CHAPTER 2

Consumers are calling for transparency and simplicity

Ever seen Gordon Ramsay at work in 'Ramsay's Kitchen Nightmares'? Ramsay is a renowned cook, with several top restaurants all over the world and a collection of Michelin Stars. In the TV programme 'Ramsay's Kitchen Nightmares' he helps fellow restaurant owners who are less successful.
After a few episodes you recognize his recipe. First of all, he reduces the number of dishes from 60 to 15 at most. In addition, he cooks all dishes from fresh, honest ingredients whose origin are known and ideally local.
'Ramsay's Kitchen Nightmares' is a great success and is broadcast in dozens of countries. An important reason for its success might be the fact that Ramsay is responding to two key consumer trends: the call for transparency and simplicity.

What do we mean by transparency?

Transparency is a much-used word recently. It was the tenth most popular word in 2009 according to the Global Language Monitor's annual global survey of the English language.
The desire for 'transparency' is a worldwide consumer trend across all industries. According to the 2010 Edelman Trust Barometer 'transparent and honest practices' is the single most important factor in corporate reputation. Consumers increasingly want to know more about the companies they do business with, and about the specific products and services they buy there. The interest varies from the company ownership structure, the remuneration of top management and corporate policies to labour conditions, production processes and ingredients. Consumers also demand full transparency regarding prices and product features - what exactly do I pay for and what not? - with the ultimate goal of finding the best, cheapest or most ethical offer. Consumers are well catered for by a growing number of initiatives that provide overviews of the various suppliers in the market, corporate information, quality standards and prices, but also by sharing in the experience of other consumers.

Fatburgr.com pulls together nutritional facts on some 25 fast food restaurants like McDonald's and Subway: calories, fat, carbs and fibre, for each item on the menu. You can also consult Fatburgr.com on your iPhone. Rather convenient when you are standing in front of the counter.

The trend towards transparency has everything to do with the shift of power from producers to consumers. Transparency allows consumers to research, compare and review their way to a more powerful position based on empirical knowledge.
Many companies are obviously aware of this trend and have reacted to it. For example, a number of years ago large food companies such as Unilever and Nestlé chose to make the company behind the brands much more visible. The Unilever brand is now visible on all Unilever products, whereas previously the name of the factory sub brand was used. As supply chains in the food industry become longer, more complex and more international, product transparency is even more important. Solutions range from the simple such as specifying the country of origin and listing ingredients, to more sophisticated labelling that may even specify which ingredients are not present in the product, and how the product relates to certain allergies or intolerances. All in all, transparency has a significant effect on product choice, price, premium opportunities and brand loyalty.

What's remarkable is that when we talk with executives of financial service companies we often find we have to get onto the same semantics page. Financial executives usually think about transparency in terms of the balance sheet. Are all obligations on the balance sheet or are there any so-called off-balance sheet items? That is of course a different perspective than the one the consumer uses.
For consumers 'transparent' equals 'easily seen through', 'readily understood' and 'free from deceit'. Transparency is about openness, making things clear by providing information. Transparency should allow consumers to evaluate a company on all areas relevant to them. Information about the company philosophy, what it does with the consumers' deposits, and, in the light of restoring or maintaining trust, also information about the financial stability of the company.
Companies need to know which information is essential to consumers, and make this information accessible, visible and understandable.

Photograph previous pages: Dream Packs. Courtesy of Standard Chartered First Korea Bank

What do we mean by simplicity?

The key consumer insight that drives the simplicity trend is choice and information overload: in an increasingly complex world, consumers are often overwhelmed.

On the one hand, it is about consumers looking for ways to reduce effort and save their precious time. They prefer products and services that are easy to understand, quickly. When they make purchase decisions, they strive for well-informed and transparent, yet simple decisions with a high probability of them being the right decision for them. They just want to get it over with. For them time is the most important currency. When they buy, for example, a new home cinema set, they prefer to have this product up-and-running within minutes without having to read huge manuals. When they are selecting a services company they want to be sure that when they have a question or issue, they will be able to contact the helpdesk easily and understand procedures without too much hassle.

On the other hand it is about consumers increasingly feeling that less is more. They consider many choices to be unnecessary. The credit crunch has allowed this group to thrive and grow in their new lifestyle of discretionary thrift. We see that people who opt for such austerity prefer simple products. Many of these consumers will have found that simpler and cheaper products are in fact not that bad at all and in many cases also make life more convenient. They will surely take this lesson with them after the credit crunch.

Real Simple

The fact that consumers are demanding simplicity is also illustrated by the tremendous success of the magazine *Real Simple*, whose motto is 'Life made easier everyday'. Nine years after its introduction, with 8.6 million readers every month, *Real Simple* is the fastest-growing magazine in the United States, the jewel in Time Warner's portfolio, published from the US to Japan.

The magazine and -of course- the website are full of tips and information to make everyday life easier. With lists and tools to make choices and tips to speed up things etc.

Many successful companies tap into the simplicity trend. Low-cost carrier Easyjet even included the simplicity promise in its brand name. Unilever reduced the number of brands by 75%. Simplicity is a key factor for various consumer technology companies such as Apple, the icon of simplicity, TomTom, Google, and Philips with their pay-off 'sense and simplicity'. Also Microsoft preaches simplicity with: 'Your PC, simplified. We designed Windows 7 to simplify your everyday tasks'. In financial services, ING Direct is the poster child of simplicity, with easiness at the core of its business model. Around the world we increasingly see financial service providers stressing 'simplicity' in their names and taglines. Bank of America for example started promoting 'simple, clear and direct' banking at the end of 2009.

Focusing on simplicity is a wise choice. According to consumer research by VODW and MarketResponse in 2008, 8 out of 10 people find simplicity important for a financial product in the orientation process, in the purchase process, in the actual use of the product or service and in the after-sales service.

CheBanca! What a bank!

In May 2008, the Italian investment bank Mediobanca launched a new retail bank: CheBanca! - Italian for 'what a bank!' CheBanca! taps into imperfections in the Italian market, known for its complex, costly products. It offers customers products that are simple, safe and low-cost: tailored to meet the concrete needs of the modern consumer. The business approach is to only offer clients what they need, efficiently, with high standards of service and professionalism.

In its first year of existence, CheBanca! recorded 5.3 billion euros in deposits, and 170,000 current accounts opened. These are clear signs of the market's appreciation of CheBanca!, rewarding it for its transparent, efficient and distinctive approach. The results achieved are even more positive in view of the market conditions.

Simplicity in all segments

We see the desire for greater transparency and simplicity in all segments. Not only in retail or in the mass affluent segments, but also among private banking clients. Private banking investors are developing a preference for the more basic asset classes: real estate, cash, government bonds and locally listed shares, according to research from Barclays Wealth. Innovative complex products are temporarily 'not hot'. The crisis has made it crystal clear that clients - and relationship managers, too - are often unable to cope with the sheer complexity of the offering. For most clients, simple, well-structured solutions are best. We recognise this clearly. People no longer want to invest in products they do not understand. In a category as varied as investments we already see an increase of index funds, 'plain vanilla' funds and trackers. Trackers (or 'exchange traded funds'), which follow an index, commodity, or other asset category, are attractive because of their relatively low cost and easy access to normally inaccessible markets. Especially in the United States trackers have a very high penetration in both the institutional and private markets. In Europe their popularity is growing rapidly. Not that this makes banks and investment firms happy, but that is mainly due to the lower margins of these products.

Simplicity has to run through your veins

Royal Philips Electronics is among the companies that embrace 'simplicity', and thrive. Philips focuses on improving people's lives through timely innovations, integrating technology and design into people-centric solutions, based on fundamental customer insights and the brand promise of 'sense and simplicity'. Egbert van Acht, Chief Marketing Officer at Philips Consumer Lifestyle, elaborates on the concept of simplicity.

How do you ensure that everyone at Philips lives and breathes simplicity?
'Simplicity is at the core of the Philips strategy. We consider "sense and simplicity" our first brand positioning ever. It is aimed at "owning" simplicity both externally and internally. Since the launch five years ago we have consistently been training, preaching and pushing proof points of simplicity.
It is crucial to have acceptance from the board as the board paves the way to lead the processes in the right direction. You can use external recognition internally to motivate people. Sense and simplicity is an integral part of our performance appraisal; we measure it worldwide as a driver in our daily work; both quantitatively, by measuring the profit, revenue and net promoter score, and qualitatively by asking our employees to grade their manager as a role model in sense and simplicity.
My guess is it will take another five years to create the perfect simplicity brand experience.'

The perfect simplicity brand experience?
'The whole concept of simplicity requires a 360° view. To achieve a consistent brand positioning we had to restructure and reposition everything, from product creation and our way of working, to the organisation model and our customer relations.
Instead of 500 different businesses, Philips is now in 70; instead of 30 divisions, there are now 3. Even meetings have been nudged in the direction of simplicity: we actually forbid the use of more than ten slides in any PowerPoint presentation.
We used a simplicity experience test as a filter to simplify all our current processes. We constantly ask ourselves: "How does this drive our sense and simplicity brand promise?" This resulted in the elimination of our internal meetings on Friday; we now use our free time on Fridays to visit our customers and shops.
It is relatively easy to unite the top and the young enthusiasts. The most difficult part for a multinational is to decrease the scepticism or miscomprehension in middle management. It is crucial to truly internalise your brand positioning and to gain acceptance throughout the company. The most delicate part is to win over your employees' hearts and turn them into true ambassadors of simplicity.'

What, in your opinion, is the key to change in the financial industry?
'The financial industry should start by asking consumers what they experience as simple versus complex. Then, they should identify the six or seven key elements of the customer

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experience that need to be simplified and start by changing these.
Furthermore, financial institutions should implement net promoter score systems, NPS, to check if the improvements also lead to more promoters.'

What are the pitfalls of the simplicity concept?
'In our experience at Philips there are four pitfalls:

1. You must not think simplicity is solely a marketing communication challenge. Your company has to have simplicity in its veins to make it work. This includes your suppliers, agencies, countries and all organisational layers.
2. You cannot think you will accomplish simplicity within one year. Truly internalising simplicity will take 5 to 10 years.
3. Do not assume your employees are committed just because they say so. Commitment needs to be measured, not once but continuously, and include this in KPIs.
4. Do not think you've won by making internal changes only. At the end of the day you have to change the perception of your customers by fundamentally changing your products and services - a full 360 degrees.'

'The iATM': Apple- and Amazon-style innovation

Innovation is at the core of the strategy of BBVA. The bank now has almost 50 million customers in 32 countries and innovation is one of the main drivers for continued growth. We discussed BBVA's innovation vision with Ms. Beatriz Lara, Director of Innovation at BBVA.

In our vision innovation has to be driven by profound consumer understanding and deep consumer insights. What role does innovation play at BBVA?
'We fully agree. Value driven innovation is a key pillar to come with solutions that fit customer needs and demands. Knowing the customer is the first step in our customer-centric strategy, because this is where we intend to add value. Our innovation team works continuously on defining what society will look like 15 years from now. This multi-disciplinary team comprises engineers, economists, sociologists and psychologists and cooperates with external research institutions such as MIT, Stanford Research Institute, and the Fraunhofer Institute. In the propositions we have developed over the last years we see technology as an enabler to make people's lives easier. This is in-line with the BBVA promise to our customers: "Working for a better future for people."'

How does this work in practice?
'We have built a technology radar which now monitors over 230 emerging technologies and their capabilities to transform the banking sector. The technologies are divided into three categories: 'The observation zone' includes technologies that are still far away but can become important over the long term.

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Courtesy of BBVA

"The scary zone" involves technologies that might deliver competitive advantage in the medium term. "The decision zone" concerns technologies that need the immediate decision whether to adopt them or not. Technologies monitored include, for example, neuro-marketing, biometrics, virtual worlds and augmented reality.
To establish a real breakthrough and relevant innovations we cross the emerging technologies with consumer trends and our vision of the future consumer. These cross-roads provide the opportunities to achieve a competitive advantage.'

Can you give a recent example of an initiative resulting from such a cross road?
'One example driven by simplicity is our newest ATM which we expect to disrupt the market. Usually, banks go to technology companies and choose the device from a catalogue. We used the opposite approach: we worked with designers and when we knew what we wanted, we searched for a technology company that could make it a reality. First we conducted user research around the world, including Europe, America and Asia. We focused especially on the extremes of the user spectrum, ranging from the more high tech-savvy users who did not use an ATM anymore, to the people that never had used one. For example, we followed a 75-year-old lady in the south of Spain for a week, documenting all her tech-related activities. One of the insights was that all her dealings with machines and money were action-reaction related. Think of going to the pharmacy to weigh herself, which involves throwing in a coin and reading her weight directly. This lady does not want too many steps between

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her actions and the results. Our new ATM has therefore one slot only for all media interaction, such as bills, receipts and statements, your card - and no buttons. It is just one big intuitive touch screen, on which we show "real" individuals who address you and provide guidance. Another insight is that these non-users are afraid to make deposits of money in ATMs, since this is like putting it in a black box without knowing if it will really go to your account. For this reason we have made the process very visual. When you put your money in the machine, you will see bills flowing to your account onscreen. The real and the virtual user experience merge together in an enriched hybrid one, proving more satisfactory for the customer. This innovative nature of our new ATM was awarded the 2009 The Banker's technology award for Best Innovation in Delivery Channel Technology.'

How do you ensure that such an innovative machine really makes life easier?
'An important factor is the connection to our CRM system, which also links the ATM to the customer's account and online activities. Clearly we don't want to bother people with irrelevant information and therefore adapt our onscreen offers accordingly.
Furthermore we see that 80% of people have preferred ATM patterns, such as getting out EUR 200 for the weekend, every Friday at the ATM near work, or transferring money to pay the monthly rent on a fixed day. Based upon these patterns we offer personalised menus, which can be adapted by the users. In the end innovation is about simplicity for our customers.'

A new chapter in marketing

By Alan Weber, Ed Sander and Egbert Jan van Bel, authors of the book Event Driven Marketing.

Winning the customer's favour has become more and more complicated over the years, a trend that is unlikely to be reversed any time soon, especially in the financial services sector. Conquering markets is a permanent process, one of investment in customer knowledge and new marketing concepts. Database marketing has been used since the 1980s as a way of trying to reach the right customer with the right proposition through the right channel. With today's growing competition, declining customer loyalty, political developments (privacy laws) and increasing consumer knowledge and self-confidence, that is no longer enough. Over the next few years, the challenge will be to see and respond to changing patterns of need and the differentiation of customers and markets.
Event Driven Marketing (EDM) is about approaching customers when it best suits them - not when it best suits the business. The 'right moment' is the time when the customer is most receptive to the proposition on offer. In other words, the 'three rights principle' (right message, right place, right person) is not enough. We need to add the

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- The simpler the product, the fewer complaints and returns, leading to lower after-sales costs.
- By decreasing the number of contact points from 10 to 1, issues resolved increased from 70% first time right to 85% first time right.
- The simpler the product, the more innovative the image of the supplier.

Implementing transparency and simplicity requires a 360° view

Our experience in the worldwide implementation of transparency and simplicity in organisations is that this goes beyond the products and services, linking to marketing, pricing, brands and labels, distribution, customer touch points, management, processes, systems.
Consumers also want transparency on the behaviour and attitude of the company. They want to know the risks of a product and be sure that the product and company can fulfil the promises made by its product propositions. Consumers also want to be able to easily trace the destination of their money, what their financial service provider invests in, the compensation schemes for management, the way a company is organised and who to contact for what. The same applies to investments in social responsibility, marketing and distribution. Take for example the issue of owning distribution partners, agreements with intermediaries, or the product cross subsidies.
Daily transparency and simplicity need to be lived up to, which means enabling consumers to buy and use services in a really simple way.
A company needs to incorporate transparency and simplicity into all the touch points experienced by consumers in order to really close the gap with consumers. Internally it needs to close the gap between the promise and the organisation that delivers that promise.
To implement transparency and simplicity we need a 360° view.

Simple Term Life: simplicity in all elements
Seattle-based Farmers Life managed to minimise transaction costs with Simple Term Life insurance. Farmers Life saved time and increased convenience both for customers and its over 17,000 agents. Key to this was the introduction of simplicity in all elements. As Mike Keller, Vice President Marketing at Farmers Life explained to us: ‘Life insurance purchases don’t have to be complicated and time-consuming. After carefully considering a purchase, consumers want the balance of the process to be fast, simple, and easy. The overwhelming consensus from our agents is that writing a Simple Term Life policy is as easy as writing an auto or home policy. The product itself is simple and available in three level terms, with guaranteed premiums. Furthermore we have eliminated lengthy forms, medical exams and lab work, turning weeks and days into minutes and seconds. What would take other companies 20 days, Simple Term Life can do in 6 minutes or less. Key to making the transaction fast and easy is electronic application, signature and underwriting. The underwriting is quick since we run the application through a series of database checks, similar to auto underwriting. This is more than just filling in forms on a computer. The system intelligently displays only the questions that need to be answered for a specific application, asks each question only once, and transmits the information to our underwriting systems electronically. For our customers and agents it’s a much faster and friendlier process. We use these paperless applications for all our products now, including our new Simple Whole Life policy and the success is exported to other parts of our group.’

The transparency and simplicity trend has huge consequences for financial companies. We have identified 11 focus points.

1. Redefine the business models

Transparency, the demystification of products and advice, and the impact on margins will require major adaptations to business models, specifically revenue models.
Continual cost efficiency is necessary. You can do that by becoming leaner, as has mainly been done in response to the economic crisis. But it is better to see where imperfections are and where from a customer perspective so that smarter processes can be implemented. The implementation of simplicity in all the company’s elements will without a doubt reduce operational costs.

Separately, pressure on margins makes it necessary to achieve economies of scale. Consolidation is therefore even more important than ever before. This might seem to contradict the ‘small is the new big’ belief, but consolidation is essential. Scale economies are of course also achievable in specific niche areas.

We envision the complete business model becoming more transparent and open. This will affect all business elements, from product, profit, price and fee structures to bonuses, provisions, company practices and distribution partnerships. This process will be accelerated by the wisdom of crowds and the old adage that ignorance is bliss will no longer work.

Alfonso Zapata, CEO of ING Direct Spain, told us about their simplicity-driven model: ‘Our business model has two pillars: customer advocacy in combination with low cost. Key to this is simplicity. All other banks go for 100% of the market. We also go for the mass market, but for 95% of the whole market and forget about the 5% that costs a lot of hassle and customisation. For this 95% we provide 100% of their banking needs, which does not necessarily mean a lot of products. Take mutual funds for example: we only have four, while our competitors have hundreds or even thousands. These four are already hard enough to comprehend.’

2. Clarity about distribution partners

Insurers need to give clarity about, and possibly redefine, the exact relationship with their intermediaries. Are they 100% owned by the insurer? Or are there any other interests? Transparency does not only relate to whether a product is easy to understand, but also to all the links in the chain.

Insurance intermediaries will be faced by the choice: 'am I a retailer or a financial advisor?'.

Currently these two business models are mixed. On the one hand intermediaries proclaim objectivity and being a trusted financial advisor. On the other hand their revenue streams consist mainly of provision on policies sold as a retailer.

There is no future in this mixed model. One just cannot be 'objective and trustworthy' when one also profits from the actual products being advised. Either intermediaries evolve into true objective advisors, refrain from provisions and build a fee-based business, or they really position themselves as financial retailers with a range of products of one or more insurance companies. And refrain from abusively describing themselves as 'objective'. In this case, in fact, they would be performing a function similar to retailers of fast-moving consumer goods or durables.

3. Focus is on the company behind the brand

Consumers yearn for transparency. They want to know what company they are actually dealing with, and they will base their decision mainly on the reputation of the company. Source brands are therefore more effective than brand portfolios.

At the end of the day the corporate brand is the ultimate and pure manifestation of the actual source. It is the true 'maker's mark'.

In addition, having fewer brands leads to more focus in the organisation, a tighter run budget and more depth and impact for the selected brands. It also offers economies of scale. It will be necessary to reorganise brand portfolios that include all sorts of fancy labels. Established brands that are acquired as a result of consolidation should be linked to the corporate parent brand.

Some examples:

- The UK insurer Norwich Union is now called Aviva, the French AFG is now known under the Allianz brand .
- Barclaycard US used to hide its brand behind affinity partners such as US Airways, LL Bean and Barnes & Noble. But in October 2009 the company decided to change strategy and turn Barclaycard into the trust mark, similar to 'Intel inside'. The reason is that over time consumers look for these ingredients as a sign of quality.
- Santander as a bank brand remained relatively untarnished during the credit crisis, so it used it to rebrand the Abbey National, Bradford & Bingley and Alliance & Leicester branches in the UK and Banco Real in Brazil.
- German insurance brands Karstadt Quelle, Victoria and Hamburg-Mannheimer now both go under the name Ergo, the parent company's name. This is still a bit of a half solution, however, since Ergo Versicherungsgruppe (Insurance Group) is the primary insurance arm of Munich Re.

Photograph previous pages: Courtesy of Deutsche Bank

Over the last year, quite a few companies have asked us whether it would be wise to rebrand their bank or insurance company since it was seriously damaged by the crisis. We strongly agree with Belgian advertising guru Guillaume Van der Stighelen who said: 'It is as if you are solving a relationship crisis at home by saying "honey, my name used to be Jack, but from now on my name is Adam, so now everything is OK again". Obviously that does not work and you are not taking your wife seriously. You are Jack, and if you want your relationship to work, you had better be home on time more often and surprise your wife by doing things she would not expect from you. Be a helping hand in the kitchen and put away your socks.'

We predict that this also means the end of private labels in the financial services industry. Having intermediaries pose as insurers or banks jars with all that has happened. After all, these private labels were only allowed because of their bargaining power, not because they provide value to consumers or because consumers actually asked for them.

Towards a transparent and simple, yet competitive brand architecture

In our vision a brand should directly contribute to business. A brand is 'a driver of choice', nothing more and nothing less. A brand should help our prospect or client to choose our offer. Or help to choose more of our offer.

This means that a brand must fulfil the purchase drivers for customers in the respective market, segment or category, better than any competitor. The number of brands that you need as a company depends on the extent to which the brands in the portfolio are able to perform that function.

To determine how many brands you need to compete successfully in different markets, segments and categories, we must understand the purchase drivers of customers for each of those markets, segments and categories, how our own different brands score on these purchase drivers, and how the competitors score.