

Editorial

Customer-Driven Business Model Redefinition after the Financial Crisis

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Would the economic recovery follow a V-, U- or L-shape? This question was raised right from the beginning of the financial crisis.

The economic earthquake was followed by an emotional one – especially for customers of banks and financial institutions. Every responsible manager in a financial institution should be faced with the “shape” question applied to customer confidence: will it follow the shape of a V, U, or – in the worst case – an L or W?

Regaining customer confidence is first priority. Sustainable business success is fundamentally based on customer confidence and trust. Therefore, rebuilding customer confidence and establishing customer benefit have to be cornerstones of a bank’s business model.

Aligning the business model to customer benefit requires action in four dimensions:

- Value proposition, vision and mission
- Business strategy and corporate goals
- Integrated offering including advice, products and services
- Corporate Governance

1.: The value proposition has to focus on the creation of customer benefit. This has to be combined with transparency, competence, value-for-money, security and performance. Experienced customer benefit will reestablish confidence and trust and will be a critical success factor for sustainable business results.

2.: A clear understanding of customers and a systematic customer segmentation and definition of target segments are fundamental for formulating the business strategy. On this basis, the offering and sales strategy as well

as the firms’ goals have to explicitly balance the shareholder and customer perspectives.

3.: For the customer of a bank, the benefit of the bank relationship is the result of the mix of advice, products and services. Sales, product management and marketing, as well as middle and back offices should be given the target to optimize this benefit. This will only happen, if the corporate governance including target setting and leadership principles support this goal.

■ High quality of advice relies on knowing the needs, goals and desires of the customer as well as the customer’s readiness to assume risk. Best advice should enable the customer to make his own fact-based decisions. Advice and sales should not be seen as contradictory but support each other.

■ The starting point of product design has to be the definition of the customer benefit. It results from transparency, performance and appropriateness with respect to the customer needs. This holds true for classical banking products as well as for financial innovations. Pricing is specifically relevant in this context. For example, a fair share of investment results between customer and

shareholder will be a proof point from the customer’s perspective.

■ The bank’s communication with the customers should be a consistent and continuous dialogue and make the benefit from the relationship apparent to the customer. Trust will thrive only based on consistency and continuity of communication and delivery.

4.: The corporate management, sales management, product management as well as middle and back offices have to fully embrace the customer dimension. The governance has to anchor the customer perspective deeply in the organization. This is vital for the organizational structure, e.g. establishing a chief customer officer, but also for the processes and decision principles, e.g. allocation of resources or introduction of new products.

The financial, economic and emotional crisis has put the business models of banks into question. Banks which answer these questions by aligning their business model to the creation of benefit for customers and shareholders will arise from the crisis as winners, regardless of the shape of the recovery curve.