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ABBYY

Rise Above Commoditization – Become the Barista of Banking

U.S. consumers have accelerated their adoption of digital channels more over the last year than any other time, and banking is leading the pack. Customers have formed new habits and distance banking has become the norm. It's why we see more fintech companies and tech giants seizing ahold of the rapid evolution of technology and are siphoning off a huge share of banking revenue while relegating the traditional banks to more of a behind-the-scenes role. They have the advantage of starting with a vision and no legacy and have become experts at creating frictionless, seamless customer experiences.

These challenger banks know the importance of keeping the customer center of every business decision, and as a result, banking is becoming a commodity– which is why established banks must build on their brands and their position of trust.

What are commodities and why should banks be concerned?

Commodities are widely available products that are bought and sold, interchangeably. In the early 19th century, the economist David Ricardo noted, "The exchangeable value of all commodities rises as the difficulties of their production increase," and this is still true today. At a time when there is much talk about the commoditization of bank services, we must remember that commodities sell on price alone, regardless of how difficult they are to produce.

No matter which bank you want to do business with, you'll find that all of them offer very similar services with similar fees – internet banking, mobile banking, loans for the same things (auto, home, personal, etc.), investment accounts, and fund transfer and payments, wealth management, brokerage services, and more. History is full of lessons about financial institutions that have failed to adapt and become irrelevant. The common theme is that they failed to ask one very important question: "What do our customers truly desire and who has the best set of capabilities for us to exceed their expectations?"

Consider a true commodity: coffee beans. If you convert its commodity price to a per cup basis, a cup of coffee costs just two or three cents for those who treat it as a commodity. When a manufacturer roasts, grinds, packages, and puts those same beans on a grocery store shelf, turning them into a physical good, the price jumps to between five and 25 cents a cup (depending on brand, quality, and package size). Brew the ground beans in a vending machine, kiosk, or corner coffee shop somewhere and that service now sells for 50 cents to $1.50 per cup. But serve that coffee at a Starbucks or some other experiential coffee shop – where the ordering, creation, and consumption of the cup happens with a sense of theatre and within an inviting environment where people want to hang out – and consumers gladly pay anywhere from $2 to $8 for each cup. Businesses that ascend to this fourth level of value beyond commodities, goods, and services establish a distinctive experience that envelops the purchase of the coffee, increasing its value (and, therefore, its price) by several orders of magnitude over the original commodity.

Competitors like Square, Stripe, PayPal, and even Amazon, have come of age, making traditional banks increasingly wary of the competition. In speaking about how he plans to "win," JPMorgan CEO Jamie Dimon mentioned bluntly, "I expect there to be very tough, brutal competition in the next 10 years, and I expect to win. So, help me, God." He continued, "We are now facing a generation of tougher, faster competitors, who, if they don't ride the rails of JPMorgan, they can ride the rails of someone else."

How banks can stand out in the eyes of consumers and avoid the commoditization trap.
Research shows that financial institutions have named digital banking transformations and improving customer experience as their two top priorities for 2021. In the digital age, technology is a bank's main brand ambassador. A bank's brand is a shortcut to all that's good about it, showing what the bank stands for and what makes it stand out. Trust is a powerful emotion, creating a sense of loyalty and belonging that's earned over time but can be lost almost instantly, usually through customer service. And good customer service is the most highly valued attribute at both direct banks and multi-channel banks, according to a survey by Forrester research. With cost saving and improved efficiencies driving banks to discourage their customers to visit their branches, most banks have become faceless, automatically driving the trust level down. A change in customer experience ratings for a multichannel bank leaves $124 million on the table for every 1-point decline in its CX Index score, Forrester's survey said.

Here are four ways banks can sustain great customer experience and withstand the forces of becoming a basic commodity:

1. **Create, manage, and deliver interactions on every channel a customer chooses**.
   Banks need to be nimble, scalable across geographies, and in lines of business. Where many banks fall is not communication of the basic information customers have in their accounts, but the next step – helping them do more with that information. For example, a New Zealand bank offers more than a checking account and savings; most customers think of their money in terms of buckets (rent, savings for a holiday or other goals). They offer buckets into which customers can move their money and name the purpose. They can even add an image to the account – all from their mobile phones. Ally provides online chat 24/7 and shows the waiting time for its telephone contact center on its website. Consider looking at different aspects of your customers' finances and think of how you can make personalized recommendations based on their goals and, ultimately, how you can show you care for them by communicating the way they prefer.

2. **Innovate in response to evolving customer needs by:**
   - Improving resiliency and accelerating digital investments in technologies that can drive innovation across the value chain like artificial intelligence (AI)/machine learning (ML), robotic process automation (RPA), and natural language processing (NLP). For example, a leading pension fund administrator generated 25,000-35,000 handwritten forms per year. This heap of information required manual entry into a database on a daily basis, putting business continuity at risk and creating a frustrating process for both the client and the data clerks. To speed up the process and comply with the existing federal law, they implemented data capture and document processing technology that intelligently captures, classifies, and transfers critical data from unstructured and structured documents to the right process, workflow or decision engine. This also helped with another important issue: previously, hardcopy forms would be billed on a monthly basis from various cities to the operational office— which greatly delayed transactions; whereas now, the forms are instantly scanned into a folder and processed further on, helping the fund

respond quicker to their customers and publish results at their portal in the shortest possible period.

- Moving fast and increasing organizational agility to deliver new products and services quickly. Most retail banks have not kept pace with the improvements in customer experience seen in other consumer industries. And the pace of change will only likely accelerate. According to McKinsey, the number of branches per million people is declining across markets, often tied to customer willingness to purchase banking products online or on mobile devices. Achieving meaningfully higher levels of digital sales requires banks to understand how to optimize each stage of the funnel. Most consumers already look for information on financial products on digital channels, but few institutions are effective at converting these inquiries into digital sales. McKinsey states that leading banks are using first- and third-party data, a robust technology stack, and an agile operating model.

3. **Ascend to the 4th level of value as an extinctive experiential provider to create value.** Experiences are a distinct economic offering and something consumers unquestionably desire, with more and more businesses explicitly designing and promoting them. Businesses are realizing that they need to upgrade their offerings to the next stage of economic value and transition from selling services to selling experiences. Dutch bank ING's North American arm, for instance, decided that the industry has become so commoditized that it didn't create branches and began by only working with customers over the phone or the Internet. They also wanted to create spaces where customers would actually want to talk with bankers, so they created several cafes in the U.S. where "financial baristas" would serve coffee as they chat with visitors about their financial needs and explain the financial institution's capabilities. This resulted in generating scores of millions of dollars in new accounts every year at zero cost to ING Direct.

   It's not about the products and services you want to sell to consumers; it's about creating unique experiences within them, while improving the customer journey with your brand. To do this, businesses must start by understanding their customers' journey and focusing on any poor customer experiences that are rooted in processes and technology that are inefficient or outdated (or both). Work to understand what success is from a customer perspective and then work backwards to understand current processes and the holistic experience of everyone who is interacting with your product, service, brand, and company.

   A common approach to streamlining the journey is to collaborate with team members and specialists who work within your process – for banking, this can include customer acquisition staff, customer service representatives, and anyone who regularly interacts with content-centric tasks – and look for areas of improvement. Work with these team members and allow them to share input and guide you to achieve your goals. It's also important to incorporate technology that can give you an unbiased look into how processes are working. Process Intelligence and Content Intelligence skills can be added to automation platforms, for example, allowing you to first improve any hiccups in the customer journey process and essentially put it on autopilot.

It’s also important to remember that technology should augment and assist people, not replace them. The key to delivering a great customer experience is human intelligence. By knowing where process bottlenecks or deviations are occurring, you can revise steps or retrain staff to ensure optimal outcomes occur. Similarly, if certain employees can complete tasks at a higher success rate than others, you want to know how they’re doing it so it can be duplicated across the team for overall improved workforce productivity. This is where task mining is gaining momentum. Task mining allows businesses to understand how employees complete tasks by recording user interactions, while keeping privacy in mind. It shares similarities with process mining, but it leverages user interaction data instead of business metrics and log files to analyze processes.

4. **Going beyond experiences.**
   So, what happens once you customize the customer experience to make it just right for an individual and change the individual? This fifth level of economic value is a transformation, which companies build on top of experiences like they build experiences on top of services. With transformations, the customer becomes the product. And the data you get from your customers can be incredibly effective in building customer experiences and this “new” level of value. By leveraging data in a tasteful and useful way can lead to big gains for any brand and help make downstream decisions, including:
   - Empowering the customer throughout the entire journey.
   - Improving visibility to reduce risk and compliance violations.
   - Using AI to achieve operational excellence.

Successful bank transformation requires commitment and perseverance to ensure financial institutions meet rising customer expectations. As traditional services are becoming a commodity, having the better customer experience can make the difference. And even if you provide an exceptional service, if the journey to use that service isn’t great, customers will leave, and your customer acquisition costs will rise. Having a smooth process and the ability to act on content-based data is a key factor for the future enterprise, not only in onboarding new customers but also in critical areas such as customer retention and overall customer satisfaction. Banks that ignore this, risk getting on a path towards the commoditization trap.