EVEN WITH AMAZON, A SINGLE PRODUCT IS NOT THE HOLY GRAIL

By Achim Grissel, Haberfeld Holdings

Every week financial service publications print new articles or commission studies connecting Amazon, Uber, or other companies that have forced dramatic changes in other industries, to banking. Here's a sampling:

- *American Banker*, in its article from March 5, sees it as a positive for community-based financial institutions (FIs) that Amazon may look to team up with one of the mega banks.
- A Bain study from March 6 states that in five years Amazon could amass 70 million checking customers in the U.S. The same study puts this in context, noting this is about the same number of customers that Wells Fargo currently has.
- A variety of other publications talk about what Amazon would do if they entered the banking space and other research and publications add the name Amazon when it comes to some of their research on customer wants and desires.

Commissioned studies may be biased based on who commissioned them, but both these studies and articles written about the topic ignore a few facts. The Bain study above states Amazon could have up to 70 million checking accounts if they truly were entering the space. It also states by teaming up with one mega bank, likely JPMorgan Chase, the other large banks will be the ones that will feel the impact the most.

On the positive side, the impact on community based financial institutions may be less, but on the negative side there would be little community financial institutions can do, outside of growing their own franchises. If and how Amazon would enter the checking account space is unknown, but related to community banking, there are a few things to consider when making the connection with Amazon or Uber.

When Amazon and Uber revolutionized their respective industries, they changed the delivery channel, not the core of the product. Uber still takes you from place A to place B, and the majority of products Amazon sells are not newly invented. Amazon and Uber both found a better way to deliver to their audience through superior technology. If Amazon would follow the same model, executing basic banking needs through Alexa sounds like an intriguing approach.

When it comes to the actual core product, one of the recent articles discusses whether customers would be more interested in free checking account or a fee-based value added checking product, if Amazon was to offer it. The article concludes that a slightly larger portion

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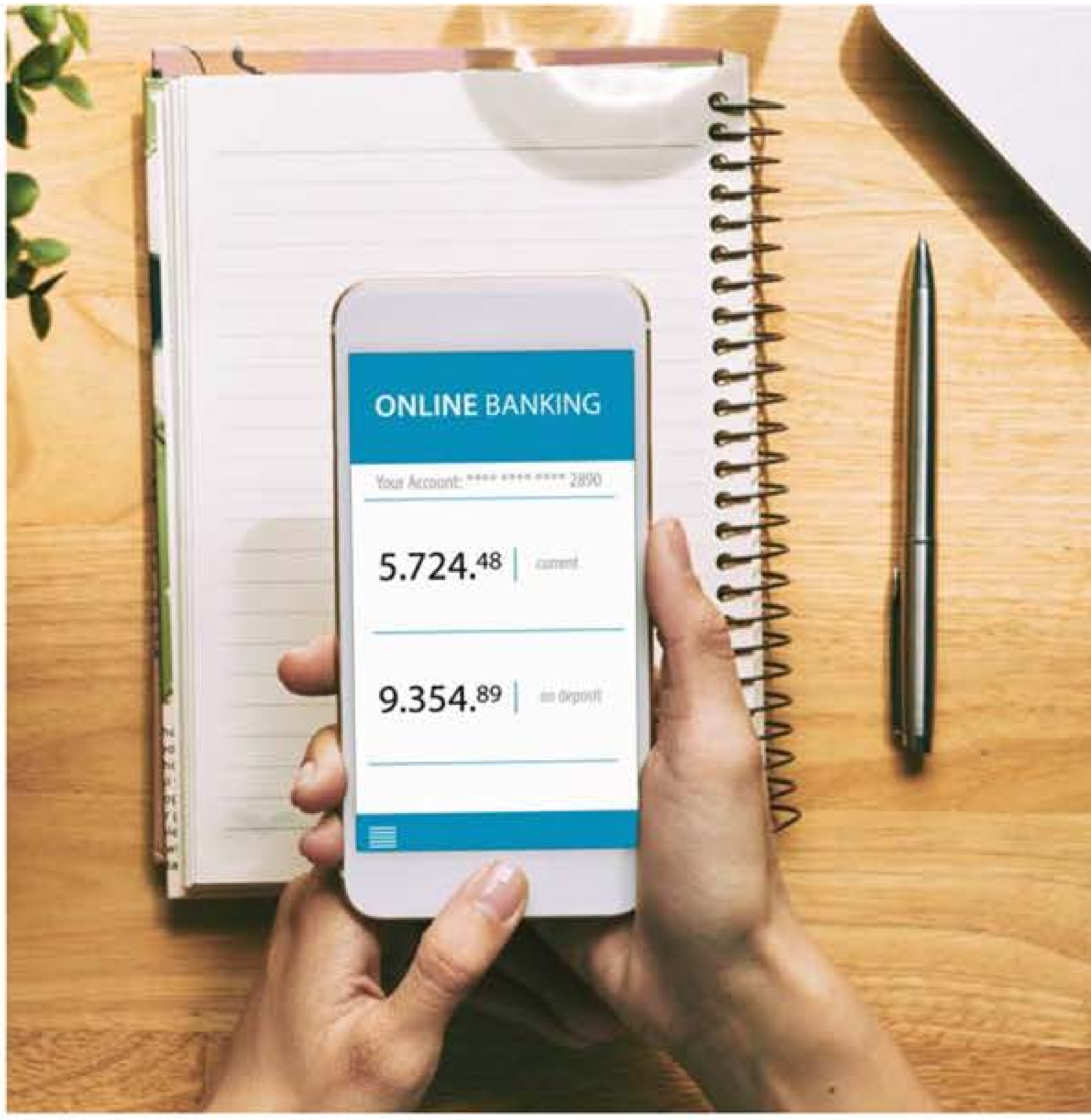

of consumers would prefer a fee-based product with additional value-add-ons over a free product.

First, if Amazon was entering the checking account space, they would not do so with a product that traditional financial institutions have offered for many years. It would make more sense to add value out of their current offerings. Offers like Amazon Merchant Rewards or Amazon Prime Checking come to mind immediately.

Secondly, this research approach has a disconnect as it ties the world's largest online retailer to the evaluation of product offerings at community-based financial institutions. The conclusions drawn by asking an audience the question of what they would do if Amazon was offering certain products are not the same conclusions one would draw when taking the name Amazon out of the equation.

Lastly, survey results can be questionable. The way questions are worded or the above mentioned inclusion of buzz names like Amazon, will dramatically impact the outcome of a survey. While surveys may provide some general insights, actual data and consumer behaviors will always trump survey results.

For example, fee-based accounts — with or without value-add-ons — will always have higher attrition. This is especially true when a financial institution pushes consumers to certain account types. Data from millions of actual accounts at over 150 community-based financial institutions shows the addition of value added and fee-based products increases fee income in the short-term, but it is not the recipe for long-term growth. It is impossible to have a long term, strategic impact if growth is limited but attrition is higher.

All of that said, product should not be an either/or decision. If a third of your new customers or members want a free product, and another 25 percent prefer an interest rate, rewards-driven or value added product, it doesn't make sense to limit your financial institution's opportunities by offering only one of these three products. To achieve strategic growth your organization must develop a customer-centric sales and service culture. If your product does not appeal to two-thirds of the consumers in your markets, that's not possible. Checking accounts that position your financial institution for organic growth have to appeal to a large segment of potential consumers.

Again, looking at actual consumer behavior, it shows implementation of a checking product, no matter if free, value-added or rewards-based, does not drive growth. Strategic long-term growth requires good product mix paired with extraordinary execution from your team as well as the ability of marketing to capitalize on brand and product advantages by driving traffic to your online and branch channels. B

*About the Author: **Achim Griesel** is president at Haberfeld Holdings, a data-driven consulting firm specializing in core relationships, customer, and profitability growth for community-based financial institutions. Griesel can be reached at agriesel@haberfeld.com or 402-323-3793. IBA ASSOCIATE MEMBER*