

# Case study 3: 20twenty

## Strategic brilliance or folly?

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### Introduction

20twenty was a banking phenomenon that had a significant effect on the South African banking industry at the turn of the millennium. With a hugely successful, cheeky and in-your-face launch in July 2001, 20twenty sprang from nowhere to take on the big established banks. Positioning itself as the ally of the customer, it declared banks to be a thing of the past and 20twenty to be the new word for banking.

People signed on in droves, recruiting their friends, and within six months, CEO and founder Christo Davel reported that 20twenty had recruited some 40 000 customers. But the dream soon turned into a roller-coaster ride of twists and swoops between high-flying idealism and the crunch of the unforgiving bottom line.

Saambou, at the time the fifth largest bank in South Africa, was a 65% shareholder and provided their banking licence to 20twenty. In February 2002, Saambou went into curatorship and 20twenty was left in the lurch. It survived on sheer customer loyalty for the next eighteen months while other banks, local and international, considered the possibility of acquiring the start-up. A rescue by London based Standard Chartered Bank led to a re-launch in 2004. But by the end of 2005 their international backers decided to significantly scale back their retail banking presence in South Africa.

### Mission and vision

20twenty defined itself as 'the new word for banking.' True to its maverick nature, it refused to produce anything as 'establishment' as a formal vision or mission statement, preferring to describe itself in a stream of pithy catch-phrases (see 'The launch' section below).

Nevertheless, the founder devised a well-defined ideology and culture to make 20twenty different and special, with its own distinct terminology. For example, the staff were called 'people', clients were called customers and call centre operators were 'Wired Warriors'. The latter were bright, well-educated, lively, customer-focused and able to take the initiative on behalf of customers. 20twenty people were passionate about the brand and its excellent value and customer service. This translated into powerful customer loyalty.

# History

In 1999, Christo Davel, an insurance salesman who had successfully launched Old Mutual Bank some years before, worked together with Saambou to come up with an online banking initiative originally called the See-through Blue project. Saambou were the backers and Davel put together a team to create the ultimate customer experience. At the time *The Cluetrain Manifesto*<sup>1</sup> was doing the rounds on the Internet and it provided a call to action for entrepreneurs who saw opportunity in the exploding World Wide Web. Davel drew heavily from the manifesto.

See-through Blue was built up under Davel's leadership and launched to the public in July 2001 as 20twenty. The proposition was clear and simple: only one account – the 20one account. This was an all-in-one account to replace your credit card, current account and savings account. It offered competitive interest on both credit and debit balances, the convenience of a Visa credit card, Internet banking and a call centre to provide 24/7 access to your account.

There was a flat monthly fee with no hidden costs or nasty surprises. Transparency was the key, and customer service was close to fanatical, even though there was no interaction across a bank counter.

At that time, Internet banking was fairly new in South Africa, and the four main domestic banks – First National Bank (FNB), Standard Bank, Nedbank and ABSA – were investing large sums of money to encourage customers to use this channel. A research paper by Hoppe, Newman and Mugeru<sup>2</sup> of UCT reported that Standard Bank was leading the race with 35% of the market share. ABSA, at 33% (153 000 Internet banking customers), was offering a free Internet service provider service to encourage clients to explore both the Internet and Internet banking. ABSA was hoping that the resulting publicity would double its customer base by recruiting 10 000 users a month. Nedbank had approximately 70 000 online users.

Hoppe *et al.* described the arrival of 20twenty as follows in October 2001:

‘Apart from the domestic banks, there is a new type of bank emerging in South Africa and worldwide called the virtual bank. The major difference between the virtual bank and other banks is the fact that a virtual bank does not have a physical presence, or a brick-and-mortar building. Nevertheless, this bank performs most of the services provided by the brick-and-mortar (sic) banks with regard to Internet banking.

1 Levine *et al.*, 1999

2 Hoppe, Newman and Mugeru, 2001.

20twenty is South Africa's first virtual bank, and it has shown phenomenal growth since it launched in July. 20twenty is a division of Saambou Bank. CEO Christo Davel is confident that the virtual bank will achieve profitability within three years if it meets its target of securing 15% of the market share.<sup>3</sup>

## The launch

The new virtual bank was hugely successful from the first month, thanks to brilliant, off-beat marketing via television, radio, billboards and posters all over the main centres. Television advertising contrasted the huge advances in technology over the past century with the outdated banking practices still in place and asked, 'Is your bank as innovative as your world?'

Radio ads included recordings of genuine phone calls to the *Guinness Book of Records* and the publishers of the *Oxford English Dictionary* with off-the-wall queries that baffled the staff of these establishments and highlighted the contrast between 20twenty and anything previously known.

But perhaps most provocative was a bit of guerrilla marketing using 20twenty branded demolition cranes placed aggressively next to the various established banks, the orange covers on their wrecking balls proclaiming: banking is necessary, banks are not.

Print advertising (including billboards) used minimalist, fairly subtle graphics and short, punchy slogans with no capitals and no punctuation:

- ▶ it's the end of banking as you know it
- ▶ banking is necessary, banks are not – Bill Gates
- ▶ 20twenty – the new word for banking
- ▶ banks are dead, long live banking
- ▶ how much of your salary is going into bank fees?
- ▶ wouldn't you like to steer your own bank account for a change? (with a simple arc to indicate a steering wheel.)
- ▶ line of credit decision in seconds (graphic indicates hourglass with wide gap)

Some brought in humour:

- ▶ sit. we'll move your bank account for you (printed on a butt shape)
- ▶ speed trap ahead – see, we're already saving you money
- ▶ 9% on positive balances
- ▶ prime on credit
- ▶ other banks aren't going to like this

3 Hoppe, Newman, Mugeru, *SA Computer Magazine*, 2001

None of these billboards or other materials mentioned the connection between 20twenty and Saambou. This infuriated the Banking Regulator, who insisted that consumers had to know where the money would be banked. All the marketing materials had to be revised to reflect the fact that 20twenty was a division of Saambou. What seemed like a small glitch was in fact the first of a number of operational oversights that would plague the start-up over the next months.

The marketing campaign made a big splash and was well received: between July 2001 and February 2002, close to 40 000 people applied for accounts. All customers received their cards by courier delivery in elaborate, memorable and very expensive packaging.

The success of the initial launch was soon overshadowed by a number of issues that surfaced once the reality of running a bank took hold.

## Teething problems

The sudden influx of huge numbers of applications destabilised the website and overwhelmed the operational capacity soon after the launch. In response, a spate of advertisements put a positive spin on the situation with messages saying, 'We're bowled over!' and explained that the systems were overwhelmed; the website couldn't handle the numbers, nor could the cards be produced, packed and shipped fast enough.

Apart from the website overload and the delays in issuing cards, several other problems surfaced:

- ▶ There were operational issues with other banks and organisations, for example the cards didn't work at toll booths.
- ▶ Some web browser issues had not been thought through. For example, the website didn't display correctly on Apple computers.
- ▶ Credit granted was not as rigorously scored as was the norm in the market.
- ▶ Wired Warriors were overwhelmed with emails and telephone messages.
- ▶ Basic functionality such as downloading statements into software packages like Quicken was offered on the website but didn't work.
- ▶ The cards didn't work at certain retailers, such as Woolworths.

These teething problems hinted at real inadequacies behind the scenes.

## Other strategic issues

- ▶ There was a deliberate policy not to hire bankers, for fear that bankers would create in 20twenty what they had created in other banks. This led to serious difficulties and an inadequate implementation when the decision was taken to launch with a credit card rather than the original plan of a debit card. Additionally, the lack of real banking experience led to poor credit risk practices and the offering of credit to a number of people who wouldn't normally receive credit from other banks. Whilst not an issue immediately, this was a time bomb waiting to go off.

- ▶ Account fees were set at a flat fee of R50 per month – much cheaper than other bank accounts. People loved the low price, but even with thousands of accounts coming in, it was not sustainable. Expenses were significant and not fully anticipated. People had to be hired in a hurry to deal with the operational efficiencies and staff costs quickly mounted.
- ▶ In the first two years of operation, 20twenty ploughed through R200 million, including the initial advertising campaign, which had cost around R35 million. While the marketing created a hype and launched the bank prominently in the minds of its target market, whether it was worth that amount of money is questionable and the advertising return on investment wasn't ever calculated.
- ▶ Customer-focused luxuries like the unusual packaging and individual courier delivery of the cards also added significant cost. Many new customers signed up for an account but didn't use it as their primary account because there weren't the usual complementary products such as garage cards and home loans. The garage card was a prerequisite for the South African market where it was not possible to buy fuel with a normal credit card. These issues hadn't ever been thought through in the rush to market the new bank. Low activity after expensive acquisition led to an unsustainable business model.
- ▶ The idea of one flat monthly fee also backfired in unforeseen ways. Given unlimited transactions at no extra charge, customers changed their banking behaviour and began to withdraw small amounts as and when needed. However, 20twenty had to pay the banks for all these ATM transactions and was soon forced to impose fees on transactions beyond a certain number per month as it was costing more to run an account than the bank received in revenue.

On 9 February 2002, Saambou went into curatorship for reasons unrelated to 20twenty, but impacting 20twenty, who needed a banking licence in order to operate.

### **Curatorship: February 2002 – August 2003**

Once under curatorship, 20twenty expected its customers to take their money and run within a week or two but, unusually, many clients kept their faith in their virtual bank and chose to stay. They even set up a fan club and campaigned through a website and on national television to help the bank survive and succeed. The initial launch had created a fanatical customer base who emotionally identified with the brand.

The other saving factor was the founder's influence: Davel had created a 'never say never' culture and his ability to keep motivated through this period, sometimes single-handedly, kept the bank going through this difficult period until a buyer was found.

As long as there were loyal customers, 20twenty was in a position to bargain, so it set about selling itself to one of the major South African banks and even to other non-banking organisations. FNB undertook a due diligence investigation as did BOE, Cell C and Barclays (prior to taking an interest in ABSA).

While the Saambou curatorship had definitely hindered 20twenty's development, the question that can never be answered is whether 20twenty would have survived if Saambou hadn't ever gone into curatorship. Mounting costs, a poor business model that was dependent on expensive acquisition (both marketing and direct customer costs) and operational failures across the board meant that a very large number of active customers would be required for the bank to break even and the only way to get those customers was to spend lots of money, which would have been hard to justify after the steep launch costs. It is possible that Saambou being placed into curatorship actually saved 20twenty in the short term, allowing it time to regroup before its re-launch after its acquisition out of curatorship by Standard Chartered Bank.

## **Standard Chartered acquisition**

In August 2003 Standard Chartered Bank (UK) acquired 20twenty for 'a sum of not more than \$10m', which bought them all the assets of the bank and ended the eighteen-month curatorship period. Standard Chartered were interested in what 20twenty had done and were amazed that customers had remained loyal despite the hardships they had been through with the Saambou curatorship. The British bank likened 20twenty to a similar initiative they had launched in India using an alternative brand to appeal to the youth market. Although they would have preferred to have 20twenty change to their own brand, under pressure from the founder, Standard Chartered retained the 20twenty brand on the assumption that customers would be more attracted to 20twenty than Standard Chartered.

## **Re-launch**

By April 2004, when 20twenty was ready for re-launch, more than two years had passed since the Saambou curatorship. Over that time key people had left the organisation and, despite a major drive to recruit talented people after the Standard Chartered acquisition, a lot of the legacy knowledge had been lost. This resulted in systems and processes that had broken down and maintenance that was long overdue. Initially the intention was to re-launch by the end of 2003. However, this proved impossible due to the sheer amount of work required to get the bank fully operational, and the re-launch was postponed until April 2004.

Davel managed to negotiate a large amount of autonomy from Standard Chartered and was able to design the re-launch campaign without much input from the group marketing function. The campaign was modelled on the original launch and, while interesting, it didn't have the same effect.

A number of things had changed since 20twenty's original arrival. Internet banking, which was quite novel in 2001, had become mainstream by 2004 and most banks had significantly improved their online offerings whilst 20twenty was in curatorship. In many cases, the rival banks' Internet offering was superior to 20twenty. In addition, the big banks had now had time to watch and plan their approach to a 20twenty re-launch and were not taken by surprise when 20twenty re-emerged.

FNB ran a campaign directly countering the 20twenty offering by highlighting its inadequacies (no home loans, car loans or garage card – just the one account and no branches for convenience). The launch fell flat, attracting relatively few new customers. Customer numbers and usage had by now dropped significantly, as many of the initial clients had never really used their accounts.

## Products

The original 20twenty offering was the single 20one account. Standard Chartered, however, was keen to use 20twenty as a vehicle to introduce three of its existing products:

- a straight credit card – marketed via the incentive of a balance transfer with low initial interest rates, increasing after a few months,
- home loans – a good opportunity because the private property market was extremely bullish and was growing at around 30% per annum, and
- personal loans – marketed via telesales, calling people at home to offer personal loans up to R100 000, to be paid back over two or three years.

Davel and the 20twenty faithful refused to buy into these traditional banking products, because they did not fit the 20twenty ‘unique and special’ image. This highlighted the differences in culture between Davel and his new owners. Although seemingly pleasant on the surface, there was never really a meeting of minds between Davel’s maverick approach and the more conservative Standard Chartered way.

## Rifts grow

The relationship between Standard Chartered Bank and its new acquisition was not a comfortable one. It soon became clear that there was a stark and persistent mismatch between Standard Chartered’s expectation, that the business they had bought would be integrated into their organisation, and Davel’s insistence on 20twenty remaining unique and distinctive.

The two organisations had different approaches and structures, as illustrated by the following examples:

- Standard Chartered believed that marketing was done best with direct customer contact, leading prospects directly to an offer either face-to-face or on the telephone. They had used this model very successfully in places like Thailand. Davel and 20twenty believed that if you made an emotional and compelling offer, then you could advertise it and people would sign up for the bank’s services of their own accord. While there was acknowledgement that these were two very different approaches, there wasn’t ever an agreement on which to use. This resulted, in some cases, in duplicated efforts.
- Within 20twenty, the focus was almost entirely on marketing and the brand, with minimal attention being paid to operations. The people dealing with operational issues were initially not even represented in management. Strategic planning was geared entirely towards building the brand and pleasing the customer through

different and excellent service. Competitors were dismissed as irrelevant, and there was no real operational plan or operations area to handle the large number of customers that would be needed to break even. There was also no comprehensive financial plan or discussion on ways to make money from all that was being offered. Standard Chartered, by contrast, was very focussed on the bottom line. People were responsible for specific product areas such as credit cards, personal loans or home loans, and they were held accountable for profit and loss.

Towards the end of 2004, Standard Chartered was seriously concerned that its investment in 20twenty was not showing results. A rift was also developing within the management team of 20twenty – some members felt the need to deal with the bottom-line realities, while the founder and the head of marketing believed that, given more time and more marketing, enough customers would come in and all would be well.

In December 2004 Davel and Standard Chartered parted ways. The business was restructured to cut costs and to reflect the structure and style of Standard Chartered. Some members of the original 20twenty staff felt that things had changed too much and the soul of 20twenty was now irretrievable. Their departure further drained the company of valuable skills and talents.

It took only a few more months for Standard Chartered to make a decision to consolidate its South African business, focussing on its corporate clients while serving those retail customers with whom it had a relationship. Standard Chartered were very mindful of protecting their reputation and managed accordingly, ensuring that arrangements were made for the 20twenty customers to be moved, if they wished, to Go Banking, a joint venture between Pick n Pay and Nedbank.

Customers were generally not happy and Standard Chartered was left managing the final days of the bank that had started out as 20twenty. The customer's blog post at <http://www.greenman.co.za/blog/?p=196> on the closing down of 20twenty describes the mood.

## Summary

The fact that 20twenty influenced the banking industry is undisputed. The responses by the big four players in the industry showed that they stood up and paid attention to how customers were responding to the 20twenty offering. There remain, however, two important and unanswered questions:

- ▶ Could 20twenty have succeeded if as much time, effort and money was spent on the operational side of the business as was spent on marketing?
- ▶ What could Standard Chartered have done differently to make it viable when they purchased the business in 2004?

The spirit of 20twenty lives on in the hearts and minds of the people who worked there and the customers who dreamed of having a quality alternative to the poor service offered by big banks.

### Critical thinking exercise

- 1 What were the strengths of 20twenty?
- 2 What were its failings?
- 3 How could 20twenty have survived to become a force in banking in South Africa?
- 4 If you had been the CEO at the time when Standard Chartered bought out 20twenty, what strategy would you have devised?
- 5 What could you do now in the banking market that is different? Is there a place for a maverick bank today?

### Guidelines for the critical thinking exercise

Put yourself into the decision-making position within the organisation. Consider all the aspects that you would need to balance in order to make effective decisions. This process includes examining the financial, risk, people, product, operational, marketing, customer, shareholder, leadership and cultural aspects within 20twenty.

## Bibliography

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