Case Study

Alliance & Leicester goes direct

Peter Sleight

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Peter Sleight

founded the Target Market consultancy in 1991 to provide advice on customer targeting and retail location analysis.

His previous career encompassed FMCG marketing, advertising (he was Marketing Director of Allen Brady & Marsh) and geodemographics – first at CACI, then as joint founder of PinPoint Analysis.

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Abstract

The Alliance & Leicester bank (A&L) has taken a major step this year towards accentuating its direct offering by quadrupling its online spend. The author talks to Stephen Leonard, A&L's director of brand marketing and e-commerce, about the reasons behind this move.

Introduction

Those of us with long memories can remember when UK high-street banks were not allowed — by law — to compete on interest rates (pre-1971). How things have changed! The UK financial services sector must be as competitive a marketplace as any these days. As one indicator of this growth in competition, take a quote from the December 2003 white paper *Fair, Clear and Competitive — The Consumer Credit Market in the 21st Century*: 'In 1971 there was only one credit card available; now there are 1,300. 30 years ago, £32m was owed on credit cards; now it is over £49bn.'¹ The Financial Services Act of 1985 kickstarted things again, in a big way: the Abbey was the first former building society to convert to a bank, and most of the bigger building societies (with the exception of Nationwide) have since followed suit. Barclaycard pioneered the UK credit card market, quickly followed by Access, but since the large US-based providers entered the UK market (with a background in much lower interest rates than was usual in the UK), that market has hotted up. Recently we have all been bombarded with offers of balance transfers at 0 per cent or low interest rates. There has been a similar onslaught from loan providers, and 'cheap' mortgages have grown on the back of historically low bank rates. According to the Bank of England, total consumer credit soared to £1,000bn in 2004 — up from £521bn ten years earlier.²

Add the supermarkets and other retailers moving into financial services, and the internet-based 'players' such as Egg, Intelligent Finance, Cahoot and Smile (all offshoots of big existing financial services institutions), and the competition has grown tougher still. Tesco has been particularly successful among the retailers, claiming more than 4.5 million customer accounts for its financial services arm, and Sainsbury's bank had 2 million customers at the end of March 2004, with a growth rate of 40 per cent per annum. Other major grocers are investigating the opportunity, and major retailers such as John Lewis, Debenhams, Bhs, Boots and Argos are already active. The Co-op has been a major player for many years, of course.

Peter Sleight,
Target Market Consultancy
Woodlands, Woodlands Close
Holmer Green
High Wycombe
Bucks HP15 6QG
UK
Tel: +44 (0)1494 712371
Fax: +44 (0)1494 714203
E-mail:
Peter.Sleight@btinternet.com

How can A&L best compete?

Despite these new (or newish) entrants to the market, the incumbents — the big four high-street banks — still have the lion's share of the market. Alliance & Leicester (A&L) is a medium-sized player, with market shares of 3.0 per cent in savings, 3.3 per cent of current accounts, 4.2 per cent of consumer loans and 5.6 per cent of the mortgage market.³ Stephen Leonard, A&L's director of brand marketing and e-commerce, says:

'The large retail banks have built their position based around the power of their brands and the strength of their branch network distribution. However, to pay for this distribution and brand investment requires a premium pricing structure.'

Access to information

He points out that two major consumer trends are challenging this position: first, increasing access to information, so consumers are more prepared to shop around for the best deals (and are prepared to switch suppliers accordingly); and second, consumers' increasing confidence and willingness to buy via direct channels.

'These trends have driven a huge increase in "consumerism" in financial services. Consumers no longer stick with the branch around the corner and stay there for life. Consumers can now easily access the choices available highlighting both the price and service of competitive products. The internet in particular is levelling the playing field of retail financial services by bringing this information and competitive transparency. The growth of the internet and other direct channels is enabling all players to compete on a level playing field by providing the same geographic coverage as the large banks — but without the cost base. Alliance & Leicester has a clear strategy to capitalise on these trends — we are "a direct bank with a high-street presence".'

Direct bank with a high street presence

Strategy

So, faced with challenge of being a medium-sized player in a market dominated by the 'big four'. A&L has opted for a 'direct' positioning — but with the added reassurance of a network of branches. How is A&L implementing its strategy? Stephen Leonard says:

'We focus on four core product areas — loans, mortgages, current accounts and savings — these are areas where we have a strong competence and consumer franchise. The remainder of the market — product areas such as credit cards and unit trusts — we partner with "best-of-breed" providers such as MBNA and L&G. This enables us to focus in growing in our "Core 4" areas.

'To grow in these areas we must offer competitive products. To be competitive we must have a low cost base. To have a low cost base we must drive more business through direct and self-service channels. However, the branch continues to have a key role for more complex

face-to-face transactions and sales. We are already well progressed on this strategy with over 80 per cent of all transactions being handled via self-service channels.'

Does A&L position itself against particular competition?

'Most advertising is positioned against major high-street banks — this is the big opportunity. The big banks continue to control around 80 per cent of market share in each of our core product areas. A&L is challenging the retail banks by offering better-priced products. Our communication is built around single products communicated in a very straightforward way — challenging and comparing the major banks on the value they offer. We want A&L to be seen as the consumer champion, bringing value to the market and shaking up retail financial services. In 2003 we had more external best-buy products than any other retail bank. Many of our products are now priced to reflect the cost benefits and buying and servicing online. In this way it's a win for the company and the consumer.'

A&L as the consumer champion

Huge online boost

A&L's announcement earlier this year that it planned to quadruple its spend on online advertising to £10m (from 5 per cent to 20 per cent of total spend) attracted considerable interest. How was this increase justified? Leonard says:

'In terms of online marketing, we see massive sales opportunities. Already we have successfully grown sales threefold in the last 12 months, and now do a greater proportion of our business online and direct than any other retail bank in the UK. We will commit well over £10m to online marketing this year across our core products. Investment of this magnitude is solely driven by solid business and financial ROI testing principles. The biggest advantage of the internet is its absolute accountability at the lowest level — it's the perfect direct response mechanism!

'Ironically, a major reason why the internet failed last time and will be successful this time is the sheer accountability of the medium. Online remains a massively underexploited and immature medium — search engine marketing in particular is still embryonic in the UK. Unfortunately, e-commerce is often still seen as a peripheral medium with many companies lacking the information management skills and commercial disciplines to be successful selling online. Success in this fragmented media environment involves highly developed measurement and information management techniques and real commercial discipline. We run thousands of cells and tests on a weekly basis. This is a competence that A&L has developed over many years as the UK's number one direct loans organisation and a consistent heavyweight investor in direct media.'

Absolute accountability of the internet

ROI drives strategy

So how does Stephen Leonard see the future relationship between above-the-line advertising and direct channels; and why is the online medium being given such prominence? 'Our whole marketing strategy is driven by ROI — we invest in media that give the best returns. This does not only apply to our expansion in e-commerce but also press and interactive television.' Does he see interactive TV taking off?

'I've not seen too many people make it work as a response medium; it's mainly brand-led examples. It's very difficult for financial services, which tend to be rate-led products. We're testing it off the back of DRTV [direct response television] — viewers can press the red button to set up a call-back, rather than trying to provide further details; we use it as a response vehicle.'

Over 50 per cent of A&L's online budget in 2004/2005 will go on search engine marketing. Why? Stephen Leonard says:

'It's a clear opportunity for us. Many large competitors are not active in that area currently. Search engine marketing does require a degree of sophistication to implement well — information management expertise is key. We have continued to increase our investment in search marketing, and the returns keep increasing. We find that pay per click is a very cost-effective mechanism.'

Search engine marketing

How does A&L make online work for itself?

'In order to capitalise on online opportunities the company has to be organised in the right way. We have a separate online team that focuses on nothing else. Expertise and knowledge builds competitive advantage. We are completely self-sufficient in our management of e-commerce (acquisition, customer management, technology, operations), meaning we can react and respond quickly to market opportunities. We run it as a business with its own strategy and P&L to provide real ownership and focus.

'With regards to our internet channel strategy the internet clearly has to operate and integrate with our broader business strategy in a number of ways: firstly, it provides low-cost incremental sales opportunities; secondly it provides flexible low-cost fulfilment; thirdly it provides information and efficient lead generation into other channels; and finally it provides low-cost, 24-hour servicing solutions.'

To what extent will this new approach aim to attract customers from A&L's competitors, as against switching existing customers to use these online services?

'Most of our external work, both above and below the line, whether traditional direct response or online, is aimed at attracting new customers from our competitors. We use hard-hitting, price-led advertising across all media — the online work has a very similar 'feel' to our above-the-line advertising. We also communicate

regularly with our customers with cross-selling messages, and promoting our online services.'

Indeed, a visit to A&L's website (www.alliance-leicester.co.uk) gives a very good example of A&L's overall approach to advertising. It is by no means a typical financial services offering — it sports dayglo 'starbursts' of interest rates for the core products, a prize draw and special offers, all much more redolent of grocery advertising. Leonard points out that A&L's website is a consistently high performer in terms of usability — and results show that it works very well. Does it attract a down-market audience? 'No, our profile is very much the mass market — neither up- or down-market.'

But is it working?

Leonard's contention that this strategy is working well is borne out by the numbers. A&L's group chief executive, Richard Pym, presented the Group's interim results for the six months ended 30 June 2004. In his report, he said:

'We are successfully building our Retail Banking Business to be a "direct bank with a high street presence". This business model is allowing us to continue to provide customers with good, consistent customer service at reducing unit costs. By reinvesting some of these cost savings to ensure that our products continue to offer good value to our customers, we will be able to continue to grow revenues in a cost-effective way.

'Our customers are increasingly using our direct channels and around 80 per cent of our Retail Banking customer transactions (even excluding cheque and debit card transactions) are processed without any contact directly with a staff member. During the first half of 2004, around two-thirds of applications for mortgages, personal loans and current accounts came via the internet or telephone channels, showing our customers' confidence in using these channels for both purchasing and servicing their financial needs.

'In this context, in June we announced the closure of 46 branches. This will generate gross savings of around £8m per year, although we will be reinvesting around £3m of these savings into delivering additional business through direct channels, to replace that previously sourced through these branches. This demonstrates the cost-effectiveness of our Retail Banking model. Recruiting and servicing customers via direct channels can be far more efficient than through high street branches. However, we realise that it is important to achieve the right distribution mix, and that our branch network continues to play a key part in dealing with customers who wish to deal with us face to face. The branch network also remains an important source of new product sales, with branch sales in the first half of 2004 higher than in the same period in 2003.

**Good customer
service at reducing
costs**

**Progress in
strengthening direct
product offerings**

‘In the first half of 2004 we have made significant progress in strengthening our direct product offerings even further. In May we launched our “Online Saver” account, offering a very competitive interest rate. This fills a gap in our range and we now offer our customers all of our Core 4 products via the internet. Earlier this month we launched our new “Premier Plus” current account product, which offers customers a market-leading credit interest rate in return for them regularly funding their account and servicing it through the internet or over the telephone.’⁴

And what tip would Stephen Leonard pass on, from his experience? ‘Concentrate on ROI, and push until you get marginal return.’ The last word should go to Richard Pym, again taken from his presentation of the June 2004 interim results:

‘Looking to the future, Alliance & Leicester is in great shape. We are focused on our core strengths and we are building a new model for the future of retail banking. We are a “direct bank with a high street presence”, responding to customers’ changing requirements and their desire for good value, straightforward products.’⁵

References

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