

Dr Sivakumar takes us through the changing trends in retail banking which provides various facilities like ATMs and retail cards to the customers and simplifies their operation modes

RETAIL ROADMAP

Banking convergence

The biggest retailing entities in the country find it difficult to think of public distribution system outlets, such as *khadi bhandars* or post offices. The reach of these entities is quite powerful as compared to the other 'organised' popular retail entities in the country. We are all aware of banks using their premises to sell other financial products/services. Many observers of retailing as well as banking sectors are not aware that post offices, represent convergence of retailing and banking/financial services. Retail firms got unexpected help from established retail banks, which in their eagerness to cut costs and increase revenue from service fees on card payments seem to have paved the way for new entrants. These banks stimulated retail firms to enter into the card business by imposing payment fees. Their large investments helped in new cost efficient electronic-based banking formats and wide-spread launching of the concept of in-store banking on the premises of retail firms. This has widened the customer's comprehension of what is called as a retail bank.

In this shift of economic clout, from producers of goods to distributors of goods, the service economy is sparking much of the action. These service functions include advertising, marketing, information, transportation, inventory management, sales, service and billing. This distributive work can be organised into networks, coordinated by computers and communications technologies. The uncertainty over types of technology and types of competitors is pushing companies to seek distribution channels through outright

control over them rather than alliances with independent entities.

The objective of the bank is to be a complementary bank alternative for customers. This can be done by being the most attractive player within the area and sell supportive services to target markets. Retail banking is considered as an interesting business opportunity. Beside the deregulation of financial markets, the far-reaching innovations and advancements within the field of information technology have paved way for the development and launching of new banking formats. The effort of grocery retail banks to use the store card business is a platform for the provision of financial products and services.

For retailers the provision of financial services may also be a way to increase customer loyalty. For established retail banks, the entry of retailers into financial services may be even more difficult. Hence, though established banks still have a dominating role in the retail banking sector, the new entrants are definitely challenging their dominance.

Japanese story

The story of a Japanese convenience store shows how the path to banking retailing convergence took place. A key strategy for the leading Japanese convenience stores was to continually add services to attract traffic, even if these services do not contribute directly to profits. Many customers wanted the convenience of paying for their e-commerce purchases at the convenience stores in cash. Thus, for most convenience stores ATMs are electronically sophisticated and can be programmed to handle a variety of functions over time as services evolve. In addition to this, ATMs are also very compact, an important fact for storeowners. From a store's perspective, ATMs are for now being used to generate traffic with bank partners handling the actual service.





Japan's prominent convenience stores Seven Eleven was the first and reports having 3 per cent of the total Japanese payments market in 2000, which includes payments made through banks and the postal system

Payment mechanism - the link to conversion

Banks come into picture with respect to retailing entities due to the payment mechanism. There are three primary reasons associated with the increased importance of the payment system. First, customers wish to minimise the transaction cost of paying for their purchases. Secondly, payment devices can and are being used to build brand loyalty (repeat purchases). Bank card issuers have found that rebates are particularly effective at encouraging repeated card usage across a wide variety of retail outlets. Thirdly, technological advances have greatly increased the value of the information captured through customer preferences when credit cards are used instead of cash or cheques. Consumers who frequently utilise a bank card in either a retail or petroleum outlet do so to obtain rebates and shop with fewer cards. Consumers who frequently utilise their retail cards do so to simplify merchandise returns, obtain sales notices, and to be recognised as a loyal customer. For store cardholders, a co-branded rebate card is likely to appeal to three distinct groups:

- ◆ Those with a desire to consolidate cards carried
- ◆ Those who are attracted by rebates
- ◆ Those who want to be identified as loyal customers (affinity buyers).

That is, the co-branded store card appeal to cut across the set of reasons that characterise the behavior of both substituters and non-substituters in the retail store environment.

Micro payments and banks - status of retailers

Banking is all about trust, and customers are resistant to switching financial services firms from a long-trusted one to an upstart merely because of a newfangled feature or minor conflict. Visa, is a master of such incremental standard propagation.

When they design a new feature, it is first sold internally to member-banks then, the banks agree to a common standard to support the design. The multiple sources of payments clearing software systems then update their software to screen out a new class of payments attempted with 'valid' but 'inactive' cards that haven't been initialised. Visa established the standard by defining it and then

getting the banks - which buy the payments management software to agree to support it in advance. The software vendors are not in a good a position to develop new features of their own and propose them as standards, because they deal in a fractured, multi-party market. Only Visa has relationships with the whole consortium and is best positioned to maintain control by developing payment standards for banks.

One obstacle to micro-payment adoption for banks is the potential loss of revenue from micro-payment technologies that remove validation from third party sources, such as banks. Consequently, the bank loses transaction-processing fees. Banks have the capacity to move from being authorisation sources to payment processors. This gives them the scope to thrive on micro-payment technology.

The international retail industry is undergoing a

Retail firms got unexpected help from established retail banks, which in their eagerness to increase revenue have paved the way for new entrants

paradigm shift, which is changing the way in which we can look forward to retailing developments in India. Retailing as a sector, is seeing this convergence. The introduction and differentiation of retailing by the type of additional service provided to the consumer brought it closer to services sector. The physical distribution of retail outlets brought the services close to the consumer. The use of information technology helped provide standardised services.

The web gave an avenue for further distribution and convenience to the consumers. The financial service sector that facilitated the development of the retail industry provided an opportunity to the retailers to encash upon their interaction with the consumers by offering their services through the retail outlets. One of the key elements of this convergence is the distribution strength of the retail outlets.

Information technology has played a strong facilitating role. Thus it has not been a convergence of retailing and banking but also information technology to ease transactions in day-to-day life for a variety of products and services. ■

The author is a Faculty Member (Marketing) at the TA Pai Management Institute, Manipal. He may be contacted at siva@mail.tapmi.org