

**CRM Forum Resources**

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**ACHIEVING  
CUSTOMER  
RELATIONSHIP  
EXCELLENCE  
IN FINANCIAL  
SERVICES**

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**Introduction** Financial service institutions, especially banks, have never been in a more sweeping era of change.

Judging from all the deals being done of late, the banking industry is headed toward a massive consolidation into a handful of global megaplayers offering every possible financial product and dominating the world of finance.

But while being big matters more than ever in the banking business, there is plenty of reason to question the one-size-fits-all model being promoted in many financial quarters.

Of course, there are advantages to being big. More than ever, a big bank has to be global and has to be able to offer its customer just about every service under the sun. A huge capital base, among other things, makes it easier to stand behind 'mega-financing' transactions.

But being big doesn't guarantee success, and the bigger these banks get, the more room they leave for nimble niche players to outflank them.

Increasingly, financial institutions and the offerings they provide need to be relevant to customers and their lifestyles. This does not necessarily mean being overly sophisticated.

The traditional lending of money is much less important than it was 10 or 20 years ago. Banks have now been forced to go where the real money is: specialized services, stock underwriting and sophisticated transactions.

**The new consumer** Customers, who may have opted for face-to-face banking services in the past, generally no longer have time to stand in queues for transactions. They want more time to bank, when and where it is convenient.

Technology, has also brought with it fast-moving customers who want instant gratification. Many financial services products tend to have to flow through a lot of red tape before customers receive what they want.

Some customers, for example, no longer want cheque or savings accounts; instead they want all their banking needs built around their credit cards.

Consequently, financial institutions are having to re-examine what the customer wants. This is starting to throw the entire traditional banking product and service range into question.

Financial services appear to be moving towards differentiated pricing, where customers are charged for the facilities and services they use. In future, fees are likely to be unbundled and customers who use electronic cheque books, for example, will tend to be charged less than those still using paper-based cheques.

Customers, clearly, do not want to pay for products and services that they do not want to use. When they are prepared to pay, they want the choice of being able to use a full range of value-added products and services.

Also significant, customers are constantly on the move and they want their banking to move with them so that they can access banking products and services remotely, with a full understanding of what they're doing. The same applies to almost every area of investment.

People furthermore will look increasingly to having all financial services under one roof, but equally an enormous amount of unbundling is likely to take place. For example, the multi-manager approach sees services being outsourced, often to rival institutions.

Retail bank structures, meanwhile, are taking on their own new look. There is already a strong movement away from flagship branches towards transaction processing centres. Today, customers may not see or hear from their bank directly, as they prefer to interact electronically. All they want is fast 24-hour service.

In the UK earlier this year, Barclays Bank closed 171 of its branches in a single day, a tenth of its national network. Disgruntled customers delivered wreaths to a number of branches, and demonstrators gathered outside others, bearing placards reading 'Save our Bank'.

### **The new battleground**

The new economy has become an important battleground for market share. The use of more customer-centric technologies will confer competitive advantage on those who deploy them wisely, and will leave the laggards further and further behind.

It won't be long, for instance, before customers phoning their bank's call-centre find themselves speaking not to a live agent, but to a machine which can offer verbal responses to their queries and requests.

International research has shown ready acceptance of speech recognition software around the world among users of all ages, including those who have to push buttons in a conventional interactive voice response interaction.

Indeed, a benchmark survey conducted by Nuance found that three-quarters of users found speech applications as good as or better than their previous method of accomplishing the same tasks, such as banking, airline reservation, product ordering, brokerage, voice dialing, directory assistance, and using voice-enabled Internet content.

Speech recognition gives users the freedom to use the system whenever they want – the call centre never closes. They can use the speech recognition system the way they want, interrupting commands or instructions, and skipping through menu levels, which is not possible with a push-button interactive voice response system.

Banking by cell phone is also on its way into the market. Banks find it extremely expensive to maintain a maze of branches, yet customers need reasonable access. The answer naturally lies with cell phones, where, firstly, the market is exploding, and, where, secondly, all that is needed is a permanent connection where transactions can be done with the touch of a button.

### **Customer relationship management**

Although useful, these technologies will be no more than battlefield gimmicks unless the customer is king and his or her needs are paramount.

For example, when people look for a housing loan, the most competitive interest rates will be important. But also meaningful will be a friendly relationship, the fastest transaction turnaround time; flexibility built into the arrangement (such as home equity finance); having the transfer fees built into the loan; and having the same buyer-seller attorney so that they only have to go to one place to sign documents

Ultimately, customers want to be seen by their financial institutions as individuals rather than simply one of a crowd.

And here's the crux: to achieve the customer-centric approach that today's customers demand, organizations need to excel, among other things, at empathy. They need to develop a pervasive ability to see things from the viewpoint of the customer.

This may sound fairly simple. However, the capacity to put oneself in the shoes of someone else is a difficult skill to master, and not surprisingly will prove to be a key issue in customer relationship management (CRM).

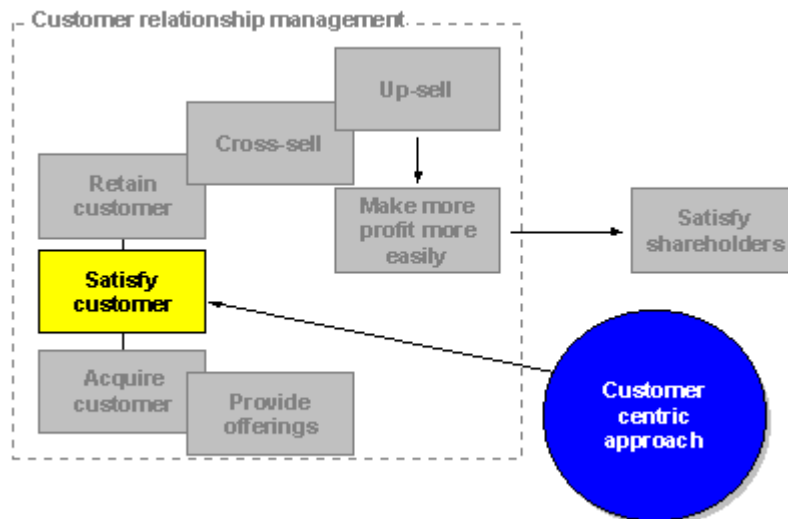
Interest in CRM has arisen from the realization that it is easier and cheaper to sell to existing customers than it is to acquire new ones. As such, successful management of

relationships with existing customers is imperative.

Obtaining a new customer in the financial services industry today is on average 10 times more costly than keeping an existing one. CRM is becoming so important, that global expenditure is expected to touch USD 12.1 billion by 2004.

However, there is little consensus on the definition of CRM, let alone the approach. For example, according to a recent Meta Group survey, at least 22% of respondents viewed CRM as no more set of tools and technologies.

In spite of this confusion, existing definitions of CRM tend to view it as the process of acquiring, developing and retaining customers in a profitable way.

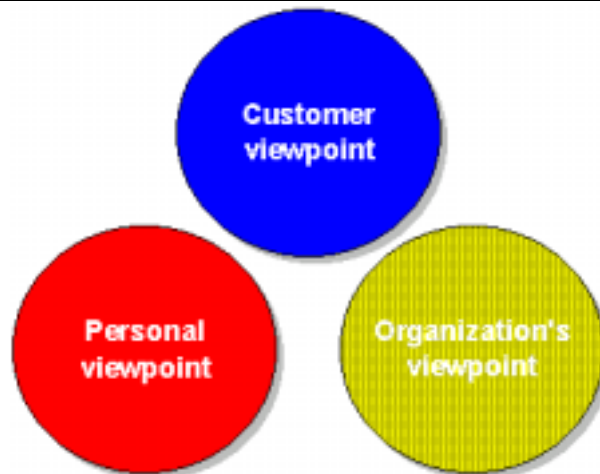


Typically, this would involve providing offerings, promoting them, winning the customer, and then retaining him. Once he is in the net, he inevitably becomes a lot more profitable to your organization than in the beginning. You can cross-sell to him, up-sell to him, and in the end handsomely reward your shareholders.

However, to design satisfying offerings and to serve customers as they want to be served, organizations have to undertake the difficult task of adopting a customer-centric approach.

Customer situations can be viewed from three perspectives:

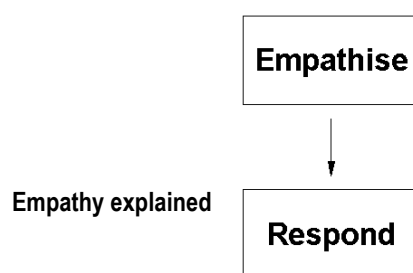
- the point of view of the company,
- the point of view of the individual serving the customer, and
- the point of view of the customer.



Products and services are often designed or delivered from the frame of reference of the organization or the staff member. The customer might then find himself thinking, 'Hey, I wish they could relate to my frame of reference, and see things the way I do'.

In our research into organizational empathy we came across a good illustration of this point. A focus group member explained how on returning his rental car to the outdoor, airport drop-off point in the pouring rain, running late for his flight, and struggling to get his luggage out of the vehicle, he was approached by a car rental staff member, who's first concern was to secure the vehicle's keys and take the odometer reading. If the staff member had taken the customer's predicament or state of mind into account, he may have first offered to get a luggage cart and an umbrella. However, it is likely that the staff member had been trained to manage the customer from the organization's point of view. From this narrow view, the only thing that mattered in this situation was to look after the interests of the car rental company. Apparently, the customer was merely there as a by-product of a transaction.

Clearly then, not only do you need to empathize with the customer, but you need to respond appropriately to his needs. This involves putting yourself in his shoes and seeing the world as he sees it. Once that is apparent to you, you need to respond by providing what is necessary on time and at the expected cost.



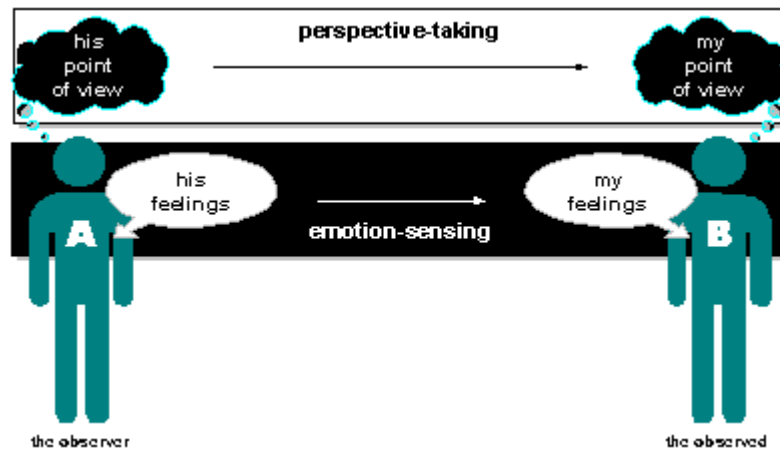
Of course, this can be much more difficult than meets the eye. Customers do not always have a clear idea of what they want, and sometimes require the vendor or service provider to stimulate their imaginations.

Organizations are generally better at responding than they are at taking the customer's point of view. It is much easier to make assumptions about what customers want and need than it is to continuously test one's understanding of one's customers.

But what is empathy? Empathy is the ability to enter into and understand the world of another person and communicate this understanding to him or her.

Empathy consists of two key abilities:

- being able to take someone else's perspective, and
- 



- accurately sensing their emotions

### Organizational empathy defined

Empathy is an important social skill that significantly affects the quality of one's relationships with others. It helps to establish rapport; and means listening carefully, clarifying one's understanding, and showing in words or action that one understands the other person's world; It generally requires emotional maturity on the part of the user.

It also involves considerable self-awareness – you need to know a lot about yourself to understand others, and indeed should you master that, there are several advantages. A person with high degrees of empathy is usually well adjusted, reasonably outgoing, fairly sensitive, and tends to get on well with the opposite sex.

People tend to display empathy at one of three levels. At the most superficial level it is a communication skill that can be learned and applied. At the deepest level it is a way of being that was famously displayed by the likes of Mahatma Gandhi, Mother Theresa, Princess Diana, and Nelson Mandela. In between these two extremes it is used - often by people in the helping professions like teaching and counselling - as a mode of interacting with others that can be switched on and off. Unfortunately, using it as a tool will be experienced as hollow unless it is an expression of the user's way of being.

Organizational empathy, as we have already suggested, is the ability of an organization to use the customer's viewpoint to design offerings and experiences that will exceed his or her expectations.

Virgin Atlantic and McDonalds are prime examples of organizations that have invested heavily in organizational empathy. Let's take the case of McDonalds, in which there are various dimensions of empathy, and in which you can see them continuously evolving in response to their customers. It has spent an enormous amount of time putting itself into your shoes.

The first feature is its endeavour to satisfy the kids, by providing a 'happy meal' and the 'Playplace'. The second is operational empathy, the 'Drive thru'. The third is a service promise of quality, cleanliness and value. And the fourth is cultural empathy, in which the operation is customized to local conditions and local circumstance.

Virgin Atlantic, at a very different level, offers 'Upper Class' passengers a limo service, hassle-free check-in, the 'Clubhouse experience' with its cool extras such as a haircut and massage and in-flight entertainment for all.

Richard Branson will always adopt this approach, no matter what business he gets into. Other businessmen will never be a success from a customer point of view, no matter

what business they get into. It's an attitude that is often very difficult to acquire.

A bizarre side of empathy, however, is that the more you understand about the customer walking in the door, the more you'd understand that he probably wants to be left alone. There can be nothing more irritating than five or 10 shop assistants, asking, "Can I help you, sir?" Clearly, it requires an element of tuition.

Organizational empathy differs from empathy as practiced by individuals although the latter is a vital competence for customer-facing personnel.

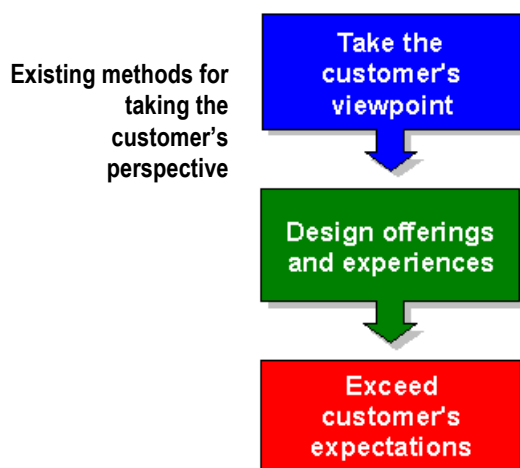
Organizational empathy involves perspective-taking but not necessarily emotion-sensing. It generally occurs in the absence of the customer and can be built into the organization using processes combined with the empathic insights of individual members of the organization.

Individual empathy, on the other hand, involves both perspective-taking and emotion-sensing. It is clearly a person-to-person phenomenon, which happens mostly in the "here-and-now" and obviously requires the customer's presence. It relies heavily on the character of the user and as such is difficult to orchestrate like a process.

### Two phases in organizational empathy

Organizational empathy is different but nevertheless related to a variety of other concepts that in the CRM vocabulary. It differs from customer-centricity, which is a state that can be achieved using organizational empathy as an approach. It is unlike customer relationship management which is an approach to marketing that could easily drive the organization deeper into its own point of view. Customer intelligence differs from organizational empathy in that it is concerned with gathering and analyzing data to help make decisions about how to deal with customers. The data and the decisions that emerge from analysis can be either organization-centric or customer-centric. It is perhaps most closely related to one-to-one marketing that sees all customers as individuals that should receive personalized offerings and experiences. However, unlike one-to-one marketing organizational empathy is focused on both marketing and customer service.

When using organizational empathy to exceed customer expectations, two important phases are needed: first taking the customer's viewpoint, and second designing offerings and experiences. In this paper we will only consider the first phase.



Several tools already exist that can help one take the customer's view. They originate in the disciplines of marketing, consumer behaviour, new consumer thinking and user-centred design.

Marketing as a discipline considers cultural, social, personal and psychological factors

when analyzing consumer markets. Marketing also helps take the customer's view using market segments that group customers by geography, demographic characteristics - like age, life-cycle stage, gender, income, generation, and social class, psychographic characteristics (such as lifestyle, personality & values) and behavioural patterns like - occasions, product usage rate, and loyalty amongst others.

Consumer behaviour is an obviously important component of the overall subject, typically emphasizing the purchasing activity within a combined process and influence model. It generally covers the consumer buying process and attempts to understand how it is influenced by the consumer's personal, psychological and social factors. Indeed, any individual is considerably influenced in his attitudes by three important factors: personal, psychological and social. On the personal side, much will depend on his age and sex, his immediate state of mind, and activities that he may be involved in. Likewise, on the psychological side, his attitudes will depend largely on experience, the way he sees things, motives that he may have, his ability and knowledge, and his personality. Social influences, of course, will include his status and role within his family, peer and/or professional pressure, social class, culture and perhaps even religion or political thinking. These factors, in turn, will have an enormous impact collectively and individually on his choice of products. Experience, for example, will be important in identifying problems; his ability and knowledge will be crucial in understanding the product, evaluating it and considering the alternatives; whether he ultimately buys it or not may be an issue of social preference or prejudice; and whether he appreciates it or not once purchased, will have much to do with his personality.

#### **Limitations of existing methods**

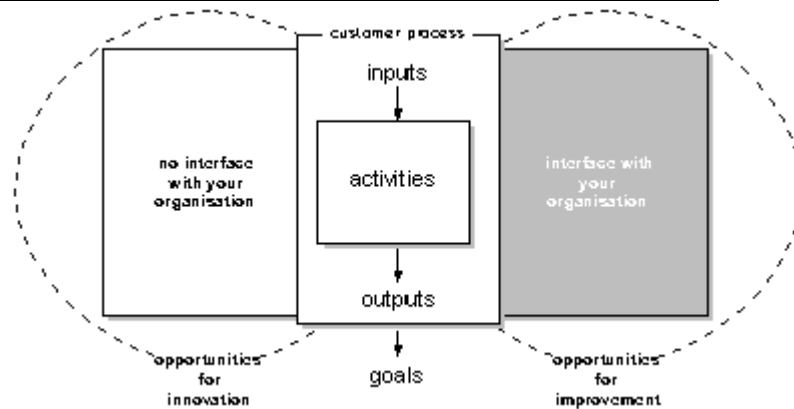
New consumer models include the thinking of Lewis & Bridges and Pine & Gilmore. The former argue that new consumers, unlike old consumers, are individualistic, involved, independent and informed. They actively pursue personal authenticity in their consumer roles and need help to overcome deficiencies in time, attention and trust. In their book *The Experience Economy*, Pine and Gilmore contend that these new consumers want personal transformations - rather than mere products and services - to help them achieve such authenticity.

#### **Using customer process analysis to build organizational empathy**

Some promising tools for taking the customer perspective have arisen in the field of user-centred design (UCD). UCD takes the user's perspective in the design and development of software and other information technologies. Several methods have emerged. Cooperative design involves users of the potential technology in the design of a new system. Soft-systems methodology includes the widest variety of parties involved in the total 'human system' that will need to use the new technology. The 'multiview', approach on the other hand, is a structured methodology for developing information systems that takes users, wider human systems and technical considerations into account, starting with an analysis of the human activities involved.

These tools have an important role to play but they also have gaps and limitations. Marketing tends to entrench the organization's perspective by relating the customer to the organization rather than vice versa. It relies, in places, on the outdated notion that human behaviour is strongly driven by internal forces like personality. Consumer behaviour is purchase-oriented, abstract and generic, and oftentimes removed from the everyday activities of customer lives. New consumer thinking offers valuable insights into customer lifestyle deficiencies, but while authenticity is a useful concept it does not explain all customer behaviour. User-centred design, although in its germinal phases, offers the opportunity to understand practical human activities and the broader systems in which these occur

In an effort to build on to, and fill the gaps left by these perspective-taking tools we have developed a technique called customer process analysis (CPAn). CPAn helps to structure efforts at taking the customer's view by focusing attention on the observable behaviours that constitute much of the customer's experience of his 'consumer world'. It views this behaviour as a type of work made up of many learned, goal-directed processes.



CPAn is underpinned by several principles:

- Start with the customer's goals and work backwards, but remember that the customer is both rational and irrational;
- Focus primarily on objective and readily observable behaviour that is not influenced by the many perceptual filters that people use when they report on the workings of their minds and their own behaviour;
- Thereafter, analyze the customer's subjective experience of their own processes and the products, services and offerings that organizations sell them to help support their processes;
- Also look beyond the immediate moment of truth in which the customer interfaces with the organization, to consumer situations in which there is no interface with your organization;
- Develop hypotheses about the customer's world and confirm these with the customer;
- Create a balance between highly personalized and generic models of customer processes; and,
- Borrow from existing models where appropriate and build on them.

### Identifying the customer

Customer process analysis requires five steps in helping an organization take the view of the customer. These are:

- Define what is meant by the *customer*;
- Determine what the customer's *pertinent goals* are;
- Identify the *activities* that customers use to pursue these goals;
- Identify *inputs* or resources that customers use – or wish they had – to perform the activities; and,
- Develop *marketing hypotheses* for the design process.

The first four steps help to identify opportunities for innovation and improvement. These, however, are not absolute and should be adapted where necessary.

In identifying the organization's customers, it's clearly necessary to focus on the customer's view. However, there is nothing obvious about it, even though it may seem quite simple. Of all the marketing texts we reviewed, we could find no definitive description of what the term actually means.

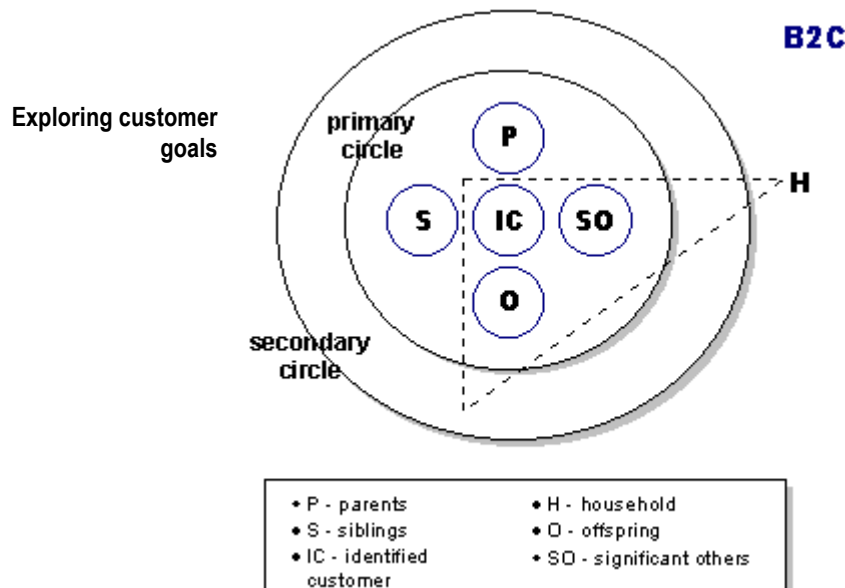
Ironically, the cynic's definition may be the most realistic, if not the most accurate, namely, "the customer is a person identified as such by having his or her name listed in an organization's customer database".

Earlier we pointed to the importance of social factors that influence attitude, and it's here that organizations' can gain a better sense of who the 'customer' is, by analyzing the customer's social network. You can do this on the basis of applying primary and secondary circles. The primary circle, for example, would include the identified customer, parents, siblings, household staff and other individuals heavily engaged in the

household's affairs. The secondary circle covers less salient relationships including those with acquaintances, vendors, institutions and the like.

Each of these groups can play different roles in influencing the identified customer's behaviour.

These could include, say, influencer, proxy salesperson, consumer activist, buyer, decision-maker, authorizer, recipient, payer, messenger and even "The Jones's".



Having identified the customer one can then explore his goals. Once these goals have been identified, you need to establish whether they are explicit and whether, in fact, the customer is conscious of them. And if he is aware of them, does he stick to them? Other important questions to establish are whether the goals are static or changing, and whether they are necessarily logical and rational.

### Clarifying customer activities

You have to be clear here that you're dealing with the customer's goals and not the goals your organization wants him to have. You also need to rate them from most to least important, and from most to least urgent. This will then allow you to segment your customers according to the type and nature of financial goals that they are pursuing.

Certainly, in the context of financial services, customer ambitions may range from the ostentatious to the modest. At the one end of the scale you'll find those people who want to be the richest in the world, or be obscenely rich, or have a net worth of at least \$10 million. At the other end, you'll get those who merely wish to put bread on the table, or have a good time, or put money away for a rainy day.

Between the two, you'll have those who wish to preserve wealth, those who wish to be a millionaire before they're 45, those who wish to be financially independent and retire at 30, those who wish to be financially secure and live in comfort, and those who simply wish to make provision for retirement.

### Understanding the inputs needed

These are the kinds of questions that need to be asked in clarifying the activities customers use to pursue those goals:

- Which activities do you plan and which do you execute?
- How do you feel about these activities?
- Do you have any latent wishes about these activities?
- Have you considered ways to make them more convenient, less time-consuming, less expensive and less complicated?

**Generating hypotheses**

- How much time do these activities consume, can they be completed in a single sitting, or do they stretch out over long periods of time?
- Which people or organizations currently help you with these activities?
- How competent are you at these activities and how much effort did it take to acquire this proficiency?
- Which member(s) of the customer network typically perform these activities, or are they shared?
- How regularly must these activities be performed?
- How do these activities intersect with the processes of one's organization?

Once the customer's activities have been understood, it is worth looking at the resources customers generally need to perform these activities to their satisfaction and that of the vendor organization. For instance, customers using Internet banking may wish to access their account data in a specific personal effectiveness application like Intuit's Quicken product. First National Bank in South Africa clearly used organizational empathy when they chose to provide a "save-as" data export facility enabling their online clients to save their account statements in several formats including ASCII text.

These inputs or resources could include knowledge, information, data, money, time, skills and tools.

**Customer process analysis as input into customer intelligence**

Once all this information has been collated, hypotheses can be generated which can be used in either a focus group with real customers, or, alternatively, used to perform an expeditionary marketing exercise.

Of course, an hypothesis is merely a tentative statement of fact, and can be proved or disproved according to whether the facts support them.

A good example of a hypothesis that emanated out of a recent study on short term insurance in South Africa suggested that people first buy insurance at the behest of their parents. In our focus group, this was confirmed by 90% of our participants.

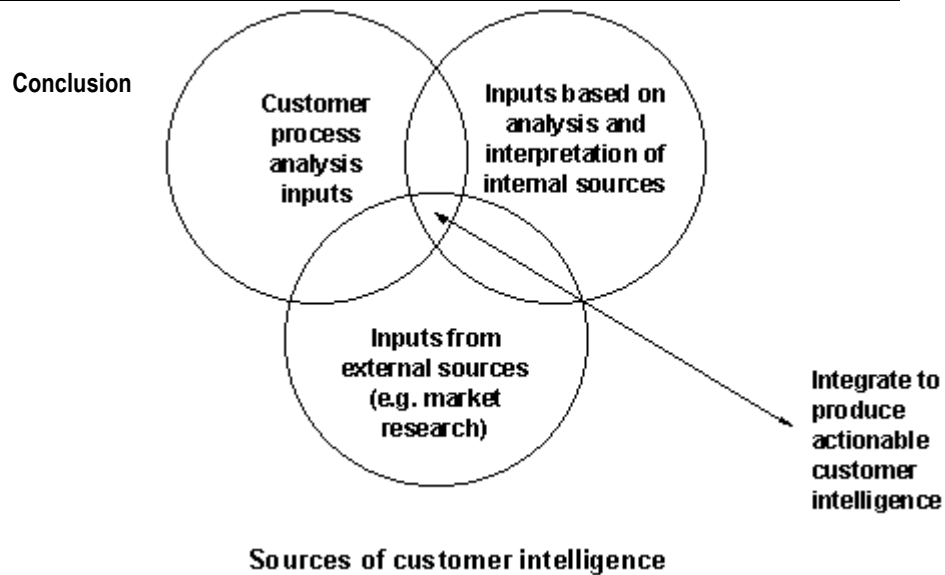
This in turn presented an opportunity for innovation, that parents might be attracted to a risk management package for their teenagers if it were to include advanced driving education, vehicle purchase assistance, and advance household content cover.

Simple data analysis could, of course, identify existing clients who are parents of teenagers.

Customer process analysis does not necessarily create a comprehensive and integrated view of an organization's customers. It provides input from the customer perspective into the organization's overall customer intelligence picture as opposed to the customer intelligence generated from an organizational or external point of view (mainly by analysts and analytical tools).

In essence customer intelligence refers to an ongoing process of collecting, evaluating and interpreting customer information in order to provide actionable intelligence to decision makers in support of the customer management strategy of the company. Having said that, it is evident why organizations struggle to understand their customers – their intelligence picture is incomplete because it is focused on the integration of internal organizational intelligence and market intelligence.

The integrated customer intelligence picture should comprise of the following components:



Thus the real value of customer process analysis can be exploited once the data and information gathered is used as input to a customer intelligence process where organizational and external information is collated and interpreted.

Whatever growth and change occurs in a company or the industry, one thing must always remain constant: the customer and his interests must always be put at the head of the list. And the closer an organization is able to get to the customer, the better it will be able to design its products and retain the loyalty of that customer.