

## ***e*-Banking in Spain: the “digital divide” in action**

Picture yourself in a world where a great part of your competitive advantage emerges from the fact that you have offices basically everywhere. That is the situation for most banks in Spain. With huge offices’ networks and thousands of employees, the typical criterion to choose a bank in Spain is based on physical proximity: the one that is right here in my block. And even with such criterion, I can usually choose among three or more competitors, depending on the neighborhood. Furthermore, with the continuous panorama of mergers and acquisitions, the phenomenon is even more patent. In many cases we can even find more than one office of the same bank in the same block! The structure is hard to replicate, and has prevented foreign banks from being profitable for ages. But how can these enormous infrastructures assimilate an innovation such as the Internet? What is the role of all these offices once customers get used to perform most operations from their homes or offices? What will the criteria be under such a new scenario?

A plausible model could be to turn offices into some sort of customer service place. With the huge potential of technologies such as CRM for banks, the idea of having customers interacting inexpensively on the Web but going to the banks’ offices for personalized attention seems interesting. The model should then try to move the unsophisticated, less profitable customers to the Web, thus leaving the offices to the wealthy, high value-added and demanding ones. Unfortunately, this ideal world collides with the distribution of connectivity in Spain, where only a 12.4% of the population has access to the Web and the Internet is still dominated mostly by young, affluent and highly educated people. In consequence, what happens is exactly the opposite: while the non-interesting customers keep going to the offices every few days to perform low value-added transactions, the good ones flock to the Internet, where they can be lured by other banks offering better prices. And these other banks can certainly do so, since they can have much lighter structures and can compete easily in costs. It certainly seems that treating the Internet as just another distribution channel is not the best scenario for the old players.

Another possibility could be to do nothing at all. Ignore the Internet and keep doing things the old fashioned way. But this scenario looks even worse: the best customers, who are Internet-savvy after all, learn about Internet banking and perceive that their old bank cannot provide them with such wonderful services and prices. And one day, after listening to commercials, friends and peers at work, they see a banner ad, click it, open an account and leave their good old bank with no explanations. Is like leaving one’s wife for a young girl: the abandoned wife stands in the doorway and shouts “who’s going to know you like I do?” But it doesn’t work at all.

Well, let’s then accept that things will never be the same again, so I cannot just ignore the phenomenon. And using the Internet as just an additional distribution channel doesn’t work either, since the Internet pure players do it better and steal my best customers. Even worse, if I try to compete with them and fight for my customers, I need to offer them lower prices. I will be entering a price war where I am the disadvantaged one, loaded with a heavy infrastructure and inexperienced in this new arena. And, best of all, I will be

cannibalizing my own customers and using my offices to receive complaints from other customers that don't have access to the Internet but want the same good deals I am offering online. But anyway, cannibalizing my own customers seems better than losing them, isn't it?

Let's then try a third strategy: let's be one of them. Why not? I know the banking business and I have my customers, so what I need is just to acquire the Internet expertise, at any price. Then I will start my very own Internet pure player as a new business, separated from the old one, with a lighter structure and smaller margins. But at least I won't be left apart, I will be in control of the situation and I will be able to recapture the customers that leave my own old bank. Playing the same game for a smaller margin is not the best alternative either, but is definitely better than nothing. And who knows, I might be able to learn fast, do it extremely well and play by the rules of the new economy: one of them is "no frontiers". Since I will have less profit per customer, I will need more customers. Maybe I can go places, Latin America, other countries within the EC... the *e-dream* come true.

With all these wealthy customers flocking to the Internet, no bank can afford to be the last one to arrive. What Ravi Kalakota called the "Just get me on the Web!" approach is becoming the norm. Thus, we see huge amounts of money – as huge as \$500 million – being paid for small start-up companies that claim to know how to do business on the Web, such as Patagon. Although obviously what is being bought in this case is not the company, but Patagon founders' brain and know-how for future developments, the sum is not small potatoes if what we are buying is just an *e-dream*.

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