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Topic: Managing Retail Bank Marketing and Distribution in a low growth environment

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INTRODUCTION

Greetings from Australia.

It is a pleasure to join you here today as a representative of my company Suncorp and Australia's retail banks.

As we have already heard from other speakers – these are very challenging times for bankers.

That is despite the fact that we have some of the world's strongest economies in the Asian Region.

In common with all other Nations, Australia's banks are facing a unique set of challenges.

These are due to a combination of global, regional and local factors.

My aim today is talk about these challenges and the way they are influencing our approach to channel management.

RETAIL BANK CHALLENGES

Distribution channels and networks provide access to bank products and services.

They meet the physical access needs of our customers.

They are key influences over customer satisfaction and a bank's ability to differentiate itself from competitors.

That is why distribution and channel management strategies are priorities for leading banks – including Australia's Suncorp.

Today Australia's banks must also consider the psychological needs of their customers.

Physical distribution channels are only of value when customers feel confident about transacting.

When customers have doubts about the quality of banks, financial systems or the prospects of their national economies – they become uncertain about financial matters.

When consumers are confused and uncertain – the quality of physical distribution channels has much less influence on their consumption.

Recent surveys show that the confidence of Australians about economic matters and their own financial prospects is at a low point.

They are confused because the Australian economy is very strong – yet our share-market has fallen more than international share-markets.

Our banks are amongst the strongest and best managed in the world – yet bank shares in Australia have fallen more heavily than most other areas of the world.

At present, the current fundamental quality of Australian banks is being overlooked as investors price in the risk of possible future problems.

There is no direct link between the price of bank shares and the propensity of customers to purchase bank products.

However – the negative share-market views about banks and financial institutions do make the task of meeting general bank customer needs more difficult.

That is why I believe banks will need to focus on rebuilding customer confidence as much as they will on building strong distribution networks.

Australia is in its 17th successive year of growth and is operating at close to capacity.

That has led both the Australian Government and our Central Bank to signal their concerns about inflation and the need to reduce consumer demand.

For the first time in well over a decade Australia's banks will market their products and services in a period when demand is being forced down.

To achieve the monetary policy aim of reducing inflation – Australian consumers will be constantly reminded by Government and the Reserve Bank that they have to spend and consume less.

They will be constantly reminded of the risk of increased borrowing costs and the impact that will have on their standard of living.

Even though the United States Federal Reserve Board is trying to rebuild confidence in United States capital markets – we can expect continued uncertainty to flow through to Australia and Asian markets.

The task of building and sustaining meaningful relationships with their customers will be different to anything banks have experienced in recent years – particularly in Australia.

I have no doubt it will cause a fundamental review of distribution strategies and channel management.

I believe the Australian situation is relevant for banks in Asia and other parts of the world.

As leaders of banks in our respective countries, each of us will have different strategies to respond to the situation we face.

This is what I believe will be necessary for Suncorp and other retail banks in Australia.

We will need to:

1. Use our existing brand equity to help build consumer confidence in bank products and services

2. Pay particular attention to the quality of our customer segmentation and the satisfaction levels of customers within our chosen segments

3. Provide our customers with multiple channel choices

This means retail banks will need to manage both the psychological and physical needs of our customers when they consider their bank transactions.

DISTRIBUTION CHALLENGES IN A DIFFICULT MARKET ENVIRONMENT

When customers are uncertain and worried – they need more rather than less opportunities for contact with their bank.

The dilemma is that the global credit crunch has increased the cost of capital for all banks.

That will add to the pressure on margins.

When margins are under pressure, there is usually an emphasis on cost reduction and efficiency improvement.

Banks would be expected to seek ways of saving money on activities such as distribution and channel management.

However – the current global financial turmoil makes any reduction of retail bank distribution services more difficult.

Customers want the reassurance that comes from regular and easy contact with their banks through a variety of channels.

At the same time, the global financial turmoil means banks are under pressure to reduce operating costs and increase channel efficiency.

How we manage these competing needs will determine our business success and long term future.

My aim this morning is to expand on these thoughts by commenting on the broad operating environment for retail banking in Australia and the impact of that environment on distribution and channel management.

I will conclude by outlining some possible responses – including some of those of the Suncorp Group I represent.

GLOBAL AND LOCAL INFLUENCES ON CHANNEL MANAGEMENT

Two factors will dominate the business environment for Australia's banks during the next year.

First – the continuing fall-out and correction of the United States sub-prime crisis.

Second – the impact of tighter monetary policy in Australia.

There is no immediate end in sight to the United States sub-prime crisis.

It will require a full cycle of balance sheet adjustments before the extent of the damage becomes more obvious.

Until then the cost of sourcing funds for lending to business and retail customers in Australia, Asia and elsewhere will continue to be dearer.

Running in tandem with the sub-prime crisis is concern about the health of the United States economy.

The situation in Australia is the opposite.

Our economy has the problem of being too strong.

The Australian Government and our Reserve Bank are concerned about the prospect of an unacceptably high rate of inflation.

Demand for Australia’s commodities has increased their price, boosted investment in new production and severely stretched Australia’s production capacity across all sectors.

It has also increased incomes and spending.

Australia’s inflation rate is rising beyond the Reserve Bank target of two to three per cent a year.

So it has decided to slow growth by increasing interest rates until inflation is under control.

Looking ahead then – the operating environment for banks will include the following:

- Continued volatility in financial and equities markets

- Rising credit costs due to a combination of more expensive globally sourced funds and local increases in official interest rates

- Slower growth in Australia as monetary policy is used to restrain inflation
- Tighter margins as banks absorb part of the increased costs associated with lending
- Increased competition within banks for marketing and promotional expenditure
- Customers who are very concerned about the cost of their borrowing – their economic prospects – and the prospects of the economy

To manage these issues – banks will need to start by strengthening the confidence in their brands – and the financial services sector in general.

This is what I describe as attending to the psychological needs of our customers.

We do that by ensuring they can trust the strength of our companies.

THE IMPORTANCE OF BRANDS

In uncertain times consumers seek quality, trusted brands and proven companies with reputable management and solid assets.

They turn away from complex and highly sophisticated products to basic, clearly articulated value propositions.

They want these delivered by companies who will stand behind their value propositions and who demonstrate they understand the specific needs of their different customer segments.

The legendary advertising man, David Ogilvy used to say that the "key to success is to promise the consumer a benefit".

A key benefit offered by banks is access to the funds to create and sustain the quality of life their customers choose.

When that key benefit becomes more expensive or is questioned –
then the ability to satisfy customers becomes increasingly difficult for banks.

The priority then becomes to:

- Service and retain your existing customers

- Increase the commitment of your existing customers and their potential to be advocates

- Build on that success to acquire new customers from those who currently believe brand choice in the bank product category is relatively unimportant

In this environment, brand choice has to matter if we are to secure committed customers.

Ambivalence about brand choice simply increases the likelihood of brand switching.

It is from our pool of committed customers that we find our brand advocates.

They provide us with the stability required during unstable market conditions.

The Suncorp strategy has been to build a position of strength within the financial services sector in Australia and New Zealand.

We now have 26 of Australia's most successful and widely known banking, insurance and wealth management brands in our Group.

We are:

- Australia's sixth largest bank
- Australia's third largest general insurance group
- New Zealand's second largest general insurance group
- And Australia's seventh largest life insurance business

We have over 16,000 employees working in 450 offices, branches and agencies across Australia and New Zealand.

This critical mass gives us a unique opportunity to leverage the power of our brands.

It also gives us the opportunity to leverage the capabilities of the brands within our Group for above average levels of customer service.

Given the challenges ahead, we will need to be clear about our brand values and ensure they are understood and reflected in all aspects of our business operations.

Successful brands are not simply architecture or advertising.

They cover all aspects of the relationship between a company and its customers.

Successful brands have a relationship with their customers built on trust.

The current environment will test that trust to the limit.

THE POWER OF KNOWING YOUR CUSTOMERS

We can use the strength of our brands to build the confidence of our customers about their financial situation and our ability to meet their needs.

Before we can do that successfully we need to be clear about our customer segments and their specific needs.

Successful brand leveraging requires skilled segmentation supported by accurate research.

We can expect a period of price and margin pressure.

That means we will need to work harder to differentiate our products and services in the minds of consumers.

We can also expect heightened competition to put pressure on our existing market shares and sales volumes.

That means we will need to highlight the relevance of our brand to specific customer segments.

In these challenging times – distribution strategy needs to be closely aligned with customer segmentation strategy.

We do this at Suncorp by building what we call Business Models that include channel, segment, product and support strategies.

One of the most significant changes in the Retail Bank strategy at Suncorp has been our development of four distinct Business Models.

These are built entirely around customer segmentation and tailored value propositions.

In the past we had one Business Model offering a broad value proposition to all customers.

Our four Business Models are:

- Direct Business
- Network Business
- Broker Business
- Real Estate Business

Direct Business covers the marketing of bank products and services by direct channels such as internet and telephone.

Network Business includes marketing through our retail branch network.

Broker business is the marketing of products such as home mortgages through third parties such as brokers who specialise in that business.

The Real Estate Business Model is an innovative approach for Suncorp.

We have established an area called Real Estate Solutions that provides banking and financial services to real estate businesses throughout Australia.

The logic here is that the largest borrowing and financial transaction for many Australians is the purchase of a home or property.

That is done through Real Estate agents.

So it makes sense for a retail bank to create a specific distribution channel through partnerships with Real Estate agents.

Our Business Models are developed after careful and comprehensive research.

Research and other marketing expenses are often prime targets for cost reduction or reduced activity.

Our approach at Suncorp has been to increase the importance we give to Marketing activities.

We have recently established what we call a Marketing Centre of Excellence designed to provide a range of specialised services to all brands within our Group.

This works in tandem with the Marketing Departments within our businesses and brands.

A key service provided by our Marketing Centre of Excellence is a full range of research options.

We also have access to professional Market Insight advisers.

Each company represented at this conference would use research and be familiar with what it can offer.

We are most likely using similar methods.

The differences would be in the way we interpret the data we obtain and use it to influence our strategies and operations.

For the Retail Bank at Suncorp, areas of particular interest include:

- Customer satisfaction with our brand and service delivery
- Consumer awareness of alternative banking and financial services providers
- The importance of brand choice for bank product consumers

In challenging, highly competitive marketing environments – our priority is to ensure we retain our current customers.

We not only want to retain them – we want to increase their level of commitment and create the conditions that will move them to the role of brand advocates.

We also want to assess the likelihood of attracting new customers.

We know our share and that of our competitors in specific markets.

We also know there are limits to the number of potential consumers that are available to individual banks.

All banks in Australia have increased both the investment and focus on customer retention in recent years.

As evidence of that, the use of the Net Promoter Score concept has increased – as have the results.

That means that banks are steadily building a core of advocates who are the least likely to move to another provider.

However, we also know that some dissatisfied customers do not switch because they consider the service alternatives will most likely be as poor as their current provider.

So that presents an opportunity.

The satisfaction measures or factors we research at Suncorp include – price; process efficiency; branches; product; flexibility; staff; relationship; problem resolution; and partnership.

These factors can change over time.

Consumers in different market segments place more or less importance on different factors.

We will compare our current performance with our past performance – the overall market performance – and the performance of competitors.

We aim to understand what triggers advocacy and antagonism in different environments.

We also try to gain an insight into how we need to vary our product and service offer to increase our advocates numbers.

We will research satisfaction not only across our total brand performance, but also with individual distribution channels or specific satisfaction factors.

For example, we conduct Branch Encounter Surveys to assess customer satisfaction with factors such as queue wait time, staff attitude, transaction accuracy and resourceful service.

We will also research broader attitudinal trends.

Recent research we conducted shows people are concerned about the impact of higher interest rates in Australia.

They say they are reducing expenditure on other items so they could ensure they had enough funds each month to repay their mortgage loans.

It is this type of research that influences the way we work with our customers to assist them manage their monthly repayments and other bank transactions.

It enables us to understand the psychology and mood of our customers as they respond to the highly publicised problems in the United States and rising interest rates in Australia.

We also use research to identify ways we can improve our distribution channels.

That is the link between our brand building efforts – our customer segmentation research – and our specific distribution strategies.

DISTRIBUTION STRATEGIES AND TACTICS

Investment decisions about distribution channels are influenced by:

- Margin pressure
- Capital availability
- Customer preferences for multi –channel choice
- The specific Business Models you use to manage your overall retail activities

At Suncorp – we design common product solutions to service all of our Business Models.

We also have programs that cater for the specific needs of a particular market segment.

A recent example is giving our Direct Business Model customers internet banking on their mobile telephones using browser enabled technology.

Our customers can access account information, pay bills and transfer funds via the web browser on their mobile telephones.

Our customer research shows families and owners of small businesses want access to banking services 24 hours a day – seven days a week – even when they are away from a computer or fixed telephone line.

Another example of changing a distribution channel to suit customer and business need is a program we call My Business.

We plan to change each of the bank branches in our retail network into a local business.

This will require changes to the responsibilities of our Bank Managers, the quality of the customer research they receive and the way our Bank Managers engage with their local communities.

I noted earlier that the costs of banking will increase and margins will decrease as a result of the global credit crisis.

That means we will need to find ways to reduce distribution costs.

One way we are doing that at Suncorp is to divest what we call non-core activities.

Banks can choose to manufacture and distribute their own products and services.

Or they can choose to outsource parts of the value chain completely or in partnership with a specialist service provider.

You can choose to build scale at every point in the value chain.

Or you can rent scale.

Suncorp's Retail Bank refreshed its strategy last year after reviewing global and local bank trends.

We partner with specialists on the provision of selected services – while retaining the Suncorp branding and ownership of our customer relationships.

That enables us to focus our investment and capability on aspects of our business we believe critically important for our success.

In particular, it enables us to increase our attention to the distribution and customer-facing aspects of our value chain.

Whether by good planning or good fortune, I believe this is the model that is best suited to the demands of the current market environment in Australia.

Some examples of this approach include our recently announced transfer of Suncorp's credit card portfolio to Citibank and our EFTPOS fleet to Hypercom.

We are also progressing discussions regarding the use of domestic and global partners for parts of our back office operations.

CONCLUSION

In summary, retail banks throughout Asia face a challenging times.

Continued volatility in financial and equities markets will impact bank costs and also unsettle consumers.

Monetary policy will be used to reduce credit demand and slow overall growth in Australia.

Marketing in an environment where credit consumption is actively discouraged will be new to many in banks.

Marketing in a climate of fear and uncertainty also presents unique challenges.

I believe our distribution strategies must take into account both the psychological and physical needs of our customers.

Bank brands that are successfully positioned as high quality, trustworthy and secure, will be preferred by consumers.

Leveraging existing brand equity will be important.

As will careful segmentation, and relevant, tailored product offers.

Banks that can build their business models around specific customer segments and align their customer-facing and distribution activities with those models – will succeed.

That segmentation will need to be supported by comprehensive research.

This is the approach we are adopting at Suncorp.

It is the reason we are very confident about our ability to pass through the current challenging business environment and maintain our high standing with our customers.

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