

Research White Paper

WP104



DISTRIBUTION CHANNELS:

How and why to implement a successful channel strategy
in the Financial Services sector

Prepared in cooperation
with Mungo Dunnett Associates Ltd, UK



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Introduction



The problem

Consumers, competitors and technology have all caused FS businesses to expand their operations into new distribution channels. But each channel, old and new, has its own requirements, and these are often poorly understood. FS organisations also find difficulty deciding which channels to use, how much to invest in each, and what this means for their corporate strategy.

Purpose

The purpose of this Research White Paper is to:

- Explain the commercial importance of effective distribution channel choices
- Identify the key advantages and most effective approaches to the main channels
- Explain the process for selecting and evaluating a coherent multi channel strategy

Approach

The approach has involved:

- Collation of detailed information about distribution channel strategies encountered within financial services organisations, based on a combination of original research and extensive client work across numerous countries
- Identification of key success criteria
- Utilisation of anonymous case studies
- Presentation of actionable insights, offering financial services companies the opportunity to see how the recommendations would apply specifically to an organisation like their own

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The commercial of effective distribution strategies



The economic crisis has caused FS organisations to think more urgently about their commercial priorities, their cost base and their strategy for future survival and success. This has brought into focus one of the longest-standing dilemmas in the FS sector: how best to adopt channel developments in order to attract and keep profitable business?

In spite of the crisis, technology continues to develop and consumers continue to adopt new ways of buying and using financial services, and organisations cannot afford to stand still. In addition to the long-standing concerns about which new technology to buy, which consumers to attract and how to achieve this as cost-effectively as possible, the crisis has brought an additional problem: consumers are more suspicious of financial services than, perhaps, ever before; but consumers need both convenience and advice as much as ever.

It is essential that organisations seeking to recover successfully choose a sensible investment strategy that is likely to create future profit. The downturn has caused significant opportunities for those organisations able to focus on the right customers in the right ways. But it is also essential that organisations make the right investments; poor distribution choices over the next five years may well prove fatal.

While each of the main distribution channels has its own demands, and it is essential that organisations understand how these are developing, the basic principles of effective channel management have not changed. Distribution channel investments usually go wrong in one or more of four ways:

- Misusing the channels: not optimising profit or return on investment
- Misunderstanding how consumers use different channels
- Over-investing in technology or distribution partner arrangements
- Using a fragmented approach to channels: lacking strategic coherence, a long-term perspective, or a consistent approach

Why many organisations are revisiting their distribution strategy

The most common strategic response to the economic crisis by FS organisations with large and traditional distribution channels has been to seek to strengthen their relationship with the customer. This has meant a combination of things: convenience, by offering the main channels that customers want to use; but also a strong element of personal advice, so that the customer not only finds the organisation easy to do business with, but also – at a time of financial anxiety – turns to the organisation as a source of trusted guidance.

The main causes of channel failure

In other words, in response to the biggest crisis in the FS sector for decades, many organisations are returning to what they see as being a historic competency in distribution and the way they handle customers. And this does not simply mean an upgrade in the specific customer-handling processes; distribution is being seen as being an absolutely central aspect of what the organisation stands for, and how it does business with its customers.

Influence of distribution strategy on corporate performance

Distribution strategy remains, therefore, as it always has been, at the heart of FS organisations' investment choices, positioning choices and likelihood of commercial success. The channels an organisation uses are not only the pipelines through which revenue and profit arrives. They are usually the most expensive aspect of the operational structure. They also central in defining the type of customer who arrives, the profit created by that customer, the attractiveness of the organisation compared to its competitors, the everyday experience of its customers and the 'reality' of its brand.

Distribution strategy is therefore central to organisations' future chances of success. And yet – as seen above – there is a repeat pattern of failure, sometimes minor and sometimes disastrous, in the way FS organisations decide which channel strategy to adopt, and indeed in the way they assemble the information to inform their decision.

The key levers for distribution success

Essential information sources

Effective distribution strategy therefore involves a combination of complex information sources – and the complexity goes some way towards explaining why organisations struggle to make the right decisions. Understanding the customer opportunity requires significant knowledge of customer preferences and trends. Understanding the commercial opportunity requires knowledge of competitor skills and channel strengths, good judgement of the skills necessary to compete, and an effective evaluation of the expense necessary to do so. All of these areas are considered in the later sections of this paper.

Above all, however, the vital aspect of effective distribution strategy is **control**. It is..