

Monica asked, "What are the biggest challenges to growth, profitability, and even the future existence faced by community financial institutions? And what are the opportunities you see when it comes to potential new revenue streams in a digital world?" Well, that's a great question, Monica. And one that I look forward to answering for you on today's episode of Banking on Digital Growth.

Greetings and hello. Thank you for tuning in to the 34th episode of the Banking on Digital Growth Podcast, where I, James Robert Lay, your digital anthropologist commit to continue to guide you and your financial brand along your digital growth journey. A journey that empowers you to grow from good to great. A journey that elevates you and your financial brand beyond the commoditized promotion of the same great rates, the amazing service and those look alike laundry list of product features and those services that every other bank and credit union promotes so that you can do one thing: you can generate 10 times more loans and deposits by guiding people in the communities that you serve beyond their financial stress towards a bigger, better brighter future. Today's episode is part of the Inside Digital Growth Series and I'll be answering a question from Monica, who is the chief operating officer for a financial brand in the Southwest.


Once again, Monica asks, "What are the biggest challenges to growth, profitability and even the future existence faced by community financial institutions? And what are the opportunities you see when it comes to new potential revenue stream streams in a digital world?" Once again, thank you for the question Monica. And today I'm going to answer this question for you framed around three key areas of focus.

Number one, we're going to look at what I call the digital positioning problem. From there, we'll move into point number two, which is addressing the digital lead gen gap. And then we'll wrap up with point number three, where we'll unlock what I see is the secret to digital growth revenue, particularly over the next two to three, five years.

So let's start with point number one and discuss the digital positioning problem. As digital positioning and also point number two, digital lead gen, they're the biggest threats that I see facing financial brands in this digital first world when it comes to growth, profitability, and to your point, Monica, their future existence. A bank or a credit union, they can have the best technology on the fulfillment side or the service side of the business model, the online banking, the mobile banking, the PFM, and that's where a lot of time has been spent, the vast majority of time of effort of energy, of investment over really the last 10 years. And this is a very good thing. It's good to see that side of the business becoming much more digital.

But good is not enough because if a financial brand can't position themselves digitally above the commoditized great rates, amazing services, and those look alike laundry list of features that every other financial brand promotes, their amazing mobile banking app, their PFM or whatever digital tool that they bring to bear in the marketplace, will never get used because there will be no new account holders coming in to use it. And that's because there'll be no one that knows about that particular product or even the financial brand for that matter digitally speaking. So where is the opportunity to position your financial brand beyond the promotion of commoditized products?

It all starts with one thing. It all starts with a purpose that puts people at the center of all of your thinking and all of your doing. A purpose that focuses on transforming the lives of people in the communities that you serve over the traditional focus of really the commoditized transaction of dollars



and cents. This is about a purpose that I see as the accelerant factor and also the differentiating factor for financial brands in a digital world. And I do provide some additional insight, clarity and perspective on how financial brands who are competing and not even just financial brands, other brands for that matter. Because I think there's so much that we can learn by looking outside of this industry, looking at how other brands competing in commoditized marketplaces are banking on purpose. And I discussed that in episode number 30, along with episode number 33.

So moving on and really closely tangled up with the digital positioning problem that I mentioned previously is also the digital lead generation gap, which is the second point that I'd like to discuss here. Now from the 1,000 plus digital secret shopping studies that we've conducted for financial brands. And when we conduct these secret shopping studies, we're looking at two key areas. We're looking at the emotional experience of their digital positioning and more specifically their website. And then we're also looking at the lead experience a prospective account holder, our prospective member travels through. And what we found in these studies is that 93% of consumers shared that they start their journey when shopping for a financial product or a service, a loan, a checking account, et cetera, they start that journey online. And that digital journey very, very quickly ends up on a bank or credit union website. And here's the problem.

Most bank and credit new websites, even today in 2020 going into 2021, are still nothing more than glorified online brochures. That's a problem. They are not digital lead generation engines are what we call websites that sell here at the Digital Growth Institute. And a website that sells just one gear, one component and a larger digital growth engine. And so when we look at the opportunity here, the opportunity is to transform the glorified online brochure into a website that sells. And when you do so you begin to close the digital lead gen gap.

On the note of building and optimizing a website that sells, in coming back to this idea of digital secret shopping studies, one study that we conducted in the industry, we found that more than 300 financial brands surveyed 94% have never undergone any type of digital secret shopping study. Now let that sink in for a moment. 94% of banks and credit unions out of the 300 that were surveyed have never undergone any type of secret shopping study digitally speaking. Could you imagine for a moment if Amazon never did any secret shopping studies to improve their digital shopping experience. Or if Target or any major digital retailer that you know, never optimized the digital experience. They only updated their website once every five, six or seven years, which the typical industry average we see when it comes to financial brand websites, updates and optimization.

On the flip side, 72% of those 300 financial brands perform, and granted this one conducted pre-COVID. 72% of those financial brands perform ongoing secret shopping studies for their physical branch locations. And the lack of focus around the digital secret shopping study is troubling considering that 93% of consumers have shared that they start their digital buying journey online, regardless of where they apply. Does it matter if they apply online? Does it matter if they apply over the phone or if they would come into a branch pre-COVID?

So when we think about these challenges of the digital lead gen gap, really closely aligned with a lack of awareness and understanding of how consumers are shopping and buying financial products digitally, through the digital buying journeys. Another thing to think about and consider is that 84% of financial brands have not mapped out digital journeys. It's good that we're seeing more conversation and more activity around "consumer journey mapping" and, CX and customer experience, but that's only through one particular lens of the entire buying journey. And if you don't have digital consumer journeys mapped

out for all of your key product lines, just think about what this means for the person on the other end trying to navigate the complex world of buying a financial product. It's like asking them to walk through the woods alone at night, without a flashlight. Sooner or later, they're going to run into a tree and they're going to trip over a rock. Someone's going to get hurt.

Furthermore, when we look at this idea of the digital lead gen gap, 83% of financial brands do not have a strategy to follow up with abandoned applications. This, from the perspective of digital retail is like having a leaky shopping cart. And so the opportunity here when we're talking about bridging the digital lead gen gap is for financial brands to not just think about themselves as banks or credit unions, and don't even really think about yourself as a technology company for that matter. Because I know that's been a big conversation of latest, we need to start thinking about ourselves as technology companies. I want to take that thinking a step further. Begin thinking of your bank or credit union as a digital retailer with a strong digital marketing and sales methodology. And when you do so, this will help to fix the most important part of the consumer buying journey when it comes to conversions.

And once your financial brand, diagnosis and addresses the digital conversion problem for all of your key product lines on your website then, and only then can you begin to move further up into the buying journey to fix and optimize challenges within the consideration stage of the buying journey. And from there now you have permission to begin to focus on the opportunities that are available to be either created or captured in the awareness stage of the consumer buying journey through targeted content that is communicated, distributed, promoted through channels like emails and ads, that are informed through the insights that you gained from data and analytics.

On the note of digital ads, I did a very deep podcast on the future of digital ads, answering a question from Michael in episode number 31 as the future of digital ads does not look very bright at this time. And I was predicting the demise of digital ads starting three years ago, thanks to the rise of ad blockers and ad bots. But now what we're starting to see is an ongoing ad policy change that's really impacting the financial services space. And these ad policy changes from Facebook and now Google are being driven by data privacy demands from both consumer complaints, as well as government regulations. So I want to take this thinking even further and move on to the third point now to address for Monica, the opportunities that I see for new revenue growth, which is really a secret income stream for financial brands, a secret income stream that is currently an untapped opportunity just waiting to be created or captured by you before others in your community take advantage of it.

So digital has transformed everything as once traditional products have become dematerialized. And for example, the checking account should no longer be called a checking account because the checking account has been dematerialized. And we see this also on the note of branch banking, physical branch banking, giving way to mobile banking. In addition to the dematerialization, we also see the democratization of financial services and we see this with the rise of Fintech. Fintech is growing at an exponential pace while legacy financial brands and incumbents continue to shrink and consolidate year over year. And the third point is the demonetization of financial services, which is where the commoditization of any product leads towards a downward trend in both revenue, as well as profitability. And to the point of these three Ds: the dematerialization, the democratization and the demonetization of financial services. These three Ds are actually further expanded upon in a larger model that is shared by Peter Diamandis and Steven Kotler in their book, Bold.

So I provide further insight for how just these three Ds specifically have been applied to the music industry in episode number 18, and how they can be further applied to your bank or credit union. I also


get a little bit personal with you in episode number 18, because it is about the music industry where I share my own personal passion about music, which a lot of people don't know this. I played the viola growing up in the orchestra before I started a punk rock band after graduating high school. And that led me down to the path of starting what has become today, the Digital Growth Institute that you know. So coming back to new revenue streams in a digital first world, I'd like for you to toss out everything you know about financial products and let's start from scratch.

Let's build this thing from the ground up because too often, our thinking our future thinking of where we could go next is constrained by our experiences, our success, and also the failures that we've had in the past, all of which have led us to arrive at the point to where we are today in this present moment. In short, we often carry a curse of knowledge and that's why for this exercise, let's start with a blank slate and consider three key truths. People want three things in their life. They want to feel healthy, they want to feel wealthy and they want to feel happy. Money is the thread that connects all three of these points together. And it has been proven in multiple studies that a person's financial wellbeing is closely tied and directly correlated with their physical wellbeing along with their mental wellbeing. But we know that money is stressful more so now than before thanks to COVID and the stress is taking a toll on people's health and happiness. And that's why they're looking for someone they can trust to guide them beyond this stress towards a bigger, better brighter future.

And here's exactly where I see the secret to digital growth and the secret to future revenue and future income, because this can be found by focusing your product positioning, financial brand positioning as the cure, as the prescription to people's biggest pain points. And so your financial brand's future revenue streams will be created by what I see the bundling of financial coaching programs, bundle them up with a spending account and not a checking account. Let's just call this a spending account for this exercise. And here's why. When we think about the future an account holder wants to create, what's standing in their way more often than not is money. And most people don't have a savings problem. Instead, they have a spending problem and they have a spending problem because their spending behaviors are deeply rooted in their own upbringing and just their environment at large.

And so coaching guidance, accountability, and really coaching, guidance and accountability that is informed by data and insights that you have on your account holders, gleaned through automation, gleaned through AI. This is what will help people get beyond their financial stress and get to a bigger, better, brighter future that is framed around their own personal goals for growth, not your financial brand. And so to do this, this is really cultural transformation I see, is putting and committing to put the transformation of people over the transaction of dollars and cents. That's why coming back to start this conversation in point number one: purpose. And that's why we put purpose at the center of our digital growth blueprint.

People will pay for coaching when they want to experience real transformation in their lives. Think about this for a moment. If you want to transform your fitness level, you pay a fitness coach, not only to show you how to do it, but to hold you accountable, to make sure that you actually do it. You want to transform your diet, you pay a dietician, not just to show you how to do it, but to also hold you accountable to make sure you change you're eating behaviors. You want to transform your leadership skills, you pay a business coach, not just to show you how to be a better leader, but to hold you accountable as you personally grow from good to great. And people will do the same thing when it comes to their financial situation if coaching, financial coaching is positioned correctly.




Through our research, we're already starting to see some brands do this and not through the traditional lens of an incumbent bank or credit union. One of these brands in particular is called The Financial Gym. The Financial Gym is based out of New York City. And now in fact, a report that they shared found that, that members who pay to be in their program, they save around \$6,000 per year while increasing their credit score an average of 50 points. So think about this. How much would someone pay you, pay your financial brand for financial coaching, guidance, advice, accountability? Well, let's just use these numbers from The Financial Gym. And if you were able to save the average person in your financial coaching program, \$6,000 per year through not only debt consolidation, but also spending behavior modification, a membership of \$100 per month, or let's just say \$1,000 per year. That gives them a tremendous return on an investment they make in themselves. And more importantly, an investment that they make in their future.

And it gives your financial brand a tremendous opportunity to earn both interest income through, for example, if you're repackaging debt for them. But I think even more, the opportunity is bigger here, is not just the interest income, it's through the non interest income that comes through the value creation by putting people at the center of all of your thinking and doing. So think about this. If you were able to start a financial coaching pilot program, bundled up with a spending account that includes an annual membership fee of \$1,000 or a \$100 per month. And you were able to get just 100 people in this pilot program, you've now opened up an extra \$100,000 per year in annual non interest income. And once you work out the kinks in this pilot program, and you begin to scale it even further, this is where you add not 100 people, but you grow a 100 to a 1,000.

Now you've added an additional \$1 million in annual non interest income through a repeatable program, focused on guiding people in the communities you serve beyond their biggest questions, beyond their concerns, and really helping them to overcome and break free of the problems that are keeping them up at night, the problems that are stressing them out, the problems that are taking the toll on their health, their relationship, their sense of wellbeing. And when you do this, they will get to a bigger, better, brighter future, not because of your products, but because of your coaching, your guidance, your insight, your accountability. And I promise you, when you do this for them, they will tell their friends, they will tell their family about all the good that you've done for them beyond just providing them with another commoditized checking account that they could get anywhere. And that's because you gave them so much more, you gave them help, you gave them hope.

And as they tell their friends, they tell their family about your personalized financial coaching program, your coaching program that has the potential to scale even further, to empower you to generate even more annual non interest income. If you get 10,000 people in a program like this, well, now you have the potential to generate \$10 million in non interest income. And so this is the future of growth for financial brands in a digital world, where we have all of this insight, all of this data into people's spending behaviors to provide them with guidance, to provide them with recommendations. And most importantly, to provide them with accountability, to transform their own mindset, to transform their spending behaviors that keep them stuck in their current present reality.

So as I wrap up, there are three key opportunities that I want to come back to as we consider Monica's original question when she asked, "What are the biggest challenges to growth, profitability, and even the future existence faced by community financial institutions? And what are the opportunities you see when it comes to potential new streams of revenue in a digital world?" So three things to tie everything up nicely, three points.



Number one, let's eliminate the digital positioning problem by committing to bank on purpose, putting people at the center of all of your thinking, all of your doing. Let's close the digital lead gen gap by first fixing your digital conversion problem for all of your key product lines on your website. And while you're at it, let's just commit to transform that website beyond a glorified online brochure into a website that sells. And the number three, let's capture new revenue through non interest income that can be created by building a scalable financial coaching program, bundling up an optimized spending product that provides account holders with guidance, with insight, and most importantly accountability to transform their thinking, to transform their mindset, to transform their behaviors. And we frame this coaching program, not around your financial brand. We frame this coaching program around answering their biggest questions, addressing their biggest concerns so that you can help guide them to get to a bigger, better, brighter future.

As always, if you have a question like Monica, I want to hear from you because I want to help you. I want to help you continue to grow from good to great, to maximize your financial brand's future digital growth potential. Just go to www.goaskjr.com, submit a question there and I will answer it for you on a future podcast episode. And remember the only bad question is the question that goes unasked. Until next time, be well, do good and wash your hands.