



# focus FINANCIAL SERVICES

In this first publication, SECOR Consulting addresses an issue that the crisis has brought to the fore: “low cost” products and services as a growth lever for financial institutions

What do we mean by “low cost”?

Traditionally, the “low cost” concept has meant low-end products and services at low prices. Now this term can also refer to lower-than average market pricing on low- or high-end products and services.

If you examine the industries where the concept originated, you will find two main strategies:

- A portfolio-wide “low cost” offering where all the products being sold are below typical market prices.
- Distinct low price products or services that are part of a broader offering that also includes a range of regularly-priced items.

Regardless of which strategy is employed, the successful “low cost” offering must balance service level, perceived quality and an appropriate cost structure. The second case requires a greater degree of care, as differentiation between pricing categories must be effectively communicated in order to avoid consumer confusion or cannibalization.



## Can a “Low Cost” Offering Succeed in the Banking Sector?

### A crisis or an opportunity?

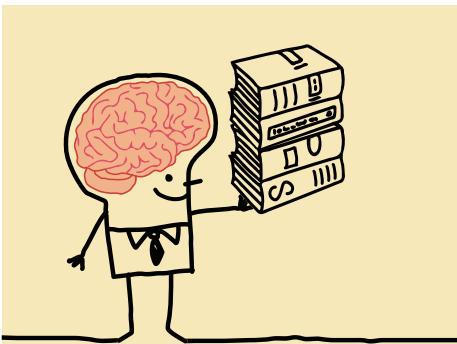
In addition to its impact on risk considerations and the financial health of banks, the current economic and financial crisis has made it necessary to find new engines for future growth. We believe that a “low-cost,” high-rate offering has a future for those banks that successfully develop an understanding of customer expectations and attitudes towards banking services. In particular, banks will need to understand the value customers attribute to those services in order to determine retail-bank positioning.

### Online banking: a “low cost” alternative in hard times

In the United States, the growth that followed the Dot Com Meltdown included a revival of bank branches looking to redefine the client experience (business hours, layout, advisors and use of multimedia).

But the recession had a similar impact on all sectors. Consumers are looking for good deals. The higher rates offered by online banks (banks only accessible by Internet or telephone and whose operating costs are a fraction of those of their usual competition) are attracting the attention of consumers who are looking for ways to improve their often worrisome financial situation.

Many financial institutions have an online bank: ING (one of the pioneers in this area), Citi, HSBC, and Capital One. Others are looking to climb on the bandwagon. TowerGroup, a research firm, is predicting that online bank deposits in the United States will double by 2012, going from 5% of the market in 2008 to 8.5% in 2012 (350 billion dollars).



## A Non-Banking Case Study: Bingle.com

Outside of the banking sector, there are several examples of companies having staked out a low-cost position without necessarily having targeted a less affluent clientele, but rather having focused on its clientele's transactional preferences and responding to the value these clients set on the services offered.

Bingle.com is an Australian automobile insurer trying to minimize insurance costs for its clientele. Its slogan is revealing: "Low Cost Car Insurance. Online." Bingle's coherent business model does not scrimp on the protection that it offers its clients but ensures the lowest possible cost in providing that protection. Its model is characterized by three main elements:

1. Limiting its client base: no drivers under 25 years of age, no modified cars, etc.
2. Limiting its means of communication with its clients: Web, e-mail or regular mail. Bingle does not operate any call centres.
3. Directing its clients to specific repair facilities in the event of a claim. However, Bingle offers a lifetime guarantee on repairs.

These elements are complemented by Bingle's use of plain language, free of legal and technical terms, in its customer communications in order to give its customers confidence that they know what they are buying.

Many automobile insurance companies compete on the basis of price, believing that clients really just want a low premium for what is often perceived as a commodity product. Bingle has carried that thinking to its logical conclusion.

## A quick look at how things stand

Most currently available "low cost" retail banking offerings provide access to basic banking services that are often offered remotely and without personal contact with a bank representative. In France, Boursorama Bank and Monabanq are often identified as "low cost" banks. This positioning enables them to capture business in low-income demographics as well as more affluent clients who would not normally equate value-added with banking services.

However, bankers generally tend to avoid using explicit references to "low cost" banking. A review of available offerings indicates that "low cost" options are usually not offered across the full range of products in a portfolio. Some offerings follow standard fee structures while others are free. It is hard to distinguish Internet banking from "low cost" banking other than to say the two are not synonymous with each other. As is often the case when offering a range of product options, customers are often faced with the risk they will pay a higher rate for additional services not included in the "low cost" package.

## What are the key factors to be considered when developing a "low cost" offer?

A "low cost" banking offer should be well defined and should avoid pigeon-holing the bank with the "low income households' bank" label. This can be accomplished through a strategic plan encompassing the four axes of value-for-money, quality, service level and cost structure. It is equally important that management reflects upon how the organizational structure and communication plan will support the desired positioning.

## What are the implementation challenges?

At this stage we can ask a series of questions to address the core issues: Can effective "low cost" products and services be sold under the same banner as regularly priced offerings, or should a separate brand be created? Is there room for "bricks and mortar" bank branches in the "low cost" offer? Are dedicated back-offices required to support "low cost" banking? What competencies need to be developed?

Successful development of a differentiated positioning requires that the entire organization be aligned. This not only includes marketing policies; well mobilized teams must be tasked with handling these products, particularly in light of the general lack of understanding regarding the issues surrounding "low cost" banking. This need is made ever more important by the potential for negative perceptions regarding the "low cost" model to develop amongst customers and the media. While the rethinking of retail banking practices has only just begun, it is likely to be at the core of thinking regarding the evolution of banking business models in the next few years.

*This publication is part of a series produced by SECOR Consulting for professionals in the financial sector.*

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