

AMERICAN BANKER RETAIL DELIVERY

Consumer Behavior Is Shifting — Shift With It

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Most people want local products and experiences, want to know what others think about products before buying, and want transparency in pricing and quality.

The delivery of retail bank products and services has been an expensive and complicated business. Over the years, consumers have demanded access to their banking accounts through a widening array of channels while at the same time ranking branch convenience as the No. 1 reason for primary bank selection.

As competition for deposits heated up in the first half of this decade, retail banking businesses responded by building thousands of branches, deploying more ATMs and electronic funds transfer at point of sale devices, hiring more salespeople, lengthening call center hours and investing in online banking functionality — all

of which continued the long-running trend of increasing the costs of retail banking operations.

Unfortunately, that trend is poised to continue as retail banks absorb higher costs of regulation, build better online banking platforms, add mobile capabilities, and invest to provide better experiences for customers at every touch point.

These challenges are difficult enough in the current environment, but another factor further complicates things: changing consumer behavior.

The recession, the crisis of faith in corporate America, and the growing influence of Generation Y in the marketplace have combined to alter purchase and product-use behaviors dramatically. Banks hoping to succeed over the long term will have to transform their business models to adapt to the new profitability dynamics of the business and the shifting behaviors of the American consumer.

Consider one significant behavioral trend: the locally made, locally produced movement. Consumers don't particularly like "big" anymore; they want to know where things are made, and they increasingly purchase services from companies with ties to their local communities. Farmer's markets have sprouted up everywhere; minor league baseball attendance

is setting records even as major league attendance declines; and community college enrollment is growing at double-digit rates. The local community is thriving. If it weren't for the economic decline's impact on small businesses, many local businesses would be thriving too.

Which isn't to say big brands will suffer. Some name brands have already jumped on the go-local bandwagon. **Starbucks** is opening stores with names like Roy Street Coffee & Tea that resemble mom-and-pop stores. **ESPN's** local online editions threaten to displace local sports coverage in major cities around the country. Even **Wal-Mart** and **McDonald's** have recently embraced localization — with product selection and store designs tailored to the local culture.

It would be nice to believe that the movement of significant deposit dollars into banks over the last 24 months, much of it into community banks, was part of the go-local trend. But that conclusion is likely false. Banks undoubtedly benefited from the flight of money away from Wall Street. However, many banks also engaged in classic price competition by raising money market and savings interest rates and paying cash up front for new accounts. Thus far, there are very few examples of banks executing the "local community" positioning with high success and in the new ways needed to appeal to today's consumer. It's time to reconsider what local means in 2010.

Bank managers must also consider how the changing nature of what motivates individuals to buy will impact delivery.

Apple recently announced it is changing its store design despite the popularity of its current stores. The new design will reflect Apple's growing understanding that its stores are primarily for education, not product purchase. People are motivated to visit an Apple store by their desire to learn, not buy. There are significant lessons here for banks: stores that evolve to address financial education and deliver advice and guidance, in both personal and self-service methods, will be best positioned for sales growth.

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Another notable change is the ability to access testimonials and reviews online or on a mobile device. The empowered consumer is driving the need for greater transparency in price and quality relative to competitors; the need for more open communication between front-line staff and those who set prices or handle critical operations; and better online engagement with both fans and critics.

The American consumer is also evolving toward a live-for-the-moment being. One of the fastest-growing areas of online development is the real-time Web application. We all know Twitter, but there's so much more out there to feed the demand for "now": real-time news alerts, search engines powered by tweets; immediate price comparisons based on photos taken from a mobile phone.

In the real world, we'll soon see iTunes tagging capabilities in new car models (shop while you drive!). Live-for-the-moment attitudes demand the ability to reach consumers where they are and when they want. It's no wonder many analysts expect mobile deposits to be a killer app that will ignite mobile banking use — the time and hassle-factor savings for consumers will be tremendous.

Consumer behavior is changing quickly. More people want local products and experiences, want to know what others think about products and services before buying and want transparency in pricing and quality.

Businesses across the country are responding to these new attitudes. Bankers who understand the forces that will change the business model of retail delivery have a unique opportunity to develop innovative approaches to acquiring customers, designing new products and delivery channels and building loyalty.

A careful balance will need to be struck to make the right investments at the right time in a business marked by high fixed costs and serious profitability pressures.

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