LOOK BOTH WAYS

When the prolific 1930s robber Willie Sutton was asked why he stole from banks, his reported answer was simple: “Because that’s where the money is”.

Willie would have been surprised at how hard today’s banks are having to scramble. Because lately, world markets have been experiencing what may be permanent shifts in the economic climate.

Consider these developments:

- Last year, the richest 1% in America took 19% of national income, their biggest share since 1928. The top 10% of earners pocketed a record 48.2%[1]
- “In the first four decades of my life, real British incomes per head almost tripled; in my fifth decade, they rose just 4%”[2]
- 35% of household wealth in Russia is owned by 110 people[3]
- In developed countries, labour captured just 62% of all income in the 2000s, down from over 66% in the early 1990s[4]
- In the US, real-terms hourly pay is stuck at 2008 levels[5]

There’s a picture here: it’s one of an increasing polarisation of incomes, where the wealthy become ever more wealthy, the poor, supported to whatever extent by State aid, stay poor, and the skilled working class face at best static pay packets and rising expenses, at worst unemployment.

Detailed analysis of what lies behind these wrenching changes is better dealt with elsewhere. But it’s worth noting that globalisation enables a highly-talented élite to sell itself on a world stage, while at the same time ensuring that labour productivity gains go, not to the work force, but to capital.

The question is, what flows from these changes, and how should business deal with it?

Cheerleaders for the retail industry, for example, point happily to the burgeoning market for luxury goods – especially in East Asia. But by definition, this is a niche market: we can’t all sell Louis Vuitton handbags, let alone buy one. Nor can universal banks all focus on the UHNW caste, usually defined as having more than $50 million of investible assets.

On the flip side of the coin, in developed economies the middle and working classes are no longer passive providers of low cost deposits, and undiscriminating buyers of savings and loans products. They have a good deal less disposable income, and have learned to look hard at what they do with it.

But it’s not all doom and gloom: there are two strategies which boardrooms may wish to consider. Call them Look in, and Look Out.

Or to put it another way, Look Into your existing markets, and Look Out to new ones.

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[1] *The Economist*, 14 September 2013
[2] *“When the Money Runs Out”,* Stephen King, Chief Economist, HSBC, pub. 2013
[3] Global Wealth Report 2013, Credit Suisse
[4] Employment Outlook 2012, Organisation for Economic Co-operation and Development
[5] BCA Research, 2013

First, let's take Look In .

Here, we find two reasons to be cheerful:

- There are sizeable customer groups out there who are prospering
- Thanks to big data, we are a lot better at identifying them

As an illustration, here are some sectors worth taking a look at:

Professional singletons: Highly educated, often on a fast financial track, prosperous singletons cluster in big cities, and are heavy users of social media, with all the communications possibilities that now offers. In the US, unmarried men and women account for 10% and 21% of all buyers, respectively, according to the National Association of Realtors.[6]

Women: In Britain, rich women – defined as those who have £500,000 or more to invest – now outnumber rich men. Not only do they live longer than men, they're more likely to take a cautious approach to investing their cash.[7]

Ageing baby boomers: According to research from the Chartered Insurance Institute, ageing baby boomers control 80% of the UK's net personal wealth. Not a bad target….[8]

Dictated by their financial circumstances and position in the life cycle, each grouping has distinctive requirements for savings, investment, insurance, loans, and payment products. Smart marketers will craft offerings tailor-made for these segments. But they will also want to:

- Build in added value so as to genuinely, as the cliché has it, surprise and delight
- Offer multi-channel ways of personalising, communicating, distributing and servicing the products, so that customers can select which bundle works best for them
- Absolutely ensure value and integrity. This should go without saying, but in the light of the continuing scandals in financial services, it regrettably still needs underlining.

That's Look In. Let's turn to our second strategy – Look Out.

Look Out calls for a focus on new markets. It can be summed up as Go East, Go South – go to East Asia, go to Latin America, go to Africa – because that's where a lot of the money is now, and where a lot more of it will be.

Guess which countries *Forbes* magazine added to its 2013 list of billionaire hotspots: Angola, Nepal, Swaziland and Vietnam. For sure, the US still dominates the world rich rankings, but China has now leapt to second place, with Russia close behind. Same scorecard, but the players are changing.

Further down the wealth hierarchy, but vital for mass market offerings, in developing countries the middle class is burgeoning too. In India, for example, the number of middle class households will hit 53.3 million by 2016. And that translates into a total of 267 million people.[9] Just to underline the

[6] http://finance.fortune.cnn.com/tag/singletons/
[7] MDRC research
[8] http://www.cii.co.uk/about/news-and-insight/articles/generation-%E2%80%9Cbust%E2%80%9D-banked-less-than-baby-boomers-in-their-youth/3183
[9] National Council for Applied Economic Research, Centre for Macro Consumer Research

opportunity, India has one of the highest saving rates in the world, with savings hitting an estimated 36% of GDP.[10]

Fact is, many will respond to the Look Out strategy with a wry smile. As noted in a previous piece in this series, to rebuild their balance sheets banks have been busily selling off all kinds of "non-core" businesses, many of them in precisely those same Eastern and Southern markets.

But some important players continue to have substantial interests in fast-emerging economies in Asia, Latin America and Africa. Think, for instance, of Citi, HSBC, Standard Chartered, Barclays, Santander, BBVA. In a slightly different context, American Express is also very well poised through its Global Network Services operation to expand there quickly and with only limited investment.

It's a model that others could follow. Why wouldn't experienced and solid card issuers also share their skills and platforms with younger banks in emerging economies who would welcome a fast-track partnership to growth?

Maybe Willie Sutton was right after all.

Roy Stephenson

Background

- With more than 20 years of experience in the payment card industry, Roy was previously with American Express, where as VP and General Manager, he launched the highly successful commercial card business in the UK, going on to lead product rollout across EMEA and latterly Latin America/Caribbean.
- As a consultant, Roy works with banking and payment card clients around the world, identifying and advising on best practices in customer marketing and relationship management. He has also undertaken assignments in media, utilities, airlines and retail.
- He has developed and audited coalition and bank loyalty programmes in the UK, Ireland, the Netherlands, Spain, Canada, Dubai, Kuwait, Australia, Singapore, Spain, Israel, Turkey, Saudi Arabia, Brazil, Chile, Venezuela and Mexico.
- Roy has also advised on airline FF programmes, and has been the rewards lead in the MasterCard Advisors pool.
- He speaks fluent Spanish, reasonable French and is the author of *Marketing Planning for Financial Services* (Gower Publishing). He has a B. Com, holds an MA in Management Studies and is a Fellow of the RSA.
- For further background, client list, articles and sample engagements, please visit www.roystephenson.co.uk

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[10] http://www.ncaer.org/downloads/MediaClips/Press/TOI-Indiahasmorerichpeoplethanpoor.pdf