



Tom Connor's Thinking Forward:

Understanding Customer Values: Wells Fargo & Company

"We use technology not to de-personalize service but to personalize it."
- Wells Fargo & Company¹

Internet Maturity

The Internet is a communication channel that is maturing rapidly. Like many technologies, first acceptance is usually among technical users. However, numerous studies demonstrate that as the ease of use and user friendliness of a technology matures, it brings in non-technical users. For the Internet, usage by non-technical people has been exploding. It is no surprise then to see the commercial aspect of the Internet growing as people's comfort and reliance on this technology increases.

A number of recent studies seem to validate the commercial aspects of Internet use. Forrester Research reports a shift in advertising, at the expense of traditional advertising channels (magazine, direct mail, and newspapers) onto the Internet. According to Forrester Research, online marketing and advertising spending in 2005 is expected to reach \$14.7 billion, a 23% increase over 2004. By 2010, this spending will rival spending on cable/satellite TV and radio with an 8% share of total advertising spending.² The Internet Advertising Bureau of the UK³; and others⁴ worldwide; are reporting similar results.

While some obstacles remain, it is becoming clear that the commercial use of the Internet is moving beyond something with unknown potential into reality. But a question remains, who is well prepared to be part of this opportunity and how did they get there?

Wells Fargo & Company

Success is nice, and success is something Wells Fargo & Company have been building by using technology and the Internet to develop competitive advantages in their industry. A review of their Annual Report, public comments and analysis of the company demonstrate that value and their use of technology.

Wells Fargo is one of the leading financial service companies in the United States and internationally. It's a big bank, ranking fifth in total assets, and based on the June 30, 2005 stock price, fourth in market value. It was created in 1998 when the Norwest Corporation, a regional bank holding company that was based in Minneapolis acquired the original Wells Fargo. Then, in 2000, Norwest adopted the Wells Fargo name. In their own words the bank is:

¹ Wells Fargo Annual Report, 2005, 7. "Information-Based" Marketing, p7

² Forrester Research, Press Release, <http://www.forrester.com/ER/Press/Release/0,1769,1003,00.html>

³ Internet Advertising Bureau of the UK, Online adspend up 62% to £490million for first half of 2005, http://www.iabuk.net/news/article.php?news_id=51

⁴ China's booming online ad sector, <http://www.atimes.com/atimes/China/GD05Ad06.html>

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“...a diversified financial services company – providing banking, insurance, investments, mortgage and consumer finance – for more than 23 million customers through 6,160 stores, the Internet and other distribution channels across North America and elsewhere internationally.”⁵

Even in the beneficial low interest rate environment of recent year’s (2000 – 2005) it’s financial results have been impressive in the industry, but it’s the customer oriented strategy of Wells Fargo and their use of technology that sets the bank apart.

Valued Customers: Potential Value

The financial needs of people and businesses are broad, and Wells Fargo recognizes there is potential to sell more products and services to its customers. It also recognizes that many other financial service organizations are targeting the same customers, and that by developing knowledge of the financial needs of its customers and providing the systems and interfaces that make banking easy and comfortable, it will build competitive advantage for the bank. Technology helps accomplish this.

A financial advantage comes from cross selling products. Marketing experts have long recognized that selling an additional product to an existing customer is less expensive than the expense incurred attracting and selling something to a new customer. Dick Kovacevich, chief executive of Wells Fargo states the financial benefits of this strategy to both Wells Fargo and their customers:

“The cost of selling a product to an existing customer is 10 per cent of the cost of selling it to a new customer. You take some of that huge margin for your pocket and give some of it to the customers to encourage them to consolidate their business with you,” he explains.”⁶

Wells Fargo's challenge is to establish a position where they become the favored vendor to their customers across their product line. Sharing the benefits that comes from efficiencies in marketing is part of it, but only part.

Valuing Customers: Developing Customer Value

Other financial organizations have attempted to implement a cross-selling strategy to attain similar financial benefits, and not all have experienced success; demonstrating that the difficulty implementing a strategy should not be underestimated. (It is perhaps the more challenging part of strategizing.)

At Wells Fargo, technology has two significant roles helping the bank create a competitive advantage; as a source of information that supports marketing and as a distribution channel. In this latter Wells Fargo has become an established leader. In 1995, it was one of the first banks to use the Internet when it provided online account balance information to customers. Today, Internet use has continued and expanded and become a distinctive feature of the bank's customer services.

The banks 7th Strategic Initiative, “Information-based” Marketing, attributes much of Wells Fargo’s success to its ability to develop and process consumer information which has developed the banks ability to:

⁵ Wells Fargo Today: Company Fact Sheet – 1st Quarter 2005, WHO WE ARE, <http://www.wellsfargo.com/about/today1>

⁶ The masters of one-stop shopping, page may require a subscription, <http://news.ft.com/cms/s/bb066b50-3431-11da-adae-00000e2511c8.html>

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"Take full advantage of what we know about our customers' needs so we can offer them the choice, convenience and price benefits of giving us all their business. We use technology not to de-personalize service but to personalize it. Thanks to technology, we know how many products each customer has with us. We can anticipate the products they'll most likely need – based on account balances, life events, transaction history, and how they access Wells Fargo. With that knowledge, and respecting the confidentiality of information of our customers, we can tailor sales messages through our *Wells Fargo Phone Bank*, ATMs, wells Fargo.com and statement mailings to help satisfy our customers' financial needs."

Identifying the opportunity to sell another product is one part of new revenue opportunities, getting the sale another. Here, Wells Fargo's use of the Internet as a distribution channel started early and has become an industry leader:⁷

"In 1995, Wells Fargo became the first financial institution to introduce access to banking accounts on the Web, leading a revolution in the way consumers organize and manage their money. That same year, Wells Fargo also pioneered the first secure credit card transaction for an online merchant, Virtual Vineyards (now Wine.com), forever changing the way consumer's shop.

"Legions of Wells Fargo customers have shifted to the Internet over the past decade. Online banking is now the most heavily used channel among Wells Fargo customers, contributing to a growing percentage of total sales each year. Over half of the bank's consumer checking accounts are currently accessed online. And Wells Fargo now processes payments for more than 10% of all purchases transacted on the Web. This helps explain why Watchfire® GómezPro and Global Finance magazine have both recently ranked Wells Fargo as the Number 1 Internet bank.

"From the beginning, we recognized the Internet would be a transforming agent in the way consumers and businesses bank," said Sona Chawla, Executive Vice President, Online Sales and Marketing, Wells Fargo Internet Services Group. "In the early days of Internet banking, customers were most interested in looking at balances and transferring money between accounts. Now, as we celebrate the 10th anniversary of Internet banking at Wells Fargo, they are focusing on the central role the Net can play in organizing and managing their money."⁸

Wells Fargo & Company, the Next Stage

In the world of financial services Wells Fargo has gained skills and experience that put them ahead of many competitors. Their share of their customer's financial services is above industry averages, and it's reputation for an easy and transparent online customer experience among the highest in the industry^{9, 10}.

Having developed a competitive advantage they set aggressive goals. On pages 6-7 of the 2005 Annual Report are 10 Strategic Initiatives' (also on pages 8-9 of the 2004 Report). Of these eight focus on customers. (The first is a financial objective, and the tenth expresses the value of the organization's employees.)

⁷ News Release, June 14, 2005;

http://www.wellsfargo.com/press/20050614_sweepsstakes.jhtml?year=2005&_requestid=39247

⁸ Wells Fargo, 2005 Annual Report, page 7

⁹ Forrester Research, Press Release, <http://www.forrester.com/ER/Press/Release/0,1769,1014,00.html>

¹⁰ FORRESTER RESEARCH'S FIRST CROSS-CHANNEL EXPERIENCE AWARDS LAUD POWER OF GOOD DESIGN, http://wedding.weddingchannel.com/press_release/pr_forrester.asp

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The experience and the skills developed using technology and the Internet came early, and established an advantage over competitors. With the realization of the commercial aspects of the Internet and other online technologies underway, these advantages will become even stronger.

Their goals recognize that the average consumer and business purchases 16 financial products. In their 2005 Annual Report, Wells Fargo has targeted selling at least 8 products to each. Given that their results are already well above industry averages, these are aggressive targets. (According to the 2005 Annual Report Wells Fargo's average banking household has 4.6 of their products, the industry average is about half that number. The average Wells Fargo corporate/commercial customer buys 5.3 products.)

As the Internet continues to grow and mature as a commercial distribution channel, financial services and other organizations that use it will need to change. Wells Fargo has already developed and used many of the skills, experience and knowledge to use the technologies successfully. As the Internet continues to grow, they're well positioned to continue being part of the growth.

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