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Success Factors for Effective Customer Interaction in Digital Sales: A Case from the Digital Investment Service Industry

RÜDIGER VON NITZSCH, DIRK BRAUN & ROGER W.H. BONS

Abstract In the off-line world, capable sales representatives align their advisory approach with their customer's individual profile to improve the quality of the process and the likelihood of a positive outcome for both parties. However, we see a movement away from the classical advisory settings towards "omni-channel" strategies, where companies serve their customers through a combination of on-line and off-line channels. In this short paper, we undertake a first investigation of how specific characteristics in the customer profile could affect the advisory success and introduce the "OPTI-model". We illustrate the application of our model using the example of Digital Investment Services, knowing that the financial services industry is one area where "omni-channel" strategies have become highly relevant.

Keywords: • Customer interaction • omni-channel management • digital sales • digital banking • customer profile •

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1 Introduction

The market for digital financial services is moving strongly, resulting from cost-reduction ambitions of the financial service providers. Like in other industries that have developed mass-customized customer interactions and product offerings, Digital Investment Services are expected to follow suit and offer an excellent domain to test our views. For example ING Group, one of the leading banks in Europe, has clearly identified the multi- or omni-channel approach as part of their overall service concepts, and they are organizing themselves accordingly (Hamers, 2016). The community of technology innovators to support these types of interactions is growing rapidly, as is illustrated by the many so called "FinTech" start-ups (Mackenzie, 2015).

For financial services with little complexity and limited need for customers to be advised by a financial expert, many of these services have been developed and successfully implemented. However, Digital Investment Services are often restricted to the transactional part of the service (e.g., buying and selling shares) and/or monitoring current positions through dashboards. The sales and advisory part would be a next challenge in the further digitization of financial services, but in our view requires a keen understanding of the psychology behind the sales process, in particular how the sales process is adjusted based on the customer's profile.

If you ever have had interactions with sales representatives in your role as a customer, chances are that you can distinguish effective approaches that fit your needs from the hopeless attempts to push you to buy something. An effective sales representative is fast in recognizing the peculiarities of his potential customer and addresses these in his interaction. For instance, if the sales representative encounters a highly rational customer, he will deliver facts and refrains from the traditional "sales spiel". Is the customer uncertain about his desires, the sales representative will start by assisting the client and by identifying his primary decision criteria. If the client is highly sceptical, the sales representative's first objective should be to gain his trust. Or finally, if the customer wants to know everything there is to know about the product or service, the sales representative will need to show his professional expertise and deliver facts that matter to the customer. Experienced sales representatives not only master these different approaches, but more importantly, they have the skills to recognize when to use them by "reading" the customer in front of them.

When we shift our attention to the digital environment and the sales processes there, all of these elements are present as well. Hence, digital sales channels must go beyond product representation and recommendation and interact in such a way with the customer that he feels well taken care of. These interactions do not necessarily need to be executed by humans, as insights from the field of artificial intelligence and in particular self-learning systems show (Hill, Randolph Ford, & Farreras, 2015; Shimazu, 2001). How such systems should operate is partly a technical matter, which is beyond the scope of this article. However, it is also a challenge from a business design perspective. We need

to determine, which customer characteristics can help to determine if it is worthwhile engaging the customer, and if so, which process steps have to be adjusted and executed according to the customer profile.

In this paper we propose a model that offers four dimensions to deliver individualized interactions in digital sales settings, using the example of Digital Investment Services.

2 The OPTI Characteristics Model

Based on insights from the behavioral finance literature (e.g., Ariely, 2010; Kahneman, 2012), that studies the psychological aspects involved in making financial decisions, we have identified four different dimensions of a hypothetical customer profile. These foundations give us the conviction that it is possible in a digital setting to align the communication processes and interaction with the customer profile, similar to the sales representative and his empathy and human natural intelligence in our starting example. We refer to these dimensions as the "OPTI Characteristics" (Figure 1).

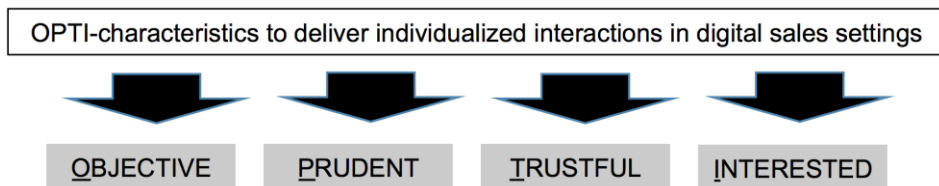


Figure 1: The OPTI Characteristics as foundations for customized customer interactions

The denotation of the respective customer specific characteristics within each of the four dimensions enables the construction of a customer specific and individual profile that forms the basis for a customized interaction: Objective, Prudence, Trustful and Interested. The next sections discuss these four characteristics in more detail, using the case example of an investment through a digital service channel. As such we present first ideas how the digital interaction for such an investment would change depending on differences in the characteristics in the customer profile.

2.1 The "OBJECTIVE" Characteristic

The dimension Objective captures the existence of rationality in the investment decisions of the customer. A maximum score in this dimension refers to a customer that does not allow any emotions to affect his decision (Kahneman & Tversky, 1979) and who has no cognitive dissonances (Cooper, 2007). He is an analytic, who only cares for factual data, which he carefully weighs before reaching his decision. On the other extreme of the Objective scale, we find the customer who makes all the classical errors known from behavioral finance (Kumar & Goyal, 2015). Examples for these are cyclical investments (Rouette & von Nitzsch, 2006) and investments in primarily domestic stock, as they provide him with a higher sense of control, yet lead him to a poor diversification and

unnecessary risk (French & Poterba, 1991). Or he shows a clear level of overconfidence and is convinced he is smarter than the market (Stotz & von Nitzsch, 2005). He is surprised, that after many transactions, he receives a smaller yield on his portfolio when compared to a passive investment on a market index (Barber & Odean, 2001).

The construction of the interaction - especially for those customers who tend to make the classical investor mistakes - needs to capture these aspects, support them transparently and deliver a sustainable added value to the customer, without robbing him of the freedom to make the final decisions himself (Sunstein, 2014). An investor who prefers cyclical investments can be informed more actively and prominently that anti-cyclical investments may have some distinct advantages (Daniel, Hirshleifer, & Subrahmanyam, 1998). Alternatively, he could be recommended to delegate more of his portfolio decisions to the system, for instance by offering a periodical rebalancing of the chosen asset allocation (von Nitzsch & Braun, 2017). In essence, all mechanisms could be applied that have become known and discussed under the term Nudging (Thaler & Sunstein, 2008). This refers to the approach that psychological behavior patterns are structurally used to steer people towards a beneficiary path for them and/or society as a whole.

2.2 The "PRUDENT" Characteristic

The Prudent characteristic captures how careful and considerate a customer is regarding the conditions that influence a financial decision, or in other words, how well he knows the necessary facts and his own preferences (Van Rooij, Lusardi, & Alessie, 2011). At the maximum of this scale we find the customer who has a complete overview of all his finances. Basically, he can articulate precisely, which investment goals he wants to achieve, while he is able to quantify his targets in relation to his risk appetite (Lusardi & Mitchell, 2014). Conversely, at the other side of the scale, customers have no or very limited insight in their financial situation. They have not yet considered which targets they want to achieve with the investment and are far from knowing which risks they are willing to take in doing so. These customers face a range of ambiguities (uncertainties about the conditions associated with the investment decision) and are feeling highly uncertain (Bossaerts, Ghirardato, Guarnaschelli, & Zame, 2010; Ellsberg, 1961).

For the interaction with customers, a correct measurement of this Prudent characteristic is very important, as customers with low prudence are quickly overwhelmed, especially in a digital setting. They are more likely to quit the interaction prematurely, especially since product-specific offers do not help them and they lack recognition that their personal circumstances are "understood" by the digital service (von Nitzsch & Braun, 2017).

In our view, future successful Digital Investment Service providers will have the appropriate tools to reduce these ambiguities. Based on the customer type, different tools can be included in the interaction, for instance to first determine the monthly available

capital for an investment. Subsequently, risks can be visualized in a graphically appealing way. This not only helps to identify the risk profile of the customer, but also provides him with more confidence in his ability to reach a sound decision, as he is structurally engaging in the relevant themes for his decision (von Nitzsch & Braun, 2017). For instance, he receives information how much money is needed for a meaningful retirement plan, the associated risks and benefits etcetera. This reduces the ambiguities and thus facilitates a decision (Van Rooij, Lusardi, & Alessie, 2012).

2.3 The "TRUSTFUL" Characteristic

The Trustful characteristic measures the fundamental trust in the digital offering. At the maximum point of the scale, customers trust their service provider and the tools and recommendations the provider delivers. They have no concerns about a lack of security or data privacy that would stop them from using the digital environment. However, if a customer does not (fully) trust the service provider, it will be difficult to envision any interaction, digital or otherwise, between them (Bettiga, Boaretto, & Chen, 2013). Besides providing incomplete data to the tool, the untrusting customer may just want to test how the tool works, without completing the actual process and coming to an investment decision.

The impact of this characteristic on the interaction is guided by the insight, that a lack of trust can be best addressed through personal contact (Fehr, 2009). This means - if at all - reverting to an off-line channel, or possibly a video-conference within the tool. Customers with a low score on Trustful should therefore not be asked to execute sensitive steps in the digital environment (Howcroft, Hewer, & Durkin, 2003). For instance, the risk profile of a customer can be determined by attractive digital tools, which would be acceptable to these customers since they do not require sensitive personal data and do not result in financial consequences (von Nitzsch & Braun, 2017).

The obvious advantage of a digital service is the size and scope of the available information as well as the determination of the customer preferences. Both elements would be difficult to achieve at a comparable level in a classical service conversation (Heinemann, 2013). Customers on the high end of the Trustful scale can be offered a fully digital interaction and they would likely experience this as added value and added flexibility, as they do not need to be bothered with scheduled meetings, travel time etc. Hybrid modes, where the representative and the customer are sitting together behind the same screen (often based on tablet technology) are getting more popular and show promising advantages for both service provider and customer (Nüesch, Alt, & Puschmann, 2015).

2.4 The "INTERESTED" Characteristic

The Interested characteristic captures both the general interest of the customer in financial topics as well as his motivation to find a good answer to a specific question. On the

extreme positive side of this scale, customers are continuously looking for comprehensive information and have the ambition to become knowledgeable on financial themes. They are willing to commit time, emotional energy and possibly monetary means to be engaged and to ensure the finances have been well taken care of (Howcroft et al., 2003). This usually results in a higher financial competence, as they already possess a lot of relevant information about the specific financial decision they are contemplating (Lusardi & Mitchell, 2014). The obvious counterpart on this scale is the customer who has absolutely no interest at all in financial themes and does not want to spend any effort on this theme.

The customer with a high score on the Interested scale will shy away from a service provider who constructs and/or manages a portfolio without any explanations and arguments. This customers demand a clear understanding why the portfolio decisions have been proposed or taken. Offers that enable the client to identify thematic focal points, such as low carbon-emission investments, provide a good fit to this customer profile. They will value periodical updates beyond the yield development that include other developments in his field of interest (von Nitzsch & Braun, 2017). Conversely, the customer who is in "don't care" mode for all these matters should not be bothered with these themes, beyond the legal requirements the service provider has to comply with as part of his "customer care obligation". It would make him less certain or at the very least he would find it annoying and it would steer him away from his well-intended service provider (Ha & Hoch, 1989).

3 Conclusion and Outlook

In this paper we focussed on Digital Investment Services and how they should aim for a level of individualization in the interaction process to fit the customer profile using digital and automated processes. This would not just deliver a custom fit from an investment portfolio perspective, but also achieve that the customer feels well taken care of during the entire interaction and service consumption. It would increase the customer engagement and identification with the product and provider, compared to current standardized digital solutions and interactions, but also the pseudo-individual interactions occurring in retail branches of financial institutions.

In particular the characteristics Prudence and Trustful indicate, that already today there is the potential and the need for a combined multi-channel approach. For instance, the actions of the customer in the digital environment when providing information can be captured to provide input for the subsequent service process. If the customer requires a lot of time to answer specific questions and/or makes several revisions, it might indicate ambiguity about that particular question and would provide the possibility to connect a representative via a different channel (voice or video connection) at that time, of course depending on the resources and service model of the provider.

Of course, we have only started to scratch the surface in providing customized Digital Investment. Future research should result in an OPTI-profiling instrument and the

associated translation to the customer profile. Also, the various technical and content components that would be needed to achieve the desired alignment of the customer interaction need to be identified and operationalized, including gaps where current technology does not yet offer solutions. This will be the focus of our next steps, in which we plan to develop such a profiling tool and implement it in a real-life Digital Investment Service.

In summary, the OPTI Characteristics are expected to help in the identification of the various archetypical customer types. Knowing their different affinities or attitudes towards the use of digital services will enable the customization of not only the products and portfolio, but also the interaction with the customer, giving them the necessary comfort to use the digital channel if and when they like, possibly in addition to the traditional channel when the situation demands it. Understanding these characteristics helps to design the Digital Investment Services of the future.

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