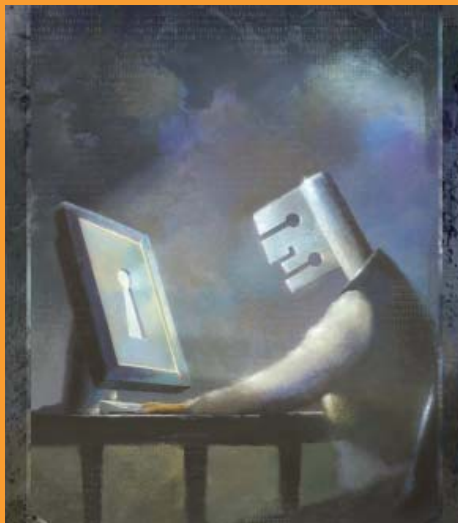


# BCG

OPPORTUNITIES  
for ACTION

FINANCIAL INSTITUTIONS



■ Today's expectations of a superior online experience are set by companies outside the financial services industry, and few financial institutions can compete.

■ The online channel is far more important to financial institutions than online sales alone reflect, owing to the time that customers spend shopping and learning on the Web.

■ The revenue significance of the online channel will multiply as younger, Internet-centric generations come into their prime earning years.

■ Financial institutions must sharply upgrade their online offerings and develop a distributed Web presence beyond their own sites, or risk losing share both to faster-paced traditional rivals and to powerful Internet players that may try to invade their turf.

## Arming for the Second Web War

The Great War wasn't known as World War I until World War II broke out. The term "Web 1.0" didn't exist until "Web 2.0" started to grab all the headlines. An era is fixed in our minds by the emergence of its successor.

In many industries, such as media and telecommunications, Web 1.0 is history. Players have regrouped their forces and are already deeply committed to the Web 2.0 order of battle: communities, mash-ups, and user-generated content. But many mainstream financial institutions, like the proverbial generals, are still fighting the last war. Or maybe they are not fighting at all. Bunkered behind their 1.0 Maginot Online, they are *entre deux guerres* and failing to rearm.

This situation cannot last. Internet access and usage are growing rapidly. Younger generations think, interact, and buy in new ways, and loyalty lost early may be hard to regain. Today's expectations of the Web experience are not set industry by industry, but by first-class sites such as Google and Amazon. In this climate, benchmarking your Web presence against that of your financial-services peers is likely to ensure that you fall further behind.

It may, in fact, be too early for full-blown online Financial Services 2.0. Yet it is certainly too late for financial services companies to comfortably rely on the 1.0 strategies of the dot-com boom. Consumers and technologies have changed a lot since 2001, and it is time for financial institutions to make a fresh and dispassionate assessment of their Web strategies. But before they embark on 2.0, the second Web war, they need to master the mobile, mechanized technologies of the modern Internet: Web 1.5, if you will.

### Online Offerings Are Far More Important Than You Think

Contrary to common perception, the dot-com bust was primarily a capital markets phenomenon. The growth of the Internet itself—on almost any metric—and the pace of innovation and adoption have been relentless.

The increasing importance of the Internet has been noteworthy in financial services. Many of our clients in banking, credit cards, and insurance—both for individual consumers and for small businesses—have experienced sharp growth in new business coming from online sources. This expansion is expected to continue.

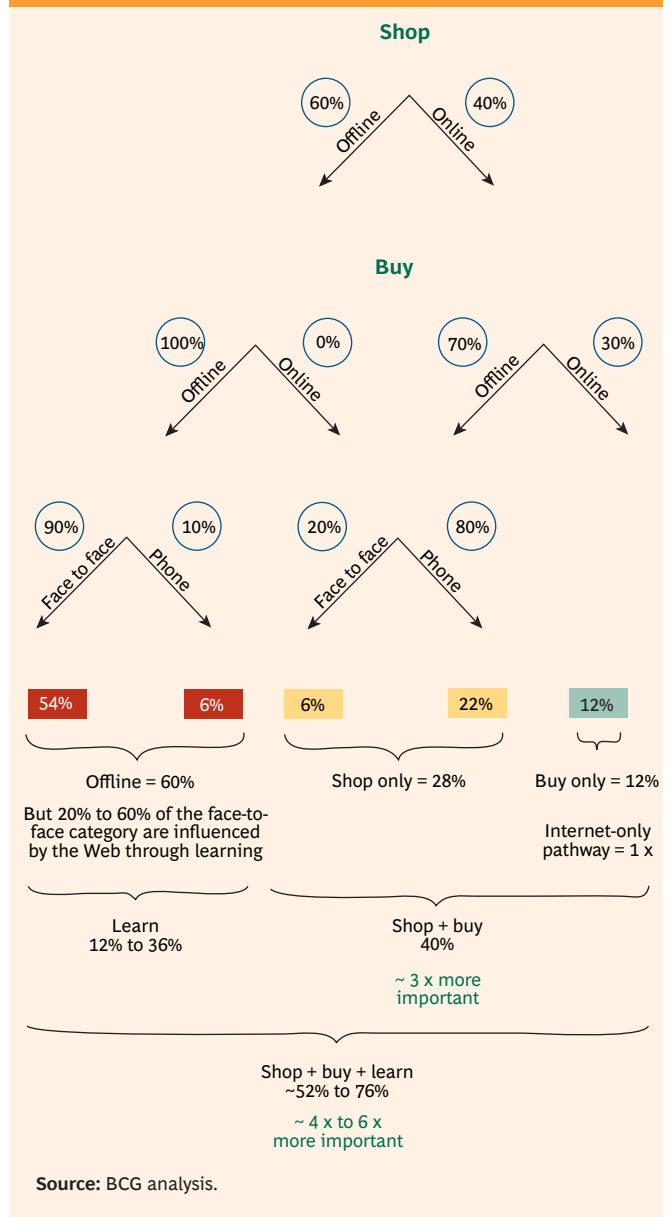
But the myriad growth statistics miss the most important role of the Internet: to provide information to potential customers. First they learn, then they shop, and only then do they buy. Many people use the Internet to compare the offerings of different providers, visiting multiple sites and checking third-party rating services. Indeed, our work with clients suggests that Web sites generate up to six times more revenue *indirectly* by shaping decision processes than they generate *directly* in online sales.

At one institution, for example, the online channel represented only 12 percent of actual sales. But if one takes the full purchase pathway into account, it influenced an additional 28 percent of sales through comparison shopping and a further 12 to 36 percent by serving as a source of information and learning. By this analysis, the Web is between four and six times more important than you might think. (See Exhibit 1.)

What is more, these results are for *today's* customers. In the battle for *tomorrow's* customers, the Internet will be the central front. Compared with baby boomers, younger consumers are dramatically more Internet centric. In the United States, for example, members of Generation Y are roughly 50 percent more likely to have an online bank account, two times more likely to research financial products online, and three times more likely to apply for financial products online. Members of Generations X and Y, plus the under-20 set, may be relatively small contributors to profitability today, but by 2027, they will drive an estimated 72 percent of U.S. financial-services revenues. (See Exhibit 2.) Since financial services relationships, especially those established in younger years, are quite “sticky,” capturing a disproportionate and profitable share of them is crucial to future advantage. Also, our studies have indicated that customers become more profitable and loyal after they start banking online actively.

Both traditional and nontraditional financial players will be competing for these customers. Indeed, many leading retailers have already entered the arena, using their distribution networks, brand names, and customer insights to capture share. Amazon, perhaps the world's most sophisticated online retailer, makes no secret of its ambition to provide financial services. PayPal, the

**Exhibit 1. The Web's Influence on Revenue Streams Is Four to Six Times Greater Than Online Sales Alone**



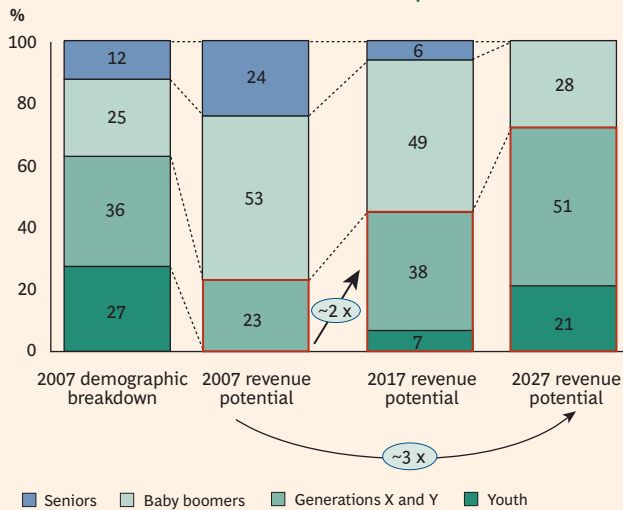
online payments specialist, has obtained a banking license in Europe and could potentially leverage its relationships and the resources of its parent company, eBay, to enter the direct-banking market.

Further afield, but impossible to dismiss, are Google and Microsoft. Financial services is as much an *information* business as it is a *relationship* business, making it a potentially fertile battleground for these companies' winner-takes-all struggle to control *Web services*. For Google and Microsoft, financial services would be just another information service: a suite of applications to run “in the cloud” on their hundreds of thousands of servers. These players operate on a scale

## Exhibit 2. The Revenue Potential of Younger Generations Makes Building Loyalty Critical

### Example: The U.S. Market

Share of financial-services revenue potential, based on share of financial assets plus liabilities



**Sources:** The Federal Reserve Board, Survey of Consumer Finances, 2004; company annual reports; SNL Financial; BCG analysis.

**Note:** Demographic categories are defined as follows: youth, age 19 and under, born 1988 or later; Generation Y, age 20 to 34, born 1974 to 1987; Generation X, age 35 to 44, born 1963 to 1973; Baby boomers, age 45 to 64, born 1943 to 1962; Seniors, age 65 and over, born 1942 or earlier. These categories can vary according to the source.

and level of online sophistication that virtually no financial institution can match, and adding financial services would be just another way for them to amortize fixed costs and achieve preemptive economies of scale.

Another factor is that consumers who have grown up with the Internet and online social networking may, to coin a phrase, “think different.” While trust, availability, value, and tailored service will likely remain the critical customer priorities, it is easy to envision the coming generations seeing Google and Microsoft as valid purveyors of all four. These companies may be far from this status today, but their capabilities and resources are such that no financial institution can afford to be complacent.

### Girding for the Coming Battle

Our client experience indicates that many traditional players are not effectively deploying Web practices that can drive better performance today. But whether you’re an upstart trying to “punch above your weight” or an incumbent seeking to strengthen and expand your customer base, online excellence is about attracting people to your site, engaging them sufficiently to turn browsers

into buyers, and building loyalty to foster return trips. Or in simpler terms: *getting them there, keeping them there, and bringing them back again.* While many financial-services firms have improved their online offerings, few are delivering an experience that meets the standards of best-in-class players in other industries.

**Getting Them There.** Much of Web 1.0 was about branded portals. These portals are now largely defunct. Today’s consumers, especially young people, use search engines, comparison sites, community sites, and product-specific seller content to find what they seek. So the marketing challenge is no longer to lure consumers to a branded portal through offline advertising and then to guide them to the right product. Nor is it solely to perfect your own current multichannel customer experience. The new challenge is to influence a complex search path that occurs largely online and frequently on sites that are beyond your control. Success requires a *distributed Web presence* beyond one’s own site, leading not to a portal but to complementary “landing pages” where transactions are consummated. The best institutions present nearly every page on their sites as a potential landing page, shape compelling content that is easily accessed from upstream sites, and find creative ways to link with Web communities that are popular among their customers. They also tailor areas of their sites to specific customer groups and segments.

Doing these things well requires massive hyperlinking to partner and affiliate organizations, much greater use of banner ads and sponsored links on search engines, and the deployment of microsites, widgets, and badges. Some institutions have created or tapped into community sites that focus on specific customer segments. Bank of America, for example, has created a community for small-business banking customers that combines proprietary and user-generated content. JPMorgan Chase has a presence on the popular social-networking site Facebook. Wells Fargo has a blog that targets college students and their parents.

Of course, whether you prefer to call all of this “online advertising” or something more proactive is a matter of personal taste. But it is striking that the Web now commands about 30 percent of customer “eyeballs” but is allocated only 5 percent of advertising dollars. The usual explanation for this disparity is “measurement difficulties,” yet there are similar problems with conventional media that advertising agencies and their clients simply live with or ignore. There is a powerful and rapidly growing array of tools to measure the efficacy of every element of Web presence—every step in the path

to a sale. It's not easy to master these techniques, but the smartest marketers know not just the ROI of each search-engine keyword they buy but also exactly how a given mouse-over or click-through alters the probability of a sale.

**Keeping Them There.** What constitutes a superior online experience? Best-practice players start with a carefully designed user interface that makes it easy for visitors to do what they wish. They augment this with promotions (such as online-only discounts) and leverage information about purchase history to deliver highly targeted, sometimes bundled offers. They compare their own products—clearly articulating which sets of customer needs fit which offerings—and draw contrasts with competitors' products to reveal price or feature advantages. And where appropriate, they complement all of this with media-rich content such as videos or animation. Bank of America, for example, is a leader in helping customers select the best product for their needs, both through its selection wizard and through an online chat feature that allows human interaction.

Above all, best-practice players respond to a simple catechism: What is the simplest process that works? How do we avoid extraneous account-activation and product-application steps, unclear instructions, and click streams that lead nowhere? No one in the financial services industry has yet developed the kind of effortless online or multichannel customer experience that could be favorably compared with that of Amazon, FreshDirect, Apple, or Neiman Marcus. But that doesn't mean that such a condition of complete simplicity and elegance cannot be achieved. Ask yourself, How would Steve Jobs redesign my customer experience?

**Bringing Them Back Again.** Return business obviously depends on customer satisfaction. Therefore, flawless execution of both the online transaction and its offline complements is essential. But it's not enough. It is also critical to develop relationships that anticipate and facilitate the life-stage events and metaneeds that drive customers' financial demands. Amazon, by tracking and comparing customer behavior, has mastered the art

of making offers so tailored, relevant, and user-friendly that its customers see them not as advertisements but as *information*.

## The Enemy Within

Ultimately, the process of getting them there, keeping them there, and bringing them back again is also an organizational challenge. Authority and responsibility for Web offerings have often become splintered among the corporate center and a tapestry of product, market, and channel groups—a structure that makes change both slow and difficult. So perhaps the first front of the next war will be internal. We are poised between time past and a time future when the online channel will become ubiquitous and therefore the primary integration point—with branches and call centers playing a vital but more focused role. In such an environment, companies that run their Web presence as a *business*—not as a *channel*—will have the advantage.

Fine-tuned coordination of synergies makes sense in a world of stability. But in a world of technological change, consumer restlessness, and asymmetrical competition, single-minded focus will be required to win the battle. And *Web presence* is the sharp point of the spear.

Sumit Sahni  
Philip Evans

*Sumit Sahni is a partner and managing director in the New York office of The Boston Consulting Group. Philip Evans is a senior partner and managing director in the firm's Boston office.*

You may contact the authors by e-mail at:  
sahni.sumit@bcg.com  
evans.philip@bcg.com

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