BRETT KING

BRANCH TODAY, GONE TOMORROW

THE CASE FOR THE DEATH OF BRANCH BANKING

1. History shows traditional players rarely survive

In industries where a virtual monopoly of infrastructure exists, change normally occurs over a long period of time, but when it does it is typically through a tipping point scenario. Traditional players are not afforded any protection by means of their existing infrastructure or distribution model when a new and improved core technology emerges, or a massive change in consumption behaviour takes place. Here are a few examples of massive, disruptive change in long-established, traditional industries.

Telegraph to telephone to mobile

To understand the disruptive nature of a massive shift in technology adoption, let's look at Western Union. Western Union today is a financial services organization, but back in 1855 Western Union was a company that provided telegraph services. Inflation adjusted, Western Union was capitalized at US$830 million dollars ($41 million actual) in 1876[3]. By 1900, Western Union operated a million miles of telegraph lines and two international cables.

Western Union's greatest threat came from a new technology — the telephone. Alexander Graham Bell patented the telephone in 1876, initially referring to it as a "talking telegraph". Bell, and his partner Hubbard, offered Western Union the patent for the telephone for US$100,000 in 1877, but the company declined to purchase it[4]. Western Union could have easily gained control of AT&T in the 1890s, but management decided that higher dividends were more important than expansion. By 1900, the rise in telegraph traffic had slowed, and by 1930 the number of net messages was in decline. By 1909, AT&T gained control of Western Union by purchasing the shares held by the estate of Jay Gould, equivalent to 30 per cent of the company's stock[5].

Over the past decade, the impact that mobile phones have had on the use of

[3] Wikipedia — "Western Union" (http://en.wikipedia.org/wiki/Western_Union)
[4] Telephony Museum (telephonymuseum.com)
[5] Economic History Association Encyclopedia (eh.net)

landline telephones is equally as disruptive. In June of 2010, the National Center for Health statistics stated that one out of every four Americans has given up their landline phone and are now using their mobile phone exclusively. AT&T reported a 7.4 per cent decline in landline usage in 2007[6], 21 per cent in 2008 and 12.2 per cent in 2009[7]. Verizon reported a decrease of 10.9 per cent in 2009, while Qwest Communications had a 17 per cent decrease in landline usage from March 2006 to March 2008[8]. AT&T and Verizon dominate this industry, which brought in US$340 billion in 2000. By 2016, revenue is projected to have fallen more than US$200 billion in 16 years. To put that in perspective, in 1997, 97 per cent of US households had a landline; by 2015, that number will have declined to just 36 per cent[9].

Who dominates the new space? Mobile operators. Not telegraph companies or fixed line operators. Owning the wires or physical network infrastructure is not enough to save your business from changing behaviour. Owning branches and payments infrastructure is the same thing. Consumer behaviour trumps outdated networks.

In the midst of this you have defining moments around mobile platform too. You have Nokia usurping the #1 mobile player of the 90's Motorola, and then iPhone doing the same to RIM and Nokia. Consumer behaviour is the killer app — literally. It will kill your business every time unless you move with it.

Encyclopaedia Britannica vs Encarta vs Wikipedia

In 1993, Microsoft launched the US$99 Encarta encyclopaedia. In 1991, *Encyclopaedia Britannica* was doing sales of US$450 million a year (valuing the company somewhere north of US$1.5 billion), but the effect of Encarta on Britannica's sales meant that the company was sold at a fire-sale event in January 1996 for just US$136 million to Jacqui Safra (a Swiss billionaire financier)[10]. In 1991, a bound volume of *Britannica* sold for around US$2,000 with a $600 commission component going to door-to-door sales professionals distributing the publication. Today, that sales force does not exist.

In 2009, both Encarta and *Britannica* were offered online in a limited form, for free, due to the impact of Wikipedia and Google itself. Search and content curation

[6] *NY Times* — "Phone Giants Fight to Keep Subscribers"; July 23, 2008
[7] AT&T Annual Report, 2010
[8] Ezine Articles — "Decline of Landline Phones", Nicolas D'Alleva; July 29, 2010
[9] Ken Yager, Morris Anderson; September 15, 2011 (http://www.morrisanderson.com/company-news/entry/the-line-is-dead-the-future-of-telephone-cable-and-wireless-communications/)
[10] Encyclopaedia Britannica (http://en.wikipedia.org/wiki/Encyclop%C3%A6_Britannica,_Inc.#Jacqui_Safra)

has replaced the traditional encyclopaedia. Owning traditional distribution networks was of no value in the end due to the shift from physical to digital artefacts. Even owning the content is of marginal value in the end because the fungible value of the raw content versus the collective consciousness of the living, breathing stream is not comparable.

You might doubt the accuracy of a property like Wikipedia in comparison with a 300-year-old publishing organization like Britannica? A study in 2005 by *Nature* magazine showed that Wikipedia was essentially as accurate at *Britannica*[11].

Music, TV and books

Today the biggest seller of books in the United States is Amazon. The biggest distributor of music is Apple. If I told you this 10 years ago it would have been unthinkable. A computer company selling The Beatles albums? Are you crazy??

> **"I think in five years, other than a few specialist booksellers in capital cities we will not see a bookstore, they will cease to exist."**
>
> Australian Senator Nick Sherry, *The Age*[12]

This shift in distribution powerbase has resulted in a complete disruption of the traditional music and publishing industry. Record labels, movie studios, booksellers, video rental stores and others that relied on physical distribution models have been decimated. Borders, Blockbuster, MGM, countless newspapers, video post-production companies and photofinishing facilities have simply been hammered by changing consumer behaviour. It turns out that in 2010, 65 per cent of young people under 30 have turned to getting their news from the big bad Internet. No amount of wishing it isn't so or lobbying congress or trying to beef up regulations to protect existing businesses is going to save these dinosaurs.

IBIS World recently reported on dying business models, and in respect to video rental and distribution it was quoted as saying, "Price-based competition and ease of access has transformed the once-a-week Sunday night family movie session into an everyday possibility."[13] It's not just Netflix either. We are downloading more and more content and abandoning the old habits of watching a show on a specific

[11] CNET News (http://news.cnet.com/2100-1038_3-5997332.html)
[12] *The Age*, "Booksellers outraged over minister's predictions"; June 14, 2011 (http://www.theage.com.au/small-business/booksellers-outraged-over-ministers-predictions-20110614-1g15n.html)
[13] http://www.ibisworld.com/newsletter/issues/us/11jun/news.aspx

channel at a specific time. We watch content — not channels or networks.[14]

So what does this do for TV and advertising?

Free-to-air TV itself is unlikely to survive because the Ad revenue-based model no longer works if you aren't watching advertisements as you fast forward through recorded content via your DVR or TiVo.

In 2008, the Internet surpassed all media except television as the primary source for national and international news. In 2009, TV Ad spend declined by as much as 22 per cent in the US; declines of 27 per cent and more were recorded in radio too. In the UK, TV Ad revenues were down 12 to 14 per cent in 2009, but OFCOM (Office of Communications) has forecast the total TV Ad spend in the UK could fall from £3.16 billion in 2007 to £520 million in 2020 — an 83 per cent decline. This is a trend that we've been seeing for more than a decade. In fact, the only forms of Ad spend that have consistently increased in the last 10 years are Web, mobile and, most recently, social media-based advertising.

Essentially, as broadcast methods fail, the traditional advertising campaign itself will fail. Campaigns rely on the assumption that if I choose the right segment and marry the right message, I can get a latent stimulus response that will result in a change in a buyer's behaviour at a future date. But the digital space is teaching us that latent response based on broadcast messages are simply no longer effective. They aren't targeted, we can't respond in real time, and more often than not, they are delivered when we don't have a need for them; so we filter them out as noise, ignoring them. While brand will still be able to be reinforced through broadcast (if you can afford it), campaigns cannot possibly survive because the return on investment is dwindling, and a broadcast message cannot compete with a contextual offer that gives you a real-time solution.

How will you acquire customers and build brand when these broadcast methods of advertising no longer deliver enough ROI to justify the spend? Why is this an important driver in the future viability of the branch?

If you are relying on an advertisement to trigger a possible future event that stimulates a potential customer to walk into a branch, then you have a problem — this method of customer acquisition is simply not going to work in the future where customers choose their financial services provider based on an entirely different

[14] Channel News Asia — "The New Buzzword in Media Industry" (http://www.channelnewsasia.com/stories/singaporelocalnews/view/1170010/1/.html)

decision making process. The only event that might result in an acquisition in-branch would be an increasingly rare occasion where I walk or drive past a branch and remember I need something from 'a bank'; a marketing message is increasingly unlikely to be powerful enough to motivate me to physically visit a branch. Why? The branch itself is simply no longer what comes to mind when you think about your day-to-day banking. The alternative choices are much simpler, faster, contextual and far more convenient.

Think of any product a bank offers today, and tell me where a customer will start their journey looking for information on that product. It isn't in the branch and it probably isn't a newspaper ad — the primary starting point these days is a search engine. So the behaviour of how I choose a product has very little to do with stimulus based on a marketing message. Worried?