

Online Banking in France: Innovative Business Model or Mimetic Phenomenon?

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Abstract

In this article, we propose an expansion model that helps to explain certain evolutions occurring in the banking domain. Among these evolutions, the rise of low cost online services for individuals seems to be related to economic schemes and models that have already applied to other domains and that now reach the banks, particularly in France. For other reasons and under different shapes, the supermarkets companies and the drug industry already experienced transformations that can be compared to what has happened more recently in the banking domain. These comparisons are made in the purpose of anticipating and generalizing these transformations in other types of markets.

Keywords: online banking, sales strategy, bank marketing, elasticity of demand, segmentation, positioning

1. Introduction

Changes in tariffs charged by French banks to the general public in recent years have been welcomed sometimes with resignation, sometimes with reluctance. Although this evolution was quite strictly controlled and globally corresponds to an incomplete harmonization with tariff policies applied in other European countries (Pauget, Constans, 2010), a majority of French consumers still perceive it negatively.

Consumer associations have echoed a growing discontent (Pommier, 2010). Moreover, eleven French banks were sentenced in 2010 to a heavy fine by the French Competition Authority for charging fees that corresponded to no service rendered (Amsili, 2010).

It is in this context and with the increasingly frequent use of the Internet for various kinds of transactions, that low cost online banking services have developed. The banks offering services that are actually cheaper than their rivals use very eloquent slogans and commercial arguments such as: stop fork out (Fortuneo), aim at customer satisfaction rather than short-term profit (Monabanq), the bank elected as the cheapest (as contested by Boursorama and Fortuneo).

Nevertheless, the apparent rivalry between the bank agencies networks and the online banks must be nuanced, given the common ownership of the ones and others to the same financial groups (Reibaud, 2012), we can note for example: Fortuneo and Monabanq (Credit Mutuel), Boursorama Bank (Societe Generale), BforBank (Crédit Agricole SA), etc.

More explicitly towards their customers, major groups have developed a range of online banking at reduced rates, in parallel with their traditional offer; e-LCL, La Net Agence BNP Paribas, etc. Thus, the low cost banks without agencies appear less as new entrants to the banking sector than as a model of diversification of the universal banks.

We propose hereafter to describe and explain the mechanism that has gradually made this evolution unavoidable, according to the following research topics:

- Analysis of the economic situation and of the recent changes in the banking sector
- Calculations of profitability leading to a new segmentation of the offer of banking services
- Parallels with other business sectors where similar evolutions have already occurred

2. Conjunctural Analysis of the Banking Sector

Management constraints imposed on deposit banks, especially in France, Italy and Canada, helped the banking systems of these countries to withstand the crisis of 2008-2009. Indeed, the control of banking practices, the importance of own funds, or the regulation of credit have conferred to the banks concerned some ability to resist (La Tribune, 2010).

The gradual return to normal shows nevertheless some trends, especially in universal banks (Moreno, 2011). It must be noted in particular: the need to diversify sources of profitability to compensate the decline, even temporary, of trading activities on the one hand, and the sharp decline in interest rates and their maintenance at the lowest level by central banks, giving eventually a good profitability of loans, on the other hand.

Following these developments, the profitability of banks comes today, more than in the past, from services charged to private clients and from credit in all its forms, thanks to the increasing difference between the rates at which banks borrow and those at which they lend.

With regard to banking services, there is a structural change in the method of distribution. Indeed, despite a significant corporate communication effort of generalist banks towards the general public, they are steadily losing ground in the field of customer advice, whether patrimonial or fiscal advice, or even for completing a credit application.

Since they can not charge officially the advice services, although they must continue to provide them, banks try to draw benefits from their most common financial products like credit cards or overdraft facilities, by regularly increasing the corresponding tariffs. Thus, in order that the activity of account managers be still profitable, their profiles and therefore their salaries are minimized, while the sale of financial products becomes predominant in their daily activity (Sahut, 2001).

In 2010, the jobs in sales force in French banks already represented, for all activities, more than 50% of the workforce, and also more than 60% of recruitment (Ling, 2010). Thus, despite a recovery in employment observed in the banking sector over the past two years, we can consider that the quality/price ratio of banking services for the general public has tended to deteriorate: the field of competence of those who offered these services tend to stagnate or shrink, while the fares of the most common services experience an important rise.

This trend is already sufficiently obvious to the customer so that some banks are now trying to distance themselves from it. In this regard, the campaign recently launched by Crédit Mutuel is quite revealing: Our agents are not commissioned, do they announce. Responding to the public fearing a renewal of mercantilism in the banking sector, this brand has considered more appropriate to offer advices that appear to be disinterested, rather than an expertise.

This orientation seems to have paid off, if we are to believe the good results of Credit Mutuel in 2010 (Awards Bank of the Year in France by The Banker for the first time in 2010, prices BearingPoint-TNS Sofres in 2008, 2009 and 2010, Allam, Brouchiquan, 2010). However in a sectoral perspective, this success of a bank among others appears to be limited, compared to the entire domains that are progressively moving from the hands of bankers to those of Intermediaries in Banking Operations (Intermédiaires en Opérations de Banque: IOB), whether credit brokers or wealth management advisors.

Moreover, their rise as a key player in the banking sector was confirmed recently by the creation of the Professional Association of Credit Intermediaries (Association Professionnelle des Intermédiaires en Crédit: APIC) on the initiative of Cafpi, Meilleurtaux.com, AB Empruntis and Brokerage (Simonet, 2010).

Knowing that these sectoral changes can obviously not be contained, the generalist banks would probably better protect their market share against their direct competitors, rather than try to slow the arrival of independent experts on their former domains.

In these circumstances, we understand that the bank communication is not oriented to slogans like: Our account managers are trained to help you. Ultimately, the new entrants (as defined in Porter, 1979) mentioned above, who play increasingly a supportive role to the consumers of financial products, have become key contacts for banks, as business providers.

Things go as if the banks had decided to outsource, at least partially, their consulting activity towards their clients, at no cost. Consciously or not, they have actually left the field clear for the IOB who promote efficiently an expertise that banks are today increasingly reluctant to provide for free. This expertise transfer presents nevertheless a predictable drawback for banks: the inertia tinged loyalty that has long characterized their customers may fade gradually as these clientele will follow the advice and arbitration of the IOB.

Moreover, this should strengthen the upward trend in prices of the most common banking products, in contrast to those implying elaboration work and expertise, which are now more heavily exposed to competition. It can be seen for example that fees charged for exceeded overdraft have already increased in proportions that have nothing in common with those applied to real estate credit.

3. Profitability and Segmentation of the Banking Offer

Generalist banks profitability is based increasingly on their offer of financial products, including more or less competitive products, depending on whether they are subject to external expertise or not. This observation leads us to distinguish two modes of distribution of the banking offer:

- direct distribution of the whole offer, performed internally and optimized notably through a minimization of the cost of customer advice services,
- indirect or outsourced distribution, including rather the most contested products or those requiring a certain expertise.

In the same vein as in the previous section, it should be noted that the competition of outsiders on certain banking products has a potential impact on the entire banking offer. Indeed, although it is still very rare to go to a broker to choose the domiciliation of one's current account, it frequently happens that the bank who grants an important credit to a new customer requests from him that he transfers to the same bank the account on which he receives his salary.

There still remains a greater willingness of banks to maximize their profitability by raising prices on products where competition is weaker. However, this increase occurs gradually on the one hand, and simultaneously in all the institutions concerned on the other hand, in order to avoid an excessively strong customer reaction.

This evolution does not seem yet complete, particularly in France, considering the price levels observed in Europe and worldwide. However, the clientele has already begun to respond, as it is shown by the development of prices comparators on the Internet and the growing enthusiasm for low cost offers (Reibaud, 2012). We must add to this fact the strong criticism of the banks by consumer associations.

The strategy of banking groups willing to achieve the ongoing process is likely to be built around two axes:

- Apply the fares that allow the highest turnover and the lowest consequent loss of customers as possible.
- Create a complementary low cost offer that meet the expectations of customers who refuse the price increase in the classic offer.

The tools used for implementing such a strategy are the two following basic marketing principles:

- Calculation of the elasticity of demand with respect to price; the increase being possible as long as demand remains globally rigid and limited, or stopped as soon as the customer reaction is more significant.
- Segmentation of the clientele into two distinct groups, the first being less sensitive to the rise in rates and remaining faithful to the classic offer, the second being ready to choose a new bank in order not to support the increase, and to which an alternative offer should be proposed.

Both segments defined in this way represent a fairly homogeneous set in terms of consumer behaviour. Then a segmentation of the banking services should be performed, in order to provide each segment with an appropriate offer in terms of product, price, distribution mode (or place) and promotion.

In this perspective, the current low cost banking offer appears as tailored to the expectations of the second segment. Here is how to define the marketing mix of such an offer:

- A set of banking products similar to the classic offer, sometimes simplified or sparser (Boursorama, Fortuneo), sometimes identical (eLCL, Monabanq), completed by the assignment of a distant personal advisor.
- Highly attractive fees, especially when compared to traditional offers (bank cards for free, bank charges and revolving credit at half price, etc.).
- Supply of services via the Internet (online registration, account management exclusively through web interface, contact with the account manager through videoconferencing, email and phone).
- A communication policy that clearly positions the offer as having the best value for money, or even as being that of the most discerning customers, who take advantage of the opportunities of their time. The focus is also put on the high security and reliability level offered by the banking services providers (this reliability being guaranteed by their belonging to large banking groups).

Contrary to what one might expect, these offers are not positioned as lower end. Banks that develop low cost offers do not target particularly the poorest among the consumers of banking products. Instead, it appears that the target customer segment is rather more stringent than the one who remains faithful to the traditional offer; its average profile has been established using the following criteria:

- intensive use of IT tools and of the Internet,
- high demands on the availability of an advisor,
- high proportion of professionals including executives.

The originality of the strategy pursued by the banks that have developed a low cost offer lies in the way of using proven techniques, rather than in the invention of new ones. Indeed it is usually considered that companies have to choose between a strategy of skimming (high prices) and a strategy of market penetration (low prices); the choice between these two strategies depending on the elasticity of demand with respect to price. In the present case, the demand for banking products has been segmented in order to identify two markets corresponding to similar products, but with a different elasticity rate with respect to price. Thus, banks were able to implement a dual strategy: skimming with the traditional offer on the one hand, and market penetration with the low cost offer on the other hand.

We can finally observe that the communication made by the banking groups for low cost offer is far less developed than that made for the traditional offer. Indeed, being the source of the two offers, these groups carefully avoid cannibalizing their existing network of agencies through their banks without counters. Again, their aim is to accompany the current movement in a progressive and well controlled way.

4. Low Cost Development Strategies

The kind of development strategy we just described is obviously not a specificity of the banking sector. The principles stated above, as well as the way they were implemented by some banking groups, are actually extendable to other business sectors.

In fact, considering what happened in the agri-food sector over the past 20 years, it is rather the banking industry that walks today in the footsteps of some supermarket brands. Moreover, we must remember that at the same time, the low cost phenomenon has also been observed in other sectors such as air transport and tourism. Although comparisons are also feasible with these sectors, we focus here on mass distribution and on the pharmaceutical industry, because of greater strategic similarities.

Regarding mass distribution, major changes occurred in that domain longer before they occurred in banking, be these changes usually called discount rather than low cost. The term mass distribution naturally refers to concentration phenomena that are already old, but despite the first appearance of department stores during the 19th century (such as Le Bon Marché in France, or Woolworth in the United States), it is usually considered that the revolution of mass distribution dates rather from the early sixties, with the development of supermarkets and hypermarkets.

This phenomenon also seems to have accelerated the concentration mentioned above: the top ten groups of French supermarkets in 1993 were only four in 1999 (Leclerc, Intermarché, Casino and Carrefour-Promodes); in 2003, the same groups already represented 90% of the retail market (Berges-Sennou, F., Caprice, S., 2003).

The originality of this new distribution method, in addition to the retail space (usually located outside the cities in order to reduce costs), was to base profitability, no longer on a substantial margin per product, but on the large quantities sold, which allowed:

- to have a favourable balance of power to negotiate lower prices with producers,
- to impose upon these producers to grant payment terms up to four months and thus to make significant cash investments,
- to maintain a comfortable level of profitability despite reduced margins on each product.

This relatively old business model has been applied by the concerned brands to propose very attractive prices, while offering a choice allowing the customers to find almost everything in one place. After many years of adaptation and customer retention, supermarkets have been able to raise price levels to maximize their profitability. An important part of the clientele was hardly responsive to it, as they were accustomed to outlets that offered: an important choice, an easy parking, and even a number of boutiques that came to settle in the mall, very often installed around the food retailer or the supermarket.

Despite a relatively low elasticity of global demand with respect to price, a part of the clientele began to look for other forms of distribution, more economical, more human sized, less far from town centres.

This part of the clientele, a very small minority initially, has increased steadily thereafter. The response of mass distribution brands to these new expectations has been twofold:

- first, they endeavoured to limit the loss of customers by improving the interior of supermarkets and shopping centres, and also by launching large advertising and promotional campaigns (with some appeal products, that is to say products sold with no margin in order to attract new customers);
- second, they have developed a new discount or hard discount offer by creating or acquiring chains of retail stores charging prices similar to those that enabled them to enjoy their first commercial successes.

The evolution of the Carrefour Group provides an excellent example of this model through the development of the discount brands Ed and then Dia, the latter being originally created by the Promodès Group. The products sold in these new channels are, in a larger proportion than elsewhere, store brands. Far from being a handicap, this characteristic ultimately responds to a certain structural loss of brand attractiveness among consumers (Moati, Mazars, Ranvier, 2007). Thus implementing a new segmentation of their original clientele, groups like Carrefour expanded both their offer and their market.

A strategic parallel between banking, mass distribution and the pharmaceutical industry may seem surprising; however, a phenomenon regarding the latter makes it close to the two others.

This is the appearance, for legal reasons this time, of generic drugs. Once fallen into the public domain; the formula of a drug can be used by any producer who wishes to make a similar drug, whose price will not include the amortization of research and development costs. This generic drug, cheaper than the original molecule, is preferred by some physicians, pharmacists or patients; or even it will be recommended by the government in order to limit national health care expenses.

Of course, such choices are understandable from an economic point of view. The fact remains that even after the time allowed to the author of the original drug as a monopolist to make it profitable, the laboratory concerned keeps all the merit of its invention. Restricting legally the payback time of lengthy and costly developments actually discourages research.

A balance was found in this domain through the development of generic drugs by the same laboratories, authors of original drugs. Indeed, in order not to lose too much market share to their competitors, these pharmaceutical companies have maintained the original drug, while launching themselves, at the right time, the corresponding generic drug at a lower price.

Although the market of health products is very strictly controlled by the public authorities, the economic logic we have described was able to operate and to be satisfactory to all parties concerned.

In this case as in the previous ones, the question was to continue serving the same market, but after an appropriate re-segmentation and adaptation of the pricing policy. In order to meet the expectations of both segments so defined, the laboratories had to:

- create a new offer in many ways similar to the first one,
- position the new one so as to justify it was proposed at a lower price,
- maintain the first offer and defend it, so as to avoid it be cannibalized by the new one.

5. Conclusion

In what precedes, we have highlighted similarities between the development strategy adopted recently by several banking groups and those adopted long before by mass distribution companies and by the pharmaceutical industry.

Although a large proportion of customers seems still relatively unaffected by the changes in banking fees, some of them eventually leave their usual bank in favour of another, offering similar services online and at a better price.

Despite the appearances, this phenomenon corresponds to a conscious development scheme, orchestrated by the major banking groups possessing agencies networks that represent the traditional offer. Like groups such as Carrefour in mass distribution, Crédit Mutuel or Société Générale accompany the clients who seek for a better quality/price ratio towards their new low cost offer.

Given the origin of this new offer, its launch can not be radically antagonistic or competing with the traditional offer. The banking services distributed through an agencies network with counters, is maintained and even defended commercially by the head office who does not attempt to accelerate the movement of transfer to the new online model without counters.

The traditional offer, though increasingly expensive, remains the benchmark for customers who accept it or who are slow to respond. In this context, the arguments of account managers aim to legitimize as much as possible the current fees, in order to delay the reaction of their clients.

Although the comparisons over time are delicate, it does not seem unreasonable to consider that the low cost banking fees and the prices implemented in discount stores are finally quite similar to those of generalist banks and supermarkets from twenty years ago.

In this regard, the case of the pharmaceutical industry is slightly different. Indeed, the marketing of a generic drug by the author of the original molecule does not correspond to a return to former prices. However, this complementary offer allows effectively to meet the requirements of those who have decided to take only the most advantageous offer, without killing the more profitable traditional offer.

More synthetically, we can consider that the mutations observed in the business sectors evoked here correspond to a judicious segmentation leading to a new pricing policy, rather than to the emergence of a new category of semi-philanthropists decided to fight against the expensive life (as the slogan of Intermarché) in solidarity with consumers.

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