



## first direct (A)

*What is first direct?*

*A higher form of banking*

*Where technology is a means to an end*

*Not an end in itself*

*Where time is conquered*

*24 hours a day*

*You're too busy working*

*To be busy banking*

*Life can be messy*

*Make it neater*

*Eliminating stress*

*By talking*

*Not lecturing*

*A gateway to freedom*

*Along the phone line*

*365 days a year*

*Even in the middle of the night*

*Helping you control your affairs*

*(and rule the world)*

*...without fail*

*And always at a fair price*

*So you can get on with your life*

*You can't touch us*

*You can't see us*

*But we're always here*

*Where kids play*

*While their parents work*

*Britain's hardest working bank*

*Feared by its competitors*

*Loved by its customers*

*Britain's hardest working bank*

*Invented for people not bankers.*

*—from "first direct—the movie"  
produced for first direct by Chiat/Day*

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*Research Associate Dickson L. Louie prepared this case under the supervision of Professor Jeffrey F. Rayport as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.*

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On the seventh anniversary of first direct's launch, Kevin Newman, the bank's 39-year-old chief executive, sat in the company cafeteria and reflected on his organization's progress to date and the challenges ahead. Newman had been a member of the original development team that established the business case for first direct within its parent organization, Midland Bank PLC,<sup>1</sup> and part of the first direct launch team, which in 1989 introduced 24-hour direct banking by telephone to the United Kingdom. By 1996, first direct was the largest "virtual" bank in the world, with over 630,000 current account<sup>2</sup> customers and a growth rate of 12,000 new customers per month, with no physical branches. Moreover, first direct achieved the highest service quality ratings of any bank in the United Kingdom.

Newman was pleased with the company's success to date. first direct had become profitable in 1994 and operated profitably since then. He expected operating income to exceed £10 million in 1996. But growth presented new challenges. During the previous two years, first direct had added roughly 120,000 customers a year—making it the fastest growing bank in the United Kingdom—which strained existing bank capacity. This put Newman under pressure to address issues related to how first direct would orchestrate its future growth. One immediate need was expansion of the centralized telephone operations at its sites in Leeds. Leeds had emerged in the early 1990s as the new center for financial services and high technology businesses in the United Kingdom; first direct had two phone centers there, one at Stourton and another at Arlington. Adding a third site in another part of the country seemed appealing by allowing the bank to tap other labor markets, but Newman wondered about the long-term impact on the company's service culture. Was it important to concentrate phone center operations around headquarters? Was it viable to draw all labor from a single city market? Would changes in technology alter the bank's labor needs?

first direct also had to consider the impact of increasing competition in direct banking as more and more competitors attempted to replicate its business model. Management also had to consider if organic growth from internal operations would be sufficient to meet demand, or if new channels or acquisitions would be appropriate.

These questions were critical, given Newman's stated goal. He had committed the organization to reaching one million customers by the year 2000. Implicit in this commitment was the idea that first direct would continue to offer the highest quality service of any bank—physical or direct—in its national market. Service quality was first direct's competitive advantage and resulted from a company-wide commitment to six core values—individual contribution, openness, respect, responsiveness, getting it right the first time, and kaizen<sup>3</sup>—and maintaining that commitment, regardless of growth, was essential to preserving the firm's status as a premier service company in Great Britain's financial services sector.

## Project Raincloud

first direct was a subsidiary of Midland Bank, one of the four major—or "High Street"<sup>4</sup>—banks in the United Kingdom, along with Barclays Bank, Lloyds Bank, and National Westminster Bank (NatWest). In the late 1980s, the entire U.K. retail banking sector suffered poor reputations for service. Research from the U.K.'s Henley Center for Forecasting showed that retail banks scored lowest on service quality among all retail sectors in the United Kingdom. In addition to industry-wide concerns, Midland Bank had other problems. In 1988, Midland suffered significant

<sup>1</sup> Midland PLC was owned by the Hong Kong & Shanghai Banking Corporation.

<sup>2</sup> Current accounts were the equivalent of checking accounts in the United States.

<sup>3</sup> "Kaizen" means "continuous improvement" in Japanese.

<sup>4</sup> Large commercial banks in the United Kingdom were known as "High Street" banks, because every town had a "High Street" where the branches of the banks were commonly located.

losses (of £505 million), following write-offs related to the acquisition of Crocker National Bank in the United States and bad loans made to Third World countries. According to one executive, "The image of Midland was pretty bad in the late 1980s, and its reputation was way down there."

In June 1988, Midland chartered a task force to investigate options for re-positioning itself, including the possibility of new service channels. The project team, called "Project Raincloud," had a dual mandate: to find a viable alternative to branch banking and to devise a new approach to banking that put the customer first. After extensive research and analysis of consumer trends and preferences, the project team discovered that Midland account holders were making decreasing use of the branch network. The research<sup>5</sup> showed that:

- 40% had not visited their branch in the last week (20% in the last month);
- 41% would rather visit their branch as little as possible;
- 48% had never met their branch manager; and
- 38% found it difficult to get to their bank during its business hours.

The most common bank transactions—withdrawning cash, making deposits, and paying bills—often did not require any type of personal interaction between account holders and staff. Transactions which required face-to-face interaction, such as obtaining foreign currency, arranging a loan or overdraft, or seeking financial advice, were relatively low in volume (see **Exhibit 1** for bank usage by transaction type).

Even so, the research also revealed that account holders still put a premium on personal service and attention. Although many bank customers had never met their branch manager, almost 90% thought it was important to be able to see the manager when the need arose. And while 27% said they would like to do more business over the phone, 76% said they would prefer to speak with an individual instead of a computer or voice response unit when they called. The research also showed that consumers wanted to deal with friendly and knowledgeable staff, to have access to the bank during convenient opening hours, and to have the means to conclude transactions quickly and easily.

Finally, the research team asked if consumers would be interested in a person-to-person, 24-hour, 7-day-a-week telephone banking service, which was still an untested idea in the United Kingdom at the time. Fifty-six percent of respondents expressed some interest, of whom nearly half, or 25% of the sample, said they would be very interested. The interest was greatest among certain customer groups: women; people who were heavy automated teller machine (ATM) users; and people who felt less organized regarding personal financial matters.

As David Holley, director of mortgages at first direct and an early post-launch recruit, observed, "The concept for first direct was researched a lot. We found that you could have this service without a branch network. The research showed that people no longer visited their branches nor saw their branch managers."

Using this research as a guide, Project Raincloud refined the concept of person-to-person banking services by telephone. Fifteen months after it started, Project Raincloud was prepared to become first direct.

## Creating the Person-to-Person Banking Relationship at first direct

*Please do not be alarmed. This is the first attempt to communicate across time. This experiment is being sponsored by first direct to celebrate our 21st anniversary; for us, it is the*

<sup>5</sup> Project Raincloud internal memo, summary of research findings, August 1989.

*year 2010. To celebrate the 21st anniversary of first direct, we have returned to the date of our launch. We return you now to your programs with best wishes for your personal happiness in your own future.*

—Television Commercial Spot  
Launch of first direct  
Midnight, October 1, 1989

At one minute past midnight on Sunday, October 1, 1989, first direct opened its phone lines to the public. At the same moment, a futuristic television commercial prepared by the advertising agency of Howell Henry Childecott Lury appeared across television screens throughout Britain, promoting first direct's new banking services. This attention-getting commercial was portrayed as a message from the year 2010, or 21 years after the launch of first direct, to report that the concept of telephone banking was widely accepted a generation later.

In its first 24 hours of operation, first direct took in over 1,000 phone calls at its Arlington site. By year-end 1990, the customer base had grown to 60,000; by year-end 1993, 360,000; and by year-end 1995, 580,000. (See **Exhibit 2** for first direct's account growth history.) Kevin Newman, who had been the bank's director of information technology, became its CEO in October 1991. Under Newman's leadership, the bank continued to emphasize high quality service as its distinguishing feature. Newman recalled, "When we started out in 1989, we thought, how could we differentiate ourselves—would it be on product or would it be on technology? We convinced ourselves that the only point where we could differentiate ourselves would be on service."

Executives at the parent company, Midland Bank, had determined to brand first direct separately, partly to allay fears that any direct association with Midland might give the new entity an unfavorable image and partly to allow the first direct brand to develop as a corporate entity without any organizational "baggage." Midland, like the other High Street banks, had distinctly poor customer satisfaction levels associated with its retail banking operations. "You've got to credit Midland for deciding to build a separate brand image for first direct," observed one executive.

To be successful, Newman and other managers at first direct believed they needed to provide intense personalization of service at very low cost. They planned to achieve this high level of personalized service using new human resources strategies, sophisticated customer information systems, and widely accepted communications technologies. Observed Newman:

The scenario that we might measure ourselves against would be that of the personal banker. Let's say that if we went to college together or saw each other at the club, you would have confidence in me as your banker. If there was an investment opportunity, I would give you a call on what to do. That's the idea of a great financial services provider and it still works today in private banking—the only downside is that it is quite expensive to provide [to everyone].

When you pull back and look at the three key components of a personal banking relationship, there are data, communications, and trust. Those are the fundamental elements of an individual relationship that we are trying to provide, but in a different way. We provide data—financial data, propensity [preference] data, even attitudinal data—for an individual customer through information technology. As a service organization, this data management is an absolute must—the foundation of our success. The second component is communications. We don't use voice response units to answer our phones; we feel that a highly trained person at the end of the phone is the optimal form of communication. The third component is trust. How do you get trust? Not easily. Going the extra mile and looking at service from the customers' perspective. The customer may not always be right, but [he or she] always comes first and you have to do a lot to make it right....

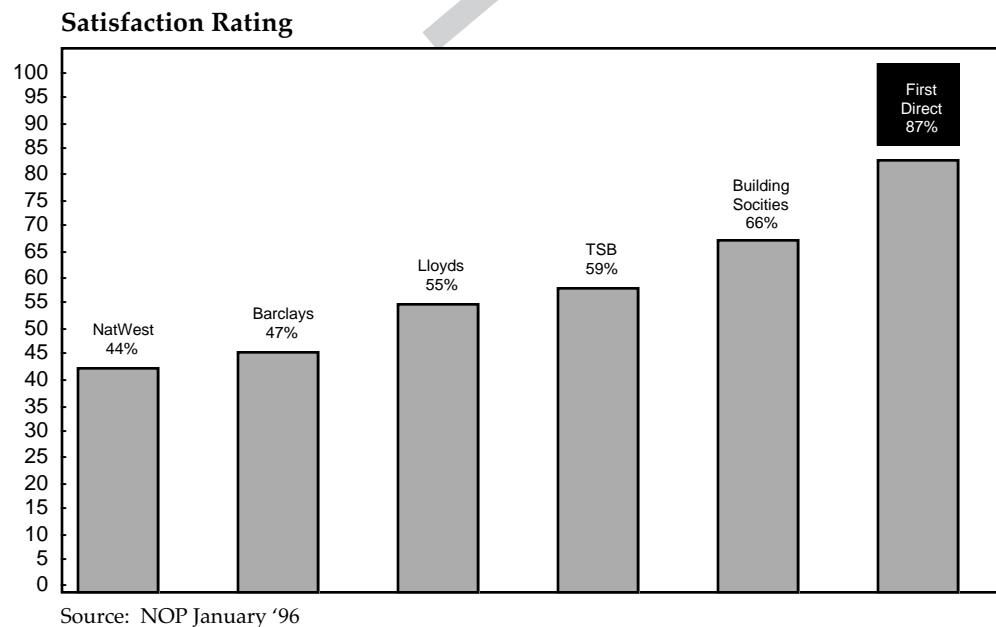
If we are able to do these three things and in many ways replicate the paradigm of individual banking relationships on a mass basis and at a fraction of the cost, we can pass on the savings to stockholders and to customers.

Newman believed that the key reason first direct was able to successfully replicate the personal banking relationship in a direct channel was its people, especially the "Banking Representatives" who handled all phone calls, and the "six core values" that defined the bank's working culture. (See **Exhibit 3** for a list and definition of these values.) Added Matthew Higgins, Market Planning Manager:

Something like 90% of customers tell us that we offer a more personalized service than their previous bank. And the interesting thing is that they're not seeing anybody and they're talking with a different person each time they call. We don't offer people personalized account managers, but, hopefully, every time they ring up, they get the same high level of service. All banking activity and detail is on the screen, so the banking representative knows what the customer asked the prior week and if the problem has already been resolved.

In fact, according to a National Opinion Polls (NOP) survey of current account holders in the United Kingdom, approximately 90% of the customers surveyed said they were extremely or very satisfied with first direct (see **Table A** below). Quarterly internal surveys also indicated a consistently high level of customer satisfaction: almost 90% of first direct customers said they would not transfer back to their previous bank, even if it offered a similar service to first direct's. Over 90% reported that they had recommended first direct to others—and, of those, over half had recommended first direct two or three times.

**Table A** Customer Satisfaction



As Higgins observed, however, first direct's positive impact on customers derived as much from what the rest of the industry was *not* getting right as it did from first direct's apparently successful formula. Noted Higgins:

In terms of the banking service industry, we're starting from a fairly low threshold. A lot of our customers [coming from other banks] are surprised and delighted at first that we generally get things right. When someone picks up the phone at first direct, they sound interested and warm. That makes a lot of difference to a lot of people. Our satisfaction levels are high; for a High Street bank, the satisfaction levels are still about 40%. People simply expect banks [in the United Kingdom] not to have very good service.

### The first direct Customer

*I'm going to have a place for my money I can call both night and day.  
I'm going to speak to intelligent people there who will do anything I say.  
They can give me instant decisions.  
I get an overdraft automatically.  
first direct will be wonderful for you and me.  
They don't have any branches.  
They can spend more on their service you see.  
first direct will be wonderful for you and me.  
And it's free.*

—Television Commercial, 1991

Optimistic View of first direct

Consumers interested in opening an account at first direct could dial a toll free number (0800-24-24-24) or mail a response form from a newspaper advertisement or direct mail piece to begin the process of submitting an account application. According to internal surveys (see **Exhibit 4** for sources of new account acquisitions), since launch, 18% of first direct customers came through newspaper advertisements, 26% from direct mail solicitation, and 29% from customer recommendations. In the most recent 12-month period, direct mail accounted for almost 40% of acquisitions, and referrals accounted for 32%.

Direct mail pieces gave prospective customers an opportunity to open a checking account at first direct with a premium offer, such as a credit of £15, while newspaper advertisements (see **Exhibits 5 and 6**) emphasized the benefits of opening a first direct account in a pointed but humorous way ("Change your life/Change your bank"). In all of first direct's promotional material, the bank's colors of black and white were emphasized, reflecting the bank's underlying philosophy of "no small print" and "clear as black and white."

Not surprisingly, since launch, approximately two-thirds of first direct's customers came from the High Street banks—Midland, Barclays, NatWest, and Lloyds (see **Exhibit 7**). At first, many of the High Street banks were skeptical of the concept of telephone banking. Observed Higgins:

In the early days, the High Street banks said that the concept of first direct wasn't going to work as no one is going to be confident about doing business over the telephone. I hate to say, "I told you so," but that's the way it is with over 650,000 customers, almost exclusively from transfer banking—so our customers are not new to banking. There are two reasons for that. First, direct banking is still young and, second, it attracts a certain type of person—usually young professionals—who are comfortable about doing business over the telephone. first direct is now being copied by a new competitor virtually every week.

first direct's customers were both younger and more affluent than High Street bank customers (see **Exhibit 8**). Almost two-thirds of first direct's account holders were between the ages of 25 and 44. 86% owned their own homes and approximately one-third of account holders had

household incomes in excess of £20,000 per year, compared with an average of less than a quarter of all banking customers with household incomes over this amount.

New applicants to first direct were screened and approximately 35% of all applicants were rejected, based on credit scoring. Applicants meeting first direct credit standards received 25 checks guaranteed up to £100 each, an automatic overdraft of £250, and an ATM card with which an individual could withdraw up to £500 per day. Guy Davis, Director of Credit, noted:

We screen out people because we have to. With our check guarantee card and checks you could write 25 checks at £100. That's like providing you with a loan of £2,500. The other reason for screening people is that if we are willing to loan people that much money, do we want to get into a relationship, where the answer to a future credit request is 'no'? It's better to terminate the relationship early on, rather than six to nine months later when you have a dissatisfied customer.

A first direct customer could deposit money into a checking account in three ways: by sending a check to first direct at a Leeds lockbox; by depositing money through ATMs; or by transferring money over the phone from one account to another. Cash could be withdrawn through either a phone transfer or through the ATMs operated by Midland, NatWest, and other major banks. When verifying a customer's identity over the phone, customers were required to tell the Banking Representative two letters of their chosen password and then answer one of five questions related to the customer's personal history.

New customers to first direct received a black welcome box (see **Exhibit 9**), specially designed to provide convenient storage for everything an account holder needed to manage his or her account, with the capacity to hold all bank-related information, including monthly bank statements. Approximately 95% of new accounts were opened as checking accounts; the other 5% were savings accounts. Checking accounts served as a gateway for cross-selling opportunities of other banking products such as VISA credit cards, savings accounts, and loans or mortgages offered by the bank's various business units. Noted Brian Carney, Director of Finance and Operations:

The actual checking account is sort of a loss leader. It is the key point of acquisition. The principal products on which we get payback would be credit balances, the spread between savings and mortgages, and fees. Individual add-on products that we would cross-sell would be the secured loans, the savings accounts, and the competitive VISA card.

This portfolio of multiple banking products (see **Exhibit 10**) offered first direct an opportunity to increase the lifetime value of its customers. Over 95% of all first direct customers had been retained since launch. Internal surveys showed that a significant minority of first direct customers also held financial products at other banks or with a building society. The most common reasons for holding financial products with other financial institutions included categories of response, such as personal preference, too inconvenient to move, established institution, and credit history with the financial institution.

Upselling and service follow-through benefited first direct. One example was the increasing number in the amount of personal loans made by first direct to its customers—contributing to the Bank's profitability with increased interest revenue. Usually loan requests were generated either through direct mail pieces or from calls transferred from the Customer Service area to the Lending area. A typical loan usually took seven minutes to process. Noted Steven Townsend, head of lending:

We sell only to our customers. We don't sell to anyone else, and there are several reasons why. One, the risk profile is good. Two, we've got a great deal of knowledge about the customer. Our processing costs and rejection rates are low.

One reasonably typical customer was Marcus J.J. Fedder, risk management director at an investment bank in London, who had been an account holder with first direct since its inception. Prior to first direct, Fedder had banked with NatWest and Midland. He commented:

I was fed up with the slow service at the local bank branches. first direct's service is very good and always open—24 hours a day and 365 days a year. Their people are knowledgeable and friendly. Their rates are competitive and they have a good product range. I've referred about 10 of my friends to bank with first direct and some are now banking with them.<sup>6</sup>

## The Front Line

*I've never actually seen the people at first direct. But I believe—I believe—they exist.*

—Television commercial, 1992  
first direct customer

"Our organization chart is upside down and our front line people are our most important assets," said Newman. "Their attitude and frame of mind distinguishes us from our competitors. That can only exist based on how the organization treats them. Customer service and company culture are two sides of the same coin." (See **Exhibit 18**.)

Almost 1,600 of first direct's 2,500 employees, or about two-thirds of its workforce, were front-line employees who dealt directly with customers on the telephone, either in the main call centers or in the specialized business units—mortgages, unsecured loans, and investments—offering specialized financial products. The frontline employees were trained to be attentive to the customer's needs and to listen for any cross-selling opportunities. Noted Guy Davis, who headed first direct's Customer Service area (see **Exhibit 11**):

We may communicate in different ways to different customers. Some customers know what they want; others do not. The Banking Representatives are trained to pick up the pace and style of the customer they are dealing with as they are listening to the call. If you have five calls making a bill payment, each of those five calls will be slightly different based upon the interaction with the Banking Representative. A customer who is careful and cautious may check a balance and then want to ask about a series of transactions to see if it's in or not in that balance and then decide if and when they want to make an account transfer. Another customer may simply want to check if they've overdrawn their limit and that may only take 20 seconds. With five calls, each will be slightly different. That's how you get 1,600 people thinking and delivering the kind of service that first direct wants to deliver. You have to train people to listen—and use the information about customers our systems provide them. You can't do it by pronouncement by me or Kevin Newman.

Banking Representatives were trained to add relevant information, such as the purchase of a new house or the birth of a new baby, to a customer's profile in first direct's database (see **Exhibit 12**). In addition, customer profile modeling also supported the cross-selling of first direct's products. Added Davis:

<sup>6</sup> Interview with case writer, November 1996.

The screen in front of the Banking Representative is supported by models that predict what type of information the customer might be interested in—such as a traveler's check. What we know about the customer comes from modeling or from behavior—we would ask them in a conversation if they are interested in foreign currency, knowing that they were going on holiday, from their responses or from their profile. In modeling, we go beyond the typical demographics. We look at how risk-tolerant these customers are, how many products they buy, and what lifestage they are at now. We adopt different approaches and strategies to attract different customers.

A majority of Banking Representatives at first direct were women—many working mothers and housewives who were attracted by the bank's flexible hours, casual work environment, and child care centers located at both of first direct's sites. All Banking Representatives went through an initial training program, staying with the same team of 12 members and two trainers during a seven-week period. Prior banking experience was not required. Commented Davis:

You do not need a banking background to be a Banking Representative. We get disaffected teachers. We get housewives and mothers who want to come back to work. We're looking for aptitude and personality—people who can communicate well, people who have a level of confidence and independence, and people who can make a decision to do it right the first time. We look for people who want to have a challenge. Say, the clock is ticking and the customer is angry and has to catch a train in two minutes. The Banking Representative needs to know how to respond.

After the initial training program was completed, the Banking Representatives assumed jobs in the call centers but they received additional training after a nine month period. first direct employees had a remuneration package which was in the top quartile of companies in the Leeds area; the package included a mortgage supplement and a bonus plan. In keeping with the core value of "openness," all employees at first direct were compensated with similar employee benefits. According to David Mead, director of personnel:

Everyone is in the same pension, health, and life insurance plans, and bonuses are equal among the various units. We want to make sure that our status-free concept is reflected in our rewards system. We're trying to create a sense of sharing as well as a sense of belonging. And unless you can create that sense of sharing in the profits of your business, then you don't deserve the high level of commitment and motivation of your people. The rewards policy that we adopt is a sense of sharing.

Front line employees in the call centers and business units were divided into teams—team names included "The King Pins," "The Top Kats," and "The Bank Robbers"—who often put their performance results on display on the "trading floor"—a large open area of terminals and desks—to provide other people in the company a sense of how their individual team was performing. Each team, except for several self-managed teams, had a team leader whose job was to inspire, motivate, and develop individual members. Team leaders, part-psychologist, part-resource manager, and part-preacher of the company's gospel on customer service, were often chosen by first direct's assessment center, which consisted of groups of first direct managers who evaluated personnel.

## first direct's Infrastructure

*You've heard 'bout first direct.  
Won't work, I'm sure.  
They said they're a new kind of banking.  
No branches no more.*

*But we've had branches for years.  
 What they changin' it for?  
 They say you can call their people 24 hours a day.  
 They're far too new and different.  
 They'll close down right away—Like tomorrow, honey.  
 They're not an old institution.  
 That's where my money stays.*

—Television Commercial, 1991

Pessimistic View of first direct

While the front end of first direct's information system—the portion that provided the interface with the bank's customer—was new to U.K. banking, the financial systems infrastructure was outsourced to Midland Bank (see **Exhibit 13**). For example, first direct customers deposited and withdrew cash from Midland's ATMs and had their monthly bank statements processed and printed by Midland. Noted Andrew Arnishaw, director of information technology:

The biggest differentiation that we offer when you phone us is service—you don't get the traditional response typical of a U.K. bank. You are treated as a customer. Individually, we know if you've been on holiday, we know if you've purchased traveler's checks. We can create the mythical bank manager relationship that probably didn't exist for everyone anyway. The reverse side of this, which is sort of a halo effect that we have, is that the research shows that our customers rank the quality of "our" ATMs 15 to 20 points higher than Midland Bank customers yet physically it's the same machines.

Indeed, the cost structure of first direct differed from the cost structure of a typical High Street bank (see **Exhibit 14**). With less money allocated to overhead, a greater portion was devoted to marketing and brand-building. Using Midland Bank's infrastructure on a leased capacity basis, first direct avoided spending "megabucks" to develop its own account-management and data- and payment-processing systems. Instead, first direct's biggest investment was in "developing the brand," said Carney. "The second biggest investment would be building the front-end system, and the third largest building the skills sets and training" of the Banking Representatives.

Although specific financial results were not publicly available, Newman noted that first direct's "return on capital and equity is extremely attractive and the return on the substantial investment made in any year is geared to long-term rather than short-term profits."

## Competition

*"Tell me one good thing about your bank."*

—first direct advertising campaign, 1995

The growth of first direct demonstrated that, with the use of technology, banking services could be distributed over electronic channels instead of physical bank locations. As a result of first direct's success, other banking concerns, financial services companies, and general merchandise retailers had joined the growing field of direct financial services providers.

**Other banking concerns** Most banking concerns in the United Kingdom offered telephone banking services in three ways: human operators, touch-tone keypads, and voice response units. Product offerings and hours of service varied for each bank, ranging from full 24-hour service to limited weekday service, abbreviated to the prime time hours from 8 a.m. to 8 p.m. (see **Exhibit 15**). The three most aggressive of first direct's competitors were the Royal Bank of Scotland's Direct Line

(whose initial direct service was motor insurance; later it added direct banking services), Citibank Direct, and the Bank of Scotland's Banking Direct, all of which offered 24-hour, person-to-person banking and a full array of financial products.

**Financial services companies** The largest provider of direct financial services in the United Kingdom was Direct Line, owned by the Royal Bank of Scotland. With a customer base between 2.5 and 3 million account holders of merchant and household insurance, Direct Line had acquired a banking license in 1995 which enabled it to expand its product portfolio to include mortgages and savings accounts. Direct Line had a strong brand image in the United Kingdom made famous by an icon of a red telephone on wheels featured in its advertisements (see **Exhibit 16**), though Direct Line was often confused with first direct. Another potential competitor in the direct financial services market was Virgin Direct (see **Exhibit 17**), led by Virgin entrepreneur Richard Branson, who had begun to offer life insurance and personal savings accounts for pensions beginning in July 1995. "People see Virgin as a little bit quirky and Branson as a champion of the underdog," said one first direct executive. "He wants to cut out the middleman. That's what people want. There are a lot of parallels with first direct."

**Other retailers** In addition to banks and financial services companies, retailers, such as the upscale Marks & Spencer department store, had also begun to offer banking services, such as loans and mortgages, through their telephone service operations and department store locations.

## Future Opportunities

Looking to the future, senior management at first direct saw many opportunities for growth. Among these were increased cross-selling through improved data mining systems, offering banking by personal computer, or accepting a larger share of customer applications for accounts. Noted Stephen Robinson, head of sales and marketing:

Right now we're working on expanding the marketing database. We're doing overlays on the current database. By getting more data on customers, we're trying to reduce the cost of acquiring customers. We're also willing to spend more money on acquiring those customers with a higher lifetime value.

In addition, first direct's growth was fueled by the bank's entrance into retail finance markets. On January 1, 1997, first direct took over the loan portfolio business of Britain's Forward Trust Personal Finance Ltd., the consumer finance subsidiary of Forward Trust. The acquisition represented 420,000 new accounts for first direct. first direct renamed the service first direct Business to Business. This new unit offered secured lending to support first direct's product sales to consumers made by first direct's 20 newly designated business partners (the partners were retailers that bundled first direct financing packages with sales in sectors such as home improvement, home furnishings, and building societies). The new unit also offered loans marketed through employee benefit plans in U.K. companies. Noted Newman:

We are entering the business-to-business market because we believe it will provide us opportunities to acquire customers through a new channel. When we launched in 1989, we set ourselves a clear goal of innovation in personal banking services; this is further evidence of this approach<sup>7</sup>.

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<sup>7</sup> first direct press release, September 11, 1996.

Senior management was also looking at ways to bring more customers, such as university students, into first direct at an earlier age. Observed one executive, "we're always looking at ways to expand our market base, and if getting these customers increases the lifetime value of our total customer population, we'll target them, even if the payoff is not as immediate."

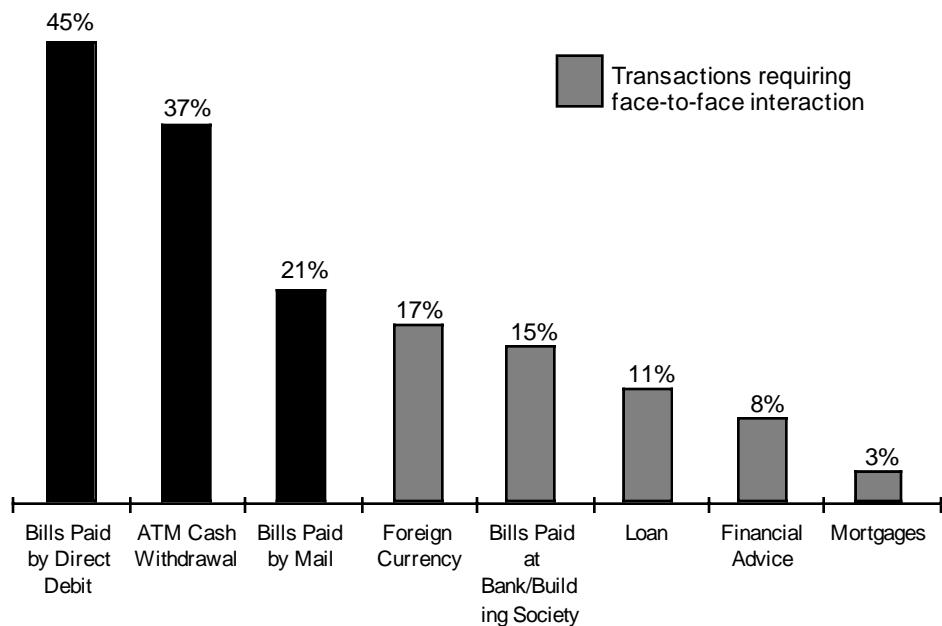
Banking by personal computer presented another distribution channel for first direct, though only three million U.K. homes owned PCs. Two competitors had already launched PC banking. Said Higgins:

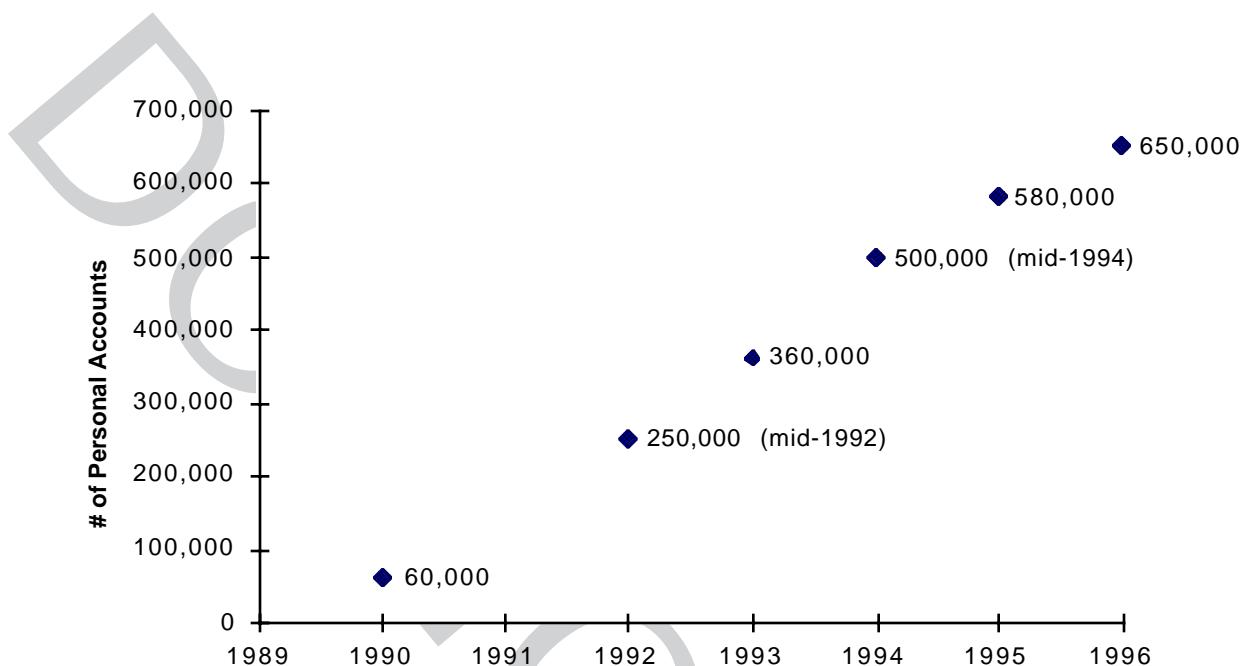
We won't be the first, but we have the opportunity to be the first bank to do PC banking well and to get it right. Our first PC customers will be customers we already have and they will expect the same quality of service. It's important that we get it right. At the end of the day, it will just be another distribution channel, and it's the service behind it that will be important.

Lastly, Hong Kong & Shanghai Bank Corporation, parent of Midland Bank, was interested in the opportunities of replicating first direct's direct banking concept to other country markets around the globe.

## Conclusion

As Newman walked down the sparse corridors of first direct's Stourton site, past the black and white posters from the bank's most recent advertising campaign, he was still pondering the key issues for the future. How might he best maintain first direct's preeminent customer service and still meet its goal of one million customers by the year 2000? In addition, he wondered what other ways, using the unique virtual channel to customers, first direct might augment the value it delivered to the market now and in the future.

**Exhibit 1** first direct Bank Usage by Transaction Type

**Exhibit 2** first direct—History of Bank Account Growth

Source: first direct

**Exhibit 3 first direct—Core Values****first direct's Core Values**

In order to live the brand, we must practically define how this is to be achieved. We have identified six core cultural values of first direct, which shape and form the way we do things and why we do them. We all need to believe in and be committed to these values if we are to build the brand: which builds the business, which will become acknowledged as the best.

**first direct's six core values are:**

**Responsive** Responsive to our customers. Responsive to each individual. Responsive right now. Responsive as a company. Responsive to competitor weakness. Responsive to each other. Responsive in all we do.

**Openness** Always open. Open minded. Open plan. Open to new ideas. Open up. Open forum. Open to all. Open and honest.

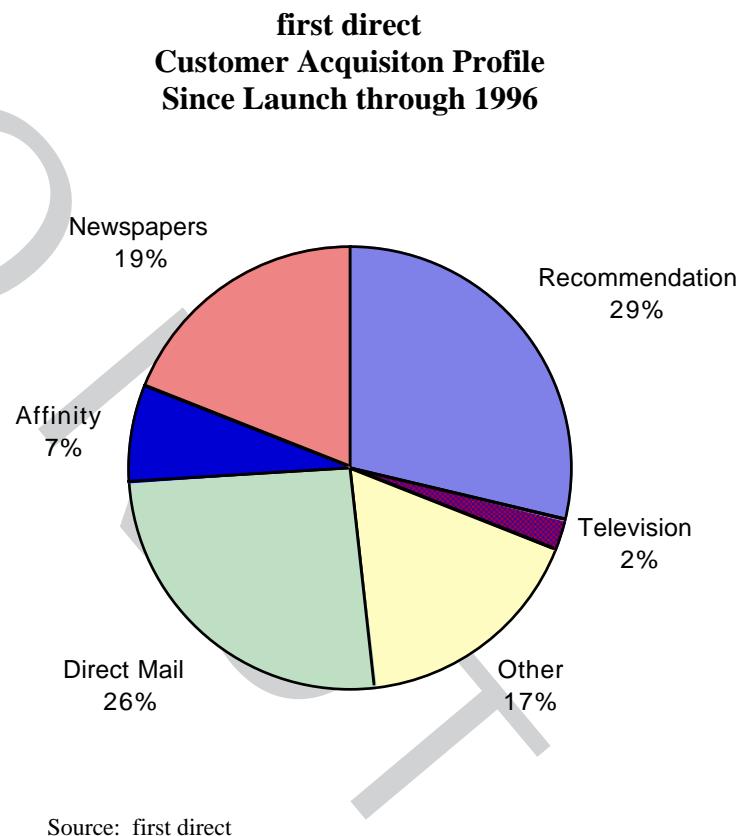
**Right first time** Quality people. Quality research and design. Quality products. Quality systems. Quality control. Quality service. Quality loop.

**Respect** Respect yourself. Respect our customers. Respect each other.

**Contribution** Hard work. Commitment. Profit. Sharing. Mutual benefit.

**Kaizen** Continuous improvement.

Exhibit 4 first direct—Sources of Customer Acquisition



## Exhibit 5 first direct--Newspaper Advertisements

**first direct**

**06:30**



Ian Francis enjoys his breakfast and settles his Visa bill.

**11:15**



Jake O'Sullivan teases his mother as she asks about her mortgage.

**23:30**



Bob Sparks wakes with a start and calls to pay his gas bill.

# change your life change your bank

**no more rushing to beat closing time**

Not all banks are the same. First Direct set out to change the face of banking in 1989. We were committed to providing a service that enabled customers to arrange their banking around their lives, on their terms. We recognised that bank closing times were a source of bitter frustration, so we are open every hour of every day of the year. One simple phone call, charged at local call rates, gives you access to a comprehensive range of banking services. From loans to sharedealing, savings to travellers cheques. One of our Banking Representatives will be on hand to take your call from wherever you are.

**never be treated like a number again**

Because First Direct does not need any high street branches, we can invest the cost savings we make into training and new technology. We recruit our staff first and foremost on the basis of their people skills and then equip them with the necessary banking acumen. Our customers find that they are always treated with care and courtesy and we are always looking for new ways to help. Take bill payment - our customers can arrange to pay their household bills by phone, simply telling us who to pay, how much and when. Our approach seems to be well received as 89%\* of our customers actively recommend us to their friends and colleagues.

**manage your money your way**

Many of our customers find that just a three minute call each month is all it takes to manage their finances. With every First Direct Cheque Account comes the First Direct Card, which guarantees cheques for up to £100. Your Card also allows you to withdraw up to £500 daily from the cash machines of Midland, NatWest, TSB, Clydesdale, Northern and the Royal Bank of Scotland.

**benefit from free banking, even if you are overdrawn**

Incurring punitive bank charges for going a few pounds overdrawn seems as nonsensical to us as it does to you. That's why at First Direct there are no charges for writing cheques, standing orders, direct debits and cash machine withdrawals, even if your account is overdrawn. You also get an automatic overdraft facility of up to £250 free of any arrangement fees, to help with monthly budgeting. All you pay is a competitive rate of interest on the precise amount you borrow.

Changing your bank is far easier than you might expect.  
It is worthwhile because First Direct has changed banking for good.

**The time is right. Call us now on**

**0800 24 24 24**

\*Research was undertaken by NHP Research among 500 First Direct and 500 other randomly selected bank customers. The interviews were conducted by telephone between November 1990 and January 1991. Enquiries must be aged 18 or over. In order to safeguard our customers, certain restrictions may require written confirmation. First Direct reserves the right to decline to open an account for you. First Direct Credit Facilities are subject to status. Fix nothing until we tell you. Our services relate to First Direct, Freepost HK16, Leeds, LS98 2RS. Calls are monitored. First Direct is a division of Midland Bank plc, which is regulated by SFA. Member EFSIC. © Group BD/01

Post to: First Direct, Freepost HK16, Leeds, LS98 2RS.  
(no stamp needed) to receive more information on First Direct.

Mr/Mrs/Miss/Ms or Title \_\_\_\_\_ Name \_\_\_\_\_

Address \_\_\_\_\_

Postcode \_\_\_\_\_ Telephone (inc. std) \_\_\_\_\_ XXXXX

## Exhibit 6 first direct—Newspaper Advertisements


**first direct**

Our hours must be open 18 or 24/7. In order to safeguard our customers, certain transactions may require written confirmation. First Direct reserves the right to open an account for you. First Direct credit facilities are subject to status. Phone 10-writer details. Calls are monitored. First Direct is a division of Midland Bank plc. Member HSBC Group

# solutions page

**"I feel the need to bank at odd times. Am I normal?"**

You are perfectly normal. Never let your bank make you doubt yourself. Most people find their bank is never available when they need it to be. That's why we created First Direct six years ago – a bank that's open when you need it to be open – 24 hours a day, 365 days a year. Call us any time, from anywhere in the UK – we're always there.

**"bank queues raise my blood pressure. Can you help?"**

Current opinion favours joining First Direct. Because we're open whenever you need to bank you never need to rush to beat closing time. And you can avoid bank queues altogether. The consequent drop in stress in your life is considerable and in the long term may well prove life enhancing.

**"my bank treats me like a number. Can I count on them?"**

This doesn't sound like a healthy basis for a relationship. At First Direct your call will be answered by one of our approachable and skilled Banking Representatives. Our customers are assured of a friendly, professional service at all times.

**"I want more power over my money. Am I a control freak?"**

The desire to have more control over your financial wellbeing is a healthy one – you should nurture it. When you open a First Direct Cheque Account we give you a Card which guarantees your cheques for up to £100 and also allows withdrawals of up to £500 daily from a network of 7,000 cash machines. We even offer an automatic bill payment service – just tell us who to pay, how much and when, and consider it done.

**"I have dreams about free banking. What do they mean?"**

It's quite natural to dream about freedom from bank charges and at First Direct we understand this. So everyday banking transactions are blissfully free when you bank with us – no charge for direct debits, standing orders, cheques or cash machine withdrawals, in credit or debit. Your dream is shared by many – turn it into reality by joining First Direct.

**We've helped over half a million people to change their life by changing their bank. Can we help you?**

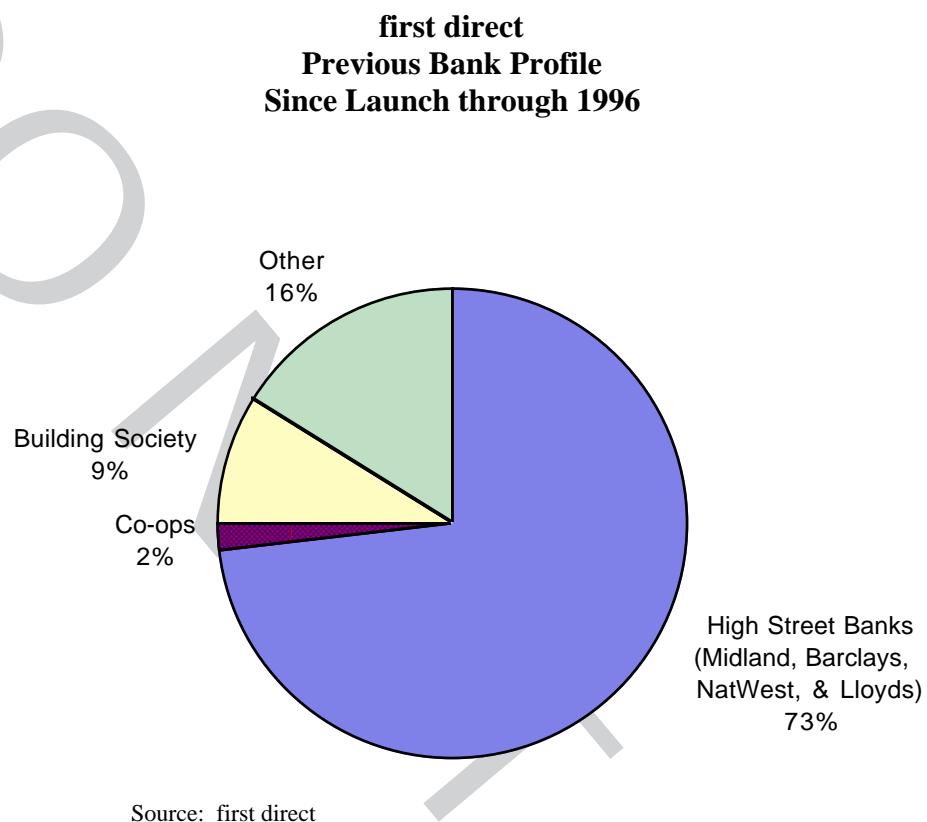
**for 24 hour telephone banking**

 **0800 24 24 24**

or complete and post to: **First Direct, Freepost HK 16, Leeds, LS98 2RS**

Vir/Mrs/Miss/Ms or Title ..... Surname ..... Forename(s) .....

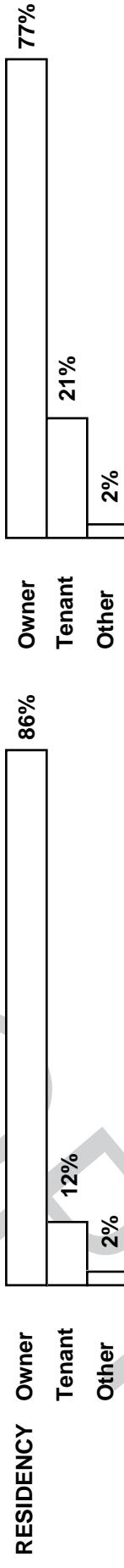
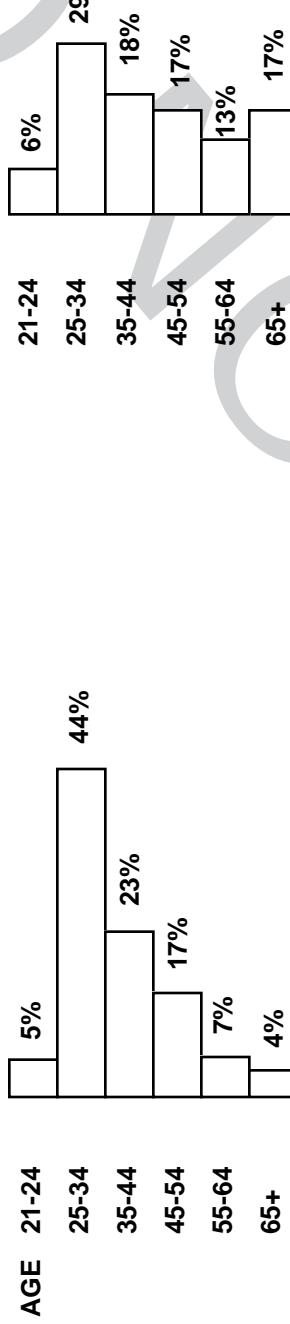
Address ..... Postcode:       BS104

**Exhibit 7** first direct—Prior Financial Institutions of first direct Customers

# first direct Customer Profile

## first direct

### Competition



Source: first direct

# first direct in a box



## black box

Produced as a result of our customers' suggestions, **black box** gives you the opportunity to organise all aspects of your financial affairs in a simple practical way by keeping everything in one place. It contains a section for each of our major service areas, as well as a place to file all your statements and credit and debit card receipts, and comes complete with several introductory brochures. Each month, with your statements, we may send you further information about First Direct. We suggest that you use your black box as a library for this information.

## statement and receipt holder

A clipboard is included to hold statements for all your accounts for up to two years. Please remember to keep them for a minimum of one full tax year. To help accurate checking of your statements there is a plastic pocket on the back of the holder for your credit/debit card receipts.

## cheque book holder and card wallet

With our compliments.

## calendar card

Use the calendar card to make a record of your key financial dates throughout the year. Never forget a policy renewal or review date again.

## Cheque Account owner's manual

Tells you everything you need to know about your Cheque Account, including details of all the services and features it provides plus a look at the security measures you can take to safeguard your account.

## service directory

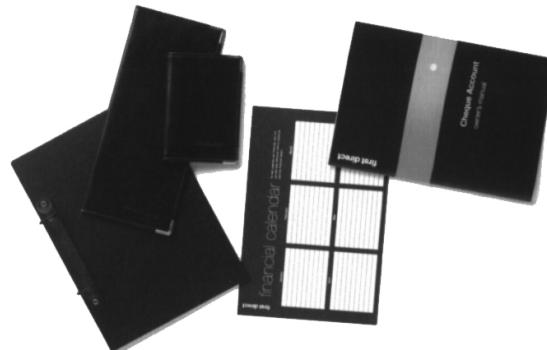
An introduction to the wide range of services we can offer you, with the opportunity to obtain more detailed information about any service you happen to be interested in.

## saving leaflet

Details our range of savings products, including the ideal Cheque Account partner - High Interest Savings Account.

## Visa leaflet

All the facts about the First Direct Visa Card and how to apply for one, if you have not done so already.



If you have any suggestions yourself regarding how we could improve black box in the future, we would be delighted to receive them. Call any time on **0345 100 100** or write to us at First Direct, FREEPOST, Leeds LS98 2RS.

**Exhibit 10** first direct--Array of Bank Financial Products

**Exhibit 11** first direct—Photo of Call Center, Stourton Site



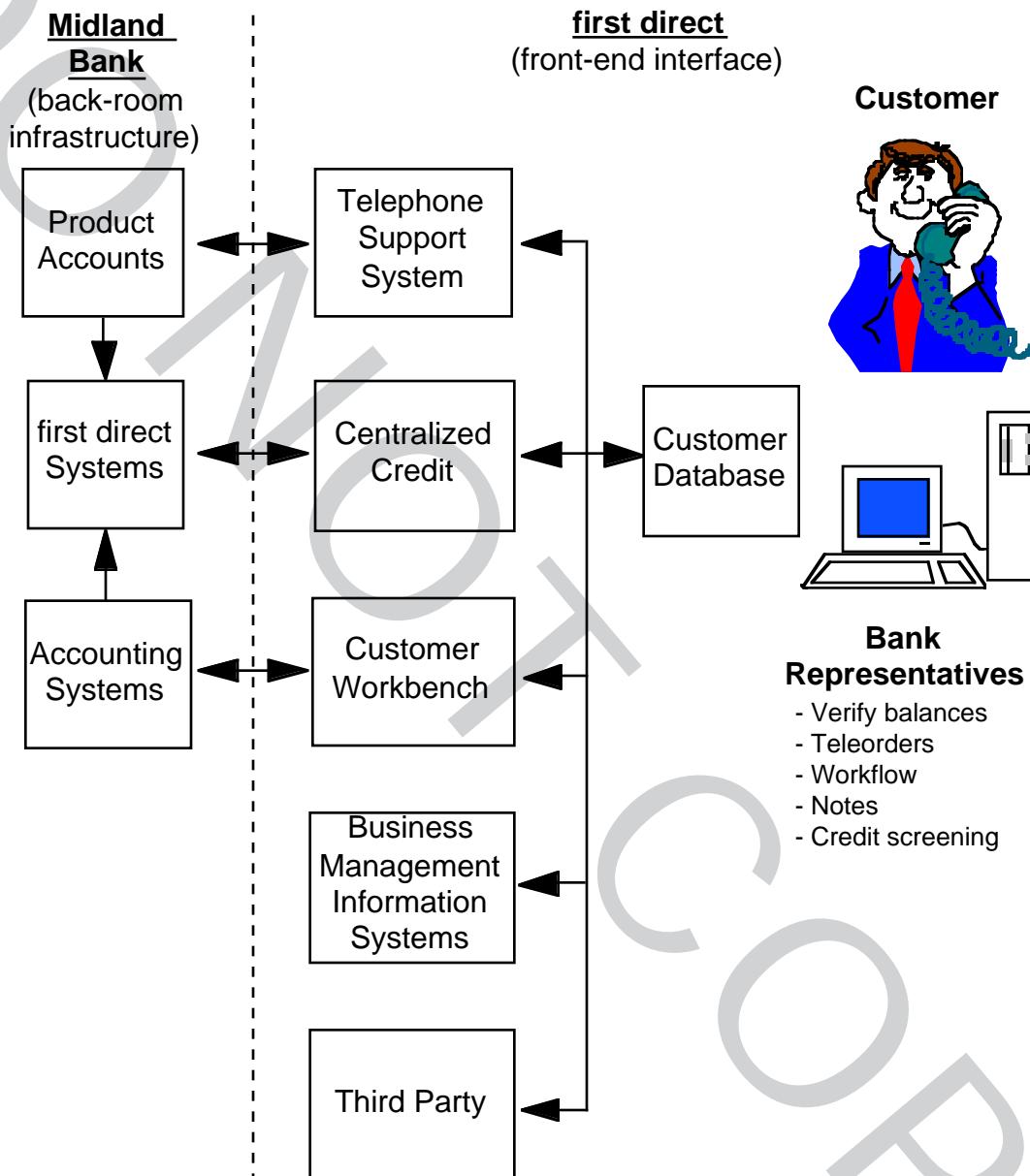
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## Exhibit 12 first direct—On-Screen Customer Service Menu

**EDGE-FRONT OFFICE MENU**

LIVE	INTRODUCTION SCREEN	MAIN																																								
A B C D E F G H I J K L M N O P Q R	<p>SELECT: SERVICE REQUIRED</p> <p>SERVICES AVAILABLE FOR EXISTING ACCOUNTS</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>1 OPEN NEW ACCTS</td><td>11 A/C ENQUIRIES</td><td>21 AUTO TRANS</td><td>33 SALES STATUS</td></tr> <tr><td>3 REQ FOR LIT</td><td>12 TRANSFERS</td><td>22 TRAVEL</td><td>34 ACTION REQUEST</td></tr> <tr><td>4 VIEW AC TFR LET</td><td>13 A/C CHANGES</td><td>23 CUSTOMER DETAILS</td><td>36 ADD PRODUCTS</td></tr> <tr><td>5 TAKE SEC DET</td><td>14 PAPS</td><td>24 PRODUCTS</td><td></td></tr> <tr><td>6 ORDER PINS</td><td>15 BILL PAYMENTS</td><td>25 ACTIONS</td><td></td></tr> <tr><td>7 PEPS</td><td>16 STOPS</td><td>26 NOTICE A/C WDL</td><td></td></tr> <tr><td>9 VIEW REF BOOK NOTES</td><td>17 CARDS</td><td>27 ACCOUNT DETAILS</td><td></td></tr> <tr><td>10 OTHER SERVICES</td><td>18 STATEMENTS</td><td>29 EMERGENCY ENC</td><td></td></tr> <tr><td></td><td>19 CHQ/CR BOOKS</td><td>30 SPECIAL PRES</td><td></td></tr> <tr><td></td><td>20 3RD PARTY TRANS</td><td></td><td></td></tr> </table> <p>ENTER</p>	1 OPEN NEW ACCTS	11 A/C ENQUIRIES	21 AUTO TRANS	33 SALES STATUS	3 REQ FOR LIT	12 TRANSFERS	22 TRAVEL	34 ACTION REQUEST	4 VIEW AC TFR LET	13 A/C CHANGES	23 CUSTOMER DETAILS	36 ADD PRODUCTS	5 TAKE SEC DET	14 PAPS	24 PRODUCTS		6 ORDER PINS	15 BILL PAYMENTS	25 ACTIONS		7 PEPS	16 STOPS	26 NOTICE A/C WDL		9 VIEW REF BOOK NOTES	17 CARDS	27 ACCOUNT DETAILS		10 OTHER SERVICES	18 STATEMENTS	29 EMERGENCY ENC			19 CHQ/CR BOOKS	30 SPECIAL PRES			20 3RD PARTY TRANS			CUS01 VADAFLIV
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F9		F10		F11		F12		SUBSET A		PAS/PAPS		ENQ		AUTOCCN		MAIN MENU																										

Exhibit 13 first direct Interface/Midland Bank Infrastructure



**Exhibit 14 first direct—Revenue and Cost Structure****Revenue:**

Net Interest Income	54%
Commission / Fee Income	<u>46%</u>
Total Revenue	<u>100%</u>

**Expenditures:**

Marketing (mainly brand-building and acquisition)	15%
Staff costs	45%
Midland Bank cross-charges (IT / Operations)	13%
Depreciation	4%
Other Operational Expenses	15%
Bad Debt Charge	<u>8%</u>
Total Expenditures	<u>100%</u>

Source: first direct

**Exhibit 15 Product Offerings by Competitors**

	first direct	Bank of Scotland Phoneline	Barclays Barclay Call	Citibank Citibank Direct	Direct Line Instant Access Savings
Service Proposition	Optional Service Dedicated Telephone Bank	Optional Service Customer Subscribes	Optional Service Customer Subscribes	Optional Service Customer Subscribes	Part of Dedicated Telephone Operation
Method of Operation	Human Operator	Human Operator	Human Operator	Voice/Response then Human Operator	Human Operator
Hours of Operation	24 hours	6 a.m. to 1 p.m. weekdays 6 a.m. to mid. weekends	7 a.m. to 11 p.m. weekdays 9 a.m. to 4 p.m. Saturdays	24 hours	8 a.m. to 8 p.m. weekdays 8 a.m. to 5 p.m. Saturdays
Location	Leeds	Edinburgh	Coventry	Hemminsmith	Glasgow
Balances	Yes	Yes	Yes	Yes	Yes
Stop Cheques	Yes	Yes	Yes	Yes	No
Transfers	Yes	Yes	Yes	Yes	No
Order Statements	Yes	Yes	Yes	No	No
Order Chequebooks	Yes	Yes	Yes	Yes	No
Bill Payment	Yes	Yes	Yes	Yes	No
Overdrafts	Yes	No	No	No	No
Loans	Yes	No	No	No	No
Credit Card Balances	Yes	No	Yes	Yes	No
Standing Orders	Yes	Yes	Yes	No	No
Direct Debits	Yes	Yes	Yes	No	No
Foreign Currency	Yes	No	Yes	No	No
Mortgages	Yes	No	No	No	No
Service Proposition	Lloyd's Lloyddirect	Midland Bank CSC	NatWest Actionline	Royal Bank of Scotland Direct Banking	Scotland Bank Phonebank
Method of Operation	Optional Service Customer Subscribes	All Customers	Optional Service Customer Subscribes	Optional Service Customer Subscribes	Optional Service Customer Subscribes
Hours of Operation	Human Operator	Human Operator	Automated Services	Human Operator	Human Operator
Location	Southend	Leeds/Swansea/Hemell	Bradford/Berkshire	Regiona Cermes	Newpost/Glasgow
Balances	Yes	Yes	Yes	Yes	Yes
Stop Cheques	Yes	Yes	No	Yes	No
Transfers	Yes	Yes	Yes	Yes	Yes
Order Statements	Yes	Yes	Yes	Yes	Yes
Order Chequebooks	Yes	Yes	Yes	Yes	Yes
Bill Payment	Yes	No	Yes	Yes	Yes
Overdrafts	No	No	No	No	Yes
Loans	No	No	No	No	Yes
Credit Card Balances	Yes	Yes	No	Yes	Yes
Standing Orders	Yes	Yes	No	Yes	Yes
Direct Debits	Yes	Yes	No	No	No
Foreign Currency	Yes	Yes	No	No	No
Mortgages	No	No	No	No	No

**Exhibit 16 Direct Line Newspaper Advertisement**

**FOR MOTOR INSURANCE  
THAT'S STREETS AHEAD**



A black and white advertisement for Direct Line Insurance. The top half features the slogan "FOR MOTOR INSURANCE THAT'S STREETS AHEAD" in bold, uppercase letters. Below the slogan are three vertical black and white photographs: a smiling man with glasses holding a telephone receiver, a white car driving down a city street, and a woman smiling while driving a car. The bottom half of the advertisement shows a vintage-style telephone with a numeric keypad and a receiver. To the left of the phone is the Direct Line logo, which consists of a stylized telephone handset icon followed by the words "DIRECT LINE INSURANCE" in a bold, sans-serif font. A small trademark symbol (TM) is located at the top right of the insurance name. Below the logo, the text "A Royal Bank of Scotland Company" is printed in a smaller, all-caps font.

**DIRECT LINE<sup>TM</sup>**  
INSURANCE

A Royal Bank of Scotland Company

## Exhibit 17 Virgin Direct—Newspaper Advertisement

**Life insurance  
over the phone  
in less than  
ten minutes?  
That'll  
be the day.**

Two hundred years after the invention  
of life insurance, only one company  
can insure most people over the phone  
in less than ten minutes.

As for the rest, well, they'll be along in...  
er...in... Well, give them time.

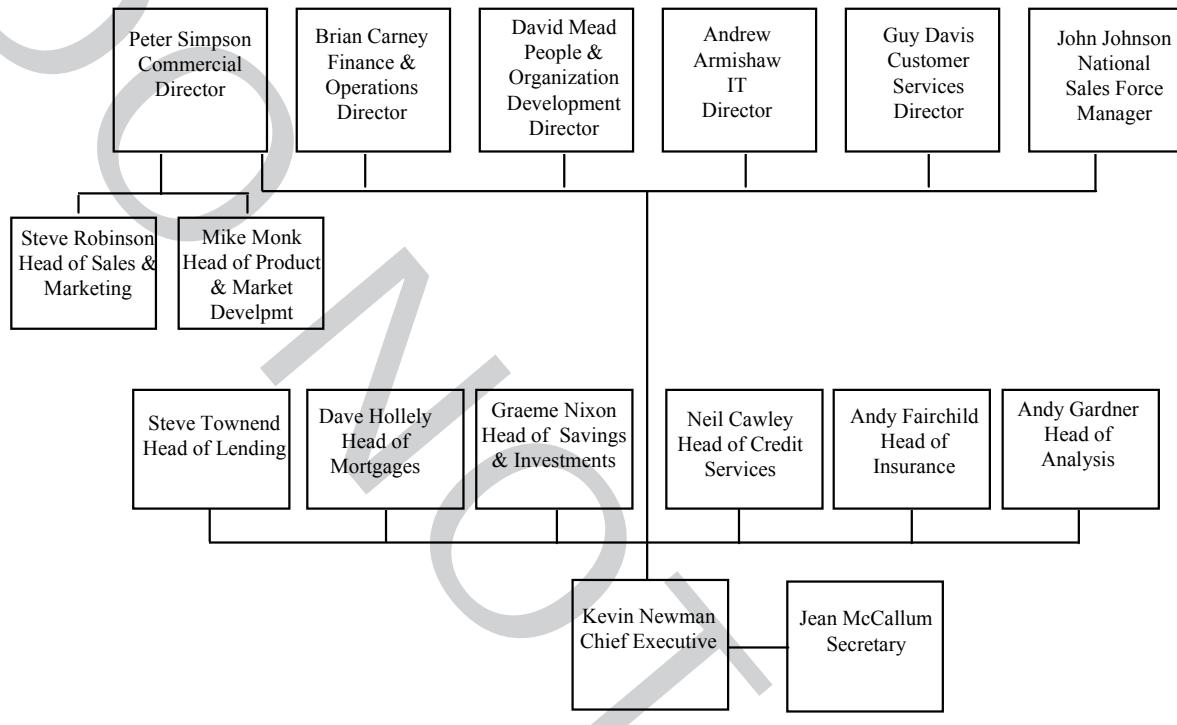


**0345 95 95 95**

*Open seven days a week from 8am to 10pm*

Virgin Direct Personal Financial Service Ltd is regulated by the Personal Investment Authority for life insurance and unit trust business and represents only the Virgin Direct marketing group. Virgin Direct only markets its own products.

For your security, all telephone calls to Virgin Direct will be recorded and randomly monitored.

**Exhibit 18** first direct—Organizational Chart

**Management Team**  
October 1996