1 TRADING PLACES

What banks can learn from retailers, and vice versa

Nick Harrison and Sumit Sahni

What do banks and retailers have in common? For decades, both relied on rolling out new branches and stores and merging with competitors to improve their economics and prospects. Today, the rollout game is over in most markets, but both businesses now find themselves fighting off potentially disruptive new entrants, such as peer-to-peer lenders and online grocers.

In this cutthroat environment, advantage *can* be gained by simply executing better than competitors. But many of the biggest opportunities for differentiation will come from exploiting competitors' blind spots by using tactics from a different industry – one that is already setting a new standard for customers' expectations.

Take banks, for example. Our research shows that most customers perceive that all banks have similar services and offer less value for their money than they can find at a local grocery store, like Kaufland or Trader Joe's. That's because, unlike retailers, banks never developed a keen fear of losing customers. They didn't need to. Customers rarely switched banks. So banks grew profits by expanding the number of ways that they could extract value from customers instead of striving to offer them the best possible proposition.

CUSTOMER SATISFACTION LANDSCAPE
THE AVERAGE CUSTOMER FEELS THEIR LOCAL GROCERY STORE IS MORE SATISFYING THAN THEIR RETAIL BANK

Grocery Retailer
Retail Bank current account

Source: Oliver Wyman analysis.

3 KEY QUESTIONS FOR EXECUTIVES

1. What zone is your business in?
2. What zone do you want to be in?
3. How do you get there: what can you learn from other winners, regardless of their industry?

But what if banks behaved more like retailers that can lose a customer at the drop of a hat? What if they began to obsess about customer behaviors and preferences in the same way that a retailer does, eliminating hassles and discovering new ways to make them happy?

It would make a difference. As regulators make it easier for customers to switch banks and more non-financial services firms emerge as rivals, banks, like retailers, must continually improve their customer proposition by looking across sectors and geographies in order to stand out from the pack.

Banks should also take a leaf out of retailers' playbooks and focus much more ruthlessly on cutting costs that do not provide direct customer benefits. Otherwise, they will leave themselves vulnerable to new competitors by underserving some customer segments. Banks are good at designing products that address customers' financial health needs, but they often overlook chances to reach new customers by lowering the cost of their services.

By the same token, retailers can learn a lot from some of the tactics that banks have been using for years. A traditional retail model may serve customers well, but individual consumers are anonymous to the retailer. They come into the store, they buy the product, and they leave. The retailer doesn't know "who they are" and doesn't follow their behavior over long periods of time.

Banks, by contrast, have been taking a "lifetime" view of customers for years, offering products tailored to different life stages as a matter of course. They use sophisticated methods for understanding different types of customers and anticipate how their needs change over time.

Retailers should take note and figure out how to apply these tactics to their businesses. Technological advances in the collection and understanding of customer data are enabling retailers to target offers, products, and services customer by customer. But this is not enough. To thrive, retailers need to develop the ability to also take a "lifetime" view of their customers, and serve them in an even more personalized way.

For example, a food retailer with a multi-year perspective on the changing needs of a young family could offer a loyalty card with discounts on products that shift over time from diapers and baby food to breakfast cereal. A food management app could also help by suggesting menus within a set budget as options befitting their children's ages as they change over time. Years later, this offer could switch again to services such as blood tests and other health screenings conducted in a private kiosk that is automated to upload the data to a doctor. Again, this data could then be linked to a different range of suggested dietary and menu options based on a customer's specific needs.

By challenging their industries' traditional strategies and capabilities, banks and retailers can improve their customer proposition – a crucial upgrade in a world ruled by the empowered customer. If they don't, then their once-captive customers will start acting on their newly available choices – moving to online pure-play retailers to payments providers to peer-to-peer lenders. There is no time to waste.

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