

Will the Clicks Replace the Bricks? : A Study of Online Banking in Spain and in the UK

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Executive Summary

This dissertation describes the role of Customer Relationship Management within the banking industry and the implications of this theory on organisational channel strategy.

The study focuses especially on online banking and the extent to which this channel in particular might replace the traditional network of physical branches. In order to situate the study within a specific environment, two countries have been looked at within the European Union, namely Spain and the UK.

National differential factors have been pinpointed that could account for the difference in channel use between the two countries. Taking into consideration the different rates of Internet usage in general between Spain and the UK, a further insight has been sought to explain any significant national variables.

The role of primary research in this study is to allow both for the opinion of the online banking consumers and the industry experts. The former stated their views on the use of the channel and their expectations in relation to the service offered to them. The questionnaires delivered in Spain and in the UK also sought a consumer behavioural pattern that would identify any differences in views between the two nations. Special attention was paid to the importance of cultural factors. Among others, these would explain why in two countries where economies are not preponderantly different the attitude towards an organisation's range of channels might be very distinctive.

Qualitative primary research aims to portray a more directly stated opinion about Customer Relationship Management, its implications on the organisation's channel management and the view of online banking in Spain and in the UK. Opinions from collaborators who come from several different countries, including outside the European Union, are collated and discussed, but they seem to follow a very similar line of thought.

Online banking is still a topic characterised by its "newness". Opinions around it vary and so do the figures that relate to its usage. Discovering any new trends within the industry is an interesting challenge.

Acknowledgements and Dedication

I would like to thank Dr. Peter Gold for his guidance throughout this work and his patience during the supervisory meetings.

I would also like to give special thanks to all the contributors in this document, both from the quantitative and the qualitative research, for the interest they have shown in the topic and in my work in particular. This document would not exist without their contributions.

This dissertation is dedicated to my family and partner.

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Abbreviations and Definitions

ADSL	Asymmetric Digital Subscriber Loop. A type of DSL. (Called ASDL in Spain).
AEB	Asociación Española de Banca (Spain).
ATM	Automatic Teller Machine.
BBA	The British Bankers' Association.
Bricks-and-Mortar	Businesses that have physical (rather than virtual or online) presences - in other words, buildings (built of physical material such as bricks and mortar).
Clicks-and-Mortar	Businesses that have integrated their existence with their offline real-world existence.
Cross-sell	To increase the share of customers' spend.
DSL	Digital Subscriber Loop. A technology that enables higher bandwidth communications to be passed through conventional telephone lines.
E-mail	Electronic Mail – Usually sent or received over the Internet.
Internet	An “open” network allowing anyone to exchange data – as opposed to a “closed” system such as the Intranet.
ISA	Investment Savings Account (UK).
MORI	Market and Opinion Research International.
SSL	Secure Sockets Layer. (Internet Security Protocol).
URL	Universal Resource Locator. The address of a website.
WAP	Wireless Application Protocol.
WEB	One of the ways in which information can be disseminated over the Internet.
WEBSITE	A virtual location on the Internet that has been developed by an individual, business or organisation for the purpose of giving information, advertising or selling its products. Accessed by using a URL.

CHAPTER 1

INTRODUCTION

- 1.1 THE STRUCTURE AND SCOPE OF THIS DISSERTATION
 - 1.2 STATEMENT OF OBJECTIVES
 - 1.3 WHY A DISSERTATION ABOUT ONLINE BANKING?
 - 1.4 SPAIN AND THE UK: TWO COUNTRIES IN PERSPECTIVE
 - 1.5 WHY CUSTOMER RELATIONSHIP MANAGEMENT?
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1.1 THE STRUCTURE AND SCOPE OF THIS DISSERTATION

The present document is a study of the use of Internet as a distribution channel for the personal banking services industry (referred to also as “click” business model) in comparison with the traditional branch channel or “brick-and-mortar” business model. This dissertation is mainly based in the UK and Spain and includes two parts:

Firstly, Chapters 2 and 3, where Customer Relationship Management (CRM) is explained (and within it, channel management) and how this theory fits into the banking industry. The importance of the presence of the Internet in the banking channel mix follows, and a comparison of this in Spain and the UK. Secondly, field research was conducted in the shape of qualitative and quantitative questionnaires. Chapter 4 explains the methodology used to obtain the primary data, followed by chapters 5 and 6 with the analyses of the field research data that will either confirm or refute some of the ideas elaborated previously.

Throughout this document figures are mentioned in relation to online banking. These refer mainly (unless otherwise stated) to Internet access via a computer, disregarding any other figures for WAP technology and digital TV. During the desk research time leading to the completion of this dissertation, studies have been found with figures about the use of Internet and, in particular, the use of online banking, which have not always agreed with each other. For the sake of consistency, global studies have been consulted with data from both Spain and the UK, so that the methodology of the study is exactly the same for both countries.

1.2 STATEMENT OF OBJECTIVES

The following are the objectives that this dissertation is trying to achieve. Throughout the document reference is made to them by the numbers used here:

- 1) To acquire and demonstrate an understanding of the Customer Relationship Management Theory (CRM) and its applications to the banking industry.
- 2) To define the role of the Internet as part of the channel mix in the banking industry, and the importance of channel management as part of CRM.

- 3) To look into the current use of this channel in the banking industry in Spain and in the UK.
- 4) To explore the different reasons why online banking might follow different paths in Spain and in the UK.

1.3 WHY A DISSERTATION ABOUT ONLINE BANKING?

Banking in Europe as a business has always been seen as a mature industry, subject to strong institutional control and constantly at the expense of the legislation imposed by Central Banks in each of the countries and by the European Central Bank in the wider context of the European Union.

The use of the Internet for banking purposes represents a break with the traditional trust-endorsed face-to-face business par excellence. Times have changed: with it deregulation and technology have allowed for a transformation to take place. The former has allowed for barriers of entry to come down. The latter has opened a new market space for business to take place in which everyone wants take part.

Thus, online banking makes it possible for banking activities to be undertaken at home through a “World Wide Web” interface. In its simplest form this would entail gathering information about financial institutions and their products. At its most sophisticated, it would involve this information facility combined with full transactional functionality and added value services (Howcroft and Durkin, 2000. p. 11).

There are some aspects that are currently indisputable about online banking that need to be taken into account as background thinking to this document: Firstly, the channel has two built-in disadvantages for customers at the moment: how to withdraw cash and how to deposit paper cheques. Much talk has taken place about electronic currency; this topic is not covered in this dissertation. However, it would be interesting to consider it in the future.

Online banking, and the services related to Internet with potential security risks in general, are highly susceptible to external factors: the aftershocks of September 11th 2002 and the chance of a possible attack on the security of a virtual marketplace can cause anxiety to customers to the extent that they may return to the more basic channels. The importance of banking as a traditional trust-related business needs to be borne in mind and also its susceptibility to any external dangers.

1.4 SPAIN AND THE UK: TWO COUNTRIES IN PERSPECTIVE

Other than global external factors, banking in Spain and in the UK is influenced by aspects that are inherent to each of the countries and, in turn, to the industry's history in those countries.

It is important to consider, for example, that most banking services / products in the UK can be obtained for free, whereas they are charged for in Spain. The average price for setting up a standing order in Spain, for example, is 2.2 Euros (£1.50) (BBA, 2002), whereas this is a free service in the UK. The recent moves in the industry within the last few years have also been clearly different. The launch of the Euro in Spain and another 11 countries in January 2002, for example, marked the beginning of a new era of which the UK does not at present form part.

Another influential aspect to consider is banking deregulation. Although present in both countries for years, deregulation started earlier in the UK than in Spain (Jayawardhena and Foley, 2000. p.20). During the period before Spain's deregulation started (Martinez et al. 2002. p. 9), the development of the industry in the UK continued to the extent that competition increased, and with it, the number of financial institutions. Later mergers between major organisations have also marked a trend in the industry in both countries.

Although economic and historical factors in Spain and the UK are not going to be dealt with directly in this study, national differences in relation to them can affect consumers' behaviour patterns in banking and, therefore, they need to be taken into account as background to this dissertation. Country-specific cultural differences may also play a role in the patterns of consumer behaviour and may also be essential to take into consideration when planning the channel strategy of an organisation.

1.5 WHY CUSTOMER RELATIONSHIP MANAGEMENT?

Customers are the essential building block for businesses to emerge and grow. The relationship between the dealer and the customer took a new approach and was considered second to none with the theory of Customer Relationship Management (CRM).

Consumers' opinions about the best distribution channel in relation to banking, and their preferences in using any of these channels (such as traditional branches) over

others (such as telephone or online banking) are considered essential by companies in order to design their channel management strategy. According to consumer response, a redistribution of channels can take place which will both help to economize and make the distribution channels available more efficient. A detailed explanation of CRM follows in the next chapter.

CHAPTER 2

CUSTOMER RELATIONSHIP MANAGEMENT AND BANKING

2.1 CUSTOMER RELATIONSHIP MANAGEMENT

2.1.1. HOW DOES CRM FIT INTO THE BANKING INDUSTRY?

2.2 THE INTERNET AS PART OF THE CHANNEL MIX IN BANKING

2.3 THE COMBINATION OF “CLICKS” AND “BRICKS-AND-MORTAR” BANKS

2.1 CUSTOMER RELATIONSHIP MANAGEMENT

Customer Relationship Management (CRM) emerges as the acknowledgement of the customer being the centre of all businesses. For that reason, its main objective is to optimise the business-customer relationship.

As S. Brown (2000, p.XIX) defines it “CRM is a business strategy that aims to understand, anticipate and manage the needs of an organisation’s current and potential customers. It is a journey of strategic process, organisational and technological change whereby a company seeks to better manage its own enterprise around customer behaviours. It entails acquiring and developing knowledge about customers”.

CRM embodies a very important sub-strategy: channel management. This means the way that a customer chooses to transact with the organisation and the organisational balance between its distribution channels. In an attempt to retain / capture / deal with the customer, the organisation should make use of an effective channel mix to distribute various products and services to customers while increasing profitability. The benefits resulting from a more effective channel management can be both in terms of segmentation / targeting and also in terms of economic value. An example of this would be that posed by Mr Holsheimer when talking about ING bank: the organisation reduced its mailings to customers by 30% a year, after identifying those customers that never respond to mail shots (Dempsey, 2002).

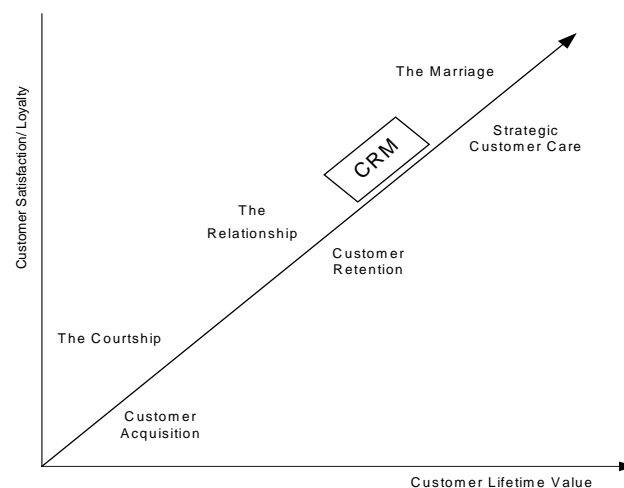
One-off customer satisfaction is no longer a sufficient measurement factor following a business transaction. Instead, a long-term relationship with the customer is sought. One way to strengthen the bond between business and customer is by listening to customers and providing them with what they value the most about the business service. Identifying the consumer values that are pertinent to a business can help to increase customer loyalty and retention. Once a firm two-way relationship has been established between customer and business, it is less likely that the customer is going to start looking for a service provider elsewhere.

In the process of building CRM strategy, not only sophisticated studies of customers are required, but also sophisticated market research, and most importantly, determination by management to invest in all the knowledge gained. Not all the consumer values are pertinent to a particular business. In the same way, values may vary immensely depending on different customer segments.

Data mining is the name of the process used to extract information from the customers' data in order to discover patterns of hidden behaviour. Newell (2000, p. 34) defines "behaviour" as "today's sale". "Research, on the other hand, is the only real measure of attitude. Attitude precedes behaviour. Attitude is tomorrow's behaviour". Patterns help to identify the business' good customers but also those who have the potential to become so.

The Internet has facilitated the work of CRM not only as an advertising medium, but also for market research purposes. Despite the potential volume of the Internet market, the World Wide Web is not about mass marketing, but rather about one-to-one marketing. It has the possibility of providing information of unique value to every customer, rather than treating all customers equally. Non-relevant offers may deter customers' loyalty; they are not in line with the goal of CRM of becoming "the customer's friend". The ultimate goal of CRM in the near future would be a series of integrated approaches where the business would be able to guess the service that the customer requires before he / she knows it.

Before the highest possible grade of loyalty between an enterprise and its customers occurs, Brown (2000 p 57) describes three stages in a customer-business relationship:



Adapted from Brown (2000, p.57)

Fig.1 The three stages in a customer-business relationship

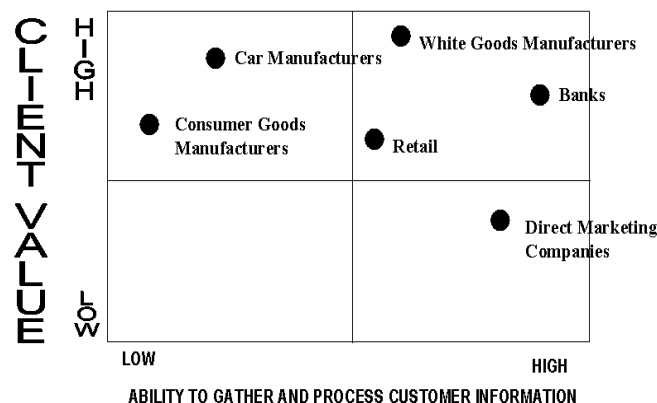
Firstly, the "courtship", where the customer has approached the business but may switch to a competitor if their products are better. As the relationship goes on and loyalty is not only based on price and product alone, it develops into a win-win relationship, turning thereafter into a solid "marriage", whereby advocate customers

advertise the enterprise by a word of mouth, passing it on and recommending it to others. Those companies that only focus on price and customer attraction are continually in the courtship state of the relationship. It is more profitable, however, to keep existing customers than to acquire new ones, and for that reason getting to know the customer and making use of the information gained can be regarded as a strategic asset.

2.1.1 HOW DOES CRM FIT INTO THE BANKING INDUSTRY?

If there is a business in which the enterprise knows a lot of details about its individual customers, it must be the banking industry. They know (or can deduce), the subject's income, their net worth and their credit worthiness. It is not surprising, therefore, that the relationship between the customer and the business needs to be one of trust. In turn, in order for there to be trust between customer and organisation, the former needs to be treated as an individual, and not as part of a mass-market campaign. Fig. 2 below illustrates how banking is positioned as an industry within CRM key characteristics: client value and ability to gather and process customer information.

Key CRM Characteristics by Industry



Source: McKinsey & Co.

Source: Forsyth, 1997 p.5

Fig. 2 The banking industry and CRM

If CRM has been informally described as the way the grocer used to treat his customers, is it possible to “industrialise” the process and still maintain this personal treatment? Can an organisation move into a true electronic CRM environment in the banking industry? It is a challenging idea.

Carmen Etxebarria (1998) offers an example about how to use technology to improve CRM in banking: The use of a fictional character has been implemented to ease the visual impact of the example:

(Ultimate source: NCR Spain. 1 PTA= 0.006 Euro). Names have been adapted. My translation)

Mr Perez is a good customer of Bravo Bank. Usually, he goes to the ATM closest to his office twice a week. As soon as he inserts his card, the screen asks him which language he prefers to use: Spanish, Catalan, French, English or Italian.

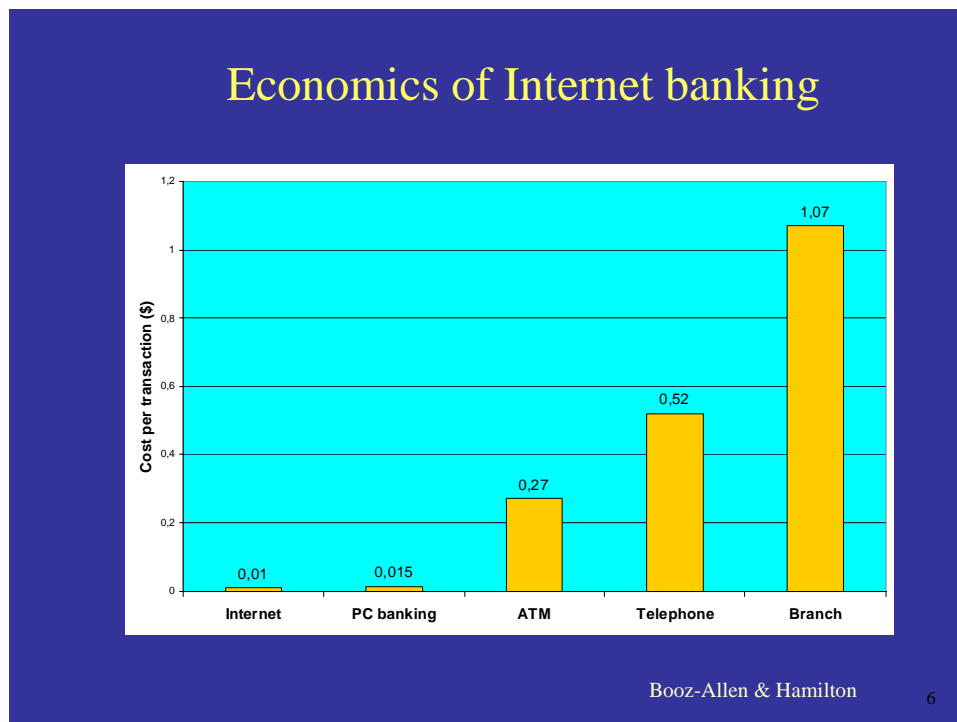
Mr Perez always chooses Spanish. Immediately after, he is asked for his PIN number and a menu of options appears: cash withdrawal, check balance, transactions, transfers or change of pin. He usually chooses cash withdrawal and is presented with the usual options: 5000, 10000, 20000 pesetas or "other quantity".

He likes withdrawing 14000 pesetas so as to have some 1000 notes change and the ATM always asks him if he wants a receipt for the transaction, to which he answers yes. One day, when Mr Perez inserts his card, he receives a message in Spanish that says: "Welcome Mr Perez, would you like to withdraw 14000 pesetas or would you rather perform another operation?" Mr Perez performs the usual operation and the brand also informs him of the new products that are more relevant to him at that moment. The perception of Mr Perez is that of a personal, improved relationship. He feels there has been a transaction exclusively produced for him.

The ATM (Automatic Teller Machine) is one of the possible channels that constitute the distribution channel mix used by banks nowadays. However, a bank customer may also feel that either a branch, a contact centre or the Internet will better fulfil his / her needs, and he / she wants to have the same up-to-date view of accounts and transactions in any of them.

2.2 THE INTERNET AS PART OF THE CHANNEL MIX IN BANKING

To the banking organisation, the approximate cost per transaction performed in the USA with each of the channels would be as seen in Fig. 3 (the gap between the figures is similar to that for European costs)



Source: O'Callaghan 2000a, p.6

Fig.3 Cost per transaction using different channels

The Internet as part of the channel mix and potentially the most cost-efficient of them can increase the earnings of the company and maximise CRM. The latter statement seems paradoxical: personalisation of the customer with such an “impersonal” channel as the Internet.

That customers are more and more knowledgeable about what they want to buy is a fact that needs no proof nowadays. Consumers are better educated and willing to look for value rather than only price competitiveness in their purchases. The Internet has allowed banks to reach new customers in new areas more easily. It has also enhanced communication so that now customers can have access to their banking without spatial or temporal restrictions. An ideal place from which to gather information without having to leave home or moving out of one's own environment is the World Wide Web. Within his / her own environment, the customer can browse, at any time, the range of products and services available without having to make special arrangements for a branch visit at office hours or booking an appointment with several bank managers to discuss his / her finances.

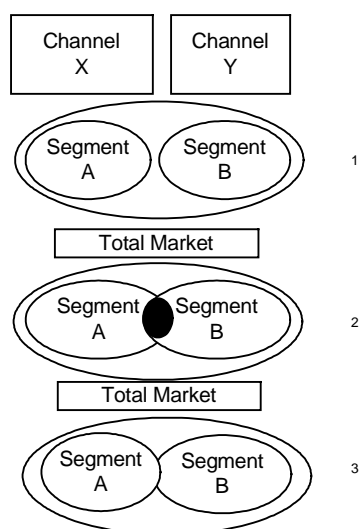
To the banks, on the other hand, the Internet can help both to promote their products to their customers without the need to employ extra sales staff, and also to perform

lower-cost market research on customers about their preferences, directly and indirectly. Rather than a mere database where information updating can only be prompted by the bank, the Internet enables a flexible relationship between customer and organisation in which “buyer and seller” constantly serve each other. The relationship is a changing one and specific to each transaction, always adapting in real time to the different needs of the customer.

By registering for the service and accessing their finances online, customers are allowed to perform a myriad of transactions. Available at the moment are services such as transfers between internal accounts and payments to third parties. Additionally, the customer can apply for savings accounts, credit cards, purchase of loans and insurance policies and arrange to have all his / her accounts from all entities in control by seeing them in a single bank's web page (account aggregation). To the bank, the information withdrawn from virtually every Internet transaction can be processed into the company's knowledge management and it can be later used to potentially affect corporate strategies.

An understanding of customers' needs at different life stages will be necessary and also beneficial to the company. The resulting desired effect is a cross-sell to the customers of other products that the company can offer them and therefore, a gain in customers' share of wallet. Finding out the target customer segments for the company and understanding their needs can help the banks to identify those customers segments that are more profitable to the business in order to retain them and make the relationship longer. By responding to customer needs, prioritising the most valuable ones to the organisation first, the company can map these requirements against its core capabilities and product and service range and apply these changes throughout its distribution channels, forming a learning and implementation cycle that is continuously interactive.

According to Brown (2000, p.134) the organisation's channel strategy can be evaluated using five different criteria: market coverage, control, conflicts, profitability and support. The illustration below portrays the possible different scenarios regarding market coverage and the conflicts that each of them can entail (see also O'Callaghan 2000b).



Adapted from Brown (2000p.135)

Fig.4 Channel restructuring and market coverage.

Situations can occur when the group of channels does not cover the entire market. Then, there are lost earnings and the possibility that the competitors are moving into the vacant areas (1). On other occasions, the whole market is covered but there is a significant overlap, which may result in conflicts between channels, and in turn, may not be the most profitable of situations (2). However, this may be tolerable if it is to act as a shield against new competitors.

In the last situation the scenario would be close to optimal (3). The market coverage is complete and the overlap is small with only minimal potential conflicts. In practice, the situation is never this simple. Often, some channels will be more appropriate than others, depending mainly on the characteristics of the product. However, the organisation needs the channel to be ultimately profitable. With regards to the banks' possible different combinations of channels for distribution, Hesmans et al. distinguish beyond the dichotomy "bricks-and-mortar" and "clicks" banks to include "bricks-and-clicks" and "clicks-and-mortar" banks. (Hesmans et al. 2001). The emergence of these combinations is expanded in the next section.

2.3 THE COMBINATION OF "CLICKS" AND "BRICKS-AND-MORTAR" BANKS

Hesmans et al. (2001 p.221) observe how traditional banks / financial institutions or "brick-and-mortar" branches "safely" placed in a networked physical marketplace have found themselves confronted with competition from institutions using a different or "virtual market space" of dynamically developing information interactions. These new institutions may use new business models such as "clicks-and-mortar", developing first

in the Internet and thereafter opening as a physical network (Patagon, the online direct bank of SCH in Spain as an example), or “clicks”, whereby only the Internet channel is used. While the business of banking is transforming but is here to stay, the image of traditional bank branches does not necessarily need to exist.

Tesco and Sainsbury's in the UK are examples of non-banking institutions that have introduced some products and services to their value chain typical of traditional banks. Their existing CRM strategy and their online and telephone customer care services already in place have made the start easier. Their products usually consist of VISA cards, loans, insurance (car, house, travel, pets) and ISAs. However, they do not offer current accounts.

Other initiatives in the UK, such as Virgin's, consist of solely the standalone “clicks” business model, whereby transactions are not directly related to an already existing incumbent business but rather to a brand (indirectly, however, Virgin is still connected to Royal Bank of Scotland). The Virgin One account, the star product of Virgin in the financial services industry, tries to combine mortgages, loans and savings into one single unit.

Nonetheless, the majority of “click” approaches tend to be related to a “bricks-and-mortar” financial institution in order to increase their legitimacy. “Parent” “bricks-and-mortar” of “clicks” models are usually more closely aligned to notions of credibility and stability and, as Hensmans states (2001, p. 233), they are a sign that the banking organisation is safe, trustworthy, predictable, socially acceptable, desirable and ethical. Egg, the UK-based Internet division of Prudential, has now been positioned as the leading online direct financial supermarket and is now expanding to France with the recent acquisition of Zebank. Egg has achieved its own brand individuality and has been able to offer competitive interest rates on credit cards and loans. It also offers the possibility of account aggregation. Furthermore, the tie that it has with Prudential gives it what Hensmans (2001, p.238) calls “brick legitimacy”.

Similarly, ING Direct has been successful for online customers in Spain. Despite not being a national initiative, the Dutch firm related to National-Nederlanden present in Spain since 1978 has achieved a leading position in saving accounts. This can be an illustration of the risk of competition to national institutions represented by the penetration in the market by foreign competitors, which have developed and refined a modern delivery system. The fact that Spain and a high number of other European

countries share the Euro as a currency will make it easier for foreign competitors to enter the continental market.

In any case, the “clicks” business model for banks is not a transplanted approach of traditional banking (“bricks-and-mortar”) onto the Internet. The inherent characteristics of the Internet do not provide a welcome mat for marketing and advertising strategies of the past (Newell 2000, p.100). The “bricks-and-mortar” banks that have adopted the Internet as a channel have not merely adapted their current strategies to technological acceleration. Most of the institutions have designed an online interface taking into consideration the segments of their customers that were more likely to use it. In some cases, re-branding has taken place to avoid the risk of ‘cannibalising’ existing customers. Initiatives like Uno-e are present in Spain, whereby BBVA and Telefónica have collaborated in creating an online ambitious initiative for Spain and Latin America.

Not all the “clicks” initiatives have resulted in a successful experience. Some start-ups have already given in to the competitive pressure and / or have decided not to carry on with their online business. Zurich Bank, the Internet banking arm of Zurich Financial Services in the UK is to close Spring 2003 (The Independent, 15/9/2002) and its customers are to be transferred with as little fuss as possible to other online banks. The vast majority of online initiatives have experienced losses before they could gain any profits. AEB (Asociación Española de Banca) reported that Uno-e had lost 10.96 million Euros in the first semester of 2002 (www.ganar.com)

In other cases, the banks’ channel restructuring has been strongly influenced by the needs of the customer and the expression of their opinions. Thus, when Barclays strategy to close 171 branches was made public in 2000 to justify for the explosion in the use of cash machines, telephone and online banking, customers and politicians condemned the move, especially those from rural areas. Barclays response was that a deal would be struck with Post Offices so that minimal banking services could be carried out there (www.guardian.co.uk)

Online financial institutions have had to carry out not only IT expenditure but also careful analysis on market segmentation and targeting in line with a CRM approach. As we have seen, banking on the Internet is about CRM and also about one-to-one marketing. In order to get e-CRM right, Brown (2000, p.164) points out, it is necessary to understand the company’s customer profile and the number of interactions per customer segment per channel. The distribution channel to be followed by each of the brands is conditioned by its strategic objectives, the targeted customer segments and

the products to be commercialised. Each brand must plan a channel configuration that covers its markets and that is the most cost efficient.

Some banks use the Internet to establish a “presence” on the World Wide Web whilst waiting for more clarity to emerge in that market. Investing in Internet Banking during the current period can be an important “fortress strategy” for banks to defend themselves against new entrants. As we have seen in Fig.2 (Brown 2000) earlier, if the channels do not cover the whole market, there is a danger for new entrants to move into vacant areas. Not having this presence will, therefore, most certainly result in a competitive disadvantage in the near future, although investing in a new distribution channel that is unlikely to give banks early payback on investments is difficult to justify to shareholders. As Li (2001, p.314) states, even if the barriers to entry and imitation may be relatively low in the banking industry, “resource position barriers” may play a key role in the market.

According to Li (2001, p.308), the Internet may turn out to be much more than a new, ultimately cheaper distribution channel for banks. It can also prove to be a revolutionary concept for the traditional banking industry, because it allows new entrants to unbundle banking activities and specialise in those activities they are best at whilst outsourcing the rest. This deconstruction of integrated banking processes would mean that the process traditionally managed within one bank is increasingly broken up into multiple businesses with each company focusing only on one section or one aspect of the value chain. Such a scenario poses a threat because the value-focused new entrants would make it increasingly hard for existing banks to justify commissions and fees for their services and their margins would be in danger of becoming too tight.

Nonetheless, branchless banks can be disadvantaged when selling more complex products (such as complex loans and mortgages). Another disadvantage may be the security concern of the customers when dealing with their finances through the electronic channel. Brown (2000, p.133) emphasizes that customers, particularly those of Europe, have viewed the Internet as a very unsafe channel, even though there are fewer problems with payments made online than with traditional checks. Security has always been a major concern with banking issues and it seems to be increasing proportionally to the new technology implementations with a higher “degree of impersonality”. The Internet may not yet be the appropriate channel for many customers who are not comfortable with it. It is for that reason that web initiatives must be targeted to the right segments of customers to each organisation.

A good CRM initiative should determine the segments of those customers within each company that are most likely to use Internet banking and endeavour to retain them so that they do not choose a more price competitive organisation. As we have seen, customer retention is more economical than customer acquisition. Secondly, products and services should be marketed to those other customers that are more likely to make the channel a profitable experience. In banking, 20% of customers generate 80% of the profits (De Mora, 2000, p.1), so retaining those profitable customers needs to be the first priority.

In early days, banks considered electronic banking as a way to reduce costs generated by the least profitable customers. It was thought that those would be the main users of Internet banking. Ironically, however, the most profitable customers have been the first to make use of this channel (De Mora, 2000). On these grounds, it has been proven that return on investment can be generated and it is necessary to direct it to the right segments of customers.

It would appear logical to assume that online banking is going to be used by those people who are willing to embark on the path of technological advance or are already existing Internet users. An analysis of the Internet usage in Spain and in the UK will help to put the numbers into perspective for the two countries within the scope of this dissertation.

CHAPTER 3
SPAIN AND THE UK

3.1 TWO COUNTRIES IN PERSPECTIVE: SPAIN AND THE UK

3.1.1 INTERNET USAGE IN SPAIN AND THE UK

3.2 SPAIN, UK AND THE INTERNET AS PART OF THEIR BANKING CHANNEL

**3.2.1 BANKING ONLINE AND THE POSSIBLE CULTURAL INFLUENCE IN
SPAIN AND THE UK**

3.1 TWO COUNTRIES IN PERSPECTIVE: SPAIN AND THE UK

3.1.1 INTERNET USAGE IN SPAIN AND IN THE UK ¹

SPAIN

The growth in the use of Internet in Spain between 2001-2002 was of 3%, the present percentage being 29%. The distribution of specific age groups and sexes among Internet users was as follows:

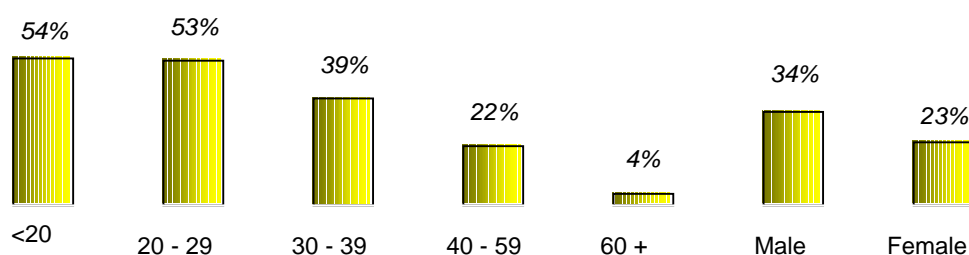


Fig.5 Internet usage in Spain.

As we can observe from Fig. 5, the number of male users seems to be slightly higher than the female counterpart. The lowest percentage would correspond to the +60 users (4%) and the highest to the younger generation (age groups <20 and 20-29). In other words, the younger the age the greater seems to be the likelihood of being a user. 19% of Internet users use this channel at home and 10% use it at work. The rest access it from elsewhere, including organisations such as the university. Of the above percentage of Internet access (29%), 10% are “online shoppers” (people who have bought or ordered goods or services on the Internet – see Appendix 1) a 1% increase from 2001. 12% among those Internet users are “offline shoppers”, and a significant 60% are “non-shoppers” (the same percentage as 2001). Out of the total population of Taylor Nelson’s Study in Spain, 2% of respondents (same percentage of 2001) are “online shoppers”. Taylor Nelson Sofres (2002) defines the current situation in Spain as showing a slowdown.

However, it appears (www.noticiasdot.com) that the geographical area of Internet banking has spread to autonomous communities other than the metropolitan areas of Madrid and Barcelona, increasing in areas such as Valencia, Murcia and the Basque Country. This increase could be potentially very significant, as the highest value added

¹ Unless otherwise stated, the figures/ statistics in this section originate from Taylor Nelson Sofres interactive report (June 2002). Information on the methodology and population for the report can be found in Appendix 1.

aspect of the channel is to provide access for a user without easy access to metropolitan branches.

UK

The statistics from the UK in Fig. 6 seem to show a higher percentage of Internet users than in Spain. There also seems to be a more even percentage of usage between the different age groups. (61% <20, 53% 20-29, 47% 30-39 and 40% 40-59). Still, a reverse relationship exists between usage and progressively older age groups.

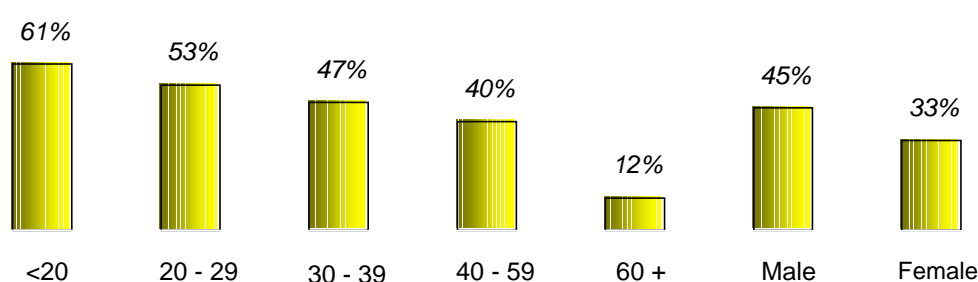


Fig.6 Internet usage in the UK.

The percentage of the survey's population who are Internet users grew 4% between 2001-02. This indicates a moderately bigger increase than the one experienced in Spain. The majority of users seem to be male, which concurs with the results from Spain. There are also regional disparities, such as 56% of people living in the South East using the Internet (excluding Londoners), 50% Londoners, compared with only 23% in Wales (MORI polls on Internet). From the total number of users, 31% access the web from home and 11% access it from their workplace. The rest access it from elsewhere, including organisations such as the university (5%).

23% of the population of Internet users are "Internet shoppers" a much higher percentage than the 10% result for Spain (the highest number of purchases was made by the 30-39 age group). Nonetheless, the figure has decreased from the 24% recorded in 2001. Finally, 55% of the population are "non-shoppers" (compared to a relatively similar 60% in Spain).

What the factors are that generate these series of figures and how the variables are likely to change in the near future is a matter of importance for financial institutions when analysing their channel strategy. Financial providers cannot assume that consumers are homogeneous in their attitudes to online banking. As we have

mentioned earlier, research into consumer attitudes forms the base for understanding their future behaviour. We are looking into the possible reasons for consumer attitudes in more detail in the next section. Some of the following reasons will be either corroborated or falsified by the results of the primary research analysed in chapters 5 and 6.

3.2 SPAIN, UK AND THE INTERNET AS PART OF THEIR BANKING CHANNEL MIX

By looking at the above Internet usage statistics, we have assumed that those age groups more likely to access the World Wide Web more often would probably be keener to embark on online banking.

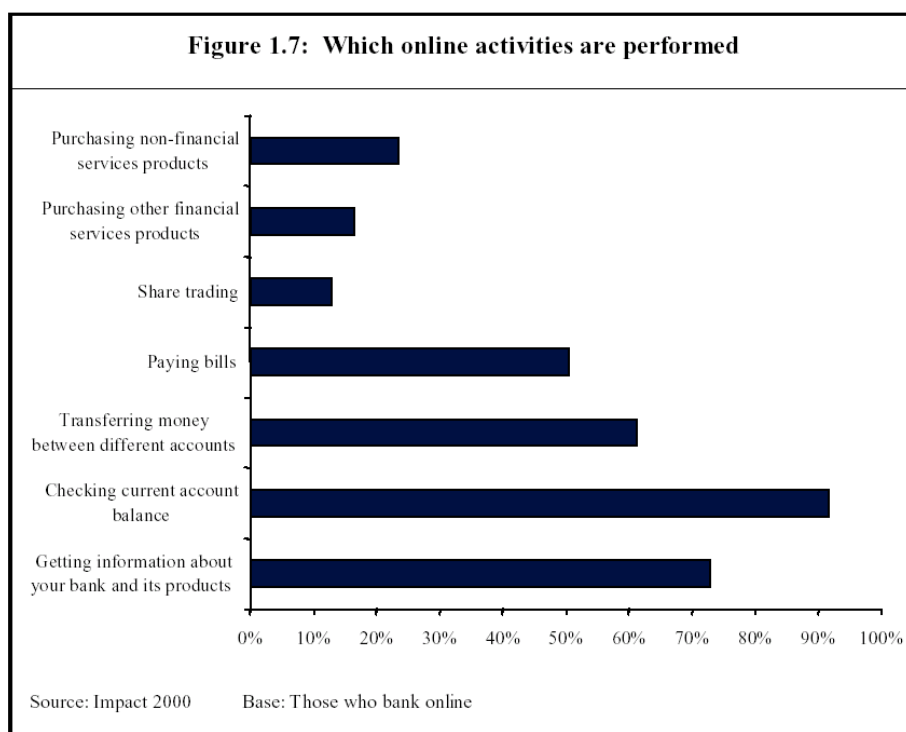
The tendency of “technology-friendly” consumers utilising the most advanced channels first was already observed in the case of ATMs. Howcroft (2002, p.112) denotes, in his literature review, the analysed correlation between positive attitudes and familiarity with technology and the usage of ATMs. He also reveals the result of studies concluding that a significant factor for the non-use of ATMs, especially amongst older consumers, was the preference for conducting financial affairs through a human teller. Age was negatively related to the usage of ATMs, as it seems to be inversely related to the use of online banking. This opinion is, as far as the UK is concerned, also supported by the Reuters report UK e-Banking (2000 - Chapter 1- Online Bankers, p. 13). As a result, early entry into the online banking market would seem to be the most favourable from the banking industry’s point of view.

European cross-country research for ATM usage also mentioned by Howcroft (2002, p.112) found that the main concerns of users included fears over its security, the possibility of a machine breakdown and running out of money. The first two are very likely to be similar concerns for the currently investigated online banking. As far as security is concerned, we can assume that it has been historically a concern for the banking business customers and that it has increased hand in hand with the acceleration path of technology. Uncertainty about passing account details over the Internet has not been eroded with high encryption techniques such as SSL.

Fears of machine breakdowns / network connection failure concerns can also influence the customer not to use the online channel in the same way that this at one time influenced the use of ATM machines.

The cost of the connection to Internet for the user may also be an influencing factor accounting for the difference in Internet usage in Spain and in the UK. Consequently, this might be a reason why consumers could decide not to engage in online banking, as it may take some time for the consumer to set it up initially and to feel comfortable to use the service thereafter. Although Spain is the second European country in terms of penetration of DSL lines, the price for the connection to Internet has not been reduced in a long time due to the late deregulation of the telecommunications sector dominated by Telefónica (www.5dias.com).

It is also interesting at this point to see which are the products / services that are more likely to be purchased online and why, as well as to compare the tendencies in both Spain and the UK to see if there are any differences. As far as the UK is concerned, Reuters states in the UK e-Banking report (2000. Chapter 1, p.17) that checking account balances is the most popular online banking activity, the one that requires the least involvement, together with searching information about the banks products on the Internet. However, transferring money between different accounts and paying bills are not far behind, as we can see in Fig.7 below:



Source: Reuters UK e-Banking report 2000 (Chapter 1, p.17)

Fig.7 Online banking activities in the UK

Consumer behaviour in relation to product / service acquisition and distribution channels can certainly help to map organisational channel strategy. It also helps to see that those more complex banking products / services are not associated with online banking, at least in the UK. These figures make it more difficult for the “clicks” business model to eradicate the bricks-and-mortar. Some figures and opinions based on primary research from Spain and the UK will be seen in Chapters 5 and 6.

However difficult it may be to prove empirically, there is another aspect within the consumer behaviour in Spain and in the UK that may be worth looking into and that relates to the countries’ cultural differences. This is explored into the next section.

3.2.1 BANKING ONLINE AND THE POSSIBLE CULTURAL INFLUENCE IN SPAIN AND IN THE UK

Northern and Southern European countries have shown a significant difference in the number of customers and the frequency of use of Internet services and online banking in particular (www.baquia.com).

Whilst both being European, Spain and the UK differ in a series of cultural values that a number of authors have identified as an influencing factor towards consumer behaviour and that could be of relevance to the study of online banking. Authors such as De Mooij (2001) for example, have observed a convergence and divergence in consumer behaviour among different cultures. De Mooij states that while for some products differences between countries worldwide can be explained by differences in national income, in more economically homogeneous Europe most differences can only be explained by culture (2001, p.31). De Mooij bases her work on Hofstede’s dimensions of national culture. These values are explained in Fig 8 below (page 24).

According to Fig. 8, Spain and the UK do not belong to the same category for any of the values stated by Hofstede. Values such as “uncertainty avoidance” could be of special interest to our study (“in weak uncertainty avoidance cultures people tend to be more innovative”); as this could mean that in countries like Spain, tolerance towards unpredictability of new systems tends to be lower than in the UK.

Hofstede's dimensions of national culture

Hofstede distinguishes five dimensions of national culture: power distance (PDI), individualism / collectivism (IDV), masculinity / femininity (MAS), uncertainty avoidance (UAI) and long-term orientation (LTO).

Power distance is the extent to which less powerful members of a society accept that power is distributed unequally. In large power-distance cultures (eg France, Belgium, Portugal, Poland) everybody has his/her rightful place in society: to demonstrate this position is more important than in cultures of small power distance (eg the UK, Germany, the Netherlands and Scandinavia).

In **individualist cultures** people look after themselves and their immediate family only, and want to differentiate themselves from others; in collectivist cultures people belong to in-groups who look after them in exchange for loyalty, and the need for harmony makes them want to conform to others. Northern Europeans are individualist; in the south of Europe people are moderately collectivist.

In **masculine cultures** the dominant values are achievement and success. The dominant values in **feminine cultures** are caring for others and quality of life. In masculine cultures performance and achievement are important. Status is important to show success. Feminine cultures have a people orientation, small is beautiful and status is not so important. Examples of masculine cultures are the US, the UK, Germany and Italy. Examples of feminine cultures are the Netherlands, the Scandinavian countries, Portugal and Spain.

Uncertainty avoidance is the extent to which people feel threatened by uncertainty and ambiguity and try to avoid these situations. In cultures of strong uncertainty avoidance, there is a need for rules and formality to structure life. In weak uncertainty avoidance cultures people tend to be more innovative and entrepreneurial. The countries of south and east Europe score highly on uncertainty avoidance, England and Scandinavia low.

Long-term orientation versus short-term orientation. This fifth dimension distinguishes long versus short-term thinking. Other elements are pragmatism, perseverance and thrift. This dimension distinguishes mainly between western and East Asian cultures.

Fig. 8 Hofstede's dimensions of national culture (Source: Admap October 2001 p.30)

In the words of Prof. G. Hofstede in a recent interview (Emerald, July 2001), the author of *Culture's Consequences* affirmed that according to a recent study on consumer behaviour, people with different cultural backgrounds use the Internet differently. A further study on the divide of the Internet use based on trust and different cultures can be found on *The Economist* ("Web of Trust" 2002) and in the work of Mr. Leland and his colleagues (IBM research division) in their article "Trust, the Internet and the Digital Divide" (2002). The levels for the value of trust in Spain and in the UK are considerably different in Mr. Leland's study (Leland et al. 2002, p.27).

The implication of a difference in cultural values related to consumer behaviour in Spain and in the UK could mean that consumers would prefer to use / not to use online banking above the physical network of branches or even alternative channels. By conducting primary research in both countries in relation to the preferred banking channel (Internet / physical branch), the essence of this hypothesis can be supported or overruled. In coming chapters, we proceed to consider the primary research undertaken. Firstly, an explanation of the methodology adopted for this research follows.

CHAPTER 4

METHODOLOGY

4.1 QUANTITATIVE RESEARCH

4.2 QUALITATIVE RESEARCH

4.3 LIMITATIONS OF THE METHODOLOGY

4. METHODOLOGY: DESCRIPTION OF FIELD RESEARCH

The methodology developed and undertaken in order to obtain primary personal online banking primary data for Spain and in the UK was both of a quantitative and qualitative nature. The objective of this chapter is to describe the steps taken to conduct such research.

4.1 QUANTITATIVE RESEARCH

Firstly, quantitative research was carried out in the form of anonymous written questionnaires sent via email to Internet / e-mail users in Spain and in the UK to capture their opinions / consumer behavioural patterns towards online banking. There were five principal objectives for these one-page questionnaires:

1. To establish how long customers have held their accounts for in the same bank.
2. The number of customers that are using a second bank / financial provider for a different service.
3. Use and main concerns about Internet banking.
4. To compare the most used channel for banking with the preferred channel.
5. To observe the choice of channel relative to the product / service that is being purchased.

The questionnaires were composed in both English and Spanish (depicted in Appendix 2) and had a total of 15 brief questions: a variety of multiple choices, ranking and grading statements written using Microsoft® Word software. SNAP® software was not used due to restrictions in access, although it could have proven to be a better tool, especially when analysing the results, for which Microsoft® Excel was used instead. The questionnaires were tested with a small pilot group, who identified problem areas, expressed their opinions and helped to restructure the final document.

The reasoning behind the choice of questionnaire recipients is that people who utilise email and Internet, as mentioned in section 3.1.2 of this dissertation, seem to be the most likely to embark on online banking. The range of options that questionnaires

offered to determine the age groups in the first question were four: up to 20 years old, 20 to 29 years old, 30 to 39 years old and older than 39. Therefore, the population under 20 and over 39 were located within two broad age groups. The former as a young age group that would start conducting banking in the future. The latter as a merger of the 40-59 and 60+ groups mentioned by Taylor Nelson Sofres in section 3.1.1, as together they represented a total of only 26% of Internet users in Spain and could therefore be considered together.

Light, medium and heavy users of Internet were considered indiscriminately. Geographically, there were no measurements other than the variations already observed in 3.1.1. The majority of the surveys were distributed online, although in some cases proximity made it possible to obtain a hard copy in return. Demographically, male and female users were considered indiscriminately.

In order to determine the sampling frame, lists of population elements were obtained from email address books when possible, in the majority of cases from universities both in Spain and in the UK. The majority of the time individuals were not selected at random (convenience sample). 60 questionnaires were sent for each country.

The questionnaires carried out for quantitative research would help towards the completion of general objectives 3 and 4 specified in section 1.2 above. Therefore, they were designed with the idea of helping to look into the current use of the Internet as a channel in the banking industry in Spain and in the UK and to explore the reasons why online banking might follow different paths in the two countries. Qualitative research, on the other hand, was geared towards general objectives 1, 2 and 4 specified in the same section.

4.2 QUALITATIVE RESEARCH

An attempt was made to capture the opinion of members within the banking industry in this part of the research. Accordingly, a number of organisations / individuals were approached and enquired if they would be interested in participating in qualitative interviews regarding the topic of the dissertation. The initial approach was made by a

letter / email sent to the organisation / individual (see Appendix 3) explaining the aims of the study and requesting an arrangement at an appropriate time for them.

Individuals related directly and indirectly to the banking industry and its different channels formed the interview population; lecturers, journalists and bank employees were approached and asked to express their opinion about the following aspects. In relation with objectives 1 and 2 in section 1.2, we asked the individuals about distribution channel management and CRM in relation to the segmentation of markets. Another question was in relation to the “bricks-and-mortar” / physical branches and whether the participants believed there was a reason for their existence in the future. The importance of product differentiation in relation to different distribution channels was planned to correspond to objective 4 of the same section, as well as possible reasons to claim that the different rate of growth of online banking in Spain and in the UK could be due to cultural differences in those countries.

As the response rate for the posted letters did not generate any meeting arrangements, increasing use was made of emails to which both companies and individuals replied more methodically. Responses to this first approach helped to filter those members of the population who would be potentially interested in participating to the study and who would be approached at a later state with the questions mentioned above.

4.3 LIMITATIONS OF THE METHODOLOGY

The fact that online banking is still a developing idea could have been a reason why, initially, individuals might have been deterred to answer when approach to participate in the qualitative research. This may be due to the fact that some organisations are still developing an e-banking strategy.

Another limitation due to the infancy of the subject was the amount of information available in books about online banking. Related books are still not frequently found in which CRM is linked to banking in particular and the importance of channel restructuring is defined. On the other hand, articles tend to be numerous in management / marketing/ financial journals. However, as mentioned earlier in this chapter, studies have not

always proven to be consistent, specially when they concern the percentages of the population that use the Internet or the online banking facilities.

The size and the selection of the sample for the quantitative research also reflect time restrictions and limited financial resources. Due to the fact that Spain could be visited only once during the length of this research, the population sample used for the quantitative questionnaires was of necessity done on a convenience basis. If it had been possible to pay visits to a variety of areas within the country, a different method such as quota would have been used to choose the sample population. The ideas explored in the questionnaires and the results provided, however, do offer sufficient evidence to provide the basis for further research.

CHAPTER 5

QUANTITATIVE RESEARCH

- 5.1 INTRODUCTION
 - 5.2 THE QUESTIONNAIRES' RESULTS
 - 5.3 CONCLUSIONS FROM THE ANALYSIS OF QUESTIONNAIRES
-

5.1 INTRODUCTION

This chapter presents an in-depth analysis of the primary quantitative data obtained from the returned questionnaires mentioned in section 4.1. A copy of these questionnaires and the complete graphic results to each of the questions are depicted in Appendix 2 for reference.

In an attempt to achieve consistency in the presentation of results, each of the questions analysed is reviewed for the two countries of the study at the same time. In some cases, two questions have been analysed together. This method will allow for a better comparison between the UK and Spain for every given aspect. Whenever possible, the results for each of the questions are related to the aims of the quantitative primary research mentioned in section 4.1.1.

The chapter's conclusion in 5.1.2 groups the results in an indicative summary of consumers' banking habits in the UK and in Spain and their main differences in the use / choice of service delivery channel.

5.2 ANALYSIS OF THE QUESTIONNAIRES

5.2.1 Questions 1 and 2: Population demographics data

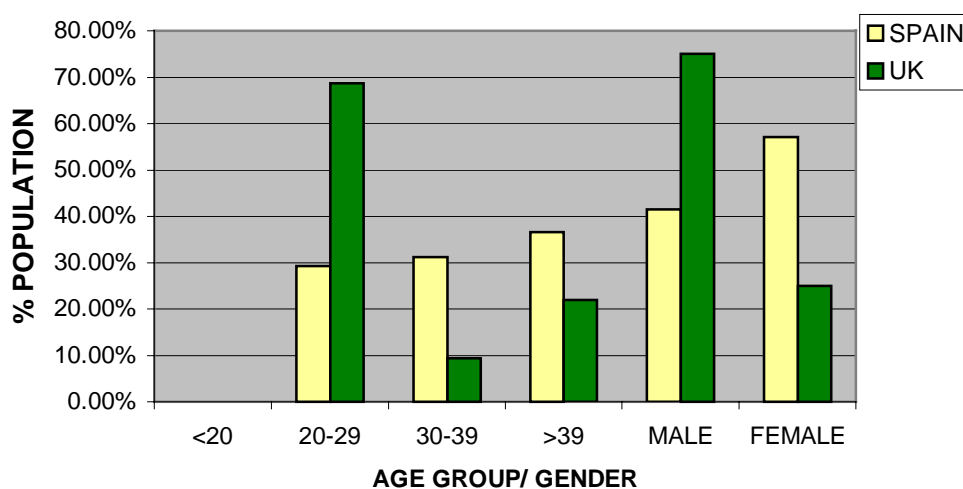


Fig. 9 Population sample demographics

A total of 41 responses (68.3% of sent questionnaires) were collected from the Spanish population sample and 32 responses (53.3%) came from the sample population in the UK.

There are two striking results; the first is the variety of responses from different age groups. As far as the Spanish respondents are concerned, they do not seem to be mainly from the younger age groups, but rather from the older age groups, which we have seen as being less likely to access the Internet (section 3.1.1 above). The second striking result is that the percentage of female respondents in Spain outnumbered the male ones 57% to 41%, whereas in society as a whole, male Internet users outnumber female ones (see section 3.1.1). These results will need to be taken into consideration when comparing the respondents' attitude towards online banking in each country.

5.2.2 Questions 3 and 4: Length of time that customers have been using the same bank and how they became customers.

The option choices in response to this question ranged from under 1 year to over 5 years. 83% of Spanish respondents stated that they have been dealing with the same bank for over 5 years, compared to 59% of the UK respondents. A further 21% of the latter have used the same bank for over 3 years (see Appendix 1). This suggests that most customers stay with the same bank for over 5 years both in the UK and in Spain, therefore answering the first of the objectives for the questionnaires (how long customers have held their accounts for in the same bank).

As far as question 4 is concerned, it reveals that 75.60% of Spanish customers originally opened their bank accounts with the bank in question 3 by going to the banks' branches. A further 4.87% of Spanish customers had their accounts with these banks opened by their parents. On the other hand, 87.5% of UK respondents became customers of their primary banks by visiting the branches (see Appendix 2).

A basic reason for these high percentages is that until relatively recently, the only way to open an account was to talk face-to-face to a bank employee. This tendency is likely to vary over the next few years, as new banking channels have developed. However, in most cases, that same bank has remained the primary entity for the customers in both

countries, which shows a high degree of loyalty from the customers to the entities. The importance of trust and loyalty between customer and organisation within the banking industry had already been mentioned in section 2.1.1 above.

In the next section, we will analyse which factors influenced our sample population to choose their particular banks (question 5) and what could possibly make those customers change their minds and go to another bank in the future (question 6).

5.2.3 Questions 5 and 6: The factors that made customers choose a bank and those that would make them change.

“The banks’ proximity to work” and “Choosing the same bank as the partner / relative” were the two main reasons why the British respondents opened an initial account with their bank (31% in each case). “The bank’s proximity to home” came as a third main reason with 21.87%. In Spain, on the other hand, “The banks’ proximity to home” came as a first reason from 62.5% of the respondents. “Choosing the same bank as a partner / relative” came second with 24.4%.

Although aspects such as better interest rates or better service did not score highly as being the main factors for consumers at the time of choosing their primary banks, these same factors scored high percentages as being the reasons why the customers would change to another bank in the future. Both in Spain and in the UK, a better service would make a significant percentage of the respondents move banks (49% and 41% respectively). Better rates would come next (34% in both cases), whereas easier access to the bank would be the third factor in the UK with 15.6%.

These figures show, therefore, a change in the priorities that customers may have when choosing their banks currently. As seen in section 2.1 when referring to CRM, customers’ preferences need to be taken into account when developing the organisation’s channel strategy. The fact that customers’ priorities when choosing their banks are changing from proximity to level of service or better rates shows a transition that needs to be taken into account by banks when planning their channel strategy. Question 7 analyses further how many respondents had already applied for the services of another bank and their reasons for doing so.

5.2.4 Question 7: “Do you use another bank other than your main one? If so, why?”

Only 29.27% respondents in Spain and 31.25 % respondents in the UK stated that they limit their banking within one single organisation. The reasons why customers in both countries used a second firm, on the other hand, are depicted in Fig. 10 below:

Reasons for having a second bank	% of total respondents	
	Spain	UK
Savings	17.07	31.25
Mortgage	7.32	
To have different accounts	21.95	
Credit cards		9.37
Better rates		9.37
Stocks	4.88	
Salary account	4.87	
Joint account		6.25
To transfer money to other countries	2.44	
Opened at university	2.44	
No response	9.76	12.5

Fig. 10 Number of respondents banking with a second provider

Savings in both Spain and the UK are one of the main reasons for customers to open an account with a separate entity other than their main banks. That leads to the conclusion that better rates are already an influencing factor in both countries when moving banks and that this change is already happening.

Other influencing factors were credit cards and better rates in the UK (9.37% in both cases) and “Having different accounts” in Spain (in 21.95% of cases). Although Spanish respondents tended not to specify a reason for wanting different accounts, this might be due to the fact that they prefer to diversity their moneys for security reasons rather than holding them all in the same bank. This could be due to a culture-related difference. Further discussion of cultural influences takes place in later sections.

As objective number 2 for the questionnaires (to determine the numbers using a second bank / financial provider for a different service) has been accomplished, we will move to objective number 3: Use and main concerns about Internet banking.

5.2.5 Question 8: Use of online banking

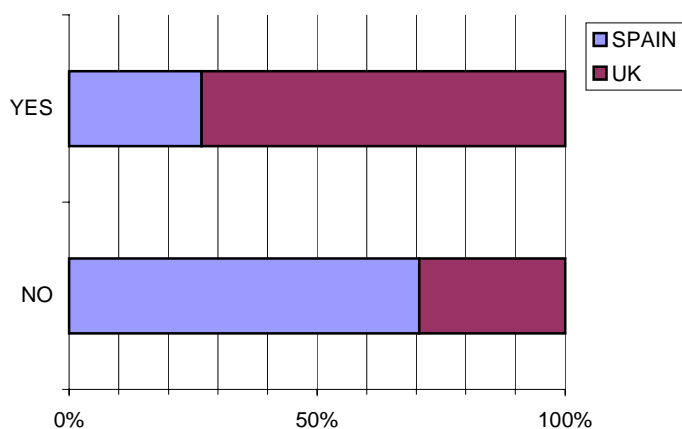


Fig. 11 Percentages for online banking usage in Spain and the UK

A very significant difference is shown in Fig.11 above regarding the use of online banking in Spain and in the UK. While 75% of the Spanish sample stated that they did not use online banking, the results show that only 31.25% of Britons do not use this service.

The reasons why the population sample would use / not use the Internet as a distribution channel and what the main concerns about this channel are in both countries follow next.

5.2.6 Questions 9 and 10: “If you answered no to question 8, what would make you change your mind?” And “Which aspects worry you most about online banking?”

From the Spanish respondents that did not use the Internet as a banking channel at the time of the questionnaire (75% of the sample), 54.84% would change their minds if they were offered better rates. Only a further 3.22% of them would change their minds with a better Internet access. Finally, 42% would not change their minds and take up online banking at all.

In the UK, of those respondents that answered “no” to the use of Internet, 40% would not change their minds and take up Internet banking. Better security, free cash and better rates would convince the rest of population (60%) on even terms.

Therefore, about 40-55% of the population sample currently not using online banking would be willing to do so. This information should be taken into consideration by financial institutions when mapping the market coverage of their channels (as we have seen in section 2.2). Also, they should consider how profitable those customer segments are to the organisation that are willing to embark on a particular channel such as the Internet in order to ensure customer retention from those particular segments.

As for the most worrying factors that the respondents reported about the Internet as a service distribution channel for banking, Fig. 12 below reveals the average results on a scale of 1 to 5 for each of the aspects proposed in the questionnaires (1 being “Not worried at all” and 5 being “Very worried”).

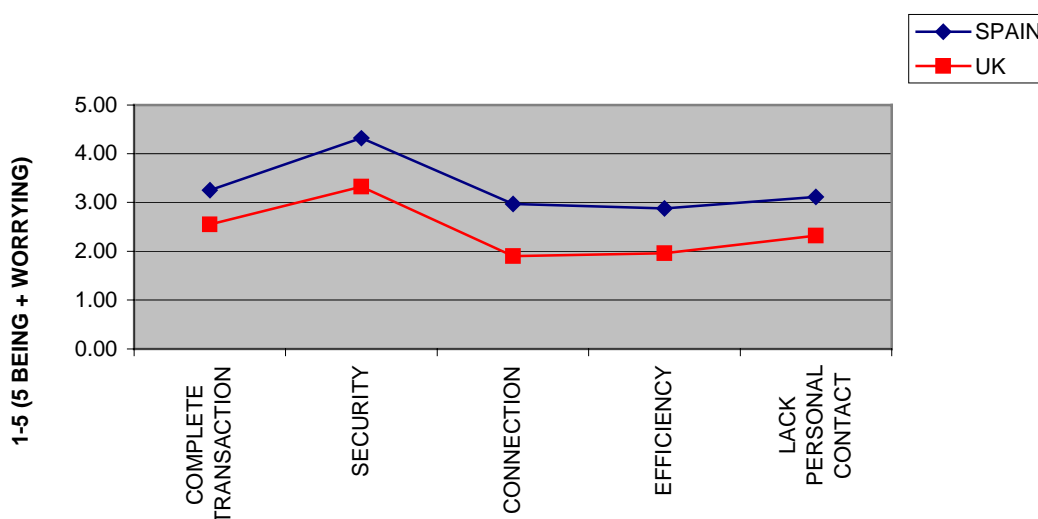


Fig.12 Worrying factors about online banking

The first striking result from the graph is the trend for the Spanish respondents to be more worried about each of the aspects of online banking in general. Being more adverse to the use of the “clicks” model might be related to a higher degree of “uncertainty avoidance” (see page 24 above).

Security is the factor that scored the highest in both countries as the most worrying about Internet banking. This is an issue that has been widely explored in research

previously (see, for example, the study of Brown mentioned above in p.16 – section 2.3 – “The combination of “clicks” and “bricks-and-mortar” banks and also section 3.2). Completing the transaction was the second factor that the population sample found most worrying in both countries, closely followed by the lack of personal contact.

The next section's aim is to put in context the use of Internet as a banking channel compared with the use of other current channels such as the branches or the telephone service.

5.2.7 Questions 11 and 12: “How often do you use each of these channels (Internet, telephone, branch) for banking? / Which one would you rather use?”

In line with objective 4 for the questionnaires as stated in section 4.1, the aim of questions 11 and 12 was to determine the frequency of use of the different channels (Internet, telephone and branch) for the UK and the Spanish population sample.

Results revealed that the Spaniards tend to use their branches monthly or weekly (46% in both cases), and that in 10% of the cases the population sample use online banking daily. In the UK, on the other hand, weekly branch visits are considerably less frequent than monthly visits (see Fig 13: 72% monthly vs. 22% weekly). Internet use for online banking in the UK was reported to take place mainly weekly (50%), but also on a daily basis (16%).

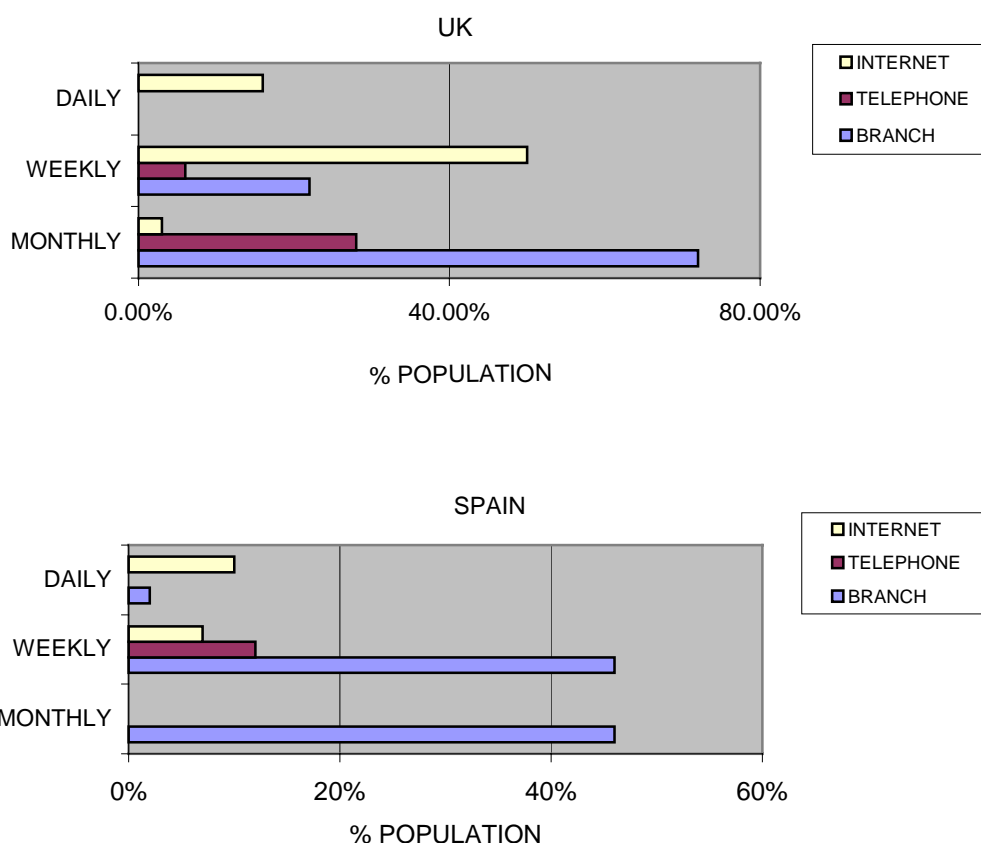


Fig.13 Frequency of channel use in Spain and the UK.

Online banking, therefore, is the option that the population chose in both countries to perform operations with a higher frequency. Whereas in the UK the use of a branch on a weekly basis has been reduced to 22% of the population sample, in Spain branches are visited as much weekly as they are visited monthly. The use of the “clicks” model in Spain, therefore, has not developed to substitute the use of the “bricks-and-mortar” on a weekly basis as it seems to have been the case in the UK.

Indeed, the majority of the Spanish respondents quoted the “bricks-and-mortar” model as their preferred channel in question 12 (59%, see Appendix 3). In the case of the UK, the “clicks” model was the first in the ranking with 65.6% of the population and branches came second with 25%. This statement confirms, therefore, that the population sample group from Spain is more reluctant to use the “clicks” business model as a channel and prefer face-to-face contact when banking (52% of respondents gave this reason), even though the individuals in that population sample were integrally Internet users. The

reasons why this may be the case will be further explained by the results of questions 13 and 14.

Question 13 will show a relationship between the clicks model and the different banking services / products it is most associated with. Question 14 below rates the biggest disadvantages of the “clicks” model according to the respondents in both countries.

5.2.8 Question 13: “Which of these would you do using Internet?”

Preferred online products/ services	% of total respondents	
	Spain	UK
Checking accounts	73.80%	93.75%
Transfers within same bank	31.70%	78.00%
Transfers with another bank	29.20%	53.00%
Purchasing insurance	14.60%	15.60%
Purchasing mortgage	12.20%	6.25%
Pay bills	39.00%	75.00%
None of the above	19.50%	6.25%

Fig.14 Most preferred transactions online.

As observed in section 3.2 above (see Fig.7), there seems to be a relationship between the “clicks” model and the products / services that customers prefer to carry out using this channel. Fig.14 confirms the statement mentioned on page 22 above that checking account balances is the most popular online banking activity in the UK. Furthermore, it reveals the same tendency for Spain. This seems to prove, for both countries, that those activities requiring the least self-involvement on the part of the customer are the ones that the respondents chose as the most appropriate to perform online.

Other more “complex” operations, such as purchasing insurances or mortgages, have not been rated as popular by the population samples in either Spain or the UK (see Fig.14 above). These data confirm that such products / services belonging to the banking industry that require more commercial awareness seem to make it more difficult for the “clicks” business model to replace the traditional “bricks-and-mortar” (see section 3.2).

5.2.9 Question 14: “Which do you consider the main drawback for online banking? (Rate from 1 to 6, 1 being the biggest drawback)”

When the respondents were asked to rate a series of possible drawbacks that online banking may present to the consumers as a channel, the majority agreed in both countries that security was the biggest one. On a scale of 1-6, 1 being the worst drawback, security rated 2.3 and 2.9 in Spain and in the UK respectively.

One of the values that were not anticipated in the questionnaires and that respondents in both countries added in the “other” section for question 14 was “What to do if problems are experienced”. Solving problems that may be experienced with the channel was rated 2.4 out of 6 on average in Spain and 3.1 in the UK.

Other factors such as “Connection costs”, which was hypothetically mentioned as one of the reasons why the Spanish population would probably be more reluctant to use the Internet in section 3.2, was actually rated similarly by Spanish and British respondents (3.38 and 3.56 respectively). This seems to indicate that connection costs may not actually be a reason, as far as this study is concerned, to explain the difference in the use of online banking between Spain and the UK.

5.2.10 Question 15: “Which of these do you think is the most important aspect in a transaction: speed, convenience, to do it yourself or professional help? (rate from 1 to 4, 1 being the most important)”

On the ranking scale provided (1 to 4), the four values quoted above were within the average range of 1.56 – 2.83, which indicates that they were considered, in general, important by all the respondents when conducting a transaction (see Appendix 1)

The most important factor in a transaction for the Spanish respondents was “Speed” (rated 1.65 on average), whereas “Convenience” was rated first in the UK (1.56 on average). Very closely behind were “Convenience” in the case of Spanish respondents (1.88), and “Speed” in the case of the UK (1.59). “Doing the transaction oneself” was rated higher than “Being helped by staff” in the UK (2.4 and 2.83 respectively), whereas

in Spain these two values were reversed (“Being helped by staff” rated 2.12 whilst “Doing the operation oneself” rated 2.27).

The preferences of the respondents showed, therefore, that speed and convenience are highly valued factors by banking consumers as well as the desire to take control of the operations themselves in certain situations. This more independent, more educated role of the banking industry consumer needs to be borne in mind by the organizations within their CRM strategies (p.11 above). Other general conclusions reached from the answers in the questionnaires follow in the next section.

5.3 GENERAL CONCLUSIONS FROM THE QUESTIONNAIRE ANALYSIS

A long-standing relationship was shown between the respondents and their main financial institutions, corroborating the fundamental role of trust between customer and organisation within the banking industry already mentioned in previous sections (see 2.1 above). The respondents’ primary financial institution, usually dealt with through the “bricks-and-mortar” channel initially, remained unchanged for an average period of five years.

An additional factor that might have encouraged customers to remain loyal could be the practical difficulties involved in changing banks. Although the question was not asked in this survey, it might be that customers would be attracted to change if banks offered an easy-transfer service.

Nonetheless, respondents in both countries demonstrated a growing interest in moving banks, provided they offered better rates or service. In fact, only in 30% of cases did the respondents deal with a single financial provider. The implications of this statement emphasise the current importance of pricing as a competitive factor within the industry. As transactions through the “clicks” model are the cheapest to conduct (see Fig.3 section 2.2), the online channel might be the alternative with better rates and more competitive margins. The risk of customers moving to a different provider, as well as the current channel strategy (see Fig.4) must be evaluated by institutions and addressed in line with their CRM strategy and their most profitable customer segments’ priorities.

The percentage for the use of the “clicks” channel was considerably different in Spain and in the UK (25% and 68.75% respectively), although an average of 40-50% of the current “non-users” would be willing to change to the “clicks” model should they be offered better rates and / or higher security.

Security was the main concern associated with the use of online banking in both Spain and the UK. Interestingly, all the options given as worrying factors in question ten were considered as more worrying in Spain than in the UK. The higher level of “uncertainty avoidance” as a cultural difference between the two countries (see Fig.8 above) might be an influence on the respondents’ opinions. Differences in cultural factors, more difficult to prove empirically, will be looked at in more detail in section 6.2.1.

Checking accounts, making transfers both within the same bank and another entity and paying bills were the factors that both population samples were most willing to undertake using the “clicks” business model. The nature of these transactions allows the customers to perform these operations using this channel on a frequent basis (on a weekly and daily basis). This seems to indicate that more “simple” transaction products are seen to be more appropriate to online banking (see also section 3.2 above), whereas the “bricks-and-mortar” model is still needed for more commercial, “complex” products / services such as purchasing insurance or mortgages.

The existence of both channels (“bricks-and-mortar” and “clicks”) would appear necessary from the conclusions seen above, even if some restructuring of the preponderance of these channels seems to be taking place. According to the indications of online banking use reported by these results, restructuring of the channel strategy should be in a more advanced stage in the UK, where a majority of customers seem to be eager to use online banking (65.6% of the British sample chose it as their preferred channel). In Spain, on the other hand, the “bricks-and-mortar” channel was the first choice for 59% of the respondents. The most quoted reason for preferring the “bricks-and-mortar” channel by the Spanish population was personal contact.

The difference in the use of the channel between the two countries was already suggested as a possible result in section 3.2. Other reasons for this difference may vary, ranging from behaviour by age groups (we have seen that the respondents’ age

groups from Spain and the UK were found to differ) to country specific factors, and within the latter, economic, historical and cultural differences. Economic and historical being external influencing factors are quoted in section 1.4 and considered as an essential background to this document. Cultural factors being more intrinsic to a nation itself and more intangible and difficult to prove were already mentioned above and need to be analysed further.

CHAPTER 6

QUALITATIVE RESEARCH

- 6.1 INTRODUCTION
 - 6.2 THE RESULTS
 - 6.3 CONCLUSIONS FROM THE ANALYSIS
-

6.1 INTRODUCTION

This chapter presents an in-depth analysis of the results obtained from the qualitative primary research mentioned in section 4.1. A sample copy of the letter and questions sent / emailed to the collaborators can be found in Appendix 3 for reference purposes ² The list of total collaborators is as follows:

Dr. Jonathan W. Leland (IBM Watson Research - NY)
Dr. Manuel Hensmans (Rotterdam School of Management)
Mr. Miguel Arias (Director. Emergia Consultancy Spain)
Mr Mark Durkin (Head of School - Ulster University)
Mr. José Sanchez (Caixa Tarragona - Spain)
Mr. Chris Milner (Manager. Halifax - UK)
Mrs. Marta Viver (Manager. La Caixa - Spain)
Mr. Santi Sagalés (La Caixa - Spain)
Dr. Dominic Hirsh (MD. Retail Banking Research Ltd - UK)
Dr. Feng Li (Chair of E-Business Development. University of Newcastle- UK)
Mr. Charles Goldfinger (MD. Global Electronic Finance Management - Brussels)

The opinions expressed by these individuals are their own and do not reflect the views / policies of the institutions that they represent.

As in chapter 5, each question and all the responses related to it are analysed together.

This qualitative research was geared towards the completion of general objectives 1, 2 and 4 of this dissertation (see section 1.2). Whenever possible, mention will be made of how the individual questions relate to each objective in particular.

6.2 THE RESULTS

6.2.1 Question 1: “The use of online banking services in Northern Europe (UK) differs significantly from the use in Southern Europe (Spain). Do you think that is purely related to economic factors or could it be related to cultural factors?”

² Complete responses available on request

This question was geared towards objective 4 of this dissertation specified in section 1.2 (To explore the reasons why online banking might follow different paths in Spain and in the UK) and, more specifically, to explore the influence of cultural values on the use of the “clicks” model.

Although all the respondents mentioned the importance of national economic, historical and governmental factors (see section 1.4 above), they all agreed that cultural differences were a determining factor towards the use / frequency of use of online banking in Spain and in the UK. In his answer, Mr. Leland, for example, referred back to his study *Trust and the Internet* (Leland et al. 2002) “which we repeated for just EU countries”, where “trust has proven to be a significant explanatory variable for Internet penetration”. Banking being an industry so closely related to trust, Mr. Leland expected the adoption of online banking as being even more driven by cultural factors. Higher distrust in Spain about new technologies in the banking industry is also a factor highlighted by Mr Sanchez.

Mr. Hensmans related these cultural aspects to the national business systems developed by Haake (2002). This would distinguish between communitarian (e.g. Spain) versus individualistic systems (e.g. UK). The former would be characterised by building “more intimate, tight interfaces, with an idiosyncratic set of parties, which allows them to form interconnected communities that are often of an obligational nature” whereas the latter would be more characterised by “short-term relationships within parties, mostly of a non-obligational nature”. New entrants in Spain, observes Mr. Hensmans, might find it harder to gain market share than those in the UK due to a more communitarian, close nature of the banking industry in the former. On the other hand, “this might buy incumbents more time to collectively – as an industry- transfer their customers on-line and build tight communities”.

The fact that Spanish people are more used to visiting their branches is something that the respondents for the quantitative research in section 5.2.7 had already manifested (see question 12 above) but that has been corroborated by the qualitative research respondents: Thus, Mr. Arias and Mr. Segalés have outlined the fact that the Spain has the highest number of branches per inhabitant in Europe (and is the second in the world following Japan). This statement (later corroborated on www.bbc.co.uk) would indicate

that the Spanish would prefer to discuss financial matters face-to-face. The high number of branches in Spain, remarks Mr. Arias, is the highest entry barrier for foreign banks. This has been proved by the slow penetration examples of Lloyds and Natwest.

6.2.2 Question 2: “Please comment on the sentence: The banking business is undergoing transformation to the extent that traditional bank branches are not necessarily justified anymore”?

Again with unanimity, the subjects agreed to say that traditional branches would not be eliminated, at least in the foreseeable future. Mr. Goldfinger stated that physical and virtual branches “are not substitutes for each other but complements”.

The majority of respondents pointed to the words “multi-channel strategy”, where both “bricks-and-mortar” and “clicks” models combine to meet the changing needs of both customers and organisations. The brick-and-mortar model, comments Mr. Hirsch, is “increasingly more used to offer advice and sell / cross-sell higher value added products and will be used less for routine transactions”. The fact that branches are becoming, says Mr. Hensmans, more “productive and attractive customer interfaces” whilst concentrating less on the traditional bureaucratic transactions seemed to be a general opinion. Mr. Sanchez, for example, emphasized the fact customers are given the option to play a bigger role in the monitoring of their finances whilst branches are playing a more commercial role in trying to sell the products to the customers.

The influence of customers in the channel management redistribution is dealt with more in-depth in the next section.

6.2.3 Question 3: “To what extent do you think that the needs and preferences of customers should be reflected in an organisation’s distribution channel management?”

Customers play a vital role in the distribution channel management of an organisation. Not only was this statement made by all of the respondents, but it was also emphasised to the point that customer’s preferences are essential for an organisation to remain competitive (Mr. Leland).

As described in section 2.1 above (Customer Relationship Management, p.7), identifying the consumers' values that are pertinent to a business can help to increase customer loyalty and retention. If these values are ignored, the danger lies in consumers moving onto other more competitive providers. The quantitative research undertaken in chapter 5 also corroborates this, since we have seen that better service and rates would be the main motivations for the population sample in Spain and in the UK to change to another financial provider (section 5.2.3 above). "Allowing users to select the most appropriate channel is key", states Mr. Milner.

"The approach", however, (suggests Mr. Durkin) "must be one of balanced technology push and demand pull (within specific customer segments)". "This is why it is so important to gather information", remarks Mrs. Viver, "on what the customer segments are seeking from their banks and analyse how feasible it is to carry it out". Mr. Li emphasises that companies need to think about cost and other implications. Although the "ideal objective would be", as Mr. Segalés states, "to obtain seamless communication between customer and organisation", we have seen in section 2.2 that it is important to consider what the different customer segments are for the organisation first, and then determine, in terms of profitability from those customers, the scope of the channel redistribution needed to meet their needs (see also section 5.3). In reality, some of the customers will not be better off as a consequence, but steps are taken to ensure that customers preferences are met as often as possible.

This helps to determine the outcome of objectives 1 and 2 of the dissertation specified in section 1.2, in trying to identify the implications of CRM in the banking industry (objective 1) and defining the importance of channel management as part of CRM (objective 2). The next question also tries to identify the role of the Internet as part of the banking channel mix (objective 2 in section 1.2), but is more focused on those products / services that are most suitable to be provided through the "clicks" model.

6.2.4 Question 4: "Do you think that online banking is more suitable for a range of products / services than others?"

A variety of ideas derived from the above question. A differentiation was made, in the majority of cases, between more "simple" and "complex" products / services (as

mentioned in section 5.2.8 above). The former would be those which are related to the search for general information and to transactions between accounts. This entails, for example, says Mr. Hirsch, looking at account balances, statements and making payments. The latter: “complex” products / services, would be those such as mortgages or loans, “in which the value and need for assurance is very high”, says Mr. Leland. In cases where more complex products are involved, states Mr. Durkin “additional face to face expert interaction usually takes place”. “Nonetheless”, continues Mr. Durkin, “determination of simplicity is difficult and will differ from person to person, hence the importance of segmented approaches to the introduction of online banking solutions”.

In the majority of cases our respondents thought that this distinction between “simple” and “complex” products / services was, by no means, a permanent one. Although our quantitative results in section 5.2.8 had shown a higher demand for the “simple” products / services (checking accounts, paying bills and transferring funds) as opposed to “complex” ones, it was observed during the course of the qualitative research that the distinction between the two would “shrink considerably over time” (Mr. Leland).

Mr. Arias stated: “all banking products are equally apt to be commercialised online, as what is being commercialised is information, and the Internet is especially efficient when it comes to information commerce”. This was corroborated by Mr. Sanchez: “In order to promote the use of the channel sometimes customers are offered better rates as an incentive to open accounts, but this is only a technique for customer attraction. The “clicks” model is as good as any other for all the banking products / services”.

This comment from Mr. Goldfinger would summarise the opinion shown by the majority of respondents for this question: “Online banking is not a separate business. Over time, the distinction between e-banking and banking will disappear”.

The idea, therefore, that the difference in the use of the “clicks” channel against the traditional “bricks-and-mortar” could be due to the “simple” or “complex” nature of certain banking products / services seems to be challenged by the opinions of the interviewed experts. A conclusion of this and other ideas suggested on this section follows next.

6.3 CONCLUSIONS FROM THE ANALYSIS

Qualitative research carried out in this chapter emphasised the essential role of the customers within the banking industry in line with the principles of CRM.

Thus, organisational channel management and distribution in banking needs to be centred on consumer habits and preferences. After gathering customers' preferences, demand-pull from different customer segments needs to be evaluated by the organisations and from that analysis a balanced amount of technology-push can be implemented. The degree to which technology-push is applied needs to be related to the profitability of the customer segments that are likely to use the service. The risk needs to be avoided by which the most profitable customers are lost and move to another service provider offering a more appropriate channel choice.

A multi-channel strategy is most commonly sought, where both "bricks-and-mortar" and "clicks" models combine to meet the changing needs of customers and organisations. The possibility that the "clicks" will replace the "bricks-and-mortar" channel completely is very low, at least in the foreseeable future. Instead, channel reorganisation usually takes place and branches are re-structured to provide a more commercial role. The image change of branches turns them into more friendly environments, less oriented towards bureaucratic operations such as checking account balances and making transfers and more oriented towards cross-selling of added value products to the customers.

Although online banking is currently more commonly used to perform simple operations such as transfers and account balance checks, this does not mean that it is only suitable for such services. Not only is the divide between channels and products relative in terms of "simple" and "complex" products but it also seems to be only a temporary measure to aid the organisation's customer attraction strategy. The "clicks" business model's main role is to commercialise information, and that makes it suitable to be used for any kind of product / service.

There is an interesting difference in the attitude towards the use of the "clicks" model shown by the Spanish and the British population. Qualitative research respondents agreed that this could be related not only to the economical and historical differences

between the two countries but also to intrinsic cultural differential factors. The Spanish population prefer the use of the “brick-and-mortar” business model. This is reflected by the high number of branches that exist in the country and the preference by Spanish customers to deal with financial matters on a face-to-face basis. Theories such as Hofstede’s national values (“uncertainty avoidance” in particular -see section 3.2.1) or Haake’s (2002) explanation about “communitarian” versus “individualist” systems can help to explain this hypothesis. Thus, the “brick-and-mortar” business model is likely to remain stronger in Spain than in the UK, although it seems unlikely to disappear in either.

CHAPTER 7

CONCLUSION

This document has portrayed the main characteristics of Customer Relationship Management (CRM) and has related them to the personal online banking industry in Spain and in the UK.

Within CRM, special attention has been paid to channel management and, in particular, to the use of the Internet for banking. A comparative study of customer behaviour patterns towards the use of online banking in Spain and the UK was undertaken, in order to establish the reasons for possible disparities between these two countries. As well as secondary research, primary quantitative and qualitative methods have aided the development of ideas in this study.

Firstly, as part of the CRM review, the importance of customers as the centre for all businesses has been highlighted. Customer retention, closely related to one-to-one marketing and of higher value to the organisation than customer acquisition, has been stated as being the key to develop a long-term business-to-customer relationship. Mass-marketing campaigns do not match these one-to-one possibilities of CRM and can potentially deter customers' loyalty instead. This loyalty is especially important in the banking industry, - a trust-endorsed business par excellence - where customers highly value the feeling that the organisations are treating them as individuals. Moreover, organisations should develop an understanding of the needs of each of their customer segments at different life stages by conducting extensive market research and data mining.

Special attention needs to be paid to the channel mix that organisations' customers prefer to use. Those segments more profitable to the business (in the banking industry an average of 20% customers represent 80% of the total profit) will take priority, as the danger needs to be avoided that these customers move to other providers when offered a better / more convenient channel choice. Channel management is a highly significant part of CRM, as decisions will be taken in relation to the organisational channel strategy that may require significant investment.

The banking industry continually needs to take steps to embrace technology development and remain competitive (the introduction of ATMs was at one time a revolutionary concept). Although the Internet channel was at first thought to reach less

profitable customers in more remote areas, it proved a success among affluent, younger customers who are looking for a better service or better rates. The use of the Internet for banking purposes reflects a convenient, timeless channel that can be used as frequently as needed without any charge other than the connection cost to the Internet (we have seen the channel was mainly used on a weekly / daily basis). Customers can not only check account balances and make transactions within their own environment but also consult information regarding the financial provider's product mix.

Quantitative research undertaken as part of this study seemed to suggest that the "clicks" channel seems to be more commonly used for "simple" transactions. These require a low level of self-involvement by the customer and usually entail balance checks or money transfers. Qualitative research indicated that this would not be the case in the long run. The potential use for the "clicks" channel to commercialise information makes it just as suitable for more "complex" operations, such as contracting mortgages or loans. To the bank, on the other hand, transactions carried out by the customers online are the lowest in cost, compared to those through the "bricks-and-mortar" channel, which are the most expensive and require the sales/service skills of experienced personnel. Furthermore, the online channel makes one-to-one marketing feasible on a mass scale, and is therefore CRM friendly.

The "clicks" channel has the ability to break with the concept of the traditionally integrated banking industry. Thus, some businesses have emerged as a "clicks" model, giving their brand an original name, and have then relied on the legitimacy of an existing well-known "bricks-and-mortar" financial provider to outsource their services. In some other cases, the "bricks-and-mortar" business model in the physical marketplace has started an initiative in the virtual marketplace, usually re-branding it so as not to cannibalise its own customers and adapting it to different customer segments. A large number of existing "bricks-and-mortar" financial providers have developed their own "clicks" channel in order not to lose market coverage and to remain competitive.

Even some "non-banks", usually large existing retail businesses (such as Sainsbury's and Tesco in the UK) have actually taken advantage of large existing CRM initiatives and loyalty schemes to cross-sell financial products, such as loans and mortgages.

In view of the fact that the “clicks” business model seems to be a compulsory take-up for organisations, the following question may arise: why does not Internet banking entirely replace the existing network of physical branches if branch transactions are the most expensive? There are a number of reasons for the “clicks” not to completely take over the “bricks-and-mortar”, at least for the foreseeable future: some of these reasons have to do with the channel’s susceptibility to external factors. Some are intrinsic to the channel itself. Most importantly, however, is how the use of each channel is strictly dependent on consumers’ preferences and opinions.

Firstly, there is a series of external factors that makes the online channel more susceptible, such as its vulnerability to any attacks perpetrated on the network. Secondly, there are intrinsic reasons why the “clicks” model could not completely replace the services provided by the network of branches, such as the fact that the Internet does not make it possible for customers to pay in cash or cheques. ATMs or special kiosks may provide this facility instead, but they are subject to drawbacks such as a waiting period. Talk about electronic currency has taken place to remedy this, and it may seem a feasible possibility in the future. This dissertation does not cover this topic in depth.

Lastly, but most importantly and more in line with CRM and channel management are the consumers’ preferences and opinions about the “clicks” model. Again influenced by external factors of economic and historical nature, each country may view the channel with different eyes or have different policies in relation to it. When considering Spain and the UK, both relatively homogeneous European economies, Spanish respondents have not rated the higher cost of Internet connection as a deterrent aspect when referring to the use of the online channel. There seem to be other factors beyond this that influence the use of the virtual channel.

We have attributed these factors to national cultural differences. Quantitative and qualitative research methods seem to have backed up this theory. Thus, when asked for their preferred channel, the Spanish respondents have in a majority chosen the “bricks-and-mortar” because of the ability to conduct transactions face-to-face. On the other hand, the UK respondents have chosen the “clicks” model in the majority of cases. The fact that Spain has the highest number of bank branches per inhabitant has corroborated

this preference, as they seem to present a barrier to new start-ups, including online channels.

A higher degree of preoccupation about security and about completing the transactions without problems are probably the reasons why the Spanish sample would not choose to bank online, and this has also been related to possible cultural factors. These would be, for instance, the fact that Spain is a more “communitarian” type of country (in Haake’s words) as opposed to “individualistic” (as would be the case in the UK). In terms of Hofstede’s values, Spain would be characterised as having a higher level of “uncertainty avoidance”, whereas the UK would have a much lower level, therefore being more prone by nature to experiment with innovative initiatives. The study about the different trust variables provided by Mr. Leland (and colleagues) also shows the difference in trust levels in Spain and in the UK and how this influences consumer attitudes to the use of the Internet.

Nonetheless, quantitative research in this study seems to have proven that a change in attitude is emerging in both countries. Although a high percentage of the sample in both countries remained loyal to their primary financial institution, a tendency emerged which clearly marks a change in customer behaviour. The use of a second institution proved to be fairly common: no longer a physical entity close to the consumers’ workplace or homes, but an organisation that provided the customers with more competitive products or better services. A significant 40-50% of the population sample that do not currently bank online at the moment would consider doing so if they knew they were offered better rates, better service and usually, a higher level of security. Different national cultural values may make the process occur at a different pace in Spain and in the UK, but the emergence of well educated, informed customers looking for a change and hunting for better value is present in both. Banks will not want to dismiss this growing share of market and get left behind. This would not be in line with their essential CRM strategies and it would represent a competitive disadvantage.

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- "El Precio del ADSL No Ha Variado en España Desde Que Se Lanzó en 1999".

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INTERVIEWEES / INTERVIEW DATES

Dr. Jonathan W. Leland (IBM Watson Research - NY) - 22 January 2003

Dr. Manuel Hensmans (Rotterdam School of Management) - 27 January 2003

Mr. Miguel Arias (Director. Emergia Consultancy Spain) - 28 January 2003

Mr Mark Durkin (Head of School - Ulster University) - 28 January 2003

Mr. José Sanchez (Caixa Tarragona - Spain) - 29 January 2003

Mr. Chris Milner (Manager. Halifax - UK) - 29 January 2003

Mrs. Marta Viver (Manager. La Caixa - Spain) - 31 January 2003

Mr. Santi Sagalés (La Caixa - Spain) - 31 January 2003

Dr. Dominic Hirsh (MD. Retail Banking Research Ltd - UK) - 7 February 2003

Dr. Feng Li (Chair of E-Business Development. University of Newcastle- UK) - 7 February 2003

Mr.Charles Goldfinger (MD. Global Electronic Finance Management - Brussels) - 12 February 2003

Appendix 1

Taylor Nelson Sofres Interactive Global E-Commerce Report 2002

(www.tnsfres.com/interactive)

About TNS:

"TNS *Interactive* is the global New Media and Internet Research Business within the Taylor Nelson Sofres Group, the 4th largest market information company in the world. Taylor Nelson Sofres is listed on the London Stock Exchange."

About the Report:

It covers 37 marketplaces all over the world.

Identical questions were placed in each country on a nationally representative survey (omnibus) during early 2002. All omnibuses were run by companies in the Taylor Nelson Sofres Group.

All country results have been weighted as to be representative of the survey population.

The report was written by Arno Hummerston, Head of TNS Interactive Solutions Worldwide (country specific comments supplied by local TNS companies).

Report Definitions

Internet User: Someone who has personally used the Internet in the past month (at the time of the interview).

Online Shopper: An Internet user who has bought or ordered goods or services on the Internet during the past month.

Offline shopper: An Internet user who has bought or ordered goods or services outside of the Internet as a result of information found on the Internet during the past month.

Methodology Details

	UK	Spain
Type of interview	Face-to-face	Telephone
Dates	March 29 th - April 3 rd	March 12 th - April 10 th
Universe	2019	1011

Appendix 2

Questionnaires for the Quantitative Research and Graphical Results

QUESTIONNAIRES

A. English

1. Instructions

Please Read Before Filling In Questionnaire

Please find attached a copy of the questionnaire that I have prepared to carry out the primary research for the MA dissertation about online banking.

In order to be able to fill in the questionnaires, there is one requirement on your part: that is to CLICK ON THE RULER BUTTON THAT IS SHOWN BELOW (on the control toolbox-top leftmost) BEFORE STARTING TO FILL IN THE QUESTIONNAIRE.



IF THIS TOOLBOX DID NOT APPEAR ON THE SCREEN, YOU WILL NEED TO (IN WORD) GO TO VIEW> TOOLBARS> CONTROL TOOLBOX AND IT WILL APPEAR ON THE SCREEN FOR YOU TO CLICK. ONCE THE QUESTIONNAIRE HAS BEEN FILLED IN, IT ONLY NEEDS TO BE SAVED AND SENT BACK. Alternatively, you can print out the document and send it / give it to me.

Many thanks for your support!!!

2. Copy of the original questionnaire (see next page)

Banking Habits in the UK

1. Age group (please tick)

☐ ☐ ☐ ☐

2. Gender (please tick)

☐ ☐

3. How long have you been using your current bank/ financial institution?

☐ ☐ ☐ ☐

4. Did you join the bank/ financial institution via a branch? If not, how?

5. What were the main factors for choosing your bank?

☐ ☐ ☐ ☐

6. On what grounds would you change your bank?

☐ ☐ ☐ ☐

7. Do you use another bank/ financial institution other than the one on question 3? If so, for which purpose?

8. Do you bank online? If so, is it with the bank on question 3?

9. If you responded no to question 8, what would persuade you to do so?

☐ ☐ ☐

☐

10. Do you find the following factors for online banking worrying? (please rate from (1) being no concerns to (5) being very concerned)

- Completion of transaction ()
- Security ()
- Slow connection ()
- Efficiency ()
- Lack of personal contact ()

11. How often do you...(approximate options: daily, weekly, monthly..)

- Visit your branch ()

- Use telephone banking ()

- Use internet banking ()

12. Which one of these would you rather bank through: branch, telephone, internet. Why?

13. Which one of the following would you do online?

☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐

14. What is the biggest drawback you can think of for internet banking? Please order the following. Put in order (1) – (6) ((1) being the biggest drawback)

- Lack of equipment ()
- Internet connection cost ()
- Not dealing with someone in person ()
- Security related ()
- Customer care not fast enough ()
- Other (please specify)

15. What is the most important for you when banking (rate (1) for most important- (4) least important)

To do an operation:

- Quickly ()
- At any time ()
- Yourself ()
- Being helped by staff ()

B. Spanish

1. Instructions

POR FAVOR , LEER ANTES DE COMPLETAR EL CUESTIONARIO

El cuestionario que adjunto en el siguiente archivo es un documento en formato WORD y las respuestas me ayudarán a completar la investigación para el Master sobre el uso de la banca online en España y el Reino Unido

Para poder rellenar el cuestionario y luego enviarlo por e-mail hay un requerimiento que se debe seguir: después de abrir el documento donde se hallan las preguntas pero **ANTES DE EMPEZAR A RESPONDER** se debe hacer clic en el botón que aparecerá en forma de regla de ángulo.
(Ver debajo)



Si este botón no apareciera, por favor hacer clic en ver : barra de controles : caja de controles y después haga clic en el botón que aparecerá en forma de regla de ángulo

Una vez rellenado el cuestionario, solo se tiene que guardar y enviármelo de nuevo a la dirección

finax.coma@intel.com

Fina

2. Copy of the original questionnaire (see next page)

Costumbres bancarias en España

1. Edad (hacer tic)

☐ ☐ ☐ ☐

2. Sexo (hacer tic)

☐ ☐

3. Cuánto tiempo hace que utiliza el mismo banco/ entidad financiera?

☐ ☐ ☐ ☐

4. Se hizo cliente del banco yendo a la oficina?
Si no es así, cómo lo hizo?

5. Cuáles fueron los factores más importantes a la hora de escoger su banco?

☐ ☐ ☐ ☐

6. En base a qué cambiaría usted su banco?

☐ ☐ ☐ ☐

7. Utiliza usted otro banco aparte del de la pregunta 3? Si es así, para qué propósito?

8. Utiliza el servicio de banca en internet? Si es así, es con el banco de la pregunta 3?

9. Si respondió no a la pregunta 8, qué le haría cambiar de opinión?

☐ ☐ ☐

☐

11. Le preocupan estos aspectos sobre la banca en internet? (puntúe de 1-5 (1) siendo sin preocupaciones y (5) siendo muy preocupado/a

- Finalizar la transacción ()
- Seguridad ()
- Conexión demasiado lenta ()
- Eficiencia ()
- Falta de contacto personal ()

11 Cada cuándo... (opciones aproximadas :
diariamente (D), semanalmente (S), mensualmente (M)

- Visita su banco ()

- Usa el servicio bancario por teléfono ()
- Usa la banca por internet ()

12. Cuál de estas preferiría utilizar: la oficina, el servicio telefónico o internet . Por qué?

13. Cuál de estos haría usted por internet?

☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐

14. Cuál es el mayor inconveniente de la banca por internet? Ordenar los siguientes factores del (1) – (6) ((1) siendo el mayor inconveniente)

- Falta de equipamiento ()
- Coste de la conexión a internet()
- No tratar con nadie en persona ()
- Seguridad ()
- Lentitud del servicio al cliente ()
- Otro (especificar) ()

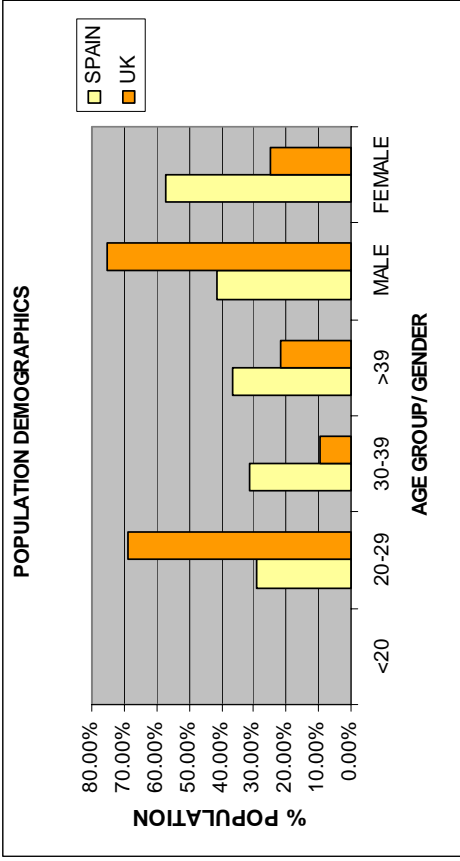
15. En una operación bancaria- cuál es el factor más importante para usted?
(De 1 a 4 siendo (1) el más importante)

- La rapidez ()
- La conveniencia ()
- Hacerla yo mismo/a ()
- La ayuda del profesional ()

Graphic Results from Questionnaires

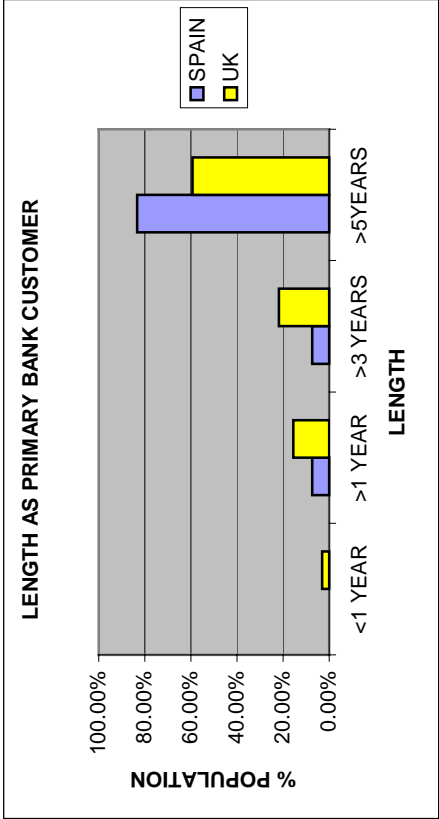
Questions 1 and 2

	<20	20-29	30-39	>39	MALE	FEMALE
SPAIN	0.00%	29.26%	31.14%	36.58%	41.46%	57.14%
UK	0.00%	68.75%	9.37%	21.87%	75.00%	25.00%



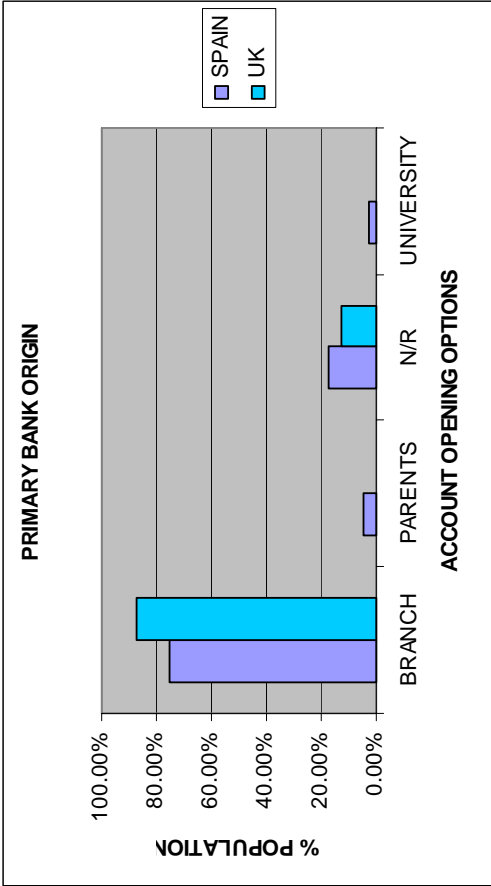
Question 3

	<1 YEAR	>1 YEAR	>3 YEARS	>5YEARS
SPAIN	0.00%	7.31%	7.31%	83.33%
UK	3.12%	15.62%	21.87%	59.37%



Question 4

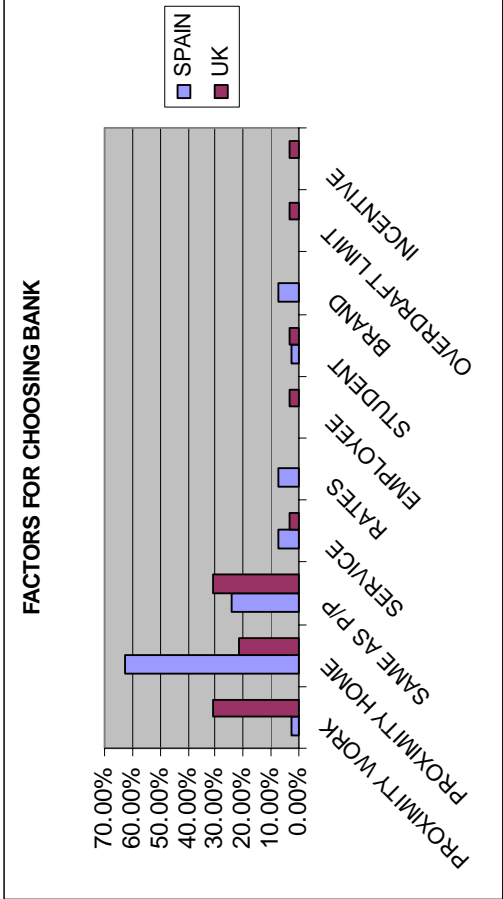
	BRANCH	PARENTS	N/R	UNIVERSITY
SPAIN	75.60%	4.87%	17.07%	2.43%
UK	87.50%	0.00%	12.50%	0.00%



Question 5

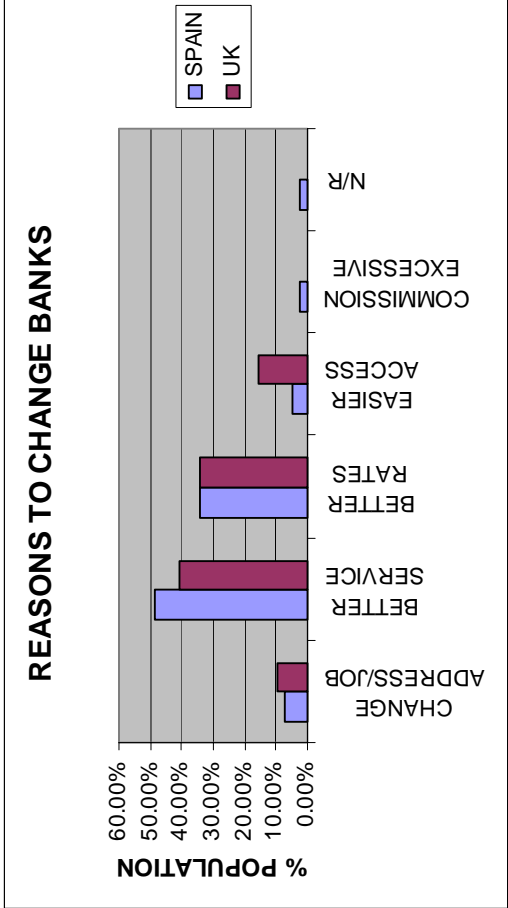
	PROXIMITY WORK	PROXIMITY HOME	SAME AS P/P	SERVICE	RATES
SPAIN	2.43%	62.50%	24.39%	7.31%	7.31%
UK	31.25%	21.87%	31.25%	3.12%	

	EMPLOYEE	STUDENT	BRAND LIMIT	OVERDRAFT LIMIT	INCENTIVE
SPAIN		2.44%	7.31%		
UK	3.12%	3.12%		3.12%	3.12%



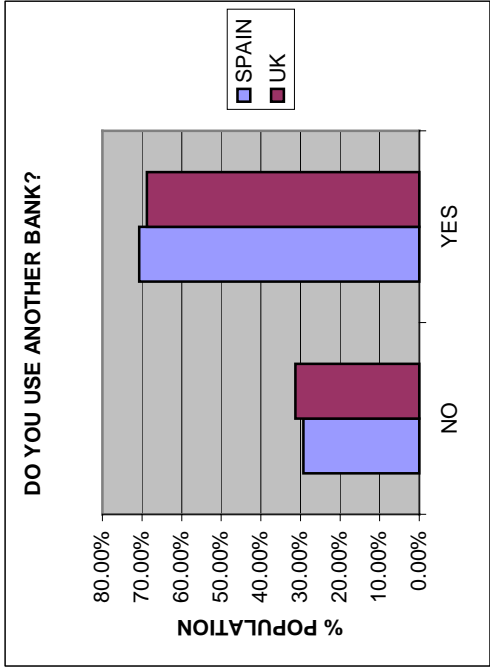
Question 6

	CHANGE ADDRESS /JOB	BETTER SERVICE	BETTER RATES	EASIER ACCESS	EXCESSIVE COMMISSION	N/R
SPAIN	7.31%	48.78%	34.14%	4.88%	2.44%	2.44%
UK	9.37%	40.62%	34.37%	15.62%		



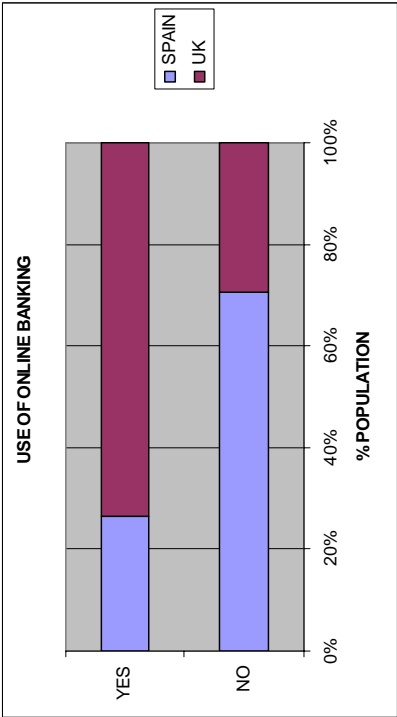
Question 7

	NO	YES
SPAIN	29.26%	70.74%
UK	31.25%	68.75%



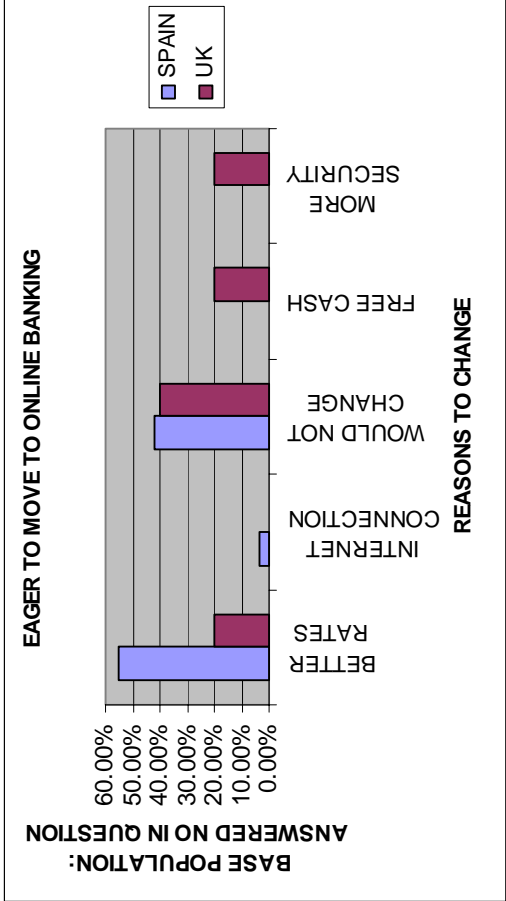
Question 8

	NO	YES
SPAIN	75.00%	25.00%
UK	31.25%	68.75%



Question 9

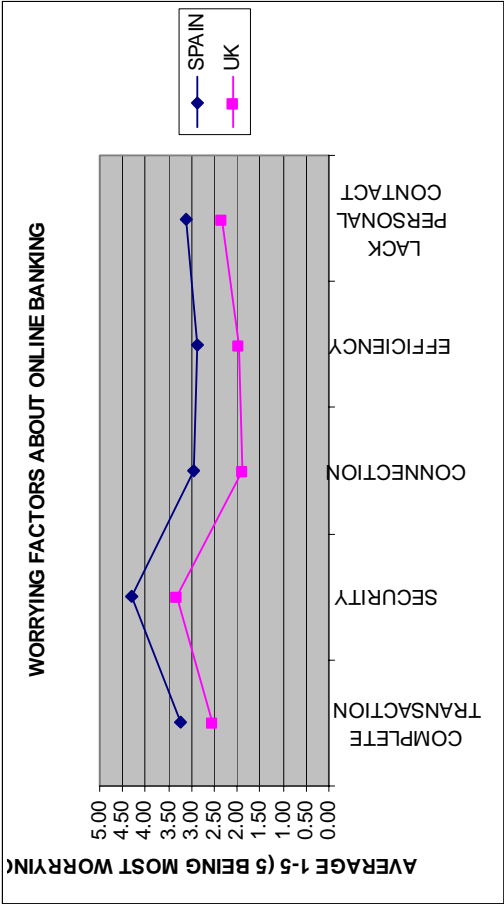
	BETTER RATES	INTERNET CONNECTION	WOULD NOT CHANGE	FREE CASH	MORE SECURITY
SPAIN	54.84%	3.22%	42.00%	0.00%	0.00%
UK	20.00%	0.00%	40.00%	20.00%	20.00%



Question 10

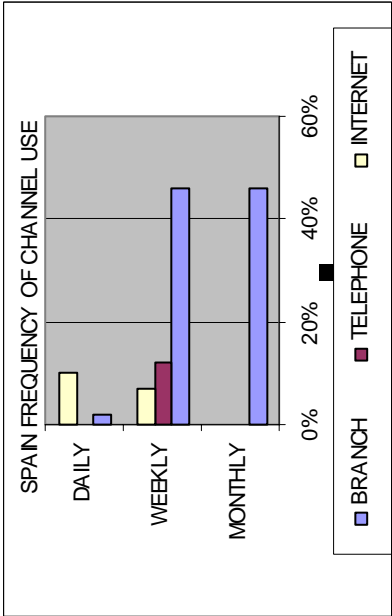
	COMPLETE TRANSACTION	SECURITY	CONNECTION	EFFICIENCY	LACK PERSONAL CONTACT
SPAIN	3.25	4.32	2.97	2.88	3.11
UK	2.55	3.32	1.90	1.96	2.32

Will the Clicks replace the Bricks?

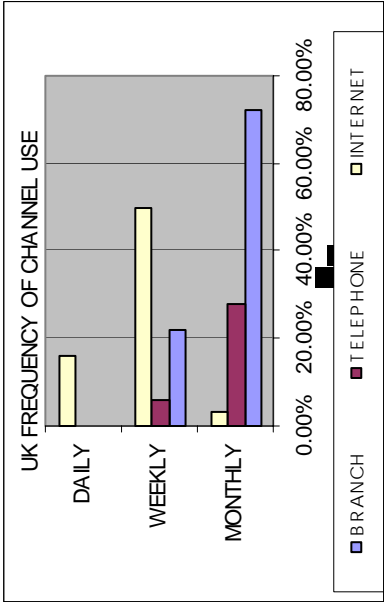


Question 11

SPAIN				
	MONTHLY	WEEKLY	DAILY	
BRANCH	46%	46%	2%	
TELEPHONE		12%		
INTERNET		7%	10%	



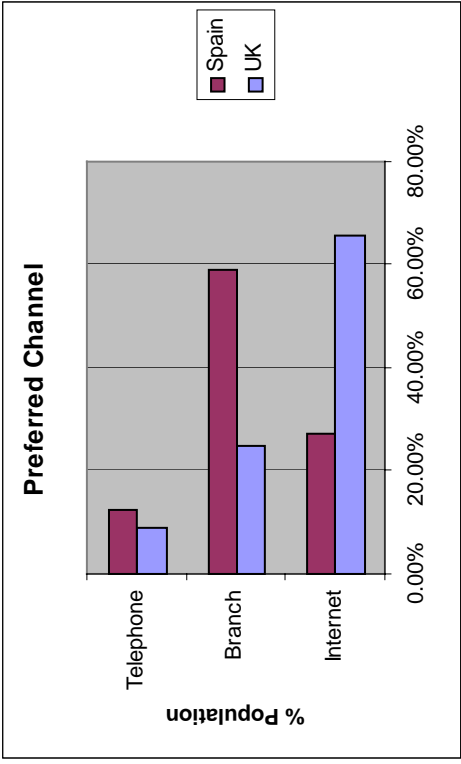
UK				
	MONTHLY	WEEKLY	DAILY	
BRANCH	72.00%	22.00%		
TELEPHONE	28.00%	6.00%		
INTERNET	3.00%	50.00%	16.00%	



Question 12

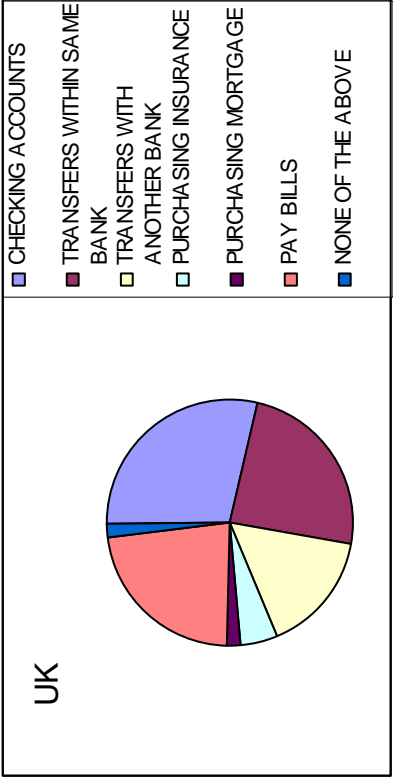
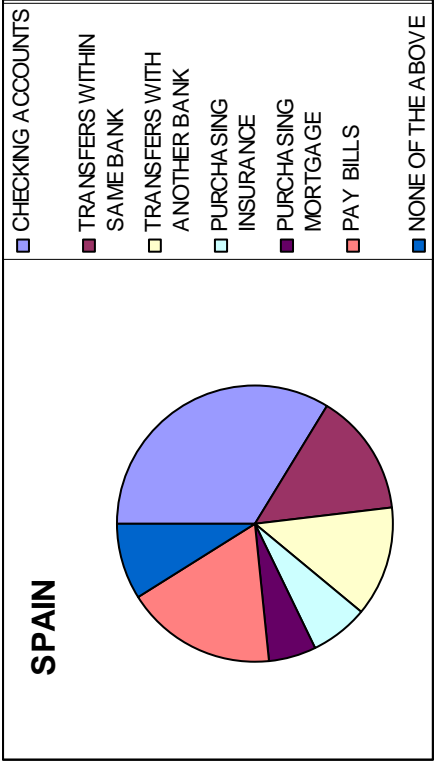
UK	Spain
Internet	65.60%
Branch	25.00%
Telephone	9.00%

Will the Clicks replace the Bricks?



Question 13

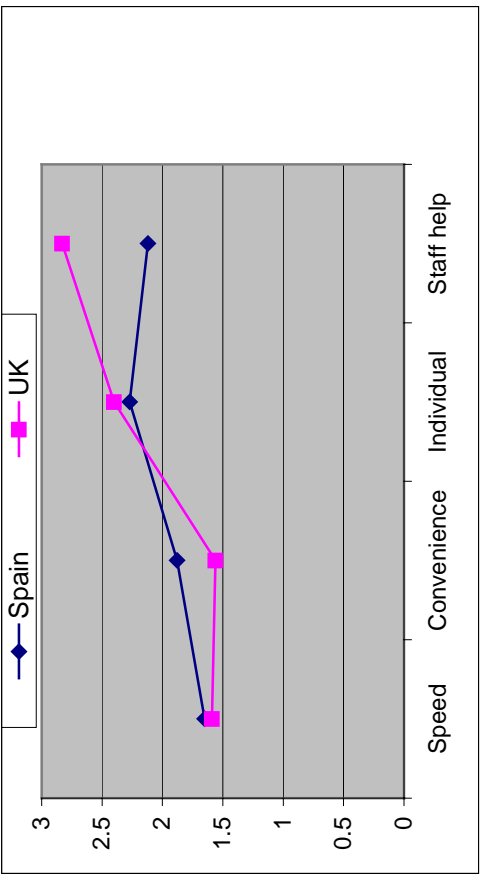
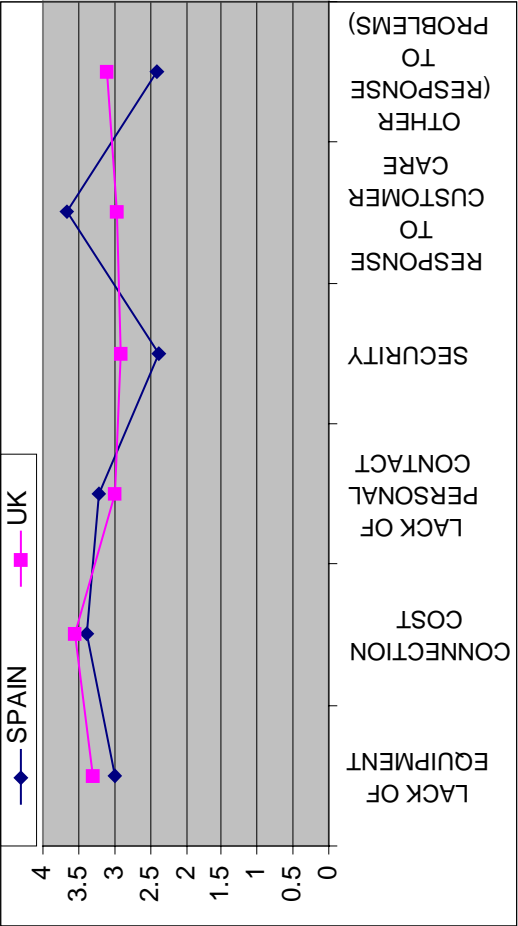
PREFERRED ONLINE PRODUCTS/ SERVICES	SPAIN	UK
CHECKING ACCOUNTS	73.80%	93.75%
TRANSFERS WITHIN SAME BANK	31.70%	78.00%
TRANSFERS WITH ANOTHER BANK	29.20%	53.00%
PURCHASING INSURANCE	14.60%	15.60%
PURCHASING MORTGAGE	12.20%	6.25%
PAY BILLS	369.00%	75.00%
NONE OF THE ABOVE	19.50%	6.25%



Question 14

	AVERAGE 1-6	
	SPAIN	UK
LACK OF EQUIPMENT	3	3.3
CONNECTION COST	3.38	3.56
LACK OF PERSONAL CONTACT	3.21	3
SECURITY	2.37	2.9
RESPONSE TO CUSTOMER CARE	3.66	2.97
OTHER (RESPONSE TO PROBLEMS)	2.4	3.1

Will the Clicks replace the Bricks?



Question 15

	SPAIN	UK
Speed	1.65	1.59
Convenience	1.88	1.56
Individual	2.27	2.40
Staff help	2.12	2.83

Appendix 3

Qualitative Research

INITIAL LETTER

A. English

Fina Arcarons Coma
44 Filton Avenue
Horfield
Bristol
BS7 0AG
finacoma@hotmail.com

Dear Sir/ Madam

I am conducting a research project on online banking in the UK and Spain for a Masters degree in European Business at the University of the West of England (Bristol), and I am writing to ask if you would be willing to answer some questions on this topic, in whatever format is most convenient for you (telephone, e-mail, by post or face-to-face).

The kind of issues I would wish to discuss with you concern the implementation of internet banking as a channel for private banking, and its impact on the strategic views for the financial institutions in the UK. The aspect which I would like to deal with in greatest detail is the segmentation/ targeting and consumer behaviour towards Internet banking.

I would obviously try to keep to a minimum the amount of time that this would take up, and I would be quite happy for any comments to be non-attributable if you would prefer.

If you are willing to participate, I would be most grateful if you would send me an e-mail to indicate your preferred means of contact.

I would like to thank you in advance for your kind cooperation.

Yours sincerely,

Fina Arcarons Coma

B. Spanish

Fina Arcarons Coma
44 Filton Avenue
Horfield
Bristol
BS7 0AG
Inglaterra
finacoma@hotmail.com

Estimado/a Sr./a

Soy estudiante de un Master en European Business en el Reino Unido y estoy escribiendo mi proyecto final sobre la banca por Internet en el Reino Unido y en España. Me dirijo a usted en esta ocasión para pedirle si estaría dispuesto/a a responder a unas preguntas para ayudarme en mi trabajo de investigación (a través de una entrevista/ cuestionario por teléfono o por escrito).

En especial, me gustaría estudiar el efecto de la banca personal por Internet como un canal alternativo/ suplementario y el impacto que éste tiene sobre los otros canales de distribución y sobre las estrategias de las instituciones financieras en España. El aspecto en el que me gustaría centrarme más es la segmentación de los grupos de clientes y la actitud de los consumidores entorno a la banca por Internet.

Si lo prefiere, estaría dispuesta a guardar sus datos y los de su organización en el anonimato, o me comprometería a citar a cualquier individuo/ autor de trabajos anteriores que yo pudiera usar en mi investigación. Intentaría por todos los medios de quitarle el mínimo tiempo posible.

Por favor, si acepta participar en éste estudio, comuníquemelo por e-mail o por correo, así como el medio y la hora que prefiere que yo me ponga en contacto con usted.

Aprovecho la ocasión para desearle un feliz año nuevo y agradecerle su ayuda de antemano,

Un saludo cordial,

Fina Arcarons Coma

QUALITATIVE QUESTIONS

A. English

1. The use of online banking services in Northern Europe (UK) differs significantly from the use in Southern Europe (Spain). Do you think that is purely related to economic factors or could it be related to cultural factors? If the latter, which cultural factors would you identify as being significant?
2. Please could you comment on the sentence "The banking business is undergoing such a profound transformation that traditional bank branches are no longer justified"?
3. To what extent do you think that the needs and preferences of customers should be reflected in an organisation's distribution channel management?
4. Do you think that online banking is more suitable for a certain range of products/ services than others? If so, which products/services would you identify as most suitable and which are least suitable?

B. Spanish

1. El uso (o la frecuencia) de los servicios de banca online en el Norte de Europa (Reino Unido, por ejemplo) se diferencia notablemente del uso de la misma en el Sud de Europa (España, por ejemplo). Cree que esas diferencias son puramente debidas a factores económicos o cree que se podrían relacionar con factores culturales? Si cree que se podrían relacionar con factores culturales, qué factores cree usted que son?
2. Podría comentar sobre la frase: "El negocio bancario se está transformando de tal manera que las oficinas tradicionales ya no son necesarias"?
3. Hasta qué punto cree usted que las preferencias de los clientes se deben reflejar en la estrategia para los canales de distribución de una organización?
4. Cree que la banca online es más adecuada para ciertos productos/ servicios que otros? Si es así, qué productos identificaría usted como los más apropiados y cuáles serían los menos apropiados?