



Customer Ahead

Channel surfing

By Andrew Power

There is no easy way to increase the number of distribution channels—there isn't even a "best" way. Just ask financial services executives. Their experience shows that successful multichannel design and management vary significantly from company to company. The one common denominator: a consumer-centric game plan that aligns channels with customers and products.

What's the best way to increase the number of distribution channels? These days the answer is likely to be, "When in doubt, put up a Web site." But jumping on the Internet bandwagon is seldom a foolproof solution to the multichannel dilemma. The real world is a little more complex than that.

Few executives need to be convinced that increasing the number of distribution channels is a business imperative. Indeed, growth and profitability depend on it. Several forces are driving channel expansion: intensely competitive market pressures, increasing consumer power and sophistication, explosive new technology capabilities and the assumption-shattering emergence of eCommerce.

In reality, however, multichanneling has not always lived up to its advance billing. By adding alternative outlets, the theory goes, consumers will be lured from high-cost channels to low-cost channels. Distribution and servic-

ing costs will decline by virtue of fewer human interventions or by leveraging fixed costs. New categories of customers will be accessed, such as self-directed consumers who prefer to bank or buy books online.

That's the theory. How about the reality of distributing products and services through several channels?

Bumpy ride

Ask a roomful of financial services executives and the response might well be a muffled groan. Developing and managing multiple channels has proven to be far more complex than they had anticipated. The lessons learned, in both Europe and the United States, offer some valuable insights for those grappling with similar challenges, not only in financial services but in other industries as well.

Financial services companies have tripped over numerous obstacles strewn along the multichannel path. Among them: escalating costs, inconsistent ser-

vice levels, missed sales targets, organizational turf wars, customers acting contrary to expectations, and operational and technological impediments.

Insurers, culturally steeped in the high-cost agent system, have had a particularly bumpy ride. One multiline carrier closed down its telephone-based direct sales operation when confronted by rebellious agents worried that their livelihoods were at stake. Bypassing agents with new channels has often led to ballooning distribution and servicing costs due to duplication and lack of scale.

Employing a series of non-linked channels has left customers with an inconsistent sales and service experience. Indeed, some insurers even have tried to prevent customers from crossing channels by barring those who buy direct from accessing support from an agent.

To a lesser extent, channel conflict has also impeded banks' attempts to expand online. Some branch managers

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have resisted these efforts, fearful of unmet deposit and lending targets as customers shift to eBanking.

It hasn't been all internecine feuding, of course. Offering a complete line of insurance and financial services products, The Hartford has diversified successfully across many conventional and nontraditional channels.

Using a wide variety of outlets—including banks, financial planners, stockbrokers, life insurance professionals and broker-dealers—has helped The Hartford's life subsidiary become the leading seller of individual annuities in the United States. The company has also prospered by marketing property and casualty products to members of organizations and affinity groups, to bank customers and through employers to their employees.

Charles Schwab & Co. is another master of the multichannel universe. Ini-

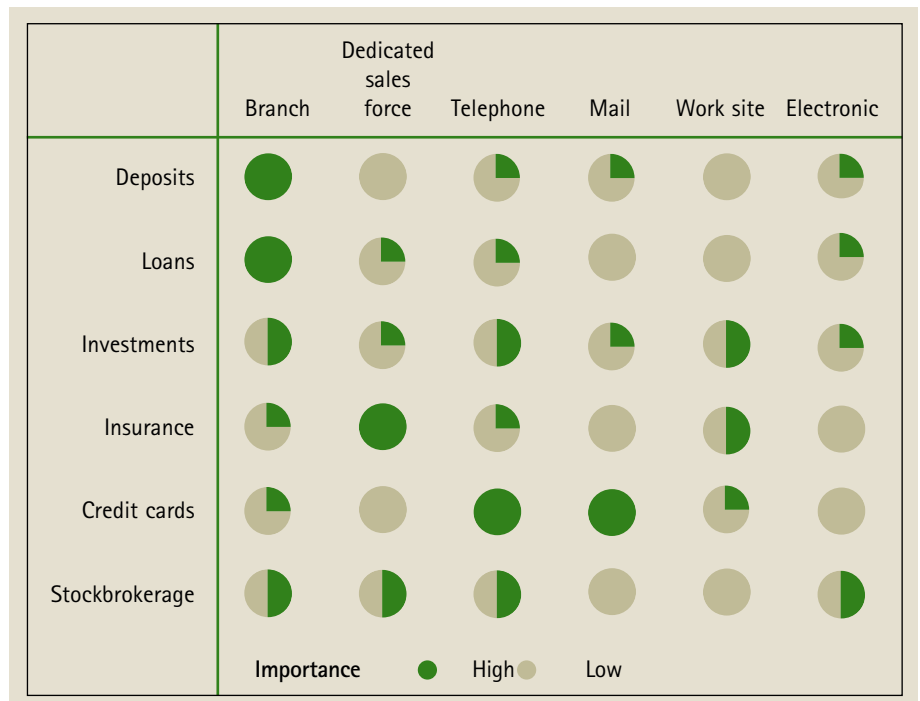
tially a telephone-based operation targeting do-it-yourself retail investors, the US discount brokerage firm has added branch offices (now in nearly every state, with more than 300 nationwide), developed an imposing Internet presence, offered support services tailored to financial advisors and created One Source, its mutual fund supermarket.

By leveraging its loyal customer base, Schwab has become the market-share leader in online brokerage, discount brokerage and advisor-managed assets. To date, Schwab's customer-oriented reputation and offline capabilities have helped it withstand the challenges mounted by upstart, no-frills online brokerages like Ameritrade and E*Trade.

Multichannel success stories in financial services are not limited to the United States, of course. In Spain, Banco Santander Central Hispano has

Diversity

In financial services, multichannel distribution is developing in different ways at different rates. Several channels have emerged, with their importance varying by product.



SOURCE: ACCENTURE ANALYSIS

maintained its market leadership by opening a plethora of outlets—specialist branches (for business customers only, for example), dedicated sales forces for specific products such as mortgages, call centers and alliances with other financial institutions. Similar approaches are being used by a number of other European diversified financial services leaders, including ING and Fortis in the Low Countries.

In the United Kingdom, Prudential's introduction of Egg, an Internet-based bank, has generated considerable interest—and impressive cash flow—thanks to the higher-than-usual rates it pays depositors. This online presence complements the Pru's already aggressive expansion into selling various types of insurance via real estate brokers and over the telephone, as well as through its traditional agent force and independent financial advisors.

And in Australia, Westpac is actively developing an Internet bank and is using specialist sales forces to sell insurance, investment trusts and other nonbanking financial services products.

Appreciating the nuances

In today's competitive environment, a single channel seldom will make the grade. So how many channels do you need? Wrong question. Then what are the best channels? Wrong question again. There is no "best" type or number of channels. Some channels are better than others for certain products and customer needs.

Multichannel design and management will differ significantly among companies, depending upon a variety of factors:

Diversity of channels. Moving to a multichannel world requires an appreciation of the unique characteristics of each channel. Channels can be loosely placed into four groupings: individual

relationship-based (such as financial planners and insurance agents); institutional relationship-based (banks, brokerage houses); affinity-based (employers, associations); and direct (Internet, telemarketing).

Each of these channels conveys different value to the customer, from advice to convenience to low cost. Some are fixed-cost channels; others are variable-cost. Customer interactions also differ by channel. Some channels entail direct contact between company and customer, some require third-party intermediaries, and still others involve a two-part sale to a gatekeeper/sponsor and then the consumer. Thus channels can't all be managed in the same way.

Competitive realities. The competitive landscape, the maturity of the marketplace and the regulatory climate all affect multichanneling strategy. In the financial services world, for instance, the sale of insurance products through bank distribution channels—*bancassurance*—is far more entrenched in Europe than in the United States. That's because in Europe, banks traditionally enjoy a high degree of public trust, and laws there favor insurance-related savings products and customer cross-selling.

Channel trends and positioning also vary among regions. For instance, to date the Internet is primarily a US phenomenon. Independent financial advisors are a longtime presence in the United Kingdom, while Japan has historically relied on a part-time traveling sales force within the financial services industry. Hence the same approach can't be grafted across countries.

Market positioning. A company's particular market positioning also affects its multichannel approach. For example, a financial services company seeking to develop a broad relationship

with customers would take a different approach than a competitor aiming to offer a limited number of products.

Financial services companies with strong brand names will have greater opportunity to rent shelf space in new channels and consider direct-to-customer selling channels, such as the Internet.

Speed counts too. US insurer John Hancock, for example, made a preemptive strike by aligning with Microsoft Network. Early on, it correctly projected that MSN would be a winning Internet portal. So for a hefty fee, it became one of the first financial services companies to advertise and establish a direct link to its Web site on MSN. The payoff? An increase in sales.

Piggybacking onto an Internet portal's eCommerce efforts is another strategy to link a strong brand name with emerging channels. Paymentech (formerly Banc One Payment Services), which is jointly owned by Chicago-based Bank One and Atlanta-based First Data Corporation, recently cut a deal with Yahoo! that allows small businesses to establish merchant accounts and accept credit-card payments over the Internet. In turn, Yahoo! is able to offer quick-to-install eCommerce solutions to millions of small companies.

Internal infrastructure. Operational resources and capabilities may limit a company's ability to support a channel, or impose constraints on how it provides that support. For example, insurers may find that compensation systems lock in the payment of traditionally high first-year commissions rather than asset-based fees, and administrative systems may prevent the timely introduction of products or services required by channels.

As companies have developed their various channels, they have used dif-

Channels rarely replace one another. Instead, they complement one another.

ferent technologies to support them. Now they need to integrate data into common databases to allow information to be accessed from various platforms throughout the organization. Emerging companies do not face the same data-integration task.

Winning strategies

As with any initiative, success in multichanneling requires a clear understanding of what must be done, how it will be done and by whom. Multichannel managers must understand which customers and products are best suited to each channel, how they intend to interact with customers and intermediaries and how to manage channel conflicts.

The experience of companies that have successfully navigated multichanneling suggests the adoption of three winning strategies.

1. *Design around the customer.* Many financial services companies currently design their business around a few products pushed out to customers through a limited set of channels. But forcing consumers to fit particular product specifications is no longer tenable in today's world of savvy, price-

conscious shoppers, who have more options than ever to choose from.

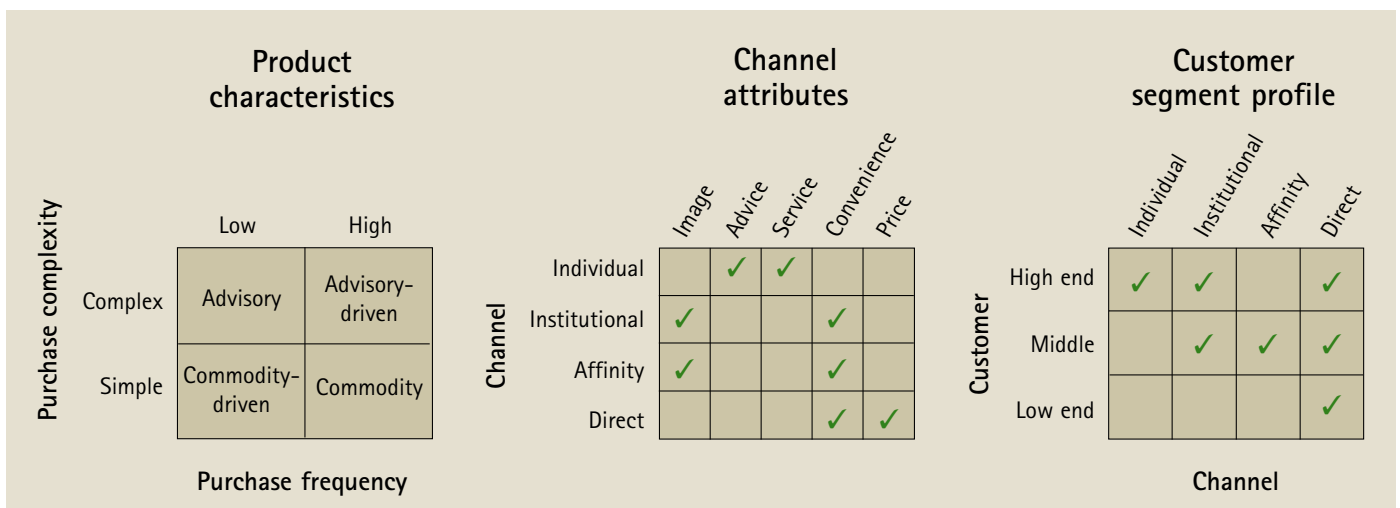
Understanding the customer has always been important but never more so than today. Most financial services providers agree that the customer, not the product, is now king. Banks have tended to believe in simple math: add a new low-cost channel while subtracting an older high-cost outlet. But the numbers don't add up.

Contrary to banks' expectations, the addition of call centers and ATMs didn't drive most customers away from tellers. Yes, ATM convenience did lead to some substitution. But mostly, transaction patterns merely changed and the total number of transactions increased. Instead of dropping by the neighborhood branch for a weekly visit, a customer now makes an ATM withdrawal on Monday, contacts the call center on Thursday and checks the account online over Sunday morning coffee.

Consumers want choice and don't always follow conventional behavior patterns. Indeed, financial institutions are beginning to learn that channels

Redefining the portfolio

Channels offer consumers unique attributes such as advice, convenience and price. Products and services sold via specific channels must align with these attributes for the consumer to get value.



SOURCE: ACCENTURE ANALYSIS

rarely replace one another. Instead, they complement one another.

Take two examples in the United States. E-Loan is a leading online mortgage company offering access to more than 70 lenders to help consumers find the best package for them, at the best rates. Initially launched with a call center, E-Loan soon realized that the emotional nature of the mortgage decision and transaction process warranted a more personalized approach: the assigning of a personal loan consultant to applicants to advise and support them throughout the process.

Insweb is an online insurance marketplace that provides consumers with quotes on insurance policies from multiple carriers. It began as a purely electronic channel, but it had to add a call center to make the process more user-friendly.

Both companies discovered that the human touch improved the rate of completed applications. Remember, a Web site alone is not the answer. Customers still expect pre- and post-sales support.

And customers aren't easily weaned from old habits. When banks tried to discourage branch visits by introducing penalty fees for using tellers, they faced an uproar from customers. Some banks have finally given up on their teller fees.

Even Schwab has resisted the impulse to require that new accounts be opened online. The majority of new Schwab accounts are still opened the old-fashioned way: at the company's retail branches. Even customers who manage their accounts online or by phone seem to prefer that initial human contact.

Thus multichanneling requires a customer-centric approach that organizes channels and access points around the

needs and satisfaction of specific customer segments. Keep three principles in mind: Customers should be able to choose the channel they want to interact with; customers should be treated in a consistent manner, regardless of how they access the company; and the sales and service experience should aspire to satisfy customers (as opposed to minimize the company's burden in providing customer satisfaction).

Focusing on customer needs will drive financial services providers—and, indeed, almost any provider that is contemplating multichanneling—to redefine their product and service portfolios (see box, page 58). Because different channels offer the consumer different attributes, products and services provided via a specific channel must be aligned with that channel's attributes and economics.

Selling term life, personal auto or other simple insurance products through high-cost advisory channels, for example, isn't a winning long-term proposition. Direct and affinity channels provide both lower price and more convenience for these low-advice, cost-sensitive commodity products. By contrast, selling complex, advice-intensive business-insurance products requires interactions within an individual relationship-based channel.

Indiscriminately adding new sales outlets without seeking congruency between the channel, products and consumers won't work. For instance, some financial services companies develop direct channels through which they attempt to sell all their products, both simple and complex. The result? Disappointing sales of their complex products because the expert advice—typically provided by the agent or other financial professional—is absent.

Financial services companies must offer some reason for customers to use a particular channel, such as lower prices,

Customer value typically results from the creative segmentation of customers and channels.

greater convenience or the opportunity for self-service. Typically, customer value results from the creative segmentation of customers and channels.

For example, Direct Line Insurance rose to prominence direct-selling personal auto insurance in the United Kingdom by clearly identifying consumers who were willing to forgo an intermediary in exchange for lower-cost insurance. When it was launched in 1985, Direct Line was the first UK carrier to use the telephone as its primary sales tool. Today, with more than 2 million policyholders, it is the country's largest private auto insurance company.

Similarly, European banks, including Crédit Agricole of France and Banco Bilbao Vizcaya of Spain, have capitalized on strong brand names, consumer trust and convenience to sell simple life insurance products to middle-income customers.

2. Focus on critical capabilities. Most financial services companies lack the time and resources to build all the critical capabilities required for multi-channel management. So they must quickly decide which of their existing processes, technologies and infrastructures can be used as a foundation, and which capabilities need to be developed.

Taking a traditional approach to multi-channeling will get you nowhere fast. If you design every channel separately, each with its own infrastructure and duplicate technologies, costs spin out of control, channel coordination breaks down, turf wars break out and systems are unable to deliver necessary data for effective customer service.

The experience of one large Scandinavian bank makes the point. After acquiring an insurer to expand its sales of life insurance products, its failure to integrate channels and oper-

ations led to duplicate infrastructure, channel overlap and, ultimately, a doubling of its unit costs.

To avoid escalating costs and to achieve sales and customer satisfaction goals, a new multichannel business model is needed. This model creates sharper distinctions between manufacturing and distribution activities—clearly dividing the roles and responsibilities between channel and product units. Channel units focus more on new sales and customer relations, while product units are keyed to product development, efficient core production, administration and compliance management. Coordination must be provided across these units, especially as a means to manage channel conflicts.

Traffic control

As too many financial services companies have discovered, adding new channels means higher costs if management is weak. Like traffic cops, channel managers should monitor comings and goings. They should be prepared, for instance, to add capacity quickly if they notice a steady uptick in online traffic. For banks, that might also be the time to drive down volume in the bricks-and-mortar channel by reducing branches.

To support the greater autonomy and responsibility of the channel and product units, more insightful financial-performance management is also necessary. For example, data and analytical tools should allow comparisons of channel, customer and product profitability. Also, cost efficiencies can be captured by creating shared services of certain non-channel back-office processes and administrative functions and by reengineering basic business processes.

Multichannel success also hinges on other key capabilities, such as more

flexible pricing to reflect true economic differences in channel costs and more efficient processes to reflect the different value-added services among channels.

For example, private bankers require much more customized products and services than a branch platform teller, while an Internet sales capability requires straight-through processing. Additionally, richer databases are needed to better understand customer and channel preferences and to tailor channel support to customer needs.

Traditionally, customer information has resided in the channel in which it was originally captured. This makes it difficult for companies to have a complete view of customer relationships. The challenge is for companies to identify cross-selling opportunities and to provide a common and consistent experience across channels.

3. Move quickly. As companies begin to realize the importance of multi-channel management, quickly achieving shelf space with channels becomes a critical challenge. Those driving in the slow lane risk having to pay a high price for penetration. Worse yet, they could be locked out of some channels entirely.

Resisting or reacting too slowly to powerful channel trends may have dramatically negative consequences. For example, US book retailer Barnes & Noble finally launched its Web site in the spring of 1997, nearly two years after cyber-trailblazer Amazon.com began selling books online. Late to the starting gate, barnesandnoble.com has struggled to catch up with Amazon.com, one of the most visited sites on the Web.

Sellers of computers through retailers have been slow to add direct-to-consumer channels—telephone and

Internet—so successfully pioneered by Dell Computer. Their attempts to shift to a more direct model have met with resistance from their resellers.

No longer able to ignore the 6.3 million households trading stocks over the Internet and fearful of losing business to Schwab and other online brokers, traditional brokers such as Merrill Lynch and Paine Webber recently began offering their customers online trading. Given Schwab's huge head start, however—its market capitalization has exceeded Merrill's—the traditional brokers' efforts may be too little, too late.

Some players, like SunAmerica Inc., a diversified financial services company, are rapidly solidifying their positions by buying distribution channels outright. SunAmerica's ownership of six broker-dealers represents one of the largest retail securities sales forces in the United States, putting it in the company of such better-known brethren as Merrill and Salomon Smith Barney. The company's nearly 10,000 registered representatives help ensure shelf space for its products.

Achieving this speed requires a combination of strong project management and the focused development of capabilities. By proactively managing expectations, obtaining support from the organization's key decision makers to ensure buy-in, and carefully segmenting the products and customers by channel, turf wars can be minimized.

Nobody ever said that moving to a multichannel world was easy. *Seven Steps to Mastering Multichanneling* hasn't been written yet.

Companies that have successfully created stakeholder value through multiple channels have learned a few lessons, however. They have approached the task without the bag-

gage of traditional assumptions and expectations. They have followed a consumer-centric game plan that aligns their customers, products and channels. Finally, they have moved quickly and resisted the temptation to overanalyze every decision. ■



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