Financial Services Technology Is Not Supporting Traditional Brand Values

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TowerGroup Take-Aways

- The market's perception of European financial services providers has been severely degraded through 15 years of technology implementations that have had little regard for preserving or enhancing the provider's brand.
- Information technology (IT) departments do not currently support the brand initiatives of European financial services institutions (FSIs), but IT projects often influence customers' perceptions of the FSIs.
- As the value of brand marketing increases and technology facilitates outsourcing and business process outsourcing (BPO), banks will perform fewer of their operations in-house but will increase the importance of brand management.
- Banks have lost their monopoly position as financial product providers, and IT has facilitated this trend causing by the commoditization of countless financial products.
- An FSI's IT department needs to add to its list of criteria for selecting software and operations technology the effect that new technology may have on the FSI's brand, so that it supports and does not degrade the firm's brand image.

Report Coverage

There was a time when the financial services industry appeared above reproach. A solid brand connoted trust, intellect, security, and longevity. People trusted their banks, and banks would go out of their way to service their customers. With the advent of technology, banks are distancing themselves from the customer, confusing the customer with a mixed message. It is possible to introduce technology while still supporting brand values, however. This TowerGroup Research Report illustrates the problems that technology has introduced into brand management initiatives and provides some guidance for leveraging technology while maintaining the hard-won brand image.

IT Support for Branding Initiatives

"We make money the old fashioned way: We *earn* it," stated a famous Smith Barney commercial a couple of decades ago. That was a time when a one-to-one relationship between the client and a relationship manager was the norm in a financial services institution (FSI). Today, that sort of relationship is the exception, not the rule. Technology is responsible for the change.

Leslie de Chernatony, Professor of Brand Marketing at the Birmingham Business School in the United Kingdom, defines branding in the financial services industry as a "multidimensional construct involving the blending of functional and emotional values to match consumers' performance and psychosocial needs." Although supporting brand initiatives is increasingly important in a highly competitive market of similar offerings, in many banks there is a disconnection between the information technology (IT) department's approach and that of the banks' strategists. IT departments typically have a culture based on objective analytical processes and avoid subjective analysis as matter of principle, whereas branding initiatives are based almost exclusively on subjective analysis. As a result of this contrast, tactics of the IT department may inadvertently contradict the overall brand strategy of the firms they support.

Typically, there is a discontinuity in the perceptions of branding in various areas of an organization, as illustrated by Exhibit 1, which summarizes the findings of a telephone survey TowerGroup conducted among financial services institutions. When asked how important the emotional perception of brand is in determining a customer's buying decision, only 15% of respondents in IT departments said that perception of brand factors into the purchasing decision, whereas 98% of the brand managers said it does. The wide gap in opinion between the IT department and line-of-business (LOB) heads causes problems because it is these two groups that are largely responsible for how customers interact with the bank, especially in this era of technology-based distribution channels.

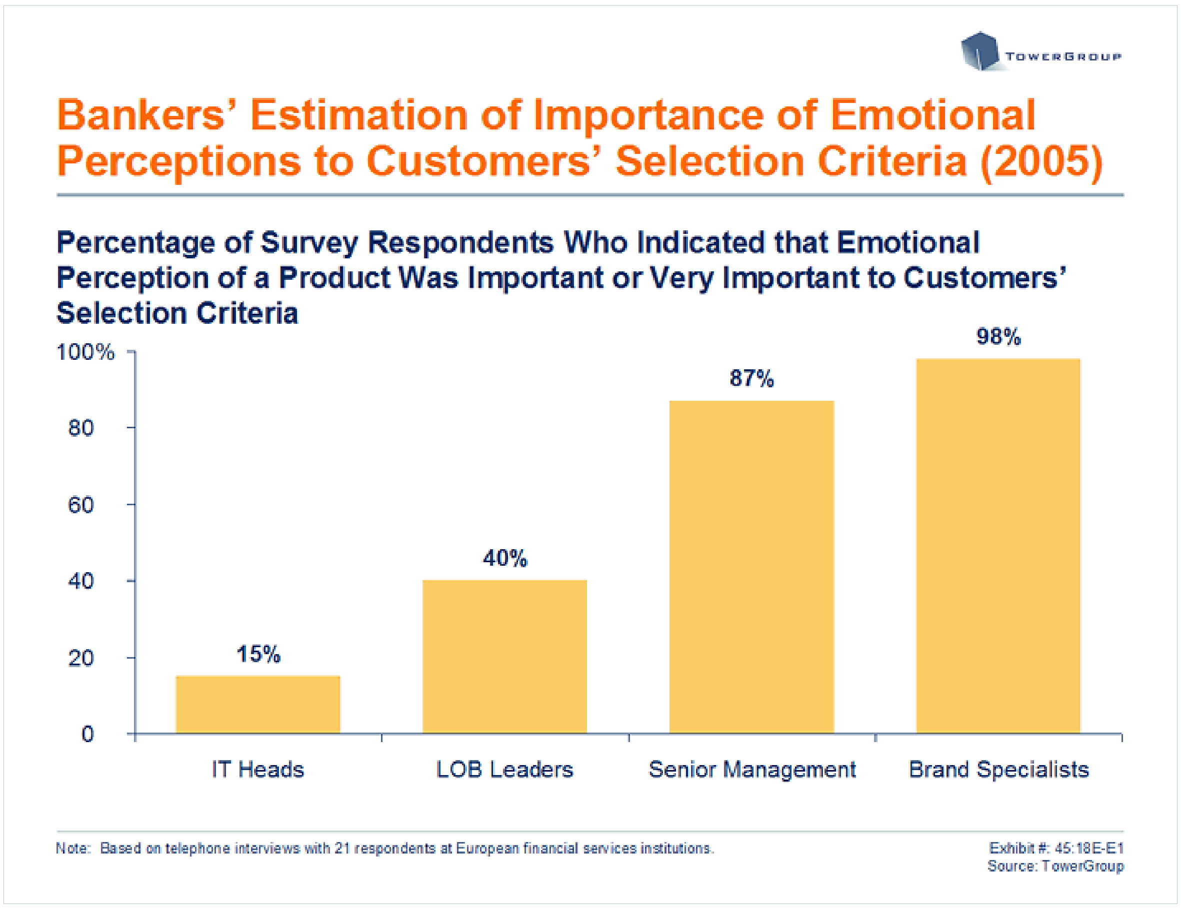

Exhibit 1
Bankers' Estimation of Importance of Emotional Perceptions to Customers' Selection Criteria (2005)
Source: TowerGroup

Brand Importance

Financial services is following the lead of manufacturing organizations around the world by concentrating more on managing clients than on creating and maintaining the infrastructure. This trend is illustrated by the growth of the European business process outsourcing (BPO) industry, which TowerGroup estimates will grow from EUR13.1 billion this year to about EUR21.5 billion in 2008. A similarly impressive growth can be expected in the European outsourcing market, which TowerGroup estimates will increase from EUR9.5 billion today to EUR12.8 billion in 2008.

TowerGroup expects the evolution of the European universal bank to follow the course that the US automotive industry followed almost a century ago. The Ford Motor Co.'s River Rouge plant in Dearborn, Michigan, produced the very successful Model A Ford in 1927, at its peak producing one car every 49 seconds. The current model of the financial services industry in Europe is analogous to that of the River Rouge plant at the pinnacle of in-house production of automobiles. With 100,000 employees working in 16 million square feet of floor space, the plant had its own steel mill, tire manufacture, glass production plant, plastics (derived from soybeans) production, paper mill, power plant, and of course the auto assembly line. To support all this, Ford had its own iron mines, limestone quarries, coal mines, rubber plantation in Brazil, and large forest as well as a railroad and ships for transport. All of this was put in place on the belief that owning the whole supply chain reduced risk and increased profit margins.

The financial services industry in Europe still follows the principles exemplified by the early River Rouge plant, although modern manufacturing has moved away from this model. While it still has an assembly line on the River Rouge site, Ford itself owns just a fraction of the supply chain today. Ford's most important function now is management of its brand, currently valued at more than $13 billion (USD). TowerGroup believes that European financial services will evolve in the same way.

As Exhibit 2 illustrates, financial services providers are taking an increasingly prominent position in the list of global brands. In fact, nine financial services providers are now listed among the top 100 global brands by value. This is an indication that brand and brand management are becoming an integral part of the long-term strategy in the financial services industry.

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Global Brand Value Is Strong and Growing (2004–05)

Selected Brands Listed in Top 100 Global Brands 2005 (USD in Billions)

Rank (2004)	Rank (2005)	Brand	Brand Value
1	1	Coca-Cola	$68
13	12	citi	$20
14	14	American Express	$19
26	25	Merrill Lynch	$12
33	29	HSBC	$10.4
27	33	Morgan Stanley	$9.8
30	34	JPMorgan	$9.5
37	37	Goldman Sachs	$8.5
45	44	UBS	$7.6
88	87	ING	$3.2

Exhibit #: 45:18E-E2
Source: BusinessWeek

Exhibit 2
Global Brand Value Is Strong and Growing (2004-05)
Source: BusinessWeek

Brand management is becoming more important for traditional financial services institutions as the competition from nontraditional providers of financial services such as car companies, mobile phone operators, consumer electronics vendors, and retailers grows. These competitors are leveraging their customers' loyalty and their brand recognition to expand into financial services. Technology has lowered the barriers to entry for nontraditional providers, and the resulting proliferation of choices for consumers makes product differentiation difficult. With this onslaught of competitors, it is more important than ever for a bank to exploit the virtues of its financial services brand. To do so, all aspects of the firm must support the same vision. Unfortunately, in many European FSIs, senior management's vision of customer-centric operations is not shared by the IT department, which focuses on reducing costs and implementing additional technologies for customer self-service.

Brand Contradictions

Financial services institutions in Europe have had considerable time, nearly 600 years, to develop their brand identity, and the brand values they promote today differ little from the values they promoted back in the 1400s. According to TowerGroup research, as Exhibit 3 illustrates, the words that customers use to describe the financial services provider could have been used centuries ago. Safe, reliable, conservative, intelligent, and so on are all adjectives associated with traditional values that modern-day branding initiatives continue to support. These brand associations are sacred to branding in financial services, and through a long history banks have been able to establish these perceptions in their customers with very little effort. Today, however, the perceptions of banks are being clouded by the contradictions of technology. Since most of a client's interactions are through an ATM or Web browser, it is not possible to avoid the perceptions associated with technology. As a result, the positive perceptions of financial services are being degraded by the largely negative perceptions of technology.

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Financial Services Brand Values and Customers' Perceptions of Technology Contradict Each Other

Perceptions of Financial Services	Perceptions of Technology
Safe and secure	Insecure
Reliable and trustworthy	Unreliable and problematic
Conservative and risk averse	Progressive and experimental
Intelligent	Stupid and childlike
Old and established	Modern
Accountable to customers	Lacking accountability
Bold offices	Vaporware
Slow and methodical	Fast
Paperwork intensive	Paperless
Human	Humanless

Exhibit #: 45:18E-E3
Source: TowerGroup

Exhibit 3
Financial Services Brand Values and Customers' Perceptions of Technology Contradict Each Other
Source: TowerGroup

This conflict is confusing customers. Consumers question the security of channels even though they fundamentally trust the security of the bank. They question the reliability of their PCs, even though they trust the bank. We are beginning to see "value seepage," where the values associated with the technology-based channel begin to affect the customer's perception of the bank.

Use of technology does not have to damage brand. In fact, several organizations have built new brands based on the technology used to support operations. In Canada, ING Direct launched its first virtual bank in 1997. The bank used an advertising campaign designed by GWP Brand Engineering to emphasize empowerment. The campaign, "Save Your Money," addressed the frustration that consumers had with the five major banks in Canada. ING did not have a substantial branch presence and therefore had very little to lose in allowing its IT department to lead brand development.

Another example of leveraging technology to avoid brand value seepage is Y'ello Bank, a separate brand developed as a joint venture between Standard Bank and MTN, a large mobile phone operator. The new brand targets the unbanked segment of the population of South Africa and Nigeria. This partnership will leverage the benefits of mobile branding without degrading the Standard Bank image.

Although technology and financial services complement each other on the operational level, they often contradict each other at the brand level. With the increased importance of brand, this problem will only intensify and must be overcome.

Effects of Technology on Brand

Brand Loyalty vs. Commodification of Financial Services

The proliferation of technology in the European financial services industry has fostered a perception of commoditization for many core financial services offerings. Customers perceive different brand offerings to be similar regardless of financial institutions' brand campaigns to reverse this trend. When customers believe that products are not differentiated based on function, they begin to make buying decisions based on price alone.

To take advantage of lower prices, customers open new financial services accounts outside their primary bank. They feel that the added effort of maintaining a second or third financial relationship is minimal since most of the commodity products are delivered through electronic means or call centers. Technology has created this perception.

Fortunately for financial services providers, brand loyalty is still potent. If all service aspects are similar, customers still demonstrate a bias toward large, well-established brands. As investors began to reenter the equity market after 2003, for example, they had to decide whether to continue their broker relationships or open new accounts with alternative providers. TowerGroup observed that price per transaction remained important but was not the determining factor in consumers' selection of a financial services provider. A large proportion of clients maintained trading relationships with universal banks even though the banks typically had a transaction cost 10% higher than specialist providers' costs. Depending on which European country was observed, 8% to 20% more clients elected to return to the markets as clients of a universal bank than as clients of specialist firms that offered lower prices than the bank. Why? Because they wanted a relationship that more closely adheres to the values of traditional investing.

Alternative Providers

Perceptions of financial services have also changed. In an informal survey undertaken by the author in 1990, when average consumers in Europe were asked, "Where can you get financial products?" they answered only "Banks" 99% of the time. Today, only half the people answer "Banks" exclusively; the rest add at least one other industry to their response.

Financial services institutions no longer hold a monopoly on providing financial products. Technology has blurred the definition of financial services provider. Today, European retailers such as Tesco, Sainsbury's, and Virgin provide a deep portfolio of financial products to their customers; and car companies such as BMW and Volkswagen are developing large and profitable banking operations. In fact, Volkswagen is Europe's 84th largest bank, with more than EUR29 billion under management. Mobile phone companies such as Vodafone and T-Mobile are also moving into the market and anticipate success by capitalizing on their utility brands.

Nontraditional providers are building on their branding investments to attract additional share of wallet. They are able to do so because barriers to entry have fallen drastically. Today, several large vendors have "bank in a box" solutions that most companies can purchase and install at relatively low operational cost. And with rudimentary banking licenses, they are able to provide commodity products at fairly low cost.

Poor Brand Management

Brand management is often considered an outward-facing discipline concerned with communicating with clients and prospects. Many companies overlook or underestimate the internal aspects of brand management. In fact, much of the work of brand management is internal to the organization in such areas as human resource policies, training, staff motivation, knowledge management, business processes, communication systems, and of course the technology used. While brand management has made great strides in most areas of the financial services firm, technology and operations departments have not followed suit, and today they represent the weakest links in the brand management programs of European banks.

An example of poor judgment by technology departments is the notion of self-directed channels. IT departments commonly believe that the more customers interact with the bank through self-service channels, the better the bank's performance. Although it is true that operational costs spiral downward as customers adopt self-service channels, self-service works contrary to basic financial services brand principles and thus hampers the loyalty that customers have to their banks. Banks thus attain the lower operational costs at the cost of drastically reduced client retention levels, which results in an overall lower profit per client.

Another example of poor brand management has been the proliferation of customer relationship management (CRM) initiatives in Europe, most of which were managed by a single line of business or a technology department. Without exception, CRM tools were introduced with the prospect of offering better information to the client, which largely they didn't. There are simply no examples of CRM tools improving the capabilities of relationship managers. Had brand-aware managers been responsible, they would have insisted that CRM be a tool to support the brand image of the bank and thus serve the needs of the employees that serve clients as well as a means to interact with the customers themselves.

IT departments have had a limited role in the brand management efforts of a European financial services firm, but this must change over the coming years. In order for IT departments to play a bigger role, they must modify their culture to accept the intangible aspects of any brand effort. They must begin with project decisioning.

The top factors in adoption of a new technology or process are cost, functionality, performance, flexibility, compatibility with legacy systems, vendor reputation, support, and references. These are all important and reasonable criteria for selection. What is lacking is any criterion that poses the question of the technology's potential effect on the financial institution's brand. While not all applications or processes affect the brand, most do. The effects on brand should be considered for any application or process that:

- Affects customers directly (Web services, ATMs, statements)
- Affects people who deal with customers (teller systems or information repositories)
- Affects a product or service (a change in product function or features)

These considerations need to be filtered through a brand criterion before an FSI chooses a technology.

Summary

The preponderance of self-directed financial services channels has revolutionized consumers' perception of the financial services industry. Consumers now see banks as purveyors of undifferentiated commodities and can easily choose products from alternative financial services providers based on price. Fortunately, brand loyalty is still strong. Nonetheless, while technology has modernized the financial services industry in the past 10 years, it has also created a serious effect that will jeopardize the long-term viability of an industry as old as the modern age. This trend can be reversed if IT departments make the financial services providers' brand an important criterion in their decisions.