one step can be copied to replicate the brand experience.

The naming of financial offerings as "products" is a stumbling block to clear thinking on differentiators.

"YOU DESIGN; I'LL COPY!"

It is easier in financial services than any other business.

In the world of financial services, unique products can be structured. However, in order to give effect to the "product" a legal document has to be executed between the provider and the consumer. It is the nature of financial products that everything is a contractual obligation and a relationship between buyer and seller.

If you want to copy a competitor's product structure, you need a copy of the competitor's product documentation and agreement. If the document is in soft copy, all you need to do is "find" competitor name and "replace with" own company's name and you are done.

This makes sustainable differentiation a real challenge. Technology, however, has brought some differentiators to bear on financial products. However, to understand the role of technology we need to develop our understanding of how financial products work a little better.

"MY HOME LOAN IS BETTER THAN MY COMPETITOR'S!"

The moment you read that heading, you must have thought price: which loan is cheaper? And that indeed is the issue with differentiation in financial services. Price paid or income earned is the obvious measure. As marketers, this is exactly what we are trying to avoid when it comes to "differentiation". The purpose of differentiation is to stand out from the crowd: directly or indirectly, this is to result in the ability to charge a better price for our product.

We looked at the "product vs. service" problem in the previous chapter as well.

The minor benefit of viewing financial offerings as a service is that it helps achieve clarity on how service failure occurs.

Products do not live up to the promised benefits because of some service failure. The salesperson picked up a prospect of the wrong profile and so the loan did not get approved. The insurance salesperson chose a person whose risk profile was so bad that his case was bound to get rejected.

Viewing the offerings as a service at least gives us a sense of how failures happen. However, it does not do enough to give us a grip on strategy and differentiation-related issues in the financial businesses.

That insight comes from understanding product as "a series of processes that deliver a benefit".

THE PRODUCT IS A PROCESS

A woman buying lipstick buys more than lip colour. Charles Revson of Revlon Inc. recognised this early: "in the factory, we make cosmetics; in the store, we sell hope".

These are kind of insights and anecdotes that make Kotler's *Principles of Marketing* timeless. In that book, he also defines product as "...anything that can be offered to a market.... That might satisfy a want or a need".

Building upon this definition, elsewhere in the text he offers a prescription for the product planner. "In developing a product, the product planner needs to think about the product on three levels. The most fundamental level is the core product, which answers the question: What is the buyer really buying? Every product is really packaging of a problem-solving service".

These are the kind of insights from consumer marketing that we need to take to financial services marketing.

"We charge $5 for the parachute!"

What is the core product and what is an augmentation?

The marketer from a financial services provider might argue that it is precisely how they position themselves. "Make your child's dream come true" might be the tag line used to sell financial planning services. The implication means we do not merely do financial planning: we take care of generational needs through our methods.

Unfortunately, merely clever advertising lines do not deliver the brand experience or the brand intent. Advertising works only if it is the communication exercise associated with a larger design of a brand experience.

For instance, a store advertises and invites you to walk in and review their collection of bridal wear. If the store attendants are engrossed in gossip and fail to pay attention to you as you walk, the brand experience has failed the advertising. In a business context, the advertising is wasted unless you make sure to deliver the brand experience as promised.

Similarly, if you walk in to the branch of the financial company that promised to make your child's dream come true and none of the front office staff are adequately trained to engage you, the brand experience falls short of the promise in the advertisement.

As it happens, CEOs find it easier to advertise than to work through the heavy lifting involved with creating the brand experience.

Kotler also speaks of the "tangible product" which has five characteristics: "...a quality level, features, styling, a brand name, and packaging". The augmented product is the addition of services and benefits that make up the augmented product.

"Product augmentation leads the marketer to look at the buyer's total consumption system: the way a purchaser of a product performs the total task of whatever it is that he or she is trying to accomplish when using the product. In this way, the marketer will recognise many opportunities for augmenting its offer in a competitively effective way".

Each of these is concept worth their weight in gold.

The question lingers: how to take all these insights to financial services marketing?

PROCESSES TO THE FORE

Financial products are actually a set of processes which deliver the benefit set to the customer. Change the process and you change the product.

Every step involved right from prospecting, client selection, client qualification, request processing, transaction processing, release of benefits and post-transaction services, such as reporting and statements, are processes and sub-processes.

Therefore, the real benefits come from modifying processes to arrive at differentiators.

We will later see further examples of companies that have successfully done just this.

Viewing each product as a set of processes also allows us to use Michael Porter's value chain analysis. Value chain analysis is a little difficult to relate to financial services because the workflow of financial services does not follow the linearity of a manufacturing process. Michael Porter himself suggests skilful adaptation to an organisation's (and by extension to an industry's) particular value chain.

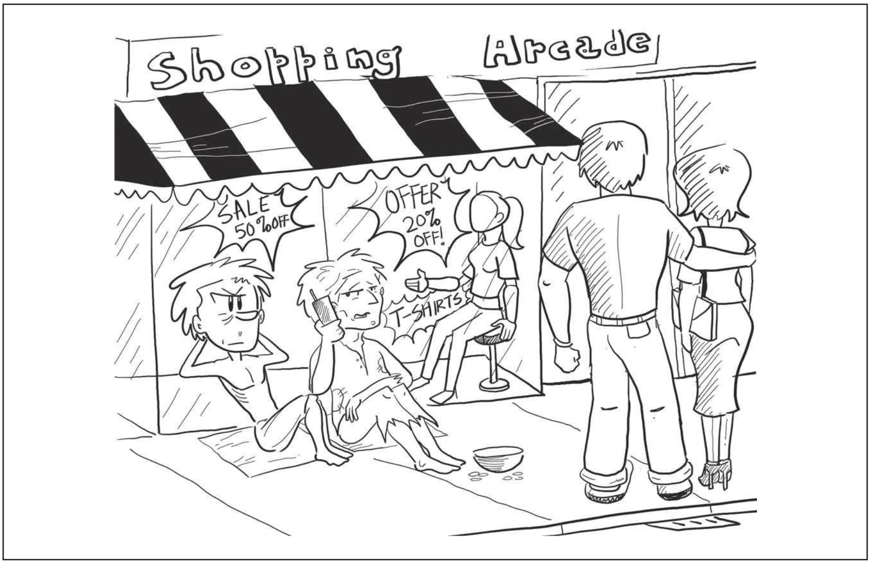
TECHNOLOGY AS AN ENABLER

Technology allows us to modify processes like never before.

It changes the way inputs are received. It changes the way processes are managed. Processes that were previously discrete, segregated steps can now be clubbed, thus eliminating redundant or overlapping steps. Finally, technology can change the methods and forms in which outputs are generated.

But if you want to be the master of technology—rather than the other way around—you must first become the master of the process. As a systems person will tell you, automating a barber shop will not make it a bakery. It is one of the principal reasons why IT projects fail—or simply drag on. The IT project does not deliver the goods or falls short. Each party will typically blame the other for not understanding the other's point of view. It has contributed in no small measure to the emergence of "consulting" as a profession: a third person to involve in the blame game.

So let us reiterate that: product delivery processes must be understood very well. If the processes are mapped to the value chain, this becomes a powerful method of building differentiators.



"I believe collections are better at the other shopping mall today."

Everything is a market!

In the analog (manual) world, there were limited ways of managing processes. Technology has changed the way customer and company interface.

To understand this impact at the level of an economy, let us examine the evolution of payment systems. Payments are a critical function performed by banks: money is moved from payer to receiver in exchange for the delivery of goods, services or other forms of money. This is, of course, the core of all economic activity of making payments a critical functionality in banking.

Traditionally, volume heavy processes have been handled in batch mode. This means all transactions are allowed to pile up before they are processed. The customer must wait. In the absence of automation, the batch cycle time tends to be long. For instance, if a bank has to process 20,000 cheques manually, it needs a lot of time to sort them into bank-wise little stacks so each stack can go to the bank where the issuer of the cheque has his account.

Once the stacking (technically: sorting) had been done, the stacks go through various subsequent processes in steps. So, cheques used to take a certain length of time to get cleared. One of the key measures of the efficiency of an economy is the time taken to effect payments. So paper instruments as a means to pay meant lower economic efficiency.

Once the world went digital, it became possible to initiate payments digitally. It also became feasible to handle (process) each transaction on its own rather than bunch them for batch processing. Thus, electronic means of payment came about and rather than wait for payment to happen the process became immediate (real-time).

As processes have evolved, the customer's methods of instructing the bank have become electronic too. As a result, customers can now electronically initiate payment requests and within a few minutes a large sum of money can arrive—electronically—in the recipient's bank account.

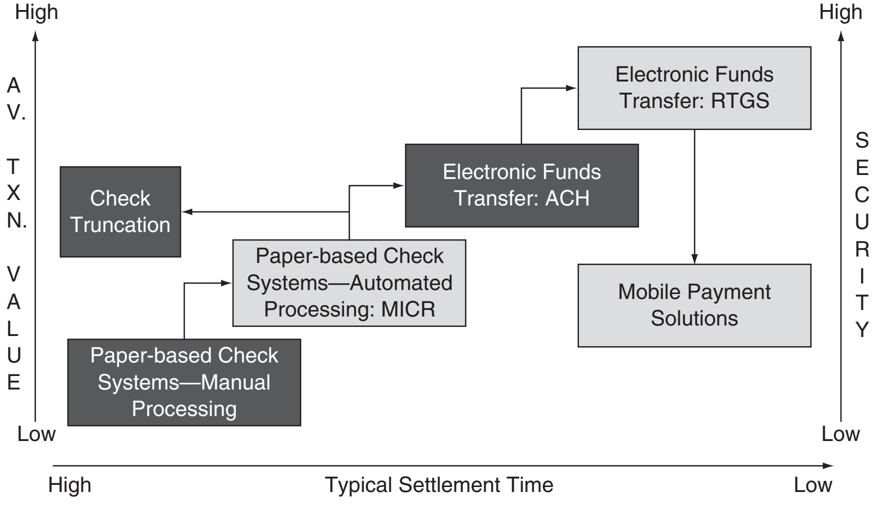


Figure 2.3: Evolution of Payment Systems

The human brain, and therefore, the evolution of man present a fascinating study. When automation tools were first available, we automated the processes which we were previously completing manually. It was a very limited use of the power of automation and digitisation. It was only after that process automation matured that we thought of fundamentally different ways of handling that process now that automation and digital capabilities had been acquired.

Therefore, in the evolution map presented above, the first use of automation was optical character recognition to sort cheques. When electronic means of payments were visualised, it continued to remain "batch processing"; even though digital processing suggests real time. Finally, real-time payment systems came to be.

Furthermore, happily for those of us interested in financial inclusion, all methods of payment are used concurrently, no one being discontinued because the next one has arrived. Much as in the mobile telephony space, India might leap-frog one step in evolution. The Reserve Bank of India announced intent (in November 2009) to introduce card-based systems for receiving and paying money on a new to-be locally developed technology back-bone.

Millions of labourers under the National Rural Employment Guarantee Scheme (and other similar programmes) will receive their payments electronically on that card. At least a part of it will get used electronically as e-money proliferates and of course, many will draw cash from an ATM. It is indeed a leap-frog if India's dispossessed directly move from penury to electronic methods of handling money.

Such systemic transformations produce differentiators (or levellers, if other countries are ahead on the curve) for the economy as a whole; not necessarily for specific companies in the industry. However, companies that embrace such technologies quickly and make them available in an easy-to-access format to their customers, can differentiate themselves from competitors, even if only briefly.

The correct approach, therefore, is to view products as a bundle of processes. This enables us to differentiate specific processes (including through automation) and change the benefits and features of the offering.

Take the example of the following set of processes:

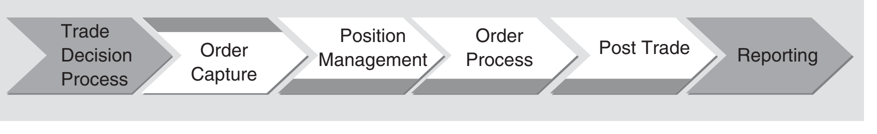


Figure 2.4: Value Chain of a Trade Process

You could for example, change how order capture works and the result could be a new product offering.

ICICIdirect.com offers a sterling example of how this could be done. See the box.

When a broker receives an order to sell shares, he must ascertain that the investor actually holds shares in his account. If a customer sells shares he does not have, there will be a delivery failure which has financial consequences for the customer and repeated instances of this will invite disciplinary action on the broker from the exchange.

The National Stock Exchange in India follows a T +2 settlement cycle. This means, if you buy shares on Monday you will receive them on Wednesday in your account. When you wish to sell the shares you bought, it will have to be on Wednesday or after. This is because the flowchart for "SELL" requires the broker to check if you hold the shares. If you try to SELL on Tuesday, the order will be rejected because the share is not in your account.

Think a little closely, and you will find that if you SELL on Tuesday under T+2 settlement, you need to deliver the shares on Thursday. This is totally feasible since you will be getting the shares you bought on Monday in your account by Wednesday.

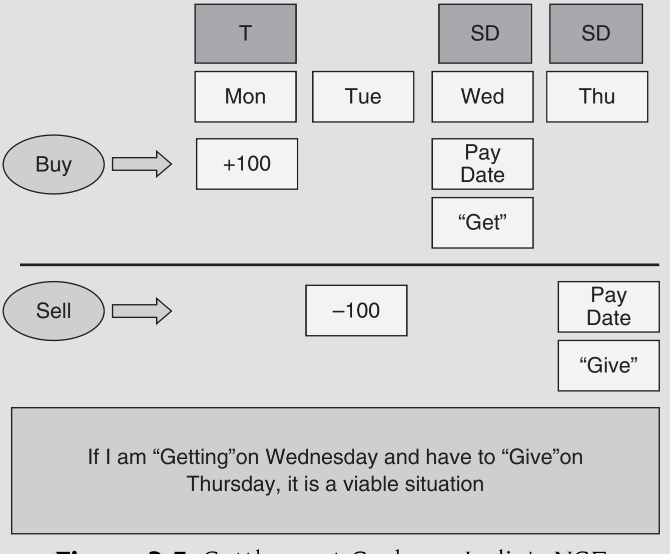


Figure 2.5: Settlement Cycle on India's NSE

ICICIdirect has rewritten the flowchart for "SELL". If a customer does not have shares in his account, first check whether the customer did a "BUY" of that share the previous day. If he did, ICICI knows it is going to get the shares one day before they have to be delivered. *Allow the SELL.*

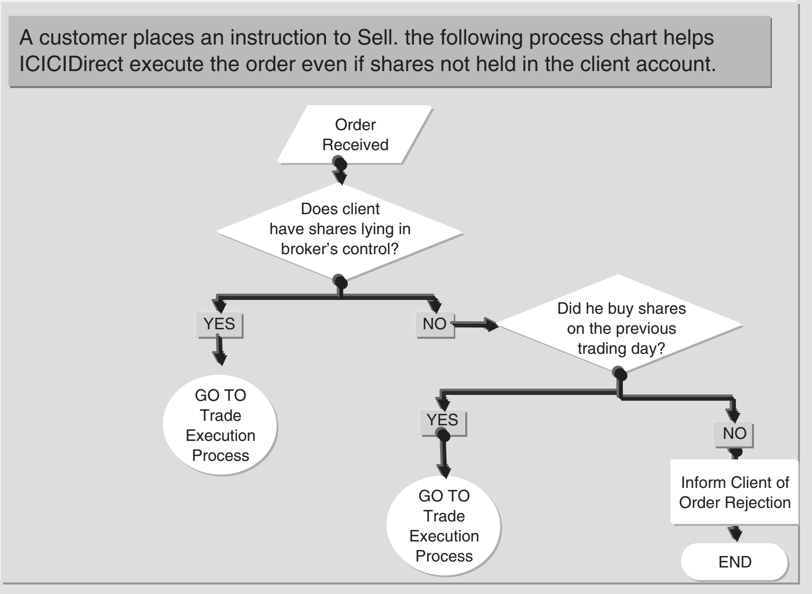
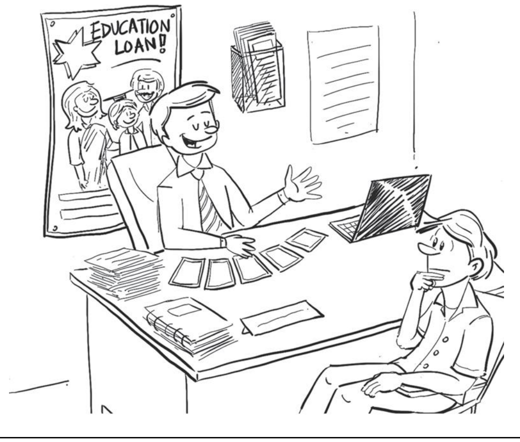


Figure 2.6: Process for a Sell Order

This feature on the icicidirect portal is called BTST (Buy Today Sell Tomorrow). ICICI Securities were the first to offer this.

And that is the differentiation!



"Our loan applications come in an attractive range of colours. Which one would you like?"

What is true differentiation?

"I TOO HAVE A BANKING LOUNGE"

Some financial companies handle differentiation in the real, physical, analog world. While that is useful, it lacks the power that process-based differentiation brings.

We thus find banks providing lounges for their "higher end" customers. Individual relationship managers and rooms in which to meet them is another thing banks find easy to organise. These differentiators are easy to replicate and are, in fact, quite meaningless in the longer run.

Process-based differentiators, on the other hand, provide distinct competitive advantage.

There are many instances of local shops having adopted the colour schemes and layouts of national chains of supermarkets. That is a "front-end" copy. Often the local shops ignored (and possibly could not have copied) the logistics engine behind the supermarket chain involved in keeping the stores stocked. Therefore, specific benefits of fresh stocks and cost advantages could not be delivered by the local store, even if the improved shopping ambience helped.

So how long and how much does it cost for my bank to replicate your bank's plush lounge? But figuring out the processes behind what you offer and harnessing technology to address it, at the very least is going to take a little more time.

MAKING SENSE OF IT ALL

We now know that financial products are different from other products. We also took a quick look at some of the issues faced in adapting models to the industry. However, we need a cogent framework from which to address these issues methodically.

We now turn to the Needs–Portfolio Matrix. Operating from within that matrix, we can pick and deploy the marketing thought, strategies and tactics that are tested and proven in other industries to the financial services industry.

If my customer feels that he got more than what he paid for, he is likely to be happy and I probably made him a customer for life. It also opens up the possibility of being able to charge more, once the product secures its position in the shopping basket.

CHAPTER 3

THE NEEDS–PORTFOLIO MATRIX

We have seen in Chapters 1 and 2 that financial products are not the same as consumer products.

The problems we discussed are summed up here in different groupings:

ISSUES ARISING FROM NATURE OF THE INDUSTRY

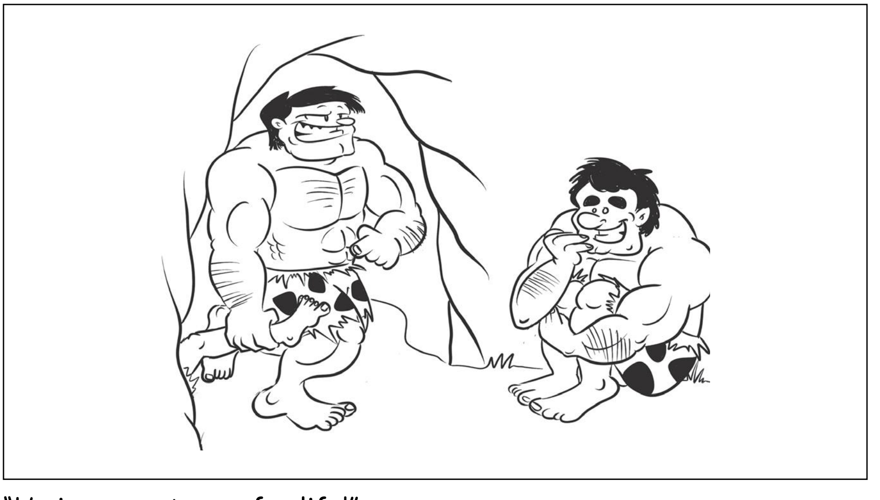
- Financial companies have an inherent conflict of interest with their customers for most part of their product portfolios (barring insurers). The long-term prospect of an industry whose existence depends on customer pain is suspect.
- Ownership of financial products involve continuous or at the least, repeated periodic interface with the financial company
- Consequences of failure of the product in the financial services space can be catastrophic for the customer. (It rarely is for the company!)
- A long history of product usage (a plus in most industries leading to brand loyalty) can become a problem in the services, particularly financial services industry, when a failure is interpreted as a breach of trust.

PROBLEMS IN DEVELOPING STRATEGY

- Financial products are highly quantifiable and measurable in terms of cost incurred and benefit derived.
- Differentiators are hard to visualise and protect.
- Financial innovation (especially those not linked to process changes and technology) are easily copied.
- The need to qualify a prospect as eligible for a product can cause anger and resentment amongst the prospects or among customers seeking to use a second product (it promptly leads to attrition).

BUSINESS OUTCOMES

- Many companies burn out their customers without deriving the full benefit of having initiated a relationship.
- It is the frontline staffs in sales and customer service/operations, who bear the brunt of customers who have problems arising from the inherent conflicts or service failures.
- Burnt out sales and service staff make any company look bad.
- The sales process is complex and dependent on far more variables than in other industries; sales success requires tremendous skill. Organisations might overcome this by grinding their sales force to dust; not a viable long-term option.



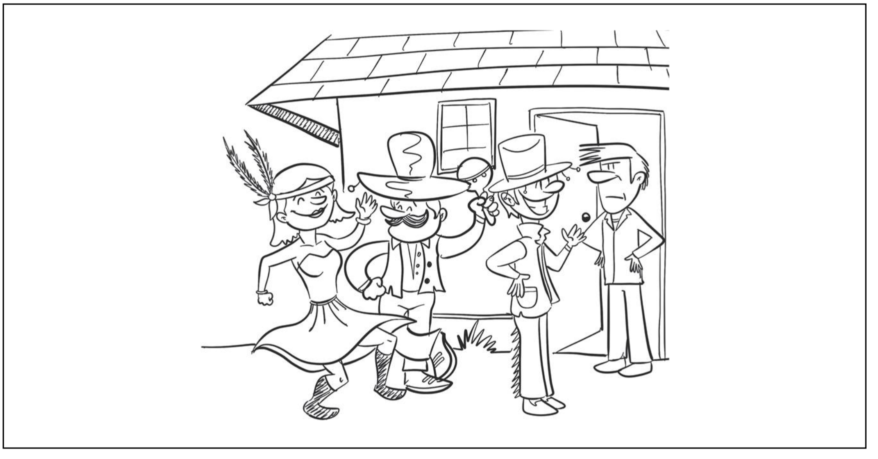
"He is my customer for life!"

It is not only what you achieve but also how you achieve it.

SOME DO AND SOME NEVER WILL

Salespersons are great survivors. Those working in organisations that "don't get it" survive by working extra hard or demonstrating ingenuity. We have all met these guys and our business tends to go with the person rather than with the organisation he or she represents.

And there are enough financial services organisations that "do not get it". They do not get it that this industry is unique and needs a different approach to business.



"We are from the cable company. We decided to make up for the line failure by providing you some entertainment."

Yes, we want to pamper our customers; but it must make business sense.

Successful business leaders take these unique aspects of financial services into account in building their organisations.

Successful salespersons work these themes into their individual approaches to selling.

Others will recognise particular symptoms and situations described thus far and will want to resolve them.

For all who have and who have not, in this chapter we present a model which captures the complexity elegantly, and builds on existing management thought in the area of marketing and strategy.

It has the power to help you build a long-term sustainable position for you and your organisation.

The model is potentially applicable across industries, but we shall restrict ourselves to the financial services industry.

THE NEEDS–PORTFOLIO MATRIX

This is a simple matrix which compares the situation of the customer with the products that a company has on offer.

Here is what it looks like and we will understand its construct by going through an experience which most of us would be familiar with.

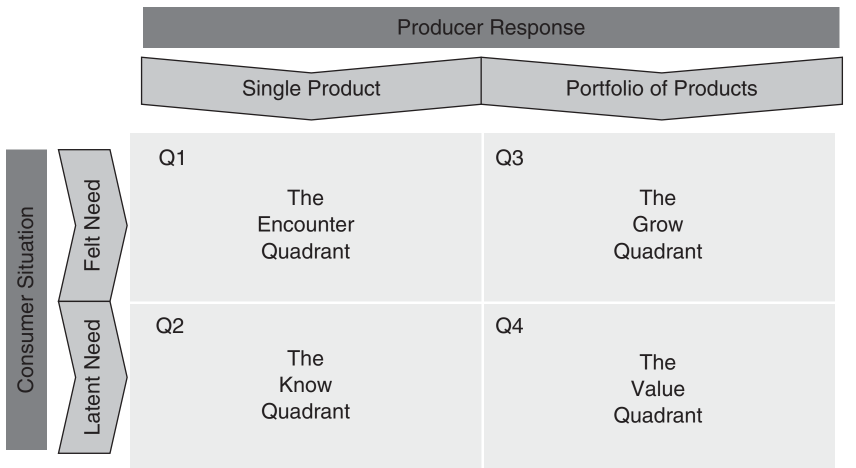


Figure 3.1: The Needs–Portfolio Matrix

This has Happened to You

It is that time of the year when you have to submit your proof of having made tax-deductible investments. You have been working hard for the company and your family, and therefore, you find yourself short of time to complete this work.

You go to the post office in a rush to buy a National Savings Certificate which gets you a rebate on the tax you have to pay.

As soon as you enter, you are besieged by agents who spend their entire day loitering there waiting for a potential investor to arrive.

You are in the Encounter Quadrant (Q1). You know what you need—and it happens to be just one product in isolation.

How do you choose the agent through whom you will invest? (If you are thinking you will reach the window yourself, trust me, you will not. There is barely space to walk amid the sea of agents that jostle against you.)

Simple. You invest through that agent who gives you back (rebate/retrocession/kickback) the maximum amount of the commission he earns from your investment.

If on any such encounter, an agent tells you about a fantastic tax-free investment available with the government which provides you great returns, he has your attention. If not during the tax-saving season, then on another occasion you sit down with him to learn about the tax-free bond available through the Reserve Bank of India. It provides compelling high returns (in 1998 it was 12%—hold your breath—tax-free!) that too, tax free.

If this strikes a chord in you, you are grateful for the improved investment opportunity provided and you look upon at that agent in a different light. Here is a person who is completely up to date on what is latest in the world of investments and who thinks about you—not about what he is intent on selling! You are now in The Know Quadrant (Q2). You had a latent need which the agent's skill has uncovered.

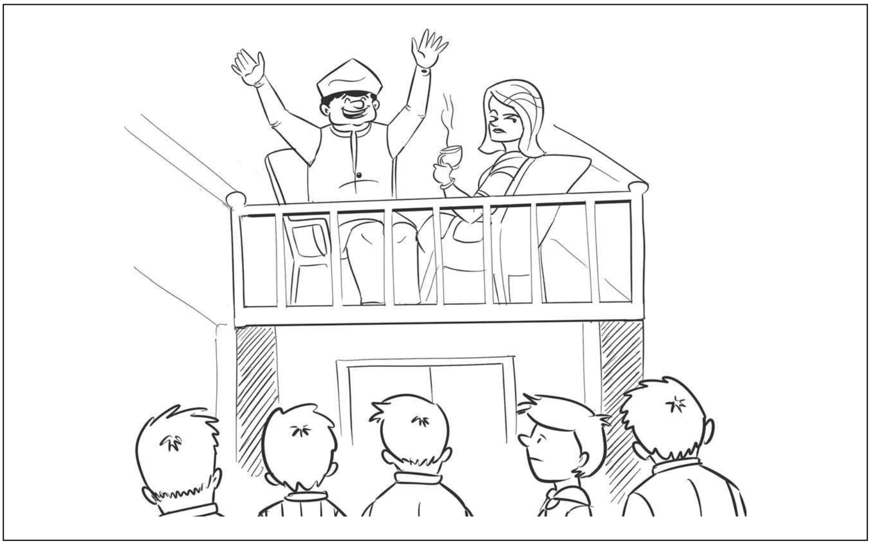
You might not ask him how much he earns as commission on those bonds. If you do ask, he might answer with a number you do not know how to verify, because you know next to nothing about this new product you only just discovered. You will accept whatever he says he can part with. If you are feeling benign and avuncular from the joy he brought you, you might just let him keep it all, whatever it is.

A few weeks later he comes by your house with the bond in your name. Over a cup of coffee you confess that your shares portfolio is in a shambles. Many of the certificates are still in physical form and you have not found time to get them dematerialised (slogging for family, company, country and God). There appear to be many shares which turned out to be lemons as you bought them on "tips"; but you cannot be sure—there could be an Infosys lurking there somewhere. And a life insurance policy which you missed paying a few premiums on needs reviving.

The agent says that he handles all of that kind of work. While everything that you are asking him to solve is un-remunerative and junk work, he scoops it all up. He returns two weeks later with fantastic news for you. There is an Infosys lurking there and the life policy can be revived without too much of a loss. You are now in the Grow Quadrant (Q3). You have many felt needs and you have a service provider who can cover all of those needs.

Having earned your respect and esteem, he now tells you how he handles the complete investment needs of a large number of people and shares some information on how they have profited from his advise; more importantly their entire investment portfolio across products and asset classes are neatly organised, accessible and therefore, actually usable. (A utopia most of us hope to ascend to before we die; and our wives know this.)

You quietly shift all your work to this agent and make him your single point of interface with the financial world. You are in the Value Quadrant (Q4). It is where you want to be with your finances. It is also where the agent wants to be vis-à-vis you.



"Stop waving at them, they are not your supporters. They are insurance agents asking for our business."

There seem to be more sellers in society than customers!

DE-CONSTRUCTING THE MATRIX

Let us make sure we understand some of the broad features of the Needs–Portfolio Matrix.

Consumers have needs. Some of them are felt by the consumers themselves. Other needs exist but they are latent.

Financial service companies offer products. Some offer only a single product. Others offer a whole basket or portfolio of products which meet every need. In our construct of the matrix, producers who do not offer multiple products in seamless fashion, or who do not have a single view of their customer are considered as those offering only a single product.

For instance, a person has a home loan from a particular bank but he receives a marketing call from the same bank offering him a home loan. It betrays the lack of a comprehensive, single view of the client. Even if this bank has multiple products to offer, the lack of the comprehensive view means it is unable to leverage its client relationship optimally. We treat such companies as single product companies.

THE FIRST QUADRANT—
THE ENCOUNTER QUADRANT

Felt Needs—Single Product/Limited Portfolio

The first quadrant covers situations in which the consumer is in touch with the producer for a felt need. It could be that the need was felt was by the consumer himself, or was felt as a response to actions of the producer (advertising, etc.).

THE SECOND QUADRANT—
THE KNOW QUADRANT

Latent Needs—Single Product/Limited Portfolio

This Quadrant reflects a shift in the needs axis.

Operating in this space involves the producer making the consumer aware of some other need underlying his felt need. It could also be a separate need related to the felt need.

Shifts in the Horizontal Axis

The third and fourth quadrants represent a shift on the horizontal axis from single product offerings to the offering of a portfolio of products.

THE THIRD QUADRANT—THE GROW QUADRANT

Felt Needs—Portfolio of Products

The consumer operating here is aware that she needs not one, but a portfolio—a bouquet of products. She sees the advantages of interlinked products, use of a single service provider, convenience, etc., and seeks such a producer.

THE FOURTH QUADRANT—THE VALUE QUADRANT

Latent Needs—Portfolio of Products

The consumer in this quadrant was one who was unaware of her need for a portfolio of products. It is the producer who made the consumer aware that she had many more needs and that they could be met through a portfolio available with the producer.

Salespersons, sales managers, and business leaders can use this approach and address some of the typical business issues they face:

- Achieve differentiation: reduce comparability with others
- Improve pricing and the willingness of consumers to pay those prices
- Enhanced Profitability
- Enhanced Customer Loyalty
- Lower Attrition
- Owning customer through his/her lifecycle
- Developing a long-term sustainable strategy

While the model requires you to move customers through the quadrants of the matrix, the speed with which you want to grow is in your hands.

The model allows you to blend the advantages of a silo-based organisation (sales speed) with the advantages of a relationship-centric organisation (wallet share).

CHAPTER 4

UNDERSTAND THE CUSTOMER

Here is a sales-related story that some of us might have come across in one form or the other.

A salesperson, new to a department store, racked up the single largest billing in the history of that store one Saturday morning. The store manager called him in to find out how he had achieved such a fantastic sale.

"You managed to sell one man a yacht, a GPS device, a few fishing rods, a whole lot of bait and an aspirin! How did you do this?" asked the store manager.

The salesperson replied, "He came to get aspirin. I asked him who it was for. He said his wife had a very bad headache. She had scuppered their elaborate weekend plans and sent him out to buy aspirin".

"I told him that since his weekend was shot to pieces he might as well go fishing. I told him about the new rods we had. And then I suggested he go out into the bay to fish for them. He said he didn't have a boat. I told him about the great deal we have on our yachts. And then to make sure he came back with a good catch I suggested using the new GPS system which by satellite could guide him to where the largest schools of fish were. And if he was going to fish in such a spot of such abundance he was going to need plenty of bait. And yes, of course, I did give him the aspirin he came in for".

"But the salesman told me I have a latent need to indulge in water sports."

Great salesmanship has downsides for the customer!

This apocryphal story is about the difference between needs and wants and how uncovering the real needs leads to great sales.

"Need" is indeed central to the sales and marketing process. If you understand consumer need perfectly, you can design the perfect product. If the product so perfectly matches the need, then the sales effort is minimal; no, it is superfluous. And that indeed, is the definition of marketing: that which makes selling superfluous.

YOU ARE UNIQUE: AND SO IS EVERYONE IN YOUR GROUP

In the consumer goods world, producers have worked well to develop a range of products to meet our needs.

If I was to browse the supermarket shelf for shaving cream, I will find a range of varieties. There is a can of shaving cream for soft and sensitive skin and another one for those with a tough beard. There are similar choices for those who prefer a cologne fragrance while others might prefer a musk fragrance.

There is also an offering for the traveller-shaving cream in a package that consumes less space. If the customer is a hotel, then the shaving cream comes in an attractive small pack that holds enough for one or two shaves. This enables the hotel to buy a large number of shaving cream dispensers and place one in each room as a gesture of hospitality to their guests.

The need is for men to address the inelegance of facial hair. You either render it with elegance by wearing a stylish beard. Or eliminate it by shaving which requires the lubrication provided by shaving cream. The core product is just the shaving cream.

Sort the market (i.e., the total number of men) into smaller groups. Each group must have similar needs. We can now enhance the core product with features that differentiate one kind of cream from another; it simultaneously also differentiates you from the next guy.

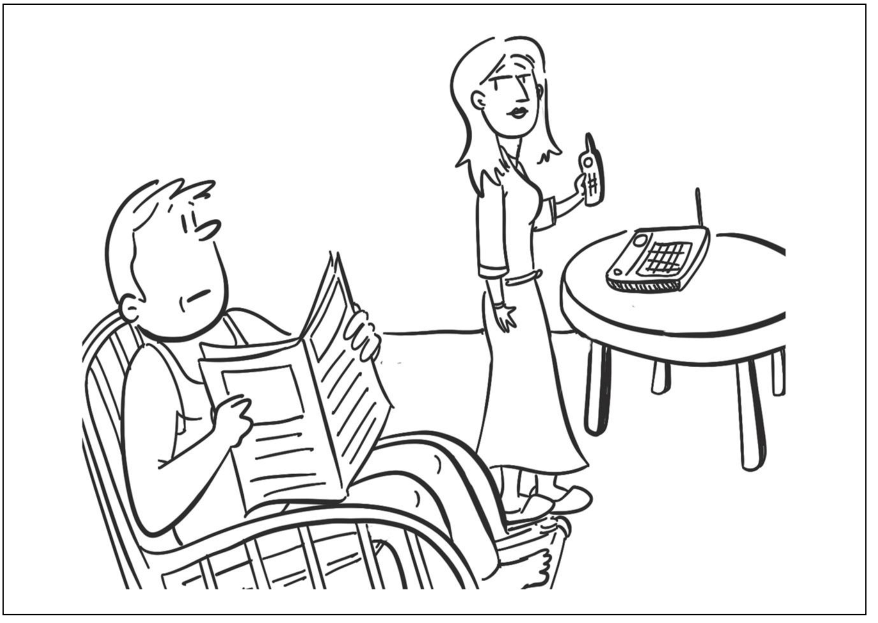
This process, known as segmentation, is well established in marketing theory and widely practised.

We need to take this to the financial services marketplace. In attempting to do so, we need to remember:

- You have to be able to breakdown the total market into segments.
- This breakdown has to be based on the commonality of needs in that segment.
- You have to be able to use this segmentation by devising product offerings that are appropriate to the needs of that segment.

"Sir, he is the only customer at this customer convention. Everyone else is a staff member. No other customer qualified for the invite on the basis of the profitability criteria you set."

You can be too strict and demanding in defining your customer.



"It's the bank. They want to know the colour of our dog. He said its KYC."

Management thinks it needs everything.

SEGMENTATION AND STAGE OF LIFE

The financial services market can be segmented based on the stage of life in which the customer is. This is practised well in the financial planning and life insurance businesses. These businesses are focused on the individual as a customer. However, the stage of life can be adapted to corporate customers as well, and therefore, can be used by other financial services verticals just as easily.

Life insurance companies frequently use customer lifecycle as a means of identifying stage of life needs of a consumer. The usual format is along the following lines:

Gathering: Early stages of life when needs are basic including risk protection

Preserving: Middle stage when one needs to preserve what one has earned

Enhancing: This stage of life involves growing the money one has earned

Harvesting: It involves earning a decent return on accumulated savings that can take care of retirement years

Some will include a transference stage which involves planning for succession.

The insurance company can now match its own product offerings from basic life cover, to savings plans and unit linked plans through to pension plans across the lifecycle.

Sales literature in the industry carries colourful imagery of these stages of life with the intention of sensitising the customer to these latent, emerging needs.

However, it is indeed difficult to get someone worked up about a need which is going to be a serious priority 30 years down the road. It is probably why it is said of insurance that it is never bought—only sold.

SEGMENTATION ON FINANCIAL CRITERIA

As a financial services provider wouldn't I simply love to know the full extent of your personal finances! However, the *more* I want to know, the *more* suspicious you are of me. The harder I push you, the closer you cling to your wallet. Building the trust I need to squeeze that information out of you is a bit of an art.

But without that information I cannot progress further down the segmentation path. I need to know your stage of life; but I also need to know if you will qualify for my product.

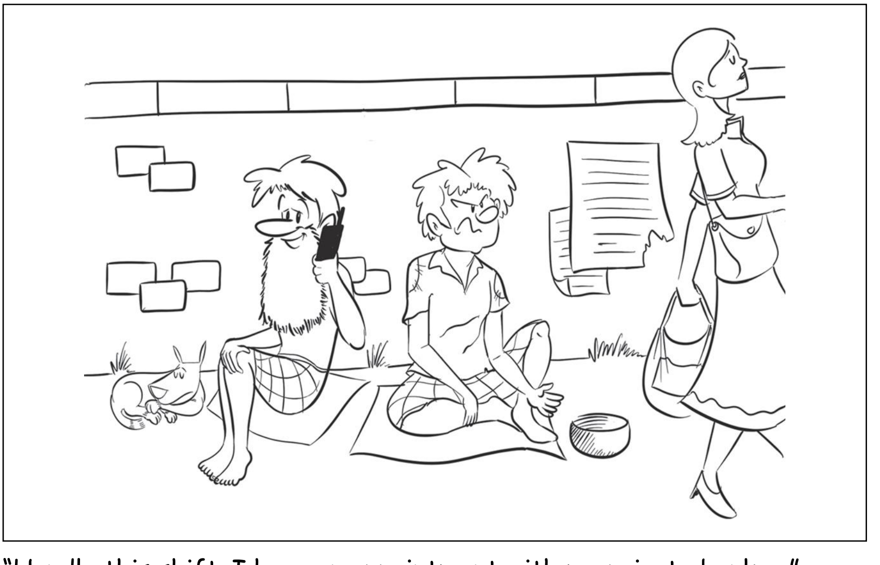
This problem is solved differently in consumer products: after all, there too, the producer does not know the full extent of your finances. However, products are made available in a full range of prices. Those prices are advertised with stickers or labels and you can politely walk away from the showcases for solitaires and subtly settle down at the counter where small grains of diamond are set in a large cluster at a price affordable to you.

Other high priced items are sold through stores which are in sync with the price range. For instance, it is easier, psychologically, to walk into a showroom for 150cc motorbikes than it is to stroll into the Bentley showroom. The ambience of a high end store is designed to make the high end customer feel at home; if you feel overwhelmed by the ambience you probably do not belong there. And so the ambience also keeps out those who have to check whether the prices will suit them.

We have the same élan and snobbishness in financial services in the wealth management end of the spectrum. Everyone knows that some of the best private banking names in the world are to be found on Bahnhofstrasse in Zurich, Switzerland. Take a stroll down the street and you will be hard put to find them at all; but they are there. And if you spot them, you will not find a door to open or a bell to ring. In fact, if you need any of those, you are probably not a customer and definitely not a prospect. Those who are, know what to do next after arriving at Bahnofstrasse. Or are probably met at a location of their choosing; it is the private banker who flies out to meet his customer!

So, let's go back to the problem of figuring out the financial capacity of a prospect and using that to develop segments. It's a bit like being on Bahnhofstrasse and not knowing which doorbell to ring.

Let's take a shortcut.



"Handle this shift. I have an appointment with my private banker."

Some market segments are hidden in plain sight.

THE SHORTCUT

Let us sort all needs into two broad groupings—without actually defining or detailing those needs—not at this stage in any case.

All needs are likely to be either basic or sophisticated. Basic Needs are those which have no or low standards for the customer to qualify. The Sophisticated Needs have criteria which the customer must meet in order to qualify for the product.

We will then make a generalisation that those in the early stages of life are more likely to have basic needs while the sophisticated needs are more likely to be found with those in the later stages of life.

We now have four broad segments to work with.

	Early Stage	Later Stage
Basic Requirement		
Sophisticated Requirement		

Figure 4.1: Needs and Stages of Life

Before we refine our understanding of this segmentation map and put it to use, we need to turn to a different dimension associated with "need".

FELT NEEDS AND LATENT NEEDS

In the Needs–Portfolio Matrix, need is handled in two categories:

1. **Felt needs:** A need which a consumer knows he has.
2. **Latent needs:** A need which a consumer has but does not know of.

IF I REALLY NEED IT, I WILL FIND MONEY FOR IT

Felt needs are easily resolved by customers. They work to find the resources. Criticality of the need or the strength with which it is felt is important here. Medical emergencies are a good example. Money simply materialises. An extremely poor person with adequate resourcefulness will find the hospital, social security scheme or charity that will possibly bail him or her out of the situation.

Some felt needs tend to be aspirational. If the need is strongly felt but the criticality is missing the person will work towards meeting those needs.

"Oh, Thank You! That is So Much Better!"

A customer walks into an optician's and asks for a spectacle frame which is very subtle: it should not stand out and invite attention. After some discussion, the optician offers contact lenses.

"No one will know at all that you use spectacles, sir!"

The latent need has been uncovered. And it is met. Some latent needs are like that. They can be met instantly. Others cannot be met instantly.

A man at the check-in counter asks for a seat which has extra leg space. And it must be an aisle seat. And oh, can they please make sure they serve him his drink in glassware rather than a plastic cup? Will the food be piping hot? What about in-flight reading? His preferred magazine is *Fortune* and the daily news had better be *Financial Times of London*.

His latent need is for a business class seat. Price? Six to eight times the economy fare. Yes, there is a clear latent need. If the man cannot afford the fare the need cannot be met. (Offering him a business class seat is better than telling him, "No, we don't!")

LATENT NEEDS IN AN ERA OF INSTANT NOODLES

A person is definitely going to need a retirement nest-egg. There needs to be adequate investment capital accumulating to meet various needs as they emerge at different stages of life.

Imagine saying that to a 22-year-old who is still assessing his chances with the girl next door. He is in his first job and about to earn his first pay check. This is the right time to start saving. Try telling him to save for retirement in preference to his immediate felt need for a zippy motorbike. And yes, to him that motorbike is critical!

A fair number of latent needs turn out to belong in a person's life time plan.

"Let's Sell Instant Noodles!"

Why bother then with latent needs at all? Let us sell what is felt and qualified for, here and now.

Because, what is easy for you is also easy for your competitor. It leads to price competition. It is the problem we are trying to solve: how do we sell at better prices something which is measured directly in money terms?

Because today's start-up is tomorrow's Infosys. Because today's struggling promoter is tomorrow's Sunil Bharti Mittal. If you sit through your customer's lifecycle, you can grow with him. The longer you have been with a customer the greater the chance of working on lifetime plans and selling him products that meet latent needs.

"In an age of instant noodles, my career is instant noodles too! Here today, gone tomorrow!"

If that thought crossed your mind, it is worth reflecting on the state of the financial services industry as it goes through a period of intense crisis in credibility. This crisis has been brought on by the inability of financial companies to think about their customers for the longer term; to be institutions. It has been brought on by giving preference to instant gratification and short-term goals rather than institution building and long-term customer satisfaction.

The problem with some of the latent needs in financial services is of course, that this is what the producer wants to sell; it might not be what the consumer wants. And therein lies a problem.

But problems should not be addressed in large unwieldy clumps. Segment the problem and address the segments. So let us add felt and latent needs to our segmentation map. Here is what we get:

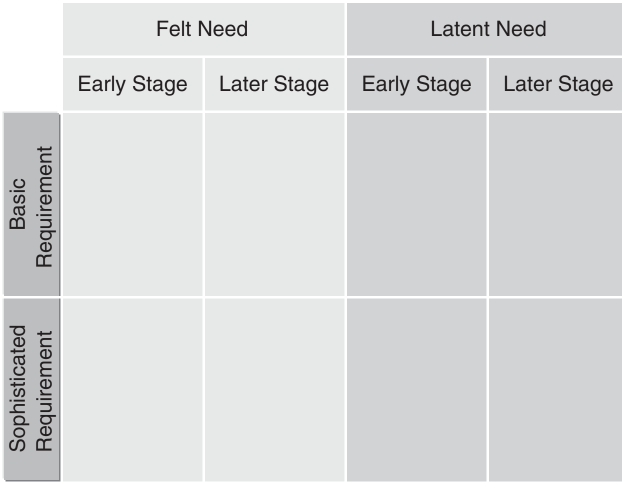


Figure 4.2: Need Types and Stages of Life

We now have eight segments. Let us go through them smartly rather than wade through them one by one. This is after all, the age of instant gratification!

EASY FIRST!

The two easy ones are marked in the map below:

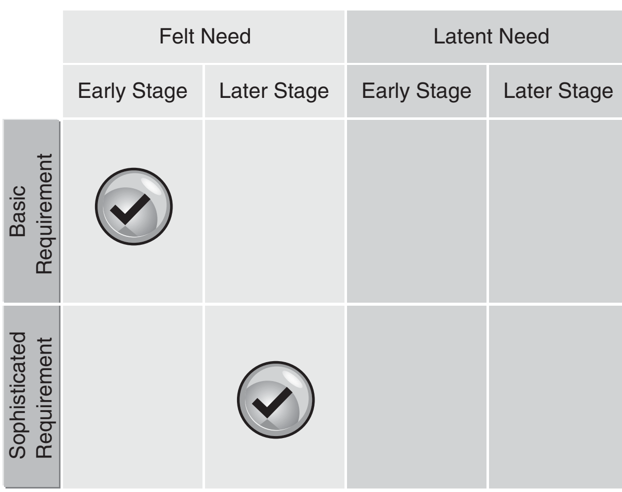


Figure 4.3: Felt Needs

(If you groaned that only two are easy, remember that if it is easy for you, it is easy for competitors too. The strategic thinker is keenly looking for the ones that are difficult to crack and for ways to crack those. That is where the long-term money is.)

Take a look at the dynamics of the easy boxes.

Easy # 1

A person in an early stage of life has a felt need for something basic.

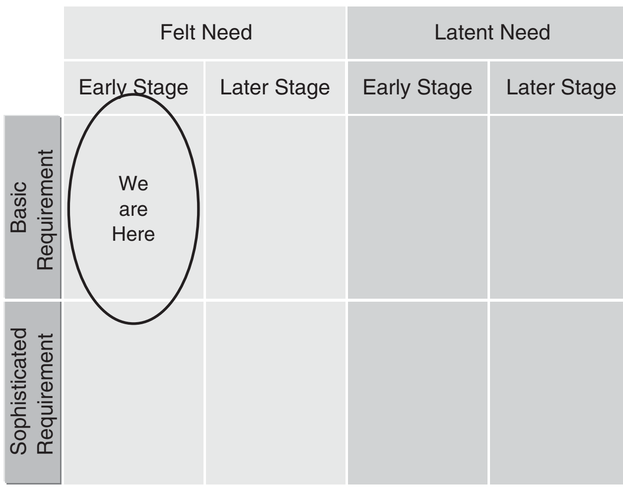


Figure 4.4: Basic Needs

Basic requirements at an early stage are practically survival needs. The consumer simply goes out and finds what he needs. For instance, a youngster joining her first job needs a bank account. She will search and find it. A person starting a business needs a current account. He will search and find it.

Producers should consider these products in a simple, low-cost format. Low-salaried persons are not a great source of huge income. In a complex world, there is merit in simplicity.

It would not matter a whole lot if a person starting out in his or her career was offered a bank account with no minimum balance stipulations. As we will see later, it is a good way to meet up with a customer, provided we have a plan on what to do next. (Offering this *without planning what comes next* would be “strategy-free” action.)

Easy # 2

The consumer is in a later stage of life. He is looking for sophisticated products to meet his evolved needs. And guess what, he can afford it too.

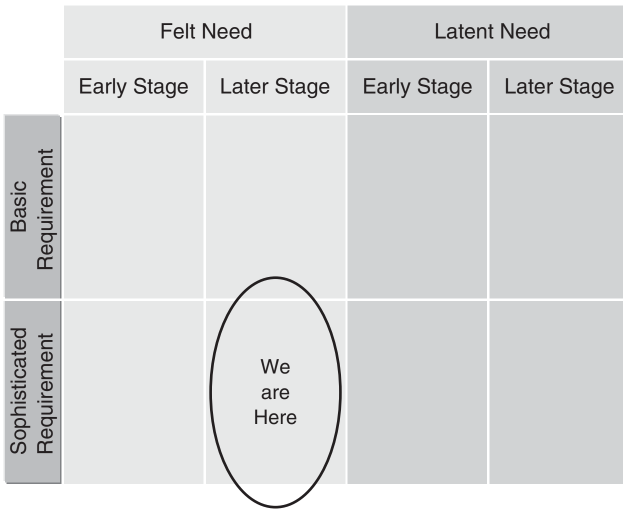


Figure 4.5: Sophisticated Needs

A corporate might ask to open a bank account in an overseas location and control it from the headquarters.

An individual might seek investment advisory services.

Producers respond to such needs rather well, simply because the clients now have more money to spend! More income is to be made from engaging such clients.

Infosys in 2010 finds bankers more willing than it did in 1990. No surprise there. There was no competition at the gates back in 1990. In 2010, a new producer arriving with his goods must join the end of a long, long queue of other aspirants who have already been waiting fruitlessly for a long time. Can he expect to make fantastic profits? Of course not. (To those who are wondering if this reference to Infosys is valid given the recent view of the stock markets on the company, please note that a cash rich company is always a good proposition for a banker.)

At this point, producers bundle the products with better methods of interface. Relationship managers, dedicated investment counsellors, private bankers, dedicated banking terminals are made available to the client. Producers must also offer a more complete range of products to this customer. A producer that does not have a full range cannot compete for this client.

We see this happening with a number of old-era banks which have helped start-ups grow through the early years with good basic banking and healthy rounds of credit to help business expand. When the client evolves into international markets the smaller bank falls short: it is not able to offer sophisticated international banking because it does not have an overseas presence. The bank which nurtured the client to international success is not able to benefit from that same success.

Almost every home grown Indian entrepreneur was afforded credit by an Indian public sector bank when that entrepreneur was essentially unbankable. Almost every Indian public sector bank has been unable to hang on to the client after it became a national or international company. Their offerings did not keep pace with their clients.

Strategy-driven acquisition of such clients is one of the rewards of using the Needs–Portfolio Matrix. That is discussed in Chapter 7 on the Encounter Quadrant. For now, we continue to focus on understanding the different segments of customers.

IMPORTANT AND SIMPLE: DON'T BE THERE!

There are two segments which fall in this category.

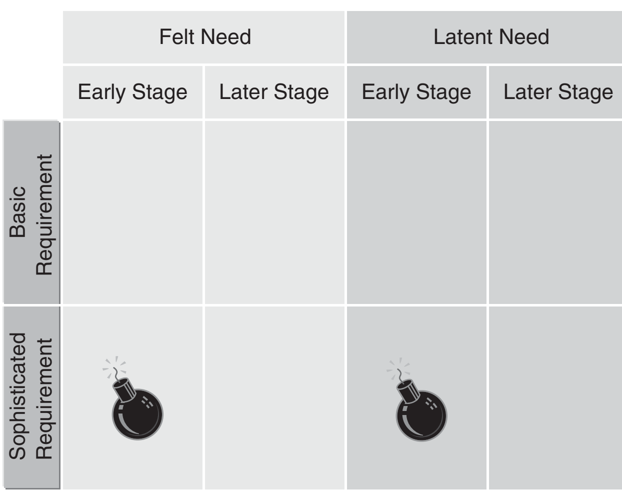


Figure 4.6: Difficult Situations

In any business what we are *not* looking to do is at least as important as defining what our business is. The answer is often difficult to arrive at and companies need the courage of conviction to stay out of markets they do NOT want to be in.

In the segmentation map which we are discussing the situation is quite different. It is rather easy to know what we do not want to do: we do not want to sell products to those who do not qualify for it. They will not be able to pay the bill. It is as simple as that.

So the message is loud and clear: do not provoke latent needs for which the customer is unlikely to qualify given his stage of life. And respond cautiously when a customer feels a need which he is unlikely to qualify for.

Don't Be There # 1

The customer is an early stage person asking for something sophisticated which he cannot afford. The producer never asked to be here. But in cases of felt need, he comes face to face with the customer nevertheless.

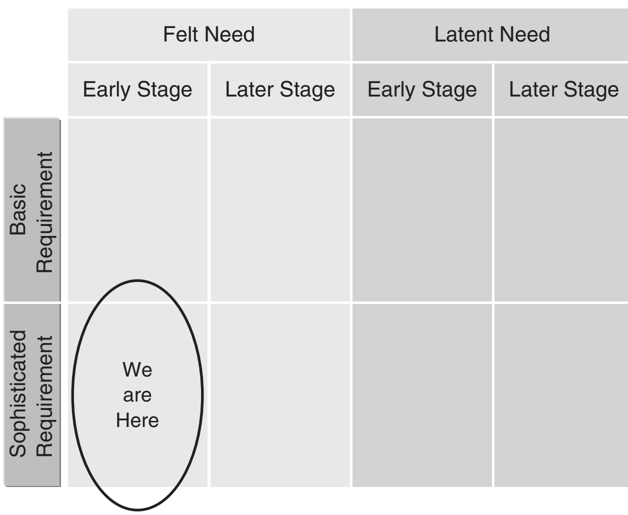


Figure 4.7: Aspirational: Potential Opportunity

A young person wants a discussion with a private banker. A company finance manager might want high-end advice for a deal structure he is pursuing.

Producers react to such requirements with scepticism, working quickly to establish the customer's credentials. The young person might turn out to be the scion of an industrial family. The finance manager might turn out to be planning an initial public offering, and is therefore, a great account to grow.

In fact, many salespersons live in the eternal hope that the unassuming person they are politely talking to is actually a modest billionaire, if not a trillionaire.

A fresher joins a leading IT company. Seeing that he is eligible for a car loan, he might apply to buy a higher-end car. It is highly likely that his income is insufficient to pay for the instalment due on a high priced car.

He now adjusts his needs to the present reality possibly aspiring for the higher priced car on a later day. The same is true, perhaps more so, of a home which catches the fancy, but is just beyond "affordable".

If the producer handles the rejection with sensitivity, as and when the customer qualifies for the product, he may source it from the same producer.

But where is the time to be sensitive? In retail banking, every customer is a case number. In wealth management we are more interested in today's millionaire. Organisations do pay a price for this—even if the individual in the organisation does not.

Let us look at the other "Don't be there" which is fraught with many more dangers.

"Don't Be There" # 2 (Let Sleeping Dogs Lie)

Customers in an early stage of life cannot really afford sophisticated product offerings.

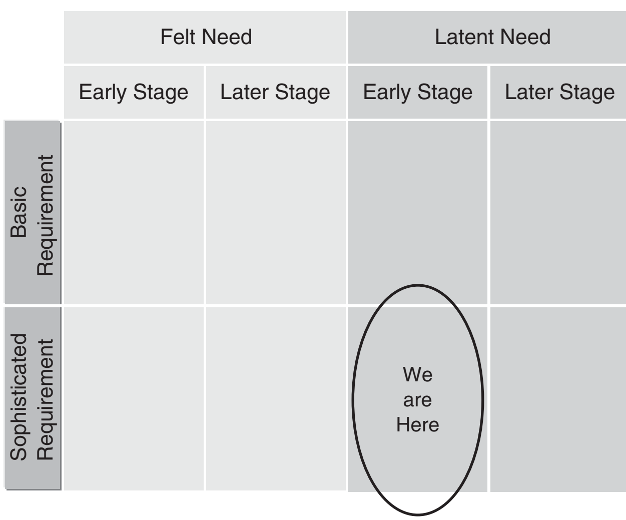


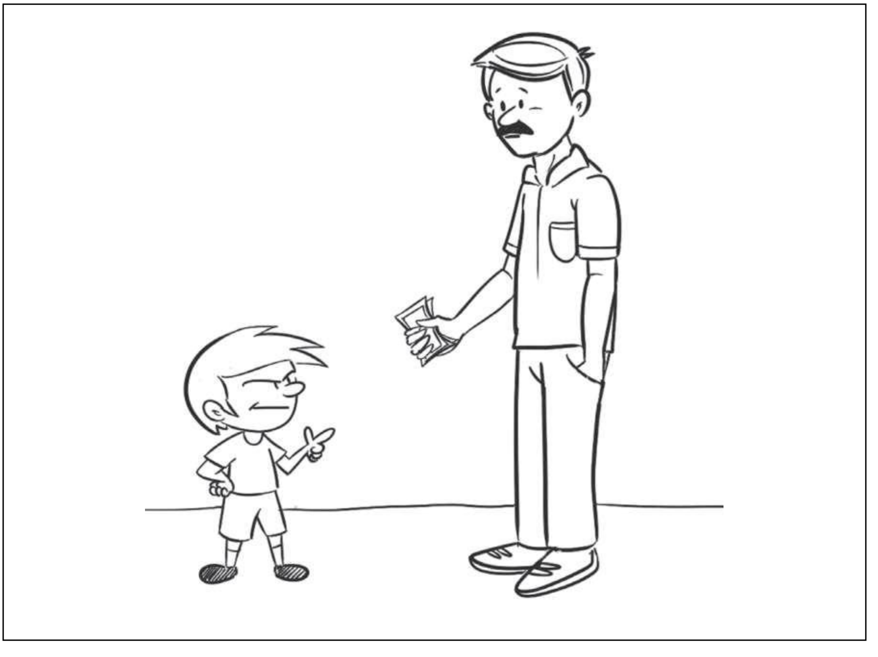
Figure 4.8: Aspirational: Be Careful

Therefore, producers tend to be cautious (or at least they ought to be) in provoking such needs in such customers. If they do provoke such a need and then later turn down the customer (Our credit department thought differently!) it leads to a negative brand experience.

"I never phoned and asked you to give me a home loan. It was you who phoned and harassed me!" will be the accusation. All to no avail, for usually such organisations become stone walls when such an error is committed. You will not find anyone to talk to. And if you dial back the number from which you got called, you will discover that it does not accept incoming calls. It is a telecalling desk.

As consumers we have all been victims of such approaches. When we reach office, many of us are also guilty of blithely ignoring the dictum: Do unto others as you would have them do unto you. We perpetrate tortuous experiences upon those who are unfortunate to be on our target lists. Perhaps it is a form of social vengeance.

There is no other explanation for the noise we see in the media and encounter on our phones and mailboxes.



"My personal banker will be calling you to discuss how you disburse pocket money to me!"

Telecallers are offering everything to everyone!

There are a number of instances where financial marketers have tended to carpet bomb the market with an advertisement or an outbound sales campaign.

Fortunately, the human brain is great at filtering out noise. "Strategy-free" messaging from the financial services company is most likely to be ignored or be filtered out as noise. The low strike rate makes the organisation more desperate and possibly leads to burning more money and burning out more people in the quest for the customer's attention.

A smart organisation might like to track the customer through his life cycle and commence messaging as his life transits through the stages. Quadrant migration, a strategy based on the Needs–Portfolio Matrix offers just such an approach. It might help optimise ad-spend for a producer.

However, this requires a fair amount of customer information. We shall examine issues relating to how well a producer knows its customer in Chapter 8, "The Know Quadrant".

THE TUG OF WAR

Here is a customer group in a later stage of life revisiting the usage of basic products. It is highly probable that there is a desire to switch from one service provider to another. The reasons for seeking a switch are not important (at least to the acquiring provider; the losing provider ought to worry).

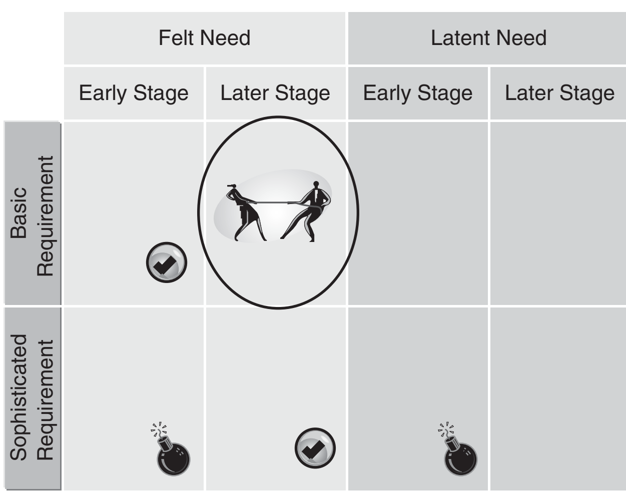


Figure 4.9: Switching Providers

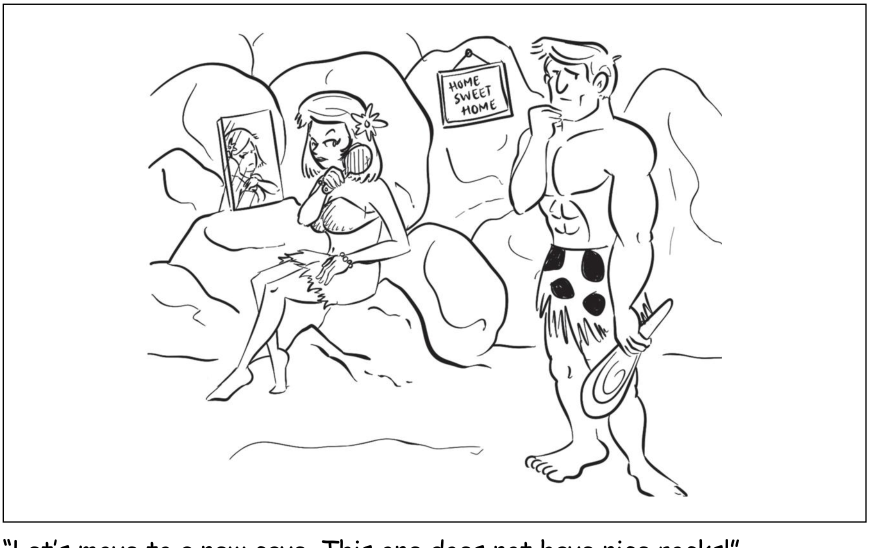
A customer who has used a basic product for a few years knows what are the features and the points on which a bargain can be struck. He is likely to be a shopper, hunting for bargains.

Let us say a customer requires a second share trading account, this second one is in his wife's name. He might seek better brokerage rates from another broker or just open a second account at his existing brokerage owing to familiarity.

The normal producer response should be to try and maintain a lean product which continues to remain cost-effective. Many organisations try to add other "benefits" to the product offering to de-sensitise the customer to pricing. Whether this is strategically sound will be examined in a later chapter as we progress our use of the Needs–Portfolio Matrix.

Merits aside, a customer in a later stage of life is a target for many competitors. A successful person or company is on everyone's calling list. Everyone offers plenty of freebies. This makes defending an account or competing for an account difficult.

A competitor operating "Strategy-free" tends to offer price discounts to attract the customer. A defender responding in a similar "Strategy-free" state tries to match the price discounts, leading to erosion of profitability. Both organisations are guilty of eroding/reducing the industry profitability in the overall. It is a difficult situation indeed.



"Let's move to a new cave. This one does not have nice rocks!"

Dissatisfaction is not a new phenomenon.

THE UNINFORMED

A customer whose basic requirements remain latent needs to him is an uninformed customer indeed.

As noted earlier, most persons would receive an impulse from employers, peers or the social environment. This could be in the form of advertising or brochures. New joiners compare notes and the better informed one updates the naïve one. This can be said to be true of urban settings.

The opening of Letters of Credit is a pretty basic offering for a commercial bank. Suppose one of its customers, a small engineering firm, receives its first ever export order after fifteen years of existence. It is easy to imagine the finance manager of that fledgling exporter hovering around the trade desk at the bank like the mother of an expecting daughter.

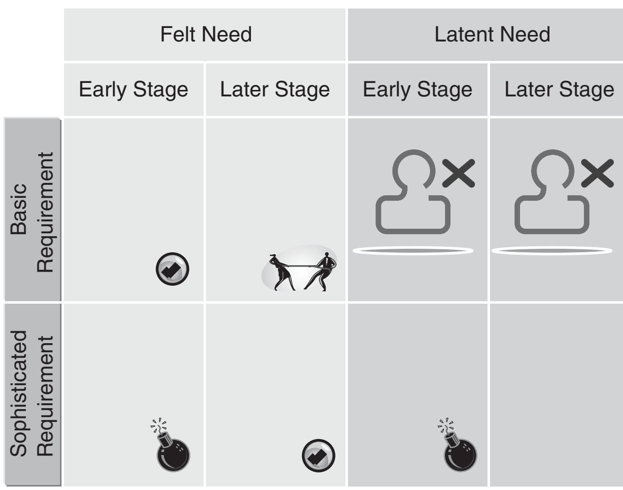


Figure 4.10: Latent Needs

You can expect him to be anxious about whether he has prepared the documents correctly. He would want to ensure the trade officer's undivided attention to his transaction. This might irritate that trade officer because this is the smallest transaction he handles on a given day. The rest of his clients are industrial giants.

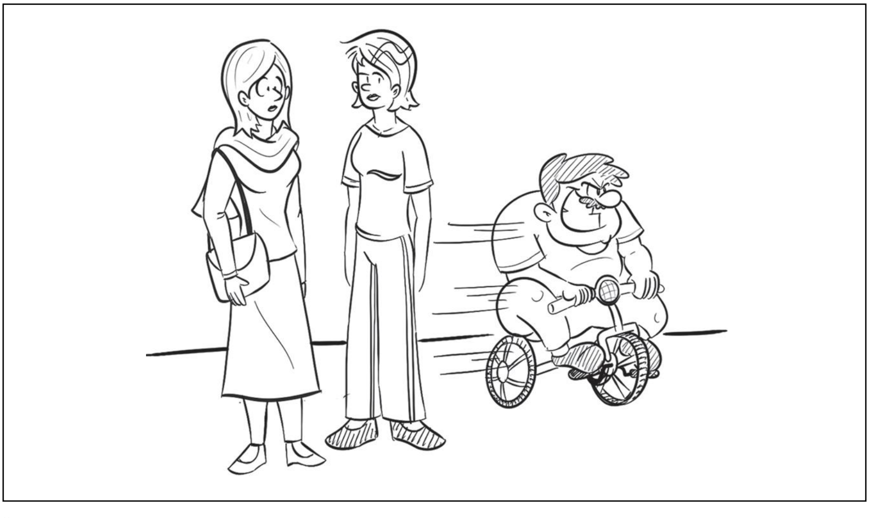
In this situation, the finance manager will hang on to every word that the trade officer has to say and will be completely unfamiliar with the charges associated with international trade. He is hardly in any position to challenge any charges levied or to ask for better pricing.

In some situations, the non-usage of basic products even in later life is merely a case of operating a "cash economy" rather than a "banking based economy". The non-usage of banking is not always a case of financial deprivation and lack of inclusion. There are several reasons why people may not use basic products, ranging from ignorance to the sophistication of a tax evader.

That, for instance, is how small traders in a semi-rural location in India are. They are quite rich in their own right and can hardly be called deprived. Some of the larger traders have wealth rivalling that created in the modern economy by some of India's leading IT companies. However, these traders have been using cash all along without any (or minimal) banking service. Such a person's initial use of the bank is likely to be cautious and measured till he gets completely comfortable.

The majority of the persons who are late in realising the need for basic products would be from rural settings, particularly in India. Theirs is the case and debate over financial inclusion.

A farmer who is first introduced to a debit card is likely to be lost in wonderment as his bills are paid without currency ever touching his hands for the first time in generations.



"The doctor says it has something to do with a deprived childhood."

Meeting basic needs in later life.

Work is on for the Government of India to dispense money under the National Rural Employment Guarantee Scheme (NREGA) through such cards to cut out corrupt officials in the system. The rural poor will undoubtedly find the experience fascinating as it puts more money directly in their pockets. They will believe it when they see it working as is usual when anyone uses a new product or concept for the first time.

It is also possible that in the absence of any legacy, new adopters take to new things very quickly. India has had that experience with mobile telephony where villages which never had landlines are now connected by phone. Fishermen check prices at different jetties and choose to land their catch at that market where the price is best. So it is entirely possible that people that have never seen much money in its physical form become adept at handling electronic money.

A late adopter, who uses simple products only later in life, tends to seek a lot of guidance from a person who has significant experience in using those products. That is very similar to an elder person getting assistance from a younger one on using messaging on a mobile phone for instance. The initial round of usage will be limited to input received from the more experienced user. Anything like bargain hunting or asking for more features and benefits will arise only after complete familiarity with the product.

In either situation, the uncovering of the need for something basic will be met with a quick response to have the need filled in as quick a manner as possible.

Building a business around these segments offers specific challenges. First, if people have not felt the needs because they are deprived, then the profitability of serving that market is a question.

Second, if they are affluent yet ignorant, this segment by itself is likely to be small. For reasons of scale the profitability of finding such customers and converting them is still questionable.

So yes, these segments may exist but we might not build a business around them.

This is not to be confused as advice against C.K. Prahlad's "Bottom of the Pyramid" approach to strategy. His bottom of the pyramid is large enough by numbers and volume to justify the effort involved in reaching the market. Our conjecture is that the "affluent uninformed" in financial services is not a large enough market.

THE GOLD MINE

A customer who is in a later stage of life, would qualify for most of the products on offer. If the need for sophisticated products is latent, the producer who uncovers those needs and fills them is on to a potentially high profit account.

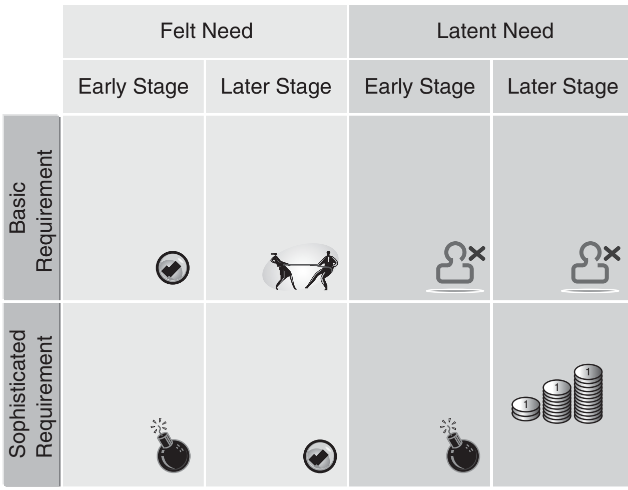


Figure 4.11: The High End

A customer who has latent needs for sophisticated products may react with panic or at least a sense of urgency when he discovers what he is missing. This is because a person who has ignored his growing needs could sense that an opportunity is being lost or survival is being threatened. Here are a few examples of customers who suddenly uncover their own latent needs.

A company may find that it has not considered options for inorganic growth while its peers have been doing just that. Suddenly, the competitor has become much larger through acquisitions. With the new muscle in the market, the erstwhile peer may become a large challenger. To overcome the situation the company may appoint merchant bankers to pursue a similar strategy with a great sense of urgency; the alternative could be that it becomes irrelevant within its industry.

A number of working professionals respond similarly when, as they reach middle age, they break into senior management positions. They might have previously ignored the need for long-term savings or might have not been able to set aside the required target amount. Once they reach senior positions, the higher disposable income is quickly deployed into filling the savings gap that might have been widening over the years. They usually buy high value insurance or cover savings and investment gaps by quickly creating portfolios. The need for security is innate in humans; financial security is just an extension of that need. The realisation of that need in full and the ability to fill it come later in life.

There are, however, a few who build a nest-egg methodically through life. They are as noted, few and far between.

Obviously such customers are a-dream-come-true for most businesses. But when we approach customers who are already successful in a later stage of life, are we likely to find them unattached to any other producer? How do we establish contact? How do we get to interact whereby the process of uncovering latent needs can happen?

The standard method is to somehow find out the competitor's list of similar clients. We then tend to charge head-on and try to get the client's attention. The normal problem in such approaches is that the client is already under sales pressure from several others like us. Getting an appointment is tough. In that meeting, you have to make sense very quickly to the client.

You may not have the luxury of time and a long interview to "uncover latent needs". The most unsustainable progress that a salesperson can achieve is to get the customer to move some business by offering price discounts. It is a terrible way to start a relationship.

If we are going to mine gold, then we must use proper mining techniques. By the end of the book, you will know how.

Latent and Felt Needs in the Needs–Portfolio Matrix

For the analysis of situations in the matrix, we classify needs into felt and latent. In reality, when a latent need is uncovered it becomes a felt need. In the matrix, for the purpose of clarity, we will not change the nomenclature of a latent need once it is uncovered. Latent needs will continue to be called latent needs even after they have been uncovered. It avoids confusion.

SUMMARY OF ANALYSIS

We can now sum up our discussion of mapping consumer's felt and latent needs to his stage of life as below:

	Felt Need		Latent Need	
	Early Stage	Later Stage	Early Stage	Later Stage
Basic Requirement	Search and Find	Bargain Hunt	Quickly Becomes a Felt need; Customer Copies Product use from Peer or Introducer of Product	
Sophisticated Requirement	Aspirational	Evolve	May Ignore	May Demonstrate Urgency in Filling

Figure 4.12: Consumer Responses Mapped to Needs and Stages of Life

The following chart puts examples from personal financial needs in different cells:

	Felt Need		Latent Need	
	Early Stage	Later Stage	Early Stage	Later Stage
Basic Requirement	Savings Account	Savings Account: Maybe a second one for specific purpose	Insurance to Protect Earning Capacity	Insurance to Protect the Higher Salaries that Occur in Later Stages
Sophisticated Requirement	Loan for a Top-end Sports Car	Investment Plans Oriented to Retirement	Web-accessed Investment Account	Offshore Banking and Wealth Management

Figure 4.13: Personal Financial Products Mapped to Needs and Stages of Life

For those interested in wholesale, commercial or institutional banking, the following chart presents a different set of examples in each of the cells.

	Felt Need		Latent Need	
	Early Stage	Later Stage	Early Stage	Later Stage
Basic Requirement	Current Account	Current Account with Overdraft Facilities	Trade Finance Requirements	
Sophisticated Requirement	High-end Strategic Advisory Services	Global Advisory Services for International Trade	Access to International Bond Market	International Acquisition Financing

Figure 4.14: Institutional Financial Products Mapped to Needs and Stages of Life

Now that we have a sense of customer needs, the chart below shows what the preferred response of the financial services company should be in each situation:

	Felt Need		Latent Need	
	Early Stage	Later Stage	Early Stage	Later Stage
Basic Requirement	1. Delivery a basic product	2. Keep product lean to maintain cost competitive-ness	5. Push basic product with attempt at better pricing	6. Push basic product with attempt at better pricing
Sophisticated Requirement	3. Will seek to qualify or eliminate the customer	4. Bundle of products; premium pricing	7. Should try to avoid provoking a need unless sure client qualifies	8. Bundled products; premium pricing

Figure 4.15: Producer Responses to Needs and Stages of Life

Let us now go to the battlefront where the salesperson comes face-to-face with the customer: the selling situation. It is quite lonely and tough out there, especially if the organisation in which the salesperson works is in a strategically weak or vulnerable position.

ANNEX

Table 4.1: What's Basic/What's Not

Vertical	Basic Product	Sophisticated Products
Personal banking	Simple checking/savings account	Investment management account
Investment management	Simple trading account	Integrated web-based investment portal
Corporate banking	Basic current accounts Standard overdrafts	Structured finance International trade Forex risk management
Investment banking	IPO management	Leveraged buyouts International takeovers M&A Strategic advisory
General insurance for individuals	Third party motor insurance Car insurance	Personal liability insurance Professional liability insurance Directors indemnity policy
General insurance for corporates	Basic fire and allied perils insurance	Business interruption and consequential losses Product liability insurance Director's indemnity policy
Life insurance—individuals	Plain term assurance	Endowment plans ULIPs
Life insurance—corporates	Group life insurance plans	Group gratuity and pension schemes
Fund management	Index investing	Dynamic plans that calibrate the asset mix Discretionary portfolio management Hedge funds
Brokerages—retail	Basic buying/selling	Execution of complex trading strategies Building long-term portfolios

Vertical	Basic Product	Sophisticated Products
Brokerages—institutional	Basic buying/selling	Algorithmic trading Derivative- based trading strategies
What's your field of work?	What's simple and basic?	What comes next?

Table 4.2: What's Felt/What's Not

Area	What is Felt / When It is Felt	Latent Need
Personal banking—early stage	Simple checking/savings account When I take my first job	To harness the power of compounding given the time to retirement
Investment management	Simple trading account When I start trading	To use strategies which work even when the markets tank
Corporate banking	Simple accounts when I start my business	To build creditworthiness/ credibility with lenders by displaying financial discipline
Investment banking	Raising money when I go to the market	Structuring and timing the issue to maximise issue price and minimise dilution
General insurance—for individuals	To take those insurances which are compulsory	To protect everything I bought through my hard fought for earnings
General insurance—for corporates	To protect against physical risks	To protect against consequences of physical risks
Life insurance—individuals	To soften the impact of death	To replace my earning capacity completely
Life insurance—corporates	To give employees a sense of well-being	To retain talent and minimise attrition
Fund management	Build my savings	Grow them optimally in the context of my risk taking ability

Area	What is Felt / When It is Felt	Latent Need
Brokerages—retail	To do my trades	To become rich by building a long-term portfolio
Brokerages—institutional	To execute my portfolio plans	Help me plan portfolios
Financial services marketing	To pick up this book!	To succeed at work!

CHAPTER 5

UNDERSTAND THE SELLING SITUATION

"TRUST IN ME, JUST IN ME!"

Why did Tata partner with AIG in launching their life insurance business in India? The name AIG implied expertise and capability in insurance.

When the global financial crisis hit AIG in full force, why did the Indian customers of Tata–AIG not panic? The Tata name played its role.

In hindsight, who benefited more: Tata from partnering with AIG or AIG from partnering with a respectable name like Tata in India?

Trust is everything in the financial services business. Trust in this business is an ephemeral concept, often held only in the name of the company.

Size does not matter—Lehmann Brothers was very large indeed when it folded up.

Nor does it matter how long the company has been in the business—Barings had been in existence for more than 150 years when it folded up.

As the Global Financial Crisis has shown, the largest of companies can be brought down to their knees if there is erosion in trust. When the trust of individuals in a financial services company evaporates, the news spreads like wildfire. Nobody wants to test their faith by putting their life savings at risk. Erring on the side of caution individuals flee the sinking financial company. This aggravates the crisis for the company in question.

It makes sense to head off the crisis by taking some quick steps. This applies of course, if there is no real crisis and the panic is based on unfounded rumours. The organisation can draw on resources like reserves lying in cash with the Reserve Bank of India.

If no such quick steps are forthcoming, the initial panic widens to a complete run. The organisation may have no backup resources to draw on, in which case the panic was perfectly justified.

However, queuing up at the bank after the panic has been proven to be well founded does not help. Even the largest of banks cannot pay off all its depositors in one shot: the money has been lent onward and cannot be recovered immediately and certainly not in one shot.

The situation is even sorrier for those who hold life insurance policies in a collapsing company. There is nothing to withdraw in the present because policies typically have low surrender values. On that future date when the policy holder does have a sizeable maturity amount to claim, the company might not be in existence.

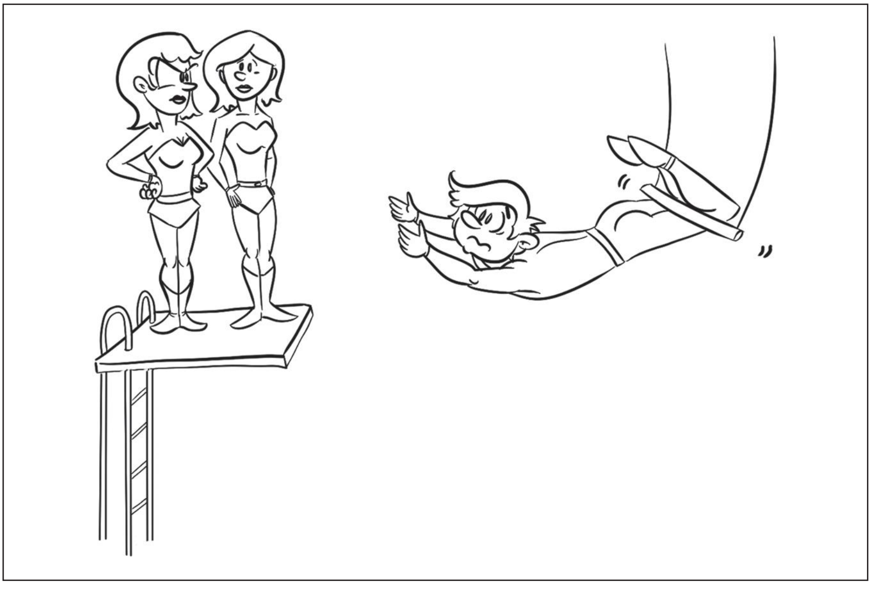
That is how trust plays out at a macro level. But the trustworthiness of a financial company at this level is a hygiene factor. The absence of this trust is guaranteed to lead to business failure; its availability does not guarantee business success.

For success, a business must inspire trust when the customer comes face-to-face with the company.

IS THE FACE TRUSTWORTHY?

The representative of the company is the face of the company. Does that person inspire trust?

Companies often cut a sorry figure with customers, especially if the customer knows more than the representative. This is not hard to imagine. If the customer is a successful businessman he is likely to have faced a number of financial situations and service providers in his lifetime. The representative could well be a fresher on his or her first assignment.



"I am not sure I want to go through with this after the fight I had with him last night!"

Sometimes you have no choice but to trust.

"Will this mutual fund value always stay up?" leads the experienced customer.

"Yes, sir", stammers the rookie. How can he tell the customer that it might sink and still hope to get the investment cheque?

"But markets are cyclical and will come down. What will happen to this mutual fund then?" asks the veteran, trumping the rookie.

The financial company comes off looking awful if its representative is poorly informed, educated or trained. A first encounter of this kind does not create trust either in the individual or in the organisation he represents.

The returns on a fortune spent in advertising hinges on how the representative handles the customer.

Small wonder that customers take a lot of time to get confident with any company and/or its representative. Some customers are more comfortable with the representative—he is someone who can be caught, cornered and pleaded with. Other customers are more comfortable with the corporate name—what trust can be placed on an employee who will switch companies at the drop of a hat?

THE ROLE OF PERSONAL SELLING IN FINANCIAL SERVICES

Personal selling plays a huge role in the marketing of financial services.

The greater the profit to be made from a situation, the greater is the role of personal selling. If an agent is looking to earn a fat commission by selling life insurance, it involves a lot of personal skill. Advertisements cannot close the sale—they only help establish the feeling that this is a large organisation that can be trusted.

Call it personal selling (retail financial products), call it advising (investment products), or call it negotiation (investment banking deal making), all are intensely personal/ personality-based efforts. Therefore, the building of trust is as much personal as it is organisational.

Customers initially tend to trust organisations on the basis of anecdotal evidence available with them. They are also influenced by brand image and advertising. However, when it comes to using products from that organisation they must interface with the organisation through people or through other devices like the net, the ATM, the call centre (which is people too) and so on.

It is the first step towards testing the organisation and building trust.

It could happen that a customer decides to buy trade services from a blue chip bank. If, however, the person who comes calling from that organisation, slips up in the first meeting for any reason (he could just be having a bad day), the customer will ask the bank to send some other representative. It could also happen that the customer simply decides to try some other bank.

Customers do not deal with a weak representative simply because he comes from a great organisation.

In the financial products space, a pushy salesperson arouses suspicion. This often happens under sales pressure to complete a target. If the product is simple and involves a small commitment, it might work. For example, imagine the counter staff at a bank is trying to sell a gold coin of 2 or 5 grams. Under intense pressure a customer might succumb.

This is not the case with an insurance policy or an investment plan. A polite customer may fend off the assault by saying the spouse needs to be consulted. A rude customer might be abrupt. If the transaction is larger or the product is more complex, the increased sales pressure causes the motives to be suspected. "Am I being sold this because it suits me, or is it because it suits him?" is the thought in the mind of the customer.

Sales pressure is not conducive to trust building. And without trust, selling financial products is difficult: it is not possible to realise the full potential of the customer relationship in any case.

> Product failure has simple consequences in other industries even for expensive products (other than the food industry where you could die). Product failure in financial services can have dire consequences, and therefore, the need is for trust. A person's retirement fund is blown up. A widow finds that an insurance does not pay. A homeowner finds he missed out on flood cover after his house is submerged. And so on.
>
> That is why much of the advertising focuses along messages of trust, faith and partnering. However, can the brand experience mirror the ad campaign? A company needs to ensure that the manner in which customers get handled address those issues of fears and concerns and build up trust and faith.

A SERIES OF SMALL STEPS: THE RESULT IS TRUST

Customers are not like travellers waylaid by bandits in a remote forest. They do not have to hand over everything; and they don't, no matter what the salesperson tries. In any case, some products cannot be disengaged and shifted overnight, like life insurance policies and loans.

The buying behaviour in financial services is necessarily in a number of small steps. Wealth managers will tell you that the largest of customers start their relationship with only a very small beginning. It is a test for the producer.

As he experiences good service, the customer shifts other products from places where he was less-than-happy. The last thing that will ever shift is that product which is handled very well by the current provider.

Infosys might be receiving Euros within 24 hours from a customer in Germany because its chosen bank has on-ground strength in Germany. It will be really difficult to get Infosys to shift that remittance business to another bank because there are no problems with the current arrangement. This is particularly so because it is really difficult to develop a relationship with a service provider who understands a customer's particular need and handles it flawlessly, time after time.

At some point, through gradual emergence as a preferred provider, one organisation might become the main (or only) supplier for this customer. For this, there have to be a number of positive interactions over time. If the positive experience prevails across a number of products then that is even better for trust building.

For instance, if I have a positive experience using ICICI Bank's credit card—great. I might infer that they are a good bank to deal with. If I also have positive experiences using their savings bank account, a home loan and an investment portfolio as well, then I really start to trust that bank in a big way.

The ultimate trust builder is the client going through a crisis and the financial services company coming good on delivery. A consignment of perishables has reached Amsterdam. The trade documents related to this consignment need to be released on an urgent basis at Amsterdam, else the consignment will start to rot. Your banker gets on the phone and contacts his counterpart in that country and gets the work done instantly. Such an event can be a great relationship builder.

Eventually, you could reach a position where the customer dotes on your word and is guided by you on what to do.

This gradual process can be described as The Trust Chain.

THE TRUST CHAIN

The concept of the Trust Chain has similarities in the concept of the value chain. The value chain looks at the build up in customer value through a series of processes culminating in delivery and after-sales service.

In financial services, the build up is in the trust.

A customer's trust must be won before a sale can be made. If the customer takes a leap of faith and buys a product, the financial company must retain and build on this trust.

The fulfilment of the trust comes, as noted previously, only when the customer tests the service. Till then, it is only a promise.

"Ours is an international debit card and works the world over!" assures the relationship manager proudly. The proof is when the card is tried. Imagine a freezing cold night in Europe. You are in a country where you don't know the local language and few locals know English. The streets are deserted as they often are on such nights. The machine swallows your card and flashes the message: "Please contact the office that originally issued you your card".

"Yes, I will, if I get back in one piece".

Some of those settings can leave you feeling like an orphan if the product does not work as promised.

All the differences between physical and financial products noted in Chapter 1 should be recalled at this point.

Here is how trust builds:

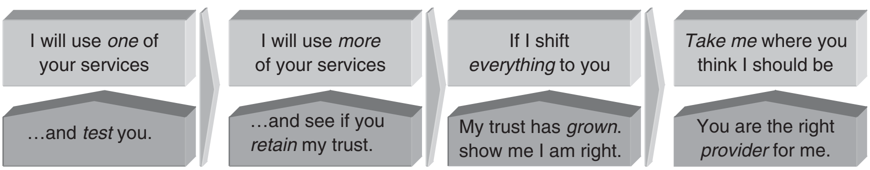


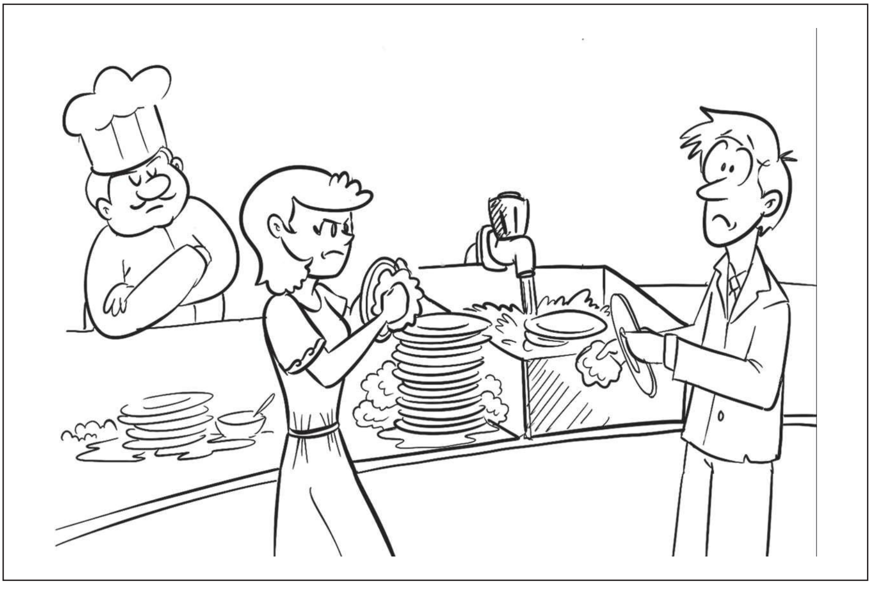
Figure 5.1: The Trust Chain

A customer tries out a bank by using one of its services. Customers rarely shift everything to a new bank. In using one service if the customer is satisfied he might use a second and third product.

Eventually, if a customer does shift his entire usage to one bank, step by step, he or she wants to be assured that the correct thing was done. For this, the bank must continue to deliver and show that the customer was correct in placing his trust in the bank. Finally, the day might dawn when the customer is willing to entrust himself to the bank and is open to suggestion.

It is a delicate process. You can lose your customer's trust at any point in time. The deeper a producer is in this chain the more difficult it is for the customer to disengage from that producer. That is an insight we will use in the Needs–Portfolio Matrix.

In addition to everything that the matrix helps harness, it will also help us go through the Trust Chain as methodically as possible. Trust building then becomes organisational, and the organisation becomes an institution.



"How would I know why the debit card did not work?"

The causes might have changed; the effect remains the same!

Yes, the market is cluttered and competition is intense. But it is not cluttered with institutions. And the competition is not intense at the strategically sound end of the spectrum.

It is cluttered and intense with mediocrity at the "strategy free" end of the spectrum.

Some large institutional depositors make it a practice to take their money back for a day, even if the real intent is to renew the deposit. The fact that money from the deposit bank moved to the client's bank account is an important reassurance. Once reassured, they are happy to place the entire money back in deposit with the same bank.

Some industrial companies keep small parts of the business insured with different insurers. Who knows, in the event of a really large incident, the insurance company should not have problems in paying out cash. In some cases, contractual arrangements enable the client company to deal with the insurance company's reinsurer using "cut-through" clauses and deal directly with the reinsurer if that entity is financially more reassuring.

Wealth management customers do not just diversify across asset classes. They diversify across managers: they do not want their entire portfolio to fail because one bank suffered a breach of secrecy; or sold them lemons; or the country of the manager's location had a change of regulatory environment.

Some individuals will not link their credit card payments by auto-debit to their savings accounts: no money should be paid unless checked and verified by them. They do not trust the card billing services to be accurate. In a world of skimming, online fraud and merchant fraud there is no way to be sure the amount you see as payable on the card account is really payable by you.

"I hate service delivery failures!"

Sometimes a failure is a blessing in disguise.

HDFC Bank has excelled at pitching their "basic banking" offer to employers, combining the business needs of the employer with the employee's need for a salary account. This strategy is at the heart of the bank's phenomenal success at mobilising low-cost funds.

The value proposition includes installing of ATM machines at client locations, and zero balance accounts for the staff.

HDFC Bank is present at most of the multinational corporations operating in the BPO, KPO and IT spaces. These companies do not require funding/corporate loans. On the other hand, they have large current account balances and convert foreign exchange (mostly dollars) in large volumes. Any employees who do not maintain balance in the account are easily paid for by the average maintained by the group, if not by all the ancillary business generated.

Some employers do not like to present employees with a "no choice" situation. Even in such instances, it is usual to find HDFC Bank in the short list. We will examine the efficacy of this strategy in the context of the Needs–Portfolio Matrix in the appropriate section.

CHAPTER 6

UNDERSTAND THE ORGANISATION

You get a sales call.

TELECALLER: "Good morning, Sir! I am calling from YCY-Not Bank!"

YOU: "I don't want it..."

TELECALLER: "Sir, you have an account with us".

YOU: *(Something could be wrong. Better check. Later the bank will say we called, you didn't respond. That is why we debited you those fancy charges.)* "Yes?"

TELECALLER: "We have a pre-approved car loan for you".

YOU: *(Suddenly remembering that you wanted to pay down your credit card balance with a personal loan)* "Well, actually, I need a personal loan. Can you do that for me?"

TELECALLER: "Sir, I am sorry. That is handled by another department".

YOU: "Can you put me through to them?"

TELECALLER: "You will have to call the bank again Sir".

YOU: "At which number?"

TELECALLER: "The call centre number which is on the bank statement".

YOU: *(That number? Yes, there is a whole bunch of those unopened envelopes. But … skip it; I don't have time for this right now …)* "Ok, yes, yes, yes. Thanks!"

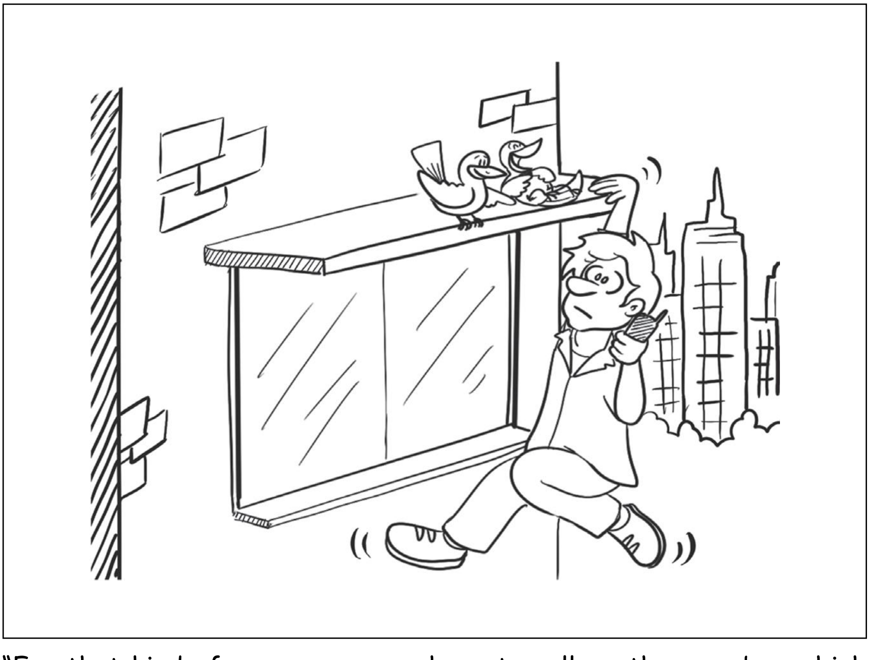
TELECALLER: "Is there anything else I can do for you?"

(Don't blame her. It's in the script.)

YOU: "No thanks" *(Oh yes, you can: get off this phone line and make it free for useful calls again please!)*

Don't blame her. Understand the kind of sales organisation she works in. And there are two types of those:

1. The silo-based organisation
2. The relationship-based organisation



"For that kind of emergency you have to call another number which please note down!"

Do we always have the time to go find the right man for the job?

SILO-BASED ORGANISATIONS

Silo-based organisations are actually trying to cover the whole universe of customers in the direction of the arrow in the chart below at breakneck speed:

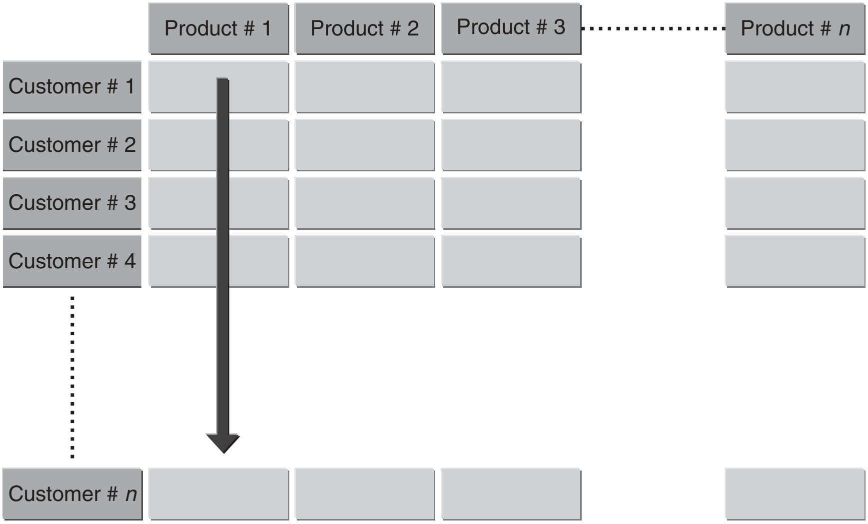


Figure 6.1: Silo-based Sales Organisation

Take one product and sell it to the whole wide world. This is the job of one team. (There may be other teams doing the same for each of those other products.)

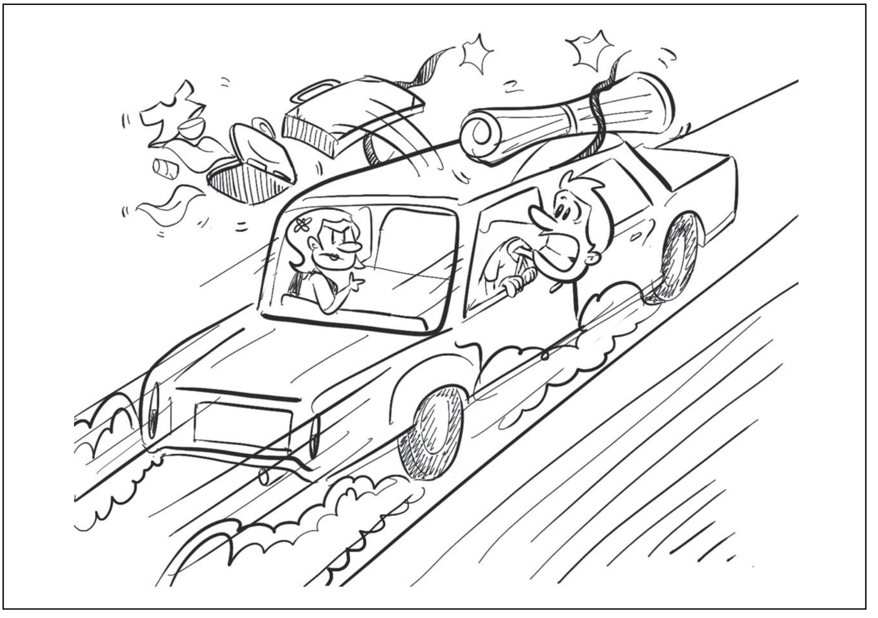
The fond hope is that one day, having built up a huge database of a million customers who use a single product from their company; they will be able to "cross-sell" products 2, 3, 4 and every other product in their stable. Just as the silo company covered a million customers in lightning speed, they will run through each subsequent product at the same speed.

Within the term of the current CEO (he or she hopes), each of the million customers will be converted to multi-product owners.

If they could show speed within the silo in acquiring the customer, there is no reason to believe they will not achieve speed in every subsequent silo.

So they think.

Meanwhile, from the basement upwards, the frontline troops, worn out by becoming the grease between the organisation and the customer, are busy destroying the image of the organisation.



"Well, you were the one who wanted him to go faster!"

Speed must serve the purpose.

By the time it comes to convert existing customers to multi-product owners, the customers have given up. There is every chance that the customers too, in their turn, become opportunistic, using the organisation where it suits them; and finding other producers to meet other needs.

This has serious implications for both pricing and profitability as we will see when we delve deeper into the matrix.

A customer, quite fed up with the way his bank handles him, takes a loan from a competing bank. With banks having moved towards the processing utility concept in operations, the customer's bank has not noticed that every month a payment goes towards a product bought from a competitor bank.

The lack of a single view of the customer has failed this organisation. If the competing organisation is smart, it will nibble away at this customer; finally, it is the original company which will be left with a residual relationship.

ADVANTAGE SILO

The intensely sales-driven nature of the silo-based organisation yields a few good things:

- It allows sales managers to drive salespersons in a highly focused manner.
- It does not place significant demands on the salesperson; they need to master only one product situation.
- The simplicity of "dumbing down" the sales process by focusing on a single product, and then driving that process hard yields spectacular growth.

All the salespersons who read that, read it right. Silo-based organisations dumb down the sales process. This could be bad news for salespersons with managerial aspirations. It could potentially be bad news for sales managers too. It affects the individuals in those organisations differently than it affects the organisation.

This hard charging sales culture does grind the troops to dust. And any strategy that wears out the frontline forces should be considered bad strategy. It limits the distance the troops will go. Alexander, the Macedonian faced this situation. His troops had fought many a tough battle. They refused to go further at the precise moment when all of India lay at Alexander's feet. He turned away from the doorstep of India because his troops were fatigued.

A counter-argument is that those who emerge from this grind are the real winners; the horses for the long haul.

While that is true, those "real winners" by definition are going to be fewer in number. Organisations cannot run country wide on the shoulders of a few horses leaving the rest of us to be serviced by mules. Does a business exist to make the careers of a few or is it to serve the interests of the broad mass of its customers?

RELATIONSHIP-BASED ORGANISATIONS

This type of organisation contrasts with the silo-based organisation. In the chart below, the relationship-oriented company tries to proceed in the direction of the arrow shown.

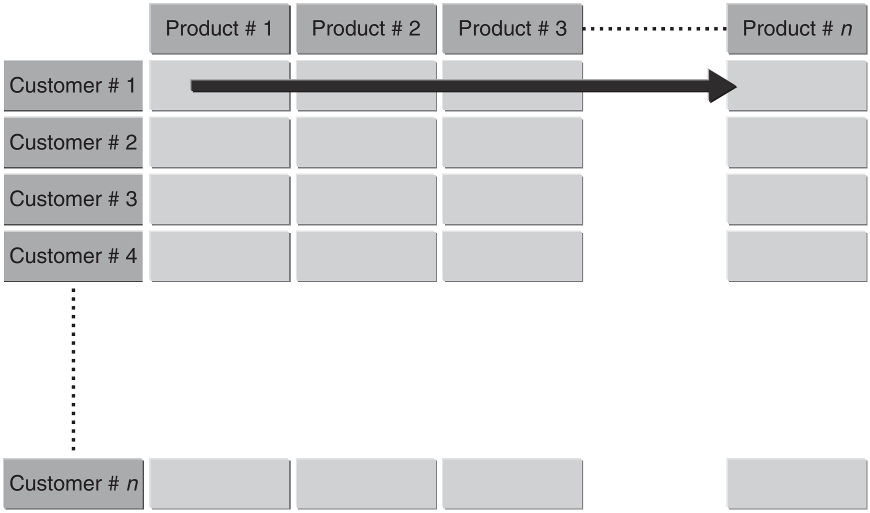


Figure 6.2: Relationship-based Organisation

The company makes it a point to sell each customer every product from its stable. It should be noted that this does not necessarily imply that the company has a "single view" of its client.

This method of client acquisition is slower than the silo-based approach. However, there is every chance the customer has a better impression of the company and is overall in a happier relationship.

The business approach shown above is to be found in the wealth management business. The company appoints a relationship manager (RM) whose job is to ensure customer usage of each and every product. The personalised attention is expensive, but the volume of assets placed with the company makes it affordable.

END-TO-END VIEW OF THE CUSTOMER

If the customer is to be treated as a relationship, the RM must have a comprehensive picture of the customer's usage of the bank.

If L&T has a corporate banking relationship with a bank, the RM would know the credit limits sanctioned, the current usage of that limit, the collections position of L&T, payments under letters of credit falling due in the next few days and so on.

In any situation in which the company is incapable of supporting the RM with such a perspective, the RM simply works harder. RMs and sales managers are known to maintain their own client dossiers, sometimes using simple applications available on the net while the employer is busy trying to bring on a multi-million dollar CRM project to achieve the same result.

It results in the customer viewing the RM very favourably. Unfortunately for the company, it also makes the company dependent on the RM. This is one of the principal reasons that the wealth management industry is so hopelessly personality dependent. When an RM moves from one wealth management business to another, the clients move with him. The company finds it impossible to reallocate or relocate an RM. The customer dictates that he must have his man on the job, now and forever.

The wealth management RM finds his career prospects in terms of vertical growth limited. The company compensates him with riches.

Strategy which wears out the front end team is bad strategy. So is strategy that wears out management as is the case in wealth management.

CROSS-SELLING

Cross-selling is actually a bit of a paradox.

What else would a company do, than to sell *all* its products to all of its customers? Anything less is sub-optimal. If a company did not sell to its customers so thoroughly, as an equity investor, one could seriously consider the stock of such a company as a "sell".

If one buys this argument, it is also true that instead of considering "cross-selling" as a separate activity or something to be worked at, it should be ensured that selling every product to every customer is in the genetic code of the organisation; in other words, in its culture.

There should be no need to think of it as a separate effort. So, when a company uses the term "cross-sell", it should be taken as an acknowledgement that it has a problem in this area.

It is like the proud claim of many a company during the recent economic downturn: "We reduced wasteful expenditure".

Is it okay to allow wasteful expenditure at any time at all? If it is wasteful, it is so in both good times as in bad. The stock is a "sell".

SILO OR RELATIONSHIP?

Both organisation types have something to offer. There are specific situations in which you would prefer one over the other. The Needs–Portfolio Matrix helps us pick and choose the strategy for the situation and presents the case for using different sales organisations for each strategy.

CHAPTER 7

UNDERSTAND THE ENCOUNTER QUADRANT

The first quadrant is the Encounter Quadrant. It is where we can acquire customers with speed and with simple, discounted products. This quadrant is also the graveyard for many top-class products which are erroneously launched here. To the benefit of practitioners, this chapter defines strategies that can be used in this quadrant to acquire customers. The chapter offers a basis for selecting products which are suitable for "First Quadrant" strategies, and identifying those products which are not.

THE FIRST QUADRANT—THE ENCOUNTER QUADRANT

This is where the company meets the customer. We call it the Encounter Quadrant (Q1). You are here.

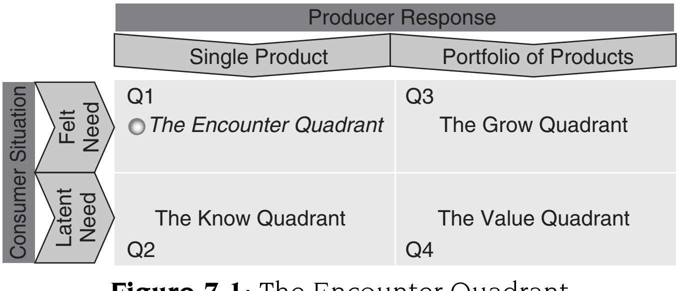


Figure 7.1: The Encounter Quadrant

A customer walks into your bank branch. Or he arrives on your home page. Or imagine him to be in any situation, in which it is the first time that the consumer calls on the financial services company.

Since the meeting is happening at the customer's initiative, he already knows what he wants. If terms of Kotler's "Buyer Decision Process", he has already been through the "problem recognition" stage, possibly on his own.

The encounter could well be the "information search" and/or the "evaluation of alternatives" stages.

Figure 7.2: Kotler's Buyer Decision Process

If we are the first source of information we tend to think we stand a very good chance of concluding the sale. In reality, since he has a felt need, there is every chance that the encounter is merely a prelude to an evaluation of alternatives.

COMPARISONS

The Encounter Quadrant (Q1) is one of high vulnerability, because we are easily compared with our competitors in this quadrant:

Some of the parameters for comparison are:

- Price
- Benefits offered
- Convenience and ease of access
- Conditions for discontinuing use

This is the most intuitive and normal situation that a financial services company faces.

Actually, at the coffee machine when "the boys are chatting" the cribs are easy to imagine:

"We offer the lowest deposit rates. Why should customers place their money with us?"

"We charge the highest interest. Why should a customer borrow from us?"

"Our insurance premiums are most expensive".

"Our brokerage rates are not competitive".

"Our fund performance is the worst. Why will anyone invest with us?"

"Yes, we used words like 'capture,' 'pounce' and 'lock in'. But we are salesmen not terrorists!"

Finding and keeping customers has become a war.

Management Responses

The stock management response is produced in the anecdote below:

A salesperson with shoulders in a slump is standing in front of his manager who is seated behind a large desk.

The manager is saying: "If our deposit rates have to be the highest for you to make the sale, a front page ad in Economic Times will do. We don't need you!"

This is true.

This is also the reason that the frontline sales and service staff become grease and cannon fodder between the organisation and the customer. How else is a sales or a branch manager supposed to respond? Going to management and complaining about ground realities is not an option. No one, but no one, wants to appear to be a part of the problem. They want to be heroes and champions that do management's bidding. The salesperson's immediate boss has no other strategic tools at his disposal.

Sometimes a boss might approve special terms. Usually this is done only for the star. No one supports the whiner. It is not a sales tool; it is a motivation tool to keep the morale of the performers high. Success breeds success.

At the tactical level little else is possible.

Let us see whether those that have power do any better.

WHAT MANAGEMENT DOES?

There are typically two things that companies tend to do.

They add a lot of "free" offerings to the basic product. In the view of some, this makes "our product superior to theirs".

Perhaps.

However, it also gives away, at low or no charges, lots of additional things which the company incurs costs to provide. This means, unless significant sales are achieved the company stands to lose money.

Management, after it launches this fully-loaded-freebie product puts intense pressure on the salesforce to make the bet pay off. The launch is usually accompanied by a campaign in the media, buntings, posters, and leaflets in the outlets and other similar messaging.

"We have provided so many things in our product! But you guys just don't know how to sell it!"

It merely increases the pressure on the salesforce. Many sales managers think this is fine; but the strategist ought not to forget that "marketing is that activity which makes selling superfluous".

The other stock response is to reduce prices.

*The profitability impact is the **same** whether you offer lower prices or provide additional features free.*

Asked independent of the context almost all managers and definitely all of management will argue that competing on price is *not smart*.

And yet, in the first quadrant, almost all managers respond with price or freebies.

Price competition is not sustainable unless it comes from deep cost advantages born out of value chain analysis and strategic shifts based on that (see Chapter 2 of this book; also see Michael Porter's *Competitive Advantage*).

DRIVE THE TROOPS HARD

Since giving discounts and freebies costs money, it cannot be done forever. Management responds by limiting the period for which the discounts and benefits are available by making it a "campaign".

"Campaign" sounds right! It sounds like a plan. It sounds like there is a lot of energy and action and things are happening.

And it sits well with the "drive the troops hard" approach. A campaign is launched with suitable rewards schemes for performing salespersons. The company achieves numbers.

You will notice that in many of these companies, the star salesperson sells only during campaigns. In between campaigns, he rests, relaxes and enjoys the benefits of having been the star.

If pushed he will say "Do something! Offer stuff! Launch a campaign! Don't I perform when you push with a campaign and want numbers?" If his boss is the kind that has never looked a customer in the eye in his life, he meekly backs off.

Over a period of time, the salesforce waits for campaigns to make sales happen. It is a slow addiction to a discount culture. It may be disguised, but that is what it really is.

This too, sits well with the "drive the troops hard" approach. It is during the "campaign awards" season that management notices sales performers. Our champion appears on the list each time and his career progression seems assured.

Eventually, those who climb the sales hierarchy are those who sell best during campaign seasons. Selling in seasons, during campaigns, offering "deals", becomes organisation culture.

What do salespersons do during the rest of the year?

Rest assured, the management has no clue. In fact, the management sympathises with the salesperson and secretly feels bad for him. Many in management shudder at the idea of having to do the job, which they want the troops to do. They are scared of sales. There are several who have never seen a customer in their lives and might not recognise one while visiting a branch or outlet. ("Thank god I rose in the hierarchy before I had to do that!")

However, showing sympathy to a salesman is counterproductive. Therefore, the seniors maintain their hard-charging attitude with the salesforce. It pays to be alpha male if you are in management. It is hard to see which came first: is he alpha male because he is in management, or did he get there because he is alpha male?

For those who find the foregoing improbable, here are a clutch of situations. See if you recognise them.

CONSUMER BEHAVIOUR IN THE ENCOUNTER QUADRANT

Many customers shop around before placing a bank deposit. Inescapably, it is the bank which offers the most interest rate which gets the deposit. If you are looking for a broker, it is easy to pick the one who charges lower. Buy car insurance from the one who charges the least premium.

For reasons of measurability noted in Chapter 1, the decision is not based on emotional factors. Like the lemon yellow of a Skoda Fabia that your wife loves. Like being able to take delivery of the car on an auspicious festival date. Or some skilful salesmanship in which your wife was described as resembling a film star standing next to that fridge. No such luck with financial products!

Traditional marketing theory has long held that industrial customers are rational while retail consumers can be swayed by emotional triggers. Rational buying processes are a bit of a myth and newer literature supports that developing view.

There are a number of psychological, emotional and fad-related reasons why people buy things and this cuts across all kind of buying.

A purchase manager who is completely bowled over by the electric pink in which the television set was available does not necessarily switch personalities at work.

"This toothpaste is for the lower jaw while this is for the upper jaw!"

Segmentation can sometimes go too far.

It leads to the sales routine where a relationship is developed between purchase manager and salesperson. Worked right, the purchase manager will be able to tell the salesperson the criteria on which the sale can be achieved. This might include price information. But it also includes other features and attributes which the company is assessing which could allow you to sell at a higher price provided it is justifiable.

In advanced tendering processes as a part of the purchase process, it is not uncommon for the champion salesperson to have the client put out a tender document which disqualifies the real competition and/or has a bias towards the characteristics and strengths of his own organisation.

All these are well-recognised practices and we are not talking of anything ethically indefensible like outright corruption.

A buying decision may or may not be rational. But all decisions are *rationalised*.

WHAT CUSTOMERS DO?

A quick look at how the smart customer operates shows us how weak the producer's position is in the Encounter Quadrant. The smart consumer makes sure he meets the producer in this quadrant only.

He disaggregates his requirements and shops for each need separately. In the process, he discusses and secures best terms for each product on a standalone basis.

He is assisted in this by companies that put themselves in the single product situation. If companies are not discerning enough in choosing which product they make available on a standalone basis, the smart customer is able to cherry pick.

The group that has felt this pinch the most are the Corporate Bankers. Large corporations which use their services have picked off their various needs and shopped them out.

Loans are taken in one place, forex services elsewhere, the staff salary accounts are with a different provider and the trade needs are handled through a separate banker. Even a composite service like cash management can be and is disaggregated with receipts managed separately from payments.

It can be argued that the disaggregation is not necessarily in the long-term interest of the customer. Indeed, it might not be. For instance, if each banker has only a narrow slice of your business, when you are in trouble as a borrowing company, no single bank has enough business from you to be motivated to help out.

That, however, is no consolation to a producer. Usually such clients are of such a profile that you are glad you have any business at all that you can boast of. ("Wow! We actually do business with Mukesh Ambani! It is a very small piece, but still….!")

A BAD DAY FOR THE SMART CUSTOMER

Here is how this situation pans out: there comes a day when a particular transaction of the client becomes critical, or some critical need emerges. For instance, a trade bill comes up for payment and since the customer distributes his business all over, your bank does not have the funds necessary to retire (pay) the bill.

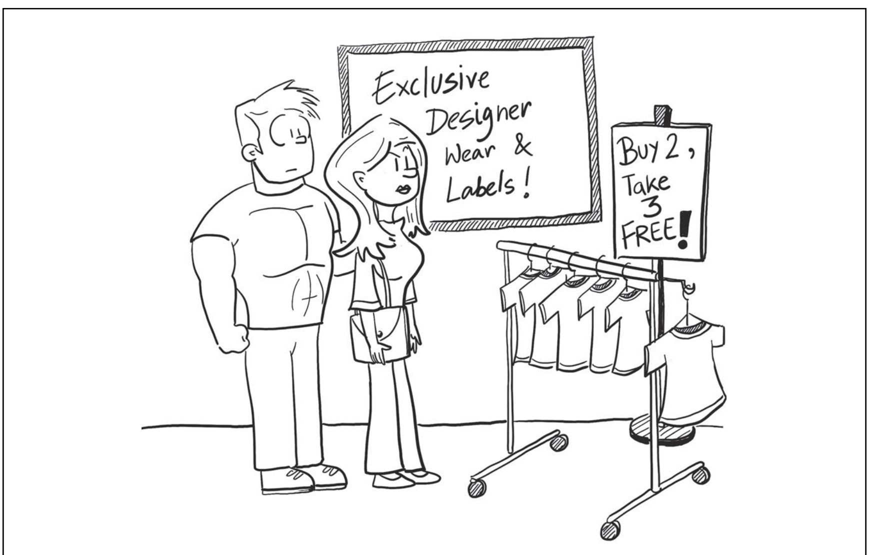
The bill itself is critical as the material being supplied is not widely available. This is the day the banker is waiting for. He hopes to do the impossible and bail out his client and earn his enduring gratitude. It might work: the client might feel grateful and route more business your way. It might not: the client must say this is why you have any business from him at all. Ask bankers and they will tell you that "gratitude" (and by extension "relationship") amongst customers is a dead or dying concept.

The same emergency situation for a smaller individual client can prove expensive. Either the individual is too small to merit special attention. Or worse, the company turns vengeful: "I could have done something for you if you did more of your business with us, but with the current relationship it would be hard to justify…"

Sometimes the producer might extract a shift of some other business before solving the problem faced by the client. However, growing your business by waiting for the day your customer gets into trouble and becomes desperate is not strategically sound.

All of this points to a producer stuck in the wrong business position vis-à-vis his customer.

So, in the Encounter Quadrant (Q1), the producer suffers from high levels of comparison, therefore, low-pricing power and consequently low profitability. In fact, it is characterised by discounting and freebies which constitute a scorched earth policy that benefit none.



How you sell says something about your brand.

THE UPSET CUSTOMER

In the Encounter Quadrant (Q1), if a customer gets upset with the producer he can shift his relationship immediately.

How much time does it take to close a deposit? Or to shift a plain vanilla banking account? Or redeem your mutual fund units? Or shift your personal insurances? The two products which are difficult to shift instantly are loans and life insurance.

In life insurance, the loss is significant to the policy holder. At best, the customer might decide to just keep that one policy going and have nothing else to do with the company. Life insurance companies might take the view that since they might not be able to sell too much more to that client, it is quite okay with them. At the most they might miss the growth of the client through the stages of life. For that, they might console themselves that there is no guarantee they could have harvested that account through its growth years.

However, it is also true that a customer who is really riled up can exit the loan (easier) and the insurance policy (with a loss).

Thus, Q1 is further characterised by high possibility of attrition. It is the quadrant of least loyalty and lowest account stickiness.

STRATEGIC LEVERAGE OF THE FIRST QUADRANT

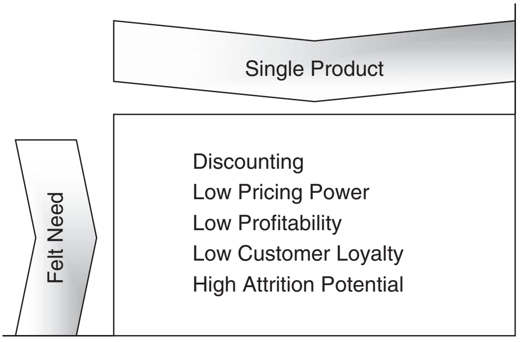


Figure 7.3: Characteristics of the Encounter Quadrant

A standard error in this quadrant is to launch a premium product. Premium could mean either high end, sophisticated in meeting needs, a bundle of benefits or a product with plenty of add-ons.

As noted earlier, loading up the product is an attempt to eliminate comparability and improve attractiveness of our product. But it is not a sound strategy. Understand the nature of the customer who has a felt need. She *is* going to shop around for a good deal or a discount.

When the customer goes out shopping there are enough similar products to be compared with. This is because many others in the market are making the same mistake of adding lots of benefits to their products. The customer is busy comparing who offers more for less. Merely because everyone in the market is adding freebies to their product, it does not make it the right thing to do.

As a business leader, you know it costs a good bit to deliver most of those little add-ons. (Some add-ons come at no cost as the infrastructure already exists. Other add-ons create savings as it is with Internet banking which reduces account servicing costs.)

In Q1, any benefits that you throw in quickly get commoditised because everyone is doing the same thing or can quickly copy what you advertise.

It is the quadrant of Discounts.

So what should we be doing in this Quadrant?

Drive Client Acquisition Strategies from Q1.

GIVE THE CUSTOMER WHAT HE WANTS

That is a truism in marketing.

If you flip back to the needs analysis chart titled "Consumer Reaction: Demand" you will find whether he is a new user or an old user, there are a set of requirements which are basic in nature.

Develop a product that covers the basics and pare it down to its thinnest. Give it away for as low as you can manage from a cost recovery perspective. Anyway, what you are acquiring is a client and if he later uses other products the company makes money.

Products from your stable, which fit in this quadrant—and there can be more than one which fits—are your loss leaders.

BUILD YOUR SALES NUMBERS

You build a silo sub-organisation whose job is to go flat out and secure clients for this no-frills product from your company.

Making a virtue out of your strategy; pitch it as "simple in a world of clutter". Project your organisation as a company who if it was an individual, would be like the average guy: simple, straightforward, just wants to do an honest day's work and be happy.

Those who work in this silo know *what* they are selling precisely because it is *simple*. They can run fast as the product they are seeking to sell is simple. Pitch it to all those who know what they want. Pitch it to them wherever you encounter them. Pitch it when they contact you. Pitch it when you contact them.

(Contrast this with trying to sell a complex product at the speed of a silo-organisation. The salesperson does not provide full facts and mis-selling happens.)

RECOGNISE YOUR COSTS

The worst case scenario is that you acquire clients who are not profitable for you to service at the bank. (Other quadrant strategies mitigate this impact, but let us assume that those strategies do not exist.) We have acquired clients who are completely worthless.

What does it cost the company? Nothing, since in Q1 you are in any case destined to be pushed for discounts, and are going to have to throw in freebies.

DO NOT UNDERMINE YOUR BRAND

Your brand is not commoditised because its client offerings are not commoditised, demeaned and trivialised. This is *big* in a world where everything can be copied and gets commoditised rapidly. A technologically sophisticated product like the Apple iPhone can be commoditised. A financial services organisation does not sell anything that comes close to the iPhone in using innovation. (Things that do have proven to be weapons of financial mass destruction!)

(The model does not suggest you achieve snob status and sell from that position, though that is a valid strategy. Some patience is warranted. We have only just begun the discussion on the matrix.)

ACHIEVE SALES WITHOUT GRINDING YOUR TEAM TO DUST

Your salesforce is not ground to dust selling this. The product is simple. Its appeal is simple. The goal is to merely acquire a lot of accounts of customers who have their basic needs met in a simple way. (What we do with this later is simple and you might have some ideas on that. That can wait for now.)

It is useful to remember the situation of Alexander the Macedonian cited earlier. It is also true that most battles in history turned when a batch of fresh troops newly arrived at the battleground.

ACHIEVE VOLUMES IN DISCOUNT PRODUCTS

These products are hard to defend anyway. Clients never buy them without bargaining. On a standalone basis, some of these products are poor for value-add. Why bother?

Instead, grow the base.

A quick and good example is in life insurance: sell basic term assurance to a youngster on the first job. It can be sold cheap. It can be sold *en masse* which in the insurance industry means risk distribution and diversification. It brings in the client who you can grow with. What you do with him next is important (Q2); but that is always important and with every client, anyway!

WHY ONLY ONE PRODUCT?

The logic for picking only one (or limited numbers of) product is simple. As noted earlier, if you did everything you are no different from the rest of the pack.

More importantly, why would you try to sell *everything* that you sell in low-cost, discounted mode?

Sure, Wal-Mart and Big Bazaar operate like that. However, as noted in Chapter 1, there are significant differences between financial products and physical products. From a segmentation perspective, the person who buys a low-end television is in a different category from those who buy TVs built with cutting edge, expensive technology.

With financial products, what a customer buys from you first does not tell you anything about what he could potentially buy next from you. Thus, one of the key ideas behind "segmentation" is not fully usable: there is no homogeneity. There is homogeneity of characteristics amongst those who buy high-end TVs. There is no homogeneity amongst those who use savings bank accounts.

The person who buys a simple depository account (DP account) from you could put it to intense use. This might be because he is an active investor in stocks with a shorter-term strategy. It shows the producer that this customer is active in broking. More money can be made from getting that broking business next in than what the DP account generates.

There is also the trust factor which we discussed earlier. A customer will take only a small part of a need to a producer. If the producer wins this trust with the manner in which the current business is handled, then there might be additional business.

MIS-SELLING SOLVED

It is important that financial products are not mis-sold. It is in the long-term interest of the financial services company not to allow this to happen. However, there are enough instances of this having happened and the inherent conflict of interest in the way this industry operates is hard to solve.

When a financial organisation goes silo, it runs hard. And hard running sales people with targets to achieve are prone to mis-selling.

Simple products are hard to mis-sell. A product which is simple can be sold with intensity and speed with lesser risks of mis-selling.

IF YOU ARE A SALESPERSON

If you are a salesperson working in a silo sales organisation, do your job! The assumption is you get no credit or opportunity to sell anything else. So, there is no point—just sell as instructed.

If you are a salesperson working in an organisation which is relationship in its orientation but likes the growth and pace of a silo sales organisation, you are in some form of trouble because you bear the load of the inherent contradiction in your organisation.

However, there is a way to handle the situation.

Typically your company sells a whole range of products. You can execute a first quadrant at your own individual level. Pick a product available in the stable which has the attributes described above and start from there. One of them will sell well. Sell a lot of what sells well.

(In most organisations, this is what salespersons do. They sell what sells well. The champions sell in such huge quantity that they are able to get away with it. The weaker salesperson, who didn't sell in huge quantities, gets harangued for not selling the right product mix. The right product mix, as it happens, includes high priced or high margin products which are difficult to sell without adequate thought to strategy.)

WHAT NEXT...

Now, I have the customer. The brand experience has been good without too many negatives. What do I do next?

Let us go to the Know Quadrant (Q2).

For a strategically oriented organisation, selling in Q1 is preplanned and already paired with that which is going to be offered or sold in Q2. As you progress through the matrix you will realise that this is what will work. Eventually, you will want to come back and see how your Q1 strategy pairs with your Q2 strategy.

Let us examine the issue of latent needs and the second quadrant.

The charts in the following pages show the factors on which savings accounts can be compared. They reflect a fairly commoditized offering. There is nothing particularly distinctive between one account and another. The chart also shows that banks tend to "load" the basic savings account with all sorts of freebies.

This information is based on product leaflets of respective banks. The purpose of these charts is merely to compare features and is not a comment on the products themselves. No further inferences are warranted.

Which of these represents a real choice?

Features	AXIS Bank	ICICI Bank	HDFC Bank	SBI
	AXIS easy access savings account	ICICI regular savings account	HDFC regular savings account	SBI regular savings account
Minimum balance	₹5,000 (average quarterly balance) AQB	₹10,000 (average quarterly balance) AQB	₹5,000 {average quarterly balance) AQB will be revised to ₹10,000 from April 2010	₹1000 (average quarterly balance) AQB for cheque operated account and ₹500 {average quarterly balance) AQB for ordinary
Features of the SB a/c	International debit cum ATM card, internet banking, withdrawal at non bank ATM, anywhere banking	International debit Cum ATM card, internet banking. money multiplier facility, withdrawal at non bank ATM, anywhere banking	International debit cum ATM card, internet banking, sweep in facility, withdrawal at non bank ATM, anywhere banking	International debit cum ATM card, internet banking, money multiplier facility, withdrawal at non bank ATM, anywhere banking
ATM card	Yes – ATM cum debit card	Yes – ATM cum Debit card	Yes – ATM cum debit card	Yes – ATM cum debit card
Debit card	Yes – ATM cum debit card	Yes – ATM cum Debit card	Yes – ATM cum debit card	Yes – ATM cum debit card
Internet banking	Yes	Yes	Yes	Yes
Multicity at par cheque	Yes issued – usage – no transaction limits	Yes issued – usage – up to ₹50,000 per month – no charges; above ₹50,000 – ₹3 per ₹1,000 on full amount.	yes issued – usage – upto ₹50,000 per month – no charges, above ₹50,000 – ₹2.90 ₹1,000 on full amount {maximum ₹10,000)	Yes issued

Features	AXIS Bank	ICICI Bank	HDFC Bank	SBI
Anywhere banking	Yes – nil for the first cash deposit per quarter, therafter ₹100 for 2nd and 3rd transaction and ₹200 for 4th transaction and above	Yes – nil for the first cash withdrawal and deposits of a calendar month; thereafter in the month, ₹5 per ₹1,000 or part thereof, subject to a minimum of ₹150	Yes – upto ₹50,000 per month – no charges, above ₹50,000 – ₹2.90 per ₹1,000 on full amount (maximum ₹10,000)	Yes – cash deposits of ₹25,000 per day charged at ₹2 per 1,000, minimum ₹25 per transaction
Withdrawals at non bank ATM	Yes – ₹30 per transaction at partner banks and ₹50 per transaction at other ATM's	Yes – free for the first five cash withdrawls in the month (cap of ₹10,000 per transaction) and ₹18 per cash withdrawal thereafter in the same month	Yes – free for the first five cash withdrawal in the month (cap of ₹10,000 per transaction) and ₹20 per cash withdrawl thereafter in the same month	Yes – ₹25 per transaction at partner banks and ₹50 per transaction at other ATM's
Free DDs	No – ₹2.50 per ₹1,000 or part thereof (minimum ₹50, maximum ₹10,000)	No – ₹50 per DD up to ₹10,000; ₹3 per ₹1,000 or part thereof for OD of more than ₹10,000, subject to a minimum of ₹75 and maximum of ₹15,000	No – ₹50 per DD upto ₹10,000;. ₹2.50 per 1,000 above ₹50,000 and upto ₹1 lakh and ₹2 per 1,000 or part thereof (maximum ₹10,000) above ₹1 lakh	No – ₹30 per DD up to ₹10,000; ₹2.50 per ₹1,000 or part thereof for DD of more than ₹10,000, subject to a minimum of ₹50 and maximum of ₹12,500
Cash pick up and delivery	No	No	No	No

Features	AXIS Bank	ICICI Bank	HDFC Bank	SBI
Other similar features by detail compared across other banks	₹750 per quarter charged for non maintenance of minimum balance (AQB of ₹5,000 per quarter)	₹750 per quarter charged for non maintenance of minimum balance (AQB of ₹10,000 per quarter)	Rs,750 per quarter charged for non maintenance of minimum Balance (AQB of ₹5,000 per quarter)	₹500 and ₹250 per quarter charged for non maintenance of minimum balance (AQB of ₹1,000 and ₹500 per quarter for cheque operated and ordinary account)
Which of the above is chargeable and which is free per the minimum balance	None of the above savings account features are free, but few transactions are charged more for non maintenance of minimum balances	None of the above savings account features are free, but few transactions are charged more for non maintenance of minimum balances	None of the above savings account features are free, but few transactions are charged more for non maintenance of minimum balances	None of the above savings account features are free, but few transactions are charged more for non maintenance of minimum balances

Figure 7.4: Comparison of Savings Bank Product Offerings

CHAPTER 8

THE SECOND QUADRANT—THE KNOW QUADRANT

The second quadrant in the Needs–Portfolio Matrix covers situations where a financial services company uncovers and taps into the latent needs of a consumer. In this chapter, we discuss how consumers react when a latent need is uncovered. Knowing this enables a financial services company to pursue a certain strategy and we examine that, too.

This quadrant applies where you already have the client using only a single product from your company.

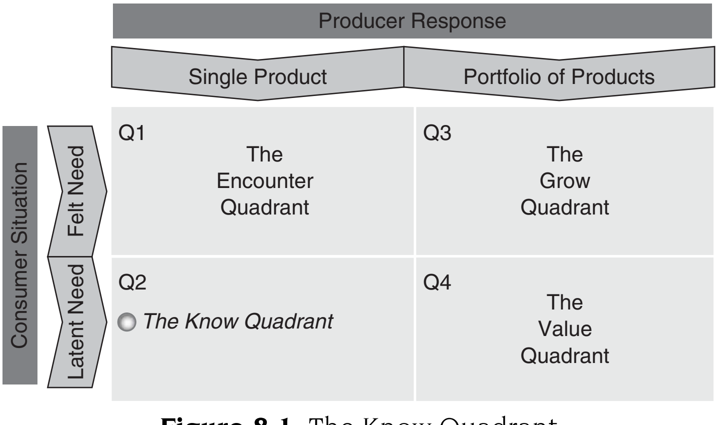


Figure 8.1: The Know Quadrant

The goal is to get the customer to use a second product which fills a latent need. You could also get the customer to use a second product by shifting it from some other company to your company. But that is strategically inferior to uncovering latent needs and selling from that position.

This requires you to know your customer. That is why the second quadrant is called the Know Quadrant (Q2).

UNCOVERING LATENT NEEDS

There are two distinct approaches to this:

1. Either your salesperson uncovers the latent need, or
2. Your strategy involves a pre-planned second product which is aimed to be sold after the first sale in Q1.

Each approach has implications for the sales organisation and for the business structures.

Approach 1

The salesperson calls on the customer who is currently using one product from the company. If the first product was chosen with care, and it conforms to some of the attributes highlighted in Chapter 7 as desirable, the salesperson can be fairly confident of a favourable reply to his opening lines in the discussion.

Now, through one or more conversations he finds out more about the customer's situation and visualises what else could be offered. For instance, if the customer showed that he was concerned about the total loans he was carrying, there might be an opportunity to sell an insurance which covered his loan, the insurance cover declining in tandem with the loans.

It is necessary to note straightaway (and mark for further discussion later) that the skill of the salesperson seeking to uncover latent needs is higher than that needed for a Q1 sale.

Approach 2

The second approach is that the company, based on its Q1 strategy has a particular product in mind for its Q2 move. It is always safer to have two or three products which would work to initiate a Q2 move, if the first chosen product is a non-starter.

This implies that some pre-thinking has been done for the salesperson which is always a preferred mode in silo sales organisations; it should be preferred in any case.

This is in complete contrast to the absolutely random "cross-selling" call pattern many companies currently follow.

Two examples highlight the significant advantages and differences in pre-thinking the second product for the Q2 move.

ICICI Bank has a robust home loan (mortgage) portfolio. A home owner is taking on a loan but feels comforted about his net wealth as the loan is backed by a home. (This assumes a steady increase in home values. In certain economic conditions, it is a major assumption which is outside the scope of the current discussion.)

However, the house, the asset which provides that mental comfort is subject to physical risks of damage from fire and related perils, which includes earthquakes, subsidence, floods and tsunamis, and so on. Fortunately, there exists in general insurance a property insurance policy which can cover for these risks. Post the insurance, your comfort is reinstated.

This means property insurance of the house is a latent need. ICICI Bank has planned this really well. No sooner have you gone into the final stage of the home loan process, the gambit opens on the latent need.

The psychology of the situation needs to be understood well. One does not have to have drawn down the loan and completed buying the house. The borrower is already in a mental state of "ownership" once the loan is approved.

That is the reason why the early stages of any loan process are light on requirements and documentation. Keep it easy. Figure out if he qualifies. Once he has sat in the car, visualised himself on some remote mountain top with the lady of his choice, he is sold. At that later stage of the loan process, ask him to sign eighty times in a 120 page document and he will sign without demur.

You really must understand—this might happen at the dealer's office where the car is simply screaming to be taken out for a drive. It is tantalising. The customer will do simply anything at this stage.

At such a moment, you talk to him about "HomeShield" from ICICI Lombard. It is a five-year-property insurance.

The company is selling what is normally a one-year product in a five year format! It is a dream from a general insurance producer's standpoint. They usually have to engage in trench warfare to achieve policy renewals year on year at each expiry. In this case, the insurance premium was fixed for five years. If it is a "high" premium year then that premium holds even if market rates "soften" later.

Insurance always plays on insecurities, and fears and emotions are a great way to sell (compared to cold rationality). The security to you, especially in the early years of ownership is inescapable. And guess what—if you agree NOW, the five-year premium will be added to the home loan sanctioned. It adds a mere hundred-and-something to your monthly repayment.

It is a done deal. It is one of the most elegant successes in a latent need conversion. In two quick steps ICICI Group goes from Q1 (home loan silo based) to Q2 (insurance, also silo based because it was pre-thought).

The contrast to a brainless call from YCY-Not Bank could not be more dramatic.

Some calls are quite meaningless.

TELECALLER: "Sir, Good Morning! I am calling from YCY-Not Bank".

YOU: (Since you have a loan from them you cannot be abrupt on the call like you might be with another telesales. So, cautiously,): "Yes?"

TELECALLER: "Sir, last month you took a car loan from our bank".

YOU: (relieved. Not another idiotic telesales): "Yes, yes, I did. Is everything ok?"

TELECALLER: "Oh yes! Everything is fine. Sir, since you took a car loan from us and you are now a valued customer of the bank, we have decided to offer you a credit card with a balance transfer scheme thrown in".

YOU: (They have no idea who I am, isn't it. I already have been a "valued customer" for 10 years now! And just as I plan a belt tightening exercise to control debt after this car loan, she wants to sell me a card? No way!)

You know how the call ends. The reason is that there is no link between the first product and the second product; Or between the second product and latent needs.

Concept by Ashok Sharma

"I think I have found out why we have very few walk-ins".

To know, you must meet.

A CHANGE IN IMAGE

An organisation whose salesperson calls with a meaningful uncovering of latent needs changes the image the customer has of the company.

The reactions could range from "they know me" to "they care for me". Such reactions are good mental positions to achieve with the customer.

More so in the financial services industry, than any other.

What alternative to financial services really exists?

As customers evolve, as they grow through their life, their attitude to those wanting to get at their wallet hardens them. Markets crash and savings evaporate as fund managers explain (if they do) the occurrence as "cyclicality".

Many have bought insurance plans and realised six months later that they are stuck for 20 years with a losing proposition. Others have been mis-sold equity or loans.

Perhaps the worst scarred are those who have put up with the billing practices of card companies. (As a matter of consumer education if you have not learnt the hard way– payment by due date means paying four to six days before, calculating for delays from intervening holidays. Else it is a late payment that attracts fees and penalties.)

Therefore, when the person enters a more prosperous stage of life, he usually has a gaggle of assorted products collected along the way. He changed producers several times till he realised it made no difference to his fate. For a brief period (perhaps during the middle crisis years), he attributed it to kismet, his own fortunes.

While waiting in someone else's office lounge he picks up a financial news magazine. There he reads stories of other fellow sufferers; there seem to be millions of us. So it is not destiny after all. That is just the way the financial industry is.

Given that the customer is biased by such experiences, a salesperson wanting to sell just about anything, leave alone a second product, is always treated with suspicion. The more patient customers listen to everything so long as they are not asked to reach for a pen. The less patient amongst us simply do not want to see the other guy.

Ask any salesperson how it feels. Sales trainers handle this by hardening the troops to not take rejection personally. Imagine how far the army could go if the battle were not so bruising. That is the power of strategy.

A chart pairing Q1–Q2 of first and second products is placed at the end of this chapter. It suggests what should be sold in Q1; and what should be the "follow-on" product in Q2.

Each business manager and salesperson is urged to draw up their own charts based on their own sector and organisation's relative strengths and weaknesses.

The following advantages, in addition to the image change, of operating from Q2 should convince you to do so.

REDUCED COMPARABILITY

If the uncovering of a latent need strikes a chord with the customer, it means he now feels the need. If he feels it acutely, he buys. This acuteness is an outcome of the smartness of the Q1–Q2 pairing of products (as cited in the ICICI Bank case) or an outcome of the smartness of a salesperson in the interview process.

When a customer sees the uncovering of a latent need, and the conversion is acute, he sees the financial services company in a new light. Immediately, the service provider becomes incomparable with a mindless silo-based cross-seller.

The mental position is "He thinks about me".

Comparability ceases.

Comparability can also cease for *less* emotional reasons. Product 1 and Product 2 resonate with one another. The customer automatically infers that the two products will work well if bought from the same producer. Since Product 1 is already bought at this producer, Product 2 should also preferably be bought from the same producer.

Comparability can also come down because the Q1–Q2 pairing is not available at a competitor producer. Therefore, there is no comparability.

The process of comparing comes at a certain personal cost in time and effort. If we are into the second product with the same financial services company, the willingness to spend that time and effort declines.

Let us go back to the ICICI Home shield example. The first reaction was to be impressed. Then, if I buy both from the same company, if there is any problem with the house, the bank and the insurer, both being from the same group will resolve it amongst themselves, implying fewer headaches in a complex world. (This may or may not be true. But it works on the mind of the customer. Often in such situations, even if the salesperson is cautious, customers are known to rationalise: "Well, at the end of the day it's your own company, right?")

If he wants to compare, the customer has to find another lender who sells a home insurance in a second step. Let us say there is another insurer who could be unrelated but can provide a quote. Can he provide a five-year fixed rate cover? And will he include the cost of the cover in the loan being provided?

And finally, should I step out and check out insurers and insurance companies while my home loan documentation is under process? And that key is within tantalising reach?

Like we noted, the ICICI Home shield example is textbook perfect.

PRICING

If comparability ceases, pricing power improves. If the message of the need is perfectly homed in, the relevance of price reduces.

You gave the customer what he wanted. You enhanced your customer's satisfaction with you.

And your "acquisition costs" are spread out. If it cost you ₹1,500 to get your first customer to buy the first product, that ₹1,500 is now spread over two products. You may have spent some money to sell the second product but it will be nowhere near how much the first product cost to sell.

"That beggar refuses to get off the bus. He says he is managing his acquisition costs!"

Recovering costs is smart in all situations.

BUILDING YOUR SALES NUMBERS

If your Q1–Q2 pairing is completely pre-thought, this process could be handled in a silo format as well, which means speed does not slow down. However, any slowdown in speed to handle the uncovering of latent needs is acceptable. It is better that a job that involves improving the image of the company is done carefully rather than at a great speed.

However you approach it, it adds to your sales numbers.

BUILD YOUR BRAND

While Q1 pricing can undermine your brand, Q1–Q2 pairings do wonders for improving your image with the customer. That is worth immeasurable amounts of money.

It has to be re-emphasised: strategy is delivered when sales happens. Therefore, all branding strategies aimed at building your image come to fail if the customer–producer interface fails.

You walk in to the lobby of Hush Bank. Dazzled by the advertising, you had decided that the next set of investments into mutual funds will be made through this bank. There is enough in the advertising to suggest that Hush is a thinking man's bank. He is likely to receive proper, well-considered advice on making his investments. The amount is not a small sum.

The bank is located in an area where the well-heeled live. Opening this branch here was part of a strategy. The catchment area of this branch has people who do not deal in small sums of money; the same people who see the bank's global ad campaign knows that its perspectives are different and appreciates the differences.

At the lobby you are told that the bank does not offer investment services or advise to people who walk in. You have to be a customer of the bank.

YOU: "Are you sure?"

HELP DESK (UNHELPFULLY): "Yes, we are".

YOU: (*Incredulous, and hoping that a manager will descend from the heavens and show this young lady who is clueless about the bank's strategic intent her place in life.*) "Please check with your manager?"

HELP DESK (HUSHED PHONE CALL LATER): "Sir, I am sorry we do not offer investment services or advise to walk-ins".

YOU (CRUSHED): "Why?"

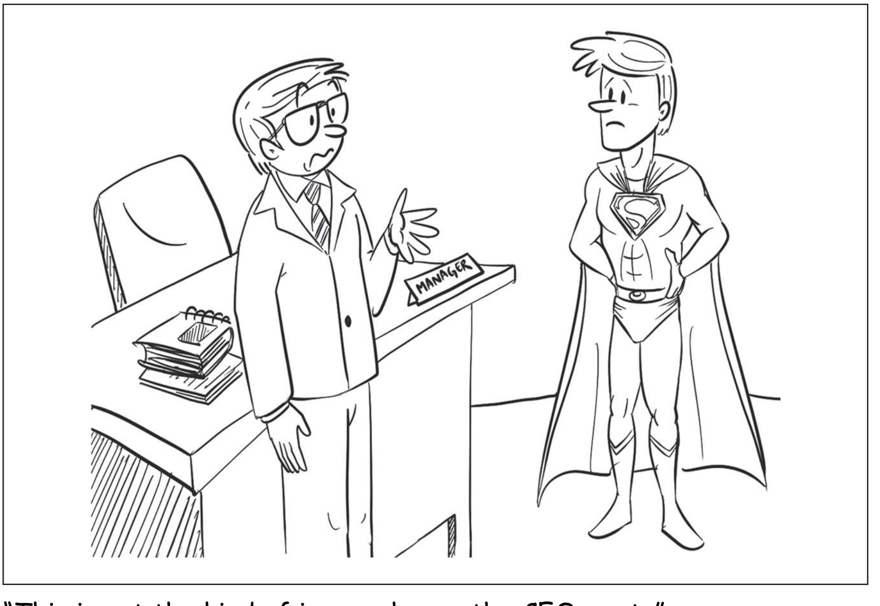
HELP DESK: "We have KYC norms". (KYC—Know Your Customer)

You pause. Here is a great moment to convert you to their customer. Give you a form. Complete the KYC thing. Usher you to meet an investment adviser. Hold the investment decision and funding till later while essential processes are completed. But make him open an account. Weave your web around him. And take his number so you can follow up.

But no.

All the investment in global advertising and in the careful sitting of the branch in what is clearly expensive real estate in an upmarket locality—all that investment goes down the tube like the vacuous rush of an airline toilet flush.

The sale is the moment of truth for strategy.



"This is not the kind of image change the CEO wants".

Our actions shape our image.

MORE STICKY CUSTOMERS

If a client uses more than one product from a producer, he is less likely to move away than if he is in Q1. If he is extremely distressed and is going to move away, there is a chance he leaves the two products with the current producer; only the incremental business goes elsewhere.

So here is what the Know Quadrant looks like:

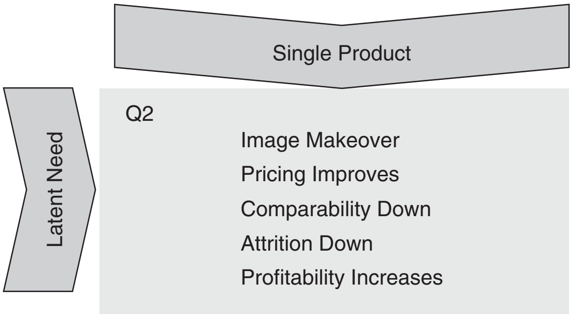


Figure 8.2: Characteristics of the Know Quadrant

ISSUES IN HARNESSING THE KNOW QUADRANT

Think Through the Pairing

Organisations/salespersons need to think through how they will bridge from the first to the second product.

Training

Organisations need to equip their front-end adequately to carry out the interview process involved in uncovering of the latent needs. This is no mean task and receives separate attention in a later chapter.

Latent Becomes Felt

A latent need, once uncovered, no longer remains latent. For the purposes of explaining the matrix, we made a simplification early on: if a need is latent at inception it is treated as if it remains latent forever—it never becomes a felt latent. This helped us build the matrix.

Now that we have progressed to building the matrix we must discard that assumption to make the concept useful to practitioners.

It is a bit like the paradox from quantum physics. A box is dark on the inside and you want to observe and analyse the nature of the darkness. However, if you open the box, it no longer remains dark. So what you now observe is no longer darkness.

Latent needs are a bit like that. Once light falls on them they become felt needs. The customer may or may not act on the newly felt need. There could be other constraints (financial) which prevent him from fulfilling that need at that time.

However, once he knows he has that need, there is no assurance that he will fill it at a later date with us. He may chance upon a salesperson of a competitor or see an ad of that competitor. There is a variety of stimulus to take him to a different producer. If that were to happen he may fill the need from elsewhere, even though the idea was ours originally.

This is known to happen. If the image enhancement preceded this episode, the customer might at best apologise to the salesperson. He might promise to give him the next piece of business.

> Did we know we wanted the ability to take pictures anytime we wanted? But camera mobiles filled a latent need. Now friends take pictures when a get-together suddenly becomes memorable. Today a camera in a phone is a felt need.

ANNEX

Table 8.1: Q1–Q2 Pairings

Vertical	Q1	Q2	What Could Happen Next
Personal banking	Simple checking/ savings account. An ATM cum debit card must be included as a basic need	Internet banking	A website has elements to engage a user into exploring other products

Vertical	Q1	Q2	What Could Happen Next
Investment advisory	Tax savings oriented investments	Systematic investment into tax savings to ensure positive portfolio returns	Show customer you can mitigate impact of market cyclicality
Corporate banking	Basic current accounts, standard overdrafts	Letters of credit: based on understanding of client's business	You fund his growth. You grow with him.
Investment banking	IPO management	Feed them reports on their industry and allied matters; wealth management for promoters	You become the client's first port of call for all strategic reviews
General insurance—for individuals	Third party motor insurance, car insurance	Home insurance	Personal insurance needs grow as a person's wealth grows
General insurance—for corporates	Basic fire and allied perils insurance	Machinery breakdown insurance	Helps close gaps in cover and any incident becomes claimable anyway creating favourable impression
Life insurance—individuals	Plain term assurance	Simple endowment plans	Ensure part of client's incremental income is committed to us
Life insurance—corporates	Group life insurance plans	Sell extra riders that slowly broaden range of risks covered	This will provide some smaller claims (health) for instance which if settled promptly create a favourable image with the client
Fund management	Index investing	Diversified equity through SIP plans	Builds a favourable experience with a higher margin product
Brokerages—retail	Basic buying/selling	Linked depository and banking accounts	Convenience makes him pool investments in

Vertical	Q1	Q2	What Could Happen Next
Brokerages—institutional	Basic trading account	More convenient methods of placing orders like "At Opening" or "At Close" orders	

What's your business?	What will you sell first at a bargain price?	What will you sell next which will make you look good?

CHAPTER 9

UNDERSTAND THE THIRD QUADRANT—THE GROW QUADRANT

The salary account is with the bank which the employer suggested. The loan is with some other bank that was quick at sanctioning the loan. The insurance plan was bought through father's friend whom he wanted to oblige. There is a large clutch of products each from a different provider. The consumer spends significant time juggling the products and making sure he does not slip up on any front.

And we want to bring all that in, to our financial services company.

Welcome to the Grow Quadrant!

The Grow Quadrant is where a customer already uses multiple products from a producer. However, not all his felt needs are consolidated into this one producer. In other words, he already has felt needs for multiple products. With him in this quadrant you have grown your relationship by convincing him to fill some of those needs from your product offering.

We are here in the Needs–Portfolio Matrix:

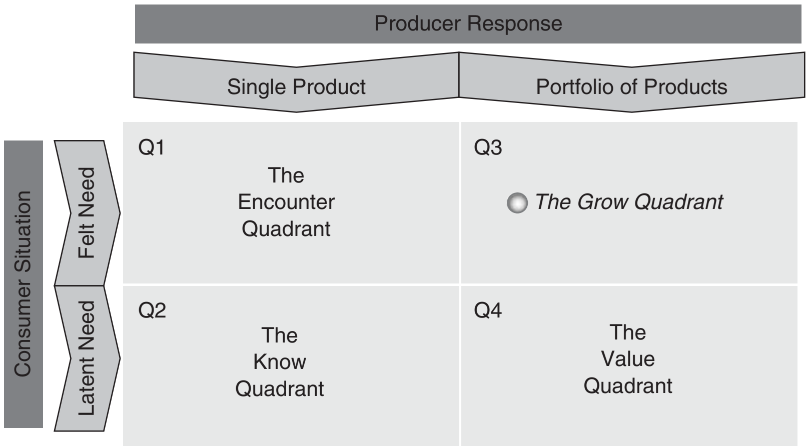


Figure 9.1: The Grow Quadrant

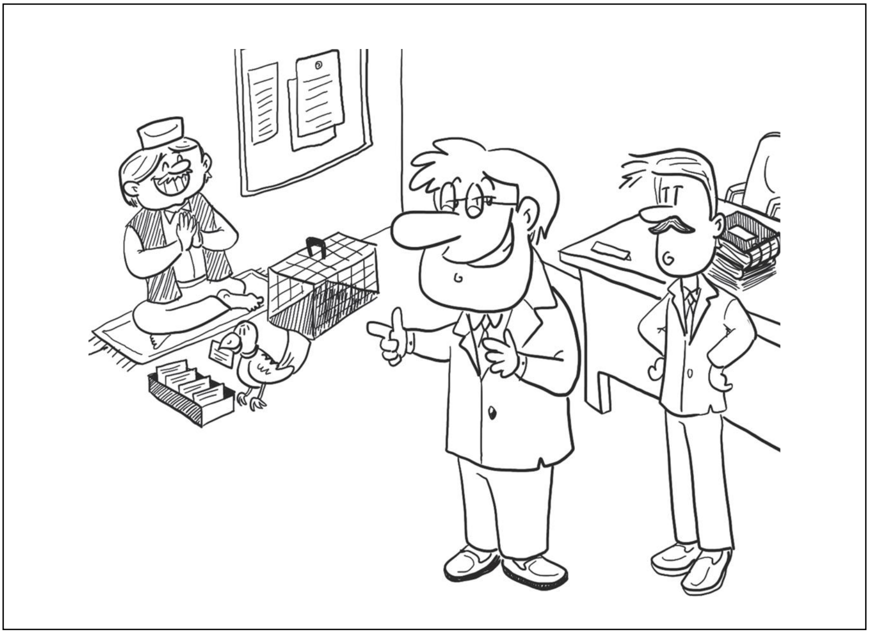
How to get to this quadrant is discussed in a later chapter on quadrant migration. In this chapter, we dwell on the characteristics of the Grow Quadrant.

CONSUMER BEHAVIOUR IN THE GROW QUADRANT

The customer has a number of established needs. The small start-up company which could not get time with his banker is now Infosys. Scrawny engineers who looked like school boys now run Google. And you are the CEO of your company.

Since no one handled you well in your early days, the financial products you use are from a variety of providers. Some you shopped for. Others, like where your active bank account is, are driven by your employer. Still other products, especially those associated with loans were taken from wherever you qualified for them.

Occasionally you benefit from products that operate logically together, seamlessly. For instance, the credit card account is linked to your savings account and the monthly dues are automatically debited, painlessly. In the process, you may stand debited for charges you might have otherwise first disputed, but that is the precise point of moving customers to use a portfolio of products—from the service provider's standpoint.



"This parrot has been with me right through my growth years. I am not about to let go of him now!"

Managing the growth years helps create loyalty.

A similar benefit might be experienced by an industrial company when his banker debits the current account and pays a bill falling due seamlessly.

There is a possibility that the customer would have liked to consolidate his usage of all of the products with one company from a convenience point of view. However, the need for such consolidation / convenience lies unexplored.

It is useful to recall here that in the needs–portfolio model, companies with a product portfolio are those which are able

- to connect their set of products for logical use with one another and/or
- to obtain a "single view" of their customers.

Products must also interact with one another and become "logical sets".

"He says he is a regular customer of the bank and wants to attract the branch manager's attention".

Some take their core, long-term customers for granted.

Some customers also take the view that consolidating everything into a single company exposes you to negative issues that affect that one company.

Many of the anecdotes and situations recounted thus far, far from inspiring confidence, make the customer worry. Therefore, customer willingness to consolidate into one company is still a few steps away.

How many of these situations are you familiar with?

A telecaller from your bank of last 10 years calls and asks you basic questions.

You own an investment plan with an insurance company at steep initial expenses and management costs. The life insurance cover aspect got rejected for medical reasons and you were left with this investment piece alone which you would not have bought on a standalone basis on these terms.

Your broker advised you and that did not pan out and you now hold an under performer with a very long time horizon (retirement plan!).

You ask for bank statements and a book of 100 cheque leaves as part of some *other* bank's loan process and your bank takes no notice whatsoever.

The tax savings initiatives you took in previous years saved you tax; but the principal amount of the investment is massively eroded outweighing the tax gains.

The agency that picked your cheque for investment did so at your doorstep. Now, several years later, you wish to withdraw money from the fund. You now find that the original agency is nowhere in the picture. Instead of gratitude for having placed your money with them for so long, the fund management company asks you to visit their rather inconvenient location to withdraw money.

From which quadrant did he enter the Grow Quadrant (Q3)? In attempting to answer this question, let us examine the current business situation and understand why this question is important.

REMEMBER THE TRUST CHAIN

Remember we are now in Q3. Any attempt to get the customer to shift all businesses to us in one go will not work. Winning trust is a stage-by-stage process. It started in Q1 with one product. In Q3, we are looking at taking over some of the businesses which the customer already gives elsewhere.

PROBLEM WITH THE GROW QUADRANT (Q3)

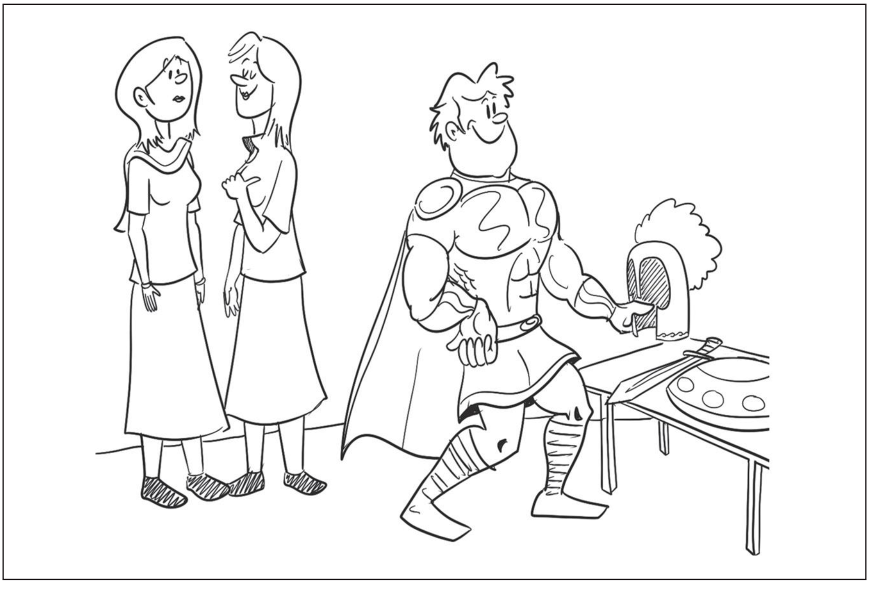
One of the issues with Q3 is that each product that you seek to shift from another company to your company is a piecemeal effort.

Customer: "Well, I am willing to move my broking account to your company. My current broker charges me "x". How much are you willing to provide the service for?"

If you recognise the phraseology: this is Q1 language. We are back to comparing each product on a case-by-case basis and building a justification for its shift into our own company.

The customer is looking to price us, for each product, separately. We are immediately in a strategically weak position. This is not the direction in which we wish to move our relationship—backward.

However, this is exactly what happens at this stage in the relationship, due to lack of strategic awareness.



"He says his new boss is very combative and aggressive".

Aggression is not a substitute for strategy.

Salespersons recognise the symptoms immediately. Salespersons are given to drowning their sorrows with colleagues at the end of a typical day. (Sometimes you are having a bad day and if you can find another of your kind, this activity can happen during the workday as well!)

This catharsis among salespersons is vital to their survival. It is what keeps them going. They find others have sorrows too, and take solace. If one has been through a humiliating experience at the hands of the customer, sharing it with another quickly makes it a comic episode. Everyone guffaws at everyone else and the world seems a better place. ("You will not believe how my customer took my trip today!")

At any such location you might overhear something like the following:

SALESPERSON: "This customer. I had done so much for him—things that no one else would have touched or could have done. Yet, he wants to squeeze me for every penny".

SYMPATHETIC FELLOW SUFFERER: (*sighing—salespersons are great actors*) "Yes I know the type. I guess that is why he is rich and we are poor. These rich guys respect money. That is why it stays with them. I once had a client . . . "

And life goes on.

The strategic question is: which quadrant did he come from?

There is a difference between situations, in which customer was in Q1 before he came to Q3; if he was in Q2 before he came to Q3 it implies something else.

THE Q1–Q3 SHIFT

In the Encounter Quadrant, the customer finds us to be cost leaders. He is entitled to expect that we are similarly competitive on other products. This is where he is coming from.

It is the consumer's justification for buying more products from you. You are "cheap" in the car insurance; perhaps you are "cheap" in the home insurance too.

THE Q2–Q3 SHIFT

In the Know Quadrant, the customer finds that we can think for him, about him. There is an image makeover as an outcome. If we have earned that respect, the customer's justification for buying more products from us ought to be: "You knew that my home loan needed insurance to back me up. Let me see what else you know and whether you can improve on my broking account".

It is hard for the producer to know what state-of-mind the customer is coming from till he is actually met. However, the answer lies with the producer.

PRODUCER'S CHOICE

In the sales process, reinforcing "wins" from the previous sales call is a recommended practice, while commencing the next call with the client. Likewise, if the shift is from Q2, this is a good way to begin the discussion. Commence by recreating the "aha" atmosphere the client felt from the Q2 experience.

If it is a Q3 situation, and there has never previously been an uncovering of latent needs and resultant "aha" ever, (entirely a possible situation), there are other ways to earn trust which should be preferred over price discounting.

This opportunity to earn some trust is in the form of taking up "thankless tasks". You become a problem solver for your customer, for an issue which he or she does not have the time for. The customer may also be unaware that with some grunt and sweat there is a financial gain to be had.

Sometimes it is also possible to price that grunt work.

Chintamani... of ICICI solves all your worries related to tax savings and good returns paving a new way for "no chinta, only money..."

Over the last few years, ICICI Prudential has been advertising heavily during the tax season and has captured a high recall value in the consumer's mind. This has been done through the character Chintamani and a strong connect has been established between Chintamani and saving taxes. Chintamani has also grown to be popular and is recalled as an ICICI Prudential character. The focus of this ad campaign has been on educating consumers about its solutions, which provide tax savings and investment options.

ICICI Prudential markets tax solutions through their website.

Tax Planning

Tax Benefits on Insurance and Pension

Life insurance and retirement plans are effective ways to save taxes when doing your year-end tax planning.

To assist you in tax planning, the tax breaks that are available under our various insurance and pension policies are described below:

- Our life insurance plans are eligible for tax deduction under Section 80C.
- Our pension plans are eligible for a tax deduction under Section 80CCC.
- Our health insurance plans/riders are eligible for tax deduction under Section 80D.
- The proceeds or withdrawals of our life insurance policies are exempt under Section 10 (10D), subject to norms prescribed in that section.

Invest in ICICI Prudential Life insurance and retirement plans and avail of these tax planning services to save tax at your year-end tax planning!

To know more about other tax benefits offered by insurance, please visit www.simplyknowtax.com

Simplyknowtax.com features Chintamani and has details about

- FAQs on taxation . . . how to save tax . . . income tax slabs . . . various categories of tax deductions . . . calculation of tax liability . . .
- Tax calculator
- Tax helpline . . . ask the expert
- ICICI Prudential product portfolio
- Insurance advantage
- Buy product online

Picking up your client's grunt work is a good way to earn his or her appreciation. Here are some examples of grunt work:

- Consolidation of scattered bank accounts across the country.
- Pursuing maturity proceeds of an investment which have got stuck somewhere.
- Dematerialisation of old shares.
- Offering of physical custody for non-demat securities (chargeable).
- Handling tax filings.
- Other statutory filings.
- Getting investment certificates held up for no apparent reason.
- Handling old insurance policy revivals.
- Handling the collection of funds from a different geography which the customer finds inconvenient to visit.
- Renewal of expired dividend cheques and other payment instruments.
- Accounting for mutual fund dividend receipts.

The grunt work listed in the box is easily recognised by veteran salespersons as things they have done in the course of winning customer loyalty and becoming champions.

It is time that companies supported the troops with the logistics to help in the war.

It is essential to de-emphasise price as a discussion point. The sale needs to become a fait-accompli. That is not going to happen by chance, or by management burying its head in the sand and becoming a alpha male. ("Deliver or else … off with his head!")

Some sales champions have become so by working the system of their organisation. They know how to get a price discount with which the customer will bite. This is standard organisational practice and politics. Good for the salesperson, bad for the organisation. A successful salesman in a mediocre organisation is considered a paradox. His success is attributed to personal traits. "He is able to sell in that organisation? He can do wonders in mine!" is the optimistic thought of a potential recruiter.

Some salespersons take the bait and jump for the higher pay. The wiser salesperson who knows that his growth is a factor of exploiting his existing company's system might not.

The story of a brilliant salesperson in a mediocre organisation is not such a paradox, after all.

COMPARABILITY

The comparability of one producer with another comes down a good bit if you are able to meet multiple needs with a clutch of products that seamlessly "talk" to one another. This is more so if another company does not have a similar or the products do not operate so well together.

PRICING

With every reduction in degree of comparability, the pricing power improves. The consumer has a choice of either improving prices; he can also choose to create a sense of consumer surplus.

CONVENIENCE

Interlinked usage of products increases convenience to a point where the producer becomes a natural choice for the consumer. Banking portals are a good example of this.

For instance, ICICIbank.com offers an excellent portfolio. One of the features is the ability to schedule payments to recipients at any location across the country. There is also a bill pay feature. A number of other features reduce any need for other forms of interaction with the bank. All work can be completed from the desk top.

ATTRITION

With linkage and convenience it becomes less easy to shift the business to another producer. If any shifts have to be made, it will take some time to complete the shift. This allows a producer to engage in rear-guard action with a customer who is moving away and try and save the account and the relationship.

A customer who has his entire range of general insurances with one insurance company will find that shifting requires him to wait for the expiry of each policy. Otherwise, the cost of a shift is high. A seasoned practitioner will also note that having all insurances in one place makes it easy to file a claim if one accident results in multiple claims.

For instance, a short circuit causes an expensive machinery to burn out. It also results in a major fire destroying buildings and other machinery. A few workers are injured. The consequential losses from the business disruption are significant. Some cars parked in the yard are also gutted.

The unfortunate company in this incident may have insurances covering each of the above losses. Its cause will be greatly facilitated if everything is with one company rather than different insurers. He does not have to prove “cause of accident” over and over again.

There is also minimal chance of a loss or claim falling between stools, as it were (two insurance companies both saying the claim is the other’s responsibility).

This will require the customer to think before shifting. (Customers limit the impact of this by ensuring all their policies expire on the same date. It still does not answer the situation if a mid-year shift were necessary. The loss in premium from early termination would be prohibitive.)

STRATEGIC POSTURE OF THE PRODUCER

There are some key wins to be established in the Grow Quadrant, if it is to serve as a strategic stopover to the ultimate goal of the Value Quadrant.

The First Win

The first win is to avoid getting into a series of Q1 negotiations for each product separately, when a consumer buys a whole set of products from the producer. The strategic position of the producer is massively eroded. The usage of multiple products is meant to foster profitability.

A Q1 mindset will achieve multiple usages but defeat the goal. It will necessarily be unprofitable in the overall, if each component is sold on the cheap.

The Second Win

The second win to establish is that the customer derives "portfolio benefits" from consolidating his usage of products into one producer. If he still has to manage multiple interfaces then the user experience is negative for the brand. The user experience from a Q3 engagement should be brand enhancing.

The organisational requirements necessary to establish the second win are discussed in a later chapter.

FOR SALESPERSON

What is true for the company is true for the individual salesperson as well. Do not get drawn into a Q1 mindset negotiation to win over the customer's other product sales. It is counter-productive.

If "discounting" is where the relationship is headed, a good game plan would be to pick up the grunt work.

Champion salespersons already know that price-oriented relationships go nowhere. Customers who gripe for discounts make a habit of it. If you show them that you give discounts when pushed, they push you. If you are adamant about not giving discounts they will give business elsewhere just to spite you.

He has to be engaged from another direction. Re-visit the Know Quadrant. More strategies are available in Chapter 11.

Salespersons have long had their own way of making up for their organisation's inability to get a "single view" of the customer.

They maintain diaries and registers (whether physical or electronic) noting details of every product the customer owns. Important dates are organised. Using this systematically and religiously the salesperson calls. Birthdays, renewals, due dates, rollover dates—nothing is missed by the champion.

Indexed cards which note the grid of products and dates are surrogates for the technology platform they miss from their employer.

Let us now turn to the last quadrant, the Value Quadrant, which is every salesperson's dream.

CHAPTER 10

THE VALUE QUADRANT (Q4)

We all want our customers to love us.

We all love to have customers.

We *do not* all love our customers.

The fourth quadrant is the Value Quadrant.

This is where any company wants to be vis-à-vis its customer. The customer has several needs, felt and latent. The company provides a portfolio of products. The customer is happy to buy everything from this company. And they live happily ever after ....

In the matrix, this is where we are.

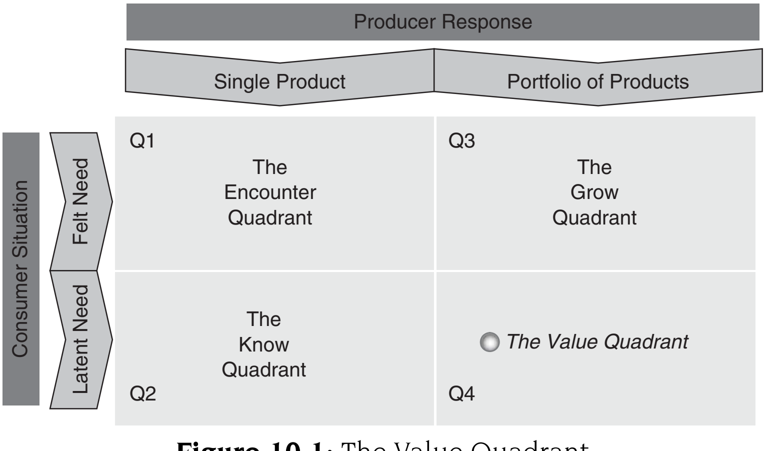


Figure 10.1: The Value Quadrant

In the Trust Chain, we have reached a situation where our customer says, "Take me where I need to be. I trust you implicitly".

You get to the Value Quadrant by loving your customers and tending to them with care. If we did love our customers all that much, we would not engineer our organisation in ways that would end up hurting our customers. And as customers, we know that those supplying us financial services *do* hurt us.

Care does not mean giving them whatever they want at ridiculous prices. That is spoiling them.

Care means doing strategically meaningful things which bring them through the three quadrants through to the fourth quadrant.

Reality is in stark contrast: most of the things we actually do with our customers are "strategy-free".

Let us understand the characteristics of the Value Quadrant.

INTEGRATED PROVIDER

In the Value Quadrant, we provide our customer with a range of products. These products comprise logical sets and they "talk" to each other. We have a "single view" of our customer in this quadrant.

PORTFOLIO AS A LATENT NEED

The ability to use products in portfolio format and in logical sets that talk to one another is indeed the ultimate latent need that customers have. The elegance of being able to invest in initial public offerings of stocks without having to queue up to buy forms, fill and submit them is a convenience customers will discover. To discover that they can do this they must chance upon a company's portfolio that allows this.

A client company which is able to handle all its receipts and payments seamlessly using cash management, and integrate that with managing its idle cash float allows it to save interest if it is a borrower. If it is a non-borrowing company, it allows the customers to earn interest. If the current account where funds are pooled is linked to a sweep account, all balances are swept to deposits. When a trade payment is to be made, deposits are withdrawn automatically to make the payment unfailingly.

Sweep Deposits are an excellent example of how product portfolios result in convenience for the customer and profitability for the producer.

Sweeps involve transferring money from a low-interest/no-interest account (savings/current accounts) into a deposit account. If the amount in the savings/current account builds up through steady inflows, and crosses a threshold level, money is transferred to a deposit. For instance, the moment the amount in the savings account crosses ₹25,000 the excess is converted to deposits of say 30 days each, in multiples of ₹5,000.

This is indeed a good deal for the customer as it prevents accumulated amounts from idling in the account.

The next convenience this "logical set" offers is that if any cheque were to hit the account, or a cash withdrawal were to be made, if there is a shortage in the account, deposits previously placed will automatically be liquidated.

This makes it unnecessary for a customer to plan out cash flows. Excesses are automatically invested in deposits and similarly automatically withdrawn when needed. "And your money is never idle!" goes the advertisement.

In actual fact, since the customer is no longer planning his outflows, withdrawals hit the account in an unplanned fashion. It can happen that the cheque hits the account on the 13th day of a deposit: that deposit will be liquidated. Since it has run for only 13 days, no interest is payable. The bank, though, did utilise the money for those 13 days.

If the money had remained in a savings account there is every chance that all or some of the amount would have qualified for the savings bank rate of interest (3.5% p.a. at the time of writing).

However, in this case, no interest was paid at all.

Customers cannot plan things to such a nicety. If even on 50% of the occasions the customer came off better, it is an improvement. The other 50% is a windfall for the bank.

It is a tidy example of the producer and consumer sharing the surpluses from efficiency between themselves.

A customer has to experience such a portfolio to know how elegantly it works for him. It is very similar to how latent demand is unleashed in the case of infrastructure development.

A planning officer in a district is asked to assess whether a bridge across the local river would serve any useful social purpose. The planning officer conducts a survey of people who actually hire a boat to commute during the average day. He counts a total number of 150 people who use boats to commute. It is concluded that a bridge across the river at this location would be unprofitable.

Owing to the insistence of a local politician, the bridge is nevertheless built. Gradually villagers from either side wander to the other side. Trips previously impossible are now a daytime picnic. Tradespersons find a market at the other end of the bridge. The nearest market for their produce is now a mere 2 kilometres away, a significant improvement over the 25 kilometre which they used to cover previously.

A similar survey two years down the road reveals that approximately half the population of the villages on either bank cross over every day. Latent demand was unleashed, new markets opened and the entire district enjoys a level of prosperity not seen or visualised before.

That is the effect of infrastructure and that is the nature of latent demand and needs.

A customer has to experience a true portfolio to know how elegantly it works. The response from the marketplace can be very similar to the bridge across the river.

Let's look at a best-in-class implementation of a portfolio. This example has to be understood very well because we will use it and comparisons with competing products extensively to understand the power of the matrix and its quadrants.

ICICIDirect.com is ICICI Securities web portal for transactions in investments. It is one of the smartest blends of products that can make a portfolio as defined in the matrix.

It links a bank account with a broking account and links through to a shares depository account. (The last is an account where you can receive your shares electronically in exactly the same way that you receive money in a bank account. In like fashion, you can also deliver the shares when you sell them.)

The portal offers seamless interface between these three products. Here is how it works:

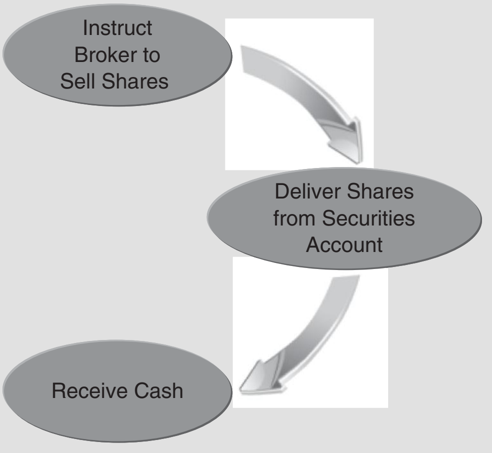


Figure 10.2: The Security Sale Process

The above work traditionally involves calling a broker to give instructions to sell. The broker would be nervous about whether the customer has the shares to deliver. He will ask the customer to transfer the shares at the earliest convenience. The customer must now contact the depository and give instructions to transfer shares and make sure it is done. If there is any failure between the depository and the broker, it will impact the customer.

The customer must also be alert to see when cash pay-in comes from the clearing corporation to the broker. The broker must then be pursued to transfer the money to the customer's bank account which may take an additional day.

This entire cycle is a single click on icicidirect.com. The product documentation in effect says that when a customer instructs ICICI Securities broker to sell, it also constitutes an instruction to deliver shares from the depository at ICICI and receive money into the bank at ICICI Bank.

The same elegance applies to an instruction to buy.

The money leaves the account and shares are duly received without the customer having to interface with the banker or depository separately. Icicidirect.com is all three rolled into one.

That, however, is not all. The above is only one "logical set" in the portfolio of products on offer.

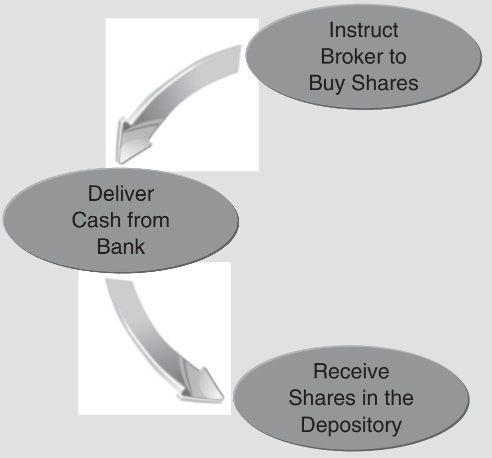


Figure 10.3: The Security Buy Process

The same elegance is available when a customer wants to invest in mutual funds. There are no forms to fill either to invest or withdraw funds. It works seamlessly.

A customer can move money from his bank account and move it into investments of different varieties.

If a customer wants to participate in a new public issue of shares on offer, he or she does not have to organise to get application forms. The customer does not also have to fill out any such papers and queue up to file the application. The portal takes over this function.

Each of these menu dropdowns should be considered as a separate "logical set" and the entire combine as a portfolio.

For such a versatile product, one of the things it does not offer is deposits or sweeps into deposits. This would complete the portfolio in every sense. But this functionality is not provided.

One of the most powerful demonstrations of the portfolio effect is in assessing the average float enjoyed by ICICI Bank from customers that operate through icicidirect.com.

Since customers wish to keep money handy to make their next round of trades or investments, the money lies idle in accounts. No deposit or sweep is available to mitigate this effect. The customer, however, is not bothered. The convenience that the portfolio of products offers him overshadows this inconvenience.

A customer could sweep idle balances into a cash fund; however, a 24 hour cycle time is crediting money back into the trading account is likely. The opportunity cost of not deploying capital at a precise moment in the market outweighs the gains from investing idle cash in a cash fund.

In the recent past, one of ICICI Bank's biggest concerns has been the low proportion of low-cost funds which the bank has. While it has somewhat addressed the situation, the fact remains that its competitors enjoy very low-funding costs by comparison. However, the low-cost balances enjoyed at the ICICI Bank accounts "owned" by ICICI Securities (it owns the portal icicidirect.com) are significant by proportion.

If a bank asks any customer to maintain a balance of several lakhs of rupees as a minimum, the customer is likely to howl in outrage.

However, that is exactly the kind of balance that most active customers of icicidirect.com maintain in their bank accounts. And they are happy about it.

There is much more to be said of this particular case study. Those references will come later.

MANAGEMENT STRATEGIES IN THE VALUE QUADRANT

Product Design

This is where the producer wants to show his creativity is visualising his products. They must find a fit in one of the "logical set" in the portfolio available already. They must possess a logical connect to their stage of life. As products are developed they are integrated into the portfolio in "logical sets".

Product Launch

Many products take a lot to deliver. The combination of benefits, the technology platform costs associated with it and the importance it has in the mind of the product manager who visualised it all, point to substantial emotional and financial investment in the product. The producer would like to charge a premium for this product.

As far as possible, all such products should be launched in the Value Quadrant; *not the Encounter Quadrant.*

The usual error is to introduce the product in the Encounter Quadrant. The logic is the product is so good that consumers will simply lap it up. This is "product-centric" thinking, not "consumer-centric" thinking. Such approaches have been derided from the time marketing became a serious field in management thought.

However, the mistake in practice continues. The company justifies the launch saying "Not only is it the best in class, it is also lower in price compared to others in the class. It is simply a shoo-in!"

In holding this view, the company merely wanders into the minefield the Encounter Quadrant represents. My product is compared and how it is priced is going to be important *(See the example of paisa-builder from the IDBI Bank stable in Chapter11)*.

These are precisely the things we want to de-emphasise. That is what the Value Quadrant achieves.

PORTFOLIOS MATTER

The availability of "logical sets" and portfolios are critical in determining the extent of a tie-in in the Value Quadrant.

If a producer has a customer in the Value Quadrant it is essential to be able to grow the offering to cover every current and latent need, to avoid a loss of value.

A gap in the offering can become an Encounter Quadrant entry strategy for a competitor. For example, a wealth management company offers most of the services but not a credit card. A competitor can get a toe-hold in the account by offering a credit card as an entry strategy.

If nothing else, as a defensive strategy it makes sense for a producer to fill the product gap by tying up with a separate service provider or sourcing the product from a white-labeller.

In white-labelling the entire back office and business processes of the product are handled by some other company which does the white-labelling. The company which sources this product gets to put its own name, brand and colours on the product. The structure works on the assumption that the white-labeller has process competencies. These are leveraged by offering the product through another company which has market access. White-labelling is widely prevalent in the credit card industry. We had cited earlier the example of ING Bank which might offer credit cards under its own name; the entire process might be handled by Citibank Cards as the white-labeller.

Building on our understanding of how icicidirect.com works in this space, we turn to look at similar portals offered by brokerage houses.

Brokerages which are *not* bankers are unable to link the broking and shares depository accounts to a bank account. There is a time lag between the brokerage receiving money from a share sale and that money reaching the customer's account.

Thus, when a customer is to receive money it may take up to a couple of extra days.

However, when the same customer wants to buy shares, he has to ensure money is already in the bank account of the brokerage. This seems unfair. I have to wait when I have to get money. But when I have to pay, it has to be instantaneous; in fact, it has to be even before I actually buy.

This has even more painful implications if a customer who received money in his bank account wants to immediately execute a "buy". He cannot because it will take him a day or two to pass the money to the broker and the brokerage will not execute the "buy" unless it has cash in the hand first.

It places the brokerage's portal at a significant disadvantage to a similar portal from a bank like icicidirect. (It also means that paisa-builder (from IDBI Bank) has a significant advantage over portals on offer from brokerages!)

The brokerage needs to respond to this disadvantage. It can ask the customer to open a bank account at one of say, four choices. If the customer bank account is one of the banks shortlisted, the brokerage should be able to offer instant credits (for sales) and instant debits (for purchases).

Product managers should note that making the "product" work along these lines would require process design/ re-design as noted in Chapter 2.

ARRIVAL IN THE VALUE QUADRANT

The producer arrives in the Value Quadrant from Q3 (most likely), or Q2 (a possibility) or Q1 (almost impossible). These concepts of quadrant migration are discussed in Chapter 11.

In the case of icicidirect.com, it would appear that the product para-dropped into the Value Quadrant.

The portal was launched when there was a clear gap in the market for such a product. The current functionality of the product is an outcome of an evolution of the portal. This luxury was afforded by the complete absence of competing products in the intervening period.

Let us study how HDFC Bank has built up its formidable low-cost fund base.

HDFC Bank has built an impressive volume of low-cost funds. The bank reported approximately 49% of its funds from low-cost banking accounts (current and savings accounts as a percentage of total funds from customers).

This is no mean achievement. This represents free money to the bank. How do you prevail upon customers to park money in your bank for no interest (or low interest) at all?

The answer comes not from the retail marketing prowess of the bank. It is based on the wholesale approach to the sale of a portfolio.

The portfolio comprises some retail offerings and some offerings relevant to the corporate sector offered in a bundle.

The current account of a software exporter or a business process outsourcer (BPO) would be an attractive account. Several millions of rupees lie in the account as they await use. There are monthly inward remittances in dollars towards services rendered. Most of the companies operating in this space are cash rich. In those cases where the BPO is an Indian captive subsidiary of an international major, they tend to be debt-free in the local market.

The IT and IT enabled service companies (ITES—as the BPOs are also known), therefore represent an attractive target.

They also have employees in their hundreds and thousands.

HDFC Bank has a portfolio construct with a "logical set" which includes the corporate current account, the forex conversion it needs and the banking needs of the employees. It offers these as a bundle. Any other product needs which might exist are minor in the overall context (e.g., if the entity needs a letter of credit facility for computer hardware imports it would be small compared to the overall cashflows in the account).

HDFC Bank offers salary accounts without imposing any minimum balance requirements.

In fact, ITES companies under pressure to attract talent are aided by HDFC Bank in the process. The bank offers a "Welcome Kit" on the day the employee joins the company.

The kit already tells the employee what his bank account number is. This is indeed very impressive, especially if the employee is a fresh graduate at his first job. The sense of pride and purpose is easy to imagine when he or she is presented with this very complete kit. Clearly, here is a bank which knows how to handle customers. A first, good impression is made on young, impressionable minds.

It should be noted that handing a person his account number even though he only just handed in his account opening form is an elegant piece of process design. The account has no money and so the ATM card or cheque leaves included in the kit are of no real use. The account is operable only when funded. This will take time till the new employee's first pay day. By this time, account opening formalities can be completed to an astounding level of compliance.

In fact, the employer assists in this process. There is a well-defined account opening process with documents being provided in part by the employee and in part by the employer. With employers nowadays instituting proper reference checks (including validating academic records submitted) the account processes provide a comforting reinforcement of due diligence in recruitment. Know your customer (KYC) fits in comfortably with "know who you are employing"!

In many instances, the bank has installed an ATM on the customer premises, possibly at multiple locations within the campus or in the vicinity of the campus. While they provide employees access points, an ATM is an excellent advertisement anyway. Brand recall is aided.

HDFC Bank is now set.

It earns a fair income from conversion of foreign currencies as exporters realise their sales proceeds.

The funds arrive in a current account. A sweep into deposits may be linked to this current account. It gives the customer a sense of comfort that no money is ever idle though we saw earlier in this chapter that it does not always work to the customer's advantage.

Money in a current account, in the volumes of a services exporter is a huge quantum of 'no cost' funds.

When it is spent by the ITES company, the bulk of it goes into the salary accounts of the employees all of which are with HDFC Bank.

In the aggregate, between the current account and the salary accounts, the typical float is larger than anything which could have been achieved by enforcing a minimum balance requirement.

Many of the youngsters have no balance in the account within the first week of salary. Many others, especially as you wander up the hierarchy of the ITES organisation, have money in their accounts for longer periods.

Everything adds up. Finally, over time, the bank ends up with 49% of its funding from low-cost sources.

HDFC Bank is a rich case study. One other dimension from this particular instance is examined in Chapter 11.

The Value Quadrant offers impressive advantages to any financial services provider. These advantages make it worth any quantum of effort to get here.

COMPARABILITY

How many other producers are there who provide a similar portfolio of products? Given how much effort it has taken us to get here, it is unlikely that there are too many more.

Additionally, if we have correctly navigated the matrix and brought our customer to this quadrant, the bond between the producer and consumer is very strong.

There are very few other producers that our customers can compare us with. The method of migrating our customer to Q4 tries to ensure that points of comparison do not arise.

If they do, there are few he can actually compare us with.

For instance, is it possible to compare the share depository charges of icicidirect with the same charge made by a standalone depository like Stock Holding Corporation of India Ltd.?

All standalone producers of each of the products in the icicidirect portfolio suffer the same fate.

PRICING

As comparability reduces, customer perception of value increases. The ability to price our products better improves. In our portfolio, there must be products of higher value, that signal brand superiority which blend with products of low value-add and high comparability. However, handling them as a portfolio ensures a blend which reduces price sensitivity to each product individually.

For instance, a current account is linked to a sweep account. The current account is a low value-add, high comparability product. Blended with the convenience of a sweep account (described in detail earlier) the customer is insensitive to how much the interest rate is on the deposit in the sweep. Furthermore, as we have seen while discussing sweeps, the consumer surplus occurring in sweep is shared between the producer and the consumer.

STICKY RELATIONSHIPS

We operate in a quadrant (Q4) where even if the customer finds a single product seemingly better elsewhere, it is simply too inconvenient to buy it from elsewhere. If we have handled him right, it is simply more convenient for him to just ask the existing service provider to provide the same product.

Perhaps, some other producer innovates a product. The customer asks the existing provider: can you replicate/provide the same product? If the producer responds with alacrity he will never lose the customer.

For instance, a competitor bank offers an industrial customer a method by which letters of credit can be opened through a web-enabled interface. The customer has all of his accounts with your bank. He will ask you first, if nothing else, because to use the other bank's Internet product he has to maintain funds in an account with that bank and manage it in a way that there is funds shortage at the time of a Letter of Credit retirement.

Can your bank respond? Even if you cannot give an instant response, telling the customer that you will have the service offering by a particular date will suffice; the client will wait. You of course, need to ensure you do not violate that particular date. If you are serious about retaining the account of that industrial company, you will respond. You will respond if you love the customer deeply enough.

If we have such a product in our stable, fine. If we do not, great! Our customer helped us with input on what the competition is offering.

We operate in a service industry; a service failure can happen at any time despite the best of our intentions. If the consumer is using a single product, he can change this service provider. If he is using a portfolio the dislocation can be massively disruptive and so he must exercise discretion. It is likely he chides the service provider and offers opportunity to "rectify the mistake".

If he is sufficiently upset, he might begin exiting the relationship. The exit, since a range of products are used cannot be instantaneous and overnight. This gives the producer enough time to try and repair the damage done.

All of this implies that the ability to handle the customer relationship is better and the account becomes "sticky".

Customer attrition in Q4 is low. The investment in the relationship pays off as the producer's acquisition costs are spread over a number of products used by the consumer.

If any of HDFC Bank's corporate customers is sufficiently upset, the task of shifting includes moving several thousand salary accounts. You might also have to have them remove the ATM—but what of the time it might take a new company to actually install a replacement in place? Instructions will have to be wired to overseas customers on the new accounts and processes for funds transfers.

It is all a bit much. Perhaps, HDFC Bank should be given a stern warning? They aren't bad chaps. They will certainly fix the problem.

CUSTOMER VALUE MANAGEMENT STRATEGIES

We now have a customer who uses a "logical set" of products from our stable. It is possible to market additional products.

Sales organisations are known to deploy "hunter" groups and "harvester" groups. To be sure we understand this properly; "hunter" groups operate vertically, chasing down one customer after another. They work in product silos, as discussed earlier.

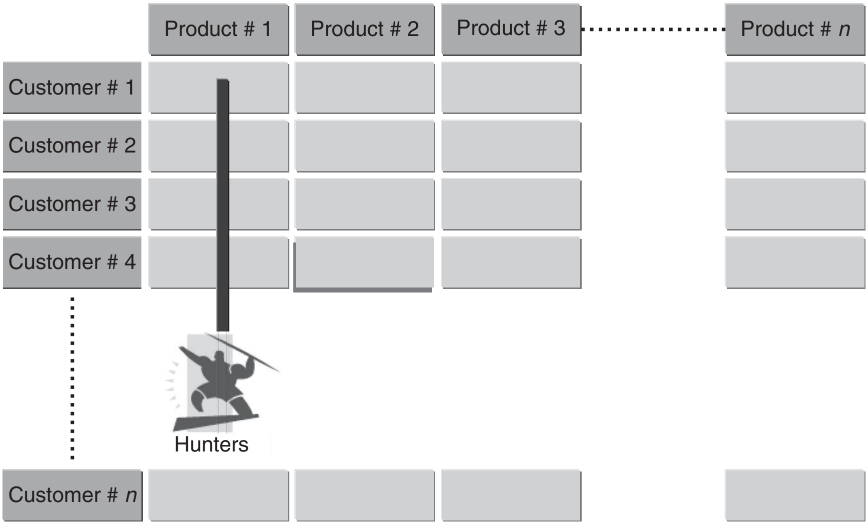


Figure 10.4: Hunters in the Silo

Harvesters work horizontally. They methodically cover each customer already in the company's database. In practice, they usually focus only on selling one product more, though conceptually they are better understood as shown below: the harvester selling one product after the other, going customer by customer.

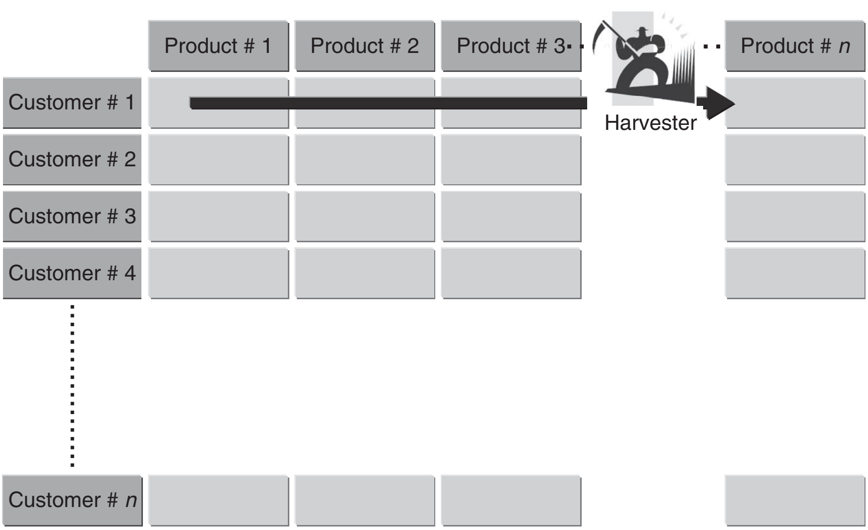


Figure 10.5: Harvesters Across Silos

The process of customer value management is work for the harvester group.

Once we have the customer in the Value Quadrant we must show we value him. Maintain a constant watch and note as he shifts from one stage in life to the next. He needs to be cued and educated on his changing needs (Latent Needs.)

As his needs change, he is more receptive to your cues on those products which meet those needs. As you are his current provider for most of his services, it is logical he buys from you.

If a producer has established himself in the Value Quadrant with his customer, he has all possibilities to sell the additional product intended for the new needs that arise.

As this fulfilment process continues, the consumer is more deeply entrenched within the fourth quadrant.

RELATIONSHIP-BASED ORGANISATION STRUCTURE

While the Encounter Quadrant might have been handled in silo mode, the team whose job it is to manage the Value Quadrant needs to be in a relationship mode.

It solves in an elegant way, any conundrum of whether to organise in silos or along relationships.

A hybrid organisation is ideal with silos operating in Q1 and relationship teams dominating Q4. Q2 is closer to needing a silo organisation. And Q3 is closer to needing a relationship organisation.

VALUE AND STAGE OF LIFE

It is not necessary that the customer in the Value Quadrant is in an advanced, portfolio harvesting stage of his life.

It is a common strategic error to assume that the advanced stage of life customer is the value customer. That is why we find a stampede for the business of the higher end customer and a "strategy-free" approach to a younger customer.

Today's young customer met in the Encounter Quadrant is tomorrow's mature stage of life customer who you want in the Value Quadrant.

Unfortunately, when you approach a customer who is already in the mature stage of life, the power to choose his producer is in his hands.

There are many anecdotes about India's storied IT company, Infosys. Many of those anecdotes have passed into folklore. One of these relates to the early struggles of Mr. Narayanmurthy the visionary who founded that company with bankers. It is said that the only bank to support him with funding was State Bank of Mysore.

To the credit of the Indian public sector banks, it is they who have shouldered for the most part the responsibility of funding entrepreneurs who have nothing to offer but their conviction and spirit. There is an absence of classical angel investing in India—even today. Indian bankers have traditionally filled that role—perhaps not as much today.

It is said that for a number of years after Infosys became a behemoth, SBM was the favoured bank. Many private and foreign banks who were all eager suitors now that Infosys was proven were viewed as fair weather friends, and perhaps rightly so.

Infosys had grown. It went through stages of life applicable to a corporate. Its needs changed. SBM was best placed to build on that growth. However, they could not offer the portfolio, even though they could have evolved along with the client.

Once the client has grown and now qualifies for your product, the power of selection is in his hands. Entering at this stage is a tough fight, and rightly so.

As events have turned out, many private and foreign banks are now harvesting accounts of entrepreneurs seeded by the Indian public sector banks. The Indian public sector banks have only themselves to blame. Where funding is involved though, it is still possible for someone like State Bank of India to prevail. They do this blending the strength which comes with size with the strong arm tactics which comes from being the primary lender in a developing economy.

Strategically speaking, owing to their branch network and vintage, the depth of customers that the Indian PSUs have, far exceeds anything the new banks can possibly have. The banks also have data on their customer's patterns of usage. Most customers would be in Q1, using a number of products from other banks. It is quite straightforward for the Indian PSUs to launch a strategy based on quadrant migration, which is the subject of Chapter 11.

CUSTOMER LOVE

This is where we started this chapter. We love to have such customers. But do we love them?

When the power to choose who he buys from is in the customer's hands, it is an Encounter Quadrant situation. Expect to be compared. Expect him to use his bargaining power to haggle with you. ("He is rich yet he cribs for a rupee".)

A young customer who uses a full portfolio suited for his stage in life, who was taken there by his producer in a methodical migration through the matrix is a fourth quadrant customer too.

Get him in the Value Quadrant as early in his life as you can.

Use customer value management strategies to grow his usage of your company as his needs grow. And grow with him.

Organisations have tended to use CVM in silo format. Sell him one product. Then using the database, have a team call him and sell him a second product.

This is "strategy-free" action. Each time you call the customer it is an Encounter Quadrant situation. Expect the worst. It grinds the telecallers to dust.

Standard management response to this is to train the telecallers and try to get more and more databases.

This leads to two familiar problems.

The first is that the available database is "spoilt". Everyone has been called and everyone has been ruled out as a possible buyer. (He is ruled out for the last product; why don't we call him again and sell him the next? He hasn't heard of that from us! Soon, after an artillery barrage of calls, our customer puts us on his "ignore" list. End of road.)

The other problem has, of course, been noted before—the wear and tear on the battle troops, the front office telecallers and salespersons.

SALESPERSONS ARE SURVIVORS

Salespersons are great survivors. They must do their job, earn their keep and justify their existence like no other in a commercial organisation. There are no internal subsidies or any places to hide.

Using registers, diaries and indexed cards, they have always maintained their customer portfolios. The new age salesperson has merely shifted to the PC/laptop.

Many champion salespersons will recognise the Value Quadrant and themselves as owners of client relationships in this quadrant.

It is these champions, who when pressed with desperate pleas from a boss, can actually get a client to commit money to a product. He or she does this quite often in hopeless situations.

Sometimes, customers buy the product knowing it to be expensive. For instance, it might happen that a general insurance policy is launched which happens to the CEO's pet project. Pressed to sell such a product, the champion can get his customer to buy on a "relationship" score.

The relationship works often because the salesperson is handling a portfolio. Such salespersons own and control the organisation, not vice versa.

They exist, we know them and we have met them often enough. For those who are on the early steps of the ladder, this is where you should learn to take your customer and rule from there.

Holding customers in the Value Quadrant is a liberating experience.

CHAPTER 11

QUADRANT MIGRATION

This is a story about Paisabuilder.com.

This product from IDBI Bank is intended to take on icicidirect.com. "If my product has all the features which the competitor's product has, and I offer it at a lower price point, success is assured".

This is classical Encounter Quadrant thinking.

Paisabuilder is dead in the water from the start precisely because it defines itself in terms of icicidirect.com. One can practically visualise this conversation:

SALESPERSON: "Sir, why don't you try out paisabuilder?"

CUSTOMER: "What is paisabuilder about?"

SALESPERSON: "Sir, if you know icicidirect.com, paisabuilder is the same thing!"

Comparisons are the beginning of the end as we know from our readings in Chapter 6 about the Encounter Quadrant.

A possible approach for IDBI Bank to take could have been to launch a shares depository account product on a standalone basis and aggressively sell it from a silo. It could discount the product, offer it free or bundle it with some other low-value added offering like a basic bank account.

Alternatively, there could possibly be a database of those who already have share depository accounts with IDBI Bank.

There is also a database of customers who have savings accounts on a standalone basis.

A data analysis of any of the existing share depository accounts or bank accounts could reveal customers who have needs for broking services and use it from elsewhere.

Customers of IDBI Bank who use standalone local brokers (or even those who operate through branches of large national brokers) present IDBI Bank with a soft target.

Implement a Q1–Q2 or a Q1–Q3 migration with this base of customers, by having them open a broking or shares depository account. Once a sign-on is achieved the full functionality of paisabuilder is now in the background, waiting to be offered.

IDBI Bank presents an excellent set of research reports. The newly signed on Q2/Q3 customers are now recipients of those research reports. Soon enough an IPO is to be launched. This gives the IDBI Bank salesperson the opportunity to display the IPO functionality. It is easy to impress a customer by eliminating the pain of queuing to participate in an IPO.

In fact, simplified IPO processes have the ability to unleash latent needs in a big way. A customer who previously found applying for IPOs cumbersome would now participate in many more issues than he previously did merely because he can.

Such an introduction and a quadrant migration strategy might have helped paisabuilder.com gain a toehold against the formidable competition of icicidirect.com.

There is nothing flawed in paisabuilder's capability.

Launching paisabuilder in the Encounter Quadrant proved to be a graveyard for the product.

QUADRANT MIGRATION

The story cited above demonstrates the flaws of launching a premium and feature-rich product in the Encounter Quadrant.

It also demonstrates the power of the matrix, its quadrants and navigating them in a strategically planned sequence.

The ideal way to navigate through the matrix is the sequence presented below.

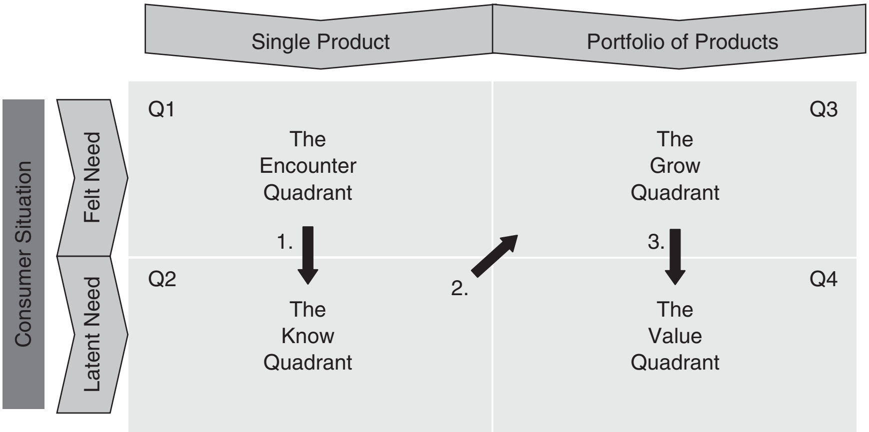


Figure 11.1: Quadrant Migration

The sequence here is Q1–Q2–Q3–Q4.

Customer acquisition is driven through the Encounter Quadrant and strategies which will work in that format. The sales organisation structure is silo for this purpose and is sales driven in achieving coverage. The product is optimised: it does not give away too much free and this allows the producer to profitably engage in price competition. *This, however, is the last time the producer will compete on price.*

Having established contact with the customer in the Encounter Quadrant, the producer quickly moves to push a second product. This product is picked for its ability to fill a latent need. The producer is now operating in the Know Quadrant. If it is indeed a latent need and makes a connect with the consumer, it provides the producer with traction.

Sometimes the product which the customer came in asking for is actually a surrogate for some other latent need. If the producer can uncover the real need behind the request from the customer, he achieves an "aha" moment.

In the process, the customer's perspective of the producer is modified. What was previously seen as a hard-charging silo company, shows that it is a thinking company; the ability to think about and for the customer. For this to work, there needs to be more than one targeted "second" product. It is not necessary that any one product the producer *thinks* will resonate, will indeed *actually* resonate with the customer. If one of the targeted "second" products does not meet its target, there needs to be another one to try and sell. To get this right, refer back to Chapter 8 on Q2 where we talked of Q1–Q2 pairings.

A customer who thinks well of us is a good prospect who could be convinced to shift his usage of other financial products and services to us. This is the time to operate from the Grow Quadrant. The producer gets the customer to grow the usage of his company by offering more products from the full portfolio.

The convenience that a customer experiences if the products do operate as a portfolio by itself unleashes some latent needs. It makes tremendous sense from here to offer other products that extend the "logical set". Products introduced as an extension of the logical set tend to grow on the customer. He is well and truly locked in to the fourth quadrant.

From here, the producer needs to maintain track of his customer's evolution offering him newer products through his stages of life.

OTHER WAYS TO NAVIGATE THE MATRIX

Going from Q1 to Q3

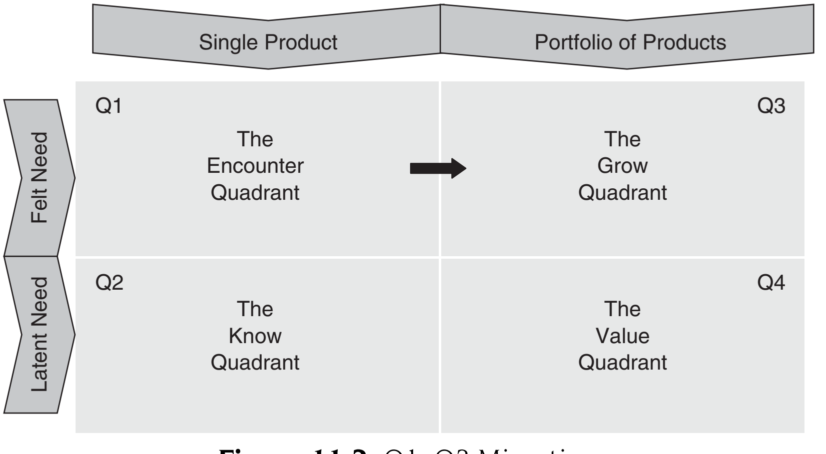


Figure 11.2: Q1–Q3 Migration

Such a migration is possible. This is the most obvious one that most organisations attempt. It is the process widely known as "cross sell". However, it is complex as every new product offered can be compared on a standalone basis which has previously been discussed in Chapter 9 in the section titled "Problems with the Grow Quadrant".

Given this reality, Q1–Q2–Q3 makes greater sense than a Q1–Q3 shift. In other words, achieving an image-makeover as in the Know Quadrant offers useful advantages over a Q1–Q3 shift.

Nevertheless, in an absolute sense, getting a customer to use more products is good. This can be used to greater advantage if in Q3, the customer experiences the set of products as a "logical set", unlocking latent needs associated with convenience.

As noted earlier, all Q3 activity should avoid becoming Q1 encounters.

Going from Q1 to Q4

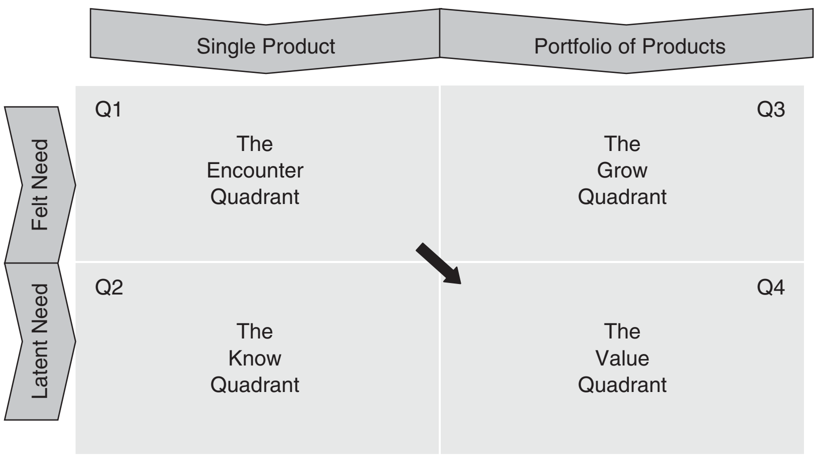


Figure 11.3: Q1–Q4 Migration

Many producers would love for this to happen; so would salespersons. Imagine! One day you get a customer. The next day she shifts all of her business to you.

It doesn't happen. In the financial world, growing through the Trust Chain is the way of life.

Going from Q2 to Q4

This too is a shortcut that might work. This is particularly true if the producer has a powerful implementation of a portfolio (ICICIDirect, for instance).

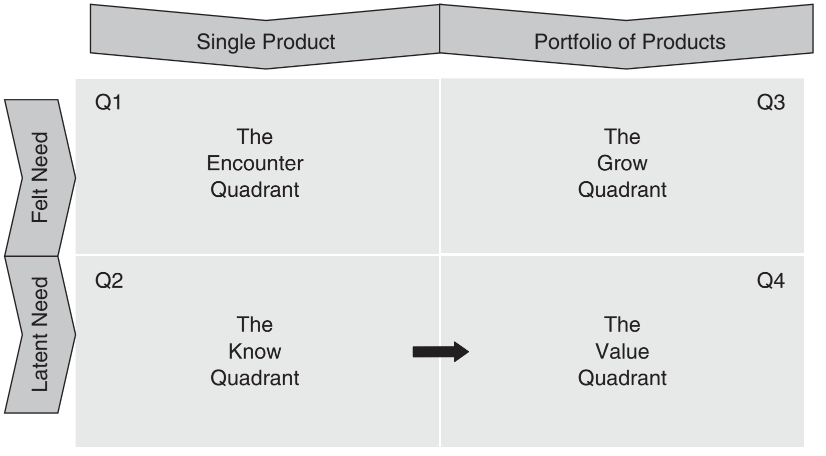


Figure 11.4: Q2–Q4 Migration

A salesperson attempting such a "push" runs the risk of moving ahead of his client's comfort zone. The Trust Chain does come into play. However, a salesperson might impress his client in Q2 and would be foolish to not press that advantage if offered such an opportunity.

THE TRUST CHAIN, THE MATRIX AND THE ORGANISATION MODE

It is important to understand the matrix in the context of the Trust Chain. There are clearly logical overlaps that support the graded transition through the matrix. An organisation in control must migrate the customer in a transition that can withstand the stresses implicit in acquiring, securing and then growing relationships.

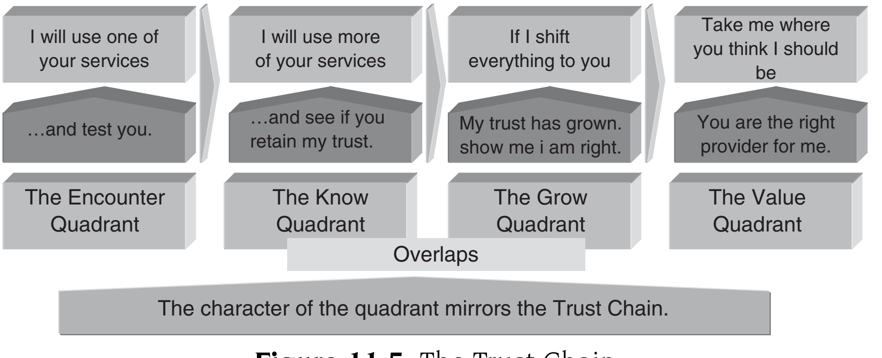


Figure 11.5: The Trust Chain

In the Encounter Quadrant, when the customer is in "test" mode the producer too is in "single product" mode. Since the product is simplified, we reduce the possibility of a negative experience. The organisation is in silo mode. Speed is the name of the game and we have not given ourselves enough time to nurture trust in the client's mind. Admittedly, there is no particular brand experience we create in simplifying things to the extent we have. (Simple—in a world of clutter is a valid brand position, though.)

When the customer, however, is prevailed upon to try a second product from our portfolio, he is either in Q2 or Q3. (Remember: he is in Q2 if the next product fills a latent need; he is in Q3 if he is merely switching from a competitor to us.) This is where we have to earn his trust. Fortunately, the organisation is in relationship mode here. We should be able to focus on earning that trust.

If trust is earned and retained through Q2 and Q3, the customer is now ready to accept direction and value add from us. We are now in Q4 where the organisation is fully relationship driven and handled by sales and service professionals (relationship managers) who have grown the way their customers have. For more on this, see the section on "Developing Human Resource" later in this chapter.

There is always work to be done.

We examined in Chapter 10 the wonderful success of HDFC Bank in building up a significant proportion of low-cost funds.

The acquisition of that salary account offers HDFC Bank a Q1 position vis-à-vis the individual.

The bank now has an opportunity to make a quick move into one of the latent needs of the customer. It is not the best product from a youngster's financial planning perspective: it is a credit card. Most account holders with HDFC Bank in the kind of companies cited previously quickly acquire a credit card.

The account evolution slows down from here onward. Moves to Q3 and Q4 are slow to follow. A youngster has a latent need in building up an investment portfolio. Even if she can start with only ₹500 as monthly input into an equity index product: it is worth pursuing.

The bank has by this time data on customer account usage patterns. One would like to believe that those with greater income and therefore greater propensity to save receive offers to handle their investments differently and better.

The bank also needs to run personal financial planning workshops at client sites. For an existing provider that is easy to organise. At captive client sites, attendance is likely to be good. There are young minds and hearts to be captured. However, there are also larger wallets in middle and senior management groups.

A survey of 10 top-quality clients who have such needs—and the author has frequently consulted for those clients on those very needs—reveals that no such methodical efforts are conducted. The customers of the bank forage in the market for the products and services they need. Many have a clutch of random products picked up from various producers. This is exactly the situation cited in Chapter 9 (see the section titled: "Consumer Behaviour in the Grow Quadrant").

It is more likely that a bank with more than 10 million accounts to "mine" is a bit snowed under.

ORGANISATION NEEDS FOR QUADRANT MIGRATION

The move between axes in the quadrants places certain demands on the financial services organisation.

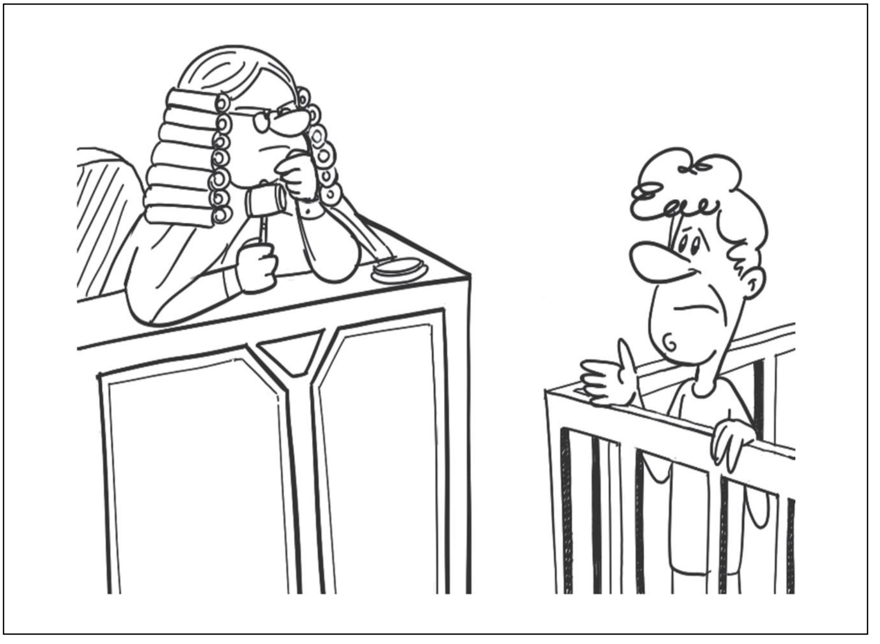
Shifts in the Needs Axis

The ability of an organisation to uncover the latent needs of its customers requires an organisation that is good at listening. Fortunately, that generalisation can be further refined to make its implementation more workable.

Pre-thought Needs

A customer's needs can be thought through. An organisation knows its product set and how it fits in the customer's scheme of things.

In Chapter 8, we have articulated "pairing of needs" for the Know Quadrant.



"Yes my lord. I have moved from petty theft to bank vaults. My needs have grown, you see!"

As needs change customers migrate to different products.

These pairings will have to be worked out by every company based on the game plan it wishes to pursue. However, what a company can visualise is based on its understanding of consumer needs.

A listening organisation needs to be open to the idea that consumer needs can be completely different than what they were imagined to be. When we examine the issue of latent needs and uncovering them, it is of course something the customer himself is unaware of.

If the customer is indirectly implying a need, or signalling the need for a product, the producer's representative needs to be sensitive enough to pick up that signal.

The onus usually falls on the salesperson. However, there are also service desks which could be the ones to receive the signals. Data analysis can detect latent needs not known from any other source.

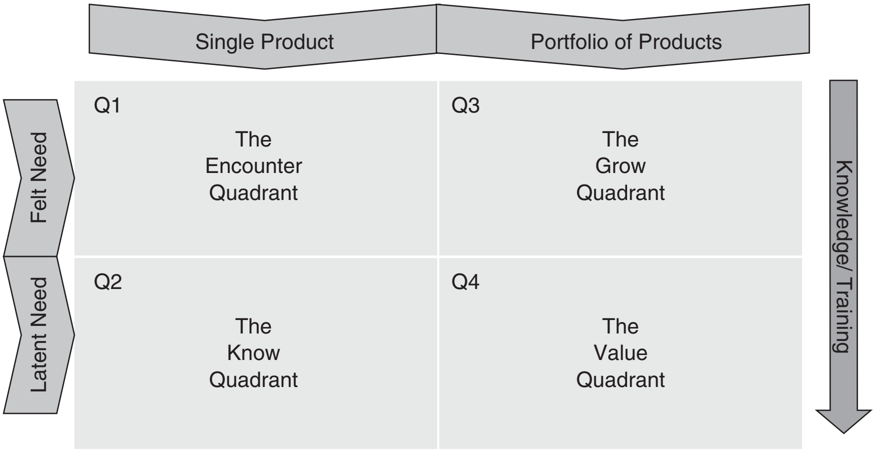


Figure 11.6: Knowledge and Migration

A great service desk is one that also sells.

Equipment manufacturers love to sell annual maintenance contracts. These contracts represent regular income which pretty much covers the overhead costs associated with maintaining a team of engineers, who are any way needed to keep the equipment serviced and working.

However, it is hard to get a customer to see the point of an annual maintenance contract, especially when new equipment is chugging smoothly.

Then comes the day when some component needs replacement. It might not be a product failure, it could just be some consumables or parts prone to wear and tear. It could be something blown by a voltage spike.

The equipment manufacturer uses this opportunity to push the AMC. Quite often the manufacturer will tell the customer that parts could be available if only they were on AMC.

"We have a reserved cache of critical components for our AMC customers. If you were one, we could deliver from that store. Since you are not, we are not allowed to touch that store. The delivery will take three weeks".

What is the cost of three weeks of downtime?

You: "Can I get immediate supply if I sign on the AMC?"

"Of course, yes! The moment you sign the AMC, you are an AMC customer, right? You have access to the store!"

Insurance companies sell sophisticated covers to industrial clients who might have just faced a claim. In the course of the claim some important gaps in cover might have emerged. This is a good opportunity to cover those gaps. (Of course, this assumes that everything else is just fine with the client in other respects, notably moral hazard and adverse selection.)

The sales person from this insurance company who might have been chasing this one for years usually feels silly. Senior management might have got involved in the resolution of this large and complex claim. Top honchos from the insurer casually let drop to the top honcho from the industrial company that the gap in coverage should be bridged. In five minutes over a lunch the deal is done. As is wont in such cases, management will turn to the salesperson and acidly point out that the client had always been amenable to buying more; it was just a question of asking. Will the salesperson please do his job better?

Skills and Training

Helping uncover customer needs requires the education of all customer touch points. There is a skills-related requirement. There is also a product knowledge requirement so that the customer touch points know which products from our portfolio meet those needs.

Those sound like truisms. They are. The problem with such approaches is that the standards set are high and difficult to achieve across a complete organisation. But in the approach presented here an elegant method of solving this problem emerges. That indeed is the power of the matrix. It is a model that presents solutions for every aspect of the financial services marketing problems.

The direction of the knowledge/training arrow that appears to the right of the matrix above covers shifts on the vertical axis, that is, Q1–Q2 and Q3–Q4.

Shifting from Q1 *to* Q2

Those in customer interface situations need to be skilled and trained to pick up the signals.

If there are pre-thought pairings of products these pairings and the game plan associated need to be communicated to all the front office staff.

As always, strategies are tested, implemented, succeed and fail in the hands of the salespersons and front office.

A salesperson in the high pressure stressed situation of the silo organisation does not have the time to listen. He has to "do", "achieve".

Silo organisations can be larger, created with a narrow focus and trained quickly to handle selling processes necessary for that single product.

Sales processes in Q2 (indeed Q3/Q4 as well) need to be given more time and require better skills. If they are given pre-defined plays (pairings) the skilling process can be simplified. A Q2 play involves earning trust. The process of earning trust can be ruined through the sales push of a silo organisation.

Shifting from Q3 *to* Q4

This is a simpler process than a shift from Q1 to Q2. The customer, in this situation, is already using several of the company's products.

He came to use multiple products by merely shifting existing usage from elsewhere. There are likely to be gaps in his usage of a "logical set". Filling those gaps is lot simpler. It of course, makes sense to make all customer interfacing personnel/touch points fully aware of the "logical sets" and portfolios available.

Developing Human Resources

The segregation of customers as per the requirements of the four quadrants allows us to create different sales groups for each quadrant. The training of each group varies. Just as we move customers through the quadrants, we can also move our teams through the quadrants.

Our strategy for Q1 requires a silo organisation. The product identified for push in Q1 is simple. Simpler products have simpler selling processes. We are able to take a larger pool in at the silo organisation. The large pool needs a simpler skill set which reduces the challenge of training the organisation.

A smaller group is needed to work on Q1–Q2 migrations and Q2–Q3 migrations. The silo provides a large enough pool from which to pick talent. Identify top performers in the silo organisation. Their skills can be honed to the needs of quadrant migration.

It offers those in the silo an opportunity at career progression towards relationship roles. That is a career opening not immediately visible in an organisation that is completely silo and not hybrid in its structure.

A client in the fourth quadrant (especially in a later stage of life) can be expected to be generating enough profits for the financial services company. This is where relationship management is needed. This is where relationship management is affordable. This is the role a salesperson starting out in the silo would aspire for. Pick your best from the team that handles Q2/Q3 and give them the tasking of taking clients from these quadrants to Q4.

By the time persons have worked their way through the system, they have gained a wholesome perspective on all products of the company and how they work. They have handled Q1–Q2, Q2–Q3 and Q3–Q4 migrations. Performers who have handled these migrations well have proven capabilities for more sophisticated roles. This should prepare salespersons for further managerial roles in the sales organisation.

And thus, while everyone agrees that training is a must, we now have a credible plan for actually implementing training. None of this is at the cost of either the organisation or its clients; and definitely not at the expense of the salesforce.

A SHIFT ON THE PORTFOLIO AXIS

Achieving such a shift requires enablement by technology. There is simply no other way to maintain a "single view" in a world where the modes of service delivery are manifold, and expanding even as you read these words.

From a view of the architecture of a core banking platform, look at the number of different consumer interfaces which are enabled.

The number of touch points can only increase as technology and handheld devices continue to evolve.

In parts of Europe, train tickets can be purchased by mobile and tickets received as barcodes. This barcode needs to be displayed on the phone screen for the ticket inspector's handheld device to read the ticket, and the checking is done.

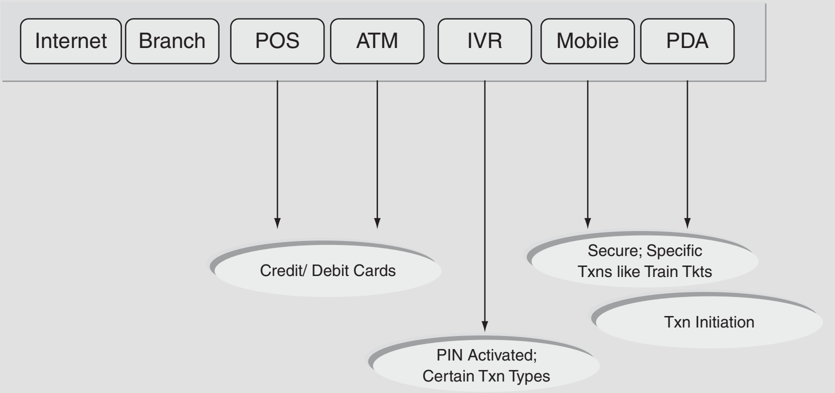
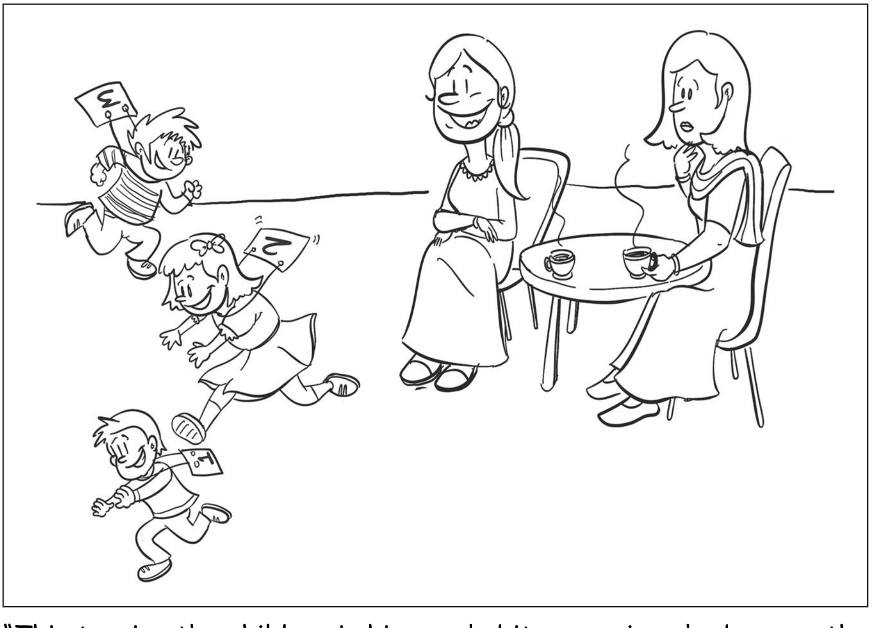


Figure 11.7: A Slice of Core Banking

Innovation and applications of this variety are so rapid that the information contained in this box is likely to quickly go out of date!



"This tagging the children is his new habit, ever since he became the ops head at his bank."

CONSOLIDATION OF PROCESSES

The consolidation of processes into "factories" or "utilities" changes the way things need to be done. Most financial services organisations, to manage costs and also to control processes have centralised all back-office business processes.

Previously, the branch manager—and this may still be the case in Indian public sector banks—encountered quite a few customers in the branch. Between him and his staff, they had direct ways and means to engage their customers.

Customers too, had a direct way of communicating their needs, though branch heads might not have been able to respond so directly to the needs.

In the new milieu, all processes which share common characteristics and can be handled centrally are merged and migrated into a "factory" or utility. Just as water and electricity are utilities and we draw them as needed, so too are these back office processes, and the financial organisation is supposed to tap into these utilities and draw services as needed.

TECHNOLOGY-DRIVEN CHANGES

The emergence of technology-enabled process consolidation takes processes and service people physically away from the salesforce and other front office staff. These people used to previously work in close proximity and a lot of coordination and customer services were handled in this traditional, intuitive manner.

The emergence of technology has widened the channels of access. With this the customer need not come to any one point to access the financial services organisation. Conversely, there is no one place where the organisation can see the customer in a physical sense.

The answers to these issues caused by technology, is also a technology solution: the CRM system.

CUSTOMER RELATIONSHIP MANAGEMENT

The term CRM refers to managing client relationships through their lifecycle of use of products of a company. Keeping track of contacts between the producer and the consumer is best enabled by technology and thus CRM has come to mean the automation products that facilitate, generally, the management of customer relationships.

We will for our purpose distinguish between CRM and CRM *systems*. The former is the generic concept. The latter is the automation tool.

Furthermore, our approach to discussing CRM-related issues is necessarily going to be from the perspective of a marketer or end-user. This text is not going to offer expertise on CRM, which resides with more competence and felicity elsewhere in the world. (In other words, if you are looking for an authoritative deep dive into CRM, look elsewhere!)

Our discussion on CRM is going to be more conversational.

CRM has more texture in the case of financial services because of the unique distinction of financial products cited previously: every time you use the product you interact with the producer. The number of times and the different manners, in which the customer interfaces with his financial services provider, generate huge quantities and varieties of data.

To take an instance from another industry to relate to, a CRM system in the automotive world has more to do, simply because the car comes back to the service centre for routine check-ups and fixes. This provides additional information about the client to the manufacturer. How much does she drive in a month? Which area is preferred for service? How does that relate to where she lives? Does it help decide what type of vehicle pickup and drop to provide? And so on.

A CRM will have less to offer as in the case of a TV set where the ongoing interaction with the producer is limited.

Financial products are, of course, the exact opposite. Financial services are transaction intensive and every transaction has a touch point with the producer. It places the producer in a unique spot of advantage.

A CRM system aims to provide all the data about the customer, from the beginning of the sales cycle to the last and most recent noted point of use. The raw data will simply snow the user with dumps of data. To make the data useful, the context in which the data is collected is important.

Visualise This

Let's go through some examples of how CRM works, has been visualised as working and companies have hoped they would work.

A person withdraws cash only at one particular ATM. Offer him a discount coupon for a store or restaurant in the vicinity.

A person receives several product promotional offers every month along with her credit card statement. She usually responds to offers for fashion accessories only. Offer her only fashion accessories-related promotions.

CRM dreamers have hoped that if the extra stuff a company mails his client is tightly focused on that client's account usage pattern, the client will actually read and respond to some of the material. Can junk mail be made less junky and more relevant?

HDFC Bank's campaign during 2010 on ATMs that run 40% faster is a good example of a CRM impact. The ATM "remembers" the amount of money that you draw most often and shows it up as one of the options for a fast withdrawal of cash.

Credit card companies use CRM to manage the risk of fraudulent use of cards. Patterns of card usage are tracked. If there is a "non-standard" use, the card issuer (Visa and MasterCard provide the card issuer with back office support which actually does this) calls the customer and asks, "Sir, are you in Greece? We have noted some transactions in Greece, is that okay?"

Technology is moving in a direction that has the potential to generate a further flurry of CRM fantasies.

On Google, there is an application which allows your friends to "see" where you are and catch up with you. A bank could use the same information on you to make an offering that suits you better.

Assume that your card company can spot you on this application, they no longer need to phone and check: they know where you are.

(By the way, they also text you on the mobile to let you know a debit has happened and can you please call them if you did not transact?)

Privacy advocates will be horrified but financial organisations are currently focussed on the use of such information by the service provider (Google/Facebook/Twitter, etc.) vis-à-vis their customers. Financial companies are anyway supposed to treat all information confidentially.

But combine the data already with your bank with the added information available with these new technology devices and you have a whole new field opening up.

The same is the case with the user profile and all that I can make out about you on Facebook by knowing your friends. If you are the type who is constantly updating what's happening with you, my information on you is even more "real-time".

And by the way, your mobile phone and all the data on it and related to your usage of that phone mark you out as who you are, where you are right now and what is the kind of the person you are.

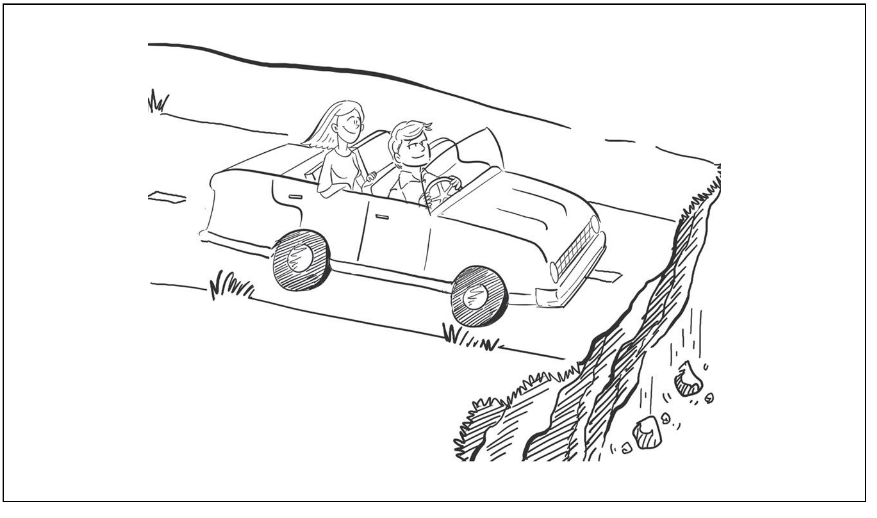
What all can I do with that as a financial services company? Lots. That is what CRM is about and as we can see, we need plenty of technology to do it.

Let us, however, start by doing some simpler things.

For instance, I as a bank want to know if my client has taken a home loan from some other provider. The data is available in my system because every month on the same date, the same amount (the instalment amount) is debited to the account.

Did my customer buy an insurance plan through some other intermediary than myself? I lost the fee income! (In the cooling off period associated with life insurance plans I can get my customer to dump the other plan and buy something through me. Can I be quick enough at that?)

Previously, my customer used to receive a number of smaller payments from his clients and all that money used to accumulate in my bank's account. Nowadays, we get one large cheque from another bank where my customer appears to have a new account. Has my customer bought cash management services from a competitor?



"These new CRM systems are great. The bank is calling to ask if we want to add someone else as a nominee to our bank account!"

It helps to know what your customer is doing.

BANKS IN THE FOOD CHAIN

In handling these kinds of situations, banks are uniquely positioned. In the food chain, a bank can be an omnivore. Since banking involves moving money, all money movements are captured in the bank's system. (Including payments made using payment gateways on the net. If money is moved, a bank is touched. There is simply no other way to get money. It has to either end up in one account from another; or in currency notes in your palm. To that extent "e-money" or "plastic" refers to money's state while it is being transmitted: money still remains money.)

Banks have business interests in every other aspect of financial services. They sell mutual funds, insurance plans and other investment products not manufactured by themselves as "third party sales". They run brokerages too.

Therefore, anything that they spot as movement in the account is a potential source of revenue; or loss of revenue to a competitor.

The vice versa is not true. For instance, a general insurance company has no way of knowing what else a client is doing; nor can it grab any revenue potential from there.

(A salesman working with a general insurer can. He can exchange client needs for say, a loan with a loan originator; in exchange for the loan originator passing him clients who need general insurance. Salespersons ought to form such "clubs"; it is the best way of getting referrals from non-competing co-professionals.)

Let us go further.

I might have given a five-year car loan to a client three or four years ago. Can I cue him for a new car, an upgrade? If I tie in with car manufacturers I can offer deals on the car. The CRM system should help me track this evolution.

Do I know when my customer has greater disposable income, typically following a salary increase? In fact, do I know the "increments" season for the company where my customer works? And what about the deployment of lump sum annual performance bonuses received? Do we know those cycles?

One of the "doomed to fail" investment ideas is selling equity investments that save tax in a lump sum. It misses out on the advantage of systematic investment. Lump sum investments are more prone to yielding investment losses than systematic investment plans. My clients tax savings needs are captured in the CRM system. Can I make my client save every month into the tax saving scheme, thereby combining the benefit of both tax savings and of systematic investment planning?

Brokers, theoretically, have huge amounts of data on their customer's trading patterns, preferences, and gains and losses. Instead of mindlessly throwing differing trading strategies at *all* clients as one clump, can we broadcast strategies appropriate to a customer's trading style?

USING CRM SYSTEMS TO FOLLOW STAGES OF LIFE

Beginners, savers, accumulators and harvesters—customers evolve through this cycle. Each stage of life has its own pattern.

When the pattern changes, my client needs are going to change. Some pattern changes can be predicted by looking at other data on the client: age, marital status, number of kids and so on. Can we combine the two? That is exactly what CRM systems are designed to enable.

Beginners usually consume all the money they get into the account. That is the conventional wisdom. Kids blow all the cash they get in their first job.

Yes, they might. However, their needs are also lower than that of a married couple with children. Therefore, "disposable discretionary personal income" is higher. Consumer product marketers know this and advertising aims at this segment. However, many Q1 savings-oriented products can also be good absorbers of disposable discretionary income.

Can my CRM system throw up the names of all those beginners who do not fully consume the money that arrives in their accounts? Can I pitch something different to them? (To the heavy consumer, I can pitch credit cards; but banks seem to do this instinctively and do not appear to need CRM help.)

Savers build up money and buy investment products regularly. When a saver withdraws from his saved up money in large amounts, is he signalling a house purchase? Do I want to check that out and offer him a loan?

Accumulators have moved past the stage of first house, first car and other such basic needs of life. Their income now exceeds their expenses and they are able to allow their investments to grow through reinvestment. The change in pattern can show up in the bank account.

Harvesters, of course, are those who have retired or opted for early retirement. This can be tracked through the account holder's age.

Products that deliver regular monthly income at lower levels of risk are an obvious product pitch.

I need to catch every change in pattern. Is the new pattern of account usage a new stage of life?

CRM SYSTEMS AND THE SINGLE VIEW

The matrix relies (in Q3 & Q4) on the producer being able to take a single view of the client.

While banks are best positioned to take advantage of the single view, they do not have a single, composite application platform which meets all the needs of all the verticals within a bank. There are different systems, despite the presence of a large central piece known as the Core Banking System. The core banking system is called so because it performs all those functions which are "core" to a bank. Collecting and paying money, creating deposits and origination, and tracking of loans are among the core functions.

Support functions which enhance this core might also find place as additional implementations of the same "core banking system".

A sample schematic of what a core banking platform might look like is shown below:

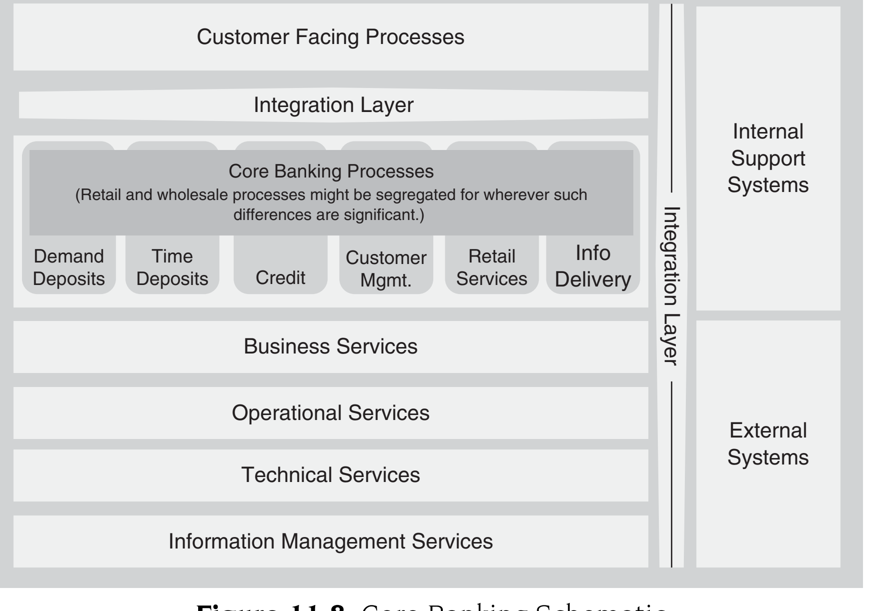


Figure 11.8: Core Banking Schematic

As it happens, many other functionalities are *outside* this system.

There are loan origination systems which keep track of the loan applications from sourcing to disbursement. Once disbursed, the loan appears on the core banking system.

There are sales process management systems to track sales efforts on third party product and other sales plans.

There is the treasury system of the bank which is different platform. Customer usage of the bank's treasury products will appear on this system and not the core banking platform. And so on.

It is known as the "core and petal" arrangement of systems.

The problem this implies is that all data on a customer and his transactions is not available on one single system.

Master data might be repeated on the different systems ("redundancy" in IT parlance). The way the master data is captured in different systems could vary slightly resulting in big complications. For instance, in one system the client name may be Tata Consultancy Services Ltd and in another TCS Ltd. From an IT perspective, these are two different companies; in reality they are the same.

(When customer codes are introduced to overcome these issues—so that a given number refers to TCS in all systems—the way codes are allotted, itself becomes a problem. In the instance cited above Tata Consultancy Services and TCS could get allotted different numbers. To avoid such problems, a client code master database needs to be put in place: one more system to track!)

This is just a brief glimpse at the nightmare that the single view involves. Salespersons can breathe a sigh of relief. Top-end personal digital assistants (PDAs) and smart-phones can help track all the data on the relationship. They still need to track transactions.

Tracking transactions across systems and putting them in a single box is the next big problem.

These are the kind of start up issues that a CRM system aims to resolve, before it can get into generating information and patterns from the data.

Here is the map of Infosys's Bank CRM solution which sits atop its universal banking solution.

In the centre (circled red), you can see the box titled "Enterprise Customer Information" which offers a 360 degree view.

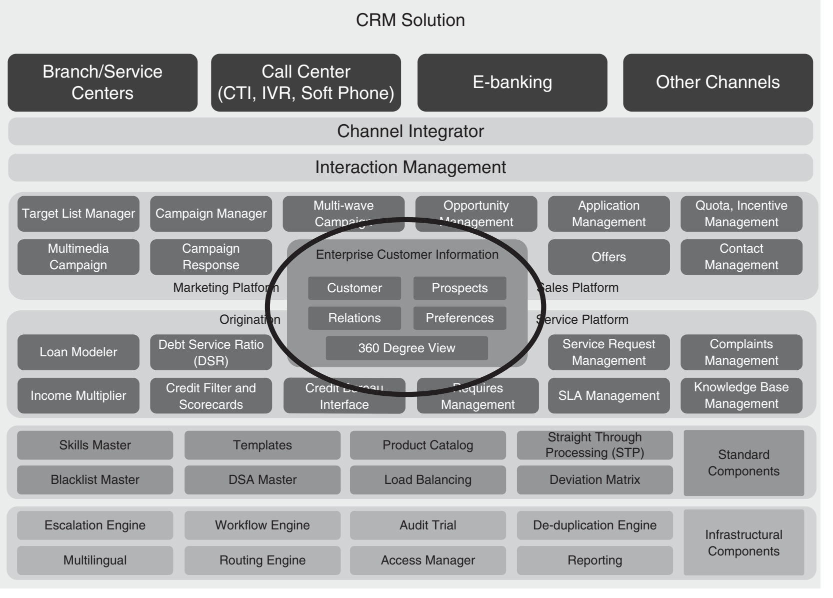


Figure 11.9: Infosys' CRM Solution

In the chart shown below, in the area marked with the red border there are promised CRM functionalities that would make any marketer salivate and drool.

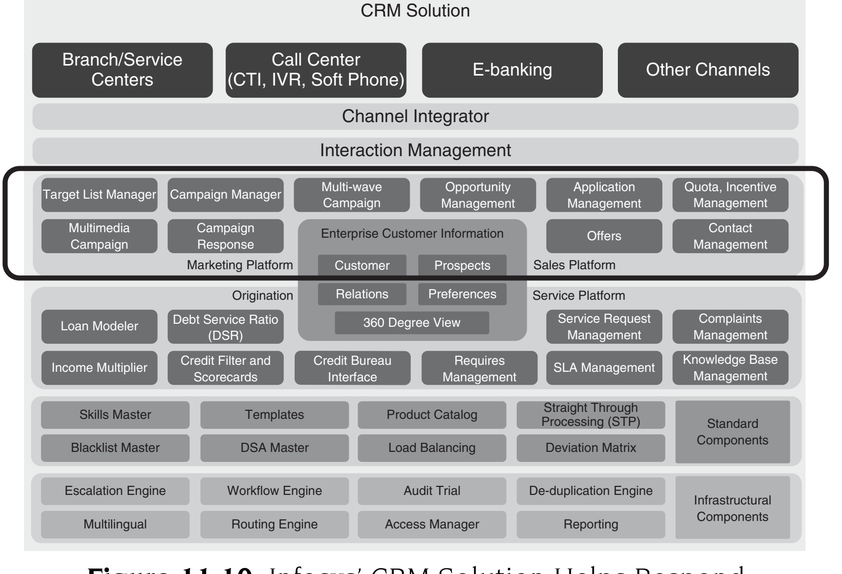


Figure 11.10: Infosys' CRM Solution Helps Respond

Note the terminologies for each function. The "target list manager" will allow a marketer to develop a list of customers who have fitted a particular description or criteria and they can be systematically pursued by the salesforce. The "campaign manager" will ostensibly help marketers track various stage of a marketing campaign and follow through on its evolution. "Offers" will allow us to make targeted offers of promotions, discount coupons and other freebies. "Quota and incentive management" allows us to allot targets to salespersons and then calculate and pay out their earnings based on achievement.

On the service platform, to the right of the enterprise customer information block, there are four components: service request management, complaint management, SLA (Service Level Agreement) management and knowledge base management. Each of these components is self-explanatory in nature. We can assume they allow us to close the loop on service requests and complaints. No more unanswered customers! The SLA component allows the company to track whether services are rendered within the time limits set for each service.

Everything that we had visualised for client management and single view of the customer are available in this architecture.

And yet, the entire text of this book up to here and beyond is peppered with service failures which ought not to have happened if all this exists.

As with most systems, implementation is the key.

CRM SYSTEMS AND THE MATRIX

The need for a single view of the customer is critical in viewing product portfolios and customers across their usage of our products. Thereafter, patterns of usage help us determine latent needs. Changes in patterns help us zero in on changing needs or events in the client's life we might have been unaware of.

Quadrant migration relies heavily on all of these. Therefore, the shift on the horizontal axis (Q1–Q3, Q2–Q4) and continued servicing of happy customers is heavily reliant on the ability of sales and service staff to log on to the system and get information on their clients.

EVERYTHING HAS A PURPOSE

Things that do not have a purpose are wasteful. The balanced scorecard, zero-based budgeting and value chain analysis all focus on figuring out—albeit in different ways—what is the activity being pursued and what does it deliver. And if it doesn't deliver what is needed, then is that activity to be pursued at all?

This logic is irrefutable and can be extended to people and technology—the two critical ingredients in quadrant migration.

If a technology solution does not help me identify, grow and stick to my client relationships, is that technology worth having?

If the entire organisation, people, systems, technology, processes, methods and management are not geared up to generating happy customers for life, then is the organisation worth having?

The matrix aims at the Holy Grail of lifelong customer satisfaction in financial services marketing. In this chapter, we have looked at critical needs for this mission. In Chapter 12 we will look at the mission itself.

CHAPTER 12

THE HOLY GRAIL OF WALLET SHARE

We all want to own our customers. We want our customers to love us. We want our customers to consolidate his use of financial products into our own organisation.

Greater percentage of wallet share automatically translates to improved recovery of acquisition costs and greater profitability. Most financial service companies also track "cross-selling" by working out how many products each customer uses on an average.

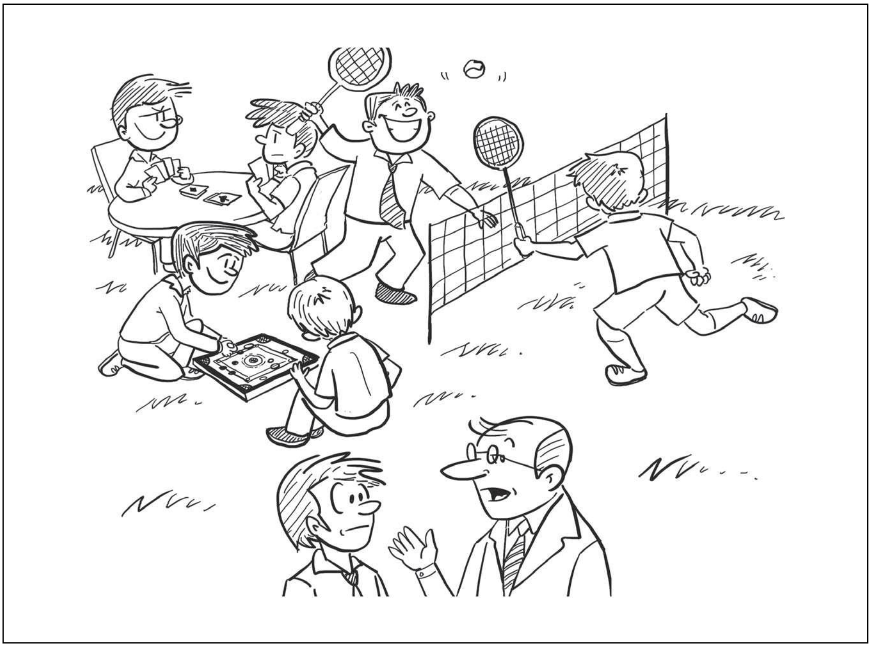
Merely looking at such statistics does no justice to the complex process that financial product sales and marketing is.

We wish for the customer to use our products through his lifetime.

Are we willing to invest a lifetime in growing our relationship with the client in a similar fashion?

Pressures to sell and perform in the shorter run trump the need to build a long-term sustainable portfolio. Many organisations are indeed guilty of "strategy-free" thought and action in the pursuit of short-term results that do not tie in to longer-term goals.

It is an accepted paradigm in our social milieu that if one is going to get somewhere, there has to be a path and a willingness to grind that path.



"Ok! Employee satisfaction is at a high. But where are the customers?"

Align short-term goals to long-term visions and achieve a balance.

It is absolutely imperative that organisations think through product offerings—not burn their customers through opportunistic sales. It is essential to have sustainable plans that do not call for grinding the organisation—an organisation is nothing but its people—to dust.

Clearly, many of the ideas presented in the matrix and the Trust Chain require investment, patience and organisation building.

The rewards are clearly all those things most organisations aspire for.

Financial organisations are often called "institutions".

In reality, most operate as companies.

An institution is an organisation that lives by certain philosophies, principles and strategies in the pursuit of its mission. A mission is never done; it is a lifetime's work. Goals drive the mission. Targets are a breakdown of goals. And there needs to be an alignment between all of these.

This book is a call for the financial services industry to spawn institutions, earning the eternal loyalty of their customers in the process.

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