

CUSTOMER EXPERIENCE AS STRATEGIC DIFFERENTIATOR IN RETAIL BANKING

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ABSTRACT

The challenge that retail banks face is to find a sustainable strategic differentiator that will give the organization a competitive advantage. This paper investigates the possibility of customer experience as strategic differentiator through a literature review on customer experience as a concept and its elements and comparing it with the marketing mix. Measuring the total customer experience quantitatively and qualitatively adds value to organizations through the interpretations of the results and therefore understanding the customer.

INTRODUCTION

Within a period of some 25 years retail banks moved from offering simple loans and receiving deposits to providing a wide range of lending and savings products. Retail banking became dependent on technology and entered into real competition with other banks and other companies. All this meant rapid change within a powerful ethos (Croxford, Abramson & Jablonowski, 2006:9).

The financial services industry (of which retail banking forms an integral part) is continuing its dynamic change. Dibb and Meadows (2001:169) argue that the major players in retail banking are becoming increasingly blurred as the effects of mergers, flotations and new market entrants are felt. More than ever before, retail banking managers need a detailed understanding of their customers, their current and potential profitability, how to meet the needs of their best customers successfully by providing an appropriate range of financial services, and how to prevent these valuable customers from switching to other service providers.

Obtaining and sustaining a competitive advantage in banking - and specifically in retail banking today - sets the challenge to determine one thing that will differentiate one bank from another. Retail banks worldwide are trying to find that sustainable competitive advantage and it currently seems possible by strategically focusing on customer experience as the key differentiator.

Using the total customer experience as the differentiator is critical in that it takes the total customer offering into account as well as emotional and behavioural aspects of the actual experience. The experience is considered from the customer's point of view and not only from the organisation's point of view.

The following research question is based on this problem: "Is customer experience a strategic differentiator in retail banking?"

CUSTOMER EXPERIENCE AS A CONCEPT

This study focuses on customer experience as a differentiator. This section describes and analyses the concept of customer experience.

Introduction to customer experience

Over the past few years, there has been an increasing trend towards creating “experiences” for customers, particularly for those in the services sector. Because of this trend, authors such as Pine and Gilmore (1999:ix-x) are of the opinion that the service economy has been transformed into an attention economy, an entertainment economy, a dream society, an emotion economy or an experience economy. As the commoditisation of many service offerings continues, organisations have to devise new ways to achieve a competitive advantage, and in particular by focusing on the design and management of customers’ experiences. Experiences are inherently emotional and personal (Pullman and Gross, 2003:215).

To compete successfully in the customer experience territory, a growing number of organisations are systematically applying the principles and tools of total customer experience (TCE) to generate, strengthen and sustain enduring customer loyalty. Marketers today believe that engineering TCE and lasting customer loyalty are important in maintaining a customer focus and in creating customer preference (Mascarenhas, Kesavan and Bernacchi, 2006:397).

Organisations that apply total customer experience principles have the following features in common (Mascarenhas, Kesavan and Bernacchi, 2006:398-399):

- Anticipating and fulfilling customer needs and wants better than competitors do
- Providing real customer experiences
- Providing a real emotional experience
- Providing experience as a distinct market offering
- Utilising experiences as interaction
- Changing experiences into engaging memories

These principles listed above imply the customer experience is applied throughout the organisation. The customer experience is in the DNA of the organisation – its people, processes and architecture.

The evolution of a total customer experience

The concept of a total customer experience as utilised in this study evolved over time. Figure 1 shows this evolution from a service quality focus during the 1980s to a customer service focus during the 1990s and recently a total customer experience focus. This shift in focus is found in strategies of organisations where “quality” was a well-known concept in vision statements during the 1980s, moving to “customer focus” or “customer centric” being utilised in vision statements during the 1990s. It is important to note in Figure 1 that customer experience includes the concepts of customer service and service quality.

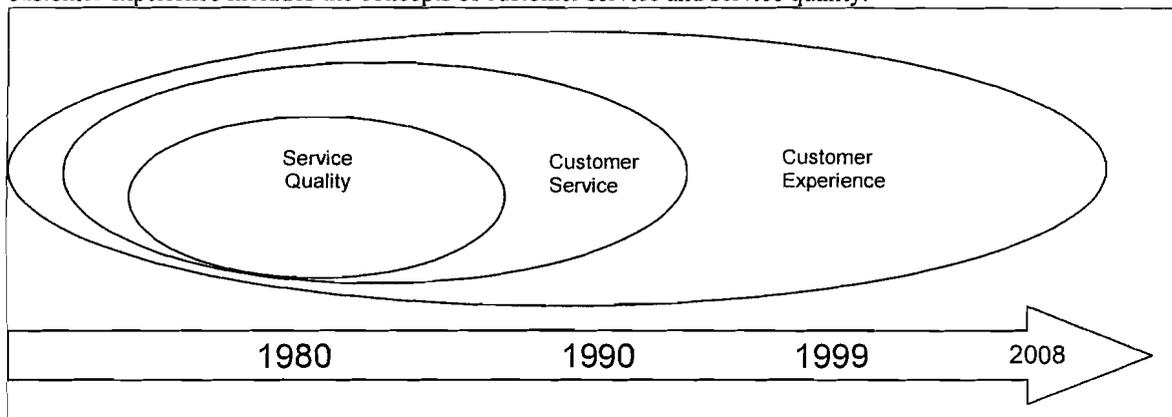


Figure 1: The evolution of customer experience

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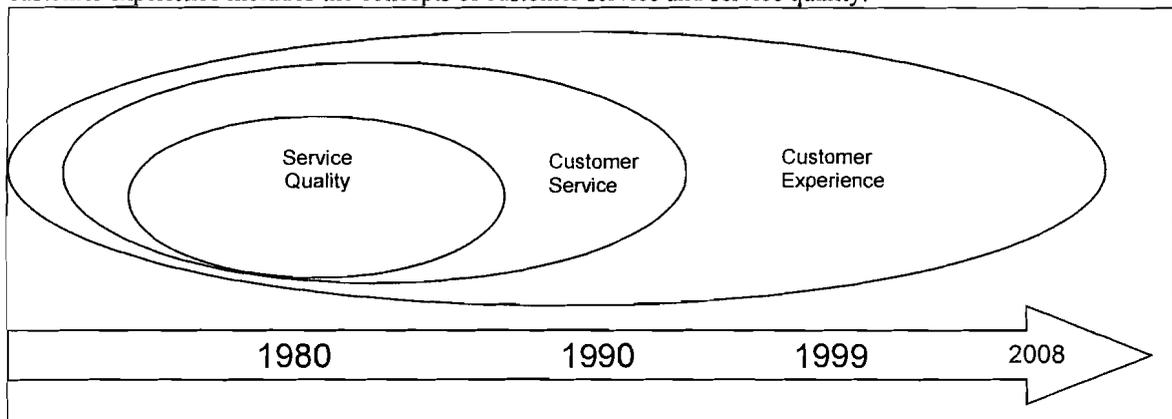


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War II, increased the power of suppliers at the expense of consumers and reduced the importance of customer service. A shift in this balance began in the 1970s, as international competition increased and the dominance of Western manufacturing was challenged, first by Japan, then by Korea, China and other developing economies. Producers responded by improving the quality of their products and services (Berry, 1999, in Zeithaml and Bitner, 2003:11-12).

A good example of the evolution of customer experience is the mobile phone market in Europe. According to Shaw (2007:5), this industry enjoyed massive growth during the late 1990s and early 2000s and effectively could not care less about customer experience.

DEFINING TOTAL CUSTOMER EXPERIENCE

Customer experience has been defined by many authors. It is a holistic concept and comprises various elements. Total customer experience is a concept that evolved over time to become a systemic and holistic concept focused on the customer. It is about a “human” interaction and therefore the emotions of customers are a vital part of an experience.

The researcher believes that the definition by Seybold (2002:108) namely “a total customer experience is a consistent representation and flawless execution, across distribution channels and interaction points, of the emotional connection and relationship you want your customers to have with your brand” encompasses all the most important aspects of the total customer experience and is therefore adopted for this study.

The customer experience is felt in all interactions with an organisation and therefore it is important to understand that customers interact with an organisation through various means and the experience must always be the same.

Comparison between the elements of the marketing mix and the elements of the total customer experience

The elements of a total customer experience have been described in the paragraphs above.

Figure 2 below illustrates the comparison between the two lists of elements. There is a strong correlation between the elements of the customer experience and those of the marketing mix. The difference between the two lies in the more strategic and holistic approach to customer experience and more focus on looking at the interaction with the customer from the customer’s point of view which includes elements such as customer expectations, measurement and strategy.

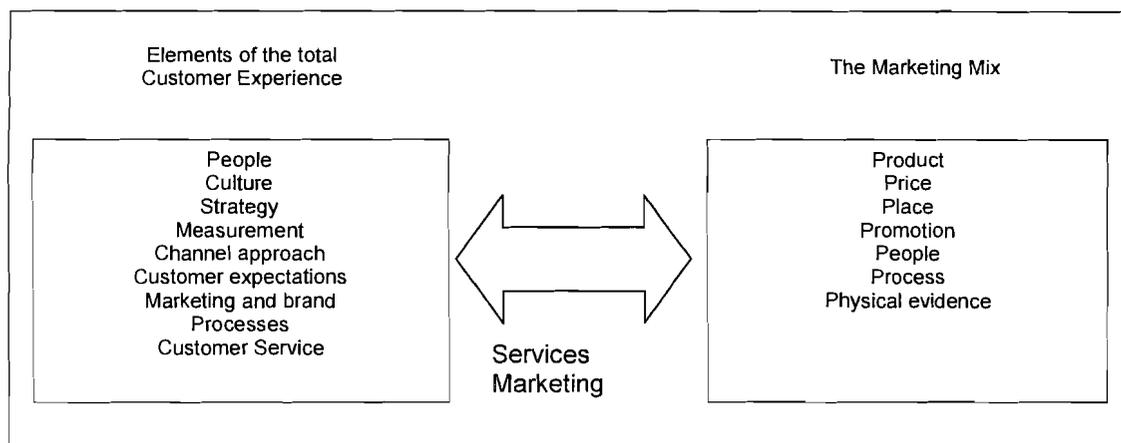


Figure 2: Comparison: Elements of a customer experience and the marketing mix
 Source: Adapted from Shaw (2005) and Zeithaml and Bitner (2003)

The total customer experience incorporates all the elements of the marketing mix in a direct or indirect manner.

TOTAL CUSTOMER EXPERIENCE AS DIFFERENTIATOR

Product, price, service and customer experience are described as possible differentiators in retail banking. The researcher showed through literature study how product, price, service and customer experience were identified as differentiators in retail banking over time. In this paper the focus is on customer experience as differentiator.

Product, price and service have all been utilised as possible differentiators in the retail banking industry over time. This paragraph depicts the total customer experience as differentiator in retail banking inclusive of product, price and service.

In the discussion below, the researcher attempts to illustrate through literature studies that total customer experience could be a strategic differentiator:

- (i) The traditional differentiators of product, price and quality are becoming less important every day. Differentiating in terms of price, quality and delivery is no longer a sustainable business strategy. Products and services have become too similar and, as Shaw (2005:xix) says, we suffer from "the blight of the bland". Customer experience is the next competitive battleground to provide a source of sustainable differentiation.

In the modern commoditised economy, customer experience is the only differentiator. Product, price, people and technology are all similar. The meaningful aspects customers remember, over and above products, are the feel for and the perception of the organisation and the brand. "It is therefore the customer experience that makes you different" (Shaw, 2005:1-2).

- (ii) Organisations compete best when they combine functional and emotional benefits in their offerings. Emotional bonds between organisations and customers are difficult for competitors to sever. A growing number of organisations are systematically applying principles and tools related to customer experience management to strengthen customer loyalty. Unlike many product or service enhancements, the holistic nature of these experiential designs makes them very difficult for competitors to copy (Berry, 2002:89).

The arguments by the various writers and experts on customer experience in the literature studies above illustrates that the total customer experience which includes product, price and service can differentiate one organisation from a next, leading to a competitive advantage.

MEASURING THE TOTAL CUSTOMER EXPERIENCE

Quantitative measurement

An integrated service measurement (ISM) framework was developed to measure the total customer experience. To align customer experience being defined as more than customer service, but including service, the basic service needs of customers were included in the framework. Customer experience is also defined as including the emotions and behaviour of customers and therefore the framework includes a measurement on an attitudinal and on a behavioural level as well as loyalty of customers towards a retail bank. The ISM framework is illustrated in Figure 3 below.

The ISM framework was populated with all the research findings acquired through questionnaires. The findings were categorised as information for a retail bank or for a particular segment, product or channel related business unit. A five-point Likert scale was used in the framework due to the fact that a Likert scale is the only summated rating scale that uses a set of agreement/disagreement scale descriptors and it collects only cognitive-based or specific behavioural beliefs (Hair, et al., 2006:393).

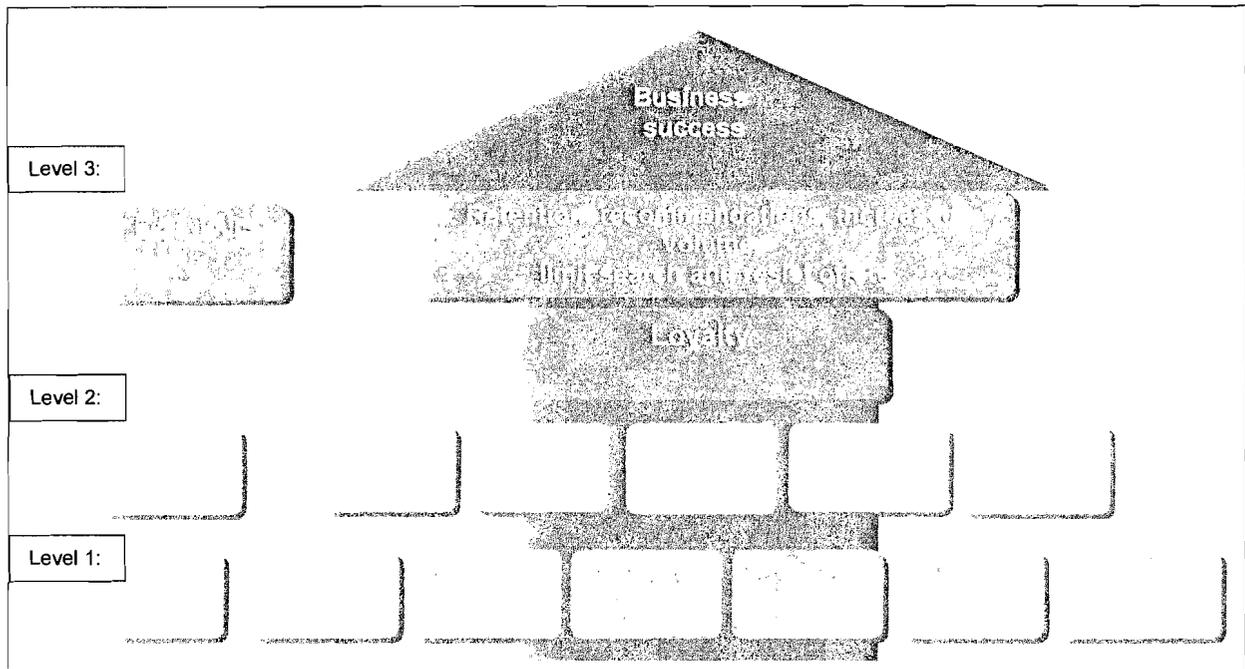


Figure 3: The ISM framework
 Source: Markinor (2004). Copyright: Walker Information.

Qualitative measurement

Through the literature study the researcher identified the fact that customer experience is about the customer's feelings, emotions and tangible experiences.

The need arose to add a qualitative dimension of measuring customer experience. The researcher formulated a technique or methodology that was based on story telling and quantifying the stories into themes, values and behaviour.

Collison and MacKenzie (1999:38-40) argue that stories are one of the earliest forms of communication from tales forming myths to legends. Stories often have the power to convince members of an organisation of a new perspective. This means of passing on knowledge has seen a developing interest with business and retail organisations recognising the importance of stories in organisations.

The story telling approach often relies on pictorial material such as cartoons, photographs or drawings. The methodology used in this study was developed by IBM and is called Cynefin. The researcher worked with Cynefin consultants to identify the specific needs of Bank X and develop a process through which Cynefin can add value to measuring total customer experience in a qualitative manner.

Cynefin is based on the principle that exploring issues through multiple perspectives allows one to see things from all sides. The most effective technique for understanding experience is story telling. Stories in organisations reveal the patterns of culture, behaviour and ideas. When people tell stories about their experiences, they do so in a manner that reveals "the moment of truth" that cannot be manipulated. Thus, the power in stories is their ability to provide real insight in an uncontaminated manner. Story telling allows one to reach a wide range of different people (Collison & Mackenzie, 1999:38-40).

SUMMARY OF CUSTOMER EXPERIENCE MEASUREMENT RESULTS (QUANTITATIVE AND QUALITATIVE) AT A RETAIL BANK

It is evident from the analysis of the research results that customer experience is a holistic concept with many dimensions, namely service needs, attitudinal, behavioural and loyalty and elements, namely people, culture, strategy, measurement, channel approach, customer expectations, marketing and brand, processes and customer service. It should therefore be measured by using a holistic approach.

Qualitative as well as quantitative measurements are necessary because a figure or score cannot explain the emotions that accompany an experience. Qualitative research depicts something of the emotional side of the experience, in this case by using a story-telling method.

It is also important to measure quantitative data holistically and this was done by means of the different levels of measurement in the ISM framework.

At the attitudinal level, the results indicate more than basic needs. Some emotions are beginning to show, and the quality of the organisation, its customer- focused approach, its reputation and its brand now come into play.

The third level in quantitative measurement is behavioural data. This information is crucial to the organisation with respect to customer acquisition and customer retention.

The qualitative measurement through the Cynefin framework adds a “personal” touch to the numbers obtained through the ISM framework. It adds the emotions and feelings of customers leading to a measurement of the total customer experience.

CONCLUSION

This paper provides highlights from a PhD study. The purpose of the study is to investigate if customer experience is a strategic differentiator in retail banking.

The researcher depicted in this paper the literature study conducted and quantitative and qualitative measurement frameworks applied to emphasise total customer experience as differentiator and therefore illustrating the value of understanding the total customer experience and what it encompasses.

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