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Keywords: service marketing, experiential economy, customer service satisfaction, conjoint analysis

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Papers

Examining the future of retail banking: Predicting the essentials of advocacy in customer experience

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Received: 23 February 2009

Abstract

Service marketing, customer service satisfaction and the transition of the economy from product manufacturing to a service-oriented economy have received extensive attention in the business world. In this kind of an economy, customers who experience a high level of satisfaction become repeat, loyal customers. The result of loyalty in banking is that customers remain customers, even when they have a negative experience. In addition to loyalty, an emerging area of interest is customer advocacy, which is built on the basics of customer satisfaction and loyalty. The 'advocate' customer in turn communicates with other individuals who might become new customers.

Journal of Direct, Data and Digital Marketing Practice (2009) **10**, 307–328.
doi:10.1057/ddmp.2009.12

Introduction

The experiential economy and the evolution of service marketing

Service marketing, customer service satisfaction and the transition of the economy from product manufacturing to a service orientation have received extensive attention in marketing literature. An important motivator for these phenomena is that in this kind of an economy, customers who perceive a high level of satisfaction become repeat and loyal customers. The next level in the assessment of customer experiences is that of customer advocacy, which develops customers that are advocates of a specific business's products and services. A positive experience can help a firm to attract new customers through word-of-mouth.¹ Marketing inherited a model of exchange from the field of economics. In their seminal paper, Vargo and Lusch² offer a *service-centred view* of exchange between the firm and its customers. Their service-centred view posits that the goal is to customise offerings, recognise that the consumer is always a co-producer and then strive to maximise consumer involvement in the customisation to better fit her needs.

Experiential marketing will rise in importance

The business literature that examines marketing as a social and economic process includes the study of user experience, and its impact on the success or failure of a product or service sale. Marketing researchers and practitioners are beginning to espouse the new idea that the emerging focus of the economy, especially in industrial societies, has migrated from product/service itself to the experience of customers. Pine and Gilmore³ argue that as goods and services become commoditised, the customer experiences that companies create will matter most. In the same vein, a study conducted by Marketing Week indicated that 71 per cent of senior executives in the US and UK agreed that customer experience is the next big battleground.⁴ Experiential marketing, especially for marketers of intangible products, will rise in importance. The reason for this can be traced to marketing in the 21st century, which will be far more challenging than ever. The challenges will arise from the fragmentation of media, knowledgeable and demanding consumers, as well the rise of the 'independent-minded' consumer. As products and services move toward commoditisation and differentiated branding, that is, the ability to generate customer advocacy, a willingness to pay a premium price for a specific product is becoming very difficult to attain. As such, an ongoing emotional attachment between a brand and consumer has evolved into a new goal of experiential marketing. The delivery is through a unique experience, which can only be created by the brand, giving owners a higher level of control. Companies that engage in experiential marketing take a brand essence and bring it to life in the form of an event, experience or interaction.⁵

The banking industry is ideal for examining customer experiences, and the enhancement of 'brand essence'

The banking industry seems well suited for examining, and perhaps reshaping, customer experiences in order to enhance the brand essence both functionally and emotionally.⁵ Heightened competition for financial service customers, increasing availability of sophisticated information technology and databases, and the acknowledged importance of segmentation all point to the value of using interactive and experiential marketing practices to develop strong customer-service provider relationships.⁶

The Bank Administration Institute's 2006 Frontline Experience Survey⁷ reported that 83 per cent of bankers they interviewed felt that their products and services are viewed as commodities, meaning that what is needed is a differentiated customer experience to change that perception. Bankers today need and clearly want to create an exceptional customer experience that will differentiate their bank from the competition. To the degree that bankers successfully create a base of customer advocates, these bankers will have succeeded in enhancing the natural marketing of their services through word-of-mouth.

Further complicating the ability to create a consistently differentiated experience are tremors from the technology of communications, as they affect bank services. Today's existing and rapidly emerging technologies allow for nearly any service to be consumed anywhere, anytime and on any device. Any one channel (mobile device, PC, teller, Customer Service Representative, Contact Center, ATM, etc) can support

multiple services. Any one service can be distributed through an increasing variety of channels. This multiplexing forces banking services and product managers to be ever more prescriptive in how new services are contemplated and connected, in order to create a pleasant, consistent and ultimately exceptional customer experience.

**‘Servicescapes’
influence customers
in many ways**

Experiential marketing and service quality

A stream of published research during the past two decades deals with the effect on customers of physical facility, equipment, personnel and communication material.⁸ These so-called atmospherics, also known as ‘servicescapes’,⁹ influence customers in numerous ways. Bitner⁹ explained how employees and customers are influenced by tangible facets of services in many ways: physiological, psychological, sociological, cognitive and emotional. Servicescapes have received a great deal of attention by many authors, as they drive the customer’s perception of services^{10–18} and their effect on employees.^{18–23}

More recently, the combined impact of the information revolution and advancing media technologies has placed a premium on research that shows how to understand and enhance the relationship between customer and service provider.^{6,24,25} Understanding what contributes to positive relationships allows service providers to identify profitable segments and to proactively design products and communication strategies that attract those segments.

**In order for firms
to be successful in
value creation, they
must engage in
in-depth dialogue
with customers**

Following this train of thought, where customer experience is key, Prahalad and Ramaswamy²⁶ challenged marketing strategists and executives alike to consider a completely new paradigm for value creation. With the convergence of industries, technologies and active consumers, the role of the consumer in today’s business system has changed. Their basic premise suggests that future-thinking corporations should shift strategic focus from managing resources and capabilities to managing the consumer experience as the primary source of value-creation. Thus, the future of competition will rest on a new approach to value-creation with a so-called holistic brand value structure, the key function of which is to enhance the consumer experience in different ways, at different outlets and in different situations. Following this argument, in order for firms to be successful in value creation, they must focus on a new set of building blocks. These include in-depth dialogue with customers, transparency to facilitate the potentially intrusive nature of this dialogue, providing new kinds of access to information, and the freedom to exchange information that will reveal risks. These building blocks will put marketers in a better position to excel in engineering a brand value structure that will enhance the consumer experience.

In the past, companies and consumers in the value-creation process were prescribed distinct roles of production versus consumption. Products and services contained value, and markets transferred this value from the producer to the consumer. However, in the experience economy, the marketplace moves from the conventionalist product-centred notion toward the experientialist consumer-centred

notion. With this change in the nature of the market, the distinction disappears between production and consumption. Increasingly, consumers are involved in the processes of both defining and creating value. Indeed, the very co-created experience of consumers through the holistic brand value structure becomes the very basis of marketing.

The role of word-of-mouth (WOM)

A parallel research stream focuses on customer-specific antecedents of service quality.²⁷ The research suggests that consumers follow several paths to arrive at their expectations of service quality. Perceptions of service quality are influenced by factors such as communications for employees and social referents. In that context, word-of-mouth (WOM) communication is undoubtedly among the strongest factors both in forming expectations and frequently in leading purchasing behaviour.^{28,29} In general, WOM communication has been researched less for services than it has for manufactured goods.³⁰ Yet, at least conceptually, the role and importance of WOM for the services sectors has long been established.³¹ This importance stems from the fact that service quality is hard to assess in advance of the purchase. Thus, WOM becomes a potent factor that consumers consider.³²

WOM is a potent factor that customers consider

The reason why WOM can play such an important role in developing perceptions of quality is better understood when one considers what generates WOM communication. Parasuraman *et al.*^{27,31} reported that when consumers' perceptions of service quality are high, consumers are willing to recommend the company to others, that is, they create positive WOM. Reichheld and Sasser³² also support this notion. Similarly, Boulding *et al.*³³ found that service quality relates positively to customers saying positive things regarding the company to others. On the converse side, when consumers perceive that they have experienced inferior service performance, they are likely to complain, that is, they create negative WOM communication.^{34–36} In general, these negative communicational responses stem from the fact that consumers have received poor service.

The outcome of this communication process is used by individuals who are not familiar with either the service or the provider as signals of quality. In studies on how young people choose a bank, Lewis and Bingham³⁷ and Lewis *et al.*³⁸ reported that non-organisational communications (eg parental communication) influence young people's assessment of the bank's service quality. In a study of service quality offered by an electric utility, Jannadi and Al-Saqqaf³⁹ again suggested the important of WOM as a determining factor.

Empirical investigations demonstrate that WOM, and its impact on customer profitability, is particularly important during the early part of the product life cycle.⁴⁰ This finding is very relevant for this study, which seeks to understand how one can create a favourable customer experience in a technology-driven scenario for banks. The study deals with the creation of the future bank, wherein WOM from early adopters affects the growth rate of product adoption. Figure 1 depicts

Figure 1: Designing the experiences

the process leading to and shaping consumer's experience. On the left, we see those who develop mechanisms to create experiences: the service providers. In the middle, we see the drivers of experience. On the right, we see the output, specific customers' experiences and the WOM communications among fellow customers.

Scope of this paper — Creating an exceptional customer experience in banking

Customers and employees are two key constituents involved in bank metrics. When the employee is not trained, motivated and provided with comprehensive products and services delivered in a pleasant and professional manner, the customer will sense the constellation of feelings from that employee — both positive and negative.

Emotional attributes of the customer such as trust, mind-share and share of heart are becoming important differentiators in a very competitive arena where one bank's offerings are very similar to its competitors. A positive customer experience is the goal toward which they strive. Specifically, this goal is to create a loyal following of customer advocates that proactively promote the bank to family and friends. An important caveat is that in shaping positive experience, it is critical to nurture, improve and track the interactions between bank employees and customers. Meuter *et al.*⁴¹ discussed the importance of so-called 'critical incidents', defined as customer experiences, that have an important impact on customer satisfaction. Through a series of studies on critical incidents, they demonstrated that even in

Figure 2: Closed loop customer experience management

self-service technologies, employees' initiatives to improve services, and customers' satisfaction in areas such as technical support and troubleshooting, still play a critical role in the firm's strategy.

Proposed conceptual framework

We have developed a knowledge-driven, ongoing learning system that defines, creates, delivers and refines a favourable customer experience using a four-step, closed-loop business process. The emphasis is on a scientific and knowledge-driven approach, so that the business process can be deployed in the banking world, sensitive to local competitive conditions of retail banks. We demonstrate the approach with a case history.

The study provides a framework for a pragmatic evaluation of customer experiences with providers of bank services. Understanding the perceived quality of customer encounters can help to shape the design and delivery of future services. The purpose is to enhance overall perception of future service interaction. We illustrate how service providers in a retail banking business environment can identify needs and satisfaction triggers of various clusters of customers.

Figure 1 is based on a major study conducted by Voss and Zomerdijk⁴² and the London Business School. The figure depicts five areas that directly or indirectly contribute to a customer's experience. These areas include the 'inputs' or mechanisms for creating experience, which essentially are support activities, the physical environment of the bank, employees, services delivery processes and location, and outputs such as customer experience and the WOM communication of other customer's experiences.

Figure 2 shows a schematic of this approach, 'Closed Loop Customer-Experience' Framework, designed to create that future by integrating the voice of the customer with the voice of the employee, then defining the experience, and finally building it with specifics.

Understanding the perceived quality of customer encounters can help to shape the design and delivery of future services

The framework consists of four steps

Step 1: What's happening 'now'

In Step 1, we isolate the customer's perception of the delivered bank experience, by looking at the different channels (eg in-branch, ATM, contact center, online). We look at each critical interaction that involves the customer, and longitudinally at the different stages of the customer need states (moments of truth). We further obtain customer-centric measurements of the experience, and advocacy, which we combine with the transactional content (eg agent name, transaction time, location). The output achieves the following:

1. identifies which experiences are most important to customers and how these experiences affect advocacy;
2. pinpoints where, and with whom, good and bad experiences take place, as aggregate information about all customer experiences cascades into granular detail about individual experiences.

The output is distributed in real-time across the organisation and is targeted for specific role-holders, ensuring that everyone shares a common view of customer experiences.

**The first step
provides aggregate
information on
customer experience**

Step 1 goes beyond simply monitoring the customer experience. Customer insights from these metrics are distributed in real-time to the individuals within the organisation who are responsible for delivering and improving the experience. Immediate action is taken to address issues and prevent loss of customers — stop the bleeding.

The information collected in Step 1 provides aggregate information on customer experience. We now identify systemic problems that fail groups of customers, as well as highlight best practices that delight them. Step 1 ultimately identifies the improvement projects, which will be valued by customers prior to modelling financial impact in step 2.

Step 2 — Perform future modelling to determine the potential future impact

Step 1 identified the problem areas, which Step 2 now addresses as the highest priority. Step 2 fosters communication between the bankers, technologists and partners, in order to show what specifically may be required to deliver the enhanced customer experience. Best practices identified in Step 1 are used as a foundation to build an exceptional customer experience. Primarily, Step 2 represents a modelling exercise of 'what if', by developing the optimum 'to be' from a process perspective.

This approach uses a business modelling technique that documents and connects the four fundamental business and technology 'layers' of a bank. The two business layers address the executive business vision and the underlying processes that middle management uses to support that vision. In turn, the two technology layers focus on the application programming to enable the business processes and the underlying technology hardware and systems software. All four layers

are interdependent, and the relationship among the four layers is documented to enable a visible traceability among all layers, which enables clearer communications between the business and technology groups in the organisations.

Additionally, Step 2 modelling incorporates the voice of the employee in developing the future state process and customer experience. From this is derived the financial impact that will result in decreased costs or increase in revenue. The next step will show which changes will enhance or detract the customer experience, as well as the subsequent impact on customer advocacy.

Step 3 — Predict the customer experience and response to new offering by deconstructing the algebra of the customer mind

Step 3 comprises the bulk of this paper: it produces a database that can be ‘interrogated’ again and again

Step 3 explores customer responses to a range of alternatives, creates a database and analyses that database to identify new mindset segments that can be delighted by the bank’s new offering. The bulk of this paper expands on Step 3. Step 3 produces a database that can be ‘interrogated’ again and again to solve problems, and to create new varied experiences that are both feasible to the banker and acceptable to the customer and to the employee.

Additionally, Step 3 identifies ‘markers’ or basic key questions that will be asked of a prospect or customer when at a touchpoint; shopping for banking services at a moment of truth in their life. These markers’ tie-in with the segmentation procedure indicates which bundle of bank products and services are optimum for that segment. The risk of customer dissatisfaction is thus reduced, and use of the specific bank offerings results in customer advocacy.

Step 4: Build, implement and refine the optimum customer experience solution

Step 4 embodies the knowledge database produced in Step 3. Once the desired experience is designed and launched, the challenge again returns to aligning the organisation to deliver that experience.

Rule-developing experimentation

In order to understand the experience, we used rule-developing experimentation (RDE). The basic notion is that customers may not be able to tell you what they want, but they will be able to react to the future as a scenario if it is presented to them in an easy-to-understand format. Furthermore, it is easier for respondents if these ideas are presented as a set of bulleted phrases, rather than as densely written paragraphs.

Following approaches presented by Moskowitz and Gofman,^{43,44} we developed a database of six silos of ideas. For each silo, we created four options, for a total of 24 ideas. Certainly, there are many more ideas that one could work with for the future experience, but we wanted to create an easy-to-use database, in a short period of time (2 months). Parenthetically, the exercise to create these concept elements was itself productive because it forced the bank team to structure the way they thought about experience into components.

The discipline of breaking down an experience into components, each of which is summarised by a short declarative statement, itself produces team cohesion at the outset as all work on the problem, and produces team insights as the group begins to discuss the implications of the results after the data have been collected.

These silos represent various experience ideas that a bank could potentially feature. Thus, for example, one silo displays online collaborative experiences, where a bank's representative works together with the customer to solve a problem or accomplish a task. An element or experience that is contained by this particular silo is connecting online in real-time with a customer via instant messaging, voice over IP or video conferencing via a computer. The elements appear in Table 1.

1. *We put together a vignette* (or a combination of elements): To ensure objective responses, these elements are mixed and matched. We are describing a complex situation, often with some elements that appeal to study participants, and other elements that do not appeal. Thus, we force the participant to integrate all of the information and make a judgment. Furthermore, each participant rates 36 different vignettes, one after the other, quite quickly, with the elements varying. This speed keeps the participants off their guard.
2. *Future services content*: In the rating question, we hinted that this vignette would be a set of expanded services. The participants are reacting to something that could be, not saying whether they would like it to be. That is, in the interview we are acting as if the services already exist, and the participant is rating the set of services, rather than selecting from a 'wish list' of possible options.
3. *Short, Internet-based interview*: The prospective customer respondent, recruited on the web to participate for the 20-min session, evaluates 36 unique vignettes, with each of the 36 elements appearing three times across the set of 36.⁴³ The respondent reads the orientation page about the future experience, and then rates the 36 vignettes, one at a time, in terms of how they would feel (more satisfied versus less satisfied). We see an example of a test concept in Figure 2.
4. *Modelling to identify what is important*: The nature of the experimental design has been described before. Briefly, it comprises the aforementioned set of 36 combinations, such that the 24 elements appear statistically independent of each other. The vignettes are all incomplete, that is, no vignette ever had more than one element from four silos, nor fewer than one element from two silos. Ordinary least squares regression (OLS) was applied to relate these elements to the binary rating of better or same/worse. Furthermore, the ratings were transformed to reflect the fact that the respondent was either interested in the vignette (rating of 7–9 transformed to the value '100') or was disinterested in the vignette (rating of 1–6 transformed to the value '0'). This transformation from a 9-point category scale to a binary scale

Table 1: The six silos and four elements for each silo

	Base size: Constant:	Total sample (267) 31
<i>Online collaborative</i>		
OC1	Connect online in 'real-time' with a customer rep via instant messaging, voice over IP or video conferencing via your computer	0
OC3	Faster loan application process ... work in real-time online with a loan officer	0
OC4	Our bank's customer service reps will help you browse and use our online banking services	-1
OC2	Use our online tool to find and schedule at your convenience an online working session with an expert such as investment broker, insurance agent, and/or loan officer	-3
<i>Online other</i>		
ON3	We will answer all your requests in 'real-time' by email, instant or text messaging	1
ON4	We offer 'On demand' status reports for services requests (eg loan application) delivered to you via e-mail, text or instant messaging	1
ON2	No more paper mail ... We will send you statements and images of transactions securely by e-mail	-2
ON1	We allow you to pay bills securely using your mobile devices (cell phone, PDA, Blackberry, etc)	-4
<i>In-branch recognition</i>		
BR3	We offer a bank-issued smart card so we can recognise you entering the branch and process your needs faster	4
BR4	Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM	4
BR2	We have the most secure biometric system that identifies you as you enter the branch so we can process your needs faster	2
BR1	We will recognise our customer's mobile phone signal when entering a branch so we can recommend appropriate bank products, promotions and special services	-4
<i>In-branch other</i>		
BO4	We have a secure electronic signature for all in-branch services and transactions. so banking can be done anywhere at anytime	2
BO2	All of our bank departments are connected in 'real-time' so we get all your needs met in the branch quickly	1
BO1	'Real-time' voice and video conferencing in-branch so you can access our experts in ANY banking department	1
BO3	Manage all your banking needs with self-service state-of-the-art kiosk and be confident that live help is available if needed	-2
<i>Misc. 1</i>		
MS3	Securely access and manage accounts or funds transfers by PDA, internet or automated telephone	3
MS1	Our priority customers get priority service immediately upon entering a branch	3
MS4	Use one encrypted password for all banking services via internet, cell phone or PDA	2
MS2	New technology insures consistent banking experiences on your computer, PDA or cell phone, at ATM and over the phone	2
<i>Misc. 2</i>		
MC3	We keep the most secure customer identity system anywhere via biometric identification	3
MC1	Use one encrypted password for all banking services via internet, cell phone or PDA	1
MC4	Bank employees use internet-enabled application for faster service. One screen shows all relevant customer/bank information	0

The order of the elements reflects the performance of the elements among the total panel. The table shows the silos, the elements, performance for the total panel. No element performs well among the total panel.

(0/100) follows the research procedures carried out by sociologists and market researchers interested in membership in a group (eg concept accepters, concept rejecters) rather than intensity of feeling toward a specific concept.⁴⁵

5. *Interpreting the parameters of the model:* This regression analysis was conducted for each person in order to discover the ‘drivers’ for each respondent. Each element has a utility value that comes from the regression. The utility value is the coefficient in the regression. The utility value shows the percentage of respondents who would change their vote from 0 (not much better) to 100 (far better). Sometimes the coefficient or utility is positive, meaning that the element drives a strong positive response. And sometimes the coefficient or utility is negative, and thus the element actually works to reduce the percentage of respondents, so that fewer think that they would be more satisfied.

The outcome of such an approach is a model or equation for each person, showing how every one of the 24 elements ‘drives’ interest in future bank experience. This structured design allows ordinary least squares regression (OLS) to relate the presence/absence of the elements to the ratings.

The sample of respondents comprised individuals who opted to participate in internet-based surveys, and were members of a general population. No screening was carried out to develop specific quota groups. However, the e-mail invitation for the respondents mentioned that the study would deal with banking experience. The respondents received only one e-mail invitation, as is conventional with these types of studies.

In the classification, we asked the respondents to profile themselves regarding age, gender, income and banking experience, including responses to consumer-relevant banking technology (the topic of interest). A total of 267 respondents participated, of the 5,000 who were invited. This 5.4 per cent response rate is typical of today’s internet-based interviews. The interview was left on the internet for one week. Respondents were given an incentive, consisting of one first prize of \$100 and two second prizes of \$50 each. These sweepstakes are commonly used for internet-based surveys.

Creating the customer experience

In the new service economy world, the experience often dictates the success of the product. Marshall McLuhan was right almost a half century ago — the medium is the message. However, today the medium is not what we read or hear, but rather what we experience: what happens to us, how we take in the aspects of this experience, and finally how we go about feeling delighted or disappointed.

The real challenge is how to go about creating this experience at the level of the individual customer. We are dealing with the near-future world of banking as people would imagine it, but at the same time, a world so full of new technologies that it is hard for people to say what they want. How does one design an experience when technology has a tendency to propel things forward so quickly and dramatically,

**Banks build the future
that their customers
design**

often beyond what customers would expect or could describe without prompting?

Let us first look at the pattern of performance, in Table 1. We do not really find anything very strong for the total panel.

1. *The additive constant*: This is basically the percentage of respondents who say that they would feel much more satisfied if the bank offered new technologies. In a sense, the additive constant is a baseline. For the total panel, the additive constant shown in Table 1 is 31. This means that without any elements, 31 per cent of the respondents are ready to say that they would feel more satisfied. The 31 per cent is a substantial number, but not a very strong one. The rest of the respondents are waiting to see what the bank actually offered.
2. The elements show the additional percentage of respondents who would change their vote to saying that they would be more satisfied. For the total panel, we do not find any strong elements. The strongest is *We offer a bank-issued smart card so we can recognise you entering the branch and process your needs faster* (utility = +4, meaning an additional 4 per cent of the respondents would say that they would be more satisfied).
3. There are some things to stay away from. Just looking at all the respondents as one group would lead us to conclude that new payments, say by Blackberry and mobile phone, would be poor ideas, as the element *We allow you to pay bills securely using your mobile devices (cell phone, PDA, Blackberry, etc)*. This element scores -4 in aggregate, meaning that without any other understanding of our respondents as customers, we would not consider this newly emerging channel.

Different banks for different folks

What the 'Tech-comfortable' respondents say

We began this investigation by asking the respondents to define themselves as being comfortable versus uncomfortable with today's new technology for banking. We call these self-defined groups the 'tech-comfortable' and the 'tech-uncomfortable'. We then looked for those elements that would satisfy the tech-comfortable group. We see these strong-performing elements in Table 2. Looking at we see the following:

1. When we look at the two subgroups, tech-comfortable and tech-uncomfortable, we find that the additive constants or predisposition to up-rate the bank are almost the same: 34 versus 29.
2. It is the elements that do all the work, however. From other RDE studies of this type, we know that an impact value of +7 or higher is important for external behaviour, such as product acceptance. Using this value here as a cut-off, we find that for both the total panel and for those who call themselves tech-uncomfortable, no element has much of an impact. In fact, some elements detract

Table 2: Elements that perform well for the tech comfortable group

	Tech com	Tech not com
Additive constant	34	29
Securely access and manage accounts or funds transfers by PDA, internet or automated telephone	10	-1
Our priority customers get priority service immediately upon entering a branch	9	-1
New technology insures consistent banking experiences on your computer, PDA or cell phone, at ATM and over the phone	9	-3
Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM	8	1
Our bank employees use dedicated Voice-over IP line so call-in customers get what they need fast with no hassles or loss of information	7	0

No element for the total panel or for the Tech Uncomfortable group scored 7 or higher.

from a positive reaction to the bank (eg *New technology insures consistent banking experiences on your computer, PDA or cell phone, at ATM and over the phone*), with an impact value of -3 for the tech-uncomfortable group).

3. We have a much more positive situation when we look at those who define themselves as technology-comfortable. Five of the future offerings look positive. However, if we look a bit more closely, we see that these strong performers present different types of ideas. Certainly, all of these elements have impact values greater than +7 (ie an additional 7 per cent of the customers would feel more satisfied), but we are left with the feeling that we have a hodge-podge of ideas, and no clear story with which to build the future.

Segmentation

Often people differ in quite profound ways. We can observe these differences in the proper situation (eg responding to the bank's offerings), but we may not be able to predict membership in these mindset segments by our traditional methods of data mining. It is very much like diagnosing a person's tendency to have certain nutritional issues. We can guess about the problems by taking blood and urine samples, but today's medicine pinpoints the problem with a better diagnostic system that involves 'typing the person' by a genetic test. All that is required is a sample of the person's skin, say from the inside of the mouth, and the genetic tests quickly reveal the person's potential susceptibilities, and potential hazards to the person.

If we can learn so much by a simple 'scratch' test, perhaps we can do the same for the bank of the future. What if we divide the respondents by their mindsets into different groups, based on the *pattern* of what bank features and communications most appealed to them. We did this, and discovered four segments, which we explicate

Letting the customer's mindsets emerge to define truly strong ideas

below, and we then show how to find them among the prospective customers with a straightforward ‘typing’ test (much like the genetic test, only this time dealing with the mind).

Study participants were grouped according to the specific pattern of elements that appeal to them. Two hundred and sixty-seven participants were divided into four different segments or groups, looking at the patterns of their utilities. Individuals in a specific segment (S1-S4) showed relatively similar patterns. Individuals from different segments showed relatively dissimilar patterns.

Table 3 shows the winning elements for each segment. Examining the segments one at a time reveals that the additive constant ranges from 26 to 34, meaning that all of the segments have the same ingoing interest in the Next Gen bank. The four segments like different things. It is important to realise, however, that each segment except S1 (Self-reliant online banking seekers) can be truly delighted by the correct choice of offerings from this Next Gen bank.

1. *Segment 1 (Self-reliant online banking seekers)*: This segment comprises around 40 per cent of the participants. They really do not respond to much. The only strong element is the real-time feature: *We will answer all your requests in ‘real-time’ by email or instant or text messaging*. It is important to realise that not everyone wants the Next Gen bank. Almost 40 per cent of the participants are not excited by what the bank promises. This first segment provides us with a dose of reality — and cautions us not to think that everyone is waiting for this new bank.
2. *Segment 2 (Technology and high security seekers)*: This segment constitutes approximately 20 per cent of the participants. They respond strongly to security, and to security backed by technology. Thus, they will really feel that they have an improved experience if the bank can facilitate transfers safely and electronically: *Securely access and manage accounts or funds transfers by PDA, Internet or automated telephone*. They also feel strongly about pure security: *We keep the most secure customer identity system anywhere via biometric identification*.
3. *Segment 3 (Collaborative online seekers)*: This segment comprises about 20 per cent of the participants. They like working with the bank’s staff, in a collaborative mode: *Faster loan application process ... work in real-time online with a loan officer*. Part of the experience desired by these individuals is the personal touch.
4. *Segment 4 (Personal touch with technology seekers)*: This segment comprises about 20 per cent of the participants. They want some feeling of connection with the bank, but a feeling that they are recognised as individuals. Thus, ideas appealing to them are *Manage all you banking needs with self-service state-of-the-art kiosks and be confident that live help is available if needed, and our entire bank departments are connected in ‘real-time’ so we get all your needs met in the branch quickly*.

Table 3: Winning elements from four segments of customers faced with the Next Gen bank

	Tot	S1	S2	S3	S4
<i>Base size:</i>	267	105	50	59	53
<i>Constant:</i>	31	34	28	31	26
<i>Segment 1 — Self-reliant on-line banking seekers</i>					
We will answer all your requests in 'real-time' by email, instant or text messaging	1	7	-11	3	-1
<i>Segment 2 — Technology and high security seekers</i>					
Securely access and manage accounts or funds transfers by PDA, internet or automated telephone	3	-3	18	6	-2
We keep the most secure customer identity system anywhere via biometric identification	3	0	17	-7	7
New technology insures consistent banking experiences on your computer, PDA or cell phone, at ATM and over the phone	2	-3	16	-1	-1
Our priority customers get priority service immediately upon entering a branch	3	-2	16	4	1
Our bank employees use dedicated Voice-over IP line so call-in customers get what they need fast with no hassles or loss of information	2	-3	13	6	-2
Use one encrypted password for all banking services via internet, cell phone or PDA	1	-3	12	-6	4
Choose a secure eye or finger security scan to identify you immediately in-branch and at ATM	4	3	10	-1	3
Now you can schedule time online to meet with our banking experts in a branch, online and/or by teleconferencing	-2	-2	10	-13	-4
We have the most secure biometric system that identifies you as you enter the branch so we can process your needs faster	2	-1	8	-5	6
<i>Segment 3 — Collaborative online seekers</i>					
Faster loan application process ... work in real-time online with a loan officer	0	0	-8	12	-8
Our bank's customer service reps will help you browse and use our online banking services	-1	0	-6	10	-10
<i>Segment 4 — Personal touch with technology</i>					
Manage all your banking needs with self-service state-of-the-art kiosk and be confident that live help is available if needed	-2	-8	-8	-3	18
We have a secure electronic signature for all in-branch services and transactions ... so banking can be done anywhere at anytime	2	-4	-2	4	17
All of our bank departments are connected in 'real-time' so we get all your needs met in the branch quickly	1	-2	-8	3	15
We offer a bank-issued smart card so we can recognise you entering the branch and process your needs faster	4	2	6	-3	13
'Real-time' voice and video conferencing in-branch so you can access our experts in ANY banking department	1	-4	-6	6	13
Bank employees use internet-enabled application for faster service one screen shows all relevant customer/bank information	0	-2	7	-11	11

The winning elements all have high impact or utility scores, great than 10. Each winning element will add an additional 10 per cent or more of the respondents in that segment to say that this Next Gen bank is better. An impact of 15 or higher is a breakthrough.

'Typing' potential customers to optimise the experience

Closing the loop

The segmentation provides us with a very strong tool to design the Next Gen bank. But what about the customer? If the bank can offer different experiences for a customer, how does it know what to offer a prospect who walks in the door? Certainly the prospect does not come in wearing a sign about the particular segment to which he belongs! Yet, in order to close the loop on segmentation, it is important to type or score a new prospect, preferably quickly, and certainly in a way that does not interfere with the sales and service efforts. The question is 'how?'

Classic methods for scoring prospects use methods such as data mining.⁴⁶ These methods attempt to predict segment membership based on exogenous factors, such as previous behaviour in the product/service category, or geo-demographics. Such data mining methods may require a lot of up-front investment in acquiring information about prospects, and linking that information to segment membership. In a sense, such data mining methods remind one of epidemiological studies in health, where the attempt is made to link general factors to specific health issues.

We propose here a simpler, more direct approach, based on the metaphor of genetic testing that we have already introduced above. What if the prospect could be induced to participate in a short survey, rating some of the elements that were used to segment the respondents? If we choose those elements that best differentiate the segments, we then have two sets of information. First, we have the rating of the prospective customer on these differentiating elements, and second, we have the expected utility profile of these elements according to the four segments. We see such data in Table 4, with the four 'typing' phrases as rows, the expected utilities from the four segments as the first four number columns, and then some ratings from six prospect customers and the second set of six number columns. The prospects rated each of the four phrases, in random order on a 9-point scale, using the same rating attribute as used in the original study, namely 'Thinking of your current banking experience, how would you feel if your bank offered these expanded services?' The rating scale would also be the same (1=Less satisfied; 5=The same; 9=More satisfied).

With this rapid survey, taking probably no more than a minute and a half, the prospect would provide four numbers that could be correlated with the utility values of the four segments, as shown at the bottom of Table 4. The outcome is four correlation coefficients. The highest correlation coefficient points to the segment to which the prospect belongs. Thus, the ratings assigned by Prospect 1 show the highest correlation with the impact utilities of Segment 4, and would thus be classified into Segment 4.

Given this type of data, one could quickly type and classify new prospects, either at the bank when interviewing the prospect for a particular service or perhaps even before the prospect visits the bank. With some type of inducement to participate in this short typing exercise, the bank could thus be prepared to offer the prospect the

Table 4: Closing the loop by selecting key elements with which to type new prospects

	Seg 1 Self-driven online banking seekers	Seg 2 Technology/ high security seekers	Seg 3 Collaborative online seekers	Seg 4 Personal touch with technology	Prospect 1	Prospect 2	Prospect 3	Prospect 4	Prospect 5	Prospect 6
We will answer all your requests in 'real-time' by email, instant or text messaging	7	-11	3	-1	9	4	1	6	7	6
Securely access and manage accounts or funds transfers by PDA, internet or automated telephone	-3	18	6	-2	5	7	2	5	7	2
Faster loan application process ... work in real-time online with a loan officer	0	-8	12	-8	3	2	4	8	2	1
Manage all your banking needs with self-service state-of-the-art kiosk and be confident that live help is available if needed	-8	-8	-3	18	8	4	3	1	8	3
Correlation with Segment 1					0.17	-0.21	-0.54	0.70	-0.24	0.59
Correlation with Segment 2					-0.36	0.86	-0.16	-0.03	0.21	-0.40
Correlation with Segment 3					-0.84	-0.27	0.37	0.92	-0.89	-0.52
Correlation with Segment 4					0.62	0.12	-0.01	-0.97	0.71	0.21

The rows show the elements that differentiate the segments. The first set of columns show the utility values for each element for each segment. The second set of columns shows how six prospects might rate these four elements. The bottom portion of the table shows the correlations between prospect ratings and segment profiles. Bold indicates the segment showing the highest correlation.

features that he/she wants in the Next Gen bank, as well as know how to communicate with the prospect. Segment membership for a prospect is shown by the bold entries in the table. This approach has already been used to type individuals as to the nature of their life/mind structures (see www.SuccessBuiltToLast.com, based on the book *Success Built To Last* by Porras, Emery and Thompson,⁴⁷ based in turn on a patent by Moskowitz and Gofman).⁴⁸

Discussion

The methodology presented in this study helps bank managers to better design the physical environment within which the servicing of customers takes place, leading to favourable emotional experience. The approach presents a systematic approach to design service offerings according to what customers want, both now and in the future. In brief, for over a decade this technique has been used successfully by Moskowitz, Jacobs Inc. in the consumer goods and manufacturing sectors, and is now being applied to the banking services sector.

All too often one hears that the customer cannot really articulate what the future should bring, other than in general terms. We agree with this general notion, because it is difficult to describe what one does not know yet. However, we also believe that the customer can react either to descriptions or to pictures of future offerings, as otherwise new products would never be accepted. The approach of presenting the customer with vignettes describing the future banking experience allows the customer to react to combinations, and not 'game' the system by providing conventional, politically correct answers. There is too much going on, too many combinations to try to remember one's pattern of ratings. In the end, most respondents simply respond to the vignettes in an intuitive way. To the degree that the vignettes describe the Next Gen banking experience, the customers' reactions will help to identify what they want.

With methodologies such as the one described in this study, the research emphasis is placed on understanding the linkage among customer value sets that shape their experiences with service providers. Resonating with a value set once it is understood creates the emotional connection where customers are more likely to remain loyal. Furthermore, this study placed emphasis on understanding the appeal and value of technologies that will be available in the near future to prospective customers.⁴⁹ As information technology plays a critical role in facilitating a differentiating strategy and value proposition, businesses in turn focus on the technological advances that help to provide services desirable to customers. Analysing a data base of the kind presented in this study helps to define which services to offer and which services to improve.⁵⁰ As highlighted elsewhere, the objective is to ultimately be in a position to design and orchestrate the signals generated by the technology services offered and the physical environment. These activities can help a bank to differentiate otherwise commodity-like services.⁵¹

This study placed emphasis on understanding the appeal and value of technologies that will be available in the near future to prospective customers

Employee policies have an important impact on customer satisfaction

It should be noted that whereas the focus of this study is on the engineering of customers' experiences, it is evident that employee policies have an important impact on customer satisfaction.⁵² Our procedure can also be used in tandem with training and educating the bank's employees that in addition to the service offering, it is critical to create a positive customer experience, as in the era of many choices there exists a greater likelihood of customer indecision. To achieve a competitive advantage in the experience economy, it will be necessary to create memorable, favourable experiences for customers, who daily becoming increasingly sophisticated. To a great degree, success is in the hands of the branch employees who genuinely believe in the value of their service, and who are committed to quality delivery. Experimental design of ideas, segmentation, rapid and automatic typing, and then treating the customer in the way that the customer will find optimal for his segment provide a structure in which to compete in this emerging experience economy.

Afterward — Study limitations and suggestions for further research

This paper presented the approach for retail delivery of products and services in the Next Gen bank, showing how the experimental design of ideas could drive segmentation and typing. We believe strongly that a series of such small experiments, each building on the previous one, will generate increasingly better, more differentiating elements of the experience. We saw the powerful segmentation into four groups. With a set of three or so such iterations, rather than one iteration presented here, it is likely that the segments will become more sharply differentiated, and that truly breakthrough ideas may emerge for each segment. It is the learning from study to study in the staged approach that will generate ongoing competitive advantage through knowledge, segmentation and ever more powerful prospect 'typing'.

Acknowledgment

Dr Howard R. Moskowitz thanks his editorial assistant, Linda Lieberman, for her help in preparing this manuscript for publication and keeping him on schedule.

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