Banking Channel Management – Global Trends and Strategies

by

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Submitted to the Alfred P. Sloan School of Management
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ABSTRACT

Banking channel management has become a crucial component in the drive for improved efficiency. Since the channel is the interlocutor between customers and products, banks are leveraging their knowledge of channels to efficiently address perfect product portfolio through the most cost-effective and profitable channel.

This thesis describes some ideas currently influencing banking channel management strategy and how banks can manage and take advantage of these factors through focusing on efficiency, customer segmentation and channel interaction versus cost structure.

It first provides a global perspective of the banking industry through a survey of four regions and countries, and then reviews current trends and strategies applied by banks and consulting firms. On this foundation, it makes recommendations as to how the industry can best adapt to changes in banking channel management in order to remain competitive and efficient.

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1. Introduction

The financial services industry has been facing a dynamic change in channel-offering opportunities as a result of an increasing number of new channels, a change in customers' preferences and the redefinition of traditional roles. Banks are changing their strategies and trying to reach the optimal cost structure, added value and customer satisfaction. This thesis aims to capture these dynamic trends in four very different countries and regions: Brazil, the United States of America, Japan and Scandinavia, analyzing the environmental factors in markets that influence the channel management decision and concluding with some strategies practiced by banks and other non-financial institutions that could leverage the bank performance under the channel management perspective.

During the 1980s, the financial industry faced a boost of mainframe applications that not only centralized several internal banking industry processes but also restricted the spread of corporate development. During the 1990s, the technology shifted to an internal client-driven design. Applications were decentralized and, information downsized. This meant that employees had access to more information and greater resources, which allowed them the freedom to develop local and customized solutions. In the twenty-first century, banks are changing their application focus to final customer-centered strategy, offering resources such as remote channels, which can be operated by customers, giving them a personal experience that allows them to process products and services themselves.

The traditional branch offices used by banks as a gateway for all financial services have changed their focus. They are being replaced by new channels that take financial services to where customers are, serving them when they want with necessary levels of
interaction.

As we are going to demonstrate in this research, the role of channel management varies by region. Environment inferences require the channels to be adapted to local customs and preferences. Moreover, local banks have different goals, target markets and budget constraints that should be matched in order to draw the perfect channel management strategy.

In our review of banking market environments, we will see that important new banking trends are influencing channel decisions, especially the factors mentioned below (Earley[11] - Gartner Group):

- Market segmentation and the challenge of defining lucrative customer niches related to ideal channel utilization;
- The increasing customization of products and services and its consequences in channel customization and customer interaction;
- The evolving of new channels such as Internet banking and web phone and their needs of platform integration and aligned channel development;
- The continuing cost-conscious attitude that is driving banks to rethink their channel initiatives and innovation investments that will impact potential bank development and growth.

This thesis will also study the impact of these new trends and it will focus on the marketing aspect of the adoption of technologies, as seen in segmentation through customer life-stage relationship preferences. An understanding of these trends will assist managers who are trying to perfect the allocation of banking resources in order to drive customers to the best channels that also fits their product necessities.
The thesis will address some strategy recommendations that can redefine each channel’s goal and open a new perspective that traditional brick-and-mortar branch offices are a gateway for closing complex or lucrative deals, while the majority of transactions can be operated by more convenient channels, such as the remote ones.

Furthermore, banks have increasingly been asked to process cross-selling or to offer conjugated services, such as car financing inside car dealerships or bill payment inside e-commerce websites. These partnerships will develop new banking channels that can also influence some of the future channel management goals and the relationship between customers and banks.

Through a study of the factors that influence the current banking channel management, this thesis will assist managers who want to strengthen the strategic positioning of banking through a study of differentiation, alliances and product and services effectiveness through a well-structured channel management policy. If we consider the commoditization of basic banking services— for example, banking accounts, credit cards and insurance-channels will certainly represent an important tool to tie up customer fidelity.

The following chart summarizes the thesis structure:
Figure 1-1 Structure of this thesis (Source: Renato Catalan)

Chapter 1 introduces the topic and relevant discussions to be approached, chapters 2 and 3 focus on definitions of channel management, the marketing point of view and its differentiation in dealing with products and service issues. Channel 4 exploits the banking channel evolution and particularities in four different countries and regions: The United States, Brazil, Japan and Scandinavia, raising relevant points to be detailed during the trends and strategies phase. Chapters 5, 6 and 7 discuss the current trends in banking channel management, describing value-added, evolution models and technology adoption.
concepts that are currently influencing the banking industry. Chapters 8, 9 and 10 evoke the strategy side of management and how to leverage bank efficiency and results based on channel-focused management, with a following description and other influential factors and conclusion in chapters 11 and 12.

In general, the thesis demonstrates the advantages to a bank in changing its channel management concept, evolving from an internal process-focused strategy to a customer-centered strategy, where all transactions and operations will shift to the customer self-personalization that gives customers more flexibility to customize operations, simulations and interaction through their preferred channel.
2. Channel Management Concepts

This chapter is going to present a series of definitions about channel management and how it has been applied in different industries, along with some recent innovations. In addition, it will also show trends and strategies in non-financial industries.

It is important to broaden the thesis subject by including basic definitions and practices of other industries, because these concepts could be a considerable benchmarking for future banking channel management ideas. Banks have much similarity with other retail industries, such as dealing with several channels, segmented customers, price discrimination and a variety of products and services. These common characteristics between banks and retail firms support the importance of broadening the research boundaries to other retail firms.

2.1. Channel Management Definitions

Channel management is the supplier’s balanced structure designed to supply goods and services in the convenient place, time and price desired by customers. Channel management concepts are usually studied through the umbrella of university marketing departments; however, its implications are tied with several departments, not only in universities but also inside companies. Channel management studies the positioning of products and services in the market, focusing on its distributions, customer segmentation strategy and product and channel profitability.

Classical marketing studies focus on the four “Ps,” factors that once connected: product, price, promotion and place; these “P” factors form the firm’s strategic marketing mix. They determine the position of each product or service based on a set of combination
toward the marketing “Ps” factors. Thus, a good strategy results in an optimal combination of factors that will differentiate products and services from competitors in an effective and particular way.

The four “Ps” are based on inside characteristics of each company, but many other components are also important to define the marketing-mix and channel management strategy. There are other in-company non-marketing functions, such as financial, personnel, production, location, research, development and public image that are also important to understand. Also, the external and uncontrollable macroeconomic factors: government, cultural behavior, competition, technology and economy play an influential action in the channel strategy.

Channel management is usually linked with the “P” factor that represents “place” in the marketing mix. The factor “place” is related to the definition of actions in distributing the services and products through specific channels in an organized structure (directly or through intermediates). Thus, many times channel management is confused with logistics. Thus, both channel strategy and logistics are components of “place” factor of marketing mix.

Once a channel marketing strategy has been defined, a number of flows emerge from it, linking the channel members with other distribution members in order to supply the products and services to the customers. Among these flows, there are some that are very relevant to understand and play with in order to foresee advantage of all strategic positioning. According to Rosenbloom [36], these flows are: product flow (physical distribution), negotiation flow (relations between buyers and sellers of the whole chain), ownership flow (the movement of responsibility in selling transaction), information flow.
(data collected among the transactions), and promotion flow (the persuasive communication in the form of advertising, sales personal and promotions).

2.2. Channel Management Application

Out of increasing segmentation of the market has arisen many niches for companies that can diversify and offer customized solutions. These new opportunities will not necessarily be related to the product or service, but to new ways to approach customers and offering new, convenient and efficient channels.

If on the one hand, segmentation creates new niche markets, on the other hand, new technologies and development on telecommunications enable companies to offer new channels that, in a certain manner could better attend to customers or present more added values for specific transactions.

To better understand channel management, we can use the following picture, where we can see four customer segments with specific product needs (1/ 2/ 3 or 4), and also four different channels (A/ B/ C/ or D), with specific products offerings and company cost levels.
Figure 2-1  Channel Management Example (Source: Renato Catalan)

The lines represent the full option for customer needs. In the example, channel C (products: A/ C/ D) fully completes the needs of segment 1 (products: A/ C), and the dashed lines represent the partial completion of customer needs, not providing all desired products.

Figure 2-1 shows a practical example of the players and driven forces to be managed in channel decisions of every nature (products or services). A scenario that requires adjustments that will impact the companies’ decisions, focused segments or cost structure. To better understand these factors, the following paragraphs explain the actions
of each market player:

**Customer:** In need of products or services, usually customers have much flexibility to choose different companies’ services or channels, allowing them to evaluate a series of buying factors, balance the most important and make their decisions on using determined channels (A/ B/ C or D). Also, customers have the opportunity to use multiple channels. In our example, one service can be purchased in channel A and other desired service in channel C. Customer channel preferences are supported on a series of relevant marketing factors.

**Companies:** Because of limited resources (space, budget or employee), it is not always possible to supply all channels with all products and services Companies set up different channels with different characteristics to reach their customers’ needs. Moreover, the channels incur different costs, which force companies to make special arrangements to reach the best marketing mix.

**Market:** This “trading space” includes all its surrounds that influence companies’ and customers’ decisions, such as political, social, and economic aspects. Furthermore, it includes competition among companies and companies’ decisions that are focused on target segments, offering them special solutions (marketing mix).

After getting a sense of the dynamics involved in the overview presented in the latter picture, we can figure out the challenges of banks in drawing their strategies and decisions for marketing mix. It is crucial for every bank to value the segments to focus on, or even to create new segments that could mean a more profitable way to play in the market.
In addition, banks should know the value added in each channel and contrast them with the cost structure of these channels. A balancing mix of factors will result in a matrix of services offered versus customers and segments attended. Later in this thesis, we will analyze the key decisions on channel management and a gateway to differentiation in services and improvements in results and efficiency.

2.3. Channel Management Examples

Recently, we have seen some successful channel management applications in several different industries. These examples show the breaking of paradigms and represent some trends that could be applied in banking channel management. In the following paragraphs I am going to describe some of them:

DELL:

The personal computer market used to be characterized by an intense contact between sellers and customers. The customers took on the responsibility of researching new technologies, price and applications. Traditional manufacturers such as IBM, Compaq and HP sold the majority of their computers through specialized computer stores or big department stores.

Dell broke out of this structure by selling directly to customers, using the Internet and call centers as powerful channels of relationship, selling point and services. Furthermore, this inexpensive structure helped Dell to offer better prices and more customized solutions that are increasingly popular.
NETFLIX:

The market for rental movies has been expanding considerably in the last two decades, especially with the opening of store chains such as Blockbuster that offer many locations and shelves full of film options.

Netflix entered the movie rental market by challenging the idea of convenience, offering customers the chance to always have three movies at home. They can use the Internet to choose their next desired film. In addition, Netflix offers recommendations based on past preferences and customer evaluations.

The revolutionary side of Netflix is the concept of using the mail to send and receive films. Each customer order is received and sent with pre-paid envelopes, paid by Netflix. This solution enhances convenience and creates a lean structure for Netflix, which has no store and very few employees.

EXPEDIA / HOTWIRE / PRICELINE:

Internet marketing has remodeled the tourism market in the US. These websites are capable of comparing, booking and suggesting best deals for customers, who can simply input their preferences, destinations and dates.

These websites transformed the purchase of both tourism packages and simple airplane tickets, and it is pushing the market to compete on prices. Tourism websites offer not only a new channel for customers, but also are adding value through comparison of prices and features and customer feedback. These websites enable customers to take advantage of comments written by former customers to write comments and feedback.

The success of Internet tourism websites show how websites in general can be
used as inexpensive channels and strong relational tools to deliver as much information as possible for customer decision-making.

2.4. Banking Definitions

Banks have many similarities to retail stores, such as managing their channels, attracting customers and selling a diversity of products to different customer niches. However, due to the nature of banking service and finance, some concepts are not familiar to all and they are crucial to the understanding of this thesis.

When this thesis mentions a bank institution, it is referring to a multiple commercial bank with several branches that also offers a variety of products and services ranging from simple checking accounts, to insurance and credit cards to retirement plans and other complex products. Some examples of retail banks in the US are: Fleet, Citibank and Bank of America.

Retail banks studied in this thesis are different from wholesale banks such as investment banks, which have their operations managed through a simple office, which usually offer a specific variety of solutions to fewer customers. Investment banks have a different channel management and will not be studied in this thesis.

Retail banks have a great part of their business scaled up with the increasing number of clients, which trend represents a constant concern to banks in order to attract new customers. This large number of clients requires banks to be especially careful with channel management, being attentive to all new channel opportunities and how to take advantage of channels to get efficiency.

Following is a description of the channels studied in this thesis:
**Branch office:** This traditional brick-and-mortar channel was the first channel offered by banks, and many times the impressively designed building is confused with the bank institution image. It regularly offers all kinds of transactions, from teller-oriented transactions to more complex solution-oriented transactions. Highly personalized interaction will most likely lead to a more upscale version of this channel in the banking strategies of the future.

**ATM:** The automatic teller machine (ATM) was one of the first remote channels to bring customers out of branch offices, offering beyond the branch offices' time, convenient operations. During the last five years, the implementation of new and sophisticated channels, such as Internet and web phone have decreased the volume of transactions through the ATMs; however, currently new redesigned ATM has been implemented, offering full-service operations in convenient locations. Furthermore, the ATM has the advantage of supplying cash, which is not yet available in any other remote channel.

**Call Center:** This was also one of the first remote channels offered to customers. It has increased its importance for banking channel strategy as a channel of basic deliveries, with a great part of customers interested in processing simple account transactions. Therefore, banks are struggling to implement new applications and technologies like multi-channel integration, as a way to support attendants in offering more complex solutions. This trend also helps to move the basic transactions to IVR (interactive voice response) systems that can handle these operations without attendants in a very efficient and low
cost structure.

- **PC Home-banking:** This channel was the precursor of Internet banking. Banks offer an exclusive line and modem system to connect customers’ home PCs directly to the bank’s central computer, from which they can execute several transactions similarly to the Internet banking operations.

- **Internet banking:** This is the most stylish adoption in recent channel management. It has been attracting customers based on its easy operation and low cost structure, representing an open window to several aggregate services, such as business-to-business solutions with payment through online websites or PC financial planning software.

- **Web phone:** This channel has been increasing its penetration with the high adoption of wireless phone. Although it is very convenient, banks are still struggling with matters of connection speeds and customization. Moreover, the lack of a “comfortable” keyboard or easy operability is a restriction that wireless phone producers and banks are improving to increase usage of this potentially lucrative channel.

- **Digital TV:** This is one of the most recent channels to emerge, as well as the least adopted. Banks in partnership with cable operators offer a series of banking transactions that are available on the TV screen, where customers can navigate and perform transactions with the help of a remote control. Similarly to the web-phone channel, lack of keyboard could be a restriction for the further development of this channel, but TV familiarity and easy operation mean it has the potential to attract lots of customers.
There are other channels in the banking structure, such as mail, in-store branches, and credit and debit cards; however, some of them are not significantly adopted by customers and others are considered supportive channels, which have the function of payment or convenience, but do not have customer interaction that enables the offer of products.
3. Marketing Approach

It is crucial to start a study on financial services by noting the characteristics of services and channel management that make the marketing approach unique and much different from marketing studies of traditional goods.

In this chapter, the thesis will explain some principles of services channel management, consumer buying decisions and their relations with banking channel strategies in order to gain effectiveness and better service quality.

3.1. Service Channel Management

Channel management is the harmonious understanding of supplying consumers with their necessities at the time, place and price that they want. Not only do banking services have a different strategy in applying channel management knowledge, but they also must manage broader influential factors than retail suppliers.

Services, differently from goods, show some specific characteristics that make their management more dynamic and unique since services are usually different from one customer to another. We will detail a few of these characteristics as outlined by Rosenbloom. [36].

3.1.1. Intangibility of Services

Goods are usually tangible products that can be compared with a competitor’s equivalent products. Services, however, are intangible and do not have the physical characteristics or brands that tangible products do.
The intangibility of financial services increases the importance of every contact between the bank (through its channels) and customers, since banks are selling not only the service but also the experience that each channel can add to the customers’ lives.

Material services, such as offering customized checks or issuing well-prepared account balance sheets, are ways to inject a sense of physical good into the service industry, linking the “physical” sensations of service with a brand and making it easier for customers to notice the added value and qualities offered.

3.1.2. Inseparability of Services

Services can rarely be rendered disconnected of their providers. This means that customers make the decision to approach equally on the basis of both the service and the provider, since it is always very difficult to split service and its provider.

This service characteristic requires service providers to be attentive to all factors that surround the service environment, such as the appearance, employees’ friendly approach, and the cleanliness of stores.

A bank deposit can not be considered without a bank account provider or a bank to process it. Thus, the channels that interact with customers should all reflect the same quality experience and satisfaction offered by the bank. A very good service experience is not only provided by good service, but also offered through the quality of their channels. This relationship between channel and service strengthens the recommendations of this thesis as to the improvement of financial services efficiency.
3.1.3. **Difficulty of Standardization and Customer Involvement**

Services are usually suited to specific client necessities, being highly dependable on channel performance and quality. This scenario makes it difficult to offer services in standard or pre-established models.

Moreover, services are often based on the relations between the customer and bank channels, making every service relatively dependable on the channel performance that certainly varies on daily basis.

Banking services have some standard applications, but usually customers require customized solutions, such as different timing of account balances or paying bills to creditors. In the banking industry, electronic channels are arising as a way to facilitate the standardization of services, but as we are going to demonstrate later, sometimes complex banking solutions require customers to visit branch offices in order to close deals, challenging the remote channels’ expansion.

Since services cannot be standardized, they are dependent on customer involvement for their results. The services frequently need customer inputs, such as amount of loan or period of amortization in a mortgage operation. Thus, all banking channels should also be implemented in a customer-friendly interface in order to capture the customer valuable information as part of the final service delivered.

This point makes it crucial for banks to focus the attention of their services not only on the quality of personal contacts, but also on the new emerging remote banking channels, where customers have a non-traditional experience, executing important deals without bank attendant help. This is an important virtual “moment of the truth.”

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3.1.4. Perishability of Services

Services cannot be stored to be reused in the future, and leaving capacity will not be reimbursed or amortized in future services. For example, seats left available in an airline flight will not be paid for by other customers.

Financial services providers, among other service providers, have a fixed capacity through their branches, ATMs and virtual channels. Most banking transactions are based on computer processing that has already been installed, and enable banks to take advantage of this infrastructure in order to maximize its use and share fixed costs; simultaneous computer processing also improves efficiency.

Besides the fact that it is very important to take full advantage of installed infrastructures, the perishability of services strengthens the importance of channel management, since it is expensive to expand channels to better attend customer and even more expensive is the free time that channels stay without customers. This concept will be restudied in the added value concept in Chapter 6.

3.2. Understanding the Channel and Buying Process

The intangible nature of financial services, in contrast to traditional goods, makes it difficult to measure or evaluate the customer’s buying process. Asch and Wolfe [2] presented evidence that experience, credence and qualities dominate in service-buying decisions. Also, consumers apply different decision-making processes than those applied in goods evaluation.

Moreover, the decision-making processes are experienced in different sequences and many times in different steps from customers’ previous experience and from goods-buying experience, which makes the service offering a unique business model.
Despite the difference between services and goods, consumers tend to spend a greater amount of time on more complex and expensive decisions, such as a banking retirement plan. Also, risky and infrequent decisions such as brokerage transactions require more attention from customers, claiming more time and involvement.

On the other hand, services with low customization or complexity tend to be rendered in a fast process, with low customer involvement, where usually consumers pay attention to the brand or previous experience. Specifically in financial services, checking account balance or money withdrawals are based on banking relationship and convenience.

The chart below summarizes some of the customer behaviors through the channel and buying decision:

![Chart showing customer involvement and search qualities](chart)

- **High Customer Involvement:**
  - Jewellery, Furniture
  - Child Care, Holidays, Restaurant Meals, Domestic Appliances
  - Medical Diagnosis, Professional Services (e.g., Mortgage)

- **Low Customer Involvement:**
  - Clothing
  - Groceries

**Search Qualities:**
- High in Search Qualities
- High in Experiences
- High in Credence Qualities

**Evaluations:**
- Easy to Evaluate
- Difficult to Evaluate

**Figure 3-1 Customer Choice (Source: adapted from Asch and Wolfe)**

In this picture, we can notice that “commodities” like clothes and furniture have customer attention among their “search qualities.” Others, like groceries and child care, have customer attention on “experiences”; financial services, as a complex service, have customer attention based on credence qualities. Some frequent financial services, such as
account balance, have low client interaction, but others, such as mortgages, usually require high client interaction.

This thesis chapter showed that the complexity of the customer channel and buying process, including the various factors that influence customer’s decision, for example, cultural, social, personal and psychological elements, are essential to channel management research.
4. Banking Global Practices

In this chapter, the thesis will discuss the current banking channel scenario in three key countries and in the Scandinavian region. These areas reflect, in general, different characteristics of the banking market, its particularities and how marketing factors are adapted to attend to customers’ necessities around the world.

Different stages of culture, technologies and social characteristics shape channel management differently from one area to another, but these differences can also bring some clues to help us to better understand the market and to predict trends that may be useful from one country to another.

4.1. Channel Management Around The World

Three different countries and Scandinavia will be reviewed in order understand their particularities and how they are inserted in the banking environment. The three countries selected were: The United States, Brazil and Japan. Together with the Scandinavian region, they will amply describe the diversity of the global banking scenario.

4.1.1. Banking Channels - USA

The United States is one of the biggest countries in the world, and its continental dimensions require tough managerial expertise in the retail business. Banks have become even more complex since strict regulations have taken a strong role in the development of the banking industry.

In the United States, every state regulates differently, through the local Fed’s offices, from one to another their local banks, remarking a very important point in the
development of banks in the United States: the regional characteristic.

During most of the twentieth century, banks were required to get local state permission to open new branch offices all over the United States. This made it difficult for them to expand nationally and to get scale advantages to compete one another. Also, new remote channels were restricted due to the fact that implementing new channels, such as Internet banking or bank-owned ATMs require an expensive infrastructure that can not be profitable with a limited customer volume.

During the 1980s and 1990s, US regulations were changed, leading banks to a new regulatory context that gave them the opportunity to expand outside of their home states, pushing several waves of mergers and acquisitions. This new climate also contributed to the consolidation of the financial services industry and the emerging of some national players that started to offer their brands nationally, such as Bank of America and Citibank.

Also recently, banks’ consolidation was expanded to their products and service strategy, and banks are now not operating exclusively in the retail banking market. They can also offer related products such as insurance, credit cards, brokerages, investment banking, institutional brokerages, advisory services, foreign exchange, structured products, derivatives, loans, leasing and equipment finance. Before deregulation, these services were commercialized in specialized stores, with little advice or assistance from banks.

Economically, since the end of the Second World War, the United States consolidated as the greatest world power, financing the development of several developing countries, opening industries and plants all over the world and constantly improving its own economy. As a result of this exuberant period, the United States crashed in 1979 after
the New York Stock Exchange crises that carried down the world economy, since the other countries were closely connected to the American economy.

However, the United States overcame the crisis and reappeared as a great leadership nation, driving world economic development and establishing a solid basis for its economic leadership. The end of Cold War and the decline of the Soviet government consolidated American world leadership.

Sustained economic growth led the way to social benefits for the United States population. It was able to support a sustained population growth with a network of social programs, pensions, along with schools and hospitals. Its balanced growth enabled the United States to prosper.

The banking industry, as part of this scenario, has been growing along with the economy and fertile environment. Some new banks were opened during the 1980s and 1990s, and because of its local restrictions (prohibited nationally expansion) more than 9,000 banks are competing in the American market. The following channel study indicates that more American banks have been entering the remote channel markets, overcoming the scalable problems.

In the 1990s, the US Federal Reserve Board required that banking institutions maintain their capital level above the minimum pre-established levels. This regulation, which applied no matter what a bank’s financial condition or its anticipated growth, pressured some small banks to merge or to be acquired. This scenario created a fierce competitive environment in the United States. The Euromonitor International stated that “the commercial banking market in the US is highly competitive,” observing that local and international banks, as well as non-financial organizations, are struggling to improve their
market niches, competing primarily around several factors, which include customer services, interest rates on loans and deposits, lending limits and customer convenience.

The commercial banking market in the United States remained moderately fragmented, with the five largest companies in the market accounting for 52.3% of the total market value (asset base) in 2002. Recently, Bank of America acquired Fleet Boston bank, strengthening its position as the second major bank in the United States. Earlier, BankAmerica and NationsBank had merged to form Bank of America. Among the other big mergers were Citicorp and Travelers Group, which merged to form Citigroup and Banc One, First Chicago NBD and Bank One, as well as JP Morgan & Co. and Chase Manhattan Corporation, which merged to form J.P. Morgan Chase & Co.

<table>
<thead>
<tr>
<th>Banks</th>
<th>Year 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup</td>
<td>16.4</td>
</tr>
<tr>
<td>Bank of America Corporation</td>
<td>12.4</td>
</tr>
<tr>
<td>J.P. Morgan Chase Co</td>
<td>12.3</td>
</tr>
<tr>
<td>Wells Fargo &amp; Co.</td>
<td>6.2</td>
</tr>
<tr>
<td>Bank One Corporation</td>
<td>5</td>
</tr>
<tr>
<td>Others</td>
<td>47.7</td>
</tr>
</tbody>
</table>

*Source: Euromonitor*

**Figure 4-2 - US Banks Share Market**
Below, we analyze American banking transactions by channel, which will support our understanding of the market and future conclusions:

**US Total Number of Transactions**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>0.0</td>
<td>0.0</td>
<td>0.2</td>
<td>0.7</td>
<td>1.5</td>
<td>2.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Telephone</td>
<td>6.8</td>
<td>7.0</td>
<td>7.1</td>
<td>7.2</td>
<td>7.3</td>
<td>7.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Branch</td>
<td>13.4</td>
<td>13.2</td>
<td>12.9</td>
<td>12.6</td>
<td>12.4</td>
<td>12.2</td>
<td>11.9</td>
</tr>
<tr>
<td>ATM</td>
<td>10.7</td>
<td>10.9</td>
<td>11.2</td>
<td>10.9</td>
<td>12.8</td>
<td>13.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Total</td>
<td>31.0</td>
<td>31.1</td>
<td>31.3</td>
<td>31.4</td>
<td>34.0</td>
<td>35.4</td>
<td>36.7</td>
</tr>
</tbody>
</table>

*Source: Celent*

**Figure 4-3 – US Banking Transactions by Channel – Absolute Figures**

The United States is one of the countries with the highest bank penetration among its population, equivalent to approximately 70% of the economically active people. This highly dense market explains the huge volume of annual transactions, which continue to increase.

As showed in the chart, ATM and Internet channels present a sequence of growth whereas the branch channel has decreased and the telephone channel remains almost constant. In order to better understand this number, we are going to plot the absolute and relative volume of banking transactions per channel.
Figure 4-4 – US Banking Transactions – Absolute Figures

Figure 4-5 – US Banking Transactions by Channel – Relative Figures

These graphs demonstrate that the relative number of ATM transactions has remained constant during the last three years, although there was an increase in the absolute number of ATM transactions. We see a similar effect with telephone transactions, where in absolute terms their numbers are increasing but in relative numbers they are
decreasing. Internet and branch office transaction trends are clear and more remarkable when studied using relative numbers, where we can see a steady increase in Internet transactions and a smooth decrease in branch office transactions.

Since we are concerned about the trends in the behavior of channels and how to leverage their efficiency, this thesis will focus on relative numbers, which more clearly differentiate the importance of each channel and how it is performing in banking strategy.

It is also important to remember that during the last years the numbers of both ATMs and branches increased significantly, helping the banks to greatly increase the volume of customers and the role of banks in the society. This followed the creation of a big, convenient network structure that improved bank penetration and customer use through remote channels.

Unlike in other countries, ATMs in the United States are generally shared among several institutions, which charge their customers by transaction. This fact is a consequence of regional banks making alliances with operators or third parties in order to boost the ATM channel. Otherwise, a bank’s owned ATM network would be too expensive, not reaching scalability in local bank markets.

4.1.2. Banking Channels - Brazil

Brazil is the fifth biggest country in the world, with a continental area similar to that of the United States. However, the Brazilian countryside is not as developed and settled as the United States. Most of Brazil’s development is in cities clustered along the coast. This unequal distribution of population is just one of the characteristics that distinguish Brazil as a developing country. Some of the others are a dependent economy,
unequal distribution of wealth, and great external debt. These factors directly influence the Brazilian business market.

After the re-democratization of the country in early 1980s, Brazil experienced its first opportunity to more actively participate in the world economy, receiving lots of external investment, opening new business and enhancing the quality of life. However, the new Brazilian democratic government didn’t manage the opportunities well. It restricted new foreign investment and failed to renegotiate old external debt contracts with the IMF. As a result, Brazilian economy experienced a period of great recession and huge inflation, reaching peaks of more than 2500% annually.

![Brazilian Inflation - 90's](image)

**Figure 4-6 – Brazilian Inflation according to General Price Index, Source: BACEN**

The period of high inflation supported an unfair distribution of wealth among Brazilians. This exacerbated the existing problems of poverty among the majority of the population, and meant that during the 1990s, very few people had access to bank services. They were restricted to a small portion of Brazilian society.
Recently, in 2002, bank penetration in Brazilian society achieved 24%. Considering the banking system environment, the hyper-inflation had forced the Brazilian banks to invest highly in technology, adopting outstanding integration systems and enabling on-line and same time processing of transferences from any bank to any other bank. Also, banks developed full-service ATMs and other resources that could make transactions easier and faster, since during the high inflation period, the value of currencies and goods were readjusted on a daily basis. This incredible technological development and the concern with bank performance helped to raise several banks in Brazil that have high standards and are still leaders in the Brazilian banking market. They also compete severely with the foreign bank institutions that acquired other banks in Brazil.

Brazil is the twelfth largest economy in the world (in GDP terms), having lots of available land and natural resources to enhance its economy. This fact represents a great opportunity for the future of the banking industry, since banks can take advantage of their high level of technological development to expand into the majority of the population, which has been excluded from the banking system. Banks are very popular among the Brazilian population since all infrastructure services, such as electricity, gas, water, must be paid through the bank system; however, only the 24% of the economically active people (banking penetration rate) who have banking accounts can do it through various banking channels, whereas the great majority of the population, that do not have banking accounts, needs to go frequently to bank branches in order to pay their bills, representing a big niche segment that is targeted by banks for future expansion. On the other hand, non-financial institutions, or credit-only institutions and lottery stores are getting permission to process bills and offer some financial transactions, representing a threat for traditional banks.
Another important factor influencing the development of the banking industry was the fact that until 1991, Brazil had barriers to the entry of external multinational companies. These barriers had a two-way effect: first it restricted the development of technologies, forcing several banks to create their own technology companies or make alliances with others to develop bank’s high-tech requirements from scratch; second, this regulation avoided for a long time direct competition from international banks that in general were more efficient than Brazilian banks. Nevertheless, in 1992 this restrictive law was repealed and Brazil has been receiving investment from all kinds of industries, and many of them opened branches there. Also, the majority of the top multinational banks opened branches in Brazil, entering the banking market through acquisitions and heating up the already fierce competition in the Brazilian banking industry. These newcomers could buy only medium-sized banks, since the top Brazilian banks were very well-established, and expensive. This has effectively prevented international banks from taking over the leadership position of local Brazilian banks.

The 1990s were marked by a consolidation of the Brazilian financial system, with several mergers and acquisitions. Because the great majority of banks play over the whole Brazilian nation, this expensive structure allowed only a few banks to remain in the market (less than 200 banks). To better understand the Brazilian banks competitors, we can check following, the Brazilian banks’ ranking (asset base):
<table>
<thead>
<tr>
<th>Bank</th>
<th>Assets (R$1,000)</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco do Brasil</td>
<td>215,133</td>
<td>Government</td>
</tr>
<tr>
<td>Caixa Economica Federal</td>
<td>141,147</td>
<td>Government</td>
</tr>
<tr>
<td>Bradesco</td>
<td>139,021</td>
<td>Private / Brazilian</td>
</tr>
<tr>
<td>Itau</td>
<td>113,208</td>
<td>Private / Brazilian</td>
</tr>
<tr>
<td>Unibanco</td>
<td>62,692</td>
<td>Private / Brazilian</td>
</tr>
<tr>
<td>Santander - Banespa</td>
<td>57,392</td>
<td>Private / Foreign</td>
</tr>
<tr>
<td>ABN Amro - Real</td>
<td>39,650</td>
<td>Private / Foreign</td>
</tr>
</tbody>
</table>

Source: Central Bank - Set/03

Figure 4-7 – Brazilian Banks Market Share

Knowing the Brazilian banking environment, we can better understand how Brazilian cultural factors and other market environment factors have influenced the banking channel management. The next chart shows the number of transactions per channel:

<table>
<thead>
<tr>
<th>Transactions (billions)</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatic out-company</td>
<td>0.44</td>
<td>0.56</td>
<td>0.55</td>
<td>0.56</td>
<td>0.65</td>
<td>0.69</td>
</tr>
<tr>
<td>Automatic - intern</td>
<td>1.19</td>
<td>2.35</td>
<td>2.67</td>
<td>3.59</td>
<td>4.01</td>
<td>4.39</td>
</tr>
<tr>
<td>ATM</td>
<td>2.51</td>
<td>4.16</td>
<td>5.22</td>
<td>6.62</td>
<td>7.77</td>
<td>6.09</td>
</tr>
<tr>
<td>Home Banking (access by PC Modem)</td>
<td>0.00</td>
<td>0.44</td>
<td>0.56</td>
<td>0.81</td>
<td>0.74</td>
<td>0.71</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>0.00</td>
<td>0.04</td>
<td>0.13</td>
<td>0.37</td>
<td>0.82</td>
<td>2.28</td>
</tr>
<tr>
<td>Debit Card</td>
<td>0.06</td>
<td>0.17</td>
<td>0.26</td>
<td>0.31</td>
<td>0.38</td>
<td>0.55</td>
</tr>
<tr>
<td>Branch Office</td>
<td>4.03</td>
<td>4.88</td>
<td>4.46</td>
<td>4.03</td>
<td>5.19</td>
<td>4.46</td>
</tr>
<tr>
<td>Others</td>
<td>0.22</td>
<td>0.20</td>
<td>0.14</td>
<td>0.13</td>
<td>0.24</td>
<td>0.38</td>
</tr>
<tr>
<td>Total</td>
<td>8.45</td>
<td>12.80</td>
<td>13.98</td>
<td>16.41</td>
<td>19.79</td>
<td>19.56</td>
</tr>
</tbody>
</table>

Figure 4-8 – Brazilian Bank Transactions by Channel

The table above shows that the banking industry had a great boost recently, ramping up the number of transactions from 8.45 billion in 1997 to almost 20 billion in 2002. If we consider the low banking penetration and enormous growth potential, we can foresee that the banking industry is going to maintain a high level of development. In addition, the numbers present a great transition among the channels, migrating from branch
offices to remote channels such as ATM and Internet. Automatic transactions mentioned in table 4-8 are processed automatically by central processing, like pre-approved bill payment, without customer or employee interaction so that they were excluded from the graph's analysis. The next graphs will help us to better understand these trends:
The graphs above show us important trends in the Brazilian market, representing a sharp decrease in the number of transactions in branch offices and most recently in ATMs, whereas Internet banking and debit card transactions gained enormous importance in the banking scenario.

In contrast to United States banks, Brazilian banks own their own ATM networks. Currently, struggling to reduce cost (especially in the long term) and to offer convenience, banks considerably increased the number of ATMs, which allowed customers to become more familiar with this remote channel and encouraged them to shift their daily transactions. In addition, several banks acquired Internet service providers, such as Bradesco did, or formed alliances with Internet service providers, like Banco Itau x AOL, motivating many customers to be attended solely by remote channels. In general, Brazilians seems to be more likely to shift their preferences to remote channels (Internet and ATM), which are relatively more penetrated in the Brazilian market than in the American market.

4.1.3. Banking Channels - Japan

Japan is a very important country in the study of banking channels because its interesting social and cultural characteristics make channel management a unique and crucial factor in the recovering of current Japanese financial sector crises.

Japan has a very small continental area, almost all settled, with few free spaces to expand itself. Although Japan’s territory is much smaller than Brazil’s territory, its population is quite equivalent, demonstrating how densely populated Japan is, and the challenges it presents to retail bank management.
After the Second World War, Japan experienced incredible economic development. Supported by international investment, Japanese industry leveraged its manufacturing and researching sectors, emerging as one of the biggest world economic powers. But currently, the Japanese economy is battling recession and a deflationary crisis, with consequent zero interest rate over saving account. This scenario pushed the Japanese banks to restructure themselves in order to overcome the difficulties.

During the last three years, the Japanese banking market saw a recurrent downturn because banks are not willing to lend money for low or even zero interest rates. It increased the number of corporate bankruptcies, and reduced the investment opportunities for the Japanese.

Similarly to many other financial industries in the world, Japanese banks are allowed to play in various financial areas such as insurance, credit card, retail banking, securities and others. This interesting characteristic is relevant when considering the efficiency objectives that drive customers and their product portfolio to efficient channels.

International banks have a small portion of the Japanese market, which currently has more than 1,800 different banks with the greater part of them acting regionally in small countryside areas. On other hand, the big players are big Japanese banks that respond for a great part of the Japanese banking industry. The next chart illustrates the participation of the biggest banks in the market:
### Figure 4-11 – Japanese Banking Industry

The big banks, such as Mitsubishi and Mitsui Sumitomo, are date from the pre-war period, when big industry holdings called “zaibatsu” expanded their business in many directions, creating banks to support their operations. Nowadays, much of the business of these banks is connected with the companies that created them.

Facing the difficulties of the recent period and global trends of improvements in efficiency and competition, several Japanese banks (regional and urban) went through a rigorous reorganization, including mergers and acquisitions. Also, the government is implementing new policies such as the “payoff” system that will allow customers to receive the full amount of their banking deposits. All these recent actions will improve the future of the banking sector in Japan, addressing a great opportunity for banks to strengthen their deliveries through new channel strategies.

The Japanese banking market was selected to be studied in this thesis because the great tendency of exploitation and penetration of remote channels, for example, Internet and web phone. Unfortunately, there are not many available data about banking
transactions in the Japanese banking market, but some figures and banking actions can be analyzed.

ATM transactions are highly popular among Japanese customers because of convenience and many financial available operations. As in the United States, ATMs are shared and highly concentrated in convenience stores, accepting transactions of several different banks that charge their customers on an access basis. In 2002, there were more than 115,700 ATMs; of those, only a few were owned ATMs. If we consider the space restrictions in several Japanese cities, it is reasonable to understand the idea of few strategic owned ATM and a big shared ATM network so that banks are able to serve more customers per machine and to share the expensive space cost.

Following are some data about branch and ATM transactions:

<table>
<thead>
<tr>
<th>Japanese Total Number of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions (millions)</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>Branch</td>
</tr>
<tr>
<td>ATM</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Japanese Bankers Association

**Figure 4-12 – Japanese Banking Transactions**

We can notice that relatively to the number of transactions in branches, ATM transactions are 43% of branch’s transactions, an impressive contrast to the United States market penetration of 27%.

Although we do not have exact figures on the number of Internet banking transactions in Japan, the Japanese bank market has been achieving a recent gain in the Internet banking channel that was initially pushed by “virtual” e-banks created to attract
people who are familiar with the Internet and interested in getting higher interest rates and lower fees. Nowadays all big banks offer Internet banking solutions; others are creating alliances and offering exclusive Internet banking, for example, eSony. This trend is requiring banking channel managers to constantly adjust strategies to reach customers’ preferences.

Still exploiting the remote channels, Japan leads the utilization of web phone. More than 52 million people own web phones in Japan and banking operations are one of their top applications. Many reasons support the high scalability of the web phone in Japan, but the fact that many Japanese commute long distances inside public transportation every day is one crucial factor to improve the web-phone utilization because people can solve their particular financial problems while commuting.

Social and cultural characteristics are not the only reasons for big remote channel success in Japan; the technology infrastructure and high level of technology penetration among the population seems to be the key factor explaining the attraction of remote channels and the recent migration from traditional banking channels to new remote channels.

4.1.4. Banking Channels – Scandinavian Countries

The Scandinavian banking system was selected as a part of this global study because the high level of automation and efficient payment system has encouraged almost one hundred percent of the population to use remote-system payments, eliminating checks and other bureaucratic services of the branch office.

The Scandinavian Peninsula runs southwest from the Arctic Circle to meet with
Denmark across the narrow sea channel which gives access to the Baltic from the North Sea. It is a predominantly hilly and mountainous region, rich in oil resources, and relies on its heavily forested hills for much of its revenues. The main population centers are in the southern part of the peninsula, due to better weather conditions.

The Scandinavian economy was for a long period independent of the rest of Europe until the recent integration into the European community, except by Norway, which is not a member of the community, but certainly it is much influenced by the European economy. Until the beginning of the 1980s, only local banks were allowed to compete there. However, after a government rearrangement, international companies were able to enter the Scandinavian countries, competing not only in the banking industry but also in several other economic sectors. Since then, many international banks have entered the market and have been fiercely competing; however, because of the nations’ small size and population, the Scandinavian regional market is smaller than the markets in other countries studied in this thesis. In general, about 40 to 50 banks compete in each Scandinavian country, being the local Scandinavian banks the leaders of the market.

Recently, in the late 1990s, as occurred in several other countries, Scandinavian banks executed a consolidation among their players, when big players acquired many smaller local banks and implemented several internal reorganizations in order to improve efficiency. Currently, new players like e-banks and banks emerged from insurance companies are focusing on specific niche markets, making the banking market increasingly competitive.

Channel management in Scandinavian countries has a particular characteristic. All payment systems and main banking transactions are done through centralized companies.
For example in Sweden, PostGiro and BankGiro share the centralized payment system; in Norway, BBS alone runs the payment system and in Denmark, PBS offers the same system with 100% of penetration.

This payment system, available to everyone in Scandinavian countries, enables the population to pay every bill electronically or through automatic service, and also to process all payments in any store through the use of bank cards (debit or credit). In that way, Scandinavian countries have sidestepped check utilization. Currently, all the automatic payments are migrating to the Internet platform, which is highly accepted by the population.

Studying the Scandinavian countries, it is interesting to remember that they were the first countries to establish nationwide computerized on-line banking services, and pioneered in developing a currency-dispensing system. More recently, they were the first to open exclusively Internet-based banks (e-banks) and due to high Internet penetration, higher interest rates and reduced bank fee, these e-banks are a great success there.

Scandinavian countries present a low unemployment rate, with a highly skilled and educated work force, which is considered one of the most expensive workforces in the world. Probably, considering this event, automation and incentives to mechanization have pushed the development of these remote channels in order to substitute human tasks for cheaper electronic systems and channels. Furthermore, the lack of low-wage labor supports the emergence of many self-service banking solutions; these have found great acceptance among the population, therefore matching a perfect combination to bank efficiency.

Besides e-banks, traditional brick-and-mortar banks play an important role in the Scandinavian market, offering some Internet banking solutions with great success. In
addition, the required utilization of centralized payment systems by banks in Scandinavia pushed them to a high degree of banking cards (debit or credit) adoption, strengthening the increase of ATM transactions through a shared ATM network. Similar to Japan, an owned ATM network would not be profitable, since the low number of customers makes the scale advantages difficult to reach.

Another very interesting characteristic of the banking channel management is that the complete solution offered by the centralized payment systems and shared ATM networked to all population has completely overcome the banking call centers. Five years ago, banks stopped supporting telephone solutions and the population also shifted their preference to other channels such as ATM or Internet. The use of call centers is currently very small and they will be abolished soon or reserved to solve customer specific problems.

The following chart gives us a picture of the Norwegian banking transactions and volumes with their distribution among the centralized channels:

<table>
<thead>
<tr>
<th>Norwegian Transactions (million)</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Card</td>
<td>209</td>
<td>261</td>
<td>320</td>
<td>378</td>
<td>457</td>
</tr>
<tr>
<td>Giro-Eletronic</td>
<td>70</td>
<td>63</td>
<td>59</td>
<td>65</td>
<td>71</td>
</tr>
<tr>
<td>Giro-Paper</td>
<td>121</td>
<td>106</td>
<td>73</td>
<td>92</td>
<td>84</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>215</td>
<td>261</td>
<td>305</td>
<td>349</td>
<td>348</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>615</td>
<td>691</td>
<td>757</td>
<td>884</td>
<td>960</td>
</tr>
</tbody>
</table>

Source: Norway - BBS Annual Report 2002

**Figure 4-13 – Norwegian Banking Transactions**
The distribution shows an increasing use of Internet and debit cards whereas traditional payment systems such as Giro-paper and Giro-electronic are decreasing rapidly. Giro is the name given to the centralized payment system done by BBS that makes up to 100% of all payment system in Norway. These numbers include both transactions processed in branches and others done electronically, probably through remote channels. The BBS 2002 report mentioned that Norwegians use their cards (debit or credit) about three times more frequently than the average European, strengthening the idea that Norwegians are very familiar with the implemented remote channels (ATM, web phone or Internet banking) and much higher intensive users than other countries.

The following graph represents transactions in absolute and relative terms:

![Norway Banking Transactions](image)

**Figure 4-14 – Norway Banking Transactions – Absolute Figures**
Figure 4-15 – Norway Banking Transactions – Relative Figures

The graphs show that Internet and debit card transactions are the most used channels in Norway, with a relatively higher improvement in debit card use. If we consider that the bank penetration in Norway is 100%, and every commercial store or service store process charges through debit or credit card, we can explain the high percentage of banking card transactions. Scandinavian countries could be pointed in a pre-stage phase of “smart-card” implementation, which could soon represent the abolishment of currency.

The common idea in Scandinavia countries that people should solve their financial transaction in self-service systems supported the migration of great part of population to the use of remote and convenient channels. In addition, the implementation of a secure, coordinated and efficient clearing system generates lower costs for banks and users, stimulating higher bank results and strengthening confidence in the financial system.
4.1.5. Banking Channels – World Comparison

Our study of the three countries and Scandinavian region showed us a very interesting picture of banking characteristics around the world and how to understand local cultural and social aspects as influential factors in banking channel management. The table below summarizes and compares some of the factors observed:

<table>
<thead>
<tr>
<th>Factors</th>
<th>US</th>
<th>Brazil</th>
<th>Japan</th>
<th>Scandinavia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking consolidation</td>
<td>Recent</td>
<td>Recent</td>
<td>Recent</td>
<td>Recent</td>
</tr>
<tr>
<td>Leader bank</td>
<td>Local / private (Citigroup)</td>
<td>Local / state owned (Banco do Brasil)</td>
<td>Local / private (Mitsui Sumitomo)</td>
<td>Local / private</td>
</tr>
<tr>
<td>Payment process</td>
<td>Decentralized</td>
<td>Decentralized</td>
<td>Decentralized</td>
<td>Centralized</td>
</tr>
<tr>
<td>Bank penetration</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Bank competition</td>
<td>Scattered (more than 9,000 banks)</td>
<td>Focused (aprox. 200 banks)</td>
<td>Scattered (more than 1,800 banks)</td>
<td>Focused (aprox. 40 banks)</td>
</tr>
<tr>
<td>Internet</td>
<td>Increasing</td>
<td>Rapidly increasing</td>
<td>Increasing</td>
<td>Constant</td>
</tr>
<tr>
<td>Phone</td>
<td>Constant</td>
<td>Decreasing</td>
<td>-</td>
<td>Vanishing</td>
</tr>
<tr>
<td>ATM network</td>
<td>Shared</td>
<td>Mostly exclusive</td>
<td>Mostly shared</td>
<td>Shared</td>
</tr>
<tr>
<td>Web phone</td>
<td>Increasing</td>
<td>Not used</td>
<td>Rapidly increasing</td>
<td>Increasing</td>
</tr>
</tbody>
</table>

**Figure 4-16 – Banking Country Comparison**

Many of the banking channel systems that we studied are a consequence of historical and cultural characteristics, for example, the high penetration of remote channels in Scandinavian countries as a consequence of high technology penetration and social adoption to high-wage workforce, whereas the low web-phone penetration in Brazil is a consequence of expensive technology and therefore, few people able to afford it.

Global trends are very important in predicting banking behavioral trends that can be replicated in some countries, for example, the success of web phone in Japan could be similarly implemented in Scandinavian countries. In addition, channel management and
customer’s perceived value could be improved in observations of different countries and how they are applying different banking offerings to best serve the customer.

Many interesting points observed could be considered common for the countries and regions, for instance the recent consolidation of the banking system and their efforts to improve efficiency through the scalability that mergers and acquisitions can offer. Also, the leadership of local banks in all four countries reinforces the importance of local expertise in order to better attend customer’s expectations. Certainly, in these countries, big international banks could not replicate their expertise in local products and procedures, since local customizations, regulations and customer necessities have been fulfilled with excellence by the local bankers, while the big international ones are working hard adapt.

The countries and regions studied present some interesting points, such as: how the United States is still very much based on branch system; and the highly increasing adoption of the Internet channel in Brazil; and what is the reason for the surprisingly high web-phone channel penetration in Japan; and why remote channels are overcoming traditional channels (branches and call centers) in Scandinavian countries. These points will support the study of trends and strategies in the following chapters, reminding us of their importance to set local markets.
5. Technology Trends

In this chapter, some of the current trends that are influencing banking channel management will be discussed. The consequences of technology adoption to banking channel management represents a unique opportunity to broaden the knowledge and concepts that can be useful in the channel management strategies suggested in this thesis.

Based on the broad diversity of data collected for the description of banking global markets in the previous chapter, the trends that will be discussed in this chapter will make more sense for some cultures and countries than others, but in general, they represent a current practice that is or will be influencing banking channel management.

5.1. Channel Adoption – S Curve theory

S-curve theory is applied to analyze the behavior of resources such as technologies, products and processes, showing the consequence of cumulative effort spent in certain resources. Analyzing several technologies and plotting the graph of performance versus cumulative effort, we can easily identify an S-shaped curve as the result of the analysis. Therefore, those technologies can behave similarly, having distinct and standard phases, such as introduction, take off and mature.

Disruptions in the technology or product represent an opportunity to jump a business from one S-shaped curve product based to another curve, and probably with different strategies, resources and alliances that will require adjustments in the company’s management for this new phase. Below, we have a generic S-shaped curve that will help to better understand this theory.
Figure 5-1 – Generic S – Shaped Curve (Absolute Effort x Cumulative Effort)

For each new product or process, the S-shaped curve shows exactly how much performance has improved and how much effort has been expended to gain that improvement. What the development of an “S” curve, as plotted above, means is that we can represent graphically all efforts applied to offer specific products and services, and how these efforts used to be standard, with defined improvements phase.

S-shaped curve theory can also be applied to banking channel management, since we consider that all banking channels that have been added to the bank strategy are based on special solutions or technologies (new or old ones); therefore, these technologies will behave and develop following an S-shaped curve. Thirty years ago, all bank transactions were handled exclusively by branch office attendants. Since then, we have seen banking channel evolution as new channels emerged to assist bank transactions. Every year we see a shift in the balance volume of transactions, as a consequence of new channel introduction and changes in the customer preference. Measuring and plotting the graph of performance versus effort of each channel technology will show a different curve that certainly will be similar to an S-shaped curve.

The author R. Foster [19] mentioned that S-shaped curves can also be understood as if technological limits are approached. Rather than showing more and more progress
with less and less effort, each new technology step makes less and less progress. In the banking industry, analyzing channels relative to the number of channel transactions, we can consider the progress as improvements in transaction volume. Relative decreasing numbers could indicate that customers and their transactions are migrating to other channels.

During the 1980s, as described in chapter 4, the Scandinavian countries had three ways to perform their banking transactions: branches, call centers and ATMs. Once ATMs were introduced into the market, it took some years for customers to develop confidence in them and begin using them; however, a few years later, several transactions were based on the ATM, and no more on branches, which showed a relative decrease in transactions volume. The same process happened with call centers, but at that moment, call centers were attracting customers from branches and ATM. Nowadays, after the introduction of several new banking channels, such as Internet banking, interactive voice response, web phone, and digital TV among others, call centers reached maturity and now make up less than 1% of banking transactions in the Scandinavian countries. This channel-technology behavior is similar to land wire telephone technology in that it has been decreasing in volume similarly to call center channel transaction. Currently, Scandinavian countries have the highest mobile phone penetration level in the world, which has led many people to abandon their old regular wired phones. Now, the new wireless telephones have web access, offering access with no queue to a more developed and convenient variety of products, such as banking web-phone applications.

In order to better understand the applications of S-shaped curves to banking channel management, I collected information from the second largest bank in Brazil, and drew the curves of absolute and cumulative transactions through 1996 to 2002. Following
we can check out the curve:

![S-shape Curve (Banking Channel) - Cumulative](image1)
![S-shape Curve (Banking Transactions) - Non Cumulative](image2)

**Figure 5-2 – Applying S – Shaped Curve to Brazilian Banking Channels (Source: www.itau.com.br)**

The data range is from 1996 to 2002, which period may not represent all necessary data to draw an S-shaped curve due to lack of additional historical data, but knowing the banking market and observing the latter graph, we can identify some S-shaped curve trends and behaviors.

Similar to the Scandinavian description, the call center channel in Brazil began to be offered in the beginning of the 1980s. At that time, it represented a new technology and many customers were afraid to trust their financial transactions to a phone operator. By the end of the 1980s, after a few “leading adopters” had become familiar with this channel, millions of customers became regular users of call centers, which strengthened the concept of convenience. However, after ten years of banking call-center implementation, we can observe in the former graph that the slope of adoption and use of the call-center channel is not as high as the beginning period, meaning that in the S-shape curve design for this technology could be reaching its maturity. Then, it means that the banking call-center channel is entering in a process of saturation of its performance, independently of the effort applied to its development. So, banks should redesign the call-center channel, jumping to new S-shaped curves with higher potential or let this channel perform maturely.
One cause of the maturing of the banking call-center channel is the development of new remote and convenient banking channels, such as the ATM, Internet banking and others, which are attracting clients from branches and call centers. Considering one example of banking channels that have been attracting call-center clients, I plotted (in the former graph) the Internet banking transactions between 1996 and 2002, where we can observe the increasing adoption of this new channel, which has a high slope of adoption per year.

In addition, the plotted graphs in Figure 5.2 show the transaction data for call-center and Internet banking in cumulative and absolute figures, so that we can observe the slope of channel adoption by year. Analyzing this graph, we can see that Internet banking is rapidly increasing and could be positioned in a take-off or developing phase of an S-shaped curve model, whereas the call-center channel, due to its decreasing adoption and transactions per year, could be positioned as entering the maturity phase. However, technology limits and the entry of a new disruptive channel are not the only factors contributing to the declining use of the call-center channel. We should also consider other factors, such as cost structure and speed of transactions.

5.2. Channel Penetration

Considering that behind the scenes, every banking channel has a technology where the channel is relied on, all technology-based specific solutions, codes and developments are very similar and it can predict banking channel behaviors. Then, banking channel managers should always be attentive to the S-shaped curves of their channel-related technologies in order to allocate investments and to predict behaviors or disruptive moments that will require readjustments or maybe the abandonment of channels.
(e.g., call centers in Scandinavian banks).

Nowadays, besides branch offices, the most popular banking channels are ATMs, call centers, Internet banking and wireless web phone. In the background of all these channels, we find related technologies such as wireless telephone or Internet which, as mentioned before, will drive the development and success of these channels. The following graphs describe one example of technology (Internet) adoption rate per GDP per capita in Europe. Furthermore, it shows the relation between Internet penetration and a banking channel (PC banking):

![Graph showing Internet Technology Penetration by GDP per Capita (Source: Reuters)](image_url)

Source: IMF, IDC and Schroeder Salomon Smith Barney Estimates, Reuters Business Insight

Figure 5-3 – Internet Technology Penetration by GDP per Capita (Source: Reuters)
Figure 5-4 – Internet Banking Technology x Internet Adoption Rate (Source: Reuters)

Although the data relates to European countries, its conclusions can be extrapolated to other countries. Graph 5.3 shows that technology penetration is closely related to the development of each country (GDP references). Moreover, graph 5.4 shows us that the banking channel follows the same relation of technology penetration, which means that as much adopted is one technology, probably as much developed and adopted would be the similar banking channel.

Similar to the S-shaped curve model, this technology adoption study can contribute and reinforce our conclusions for banking channel management, since it represents trends in the future behavior of channels and possibilities of future adjustments to better compete in the current banking market. In addition, this study of technology adoption correlates technology penetration with the level of economic development, so that
more developed countries such as Norway and Denmark (as seen in the graph 5.3) can serve as a future reference for less developed countries such as Spain and Portugal, if we consider no other changes in the technology environment. This shows how improvements in developing economies can impact not only the society of a country, but more specifically, banking channel management. These social and economic factors and their implications for bank channel usage were explored in chapter 4.

Following this rationale, we can review the next graph, which estimates the penetration of new technologies in the American market. As shown in the graph, Internet seems not to be the fastest-growing technology for the near future, since wireless phone, together with web phone, will be more common in 2005. Thus, based on this technology adoption study, banks can address their investments and make adjustments in channel management.

*Projected Number of U.S. Users, in Millions*

![Graph showing projected number of U.S. users for different technologies from 1998 to 2005.](image)

*Source: TowerGroup Inc., Needham, Mass.*

**Figure 5-5 – Technology Penetration – US Market (Source: Tower Group Inc.)**

Internet banking applications could not be as equivalent as the web-phone
applications, but as predicted by channel penetration, users increase adoption of web-phone is a signal that the technology will be enhanced and banks will develop easy and convenient transactions for web-phone, as banks did for internet banking.

5.3. Channel Diffusion

Several factors influence the adoption of a technology and consequently the channel penetration in a region or country. GDP, as a measure of a country’s economic development, could be one of these factors; however, other factors and effects, known as diffusion effects of technology, are also relevant.

Network effects is one of the relevant diffusion factors that should be considered in one technology adoption because, as stated by Hall, Bronwyn [23], “the value of new technology to the customer depends on partly on the extent to which it is adopted by other consumers, either because the technology is used to communicate with others (such as Internet, or instant messaging) or because the provision of software and services for the technology depends on the existence of a large customer base.”

The fax machine is a very appropriate example of network diffusion, since the customer base increases as more people adopt it, since they now have peers to communicate with. About banking channels, Saloner and Shepard [37] studied the adoption of ATM machines by banks, considering the assumption that customers prefer a large network of ATM machines to a smaller network, and that banks respond to customer preferences. They concluded that “a higher network value leads to earlier adoption of a new technology.”

Standardization is another influential factor contributing to diffusion in technology-based channels, since one fixed standard can boost earlier and faster the
acceptance of users. Otherwise, several incompatible standards are going to always be fighting one another to become the leader, reducing adoption penetration speed. If we remember that several banking channels share some resources, such as ATM networks, call centers and web-phone operators, standard is a crucial factor to the technology expansion and penetration.

Cost issues are other important factors in channel and technology diffusion. If we consider not only the price of infrastructure or acquisition, but also the cost of complementary investment and learning required to make use of channel technology, it is a key decision and influential factor to the channel management. Often, new channels can represent a cost reduction to banks, and as it is in their interest to achieve efficiency, banks tend to subsidize these costs—for example, offering special financing for personal computers in order to expand the customer Internet banking base.

Moreover, the uncertainties of every technology and non-economic determinants such as cultural and social characteristics should always be remembered as factors of projection in technological projects.

Many of the conclusions achieved in this chapter are coherent with conclusions issued in an MIT paper called “Global e-readiness for e-banking” [39], in which the authors exploited and described access, capacity and opportunity, such as domains applied for e-banking. This document also studied general information related to economic index, such as GDP per capita and Internet users, reaching important conclusions of cross-case and cross-country learning among ten different countries studied. In addition, issues related to the social, cultural and political environments were analyzed in this paper in order to deliver the general trends in e-readiness for e-banking.
The combined study of S-shaped curves, technology adoption and diffusion, and their correlation with banking channel management, could form much of the basis for future strategy recommendations for channel management. Technology and channel adoption are dynamic and may face disruptions that will change the channel strategies, indicating the importance of these elements in our future conclusions.
6. Trends in Value Added in the Channel Chain

One of the greatest challenges of an organization is to decode the service profit chain from bank’s strategy in order to reemphasize its core competencies and boost efficiency and customer satisfaction. Since channel is a crucial resource to deliver the services and products in a bank’s strategy, we are going to explore the relation of added value and cost structure of banking channels and how to take advantage of this relation.

6.1. The Service Profit Chain

The service profit chain concept was suggested in the book by that name written by Heskett, Sasser and Schlesinger [26], in which they explore the idea of customer perceived value of services and how companies should explore each component that is a crucial link in the service chain. The authors stressed that there are relations among cost, delivered service and added value that can be leveraged in all processes. Also, the authors [26] mention that: “quality and productivity improvements do not necessarily translate into processes that deliver value,” suggesting that companies should further exploit components in their process, such as added value, over traditional factors like quality and productivity.

The following illustration represents the service profit chain, in which you can see the virtuous cycle of capability, quality, employee satisfaction, employee productivity and quality linked with the drivers to profit and growth, remarking that the drivers are represented by customer values and customer satisfaction.
Figure 6-1 – Service Profit Chain (Source: The Service Profit Chain)

These two drivers, value added and satisfaction, will be exploited in this banking channel management study in order to verify the customers preferences and bank channel’s cost so that the channel strategy can address efficient results.

It is easy to notice that several channels offered by banks have a completely different cost structure among them. While the traditional brick-and-mortar branch offices are the most expensive banking channel since they must be attended by human employees, such as account managers and tellers, the new remote banking channels, such as Internet banking and the ATM, represent more inexpensive structures since they have their attendance relied on technologies rather than a human relationship.

When comparing banking channels, in addition to technology aspects, the human relationship is the difference in the service provided by channel and it is not difficult to see the importance and relevant extra added value that human, face-to-face relationships can aggregate to a banking channel. The chart below summarizes the costs and customer perceived added value in the major banking channels:
Figure 6-2 – Value Added x Cost

(Source: Adapted by the author from Booz Allen & Hamilton Brazil/01 and Oxford Associate/96)

The chart above indicates the increase value-added in more expensive channels, which means that services delivered in branches are perceived by customer as more complete and with extra value offered by banks. Besides the service value-added, the chart shows a dramatic difference in cost structure among the banking channels, with branch office transactions reaching more than 100 times the cost of Internet banking. It is reasonable since branches not only require more human capital, but also a physical building, maintenance, security systems and logistical costs. Furthermore, and even worse, branch office facilities need to be replicated in all other locations offered by banks, boosting fixed costs and also requiring a higher administrative cost from bank headquarters in order to manage the structure. All costs considered in the latter chart are in average and independent of the product transaction nature.

Remote channels require an initial investment to set up a system and to adapt the technology to bank’s central processing systems. Moreover, they also require the
implementation of a specific infrastructure (communication and machines) that in the case of ATMs, are also expensive. But the lack or reduced presence of human capital, and the reduced cost of replication for multiple locations makes the cost per transaction in remote channels cheaper compared to branches, and encourages banks to entice customers to remote channels in order to improve efficiency.

It is essential for banks to understand that efficiency can be reached by exploiting the good factors of each channel, struggling to segment their products and services so that they can drive products to more efficient channels and customize solutions per channel for every segmented niche market. The next chart helps us to understand this dynamic by observing the relation and personal interaction between customers and banks, besides the channel costs and customer willingness (preferences). In other words, customers tend to prefer face-to-face branch transactions over the other channels.

Figure 6-3 – Customer Personal Interaction x Cost per Channel and Willingness

(Source: McKinsey – “Balancing customer needs in retail banking distribution”)

As the McKinsey study proved, branch offices deliver a service richer than others, and the customer usually perceives the extra added value (measured by personal interaction) offered by the branches whereas PC and telephone interactions are still far
behind in added value to customers. On the other hand, this extra added value represented by customer willingness (customer channel preference) and customer interaction requires much more investment, as mentioned. So banks are facing the great dilemma of whether to drive customers to inexpensive channels or to deliver more added value and interaction.

This is a difficult tradeoff since banks do not like to abandon options or segments in order to gain efficiency. However, many banks have begun to create cost incentives with the intention of driving the customer to more efficient channels. This trend has triggered the emergence of promotions that offer free Internet transactions for banking customers or additional charges for branch’s teller transactions. Other banks, with a substantial portion of their customer base using the call-center channel, unadvisedly increased the fees for telephone transactions while conducting branch transactions without charge. However, this trend generated dissatisfaction among customers who have also the option of newcomer Internet banks, offering free services and more profitable interest rates.

Banks are dealing with these new inexpensive remote channels as products rather than as channels. Banks expect direct financial benefit, either in the form of improvements in revenue or in cutting the cost of business; however, new channel opportunities should be studied and understood as a link in the channel chain that will present efficiency to bank through a combined channel strategy. Thus, a newcomer channel may not be the most profitable, but it can contribute to the results of all other involved channels.

Banks will have to adapt themselves to this new reality, which asks them to leverage all opportunities asked by market, such as offering customized solutions, segmenting markets and redesigning the roles of branch offices (these points will be discussed in the following chapters). Since banks have the opportunity to offer
less-expensive channels such as Internet banking, intangible factors like convenience, quality and security should also be explored in order to get advantages of these channels and address the customer migration in a more attractive way.

A recent survey led by Jupiter Research revealed that remote channels and particularly, Internet banking attracts customer because of its time-saving convenience aspect much more than any other characteristic, including higher interest rates:

![Figure 6-4 – Drivers of Adoption in Internet Banking (Source: Jupiter Research)](image)

This survey observes the new perspective of adding value to customers and exploiting new features, like greater convenience and customization, which branch offices are not able to offer to their customers. Intangible aspects, which are so far not explored by branch, could now add value to remote channels and help the channel strategy of driving customers to efficient structures.

As a summary, the following illustration shows some movements in the added value through the channels chain. It shows that drivers related to remote channels emphasize the positive factors and their importance in the channel strategy to gain
efficiency, customer satisfaction and cross-selling.

Figure 6-5 – Acquisition, Migration & Retention Trend - Remote Channels
(Source: Jupiter Research)

This picture shows that a channel management strategy have different focus for new and existing customers which have different expectations on the added value service for each transactions. A balanced channel management can leverage customer satisfaction, cost efficiency and cross-selling by addressing factors that could both migrate new and retain current customers. These factors are mentioned in the figure 6-5.

The goal of this chapter is to expose the concept of value channel chain and the dynamic of adapting banking channels in order to perceive customer values. Also, this trend detailed the potential added value that new remote channels can offer in order to deliver better results and attract customers to more efficient banking structures.
7. Banking Channel Model

As we study channel behavior, its trends and evolutions, we can see common pathways that can be powerful tools to the future implementation of banking channels or to the understanding of current stages of some channels and their recommended improvements. As with many other general banking channel models, there are several other patterns that also can be applied or understood in a different way, but the following trend is considered a very relevant model to better manage banking channel strategies.

7.1. Evolution and Functionalities Model

There are several models describing banking channel behavior and the way it varies along its lifecycle. Particularly, strengthening the evolution and added functionalities to the new remote banking channels, Tower Group Inc. [17] and Mr. Eduardo Diniz [10] from FGV/Brazil presented similar models which explore the transitions from the initial channel phase of delivering information to transactional and relationship phases with increment in the level of relationship with customers.

The model suggested by Tower Group and Diniz argues that banking channels have three distinct phases: First is an informational phase, when banks are studying the market opportunities and usually simply expose their contacts and other basic information. Second is a transactional phase in which banks invest in operations through the channel, offering banking transactions and product simulators as a way to leverage convenience and optimize cost structure; The final phase is the relationship phase in which banks are willing to go further on transactions, exploiting the available technology in order to offer specialized and customized solutions to customers.
The following diagram summarizes Diniz’s models, adding three stages of development: basic, intermediate and advanced, inside each channel’s phase:

![Diagram showing the evolution of banking channels from Transactional to Client Relationship with stages of Basic, Intermediate, and Advanced.]

Source: Adapted from Fundacao Getulio Vargas / Brazil – Prof.: Eduardo Diniz

**Figure 7-1 – Banking Channel Evolution Model**

This model illustrates examples of functionalities in each phase of the banking channel. It also exploits the idea of channel evolution and the way it occurs. In the model, from upper left to the lower right, it is possible to see the evolution of applications and availability of resources to customers in order to aim at higher levels of relationship, offering developed transactions and further relations in the model’s advanced stage.

The idea that banking channels can follow specific standards is a powerful principle to predict future similar implementations and customer behaviors, serving to simulate new markets or potential applications. Furthermore, it is important to remember that not all channels behave in the same way, since different social, cultural and banking
competition environments can pressure and drive channel development in different
directions; and consequently with different speeds, a situation that requires constant
analysis from channel managers. In the next picture, it is possible to verify an application
of the studied model that was developed by Tower Group. The illustration was applied to
the Internet banking, and it reproduces an estimate of development and implementation of
resources, segregating in the following stages: informational, transactional, experience
customization and wealth management:

![Figure 7-3 - Evolution of Online Banking (Source: TowerGroup Inc.)](image-url)

Marketing presence is a fundamental strategy that many banks adopt in order to
signal to the market that they have interest in a determined resource or channel; this is
especially true during the informational phase. In the initial years of the Internet, many
banks registered their websites, giving basic information through the web in order to send a
message to the market that they have Internet interests, while they were studying the
market possibilities, size and customer preferences. Once customer interest and channel
economic viability were proved, banks went further in the Internet solutions, offering
transactional applications and product simulations, reaching a very high level of
interactivity and customized solutions.
Another recent study was prepared by Tower Group Inc. concerning the wireless or web-phone market, predicting some phases and suggesting how banks can adapt their structures and products to the new channel. The next chart offers an overview of the wireless web-phone banking channel and its expectations in the U.S. market in the next years:

![Wireless Financial Services Implementation Model](image)

**Figure 7-2 – Wireless Financial Services Implementation Model**

*(Source: Tower Group Inc.)*

These two examples help us to validate the evolution and functionalities model as a good predictor for new remote banking channels, and suggest how we might to use it to leverage banks’ actions and strategies. Moreover, this model shows that banking channels has room for constant evolution, improving the delivered service and offering innovative
solutions to customers. It is also interesting to note that there is more potential for increasing business and customer niches in the higher levels of channel interactions between bank and customer, where new opportunities for an upscale relationship can attract and instill fidelity in more customers.

Also, applying the technology adoption study described in the chapter 5, it is possible to link technology adoption and the evolution model described in this chapter, since the three steps of development in the channel’s evolution are closely tied with the development of the technology on which it is based, which will support and offer the conditions for channel evolution. In addition, the added value theory studied in chapter 6 is also coherent with this channel’s evolution model, since the goal of a banking channel is to cumulatively offer information, transactions and relationship, exploiting all phases of the channel’s evolution model to add extra value to the customer.
8. Multi-Channel Integration Strategy

After studying the channel management theory, global practices and some trends in banking channel management. This chapter will explore strategies in order to leverage the efficiency of banking channel management through the application of multi-channel integration.

Banks are facing the increasing adoption of new channels and the growth of other ones. Therefore, the management of these channels and technologies to efficiently supply financial products and services to customers is a challenge that many banks are struggling to implement. Branch offices are no longer the primary distribution gateway to financial services. Nowadays, branches are sharing space physically and strategically with other important channels that are more efficiently offering financial services to customers where they are and serving them when and how they want to be served.

Multi-channel integration is a decisive strategy that ties together the processed data in all banking channels, leading banks to pro-actively understand and respond to customers’ necessities, taking advantage of consolidated information to review products and services to better compete in the new banking scenario.

8.1. Banking Multi-channel Integration Drivers

Earley, [11] based on Gartner Group Research, argues that “the global marketplace requires that financial service providers choose from among several channels in creating a distribution strategy that will match each provider’s business goals, target market and budget.” This distribution strategy is based on a multi-channel integration solution that helps to convey all customer information and also to subsidize the goals, target and budget
for a business.

In addition, multi-channel integration can support banks in the improvement of some capabilities, such as increasing market segmentation requirements, satisfying the demands of clients who want customized services, the continuous development of products and services, the addition of new systems and applications, and the continuing cost-conscious and restrictive attitude among banks.

Although the variety of banking channels reaches customer expectations for convenience, it does not completely fulfill the bank’s business interest, such as improvements on sales or cross-selling and reaching target customer relationship. Harris [24] demonstrates that when banks manage their channels without an integration strategy, it often leads to inconsistent messages delivered from different sources, which can be a risk to both the brand name and customer satisfaction.

Harris suggests an integration strategy based on: ensuring a consistency of information and experience, since customers would like to receive consistent information, rates and prices independently of the channel used to handle one operation; brand consistency, since sometimes the offline transactions do not carry updated information or deliver different “look and feel” experiences; cross-channel insight, since transactions can be done through several channels, customers expect each channel to be attuned to recent interactions in order to avoid repetitive offers.

There is another side of multi-channel management integration to be exploited, the technology advantage side, where banks can better handle the rising cost of maintenance of different channel systems, enhancing support services and time-to-market of new products and services. These factors, together with business aspects, support the implementation of
multi-channel integration and consolidated management of channel information.

8.2. Banking Multi-channel Integration Technologies

There are two ways to implement channel integration in multi-based channels such as bank systems: either middleware or platform enterprise systems, both of which are very efficient. Recent research done by Celent Group, in the United States, shows that the system integration has been equally studied and implemented in banking industry. The integration systems are defined in the following paragraphs:

Middleware: This integration system requires that every channel has a similar middleware system to decode and to consolidate data channel by channel. This integration works from one channel, such as from ATM or IVR (interactive voice response) to the main processor, such as the bank’s central mainframe computer.

The middleware implementation is more complex since it requires customized implementation for every channel. Moreover, it requires that every update or maintenance in the main code be redeveloped and decoded for every channel, an extra activity that works against the bank’s goal of efficiency.

Middleware operates like a layer of communication between channels and the central processor; therefore it requires specific translation to each different language used by the specific channels. Middleware also reduces time to implementation and enables fast improvements. The figure below represents this strategy:
![Diagram showing multi-channel integration with middleware](source: Celent Communications)

**Figure 8-1 – Middleware – Multi-channel Integration**

**Enterprise Platforms:** This methodology applies the same language or translation layer to every channel and central processor, maximizing the use of code for channels since they are all compatible with one another. This mechanism also considerably reduces the development time when new products, transaction types or back-end systems are introduced in the market. Although more expensive in the short term, since it requires higher system platform cost and infra-structure adaptations, platform enterprises enable major returns in the long run, besides reduced maintenance costs. There is a large potential for improvements in future products and channel implementations. Following is one illustration that summarizes the enterprise
platforms fitting the integration role in the bank’s system architecture.

![Enterprise Platform Diagram]

Source: Celent Communications

**Figure 8-2 – Enterprise Platform – Multi-channel Integration**

### 8.3. Banking Multi-channel Implementation

Since there are different priorities, segmentations and marketing reasons that should be considered in all banks’ multi-channel implementation, the issues of implementation will be considered as to relevant recommendations. Also, we will study profitability and customer preferences in this implementation, based on Fonseca’s and Katkov’s article [18] about channel management implementation.

Banks have been primarily struggling to integrate branches, call centers and Internet banking, since these channels offer the most profitable results and fastest payoff for integration investments. On the other hand, IVR (interactive voice response) and ATM implementation are being postponed since the results of these channel integration have not
yet showed clear advantages in order to improve sales. However, it is clear that the benefits offered by multi-channel integration will only be possible when all channels are connected and based on the same database. Therefore, analyzing ATM and IVR with a channel focus rather than a product focus (with expected payoff), these channels should be integrated soon.

![Multi-channel Implementation Timeline](image)

Source: Celent Communications

Figure 8-3 – Multi-channel Implementation Timeline

Figure 8-3 represents the suggested implementation model for multi-channel integration, noting that branches and tellers can have faster returns, followed by call centers and Internet banking, which can also offer fast results. However, integration of IVR and ATM does not yet present expressive improvements so they will be considered in a later phase.

Other new channels such as digital TV and web phone have also been studied; however, they have not yet presented enough scale to pressure their integrations. But if we consider that these channels (TV and web phone) are becoming more familiar to some customers, as happened in Japan or Europe, probably a new integrated architecture for these channels will be required.
8.4. Advantages of Multi-Channel Integration

There are several advantages presented by the strategy of multi-channel integration, beginning with basic accounting allocation for profit and loss to the measurable channel center of cost to more complex issues such as obtaining meaningful channel, product, cost and revenue data-center in order to create appropriate standards for the banking channel management.

In addition, multi-channel strategy can support the highly desired CRM (customer relationship management) implementation, which is an important tool to consolidate customer information and behaviors in order to predict future preferences and product customization. Until now, several of the banks that have tried to implement CRM have encountered obstacles that delayed their return on investment and confidence in CRM. Linking CRM with multi-channel management is a natural solution to predict and actively improve sales through CRM. Instead of striving to create a massive, comprehensive database of all customers, as CRM does, multi-channel integration responds to specific requests, pulling discrete pieces of information as needed, in real time, from back-end systems. Also, multi-channel integration is capable of analyzing customer data in order to generate sales recommendations and track customer interactions.

Earley and Free [20] from the Gartner Group noted several other advantages that are also important as a result of implementation of multi-channel integration, such as:

- **Technical Maintenance**: unique operation for all channels.
- **Enhancement**: business capability is improved by adding data elements to the transaction; therefore, all delivery channels benefit without substantial channel-specific modifications.
- **Documentation and Standardization**: standard codes can get scale
advantages to all channels because data and references have the same meaning in all channels.

- **Security**: Simplified accesses to front- and back-office systems enable central security and authentication, and single sign-on.

- **Support/Troubleshooting**: there is just one place to look for and correct coding errors or discrepancies.

- **Data Quality**: enhancing consistency of customer information will be available without the need for transformation.

As demonstrated in this chapter, multi-channel integration is powerful strategies on which several banks can leverage their profitability, customer satisfaction and cross-selling, which are key goals for all financial service providers.
9. Branch Offices - Strategy

We have reviewed evidence that banking customers really value the branch face-to-face contact, which generally delivers more personalized solutions and a better quality of service. However, banks are increasingly interested in directing customers to new remote channels, which have reduced cost structures, when compared with branch offices, and also offer convenience and comfort attributes.

Considering this new scenario, the banking branch office needs to be fine-tuned in order to maintain its competitive nature as a channel, leveraging its positive factors and taking advantage of remote channels to better target the branch’s customer segment. This chapter will address new strategies applied to the bank branch’s role as a strategic banking channel.

9.1. Banking Branch Office Environment

Branch offices are the first natural step of all traditional banks; branches are the physical representation of a bank as an institution and its fancy building sometimes represent the reliability of an institution. Therefore, many customers still do their business only through the brick and mortar branch offices, preferring its personal relationship.

As mentioned in chapter 4, branch offices are still a very representative channel in the worldwide banking scenario. But with different transactions’ profile in many countries, for example, in Scandinavian countries, a branch is an open space with an ATM, Internet banking access and an account manager’s office, whereas in most of the United States, branches are still very traditional, with plenty of teller attendants.

This difference represents the transaction-oriented strategy that many American
banks have adopted. Deposits, cash money or checks still represent a big amount of branch’s transactions in the United States, requiring banks to offer the expensive branch structure for a large customer segment. But, why are banks not making greater efforts to drive their customers to a more convenient, reliable and inexpensive structure, such as ATM or Internet banking? This thesis will conclude by answering this question through an analysis of a channel-oriented business.

The following illustration shows the results of, we can check out one recent survey done by Celent Group [6], which gives a breakdown of the kinds of transactions that American tellers handle, and shows how they spend their days.:

![US Branch Transactions and US Teller Daily Activity](image)

*Source: Alltel, Celent Communications*

**Figure 9-1 – US Branch Activity (Source: Celent Group)**

In this context, not only in United States but also in several other countries, the total cost of branches has been over-charged, since the transaction oriented focus is pushing banks to have much larger structure (branch offices), increasing employee, infrastructure and other related branch offices costs.
9.2. Banking Branch Office – New Banking Role

As mentioned before in this thesis, branches will continue to have a decisive role in customer attraction and retention. Considering that branches add more value to customers, branches can be a powerful channel to attract selected segments in order to deliver personalized solutions. Many recent studies and articles have mentioned the crucial importance of redesigning the role of the branch and the urgency of its making changes in the short term.

In a recent article published by Spencer [38], it was mentioned that branch channels generate the majority of banks’ business, representing the most effective channel.

![Figure 9-2 – Channel Business Generation – Europe 2003 - (Source: Reuters)](image)

This figure demonstrates that the branch office is the most efficient channel at business generation, and suggests its potential for expansion if managed in a channel-oriented strategy which could leverage branch’s advantages of personal relationship and reduce costs through a revision of process, infrastructure and human

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capital. However, as demonstrated before, branches are still the primary channel in many countries, focused on process-oriented operations, like cash and deposit, which high penetration makes the branch’s role redesign a big challenge.

In recent study, Bezrd [6] (Celent Group), stressed that new convenient payment systems, based on remote channels, are going to be implemented in several countries. Considering that branches will lose their current payment operations and also the branch’s high cost structure for the current business model, it seems likely that banks will support the proposed redesign of the branch’s role. In this new competitive market, some branches that do not achieve profits should be closed, and banks will no longer either support losses or deficit channels.

Along the same lines, Booz Allen & Hamilton [30] recently published an article that supports the idea that, in the short term, branches will have to be readapted to the new realities of customer preferences in which branches will be shifted to the financial services resource center, offering specialized consulting meetings or specialized services that periodically check out customers’ necessities and suggest investment. Moreover, tellers will do more than simply handling transactions. They will fulfill complex transactions, improving customer interaction and perceived value, which actions will open new opportunities to sell products and to achieve branch efficiency.

The idea of CRM and improvements in cross-selling and customer relationship can be further applied in the new concept of branch strategy. CRM is a valid theory when applied to general markets with similar characteristics and customers. But large or densely populated countries like Brazil, the United States and Japan have local demographic characteristics that branch attendants can better interpret, and consequently deliver better
services and products than automated suggestions delivered by CRM. Although CRM can also be customized to local rules, local account manager perceptions are more precise and a certain pathway to address services and products.

Another conclusion of the Booz Allen & Hamilton study is that more than 90% of customer relationships in a bank are won or lost in branch offices, indicating that the "moment of the truth" for customer relationships in branches is more important than in other channels. So a transaction to a new branch office’s role requires not only a new role for employees, but also a new design in branch’s architecture, exploring segregated spaces to remote channels, like ATM and Internet banking (for routine transactions) and private business rooms in order to improve and to leverage the new sales-driven orientation of banking branches.

The federalization banking branch model is also one option for driving the new branch-centered role. In this strategy, each branch works as a decentralized sales unit, with decision power to negotiate optimal rates and fees, based on the local characteristics, competition and customer opportunity. This strategy has, in its background, the same goal of optimization of branch channels, adapting branches for a new competitive reality of customer desires and channel cost structure.

The branch reorientation is also strengthened by Bill Orr [34] in his recent research, which affirms that 50% of interviewed customers agree with the phrase: “I prefer to go to the branch to conduct my banking transactions versus using self-serving banking like ATM, IVR and others.”, which reassures that branch offices is a well accepted channel by customer and represent an important channel to be explored. Thus, redesigning the branch’s role to take advantage of customers’ willingness to go further in their relationship
through branches, will certainly enhance bank’s efficiency. As one example of the expected efficiencies, The Wharton Financial Center [21] noted that a consulting firm predicts a more than 65% decrease in the number of tellers based on the migration of routine operations to remote channels and consequent new role for the branch.

A practical example to assure the assumptions stated in this chapter is the recent strategy of one of the leaders in the e-bank market, E*Trade. After an incredible expansion in the United States market, reaching an incredible volume of customers and deposits, based on a structure of higher interest rates, lower costs and new technology delivery, E*Trade decided to expand its channel to physical brick and mortar branches. This decision confirms the weak cross-selling penetration and the weak competitive advantage of non-face-to-face customer relationships (as happened in e-banks). In the last two years, E*Trade opened some branches and did a partnership to open kiosks inside Target stores, with a very lean infra-structure consisting of just one attendant, ATM and Internet banking terminals. E*Trade is supporting its expansion through physical branches which could offer better cross-selling, increasing the ratio of product per customer that currently is very low among all e-banks.

In conclusion, branches will continue to be an important part in the banks’ strategies. The old brick-and-mortar branches will be redesigned to drive customers to more efficient channels such as Internet banking and ATMs, which can also be offered inside segregated branch’s space. As part of the branch redesign strategy, banks will implement federalization management or change the branch offices focus, driving their customers to more profitable products and driving routine transactions to remote channels. Attendants and account managers will have the responsibility of increasing sales
penetration and leveraging the branch profit returns. Since customers recognize the extra added value offered by branches and the potential of more personalized financial services solutions, branches have lot of room to apply federalization or any other method to boost efficiency.
10. Life Stage Financial Strategy

So far in this thesis, we have considered several trends and strategies that have been influencing the banking channel, such as customer added value, technology adoption and a new role for branches role. However, we did not mention the marketing point of view, in which customer profile, price discrimination and segmentation opportunities drive the banking channel management focus. In this chapter, these aspects will be studied and strategy decisions considering these points will be suggested.

10.1. Life-Stage Drivers

In recent years, all banks around the world have heavily invested in CRM implementations as a mean to designing a customer-centered approach. But very poor results have been achieved with CRM implementation. Cross-selling is still small and CRM is starting to be questioned in relation to its efficiency. While banks are interested in targeting their business towards this new customer-centered focus, they should also consider adjusting more than the cross-selling approach. A fundamentally customer-centered approach should be designed and required in order to establish higher results.

A recent Booz Allen & Hamilton article [31] mentioned the advantages of implementing a customer-centered banking strategy and the adjustments necessary to succeed in its implementation. The authors reinforced the importance of a customer point-of-view focus, building an open and mutually successful relationship between banks and customers, which relation is dynamic through the different customer life stages, such as the convenience of short-term transactions versus a focus on long-term wealth accumulation.
This deep and enduring relationship is only achieved when maintaining an ongoing dialogue between bank and customer in order to attend all sorts of tailored demands. Unfortunately, current CRM practices cannot give these results, since they are based on collection of discrete sales and service interactions data. CRM is a one-way strategy of cross-selling that cannot answer the desired dialogue between bank and customer.

A close relationship between bank and customer, with coherent affinities to customer interest and bank driving forces, can open a window to capture the customers’ needs, sharing their information with the banks so that, together, they can develop tailored solutions.

Struggling to offer more satisfactory solutions, banks should move beyond event-oriented marketing, such as mortgage or car financing, to develop continuous customer life-cycle solutions. Although supporting the early and less-profitable life-cycle stages’ operations is not so attractive to banks, the life-cycle strategy can create bonds that will support future complex and sophisticated transactions during older customer life-cycle phases, which can reward banks with higher profits.

Since this long-term relationship is the main interest of banks and customers, new and mutually successful relationships with the customer should be built up by banks, realigning banking business models with customer life-cycle stage. In this manner, the banking distribution system should be remodeled, facilitating the consistent approach of banks to customer’s needs and budgets.

The next figure, adapted from Booz Allen & Hamilton [31] summarizes the suggestion of a customer-centric approach, inspired in the bank and customer long term
Figure 10-1 – Customer Management Model
(Source: Adapted from Booz Allen & Hamilton)

This model illustrates how customers’ needs evolve and become more complex through the course of their lives. The banking level of support shifts during life-cycle stage, from light management model to high advisory relationship.

This strategy reinforces the idea mentioned in chapter 9 of redesigning branch offices in order to reinvent the way customers and banks do their business and handle their relationship. This strategy also reinforces the fact that, although customers are migrating to remote channels for routine and transactional purposes, they still prefer to engage in sales transactions through face-to-face contact. Booz Allen & Hamilton [31] also mention that the model shown in Figure 10-1 is capable of improving cross-selling from 15% to 80% and doubling customer retentions.

After setting up this new business model, the challenge is how to develop customized products and solutions that will build loyalty and trust among customers in a
cost-effective way. Thus, the development of modular products and service bundles for each life-cycle stage could be one way to make the sale action easier and targeted to the specific customer segment niche.

Banks will build up products and services packages with a convenient cost structure (through channels) and expected interaction to develop long-term relationships with customers. Therefore, banks will have to segment their customers to specific channels, using life-cycle stages parameters. For instance, for customers under the age of 20, banks can offer direct channels like ATMs and Internet banking, focusing on checking and savings accounts, and credit cards. For 20- to 40-year-old customers, banks can offer “life-builder” solutions like mortgage and brokerage through more interactive channels like call centers, maintaining the direct channel already offered. Customers over 50 are considered to be in a wealth management phase, where they can exploit all channels available and expect very personalized products, with face-to-face engineered solutions.

This customer-centric strategy, which suggests the implementation of customer life-cycle stage segmented focus, could be leveraged if implemented together with the redesigning of branch roles and multi-channel integration, helping banks to drive customers to more efficient and attractive cost channels structures, with desired products in each life-stage period. However, more than adequate cost structures and tailored solutions, this customer-centric strategy adds the idea of long-term vision, aligning the whole customer life-cycle stages necessities to respective channels and products, improving efficiencies and customer satisfaction.
11. Other Channel Management Considerations

On several occasions, this thesis reinforced the importance of local characteristics in banking channel management. Many of the statements made in the previous chapter could be more valuable in some countries than in others, but they have theoretical considerations and managerial concepts that will be always helpful to apply in every banking channel consideration.

This chapter will approach localized problems and their importance to channel management.


Security issues are a great problem for the development and improvement of remote channels, which rely on open and public technologies like Internet and telephone, which enable anyone with bad intentions to threaten virtual banking transactions.

Remote channels have been increasingly supported by banks in order to drive routine transactions to these more inexpensive channels. However, some cases of “hacker” action have pushed away customers from remote channels, and it could endanger bank’s plans for remote channel expansion. Although security tools and technologies such as firewalls, encryption, and authentication have matured in recent years, many security issues are still unsolved and can pose a risk to remote channel development. This is a difficult task for banking IT managers, particularly for Internet-based projects managers.

A recent survey from Jupiter Research showed that banking customers are still very worried about doing business through the Internet. Even though banks have made a great effort through publicity to reassure their customers, it still seems that security
concerns are interfering in the adoption of remote channels.

Figure 11-1 – Customer Perception of Internet Business (Source: Jupiter Research)

Banks are responsible for cases of fraud or disclosure of information regarding their customers’ accounts. These matters have been causing financial losses and image deterioration to banks that are struggling to find better solutions.

11.2. Banking Channel Regulation

Several countries have been strengthening their banking regulation systems, either by pressure from society or by a recent banking bankruptcy wave that asks for more severe rules to address banks limits, and guidelines to manage customers’ money and information.

Many competing regulations have also been implemented in recent banking systems, specifying banks’ expansion and requiring funding rates levels, such as Basel limits. Also, countries’ central banks are requiring compliance procedures in every operation, as well as warnings about money laundering. In some countries, this regulation also established transaction standards, conveying channel transactions to be done similarly.
by every bank, and sometimes centralized by one institution (e.g., Scandinavian countries).

Although regulation is a required and good factor to balance markets and attract customers, it can also limit the channel evolution or block customized solutions, since the transactions sometimes need to be standardized. As explained before, regulation varies country by country, but it is an important factor to be considered when studying banking channel management.

11.3. Banking Industry Local Competitions

Strengthening again local characteristics, specific regional bank competition can influence differently the banking channel management. In several countries, banks are owned and controlled by big holding groups that are also owners of complementary companies. These in-holding owned companies allow banks to make special and advantageous partnerships with other in-holding companies that can leverage the number of clients or the access to exclusive sales points (channels).

Brazil, as an example, has some banks that have participation in Internet service providers, or technology companies that produce ATMs. This proprietary participation can drive banks to act discriminatorily in the market and sometimes take advantages to themselves. However, the local regulating agencies tend to combat these distortions and equalize players’ access to every channel or market opportunity.

Non-financial players such as retail stores are currently entering the banking market, offering financing deals to their customers without banking intermediation. These newcomers are not only threatening banks but also offering different channel access to customers, who have been increasingly accepting this opportunity. Currently, banks are struggling to settle agreements with car dealers and property brokers in order to offer
financing deals or financial consulting with the negotiation of a property or a car.

These examples make every new customer interaction with banks a new channel opportunity that channel managers should be attentive to in order to better understand channel penetration and trends.

11.4. Bank Channel Management Organization

Banking channel management decisions are influenced by more than just external factors. The internal structures of the bank, as well as the management process can affect the channel focus decision. Banking internal decisions vary from bank to bank and the way decisions flow internally can drive the development of some banking channels.

Usually banks are divided into sales, technology, marketing, operation and other support areas, with the channel management area split among diverse areas. For example, the sales area used to be responsible for branches, the operations area for ATMs, and technology area for Internet banking. This dispersed management system could make different decisions in each bank channel, risking the product marketing campaign to have different focuses in each channel. On the other hand, some banks have centralized decisions, making all channel decisions centered in one regular committee meeting, capable of balancing the attention through the banking channels, and making a channel-oriented strategic action among all channels.

Decentralized channel decisions tend to be influenced by areas which usually have more power inside banks (such as sales) in order to over-emphasize support for their channel, creating unbalancing channel decisions or lacking the opportunity of developing potential new channels or improving current ones.

Channel management is responsible for supporting all channels and driving
decisions to their developments. Banks have stated visions and strategies that should be reflected on their channel management, focusing on both cost opportunities in new remote channels and high customer interaction in branches or call centers regarding their main strategies. Therefore, the development of channels and their adoption is highly dependable on internal channel management structure and banking organizations.

In conclusion, this chapter notes that all trends and strategies studied in previous chapters should have relevant impact based on different and specific particularities of certain countries. Internal and external bank factors influence the channel decision in different regions, and banks should always consider these particular factors when addressing their channel decisions.
12. Conclusions

Efficiency, achieved from increasing revenues and customer satisfaction, as well as balanced cost structure, is the key result expected from the reformulation of banking channel management that has been addressed in this thesis. Considering that channels are the way to connect customers and products, all points addressed in the previous chapters are highly relevant to the understanding of banking channel management and how its dynamic movements can be set to reach more efficient strategies.

Furthermore, the thesis reinforces the importance of aligning bank strategy with channel strategy through a matrix of efficiency, which shows the interrelations among channels, customers and products, suggesting an ideal set of components for each market niche segment.

Matrix of Efficiency

Figure 12-1: Matrix of Efficiency
Managing the components that influence this matrix and analyzing all the trends and strategies described in the previous chapters is the challenge to balancing a winning strategy. Every bank can have a different strategy, based on tradeoffs that will push the banks to a different set of components on a matrix of efficiency, but certainly an unbalanced strategic decision will expose the bank to failure.

Summarizing the concepts discussed in this thesis, there are some key recommendations that should always be used as a checklist for banking channel management strategies in order to best fit the matrix of efficiency:

- **Segmentation**: In order to create efficient structures, banks need to match customer niches with product buckets and the customer needs to be reached through proper channels that consider either cost or structure. There are several ways to segment customers, some of which have already been mentioned in this thesis, for instance, in chapter 10, the life-stage methodology that also could be compared to the wealth growth pattern of customers, which means that for every customer, life or wealth stage will be a perfect bucket of products and channel structure to efficiently fit a customer’s expectations.

  A correct segmented structure will provide the area of the bank’s product with the relevant information to develop the best product for specific niches, as well as the level of customer interaction required for these products to be sold.

- **Customer Interaction**: The product bucket offered through the channels requires different levels of customer interaction, for instance: checking account balance doesn’t require the same interaction as selling a retirement-fund plan, which needs to be customized for each customer’s necessities.
The level of interaction can also have different cost structures that improve or hinder customer fidelity. Since efficiency is the key factor in the channel management structure, banks should increasingly understand the value added concept, as explained in chapter 6, with detailed the importance of customer interaction and value delivered by channels in order to fulfill customer necessities.

Cost Structure: Not only products, but also channels should segment their components in order to better leverage their results. If we consider that products and channels have different cost structures, it is highly relevant that we study channel structures individually in order to detail the costs. Moreover, if we remember that different channels deliver different levels of customer interaction, we are going to value the importance of balance between channel cost and customer interaction. A perfect combination of these factors will fulfill a strategic matrix model that optimizes customer niche, channel structure and products.

A great part of the channel structure is related to technology and its evolution phase. As studied in chapter 5, technologies usually follow an S-shaped curve model and so does the channel which is based on the same technology. This structure can help banks to forecast future channel investment, customer adoption and marketing decisions.

The analysis of channel technology and its respective evolution framework (chapter 7) can offer bank managers a picture of a channel’s direction which, together with the channel’s cost structure will help drive
customers to both channel and bucket of products under a bank industries perspective.

Integration: It may seem trivial to emphasize the importance of channel integration, as mentioned in chapter 8, but there is still room to take advantage of it since many banks have not yet adopted it nor explored all benefits. Channel integration can be the most powerful mechanism to understand customer profile, preferences and in which point of the matrix of efficiency (customer x channel x product) the customer should be driven.

Integration is also used both to test the validity of segmentation models and to stress the efficiency of products and channels that should be offered to each customer. But essentially, the improvement in the quality of customer service and the high accuracy of data will make the difference in securing customer satisfaction.

Challenging the roles: The new channel management environment requires that channel roles be readjusted, realigning the channels that are not matched with their customer or product orientation. Chapter 9 stressed the importance of branches in the new competitive context of banking, but it also pointed out the importance of remodeling the role of the branch in banking strategy, since branches are an expensive channel that should both focus on high-level segments (life or wealth stage) and offer greatly interactive solutions and more complex products.

The idea of a new channel’s role must be always challenged by managers which transform this opportunity in a great moment for channel revision. Moreover,
this revision can readjust other channels and re-match the optimal point in the conciliation of product, channel and customer.

Efficiency: The main reason for channel management focus is to reach efficiency. The fiercely competitive banking environment asks for a high level of accuracy. Banks should always be studying their customer, product and channel matrix in order to review their channel strategy to reach the best efficiency.

From the channel management study, we should understand that efficiency is the optimal solution in which customers will receive the desired products in the correct cost-structured channel with the required interaction. A win-win solution will be established, since customers and banks will both take advantages. In addition, customers and banks will be tied in a long and efficient relationship.

These recommendations that were detailed in the foregoing chapters are closely linked and represent a sequence of improvements that will always optimize the banking efficiency.
Figure 12-2: The Efficiency Cycle

The diagram above illustrates the points suggested in this thesis. It shows the dynamic interaction of factors (arrows): segmentation, channel’s added value, cost structure, integration and roles. A perfect interaction is the key strategy to constantly improve bank efficiency.

12.1. Applied Strategy

Now that we have discussed some of the key points for successful management of banking channels and how to leverage bank efficiency based on channel strategies, the thesis will propose a suggested strategy for a generic bank, addressing some implementation issues and the feasibility of banking channel strategy.
The XYZ Bank

We are going to analyze the XYZ bank, a generic and hypothetical bank that competes in the New England area in the United States. The XYZ bank is a medium-sized bank with branches spread all over New England. Lately, it has been presenting reasonable results, with a profit growth similar to the market average.

We can infer that the bank’s goal for its short-term future is to improve efficiency, leveraging the results (products and dollar amounts) per customer as well as rationalizing (cost structure) bank’s processes.

\section*{Channel Management}

Considering that the New England area is a pretty mature market with a high level of banking penetration in its population, the XYZ bank has not been increasing the number of branch offices and, very few new branches are planned for addition to its network in the future.

ATMs have a large acceptance among XYZ’s customers; therefore XYZ offers an average of 3 ATM machines per branch. In addition, XYZ signed a contract with NYCE and Cirrus, extending XYZ’s services to thousands of NYCE and Cirrus ATMs, which add a great convenience to XYZ customers. Cirrus and NYCE charge the bank a fee per transaction, which, later, XYZ will charge its customers. There are some fee exceptions for top customers who have a promotional package that includes a certain pre-established number of services such as XYZ’s ATM and NYCE/Cirrus’s ATM transactions.

XYZ has a small call-center section located in Boston. This call center is usually reached through a toll-free number. The first customer contact in the call center is done through an IVR (interactive voice response) machine that gives the customer the option to
perform simple operations through IVR help, or the customer may be redirected to an operator who will help the customer to execute a series of available operations.

Internet banking has also been applied by XYZ. Four years ago it launched an Internet banking website with some operations. There are still some applications and transactions that are not available through the website. Customers must go to branches to execute them.

Other channels like web phone and digital TV have not yet been studied by the bank, which believes that these channels are not going to be popular. But, in case they are wrong, XYZ plans to make lots of investment to offer them.

施行 Customers

XYZ’s customers are well-distributed among New England’s average socioeconomic brackets. They include very wealthy customers and senior ages to students and young professionals who are struggling to make money or studying in the several regional universities to climb the social ladder.

施行 Technology

Since XYZ bank has a medium size, technological investments are restricted to more applied resources and with strategic importance to the bank. They are willing pay a premium price to implement a technology only if it has already been proven and on frank adoption process.

Although its recent technology investments have been small, XYZ knows that technology and remote channels have a key decision-factor to customer operations, and the lack of increments in technology can lead the bank to lose part of its customer portfolio.
Thesis’s Applied Strategy

As described above, XYZ looks like many banks in the United States, playing in a restricted region (New England), with several local competitors and running in a fiercely competitive market that is usually characterized by services.

Following some steps suggested in the thesis, XYZ should try to plot a matrix of efficiency (channel, products and customers) of its practice structure and establish a desired goal or strategic positioning in this matrix, setting some tradeoffs that will represent strengths on which XYZ will differentiate itself.

The first step for XYZ is to understand its customer base and to calculate the best way to segment its market. There are many suggestions but, as it works in general, average wealth among the customers is proportional to their age, which means that life-stage cycle could be a good alternative for XYZ bank. Following this rationale, XYZ could split its customers into four segments:

- **segment 1**: 19- to 25-year-olds
- **segment 2**: 25- to 35-year-olds
- **segment 3**: 35- to 45-year-olds
- **segment 4**: 45 and older

This is a dynamic customer segmentation which allows some room for adjustments and exceptions, since social differences and professional success can make some young people move to higher segments.

The analysis of its channel structure is the next step in XYZ’s channel management. Segregating the cost structure by channels, understanding the cost per transaction and value added in each channel are the components of the channel matrix that
can help the bank to connect channels with customers and products.

Since XYZ presents average numbers, we can infer that its channel matrix is aligned with added value per channel and it should be pretty similar to the market, as shown below.

![Figure 12-1: Cost of Sale x Value Added](image)

Establishing a balanced mix between customer segmentation and the cost and value added structure is the key point to the success of a channel management strategy. This decision is based on the bank’s tradeoffs and core competences drivers that characterize a bank’s strategy. This balanced matrix is expressed by the channel matrix of efficiency.

The channel matrix of efficiency decision-making is the next point, where banks will discover the ideal mix among customer segments, channel and products. The tradeoffs used to balance this decision are based on bank’s capabilities and in which segments a bank would like to be focusing on. The following shows this matrix and three different strategies of competition:
Figure 12-2: Matrix of Efficiency with Strategies of Competition

At this crucial point, XYZ should establish tradeoffs in which they are going to compete in the market, which means that they may decide to compete among several different segments and strategies. The diagram above represents three different strategies in which XYZ could decide to compete:

- **Strategy 1**: Wealth management. In this strategy the bank decides to offer more expensive channel structure since its customers will operate in all channels and particularly the most expensive ones (branches and agents). In addition, the customer profile would tend to be older and interested in all kinds of products, from simple transactions to elaborated wealthy solutions.

- **Strategy 2**: Balanced management. In this strategy, the bank decides to operate focusing on all customers, channels and products but balancing its structures so that XYZ can lead the wealthy segment to expensive channels and complex products or lead younger customers with lower wealth profiles to more transactional products and channels.
- **Strategy 3**: e-bank. In this strategy, banks are focused on inexpensive channels, sometimes offering partnerships to operate through ATMs and call centers. Customers tend to be young people concerned with more transactional products and expecting lower banking fees. Because of its lean structure, e-banks are greatly able to offer reduced fees.

XYZ can succeed through any of the above strategies since each would involve adjusting the whole bank structure to the desired tradeoff in each strategy. For academic purposes, let us imagine that XYZ chooses to focus on Strategy 2, in which it optimizes the matrix of efficiency in order to offer right products to the matched niche segment through efficient channels.

Adopting this structure, certainly, XYZ will be driving its process to optimize results and customer satisfaction, which means that the bank will achieve its ideal of efficiency. But, to adapt the whole structure to the desired strategy, banks should consider several other characteristics, such as channel technologies adoption, platform integration, platform evolution, and new channel roles. In the following paragraphs we reinforce some of these recommendations.

As mentioned in chapter 8, in order to optimize the channel matrix of efficiency, it is crucial to adopt channel integration tools because once customers face more channel options, their preferences and behaviors will be spread out over the various channels. Integrated tools will enable XYZ to customize customer’s solutions and also to optimize channel procedures.

Since XYZ decided to be a “follower” in the technology adoption, it is crucial to XYZ to understand each channel’s technology evolution curve, current and future ones.
Chapter 5 detailed this methodology and how XYZ should adopt new channels’ technology and when it would have been taking off. Furthermore, based on chapter 7, XYZ can understand the evolution phase of its channel, predicting future and recommendable steps such as Internet banking migrations from the transactional phase to the advanced phase that will implement additional relationship skills.

Still discussing the background of an adopted channel strategy, the review of channels’ roles and its adjustment to new goals is a decisive point in the channel management focus. XYZ’s strategy 2 requires a review of the branch office role, as detailed in chapter 9, it requires branches to act as specialized solution centers, moving their role from current highly transactional (deposit and cash) to customized complex solution center, attracting more top customers to close more profitable deals.

Other points also touched on in the thesis, such as security concerns and channel management structure, are also fundamental to turn XYZ into a customer-centered strategy which is capable of leveraging results and improving customer satisfaction.

As mentioned before, several strategies could be winners since the whole bank structure will be adjusted to the new adopted tradeoffs and strategy. Every mentioned point of action is a link in a complex chain that requires constant supervision and dynamic adjustments in order to reach the bank’s maximum efficiency.
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