



FIDOR

Germany, www.fidor.de

Working with the crowd enabled the development of a new community-based business model in the traditional banking sector

Executive Summary

Fidor Bank has defined a completely new banking business model for digitally-savvy consumers and business customers. First launched in 2007, the Fidor Community has become one of the most active financial communities in Germany, where more than 275 000 users engage in community discussions around the clock.

The value of the case is that a new business model is much more important than the software/ technology to develop a new competitive force in a traditional industry. A community-based model is a powerful OI tool to implement a new business model.

CASE N° : FG16

SECTOR: BANKING

TECH INTENSITY: LOW-MEDIUM
TECH

LIFE CYCLE STAGE: ESTABLISHED

INNOVATION VECTORS: PRODUCT,
SERVICE, ORGANIZATIONAL,
CUSTOMERS & MARKETING

01 PARTNERS: PSR, INDIVIDUAL
EXPERTS, LEAD CUSTOMERS/USERS,
CROWDSOURCING

KEYWORDS: Online bank, social
media, API, crowdsourcing, cost
reduction, developer clubs, B2B
banking

- BACKGROUND FRAMEWORK
- INNOVATION CHALLENGE & MARKET OPPORTUNITIES
- OI TRAJECTORY
- BUSINESS IMPACT
- LESSONS LEARNED



BACKGROUND

Fidor Bank was launched in 2007. The idea was to launch a bank and while waiting for the banking licence to arrive (it took two years), the founder, Matthias Kroner, decided to set up a community. He wanted to create a new kind of bank that put customers at the centre of the USP by leveraging their personal finance experience. Instead of putting trust in the expertise of the bankers, Fidor Bank was 1. putting trust in the people/ crowd that have a lot of financial knowledge; and 2. the community could test out the ideas, which products to launch next, how to launch. Between 2007 and 2009 the community grew to about 30 000. In 2009 the online bank was established in Germany, headquartered in Munich. The bank was based on retail and SME banking offerings. Since the beginning they have built it in an open way by relying on the community to give advice to their clients.

The bank also developed middleware for online banking services for B2B clients. Fidor Bank helps other traditional banks, retail organizations as well as telecom companies to deploy digital banking solutions using the Fidor Bank infrastructure. This technology subsidiary and the B2B companies are totally enabled by an open infrastructure.

The bank entered the UK market in 2015. Fidor Bank and the online technology were both acquired by BPCE in 2016. They intend to launch the banking services in France in 2017. By May 2017, Fidor Bank had 275 000 clients and around 430 000 community members.

The company has plans to grow rapidly at international level. After France in 2017, other European countries will follow. It also has plans to enter the US market.

INNOVATION CHALLENGE & MARKET OPPORTUNITIES

Fidor Bank was the first European digital bank. Traditional banks do not reflect their customers' needs in the digital age. They are expensive, slow and do not necessarily cater to the needs of their customers in an appropriate way. Developments in information technology and social media have paved the way for fundamental changes to the traditional banking system.

Fidor Bank is the first European digital bank with

an entirely new business model based on a community model.

Fidor Bank has defined a completely new banking business model for digitally-savvy consumers and business customers. The Fidor Community has become one of the most active financial communities in Germany, where more than 275 000 users engage in community discussions around the clock.

OPEN INNOVATION TRAJECTORY

Concept development

Fidor Bank is an online bank based on the Fidor Smart Community where customers play an important role alongside the bank employees. The community connects customers with each other and provides the opportunity to ask money-related questions, provide and receive savings tips, evaluate financial services or providers or suggest new product developments. The bank offers community members money to ask questions and answer questions. The idea behind this is that you pay community members to ask a question and the answer to this question can be received any time 24/7. In this way, customers help out other customers.

Asking questions publically helps out other customers. Via this Bonus Programme, Fidor Bank rewards customers that actively engage as community members. Part of the Fidor Bank concept is constant communication across social media platforms such as Twitter, Facebook and YouTube. In Germany, the product portfolio covers retail and business customers' needs from online savings bonds, investment opportunities in foreign currency or precious metals to various lending offers – all in one account, the Fidor Smart Account.

There are three types of profiles in the community: 1. The stalkers: the people who look at the discussions but do not participate. They like to read and learn things; 2. People who want to build their knowledge around personal finance so they ask questions; 3. People who like to show that they have personal finance knowledge and they get a bonus for sharing their knowledge with the community. On top of that they get Community Karma which encourages peer-to-peer support among customers. It measures the quality of contributions and interactions between users and ranks their activity against that of the entire community. Each activity counts and is combined

with the activities of other users.

To create the Community Karma, comments, social networking, money-related questions, savings tips, product suggestions, group activities and ratings of the individual user are taken into account. High Karma community members benefit in different ways: they receive exclusive invitations to special competitions, they are invited for beta-testing of new products, and they can discuss new and existing products with bank employees. The bank also intends in the future to grant to clients with high Karma better conditions in the way of rates and access to products. Those members are the most valuable to Fidor Bank as they are helping others and on average they spend more money with the bank, they use more savings products and they tell their friends about Fidor Bank.

The development process, IPR and competition strategy

Fidor Bank started with building its community while waiting for two years to get its bank licence to trade in Germany. Its founders saw the opportunity to start a digital bank during the financial crisis of 2007–2008 as customers were increasingly dissatisfied with the services of traditional banks. The main challenge was to grow the banking business rapidly at low cost. Low-cost customer acquisition was done through the community. Geographical growth is the most difficult challenge, as it is necessary to build a community and obtain a licence.

IPR plays a minor role in this case, except for the APIs that the company develops to allow their B2B customers to work with their own software.

Fidor Bank has been recognized many times as one of the world's most innovative banks which has had a disruptive effect on the traditional banking sector. Most recently it has been recognized by the World Economic Forum as a "Global Growth Company". Competition from traditional banks is still weak, but there is a growing number of digital banks in Europe. However, they are considered to be copy-cats of Fidor Bank or less innovative than Fidor Bank. The large community offers Fidor Bank the best protection against competition, as it is difficult for start-ups to build a similar network.

Commercialization and follow-up

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The bank works with a complete new business model. Instead of relying on the traditional bank-customer relationship with expensive brick and mortar assets, Fidor Bank as a digital bank relies entirely on social media and the community to answer questions and to provide a service. This is a very low-cost way of working and it has proved to work well in the eight years of its existence. The bank therefore works quite differently from traditional banks, and even if the latter establish digital banking they will always be a hybrid model, not pushing the boundaries as much as a purely digital bank such as Fidor Bank will do. Compared to other digital banks, Fidor Bank has the advantage of having one of the largest online communities which is a real asset and hard to copy for new entrants to the digital market.

The marketing strategy is tightly related to the community. The community members are responsible for the customer acquisition process. Fidor Bank also has a community of technical people that develop apps based on the API of Fidor Bank. Beyond the strong interactions with the community there are no real partners. Its acquisition by a French group in 2016 did not change the way the bank works because it can still operate in an autonomous manner.

This is a fast-growing bank, as its introduction to the UK in 2015 and to France in 2017 demonstrates. It is also driven to internationalize by its B2B customers.

BUSINESS IMPACT

The bank is a start-up based on an entirely different business model compared to traditional banks. The outcome after an entrepreneurial journey of nine years shows that Fidor Bank has become a serious player in the European market with considerable further growth potential. The main competencies which the bank has built are the low-cost acquisition of new customers via the community and the ease of answering the financial questions of its customers through the social media which connects the community members. An additional skill is the continuous development of new apps for B2B customers.

The company has been implementing a radically different business model to make digital banking competitive with the traditional banks. It also shows that a digital bank is doing more than developing new digital technologies, such as many fintech companies are offering nowadays.

After eight years of activity the bank is growing quickly in terms of the number of community members and customers. It will definitely count as a major player in Europe in the next few years. The recent acquisition of Fidor Bank by BPCE put the growth of the company in a somewhat different perspective: so far FidorBank has the full autonomy to continue to work as in the past. It is not clear whether BPCE is providing financial support for the further geographical expansion of Fidor Bank, and there are no indications in which direction BPCE wants to drive Fidor Bank as part of its long-term growth strategy.

LESSONS LEARNED

This case is a good example of digital banking (service industry) with the potential to disrupt the banking industry. It is different from fintech companies as they provide only technical solutions, while Fidor Bank is a bank with IT and social media technology at its core.

The value of the case is that a new business model is much more important than the software/technology to develop a new competitive force in a traditional industry and that a community-based business model is a powerful Open Innovation tool to implement a new business model. This exists not only in banking of course but also in other industries (e.g. Threadless online community of artists and e-commerce website).

Main lessons learned:

1. As a start-up, Fidor Bank had to think from a completely different angle compared with traditional banks. The business model is completely different, proving that business model innovation is part of the OI game.
2. Open Innovation is crucial here in the form of the community and customers who are connected online.
3. In this case the OI development started early on as the community was at the heart of the business model. The community started in 2007 and the bank was only established in 2009. In other words, the community was a first asset which allowed the company to develop its business model.
4. The business model is scalable but has implications for the community.
5. Community management is an interesting topic for OI management.