Prosperity or Survival: Creating a Customer Centric Culture in Financial Services

Philip Atkinson

Philip outlines the severity of the challenges that lie ahead for businesses in the Financial Services sector. Bonding with the customer emotionally leads to life-time value for both provider and customer. Riding the winds of change, understanding the science of demographics, investor and consumer behaviour, the globalisation of markets and service provision, value for money, managing growth, M&A, creating self renewal strategies for advanced cultural transformation are major challenges yet to be mastered for the vast majority of organisations in Financial Services.

Today is like any other day in the Financial Services sector. Change is the norm. The industry is experiencing incredible pressures, and change in the structure and the process of how they do business is the key item on the agenda. The bottom line is "it's not what happens to the business that is important – rather, how the business responds to the challenge". Creating a culture which is Customer-Centric will lead to prosperity. The absence of such a culture may put the business at serious risk in comparison to competitors who commit to the process.

As I write this article in Mid Summer (July) 2007, the RBS Consortium and Barclays Bank are squaring up their deal-making strategies for acquiring ABN AMRO. There will be tremendous fallout 'if' and 'when' the deal is finalised. Who knows who will triumph? What parts of ABN will be retained and which disposed? Speculation is rife and will continue as the acquisition moves on right the way through 2008 and 2009. What we do know is that this acquisition is huge, and can have groundbreaking impact on employment, services provided and customer management strategies.

Whatever the conclusion, if an acquisition goes ahead it will take years to fully integrate the businesses or dispose of those elements that do not fit the winner's strategies for growth.

DEAL-MAKING & CREATING CERTAINTY

If the RBS Consortium is the winner, evidence suggests that they probably will integrate the acquired business very effectively, as they have great experience with Nat West and acquisitions in other geographies in recent years. However, many suggest that Barclays and their partners could have the winning hand with their undisclosed, but much talked about, plans post acquisition. Who knows? What is important is, if this acquisition is to work (and as many as 70% fail to achieve the synergies for which they were originally planned), it's based on practicality in making the new business entity work for customers and investors, thus creating some certainty in the marketplace.

In this acquisition, it is not so much the price paid that is important, but the practicalities in divesting of some peripheral business and making the core business work from Day 1 post acquisition.

Readers who want an up to date commentary will follow the FT On-Line or consult The Economist. This current news will be long dead after this particular article is proofed, printed, published and read – but what is important is how the winners and losers deal with the consequences and the fallout for all players, including the end user, the customer, shareholders and new investors.

As I write, the legal bill for both sides has already topped £100m in due diligence and acquisition fever activity. How things will evolve into the autumn is unclear. This article is not so much about recording a fast breaking news story, but rather looking at the implications for all Financial Services businesses of similar changes with special reference to managing Operations and building a truly Customer Centric Culture. We focus on major challenges facing the Financial Services industry at the end of the article.

SURVIVAL IS NOT COMPULSORY

In the last decade, we have witnessed huge changes in all sectors of the Financial Services industry – the next ten years will see the industry thoroughly transformed to become truly Customer Centric with Operations and Management of the enterprise leading the way.

The weaker players will fall by the wayside, or be integrated into larger conglomerates: customers will choose their service provider on different criteria from those of the past. Customer perception of service delivery will be imperative and will shape their choice of service provider. The customer has changed from the reliable and loyal 'Baby Boomer' to the more volatile and authentic 'Generation X' and now 'Generation Y(why)'. The traditional pattern of staying with one Financial Services provider for life is being rejected and the new pattern of business will be based upon developing pro-active 'one-to-one' relationships. This paradigm shift in customer management will require a radical change in the internal culture of the business, to service the now 'critical, authentic and transitional' customer with heightened market awareness.

AUTHENTICITY & SPEED OF RESPONSE

Customer perception now leads with the big questions "Are we receiving value added?" and "Are all transactions above board?".

Recent years have witnessed larger institutions and independent financial advisers being questioned as to their motives and practices especially regarding the mis-selling of pensions and other products.

Rip Off's in Financial Services have been well documented, (vis Enron, Equitable Life, the Pensions crisis, unregulated and non-compliant advice from IFA's and other third party financial intermediaries regarding the choice of suitable pension, mortgage and other products) and have resulted in record complaints to the FSA. (It does not help that the Government have also taken their share of Pensions funds through legislation passed in the 90's)

Industry watchdogs are under ever more pressure to be vigilant and are ready to expose those who deal and trade in a manner deemed less than equitable. Public opinion is already mistrustful of some institutions, fuelled by recent horror stories in the tabloids. Already, government committees are investigating overcharging for services, interjecting in to the industry, and exposing practices that may be perceived as generating profits and shareholder value rather than addressing the immediate concerns of the customers or policy holders. It is time to ensure that organisations that have perhaps failed to grasp the importance of the 'customer', develop strategies that do.

Surely this is a clue that businesses in Financial Services need to move beyond cosmetic change, and focus entirely on developing a climate of integrity with the customer, working on developing a relationship that will have life time value to both customer and provider.

BUILDING STRONG EMOTIONAL TRUST WITH CUSTOMERS

If you work in Financial Services you'll understand my point. You probably will have been inundated with training to ensure that all processes are compliant. If you are a customer, I hope you have seen a change in behaviour of these businesses. Many have not changed at all or are barely compliant, claiming that training and quality staff are still in short supply. Recourse to the FSA, in my opinion, is at best a joke, with cases piling up and the outcome being a failure to address the wronged customer's needs. Witness those who have lost their pensions either through mis-selling or through companies legally avoiding their responsibilities to pensioners and employees – witness the debacle over Rover.

THE FUTURE OF FINANCIAL SERVICES: CUSTOMER CENTRIC CULTURES

Whatever happens, customer bonding and trust is the key issue that Financial Service companies have to address in a very short period of time.

Companies know that the customer is far more market aware than ever before. If you need to raise your personal awareness and research into Brands, Companies and Products, you don't have to Google very far before you come across Martin Lewis', Alvin Hall's and a multitude of other websites which are geared to supporting and educating the customer.

EMOTIONAL BONDING IS NOT ABOUT RE-ENGINEERING

With this degree of customer awareness, any provider of Financial Services has to focus on forming a strong emotional bond with existing and prospective customers. Currently, the customer may not be aware of who in the marketplace is customer focused and who is not. But the average customer, whether individual or institution, is starting to question the practices which underpin the service provided, the charges for those services – and the relative behaviour of other service providers.

DRIVING POSITIVE EMOTIONAL VALUE: THREE STEPS

To create a rigorously Customer - Centric strategy, organisations really need to re-think the term "customer satisfaction". Even when customer satisfaction is high, there is no direct link with customer loyalty, retention and repurchasing. The trend in too many businesses is to make every attempt to develop positive CSI (Customer Services Index) where they can track customer satisfaction, rather than creating strong emotional bonding with the customer. What too many fail to consider is that the causal relationship between CSI and customer retention is far more complex than first appears. The CSI can be high and rising, but you can still lose business. What is important is to identify the drivers that deliver the results – otherwise, we measure all aspects of customer interaction with the business - measuring everything and understanding nothing!

Step 1: Creating Emotional Value

What we should be measuring is how can we increase the intensity of the emotion experienced by the customer in order to generate loyalty and life time value. People purchase from service providers for a host of reasons – the real problem is for the service provider to identify the critical events, incidents and opportunities for bonding the customer closer to the organisation. Telling the customer how great you are at answering the phone, or dealing with complaints, is only the first level of customer management.

Step 2: Authenticity and Valuing Customer Preferences

The second level requires turning the organisation upside down in order to capture data that may be critical from the customer's perspective. This means really understanding the motivations behind consumer behaviour which requires unlocking the customers mixed emotions for buying. It requires fairly complex methodologies for assessing, categorising and learning more of the customer without using manipulation, which is at worst unethical, and at best, patronising.

Clever organisations understand the 'authenticity' that characterises many customer choices, and support and honour that authenticity by developing Customer Centric processes and behaviours that build the bond that leads to life time value for both customers and providers.

Authenticity means that you will deal 1:1 with the customer in the manner in which they wish. I was pleased recently when completing my HiltonHonours (loyalty card) subscription that Hilton requested my preferences for how they communicate with me (home phone, business phone, fax, mobile, letter, email etc). Hilton value my business and want to ensure that my preferences for communication with me are central to building that relationship. How many businesses do this? .

Step 3: Paradigm Shift In Customer Delivery

The third level is a paradigm shift in customer management, which is to focus upon the precise events and actions that create positive bonding with customers, so that the existing provider is the natural and only choice. Organisations need to continually examine what creates positive emotions, intensify those factors that lead to attracting customers, and demolish those aspects of processes and culture that inhibit growth in customer numbers.

CUSTOMER RETENTION & ACQUISITION STRATEGIES

There are still many organisations that have not yet come to grips with ways and strategies for retaining customers, as well as knowing how much it costs to lose customers, win new ones and build brand loyalty. It is our understanding that too much emphasis is directed towards reducing transaction costs with customers, rather than devoting time and energy to understanding what makes our customers tick and how to win their true loyalty.

EMOTIONS ARE COMPLEX

When engaging on this exercise you have to approach it with integrity and with the view that serving the customer is at the forefront of your business mindset. It's easy to adopt the quick-fix manipulative route. It's also very easy to get this wrong – and if and when you alienate a customer, remember the research that tells us that the average alienated customer shares their experience with as many as 17 other people – all becoming potential non customers to your business.

Customer emotions are very complex. There are hundreds of words in Webster's Dictionary that describe specific emotions – so on which emotions, and to what extent are service providers going to focus to engender loyalty, retention and acquisition of customers? To make matters even more complex, the presence or conversely, the absence, of these emotions can significantly lead to satisfaction, loyalty, both or neither! Service providers need to research the 'emotion' issues rigorously. And don't think that reducing a negative emotion such as Anger can improve customer satisfaction (whatever that is) – all this does is reduce discontent. The reduction or absence of anger towards a service provider does nothing to improve retention or loyalty. Organisations have to be very careful because they shape (by accident or by design) the emotions of their customers all the time.

Incidentally, the “top ten emotions” include, Anger, Happiness, Frustration, Annoyance, Disappointment, Satisfaction, Impatience, Relaxation, Excitement and Irritation, and there are complex relationships between all these which organisations need to explore to really arrive at a customer loyalty formula. Perhaps it is time for organisations to start asking the right questions, rather than measuring CSI in isolation of how customers “feel”. Perhaps we need to focus on:

- What strategies can we adopt to maximise emotional value for our customers?
- How do we develop a Corporate Culture to instil the positive and ensure the absence of negative emotions with our customers?

BUILDING THE CUSTOMER-CENTRIC CULTURE

The dominant business culture will determine the degree to which customer relationships are managed well or poorly. Most businesses have a variety of cultures that compete with each other and currently have no means to measure and differentiate what is good and leads to effective performance from that which is poor. Focusing upon business culture and aligning this with business strategy, will provide the platform to build a new organisation.

Our Model for building a Customer-Centric process flows logically from Vision to KPI’s and, when adhered to, can create a very fast turn, around in results.

STEPS TO CREATING A CUSTOMER CENTRIC CULTURE

STEP 1

Create a **VISION** for the business of what you want to **DO, BE** and **HAVE**

STEP 2

Clarify the **VALUES** and the **CULTURE** within which you will transact business with your internal and external customers

STEP 3

Define a stretching long-term set of **STRATEGIES** to acquire, retain and grow your customers. Set and define tactical methods for achieving your goals across and down through the organisation

STEP 4

Set and define **BEHAVIOURS** which will be led by managers to take you towards achieving your strategic and tactical objectives. Create a culture of self renewal.

STEP 5

Design a simple, flat **STRUCTURE**, which focuses strongly on working across the business. Define, design and constantly review processes and define these as serving the customer. All **PROCESSES** should be designed to make with the customer in mind. For those who never interact with the external customer, design their role and processes to support those who do.

STEP 6

Design and facilitate a strong culture of performance improvement, with everyone understanding **KPI’s and PERFORMANCE METRICS & MEASUREMENT** in terms of deliverables to the customer

MERGERS AND ACQUISITIONS: A COCKTAIL OF CULTURES

Between 50 and 70% of companies that merge with others will never achieve the synergies to which they aspire. Research from the US confirms that “larger” does not always mean enhanced performance in insurance services. When two or more businesses come together to merge into a new entity, one culture has to prevail. A ‘Cocktail of Cultures’ is of no value whatsoever.

Allowing multiple cultures to co-exist when they run counter to each other, creates confusion and ambiguity. Neither is it possible to integrate cultures that have grown more by default than design. Often, the basics of post acquisition integration are achieved in the short term, but longer-term, people issues are left hanging in the air. For instance, although distribution or delivery channels are rationalised, business systems integrated and financial measures consolidated, little thought is given to the drivers or the enablers of the business – those who lead and manage others.

Often little thought is given to the actual role of Leadership in deliberately shaping the new business entity. The success of a merger can be measured and assessed in the first hundred days after integration. Strong leadership, with a clear vision for building one new business entity, will always win over the old model: trying to “manage or administer” the interests of two old businesses and cultures into one does not, and never will, work. What works is the new model of post acquisition integration in a tangible 50, 100, 200, 300 day plan with deliverables all driven by shaping the culture and reformatting core processes.

CHALLENGES FOR FINANCIAL SERVICES

1. Institutional Change and Consumer Behaviour

There are many challenges ahead. The traditional institutional framework will end. Leading institutions will change beyond recognition. What will be the role of the Stock Market? Will Government intervene, especially with third party intermediaries? No doubt more trading will be conducted on-line, and third party intermediaries will play a less significant part in transacting business unless they learn the lessons of customer management, and create powerful new products with benefits that appeal to customers.

Customers at last come into their own and their buying behaviour overturns and has a huge impact on how organisations sell and transact business.

2. Demographics Drive Change

Institutions don’t drive change – demand for services and goods is the driver, and the changing nature of demographics, the relative age structure of investors and customers, and purchasing capability, will restructure the role of Financial Services organisations. Without demand any business is redundant. Without sales there is no business. The aging population, greater longevity, the pink pound, single families, childless families, fewer births per head of population and many other shifts in the values, expectations, preferences and behaviour of people will affect the services that people need to acquire. Economics is demand, not supply, led. Companies who invest in understanding demographics and consumer behaviour, will be those who can better anticipate the wave of societal change.

3. Contrarian Economics & Investment

New models of investor and consumer behaviour will emerge, with contrarian economics making its long awaited breakthrough. More knowledge on the part of the consumer, consumer groups, less vested interests, will force providers in Financial Services to offer transparent services, and to compete purely on benefits that accrue to the customer, rather than the old model of what is profitable for the provider.

4. Consolidation in Banking & Insurance

Whatever happens, there will be increasing consolidation in the banking and insurance sectors. Many de-mutualised and smaller insurance businesses will choose to be acquired by larger institutions. The challenge is managing these constituencies, and building a new culture to appeal to the new breed of customer – who demonstrates their authenticity and uniqueness in every transaction.

5. Growth in M&A – Huge Impact on Employment

Globalisation and cross border acquisitions in the Financial Services industry are already at an all time high. This will increase with the resultant restructuring and downsizing entailing reduced visible presence in certain localities; virtual businesses created, peopled by fewer people, and fewer local branches, with some sectors of society marginalised from any form of transaction with Financial Services providers. New models have to be created to ensure that all sectors of society have the capability to build wealth, and this is not solely a Governmental role.

The impact this will have on skills levels and staff availability is an issue that few governments and companies alike have assessed.

6. Less Personal more Emotional Customer Contact

Technological advance will increase and with it skill demands to operate and maximise service delivery. Communication with customers will become less personal and massive transactions will take place through the internet, which poses a huge threat for those companies who are not aligned to creating value and bond with the customer.

7. 'Point of Sale' Friendly Contact

Financial Services is changing and there is a requirement for user-friendly point of sale 'technical financial' expertise with more flexibility to respond to customers' specific, authentic needs.

8. Mastering the Ability for Organisational Renewal & Change

A company's ability to master change and innovate faster than competitors will be a major shift in cultural terms. "Customer service is what the customer says it is" and those who can deliver and implement these changes, will be those in demand by companies. People who can successfully drive change from the top will be valued increasingly over those who possess only technical expertise in-house.

9. Net & Cross Border Transactions

Competition will be the order of the day. Not just increased competition with other service providers, but competition across national boundaries. The Net knows no boundaries and it's just as easy to arrange a mortgage with an American or European Bank as it is with your high street branch. Competition for good quality people will also be intense as we witness the impact of the demographic downshift. Although they will be fewer, in number they must be better skilled and a scarce resource.

10. Fluidity & Flexibility in Attitude

Flexibility in staff is what will be valued most – those who can lead and build teams, who have high interpersonal competence, can communicate with customers and understand business from both a strategic level while operating at a local and tactical level will be of most value, and increasingly are in short supply.

11. Human Capital & Knowledge Management

In a turbulent and increasingly competitive environment, managing staff retention and the development of people will increasingly occupy the manager's role. Coaching, mentoring and the self-development of people will gradually take equal emphasis with leadership, although many would argue that managers first have to move from the comfort levels of a transactional administrative style towards transformational leadership, before becoming the facilitative coach, where the challenge is greatest – changing behaviour.

12. Third Parties

Third parties who currently act as a filter between the customer and the provider of service, whether they be an IFA, stockbroker, car dealership or retail outlet, will be required to demonstrate the best in customer management both to retain the loyalty of the customer, and develop a longer term relationship with the service provider.

DRIVERS AND RESULTS

With these massive changes already taking place, there could be some serious fall-out in the industry. There is already over capacity, whether we focus upon banking, insurance, motor finance, personal and commercial mortgages or other services and products. There are too many institutions, with similar undifferentiated products, chasing too few customers. Cross selling is still a challenge to too many organisations – if this cannot be achieved; 'one to one relationship' selling will never happen.

It will be critical that this sector is focused upon delivering results – through people. What causes the results to happen should be the yardstick by which people assess their own performance. Results must be viewed from the perspectives of all the constituencies in the process, not just the shareholders. It is no good answering a phone call from a customer within three rings if you then put him into a frustrating, automated queuing system. Exploring how customers rate our service, and exposing the critical success factors, is the key to customer retention.

Some organisations draw a distinction between drivers and results. Identifying key drivers is critical to measure what enables results to happen. Get the 'drivers' right and the results will flow. In our experience, the key drivers are 'culture' and 'processes'. The business culture that enables the processes to develop and flow is based upon cross-functional working. One of the biggest challenges that organisations face is integrating the activities of a diverse group of people in functions that are highly differentiated to create processes that deliver results for the customer. To do this properly requires a major rethink around functional or silo management.

In too many organisations, 'matrix' is talked about a great deal, with flat structures and lots of people reporting horizontally and vertically to functions and projects. When you examine how people are rewarded it is on the old functional model – the 'know more and at a deeper level to get promoted'. This has to be rejected for a more flexible reward model. Performance management strategies have to be devised to reward for customer responsiveness. Few organisations have been able to grow this culture which has a major effect on their staff resourcing activities. Attracting, selecting, developing and retaining high performers is a major issue. If a company does not look after, coach and develop their best people, then another employer will.

SUMMARY : CULTURE CAUSES RESULTS & CONSEQUENCES

Creating the right culture always comes first. The culture, or way of working, should be driven by a tangible and stretching vision of what the company will become. Vision must be reflected in strong values for teamwork across boundaries focused upon delivering customer responsiveness. Values must drive the core strategies or competence of the business that, in turn, will determine the structure, roles and responsibilities and performance measures or KPI's. Cause-effect linkages must be established within the culture.

Reject the myth that changing a culture takes too long. Commitment to the customer, winning new business with great products, focusing existing resources, leading the process, capitalising on your strengths and energy, alignment across the organisation and integrity can all change a culture very quickly.

Transforming a business culture takes a relatively short amount of time – it takes as long as the top people want it to take. Working through the Vision to KPI's process is a methodological process that requires equal commitment in terms of enthusiasm, as well as structure and process. A change that is less than challenging, inspiring and motivating will never be installed and the first to know will be those in Financial Services whose performance is less than outstanding.

As one senior manager stated some time ago when we were discussing competition in his specific Financial Service industry –"We are no worse than anyone else." That thought filled me with little confidence that they would manage the transition to prosperity in the future.

About the Author

Philip Atkinson specialises in strategic cultural and behavioural change. Originally an Economist, Philip completed his MSc in OD before he lectured as a faculty member at several business schools. For the last twenty years he has been engaged as a consultant supporting companies in strategic development, organisational design, business expansion due diligence, post acquisition integration, quality management and Culture change. He has partnered with a variety of blue chip companies in the UK, Europe and the North America in industries ranging from Pharmaceutical to Genetics and the Automotive Industry to Finance & Banking. He regularly presents at conferences and workshop sessions and has written seven books on change management and his articles are regularly published in a number of management journals. Philip also designs learning strategies and business simulations and games to enable organisations to develop tailor-made strategies for accelerating and sustaining the implementation of change. He can be contacted by email on:

AtkinsonConsult@aol.com
or at
www.philipatkinsonconsulting.com