

## Delivery System Of the Future Exists Today

**A**S CITIBANK'S Walter Wriston proclaimed in 1980 that the bank of the future already existed in the form of Merrill Lynch, it can well be argued that the delivery system of the future — that is, how products are delivered to customers — is also here today. It is not necessarily the predominantly low-tech and low-tech toll-free telephone and mail delivery system of Merrill Lynch. And it is not necessarily the high-touch (for example, interstate offices) and high-tech (for example, automated teller machines, home banking, and pocket terminals) system of Citibank.

The delivery system of the future exists today in the form of the brick-and-mortar system of thousands of financial institutions. The traditional branch will continue to evolve in terms of becoming more automated; more sales oriented with an increased array of products; more innovative in terms of type and locational placement; and even more fee generating with branch-sharing arrangements and new pricing strategies. And branch networks will continue to be reconfigured through closings, sales, purchases, switches, relocations, downsizings, and openings to reflect changing demand and supply conditions.

However, we do not believe that we will witness the type of delivery system revolution predicted by many bankers, consultants, and even regulators where electronic banking replaces branches and human tellers by the turn of the century.

We went on record in *The Bankers Magazine* in 1977 to the effect that even if we ever reached the cashless or checkless society foreseen by some, this would not mean a "branchless" society. We still believe this today and stand by our prediction that the branch will continue to be the dominant delivery system in the foreseeable future.

The delivery system of the future is



Kenneth Thomas

not necessarily the optimal delivery system. The ideal delivery system should be defined from the consumer's perspective as the one which provides a bank's target market segments with the flexibility to conduct any of their desired banking activities when they want, where they want, and, with whom or what they want — a human or a machine.

This delivery system is here today for many customers with the wide range of conventional and electronic service-delivery vehicles available. The optimal delivery system from such a marketing perspective may or may not be equivalent to the ideal system from a producer's point of view, where cost minimization takes precedence over convenience maximization.

This difference between consumer-driven and producer-driven delivery systems raises the important point that the "delivery system of the future" is, to a large extent, a function of our future bank structure. This is because both price and nonprice (for example, delivery system, product, and promotion) decisions are affected greatly by competition.

If, as some visionaries predict, our bank structure someday becomes dominated by a small number of very large banks, then the delivery system of the future will more than likely be similar to the Citibank scenario where high-touch and high-tech coexist, but much more the latter than the former. In the extreme case with just a few mammoth

"competitors," they would more than likely define the "optimal" system to be a very high-tech, low-touch, and low-cost one.

Our view of the future bank structure is one with much increased concentration resulting from a great number of mergers, but nevertheless with several thousands of financial institutions of all sizes. In this more likely scenario, the delivery system of the future will be quite similar to our present mix of both conventional and electronic delivery system vehicles, with an emphasis on the former. Consider a small bank without ATMs but with a very strong market position and loyal customer base in its local area; that bank may be no more inclined to offer ATMs by the turn of the century if it continues to prosper and believes that there is no need for ATMs, whether or not this is the case.

The most striking aspect of the delivery system of the future will be its resemblance to the one that is evolving today. The delivery system of the future is indeed here and in place now for many financial institutions but is still a developing concept that is in the process of being put in place for others. This means that the delivery system of the future will be a product of evolution rather than revolution.

*Kenneth H. Thomas is the president of K.H. Thomas Associates, a Philadelphia-based consulting firm. He also is a lecturer in banking at the Wharton School, University of Pennsylvania.*

