

BAI ANNUAL FLOAT MANAGEMENT CONFERENCE

Fort Lauderdale, Florida
February 13, 1997



I've had a number of jobs in the past, but I've never had to hang out my shingle as a mind reader. Still, I'm willing to bet that some of you have had the following question pop in your mind in the past hour—Why did they bring in someone from the Fed to talk about customer focus?

Some of you may have figured it was a strategy—try to spark some interest in the audience by bringing in someone who isn't associated with the topic at hand. By the way, there's no truth to the rumor that the first choice for this luncheon was Dennis Rodman discussing how to win friends and influence people. Apparently, a Federal Reserve Bank president talking about customer service was incongruous enough.

The truth is I'm here because I'm firmly committed to customer focus. I'm here because customer focus is essential—even for a central bank...even for a float manager. I realize that I'm probably preaching to the choir on this topic. The banking industry has come a lot farther than the Federal Reserve in terms of customer service.

But there's no one more sincere than the recently converted, And the Federal Reserve Bank of Chicago has joined the ranks of the converted...albeit a bit later than many of you. My role here is to provide a reminder—customer focus is always important. Sounds simple, but many companies lose track of that concept. And sometimes it's the same companies that originally thrived because they were the best at focusing on the customer.

Customer Focus

So what is customer focus? Well, here's what it's not:

- It's not a group hug;
- It's not an excuse for the marketing department to take a three-hour lunch;

- It's not a conspiracy by paper companies to mass-produce surveys;
- And it's not a mystic mantra repeatedly chanted by a desperate company hoping for a miracle. Customer focus seems to be everything but what it ought to be: common sense. The customers instinctively know it, but too many businesses don't.

So, what is customer focus?

- It's Walter Wriston of Citibank figuring out in the '70s that people would be interested in a Money Market Deposit Account;
- It's Levi Strauss noticing in the 1850s that gold miners were making their own pants out of a sturdy cloth called denim.
- It's Lee Iacocca at Chrysler in the '80s deciding to produce a convertible after discovering that people still loved them even though they hadn't been manufactured in years;
- It's Richard Sears in the 1890s realizing that consumers in rural areas wanted high-quality goods that could be ordered through a catalogue.
- It's Judge Kenesaw Mountain Landis introducing a livelier ball in the '20s after realizing that fans loved to watch Babe Ruth hit home runs.
- It's Amadeo Giannini of Bank of America serving customers in makeshift quarters on a pier after the San Francisco earthquake of 1906.
- It's Sam Walton of WalMart deciding in the '60s that customers wanted a well-stocked store with competitive prices and friendly workers.
- It's Jack Benny doing a serious violin act during the '20s and noticing that people liked his occasional jokes better than his music
- It's Nordstroms realizing in the '80s that people would patronize a store that emphasized premier customer service even in an era of cut-throat discounting;
- It's community banks serving niche markets and making loans based on their knowledge of local people and businesses.
- And it's larger banks figuring out that sophisticated customers need sophisticated services...and they're willing to pay a fee to get those services.

Customer focus is innovation and continual improvement and vision. Customer focus is listening and acting on what you hear. Customer focus is success. Every business success is the story of customer focus. Most failures are the story of losing that focus. The customer demands constant attention. We can never do enough for them. They may be satisfied—for the moment—but they'll never be complacent. If you take them for granted, your competitors won't. Of course, you'll never escape customers that receive bad service. They'll never forget you—they'll tell other people about your poor service and cost you even more business.

The lessons of customer focus aren't limited to business. Colleges and universities are affected too. I taught at Northwestern before coming to the Fed in '94. I've seen the change in academia. Students today are consumers. They read the latest rankings in U.S. News and World Report before they pick a college. And they complete evaluations of their professors...evaluations that are published regularly for all to see. I can personally attest to the fact that they are taken very seriously by the professors. Northwestern even has a resource center where professors can find help in improving their teaching style.

Banking Sector

Banks are not immune from the need for customer focus. It's more important than ever, especially given the competitive environment. It hasn't always been that way, of course. Banks didn't have much competition a few decades ago...and it showed. Here's an example. The Chicago Fed used to periodically send out workers to interview bankers. They tried to get a sense of what was happening in the region...an early attempt at customer focus. The Chicago Fed staffer would summarize what the banker had to say and put it down on paper. This is an excerpt of an actual report based on an interview with a banker back in 1956:

“Mr. Smith has very definite and strong ideas on the matter of payment of interest on savings. He says he is not concerned with what the other banks do. The bank pays 1 percent on regular savings and intends to continue on that basis...This policy has been in use for some time, and Mr. Smith says there will be no change.”

Not exactly a strong customer focus. Times have changed, obviously. The competition is no longer just an intramural match between banks. Brokerage houses, insurance companies, and maybe even a certain large software company are competing for the traditional business of banking.

Banks are just as eager to expand their customer base. Banks want to be Charles Schwab; Charles Schwab wants to be a bank; and Bill Gates expects to be both. But it doesn't matter what banks, Charles Schwab, or Bill Gates want. It's what the customer wants that matters. That will determine the future of banking.

Everyone's talking about Microsoft, but it's interesting to think back about 15 years to past competitors. Back then every banker was worried about Sears. They seemed to be in the process of building a nationwide, one-stop shopping center for financial services—the financial supermarket. Most people thought Sears was following a sound strategy at the time. Things change, though. You don't hear much about the financial supermarket anymore. What happened? It's clear in hindsight—Sears took its eye off the ball. They lost track of their key customer...they lost their customer focus.

Sears is an interesting example to me because the deputy chairman of the Chicago Fed is Arthur Martinez, chairman and CEO of Sears. Arthur is one of the nine private citizens from the Midwest who serve as Chicago Fed directors. I should add that they provide a valuable public service.

Arthur's been nice enough to share his thoughts about the Sears turnaround with Chicago Fed staff. One of the most important reasons for the remarkable comeback by Sears was a renewed focus on its key customers. The turnaround has been well-publicized, of course. Sears sold its various financial holdings, such as Allstate, Dean Witter, and Discover, and concentrated on its retail operations. But it focused even more specifically. Sears took a closer look at its entire retail operation and identified its key customer—women and their families. Today whenever Sears makes a key strategic decision there's always a crucial test—how would it affect

their key customer...what would “she” think. Let’s face it, it’s easy to lose track of your customers. It’s happened to the best companies. There’s a familiar pattern. Companies seem to follow cycles in which they are ahead of the curve in meeting customer needs and then fall behind.

Take the auto industry, for example. Henry Ford founded an industry by figuring out that customers wanted an affordable, sturdy car—the Model T. He was a bit slower to take the next step, though. The expectations of customers increased; the flexibility of Ford did not. Ford was eager to sell you a car—as long as you wanted a Model T and you wanted a black one. As always, competitors stepped in to fill the gap and Ford began to lose its dominant position.

The Federal Reserve

It’s hard to argue that the private sector has to focus on the customer. It’s a matter of survival. At the end of the day, the customer is judge, jury, and, sometimes, executioner.

It’s somewhat different for the Federal Reserve. Our bottom line is serving the public good. But we do have customers. We have customers in the traditional sense because we provide financial services for a fee. We also provide a variety of services as the bank for the U.S. government. Even banks that we supervise are customers in a sense. Broadly speaking, the public at large is our most important customer. We’re ultimately answerable to Congress and the American people.

Does a public institution such as the Fed need to focus on customers? We thought about that question quite a bit, and we decided the answer is “yes.”

That’s not always easy. Take financial services. Our ultimate customer is the public at large. Our goal is to enhance the efficiency of the payments system. That’s the driving motivation for everything we do. The best way to increase overall efficiency is to be a first-rate provider of services—to meet customer needs. Input from our customer helps us play a positive role in the marketplace. And ultimately, it’s the customer who determines our role. We’re required to recover the costs of providing priced services, including the taxes and capital costs the Fed would incur if it were a private firm. In other words, we have to make a profit. Our long-term role in financial services should be continually reexamined...as the Rivlin Committee is doing now. The key is to adapt to changes in the marketplace. And the best way to do that is to keep in touch with customers.

That idea is reflected in the Chicago Fed’s vision. It states that we are committed to providing products and services of unmatched value to those we serve. The key phrase is “to those we serve.” In other words, our customers decide if we’re truly providing unmatched value. That’s both internal and external customers. We’ve tried to emphasize that if we do a better job of focusing on customers within the Bank, we’ll do a better job serving customers outside the Bank.

Words are fine but actions speak louder. What have we actually done? Here are a few quick examples.

Customer focus begins with listening. The Chicago Fed now has several advisory groups. They include not only our customers but people who don’t do business with us. We listened to what they had to say about the financial services we provide. And we acted. Our customers in central Illinois considered it a waste of time and money for their checks to be processed in Chicago. They were right; we established a check processing facility for central Illinois in Peoria. Our local advisory group helped us determine the best location and most efficient way to operate.

I can offer a personal testimony. I periodically visit bankers and other business leaders in the Midwest. I was out talking to a banker when he asked me why we didn't collate the notices we were sending to him. You may be familiar with them...they're the notices the Fed sends out that announce changes in regulations or new prices for financial services. It seems that these notices, which sometimes were many pages long, weren't even being collated and stapled. Maybe a small matter. But we were sending out hundreds of these notices to thousands of bankers every year. Each time we did, we were adding a bit of aggravation to somebody's life.

As it turns out our mail department was trying to be more efficient. They stopped collating the documents because our machinery couldn't do it very quickly. Well, needless to say, we now collate and staple our notices. Sometimes we have to aggravate bankers—we don't have a choice. But we should have a better reason than that.

Even in Supervision and Regulation we've taken more of a customer focus. The bankers we regulate aren't customers in the traditional sense. But we do have a common goal: we both want a safe and sound banking system. And we both want efficient, effective exams that are done as quickly as possible.

The examination of a small bank once required a staff of seven and two weeks time. All that time was spent at the bank—where we tended to disrupt operations and generally get in the way...no matter how much we tried not to. Now we can do the same exam with five people in one week. Computers do the clerical routines at our home office so we can concentrate on assessing risk. The end result is a better exam and less disruption for bankers.

The exam reports used to be 70 pages long, a regurgitation of every fact and figure that the bank gave us. The bank had to sift through all the information to find the exam results and our recommendations. Now our reports are 20 pages long, with just the information the banker needs to know. The banks used to wait three months for the reports; now it's one month. We have, however, introduced some new paperwork to the procedure. We ask the banks to evaluate our performance.

We're also working with the Treasury, the FDIC, and state regulators to share information and avoid duplication. And we've found ways to streamline and simplify every application process.

All this is not compromising the integrity of the banking system. It allows us to do a better job where there's work to be done. We can focus on risk management and internal controls. The Fed can keep both a light hand and a watchful eye on the banking industry. Customer focus has helped us do that. We've moved away from the old command and control approach. It was impractical for us, a millstone for you, and a contradiction to our goals of fostering economic growth.

Conclusion

So, as I said, I'm a true believer when it comes to customer focus. The Chicago Fed has a long way to go. But we're working at it. It's a serious commitment on our part. We're just a few steps along on the learning curve. We're advancing at a quick pace, though.

A reporter once asked Babe Ruth how he always managed to come through in the clutch. "I don't know," Ruth replied. "I just keep my eye on the ball." Pretty simple. But a lot of people tend to take their eye off the ball. Each company goes through cycles—they tend to forget the lessons of the past—even basic ones like focusing on the customer. So I'll leave you with a friendly reminder—always focus on your customers. Because if you don't—someone else will.

Thank you.