To Infinity and Beyond

How Financial Services Firms Can Earn Loyalty by Drawing Customers into a Digital Orbit
In the past year, multiple incumbent brokerage firms have started offering zero-dollar online trades on stocks, exchange-traded funds and options transactions. Why? Because FinTech firms offering free trades have disrupted the brokerage industry, forcing incumbent firms to shake up their business models or risk losing their market share.

But the incumbents’ move doesn’t come without consequences – share prices have dropped across the board for brokerage firms as they have pursued commission-free trades. In fact, large brokerages across the US lost a combined total of USD $18 billion in market capitalization within two days of Charles Schwab’s announcement of free trades.

This outcome, while not desired, is a reaction to the industry disruption which is also compounded by the upcoming intergenerational wealth transfer that is estimated to be approximately USD $68.4 trillion. The magnitude of this wealth transfer necessitates a sound strategy by incumbent firms to ensure that they do not miss out on this opportunity.

But with FinTechs and other new entrants offering new and/or improved value propositions to consumers, it is also imperative that brokerage firms, banks and other financial services companies keep pace or even leap ahead. The competition from the agile and nimble FinTechs coupled with evolving customer expectations and regulatory and demographic changes have massively disrupted the traditional financial services industry. Banks, in particular, are seeing high customer acquisition costs but low customer loyalty, leading to higher churn and lower customer lifetime value.

Attracting customers and offering value propositions designed to increase their loyalty is vital to long-term success of a firm’s brand.

One way for them to do this is by increasing loyalty via a digital orbit model.
Traditional marketing has brought us this far

The traditional marketing funnel framework (Awareness to Lead Generation to Conversion) has guided the consumer buying journey for decades.

Leads are generated in the awareness stage as prospects learn about the company’s brand. Next, comes nurturing the leads/potential customers as they increase engagement and learn about products. Finally, the leads are converted to customers as they make the purchase.

But this strategy isn’t enough for financial services organizations in today’s dynamic environment.

These organizations are facing challenges as customer-centric FinTechs, challenger banks and BigTechs enter the industry, nimbly utilizing troves of data and the newest technologies to drive business outcomes. These firms offer new propositions that add intrinsic value to customers by moving away from transactional relationships (e.g. checking or savings products) to transactions embedded in relationships (e.g. products that help customers manage finances, buy a car, or accomplish other tasks).

Incumbent firms can thrive in this disruptive environment by constructing a multi-pronged strategy that begins with a concerted marketing effort to attract, convert and retain customers.

How can financial services firms have an overarching strategy to improve engagement while lowering the cost of acquisition and increasing the lifetime value of the customer? It begins by building a digital orbit.

“Incumbent firms can thrive in this disruptive environment by constructing a multi-pronged strategy that begins with a concerted marketing effort to attract, convert and retain customers.”
What in the world is a digital orbit model?

The traditional funnel model is largely transactional in nature and comprised of a set of stages that end with a purchase by a customer. Customer loyalty is measured by the number of products sold, with companies bargaining that loyalty will in part attract and increase new customers through word of mouth.

A digital orbit model, on the other hand, is a customer engagement-centric model that focuses on building intimacy with the customers and prospects, as opposed to a pure transactional relationship. The strategy is centered on the brand, which establishes a strong pull with the buyers in different stages of the buying journey orbiting around the brand.

The outermost stage – awareness – represents the customers who are just getting to know the brand. The innermost stage – advocacy – represents the customers who are closest to the brand. Multiple transactions can be completed on every orbit, but firms must have an engagement strategy to build them into the orbit.

Traditionally, this strategy has involved attracting new consumers onto the awareness stage by providing rewards, which may become bigger and better as firms seek to differentiate themselves from competition and retain their customers. The firms associate customer loyalty with the rewards, which could be points offered for every $1 spent with a debit card, or discounts at local retailers if a particular credit card is used. But these scenarios are detrimental in the long run. They are purely transactional and not enough to sustain long-term loyalty from customers.

For firms to inspire customer loyalty and eventual advocacy, they need to look beyond the transactional aspects of their relationship with customers and bring emotion in.
Loyalty doesn’t have to be purely derived from transactions and rewards. Loyalty can be inspired by providing services that are important to the customer and have some association to the brand, but that are not necessarily transactional in nature. For example, the Nike Run Club app provides audio guided runs, customized coaching plans and GPS run tracking, among other services, to all consumers, not just the ones wearing Nike shoes. The complementary service creates an impact, allowing the Nike brand to resonate with consumers, all without selling a single product. These consumers are now apt to recommend the app to running partners and others they know, thereby moving to a loyalty/advocacy stage without necessarily buying a Nike product.

The Nike running app helps consumers create an emotional connection with its brand.

Emotions are the main driver of loyalty, according to Loyalty Deciphered, a Capgemini Digital Transformation Institute report. And emotionally engaged consumers expect real-time, two-way, varied interaction opportunities with brands, much in the same way they would have for personal relationships.

The digital orbit model helps firms build this critical emotional aspect and drive loyalty to create genuine engagement. In our market research, we have found that the leading financial services companies who excel at this aspect are digital masters who have moved from the funnel to an orbit model.

Implementing a digital orbit enables firms to extend their reach to consumers at all stages and create products, services, experiences, etc. that make them aware of the brand. The model moves away from a one-sided transactional-only system of “extracting value” from customers, where they are often taken for granted and provided inconsistent experiences, to one where they are “feeling valued.” This system is centered around the “4Rs”:

- **Respect** – Relationship structures are designed to incentivize a customer connection, not just transactions. Additionally, the focus is on the journeys and sub journeys that matter to consumers.
- **Recognition** – Use integrated real-time measurement and other technology across journeys to understand what customers really care about.
- **Reciprocate** – Build a two-way relationship. It’s not only about what customers can do for you, but how can you help improve their lives? Also, translate data into personalized experiences and real-time offers.
- **Reward** – Provide frequent opportunities (doesn’t necessarily have to be monetary) to build the relationship together.

<table>
<thead>
<tr>
<th>From Extracting value</th>
<th>To Feeling valued</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-sided transactions</td>
<td>Respect</td>
</tr>
<tr>
<td>Customers taken for granted</td>
<td>Recognition</td>
</tr>
<tr>
<td>Disappointing or Inconsistent experiences</td>
<td>Reciprocity</td>
</tr>
<tr>
<td>Lack of transparency and accountability</td>
<td>Rewarding experiences</td>
</tr>
</tbody>
</table>
Our three-pronged approach enables firms to create a connected marketing strategy that provides individualized offerings to customers, turning experiences into outcomes.

And, this is all done within the digital orbit model, which helps firms define strategy, implement it, and then realize business outcomes.

Marketing strategies that bring in the element of emotion/loyalty are brought to the table early on. The approach also helps firms create individualized conversations with customers that in turn enable real-time, context-driven, data-driven personalization.

Driving this method are three of Capgemini’s industry-leading Practices – Digital (focused on technology), Insights & Data (data-focus) and Invent (strategy). All three teams are aligned but operate independently, bringing cutting-edge technology and insights from their field to provide the solution to a particular problem.

Success Stories:

- Developed a loyalty and rewards program for a large Middle East bank that resulted in a 35% increase over anticipated product cross-selling, as well as up to 45% increase in profitability per customer.

- Built a digital platform for a large global brokerage firm that increased referrals and new-to-firm clients (creating consumer advocates) by developing products around underserved rituals and behaviors. This strengthened the client relationship to the brand, as opposed to individual investors.

- Created a mortgage hub for a large global bank that would empower members to complete much of the mortgage process online and cut down on phone calls.

- Created a Design Thinking strategy for a global IT and cybersecurity firm that engaged 10,000 employees, resulting in a 50% increase in product team performance and 30% bigger deals when the firm used design thinking with clients.

The digital orbit model can create a new path to build customer loyalty. Interested in learning more? Email banking@capgemini.com.
About Capgemini

A global leader in consulting, technology services and digital transformation, Capgemini is at the forefront of innovation to address the entire breadth of clients’ opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. Capgemini is driven by the conviction that the business value of technology comes from and through people. It is a multicultural company of almost 220,000 team members in more than 40 countries. The Group reported 2019 global revenues of EUR 14.1 billion.

Learn more about us at www.capgemini.com

People matter, results count.

The information contained in this document is proprietary. ©2020 Capgemini. All rights reserved. Rightshore® is a trademark belonging to Capgemini.