Embedded Friction

And how to avoid it

John Godfrey 2024

INTRO

Ambitious Propositions require Bold Delivery

Red Badger designs and builds new customer propositions, renews tired ones and extends existing successes.

We craft experiences customers love, build next generation platforms and embed new digital capabilities.

yrs 14

Experience, founded 2010

~100

Talented people

c.90%

Permanent, London team

WHERE WE HAVE HELPED

HSBC
Ventures | BARCLAYS
CHASE
SELFRIDGES&CO
ovo energy
BBC

LLOYDS BANK
DOW JONES
TESCO
asos
NHS
FINANCIAL TIMES

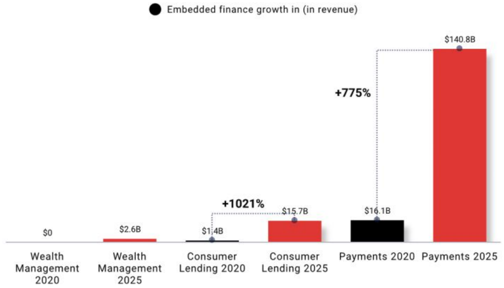
Fidelity INTERNATIONAL
defaqto
Santander
Levi's
BRITISH COUNCIL
PRIDE IN LONDON
sky

ATKINS
JLT
EQUIFAX
LME An HKEX Company
Nando's
MHRA
News UK

SECURITY BANK
CAMDEN MARKET
ANTHONY NOLAN
FORTNUM & MASON EST 1707
TANDEM
hopin

1. What's going on?
2. What does it mean?
3. What to do about it?
4. Winning the race to value
5. One take away

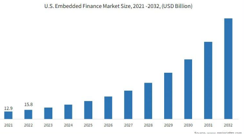
Financial Services will be ~~complicated~~ embedded

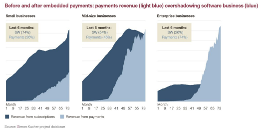


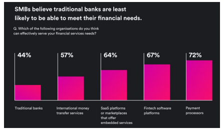
TAKEAWAY:

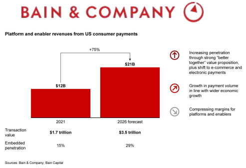
922%

embedded finance will grow to nearly $230 billion (in revenue) by 2025, up from $22.5 billion in 2020.









Better CX: from ‘owned’ experiences - to everywhere

Klarna

shop Pay

In the long term brands win when customers win

“*A business focussed on customers will delight its shareholders much more than a business focussed on shareholders will delight its customers.* ”

Rory Sutherland

McKinsey's Zero Consumer

Zero boundaries	→	be present
Zero middle	→	be distinct
Zero loyalty	→	be relevant
Zero patience	→	be available
Net **zero**	→	be good

What does it mean?

Opportunities in the Embedded Finance ecosystem

ORIGINATOR **distributor**	**FINTECH** **technology provider**	**BANK** **balance sheet provider**
Retailers, SaaS, marketplaces, platforms, service-providers (telco, education, architects, accountants) and their value chains	Software companies, banks, PE	Banks, license holder, deposit holder, capital provider
Distributes by embedding financial products and services in customer, employee and partner journeys. From acquiring to everything.	Designs, builds, configures, integrates and runs technologies to create, explore, configure, sell, transact, and manage financial products	Supplies capital, holds deposits, distributes funds, provisions regulated licenses, runs risk and compliance frameworks

Every brand can become an ORIGINATOR

Be an originator - if not you, who captures the value?

1

RESHAPED VALUE CHAIN

Being reformed around point of need

Financial products have historically been manufactured and distributed by banks. Now available at point of need.

2

NEW ECONOMIC MODEL

Digital, composable, embedded

This new value chain is digitally native, embedded and fragmented. It rewards efficiency and effectiveness.

3

USABILITY WINS

Easy to adopt approaches are winning

Connectivity + aggregation + native digital experience is the most attractive (profitable) part of the value chain.

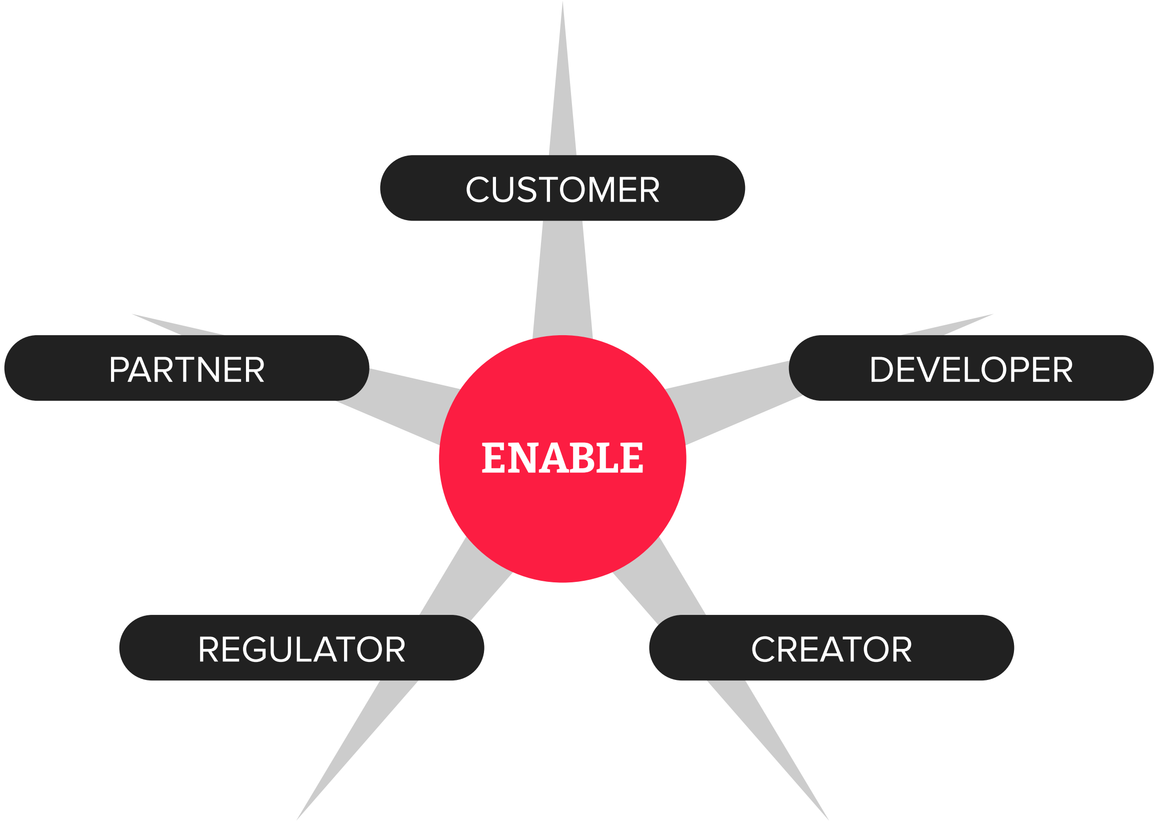
opportunities for originators

Suppliers have (or have to) become enablers

The best are obsessed with enabling your:

→ **OUTCOMES**

→ **EXPERIENCE**



What to do about it?

3 ways for any customer owner to capture value

1 NEW PROPOSITIONS

New revenues, new lines of business

Large opportunity, requiring strong strategic intent, higher risk hurdle.

2 EXTEND SEGMENTS

New offers, adjacent profit pools

Extend existing assets (products, customers, presence, brand, operations etc.)

3 RENOVATE OR PIVOT

Tired or failing propositions

Balancing tactical with strategic and the point at which intervention is unavoidable

USEFUL

+

EASY

+

AFFORDABLE

Inevitable
Customer
Adoption

Become Product-led vs Project-led

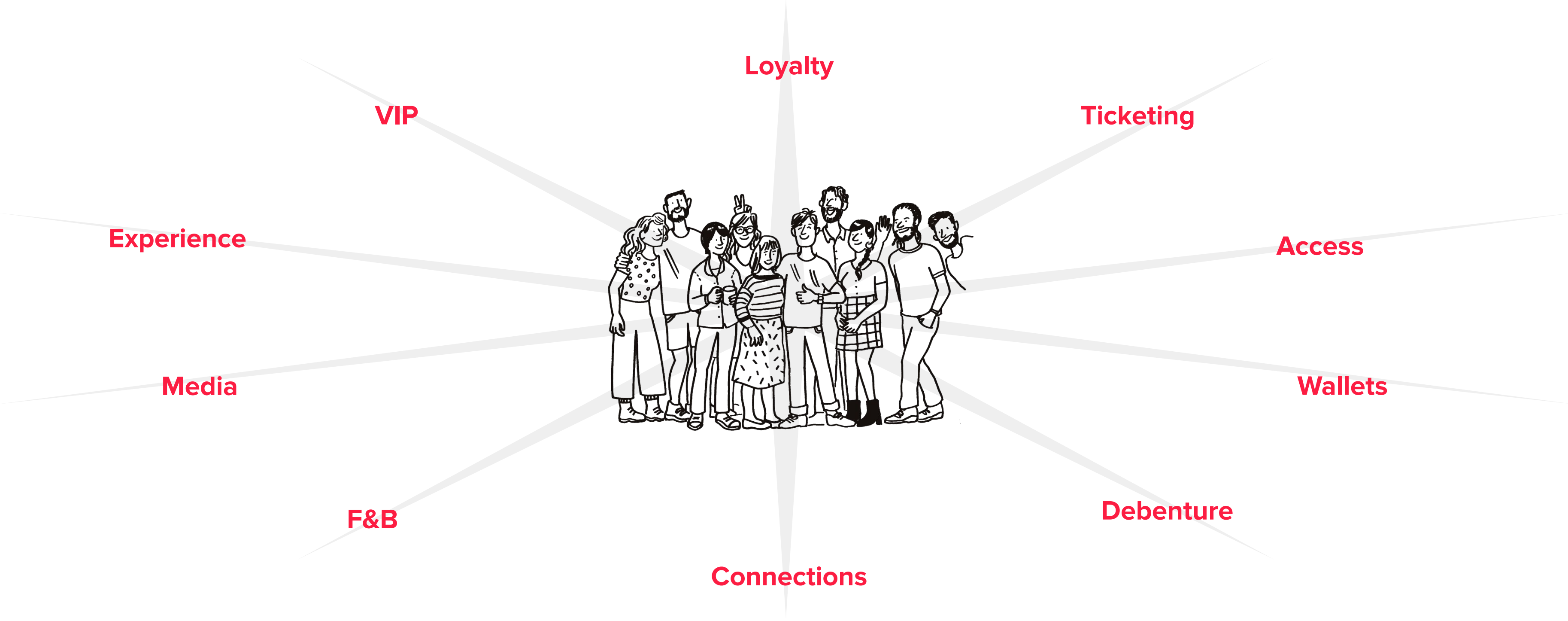
Make things people want > **Make people want things**

(Customers + Experimentation)

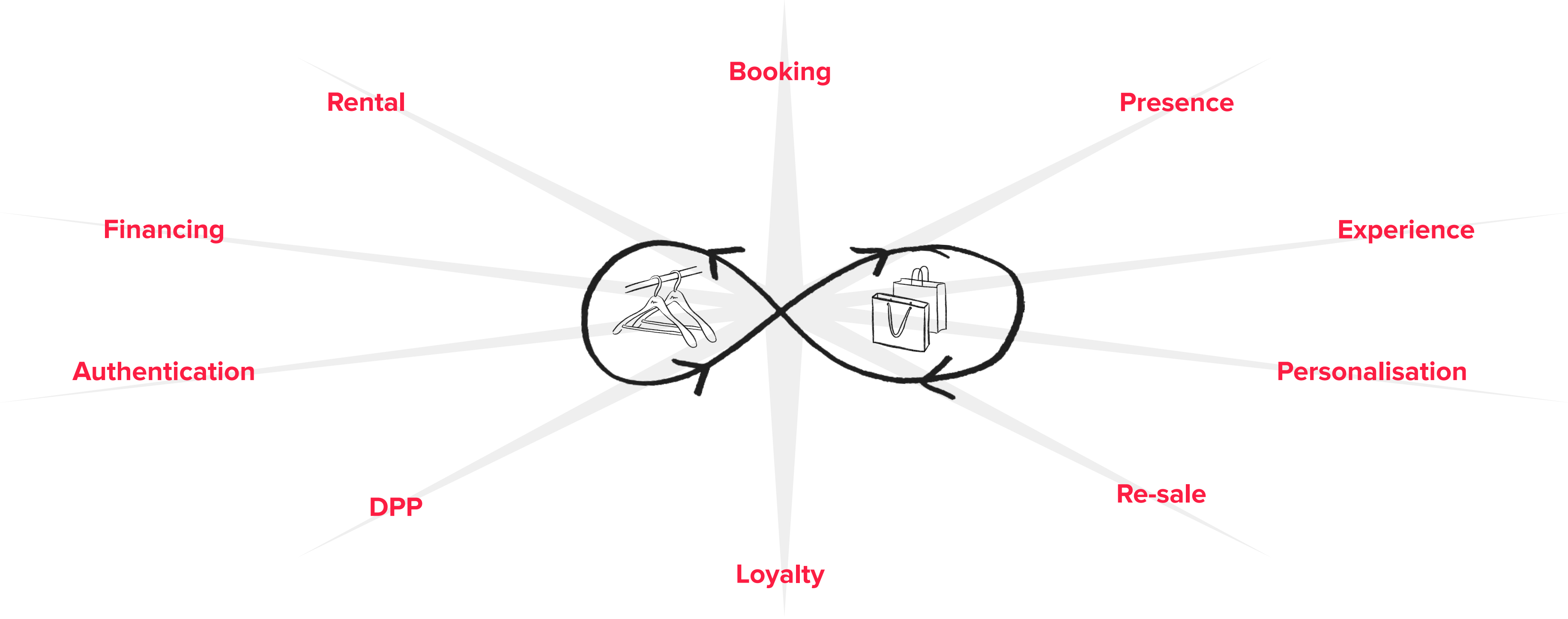
(Projects + Persuasion)

Winning the race to value:
the vision and the path

Global fan experience (e.g. music, sports)



VIP shopper experience with circular fashion



B2B: Community housing retrofit and renewables

Multi-party contracts

Product recommendation

Variable repayments

Securitisation

FinCo / OpCo

Interest & rates of return

Money flows & underwriting

In owning the customer experience

When you own the customer:

- ❤️ Every customer is uniquely identified
- ❤️ (literally) Every product can be uniquely identified

- ❤️ Every interaction has meaning
- ❤️ Every event is available in realtime

Modern tools and Behavioural AI turns **intent** into **hyper-personalised experience**

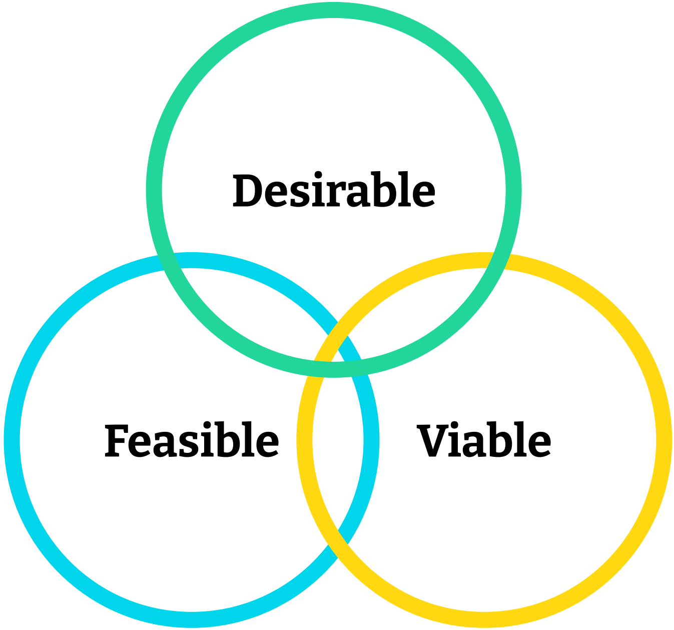
Useful, easy & affordable = inevitable adoption

Path to value, minimising Product risk

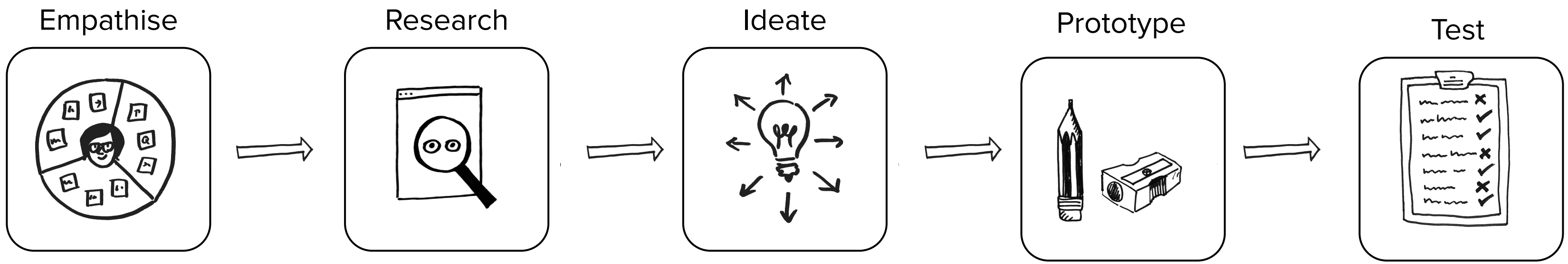
Not desirable: no one uses it

Not feasible: you can't build it

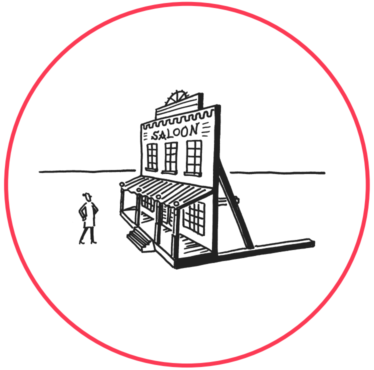
Not viable: no commercial value



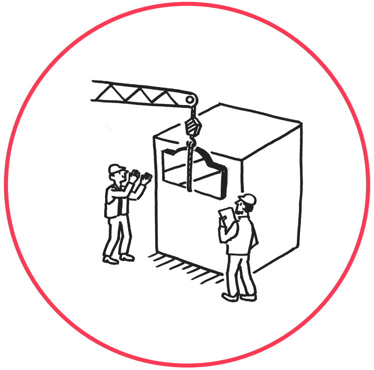
How to know it is worth it



Wizard of Oz



Façades



Components

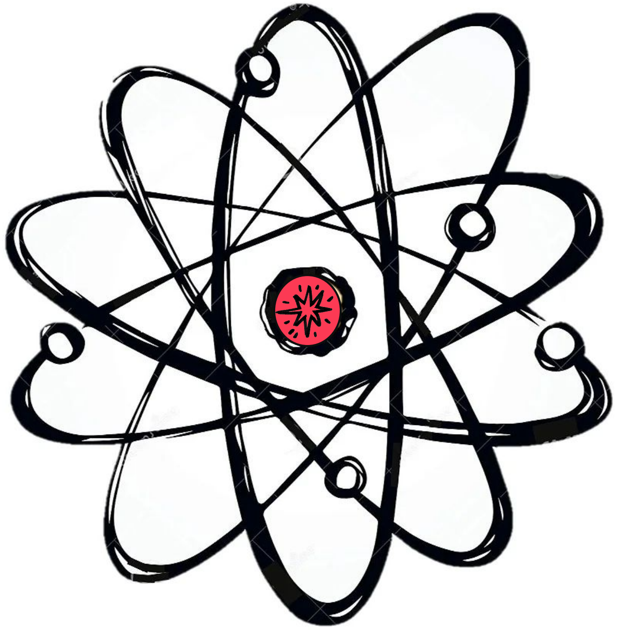
How to keep focused

There's something only you are the best at.

Know your **Atomic Unit of Value**

The smallest thing indicating a product's unique value proposition has been successfully experienced by a customer.

1. **Make it your north star**
2. **Measure it**



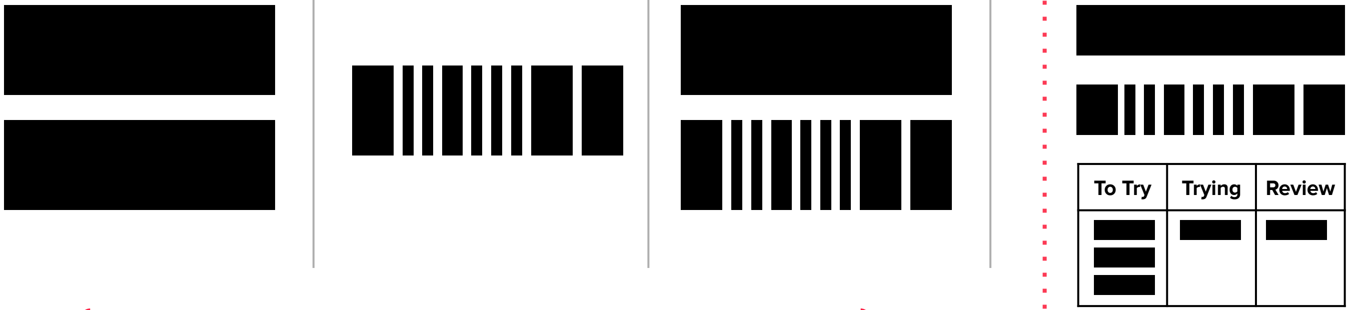
How to execute

Plan Big
Ship Big

Plan Small
Ship Small

Plan Big
Ship Small

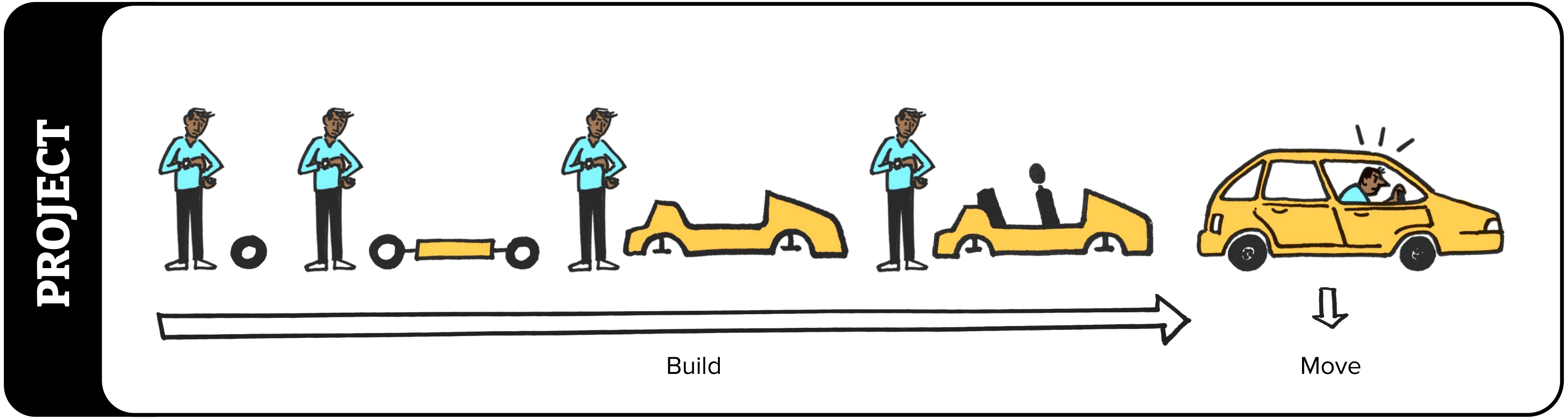
Think Big
Ship Small
Learn Fast

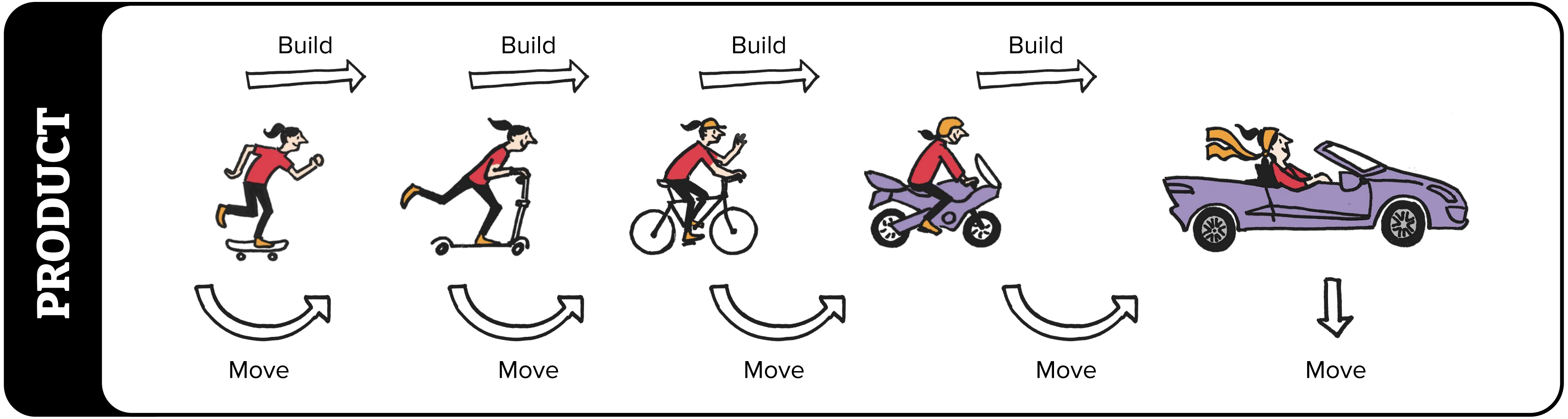


Project-mindset / CapEx / manage stakeholders / gather requirements / drive delivery (time & budget)

Product-mindset / OpEx / experiment with customers and technology to discover value / drive outcomes

One take away


PROJECT
Build
Move


PRODUCT
Build
Build
Build
Build
Move
Move
Move
Move
Move

(embedded)

Payments ≠ Project

(journeys)

Payments = Product

Thank you

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