The Near-Perfect Retail Bank

There is no such thing as a “perfect” retail bank. Even top-performing retail banks across the globe do not do everything flawlessly. In fact, the best are constantly challenging their own performance and setting the bar higher.

Yet we are often asked what a perfect retail bank might look like—and we do have an answer. A perfect retail bank would be characterized by superb execution across a broad range of activities and would possess the following attributes:

- A modus operandi of simple, easy, quick in every regard
- A clear identity grounded in customer needs, backed by effective marketing that drives traffic to all channels
- A superior customer experience, anchored by high-performing branches running at full capacity
- A dynamic and efficient sales force
- A highly focused product portfolio
- A seamless, easy-to-navigate multichannel environment
- Automated, image- and workflow-enabled, low-overhead, one-touch operations
- Vigorous risk management
- Performance-oriented leadership that fosters employee pride in the bank’s mission and its ability to deliver value to customers
- A dynamic culture that strives for excellence

Indeed, at a perfect retail bank, customers would feel at home in branches—knowing they could trust the staff to find products that truly fit their needs. The branches would be light and bright, with clear signage. The bank’s staff would greet customers warmly and by name. The Web site would be characterized by simple and easy customer identification and verification, intuitive navigation, easy-to-understand language, and a small number of clicks required to complete a transaction or sale. The call center would be welcoming and efficient. A can-do attitude would permeate the air.

And that attitude would be grounded in fundamentals. Salespeople would be energized by knowing that they were providing value to customers, that each day’s calendar was full of promising appointments, and that the better they did for customers the better they did for themselves. Sales staff would hate to lose business and would know how to deliver in those make-or-break moments with customers. Meaningful leads would come from tellers and other staff who would have their own incentives to keep the river of information flowing. The bank would capture the information that matters so that when that information was collated and synthesized, it would generate sales and service prompts that would be highly relevant to customers and build trust in the institution.

Operationally, a perfect retail bank would be highly automated, minimizing paper and maximizing straight-through processing. One-touch operations would rule the day. Spans of control would be wide, organization structure would be lean, and overhead costs would be low. In fact, the entire organization
would be operating at full capacity, lowering the cost of sales and service—benefits that could then be applied to pricing initiatives, staff incentives, or shareholder returns.

We believe that true success at retail banking is less a matter of business model than it is of getting a sufficient number of things “right” in day-to-day activities. We’re not talking about checklists, but about coherence—seeing the overall puzzle and making sure your pieces fit together. This may sound simple enough, but relatively few banks achieve even half of the necessary imperatives at any point in time. As always, the devil is in the details.

Of course, true perfection—which in theory would be accompanied by consistent growth in both market share and profitability—is a pretty tall order where thousands of employees are concerned. But we do believe that by striving for perfection, a high degree of excellence—near-perfection—can be achieved. Such near-perfection can lead to ongoing competitive advantage in retail banking.

Ultimately, the key question in the industry today is, Which steps can retail banks take now to begin the drive toward near-perfection in the postcrisis era? In our view, these steps are both identifiable and achievable.

Steps to Mastery

Any plan of action in today’s economic climate must acknowledge certain truths. First and foremost is the reality that the retail banking industry is in crisis. The symptoms include a lack of market growth, shrinking revenue pools, uncertain long-term liquidity, huge loan losses, negative customer perceptions, tightening regulation, and sluggish value creation. In addition, interest rates in most countries have dropped to their lowest level in generations.

The above symptoms add up to a stark fact: the economic fundamentals of the banking business are changing. Not only are deposit margins being squeezed by low rates, but the ability of banks to recover is being compromised by hypercompetition for funding and pressure from regulators on fees. As a result, the search for profitability is tilting permanently toward the asset side of the balance sheet. Monolines, unable to fund their assets, are in decline. In the postcrisis era, the survivors will be those banks that generate sufficient margin on their assets to compete for funding aggressively and that treat their balance sheets as a closed-loop system.

Needless to say, the financial crisis brought the issue of risk to the fore. Although we have written extensively about this topic, a few points merit repeating in the present context. First, retail banks possess the information required to execute personalized pricing. It is critical that they make that capability easily deployable on the front line. Second, despite all the discussion about the failure of models in retail banking, credit must be heavily industrialized. But the crisis has emphasized the need for the models to be fed with accurate data. Third, good risk management is also about what is recognized and rewarded: high-quality, compliant sales with an acceptable risk profile. Stretching the boundaries of what constitutes acceptable risk will invariably come back to haunt you.

In Come Out a Winner in Retail Banking (BCG White Paper, September 2009), we outlined a broad strategy for how retail banks can endure the financial crisis, bolster risk management, and emerge from the crisis in a strong competitive position. In this paper, we build on that foundation and explain the steps that retail banks can take to chase that ever-elusive state of perfection. These steps consist of sharpening your identity in the market, streamlining your product portfolio, creating a superior customer experience, driving sales force effectiveness and early-tenure management, developing seamless multichannel pathways, optimizing operations, and organizing for success. Let’s take a closer look at each one.

Sharpen Your Identity in the Market

Relatively few banks clearly communicate their core value proposition both to current customers and to the market at large. Are you a specialist in specific products or channels? Do you possess other particular areas of excellence? Leading banks market their answers to such questions carefully and explicitly. In fact, in our experience, success is less a matter of what the specific value proposition is—for instance, low-price
consumer champion, high-convenience bank, or affluent-customer specialist—than it is one of choosing an identity, sticking with it, and lining up your organization behind it. Although there are a limited number of ways to differentiate your brand, the key is to know your strong point, get behind it 110 percent, and execute flawlessly.

Sharpening your identity requires consistent marketing campaigns that prompt consumers to associate your bank’s name and logos with your value proposition. The goal is to achieve a level of recognition where the brand instantly conveys the concepts of trust and overall quality—much like the immediate association in the consumer mind at the mention of names such as Hermès or Dom Pérignon (at the luxury end) or Wal-Mart (at the low-cost end). Many banks have multiple brands that must be managed carefully to avoid customer confusion.

Retail banks also need to clearly identify the client segments they are pursuing and the thresholds that determine these segments. Segmentation is increasingly about behavior and attitudes. It can include demographics and other variables such as the total number of products a client has with the bank. It is not necessarily about client wealth since a bank’s wealthiest clients are by no means its most profitable.

Of course, client segmentation is powerful only if it both enables effective product development and targeted marketing and sales processes, and leads to improved customer acquisition and retention. Best-practice banks have specific definitions of what constitutes a main banking relationship for a customer. For some, the bank must hold the client’s current account plus a mortgage or savings account. Other banks go further, perceiving only those customers that are tied to the bank in multiple ways—such as through branches, active use of the online channel and call center, checking accounts, and bill payment—as fully committed clients. This is a high standard to meet—and one we endorse.

Best-practice banks also excel at innovative marketing initiatives that target specific customer segments. For example, the lifestyles of working and affluent women, both married and single, have increasingly called for a specialized approach to serving them financially. Yet, relatively few institutions have developed products and services specifically designed for women. Many that have done so—and marketed their offerings—have benefited.1

Both a bank’s identity and its segmentation framework are tied to its core product portfolio, which should be highly focused in every category of offering.

Streamline Your Product Portfolio
Best-practice banks have well-developed and relatively narrow product ranges by category, enabling both frontline and back-office staff to develop deep product knowledge—which helps the bank increase conversion rates. Successful banks also emphasize products that drive growth. They continuously monitor and adjust products throughout their life cycles. Above all, a streamlined, simplified, and highly focused portfolio is mandatory for the products that are on display—in the store window, so to speak—in branches, online, and through the call center.

Developing the most dynamic products depends largely on the accuracy of the bank’s customer insight. Does your bank have specialized teams that develop product strategies for the most profitable segments and subsegments? Such strategies should involve highly targeted value propositions and proactive marketing activities. In our view, product development at its highest level should include the following: rigorous customer insight; qualitative and quantitative research; concept pilot testing, fine-tuning, and validation; business case development; clear internal and external communications; cross-functional involvement; and multiple go-no-go junctures.

To be sure, it is critical that the product development process functions as a funnel not a tunnel, with the number of viable possibilities narrowing as they move through successive stages and filters. Each potential offering should be assessed for strategic fit, alignment with unmet consumer needs, competitive positioning, and projected profitability. For concepts that never reach the market, a “fail quickly, fail cheaply” approach ensures discipline on the number of products that get through to each stage of the development

funnel. Launches must be planned well in advance and clearly communicated both internally and externally, with well-executed marketing campaigns. Postlaunch tracking should assess marketing effectiveness and product viability.

Of course, at this point in the current financial crisis, banks should already be aware that the traditional roles of many products and channels are shifting. That said, a clear set of principles should drive all efforts: better, simpler, cheaper.

Despite the need for a highly streamlined product portfolio, killing off older products that are held by relatively few customers might not always be wise. For example, some pundits might look at a bank’s offerings and conclude that, say, 15 percent of its products generate 50 percent of its revenues. They might therefore suggest that many other products be terminated. Yet before taking such a step, it is critical to isolate the costs of keeping such products alive and weigh those costs against the value of terminating them. In our experience, completely killing off older products—and dismantling the systems that support them—can be very costly, bring just marginal benefits, and potentially trigger customer attrition.

Create a Superior Customer Experience
Most public discontent with the retail banking industry stems from bad customer experiences. For example, in September 2009, a European Commission report fiercely criticized retail banking practices within the 27-nation E.U. bloc. The report, based on an analysis of more than 200 financial institutions representing roughly 80 percent of the market, alleged in essence that many banks try to hide charges from customers by burying them in fine print and confusing lingo that few consumers understand. The report also suggested that many institutions intentionally sell high-margin products to customers for whom the products are not suited. Issues such as these are not limited to the European Union, of course. The global business press is often full of stories about the service mentality in the retail banking industry, widely characterized as offhand at best and surly at worst.

What can retail banks do in the face of such scathing commentary? They can first embrace a philosophy of full transparency and market that transparency as a differentiating feature. Taking this bold step will add far more to the long-term bottom line—both by attracting new customers and by retaining old ones—than might have been gained by any opaque fee structure or by selling clients on products that are not a proper fit.

Improving the customer experience also means making an engaging physical impression: bright, clear branch layouts; friendly and knowledgeable greeters who direct customers to just the right place or person; customer-friendly open hours; and short lines through active queue combing (that is, pulling customers from the line to handle product-specific requests). Service should be efficient, with structured, fully standardized processes reflecting revenue potential and cost to serve.

How does one learn how to welcome and treat a customer? One retail bank we know had its employees train for a day with Ritz-Carlton’s concierge service. Ritz-Carlton’s philosophy holds that although the company is in the business of selling hotel rooms, food, and beverages, these things are incidental to the core product, which is service. That means smiles; a cheerful willingness to go out of one’s way to help; accountability for remembering customers’ names, profiles, and preferences; and the professional knowledge to follow through and accomplish the mission of the moment. Retail banking staff should try to emulate the Ritz-Carlton approach and focus as much on tone as on process. Service innovation should be encouraged, recognized, and rewarded.

Above all, it is the core, high-value, high-frequency products that form the crux of the customer relationship—such as checking, savings, and card accounts—that banks need to get right. But relatively few do. Moreover, because there are always “pain points” or moments of truth in the minds of customers that determine whether they will buy a certain product or even switch institutions, retail banks must reach out to customers and obtain candid assessments of their performance. Such initiatives can include interviews and focus groups, workshops conducted on a regular basis, and more quantitative approaches to test the sensitivity of customers to changes in the bank’s performance.

Examples of areas in which banks repeatedly come up short in the minds of customers are improving branch service that is unfriendly and inefficient, blocking and reissuing a lost or stolen credit card, and fixing complaints processes that are ineffective and involve multiple handoffs. For example, when a customer phones the call center with a problem, he or she wants, first, to get through to a human being in short order and, second, to have the problem resolved at the first point of contact. Few banks achieve this level of service on a consistent basis. Fixing problems such as these will bring more value to banks—and to their customers—than laboring over marketing or sales campaigns designed to “wow” the customer. Remember that although most people tolerate bad service from their banks up to a point, they rarely hesitate to share unpleasant experiences with friends and family. Fortunately, many people share positive banking experiences as well. The goal is to minimize the number of detractors and maximize the number of advocates.

**Drive Sales Force Effectiveness and Early-Tenure Management**

Driving sales force effectiveness is not just about maximizing sales per se. It is about maximizing effective and efficient sales that “stick.” Products that work both for the customer and for the bank lay the groundwork for deep, long-term relationships. And like just about any kind of relationship, the first year—especially the first month—is critical.

Best-practice banks have sales staff whose calendars are filled with high-quality contacts. They have growth-oriented, well-planned sales campaigns that manage to find the right frequency and avoid overload. They prompt customers intelligently and in a timely manner on products that fit ever-changing customer profiles. In this area alone, there is a massive gulf between the best retail banks and most institutions. A handful of banks globally deliver prompts that are 80 percent relevant—meaning that the customer is likely to react positively. Most institutions operate at half that level or worse. Best-practice banks also have high conversion rates and adopt rigorous early-tenure management programs to solidify the client relationship once it has begun.

Much of the process starts with effective lead generation. In our view, lead generation has four principal elements, which are supported by standardized sales processes, efficient sales tools, and vigorous follow-up. These elements are continuous and on-the-job sales training for service staff; appropriate incentives, with referrals from service staff rewarded according to quality; computerized prompts in customer interface programs that mandate action; and greeters/navigators who direct sales inquiries to the right place to minimize queue time.

Also critical are aggressive but realistic sales targets that are aligned throughout the organization and backed up by incentives. Staff needs to deeply understand the elements of each step in the sales process. Pricing discretion must be kept to a minimum to avoid some sales staff giving discounts to their own key clients, which can hurt the bottom line and set damaging precedents. The bank must foster a culture that is highly geared toward sales, retain top sellers, recruit aggressively, and put rigorous training and development programs in place. And all this must be accomplished amid a general policy of high transparency, with sales personnel recommending products that are truly a good fit for the customer.

The conversion process starts at day one and ends a year later. Day one includes the following elements:

- Effective use of greeters in the sales process
- Efficient capturing of information, including an “ask once” policy that prevents customers from having to give basic information repeatedly
- Physical branch formats that are geared to sales, with private areas available to help with account opening—a time when customer needs must be systematically assessed; hard cross-selling efforts should be scrupulously avoided at this stage
- Compelling, simple documentation provided at sale, including a clear, professional account-opening guidebook and a lucid explanation of which documents are required to fulfill the bank’s needs
Detailed explanation of the channel setup, including potential hands-on demonstrations of Web site navigation

Clear description of all fees and charges; the concept of full transparency must be driven home at first contact

During the first month of the relationship, the bank should go into high gear on early-tenure management, staying in close touch with the customer to ensure that he or she is truly on board. When an account is opened at a branch, it should be instantly functional, with cards issued on the spot. Personal identification numbers and checkbooks should follow within 24 hours, and potential loans should be available immediately. The first use of all account facilities should be flawless.

But it’s not just the mechanics that count. Personal thank-you notes—especially hand-written ones—to customers who have opened accounts can have a greater effect than one might think on building a foundation for a sturdy relationship. The bank should make a firm commitment to avoid errors, follow up immediately with the client to explain any delays in initial processing, and make the client feel valued.

From the end of the first month, the bank should focus on maintaining the established high level of early-tenure management and service, as well as concentrate on targeted cross-selling opportunities tailored to customer segments. The client’s channel of choice should be used for follow-up contact. Personalized offers should be made on the homepage of the customer’s online banking view. In addition, the client’s short-, medium-, and long-term revenue potential should be estimated based on early behaviors. Sales force incentives for growing the client’s business over time should be established.

Obviously, another critical element of sales force success is key performance indicators (for instance, key sales figures), which should be available daily, with full management reporting provided monthly. Incentives should be aligned with these metrics, as well as with broader bank targets and objectives, and should be managed centrally.

Develop Seamless Multichannel Pathways

Let’s consider an example. A customer begins a mortgage inquiry online but, after getting basic information, wants some additional details. So she phones the call center. The person who takes her call, unaware of her online inquiry, is unable to provide any of the desired detail. So the customer calls her relationship manager at the local branch, and the story is the same—the relationship manager has no clue about the customer’s prior interactions.

The point is that all channels should be seamlessly connected so that each is aware of what has already transpired at the others and so that customers never need to repeat themselves or resubmit information they have already given. Banks want to be able to do this, but very few actually can. Clearly, superior multichannel integration requires better identification and conversion of customer leads that originate online. What is more, in a successful multichannel environment, a bank supports logical consumer pathways and typical interactions. The online offering is simple, easy to understand, and easy to navigate. Functionality and processes allow for simple product sales and convenient service. Thorough integration allows for a seamless service experience along the branch, Web site, and call center.

Some industry observers argue that in a multichannel environment, every channel must be all things to all people all the time. By contrast, we put the emphasis on the natural customer pathways to transaction completion and problem resolution. Let’s use the call center again as an example. If a customer uses the call center for an inquiry, he or she would probably expect to be able to arrange paying off a credit card balance with the person who answers the phone. But the same customer would not necessarily expect call center personnel to be able to resolve problems concerning a mortgage or an investment portfolio without a handoff—most likely to a branch-based specialist. Banks that attempt to resolve all problems at every contact point often miss the point that many customers, for certain needs, want and are comforted by face-to-face time with a product specialist.

Another common view of multichannel effectiveness is that banks are always better off pushing a maximum amount of activity to the online channel. The more commerce that takes place online, so the
argument goes, the fewer personnel needed in branches and call centers, and thus the lower the bank’s cost structure. Again, we differ with that view. Not all channels are perfect substitutes, from either the customer’s or the bank’s viewpoint. First, customers do value face-to-face (or voice-to-voice) contact and personalized advice. Second, if a bank forces products to the Internet, the offerings will necessarily need to be simple—and not require any advice—so that customers can research and purchase them with a few clicks. But such simplified products typically bring low margins. The point is that each channel has its role and should focus on what it does best. There is a place for simplified, low-margin online offerings, as well as for more sophisticated products that require consultation with a specialist.

Branches are, of course, the anchor channel since physical presence still drives both new and old business. Our proprietary research shows a very strong relationship between market share in transaction banking and the physical proximity of branches to where the customer lives. A similar relationship exists for savings products, but there is a weaker one for mortgage offerings, for which consumers show a greater willingness to travel.

When it comes to future channel trends, it seems likely that by 2011 branch and telephone banking are likely to lose some share to remote channels, with high variation by product. ATMs and mobile banking will gain functionality and usage but will continue to trail other channels. Also, the number of channels used by the average retail-banking customer is likely to rise.

Optimize Operations
In best-practice retail banks, all processing is carried out in specialized, lean operational units that are managed for quality, speed, and cost. Inputs are all image- and work-flow enabled, with minimal movement of paper. Proprietary channel inputs are done with electronic straight-through processing, and turnaround times are minimized. Overhead is kept as low as possible. Operational capacity—including the sales force—is used to the fullest. It’s safe to say that with more than 50,000 employees working at the largest retail banks, profitability is a taller challenge if employees are not busy all day generating revenue either directly or indirectly.

Best-practice banks apply numerous design principles to optimize end-to-end operations.

These principles include the following:

- Customer-centricity that fosters long-term relationships and puts the client’s point of view first
- Efficient, one-time data capture with electronic handoffs to the back office and skill-based routing to resolve issues effectively
- Automated decision making at the point of presence, using portfolio- and risk-based pricing
- Sufficient scale through standardization, with minimal exceptions allowed
- Centralized common activities across products and channels that also boost scale
- Simplified interactions that mask operational complexity from customers
- Channel- and location-agnostic processing that treats interactions with all channels and locations in the same way

Obviously, the idea is not for the bank to be a machine—akin to mice running around in a wheel going nowhere. Each task must have tangible meaning and value. And face-to-face customer interaction is paramount.

Organize for Success
Top retail banks also excel at organization. They possess strong leadership and have an ingrained performance and sales culture that features a high degree of single-point accountability.
These banks are also characterized by fairly wide spans of control (greater than eight) and a relatively small number of organizational layers (fewer than seven). They have clear definitions of how sales agents, product specialists, and channel owners should interact. They avoid pointless internecine battles between staff people overseeing specific client segments and those overseeing product development and distribution. They foster smooth internal collaboration and easy client handoffs.

Above all, for a retail bank to be truly organized for success, employees must be engaged. They must believe in the institution’s core value proposition and its products. If they do not, they will not be effective sellers. To use the call center again as an example, it’s important to note that taking care of the customer is not about getting off the phone as soon as possible in order to lift efficiency figures. It is about treating the customer right—the way any bank staffer would want to be treated himself or herself—and getting the job done.

Obviously, this sort of engagement does not happen on its own or overnight. It takes sound management that shows employees that they are truly valued. It takes rewarding excellent performance not just with monetary bonuses but with recognition within the company—the kind that motivates every bit as much as, and sometimes more than, financial reward. Such recognition—along with clear expectations and high-quality feedback both on what has been achieved and how it has been achieved—is the key to performance-oriented leadership that produces truly committed employees and excellent results.

At the end of the day, senior management should not want a culture that forces employees to grudgingly comply with what they are asked to do. Moreover, although proper training is obviously critical, management should not need a complicated “bible” that explains every procedure that employees must follow by rote. If both senior and line managers clearly communicate the way things work and the kind of people they are looking for—meaning those who really know the banking business, their own individual roles, and the way that customers should be treated—much of the angst that characterizes many low-performing institutions either never materializes or fades away.

**Practice Makes Nearly Perfect**

With the financial services industry undergoing dramatic shifts, retail banks must take bold steps to both attain and maintain competitive advantage. Those that act along the lines of best-practice banks, as outlined above, have a far greater chance of establishing dominance in their markets than those banks that sit back and take a wait-and-see approach.

Indeed, by taking rapid action, banks can create a virtuous circle. Excellent customer service creates positive word-of-mouth referrals—which, along with clear marketing messages, drives consumer traffic to branches, the Web site, and the call center. This traffic drives leads, sales, cross-selling, and client loyalty—which in turn feed back into more positive customer reviews and higher traffic. That’s something like perfection.

Of course, the concept of perfection will always be open to interpretation in any discipline—not just retail banking. A professional sports franchise can win a dominating victory, shutting out its opponent, but its coach will rail on afterward about all the mistakes that the team made. A symphony orchestra might not miss a note in an hour-long performance, but some critics will complain about a lack of feeling. A book can be a runaway best seller, but some readers will hate it.

In banking, things are arguably simpler. Excellence is about getting more things right than wrong—hopefully a lot more—in day-to-day activities. True perfection, however you define it, may not be attainable, but those banks that make a commitment to transform themselves can get very near to the ideal.
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The authors would like to thank Philip Crawford for his editorial guidance during the preparation of this paper, as well as other members of the editorial and production teams, including Katherine Andrews and Kim Friedman.

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11/09