The Wallet Connection

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There has been a great deal of discussion lately about Internet banking; and the suggestion has been made that it will eliminate retail banks' ability to focus on "share of wallet" as a marketing objective.

At the same time, there is also much discussion about electronic wallets as a means of making secure payments on the Internet.

While the term "wallet" has been used to describe two very different ideas, I believe there is a connection between the two, in terms of meeting the same objective. The idea with capturing share of wallet is that the more services a bank can sell to a customer, the more likely that customer is to retain a relationship with that bank. It is also easier and less expensive to sell additional services to existing customers than to acquire new ones. This is a fundamental concept that not only applies to banking, but to many other businesses as well.

It has always been an important strategy for banks to focus on gaining share of wallet. In the physical world, branch banking has played an important role in meeting this objective. A local branch bank can establish a one-on-one relationship with a customer and be available to service a variety of needs.

In the case of Internet banking and commerce, it becomes increasingly important to focus on providing a package of services to customers. It may not depend so much on the packaging of products, but rather the packaging of access devices to customer accounts. This is the opportunity presented by electronic wallets.

The use of virtual wallets is not yet widespread, and there are numerous obstacles to be overcome before they are widely accepted by consumers and merchants. However, they will be necessary for the implementation of SET or similar protocols; and they will be a key component of smart cards in the future.

The virtual wallet can be branded by a specific bank and allow the customer to choose among different accounts for payment on the Internet, at the point of sale. Banks should consider the electronic wallet to be as much a marketing tool as it is a secure payment device. A wallet that displays the bank's own brand is an opportunity to solidify the customer relationship by providing all the payment devices the customer might want: credit card, debit card, cash card and electronic check.

Aside from the electronic wallet, there are other reasons for banks to view product offerings in terms of customer relationship. Although the focus with retail banks in the past has been to rely on promotional offers to differentiate their products, advanced technology will dictate that products have more substance. It will afford banks the opportunity to provide packages of products that offer convenience and information. The real advantage that banks will have with customer relationships is to be able to link viable products together, to maximize the benefit of keeping a group of accounts with one institution. A simple example of this is the ability for a customer to view accounts within a single web site, and not only pay bills but transfer funds effortlessly between accounts.

It is not a new idea that building multiple relationships with an individual customer makes it more difficult for the customer to leave. The Internet may make the mechanics of switching banks an easy thing to do, but who wants to go to the trouble? Although the ability to find another bank will be literally at the customer's fingertips, what about the other reasons we choose a particular bank? Even with electronic banking, and perhaps even more so than with branch offices, perceived image and trust are important. Pricing will become less of an issue as banks are able to effectively differentiate their products based on functionality and service.

One of the factors that has inhibited this kind of product development in large banks is the lack of strategic focus on the development of relationship products. Marketing and product management groups are often segregated between asset and liability management, and further by divisional boundaries between various product groups, each with its own P&L responsibility. Unless there is direction at a more senior level, these groups work independently and may not consider opportunities to package products together.

I have always been a proponent of the "single account" idea -- not really a single account, but the idea of a group accounts linked together than can be accessed by the customer through a single device, such as an electronic wallet or a smart card.

Apart from Internet banking, as chip card technology evolves, the key to success with bank marketing is the same idea. The more functionality a bank can provide with a single card, the greater the chance of maintaining customer accounts over a long period of time. And if smart cards contain the electronic wallet of the future, the share of wallet may be reduced to one branded card with multiple payment products.

Banks should look at the Internet as an opportunity to increase share of wallet. It is one more way they can service their customer, and the more services they can provide on the Internet, just as with ATMs or telephones, the more they will strengthen their customer relationships.