

Denis O'Leary

All the Answers Are Different

I want to begin by sharing a quick story about Albert Einstein at Princeton. Einstein was renowned throughout the campus for his teaching of postgrad physics, and particularly for the nature of his questions on the year-end exam, which were so cerebral that they would be passed around the campus when the test was over. One year when he handed out the exams, one of the students in the class raised his hand and said, "Professor Einstein, I think there's a mistake. You've handed out last year's exam questions."

Einstein turned and said, "That's okay. All the answers are different."

And that's what this New Economy is about. All the questions are the same: how to develop a compelling value proposition for customers, how to deliver it in a convenient and efficient way, how to provide consistent service quality, and how to do all that and make a return for your shareholders. But now, all the answers are different.

What I want to talk about today is what I call five points of light. The first is a quick thought about business architectures moving forward. The second concerns information-based businesses and what they do. The third is some thoughts on magic at the "point of touch" between a customer and a business, which is where the real excitement of technology is going to take hold. Fourth, I'll talk about some of the trends that are happening in "dot-coms" and in the New Economy. I'll then close with a few thoughts under the title of "Where's Waldo?" which are targeted at anyone in the audience who is working in a regulatory capacity.

Business Architectures

Business architectures are driven by technology, and the basics of the design are changing. We are moving to a system in which technology makes industry structure irrelevant. Doesn't matter if you're a bank. Doesn't matter if you're an investment bank. Doesn't matter if you're an insurer. Doesn't matter if you're a manufacturer.

What does matter is the competencies that you have mastered and your ability to bring them to the right places in the market. And that makes life very confusing going forward. So all the talk about regulatory change in financial services won't matter much because the markets have moved way past it already. The changes occurring now were facilitated by technology, not regulation.

Let me describe the business architecture of a large U.S.-based bank. While what I'll describe is for the consumer business, you could create one of these for any area. To begin, we have the distribution of services to customers through many different channels: the Internet, ATMs, a branch, a phone center, a physical person doing sales. These channels differ, but the essential competence is distribution, and the goal today is ubiquitous branded touch. At any time, at any point, convenience for the customer. Our goal is device-independent, branded, secure, private, reliable, self-service for our customers.

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The second aspect of the business architecture is competence in manufacturing: huge digital factories that can squeeze the last nickel out of a scale curve. We want flexibility, very high efficiency—ruthless efficiencies—and quality. A platform that is robust enough to support and manage transaction volumes on a seven-by-twenty-four, fault-tolerant basis.

But everyone is building manufacturing and distribution. They are critical, but both are becoming commodities. Competency in these areas is taken for granted. It's an assumed mastery and Darwin will kick out of the system the firms that are not masters.

So where is the competitive value-added in the future? It's in a third area of competence, which is information mastery. Knowledge management is the dance floor where mass customization on the manufacturing side is meshing with segments of one on the distribution side: the architecture is being built so that information and transaction capabilities can be welded together in a way that creates exceptional value.

And what's interesting about this model is that it's not proprietary. More often than not, it involves a confederation of joint ventures and alliances. And it's iterative. It learns and listens and moves on an automated basis. A service is offered to the marketplace on an automated basis, a value proposition that you hope is sent through the right channel to the right person at the right time with the right product design. If customers respond and the product results in profitability and value creation, it's reinforced. Otherwise, it's killed off.

Information-Based Business Systems

So that's the first thought: that the new business architecture is competency-based, not industry-based. And that information—knowledge management—plays a crucial role. This thought takes me to my second point: What is an information-based business system? Everyone talks about it, but what is it? By way of a basic definition, I'd say that five things have to be in place for information-based businesses to truly work in financial services.

First, we have to be able to recognize our customers individually, at whatever point of touch where they access our services. Second, we have to open up the house when we connect to them, so that they can access the full range of our services and information. Third, we have to be able to craft their experience based on who they are and the kind of things they do with us—or could be doing with us—and not just have

a rigid model. Fourth, we have to be able to import value propositions to white space at the point of touch. That means shooting something relevant to them on the fly based on who they are. And finally, we have to learn and iterate.

Let me give you an example. I'm going to take out of my pocket a debit card. Everyone in this room probably has one and uses it at an ATM. I'd like to use my debit card to make a point about what should be happening—or could be happening—versus what normally happens.

First, I put the card in the machine. Does it recognize me? Absolutely not. It certifies me, but it doesn't know who I am. How do I know that? What's the first thing it does to me? It asks me if I want to interact in Spanish! Twenty-two years I've carried this card and I have yet to do a transaction in Spanish. At a certain point, the machine should make a guess. Make a guess.

Second, does it open up the house? Do I have run of the house? Not yet. Certainly, I want to be able to move throughout my relationship without regard to product barriers. I also don't want to worry about legal entities that were set up for regulatory or tax purposes.

Third, does it craft the experience? Absolutely not. I always take out a certain amount, and the system should know that that's what I do at that machine. So the first screen that cues up for me ought to be "\$160, no-receipt." It shouldn't walk me through any other stuff. That should be the first point for me.

The fourth point: What have I got while that machine is cranking out the bills? Captive eyeballs. People in marketing dream about captive eyeballs. Right now, I have a big network pipe and I can stream video. Stream the video and show the picture of the new Corvette Stingray that I could sign up for and turn off my Camry lease. "If you're interested in this car, add another \$150 to your payment and we'll follow up via the channel of your choice." E-mail me tonight, call me at home, there's a branch around the corner. Right there. The five-second sell. Not the twenty-second, thirty-second. The five-second impression, visual bing. That's a targeted value proposition.

Finally, does it learn? If I start taking out \$200 instead of \$160 five times in a row, maybe that's a pattern. So start me with \$200. Now I recognize that something has been crafted to me.

So that's an idea of an information-based business system—albeit one not yet challenged by device and bandwidth variability—and it's the core of future value creation. Firms flaunt their capabilities on distribution and manufacturing in the front pages of their annual reports, but information and knowledge management are where firms can distinguish themselves in the marketplace. That's where the basic value proposition comes together.

Point of Touch

Turning to my third point of light, I want you to remember the ceiling of the Vatican—in particular, Michelangelo’s *Creation of Adam*, where the hand of God and the hand of Adam reach out to one another. It’s an incredible painting, but I mention it now because to me it’s the visualization of where all the magic is going to be, which is the “point of touch.” The most important moment of any business is when you touch your customer. That’s where all the work has to start flowing because there are so many challenges to improve on how we’re doing it now.

The call centers at Chase did about 160 million calls a year, and when I read the reports, I noticed something. We were measuring how fast we hung up. We were efficiency-based, harking back to Henry Ford and Adam Smith. Now, how many people here have dialed the call center and wanted from the person on the other end of the line a sense of urgency to hang up? Does that feel good? Clearly, the performance metrics around this point of touch were all wrong.

I want to suggest four new metrics: simple, trusted, fitted, and delightful.

At the call center, I want to know what we learned during the phone call and I want to know how the customer felt when we hung up. That’s all I want to know. What did we learn and how did the customer feel? If we do that right, then the money will follow. But if we are measuring how fast we can hang up, we are probably headed down the wrong road.

But the important point is that when it gets to that point of touch, it should be simple. Everyone in this room has bought a VCR at one point in their lives. And if many of you are like I am, when you got home, with pride, you took that owner’s manual and you heaved it over your shoulder.

What you did was to take advantage of a technology design that said critical mass functionality needs no owner’s manual. It was intuitive, and that’s the magic of the point of touch: to make it intuitive so that no one even notices it. We have a long way to go, but that’s how some companies are going to accelerate beyond others, when they make high-tech mass market.

A final question to ask about point of touch is the type of experience it creates for customers. That is, is it an inhale or an exhale experience? At the point of touch, you have one of two goals: either to excite or to relax the customer. Almost every time you have a point of touch, it falls into one of these categories.

There are times when customers come to a financial institution, and what they want is to relax. “Don’t worry. We’ll take care of it. We have fixed the problem. My name is

Denis O’Leary, my phone number is this, I have taken personal accountability, and your problem is fixed.” Exhale experience.

Alternatively, “We have an opportunity. You can save \$1,000 a month by refinancing that giant house you just bought.” That’s an exciting thing, an inhale experience. These experiences should be designed to strike a person immediately. So a lot of the magic of these massive and incredible technologies funnels into a point that has a very simple metric: the contact should be mass market in design, intuitive, simple, secure, reliable, and should either excite or relax the customer in a very short period of time.

And that’s a transformational event from where we are now because that’s not the way most experiences are designed today.

Market Developments in the New Economy

I want to shift my focus a little bit and talk about trends in the marketplace, particularly the dot-com and e-commerce economy. I want to begin by pointing to three models of e-commerce. The first is the model used by firms like Amazon and eBay. These firms build from the bottom up and do not start with a known brand or customers. They do, however, start with some very innovative thinking on technology.

If customers come, the company will create a lot of value. If they don’t, the company will be bankrupt. And people are taking risks—calculated bets—on whether to follow that model. The early players did well, because eBay and Amazon did build brands and start operations in uncluttered spaces. But eventually everyone tried to build brands at the same time and none of us can sort out the different dot-coms anymore.

And we also found that being virtual isn’t an elixir. It’s just part of a solution. Some e-companies started to stumble because they didn’t have a physical presence to support them, and then the next wave of e-commerce firms started showing up. This wave was the “brick and click” convergence. All of a sudden there were firms like Barnesandnoble.com, Toysrus.com, Kinkos.com, and others, bringing in the physical channel and some brand elements to help support the virtual commerce model.

And these firms have had a bit of a bumpy road. Some are working, some are not. And we’re now seeing a new model emerge, which I’ll just call “killer app” for now. Killer apps are firms with established brands, with customer flows, with tremendous content expertise, *and* a commitment to sign up for a New Economy design template and architecture.

These firms are using technology to say, “We’re not going to take it anymore. We’re not going to watch e-commerce firms come at us. We are waking up and going back down to the playing field.” These are the players who know their areas, have influence on the standards, and who have critical mass. An example would be a transaction like T2, the airline portal where numerous carriers seem to be getting together and saying, “We’ve had enough of Expedia.com and Travelocity.com. We’re not going to cede the space.” Another example is the auto companies and their suppliers coming together with the auto exchange.

These kinds of deals are now reminding people that large companies that have built exceptional franchises—of customers, of brand, of content capability, of trust—have not ceded the New Economy. In fact, they may be some of the most dominant forces in shaping the future.

So that’s a bullish note. The sleeping giants have awoken. The economy is moving in their direction, the capabilities are moving in their direction, and this movement is being reinforced by some of the recent shaking in the IPO market. And when very large institutions like Ford, like GE, like Chase mobilize their resources, it’s not to be taken lightly. And that’s what’s happening.

From a technology viewpoint, why is this process so exciting? First, because the rate of technological advance is superseding any law ever known, and we are just starting. About 50 percent of American households are connected to the Internet and that figure is still heading north. The United States is the leading industrialized nation on connectivity, but the rest of the world is growing at a much faster pace. Everyone is connecting and we are getting global connectivity. It is not a question of “if.” It is a question of “when.”

A second exciting factor is the rise of broadband. Many of you will have a high-speed connection within a year. Within two or three, most of you probably will. These connections will change the whole nature of what we can do. Most of what we call the Internet today is going to fizzle—other than some of the standards and the idea of connectivity—and a whole new wave of capabilities is going to replace it. And broadband will be central to that.

The third reason for excitement is digitized data and information. All content is being borne as ones and zeroes now. And what started out as analog is being reverse-engineered into digital. So now we have content, we have connectivity, and we have big pipes. If you think of nothing else, just these three things tell you a bull market will not stop in technology for a long time.

These are compelling global trends that point to the conclusion that technology is in its zygote stage. We’re in its infancy and, as Bruce Springsteen said, “Someday we’ll look back on this and it will all seem funny.” Even the platforms we are proud of today are primitive technology compared with what we know should be in place.

A second conclusion is not to count anyone out in this New Economy. It’s the firms that focus and commit that are going to do well, and it won’t make a difference whether they started as a dot-com or they started 200 years ago.

Where’s Waldo?

Finally, I’d like to make a quick comment on a regulatory challenge in the New Economy. I call my point “Where’s Waldo?” If any of you have children and you’ve gone through those books and tried to find Waldo in the myriad pictures, it’s a puzzle to find him. A question for regulators is how to find what you are regulating in a competency-based—rather than in an industry-based—business architecture.

The bitstream that used to be in the data center of the large bank is now sitting at a third-party data processing center and in the drive next to it is Barbie inventory. The payment initiation is starting on a portal web site. Who do you regulate and how do you find them? When you buy something on the web, what UCC are you relying on? Do you see a flag on that web page, giving you the legal domicile of the server? That server could be on a concrete platform off the British coast. It is somewhere in the cyberworld. So unless we homogenize regulation globally, in a cyberworld it’s very hard to regulate anything on a sustained basis.

Believe me, I’m not advocating that we eliminate regulation. I’m just pointing out the challenge that’s ahead. What brings about customer trust is a large corporate logo rather than the small print of a law. Customers will say, “I know that company, I trust it. I’m willing to download its stuff, to go to its site, to buy stuff from it, and to share information with it.” No matter how many layers of regulation surround that, trust in the brand name will rule. Brand recognition will have increasing power in the years ahead because, unless the global world moves to a single regulatory model, someone will always be able to circumvent local rules.

Concluding Thoughts

In summary, I've talked about five different points today. First, that we are moving to a competency-based model, not the industry-based model of the past. Second, that information and speed are the oxygen of this New Economy, and that most systems will be designed to learn and evolve through repeated interaction with customers. Third, that the magic of technology will show up most fervently at the point of touch. Fourth, that we ain't seen nothing yet because we are just starting on this technology wave. We are not halfway in and we have not yet missed the train. We are just starting. We are *just* starting. Finally, that regulators have a hard job ahead of them keeping track of these developments.

And by the way, if Silicon Valley went on a sabbatical for the next three years, the in-boxes of the people implementing the

new technologies would stay full. So not only is technology moving fast, but the execution and implementation are backlogged. This backlog is not made up of alpha- or beta-stage projects, but involves demonstrated, known technologies. The implications of this technological backlog for the regulatory and legislative communities are significant, and I don't think we've really come to grips with that issue yet. The strategies adopted by these bodies will play a critical role—an absolutely critical role—in the smooth and ongoing function of commerce throughout the world. For now more than ever, all the answers are different.

And with that, I'd like to say thank you very much for your attention. It is my pleasure to be here, and I hope you've found something of interest during my presentation.

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