FEATURE

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Winning with Online Shoppers

BY ROB RUBIN AND ETHAN TEAS, WITH CHRIS MUSTO

At a time when many customers prefer online shopping and on-site fulfillment in the branch, a channel-coordinated strategy will be needed to nurture sales momentum.

As U.S. consumers shift more product research and purchase activity online, many retail banks are experiencing a growing disconnect in sales strategy. Rather than bridging the two worlds of branch and remote sales, institutions are tending to isolate the two worlds, forfeiting significant opportunities in multi-channel customer acquisition and cross-sell.

While the branch still plays a dominant role in sales fulfillment, our research indicates that most customers who go to the branch to purchase banking products and services have done some online research before ever entering a lobby. Among customers who have opened checking accounts over the last three years, for example, 61% prefer to shop online and 82% are willing to do so — yet 68% still went to the branch to complete their transactions. Most regional banks have not yet recognized this reality, much less adapted to it.

Instead, the value of online marketing and product presentation is strictly judged by the volume of business closed online, contributing to starvation budgets in that channel. Meanwhile branch networks cling to the outdated notion that sales primarily stem from local presence and spontaneous foot traffic.

Worse, multi-channel consumers are needlessly confused as they pick through tedious web pages to clarify their banking selections. Most products that replaced free checking are inherently more complex — and complexity does not shop well online. Then when shoppers clear online hurdles and go to the branch to buy, they encounter branch personnel who are generally weakly prepared to engage the online-informed customer.

Such imbalances must be quickly addressed if banks are to successfully navigate the transition to a multi-channel marketplace. Although it is already the case that over two-thirds of consumers first turn online to shop for banking providers and products, most people still prefer to go into the branch to complete transactions. And this preference for online shopping and branch fulfillment likely will continue for quite some time. In turn, a coordinated channel strategy will be needed to nurture sales momentum.

One priority is to elevate online strategy and functionality to drive branch sales traffic. This includes winning customer attention in the online space; clarifying website design so that people can easily find and understand products of interest; simplifying promotional offers; and facilitating handoffs to the contact center and the branch.

Another priority is re-framing the branch sales process to accommodate and leverage any online-originated or -enhanced sales momentum. People may be attracted to the branch by simpler online offers, such as free checking, but then it will be up to the sales staff to detect and fulfill customer needs for more complex products.

Along with a changed management orientation, this transition will require sharper customer analytical skills and also a shift in resource allocation. As part of efficiency crusades in an era of branch network overcapacity, banks have slashed developmental budgets for online marketing and sales, unwittingly crimping what has become a pivotal channel in driving branch sales traffic. This imbalance must be corrected.

HAVING IT BOTH WAYS

Online shopping is now prevalent in retail banking (Figure 1). When respondents to the Novantas 2013 Multi-Channel Sales Survey were asked to identify their preferred channels for product research, online was cited as the top avenue by 58% of recent mortgage customers and 68% of recent checking customers. Among this group overall, 44% prefer to shop online for investments as well.

The picture is quite different, however, when customers finish their product research and are ready to open accounts. No matter which channel(s) customers use to research bank offerings, our research shows that most people still wind up going to a branch office to finalize their purchases of banking products and services (Figure 2).

While the customer tendency to "have it both ways" has a variety of implications, the point here is that the online channel is now a significant front end for branch sales. This critical linkage is not fully appreciated at many retail banks, which are unknowingly crimping the branch sales conduit by under-investing in the dot com (or public-facing) component of their websites.

Starting first with management orientation, banks must realize that their websites perform "double duty," attracting a rising volume of sales that are completed online and also playing a prominent role in driving sales traffic to the branch. As such, the online team cannot be left in isolation with a maintenance budget. A coordinated effort will be needed to adapt to consumers' changing shopping behaviors.

A key question is how to gain visibility online. In our experience, bank shoppers go straight to search engines (e.g., Google) when they start searching online for a new provider and/or additional products. As these shoppers refine their search phrases and begin to consider specific web pages they would like to read, the bank needs to be visible on the first page of search results to have a chance at marketing itself.

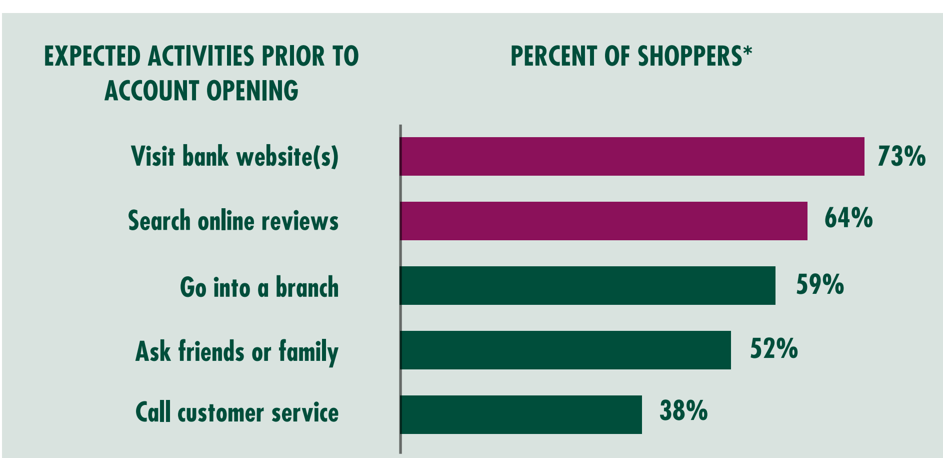
There are two types of links displayed on a typical search results page: "organic" results that the search engine algorithms deem the most relevant to the search phrase or keyword(s); and "paid" results that generate advertising revenues as users click on them. Most consumers (roughly 80%) only click on organic search results, usually selecting from among the top five organic listings.

To consistently rank in the top five organic results, the bank must optimize its website so that: 1) the site has greater relevance to keywords commonly used in local customer searches; and 2) the site is hospitable to the indexing activity of search engines. The bank also needs an on-going tactical program to establish inbound links with other websites to further stimulate site traffic.

Banks are certainly participating in so-called search engine optimization (SEO),

Figure 1: Shopping Preferences

Checking customers make extensive use of online resources when shopping for a new account.



** Multiple answers permitted. Source: Novarica Bank Shopper Insight Report; results from 2012 survey of consumers who say they intend to open a new checking account in the next 90 days* but it is far from a mature practice today. Consumers continue to care about branches even if they use them only rarely, so search phrases for banking services often pertain to local geographic markets. Yet our competitive reviews repeatedly show a weak representation of local banks in search engine responses. Banks need to develop a thorough understanding of customer online research behaviors and then respond with regionally-tailored SEO programs that will help them to win market by market.

An alternative to SEO is so-called search engine marketing (SEM), which focuses on the priority placement of web links in exchange for an advertising fee. Google, for example, displays paid links based on the keywords used. Advertisers "bid" on placement within the paid links presented in search results. SEM tactics also extend to online directories, forums and blog reviews.

Although only roughly 20% of online shoppers click on paid links, the links still provide visual cues and reinforcement of brand presence, which may help to spur additional customer online research relative to a particular bank. The key in evaluating SEM and SEO programs is to develop a market-by-market understanding of customer needs and the bank's relative position. For example, appearing in organic search results is more important in a market where a bank has lower brand recognition.

Beyond arriving directly at the bank site via search, consumers look to third party sites and social networking for context and referrals. Banks can seek to influence third party communities with direct outreach programs. And they can consider how to engage bloggers and other online commentators, following the lead of retailers and businesses involved in consumer packaged goods. Banks also can apply traditional public relations tactics in the online world.

Influencing online media and social networks is probably not a priority for many banks at this stage, however. This activity represents a higher degree of difficulty and could distract banks from the important work of establishing basic online visibility and engaging third party influencers, where there is plenty of room to improve.

LAGGING POSITION

The initial reward for investing in online visibility is higher traffic, with more consumers attracted to the bank's website to shop. But there are critical factors to be managed in the journey from an initial customer inquiry to a completed transaction, including ease of use for shoppers; product design, presentation and information disclosure; and processes for online fulfillment or handoff to a live representative.

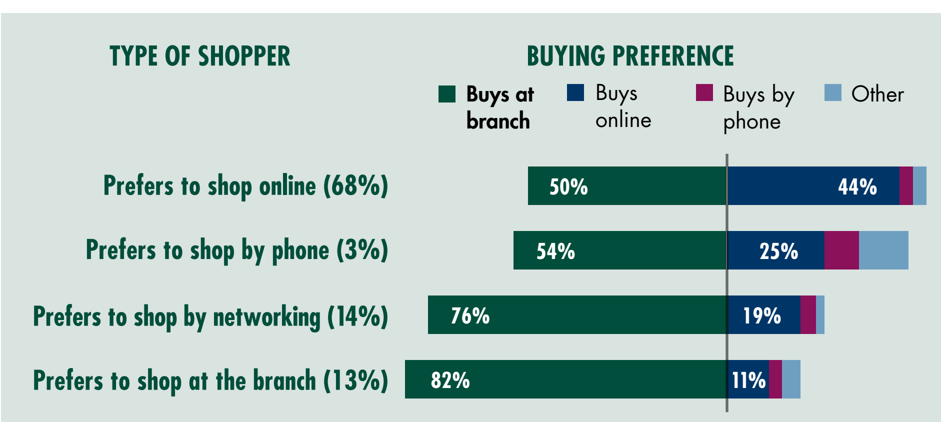
Relative to other retail industries, banks are in a lagging position. Online shoppers quickly turn elsewhere if they become frustrated or disinterested, so it is up to the bank to prepare an easy customer experience. There is a definite revenue consequence in this effort, with consumer research by Novarica showing a high correlation between the quality of the online experience and purchase likelihood.

Consumers are product-centric in their online shopping behavior — "I need a new checking account," or

> "Online presentation can make a big difference in winning or losing the business. In one instance, the simple relocation of an 'apply now' button on a web page sparked a more than three-fold increase in the click-through ratio for an online offer."

Figure 2: Buying Preferences

Despite widespread use of alternative channels for shopping, most banking customers still go to the branch to open accounts.



** Source: Novantas 2013 Multi-Channel Sales Survey*

"I want to refinance my mortgage." Once online shoppers arrive at the bank's website, their primary objective is to find answers to their specific questions, and most spend as little time and effort as possible. This is why utility and functionality trump high-concept designs.

Complex offers throw up an immediate wall for the many consumers who don't want to read detailed information or dense blocks of text; simplicity generally works much better. Also, simple low-cost or "free" checking still attracts consumer attention; some flavor of this product is useful in piquing initial interest and paving the way for an eventual larger conversation that covers more offers and details.

Online presentation can make a big difference in winning or losing the business. In one instance, the simple relocation of an "apply now" button on a web page sparked a more than three-fold increase in the click-through ratio for an online offer.

Once a shopper is engaged, the best strategy is to provide plenty of channel options for fulfillment. Is the branch and ATM location finder accessible? Can customers connect with the contact center? Does the online application process provide answers to product-related questions or access to live help? It is essential that the bank has a multi-channel strategy for shoppers who are ready to buy.

Onboarding and cross-sell also require special attention for online customers. Particularly upon account-opening in the branch, the bank has a valuable opportunity to learn more about online-acquired customers and meet their larger needs.

A conversational setting really helps in the presentation of more complex offerings, but branch sales staff and contact center representatives need to be prepared. They need to be familiar with the bank's online presentation (what products the website currently leads with; which qualities are emphasized) and understand the opportunities to convert simple product inquiries into deeper customer relationships.

SHIFTING GEARS

To be sure, senior banking executives are putting more emphasis on digital channels, recognizing that we now live in a multi-channel world. However, many organizations are structured in a way that isolates the online channel, creating conflicts with branch sales and even with other marketing functions.

Performance measurement is a major challenge. Under the current framework, only the value of online-completed sales is considered in justifying investments in online marketing and sales capabilities. But this denies the reality that most of the actual sales that result from online customer interaction accumulate in other channels.

This creates two distortions for management. At the top of the house, the perception of muted returns prevents a more aggressive shift to the online channel. Many of the online business cases that seem not to meet hurdle rates of return are actually accretive for the overall bank, considering sales that are completed in other channels. In turn, management often has cause to expand current online initiatives, as well as take on additional opportunities.

The second distortion is potentially more dangerous, in that the online team has a narrow incentive to maximize online sales transactions, even at the expense of potentially more productive handoffs to the branch and the contact center. This silo orientation manifests itself in website presentations that tightly steer customers into online fulfillment rather than allowing them to connect with their channel of choice.

A shift in executive mindset is required to overcome these distortions. The leaders of retail banking now must look across the various distribution channels to arrive at a silo-coordinated strategy, recognizing that investments made in one area may have their greatest payoffs elsewhere. Otherwise revenues will fall victim to channel friction.

In turn the bank will need some means to measure the impact of online investments on sales results in other channels. Measuring the buying experience across channels is a major challenge, though there are tools. Online-originated coupons can offer some insight, but can be undermined if they are dispensed by branch staff as well. Online appointment setting is another option in tracking the progression of customer inquiries to completed transactions. Safe to say, more work is needed in this area.

Finally, banks will need to rethink products and product suites to ensure that they perform in the online shopping process. New regulations have changed the economics of the checking business and forced a first round of product redesign.

But the issue is that many products replacing free checking are inherently more complex — and complexity does not shop well online. Products need to be optimized for the online shopping experience, recognizing that conversational explanations may either not be possible or will only come later in the process after customers are redirected following initial online interaction.

Rob Rubin is a Managing Director at Novarica, a division of New York-based Novantas Inc., and Ethan Teas is a Principal in the Chicago office of Novantas. Also contributing was Chris Musto, a Managing Director in the Boston office of Novantas. They can be reached respectively at rrubin@novarica.com, eteas@novantas.com, and cmusto@novantas.com