Institute of Information Management

University of St.Gallen

Glassmeyer/McNamee Center for Digital Strategies

Customer Relationship Management in Financial Services Networks

Ph.D. Research Project

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Tuck School of Business, Dartmouth College, April 22, 2005

Agenda

- Research at the Institute of Information Management
  - The University of St. Gallen
  - The Institute of Information Management
  - Research in Competence Centers
- The Research Project

The University of St. Gallen (HSG)

University of St. Gallen - Graduate School of Business, Economics, Law & Social Sciences (HSG)

- **Largest business school in Switzerland**
- **One of the top business schools in Europe**
- **Founded in 1898**
- **Approx. 5000 students and over 140 professors**
- **Approx. 30 institutes and research centres**
- **EQUIS and AACSB accredited**

The Institute of Information Management (IWI-HSG)

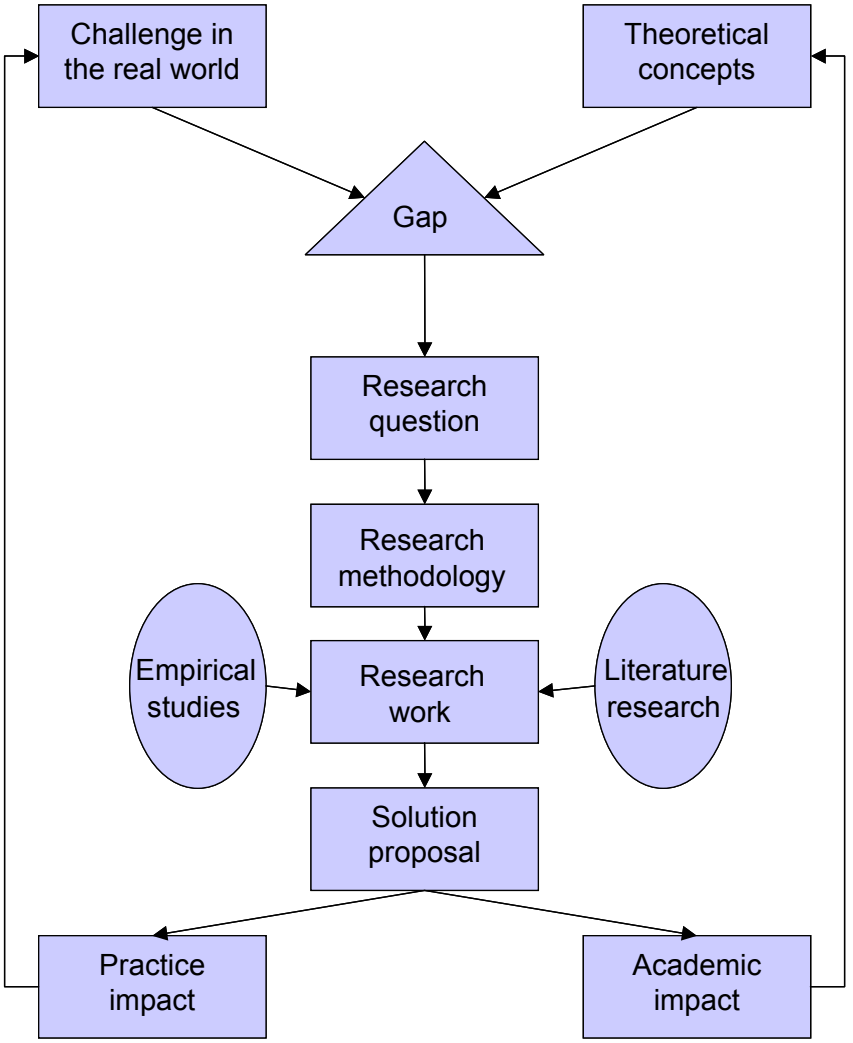
- Founded in 1988
- Largest German-speaking Institute of Information Management
  - 4 full professors
  - Ca. 8 research group leaders (assistant professors)
  - Ca. 30 Ph.D. candidates
- Application-oriented research, funded largely by corporate partners
  - Fortune 500 companies
  - High tech and industry leaders
- Research is conducted in ca. 8 competence centers

Research in Competence Centers (CC)

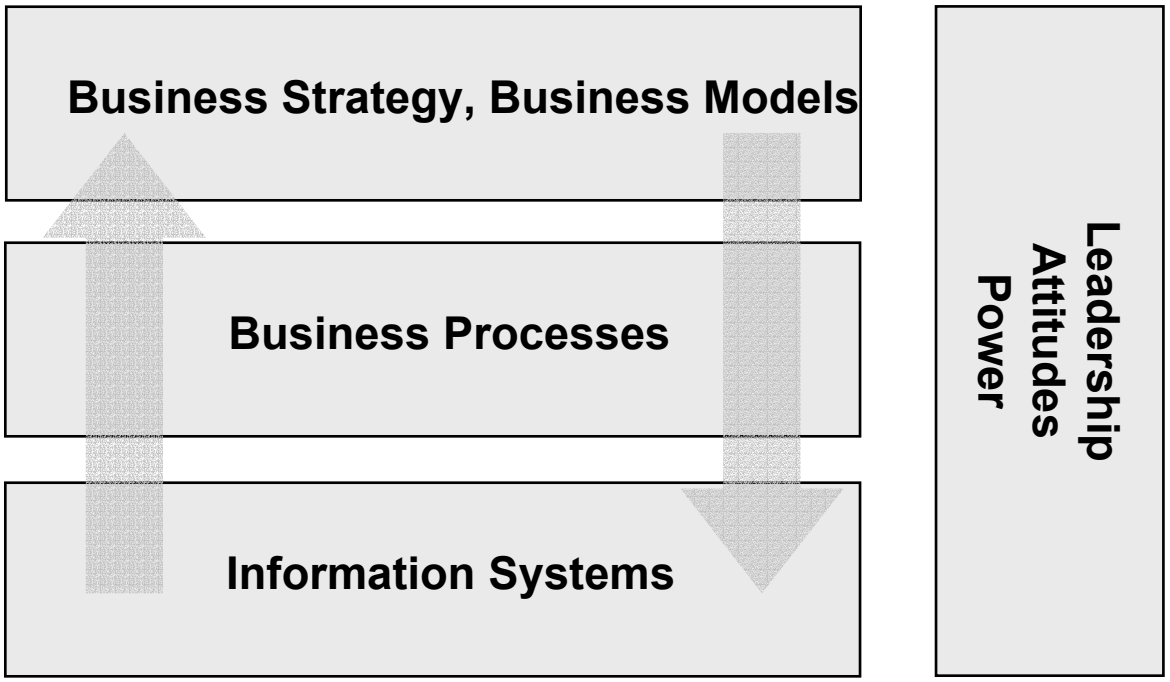
- **Collaboration with corporate partners**
  - **4 - 8 corporate partners per CC**
  - **Cooperation for 2 years (at least)**
  - **Corporate partners define requirements and procedures and monitor achievements**
  - **Cooperation through workshops and bilateral project guidance**
- **Research areas:**
  - **Customer Management**
  - **Business Networking**
  - **Sourcing in the Financial Services Industry**
  - **Application Integration Management**
  - **Business Performance Management**
  - **Integrated Information Management**

Research process

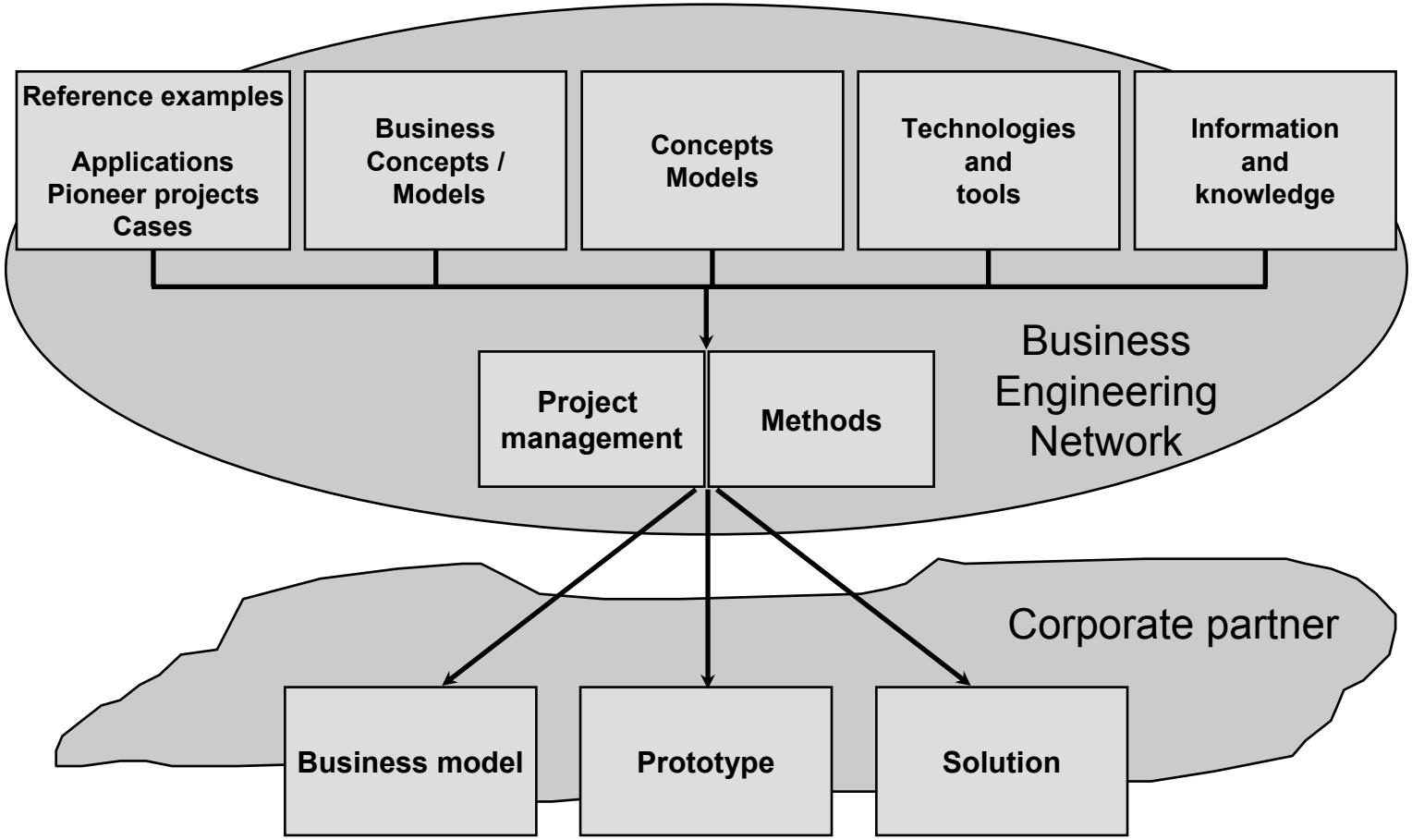
- **Research framework**
  - **Business Engineering [Österle 1995]**
  - **Positivist epistemology [Guba/Lincoln 1994]**
- **Qualitative empirical research**
  - **Case Study Research [Yin 1994]**
  - **Action Research [Checkland/ Holwell 1998]**
- **Quantitative empirical research**
  - **Surveys**
  - **Benchmarking studies**



Business Engineering Dimensions



Research Elements of Business Engineering



Agenda

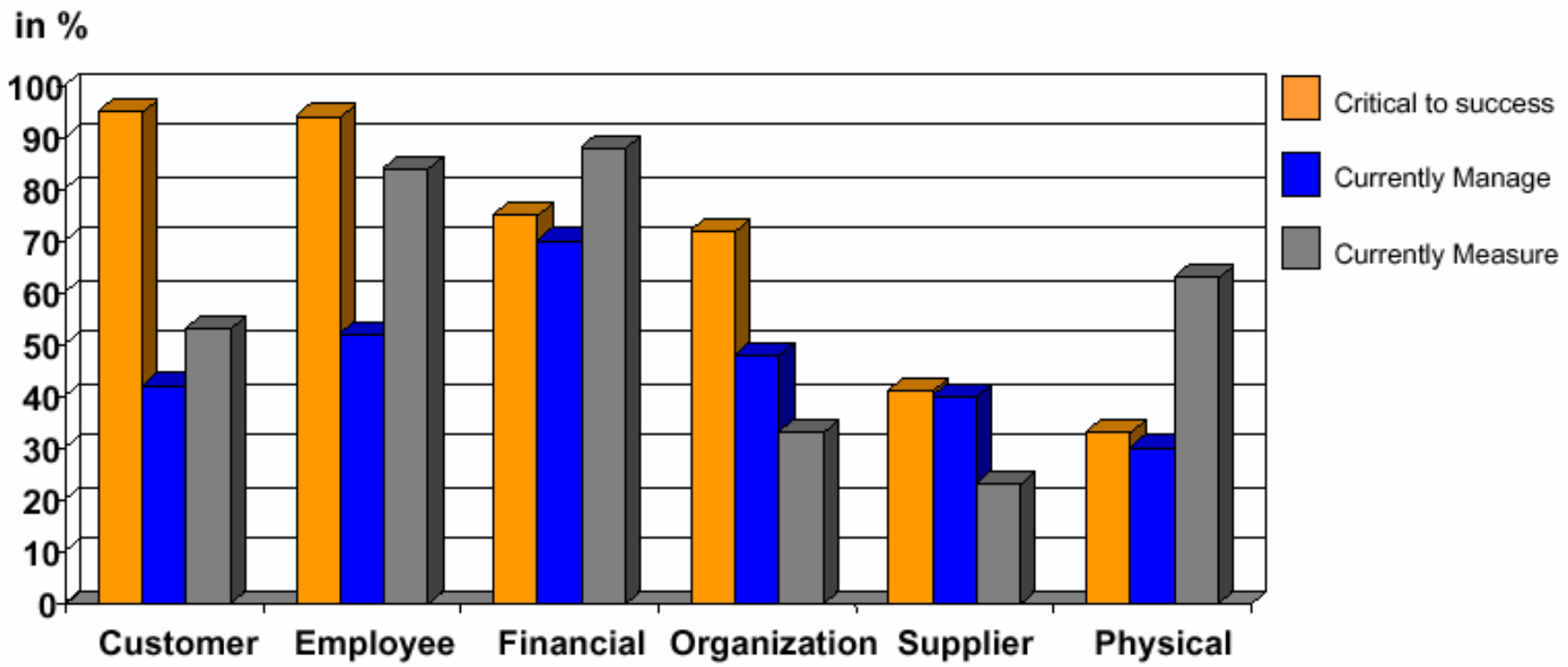
- Research at the Institute of Information Management
- The Research Project
  - Challenges
  - Research Goals
  - Methodology
  - Results
  - Conclusion

Competence Center Customer Management

Competence Center
Customer Management

- **Research area:**
  - **Integrated Customer Relationship Management (CRM) processes and systems**
- **Swiss and German research partners:**
  - **Financial services:**
  - **Pharma:**
  - **Automobile:**

Customer-orientation is critical to business, but rarely managed.



Survey of a cross-industry sample of more than 400 CEO's and CFO's

All respondent were asked to rate the assets and strengths that are most critical to the success of their business.

95 percent of all respondents indicated Customer as "very essential" to success, followed closely by Employee (94 percent), then Financial (75 percent), Organization (72 percent), Supplier (41 percent) and, lastly, Physical assets (33 percent)

Source: Andersen Global Research Program 2001

Customer Relationship Management helps to fill this management gap.

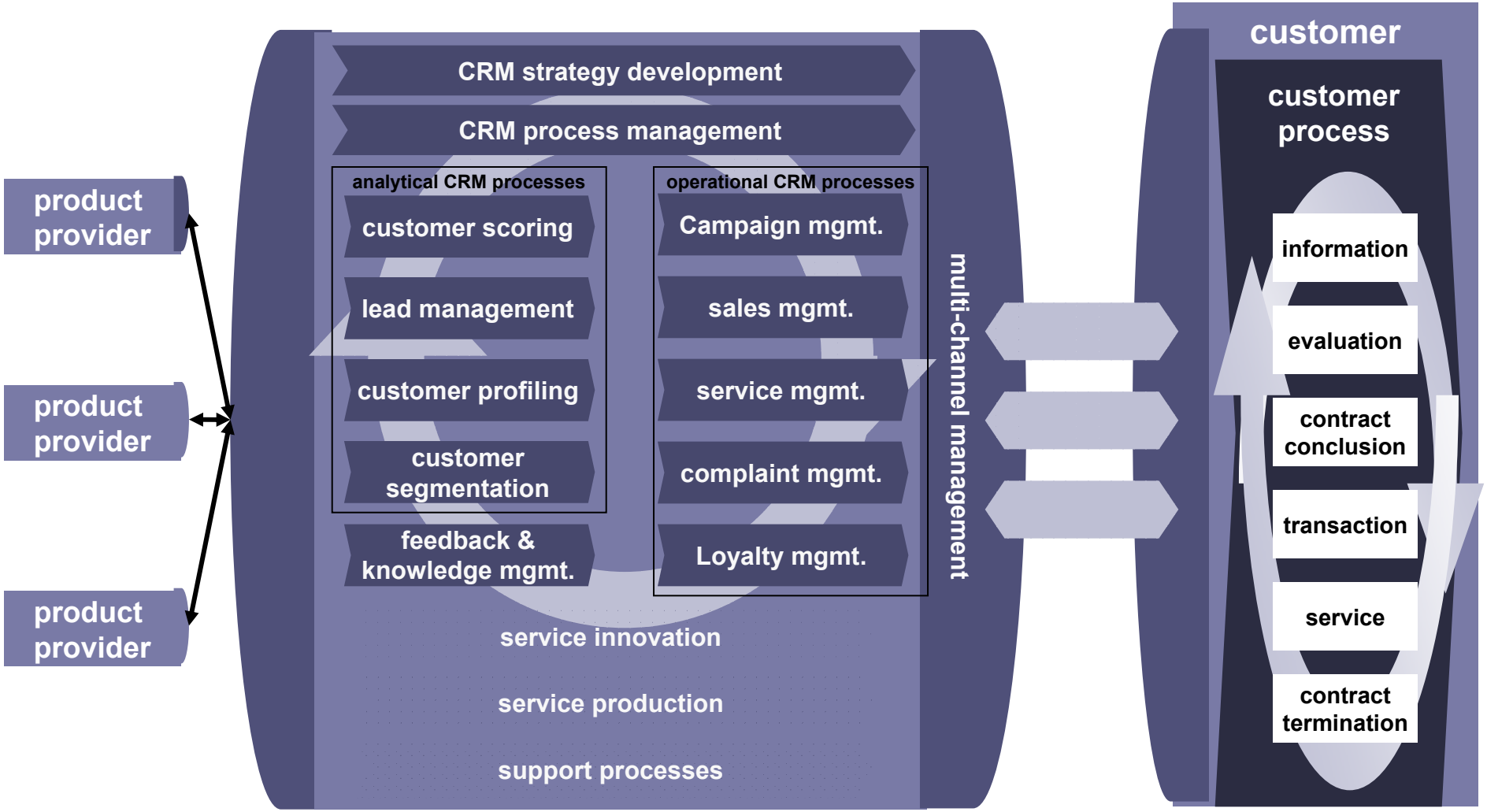
- **Customer Relationship Management is a customer-oriented management concept for the improvement of**
  - **customer acquisition,**
  - **customer retention,**
  - **customer value**
  - **to increase company profitability.**
- **CRM employs information systems to**
  - **collect, analyze, integrate, and supply required information and data**
  - **support the customer-oriented processes in marketing, sales, and service.**

Which activities does CRM comprise?

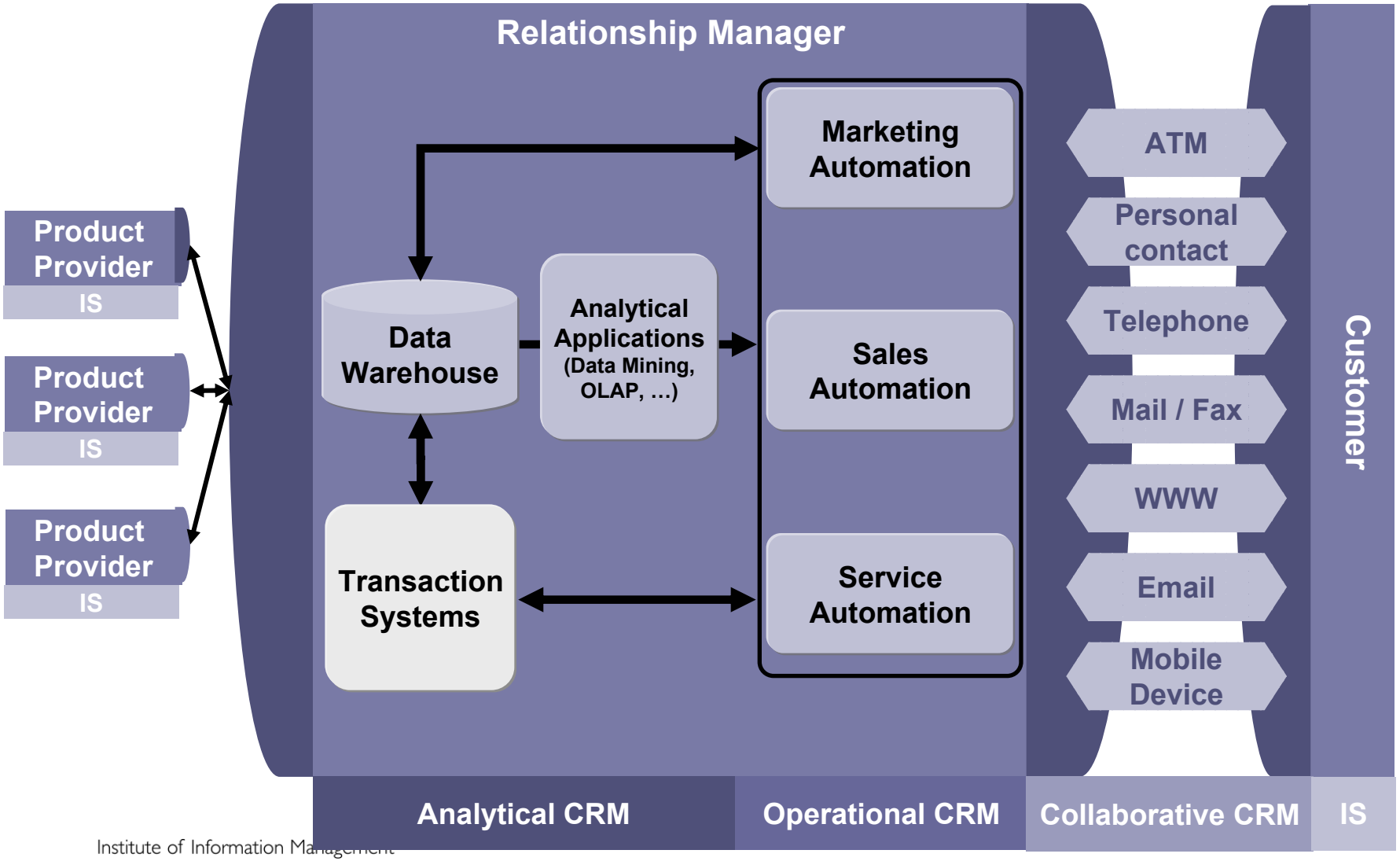
- **CRM achieves an optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit.**
- **It entails:**
  - **measuring both inputs across all functions - including marketing, sales and service costs - and outputs in terms of customer revenue, profit and value,**
  - **acquiring and continuously updating knowledge on customer needs, motivations and behavior over the lifetime of the relationship,**
  - **applying customer knowledge to continuously improve performance through a process of learning from successes and failures,**
  - **integrating marketing, sales and service activities to achieve a common goal,**
  - **the implementation of appropriate systems to support customer knowledge acquisition, sharing and the measurement of CRM effectiveness,**
  - **constantly contrasting the balance between marketing, sales, and service inputs with changing customer needs in order to maximize profit.**

Source: Shaw/Reed 1999

CRM affects customer-oriented processes

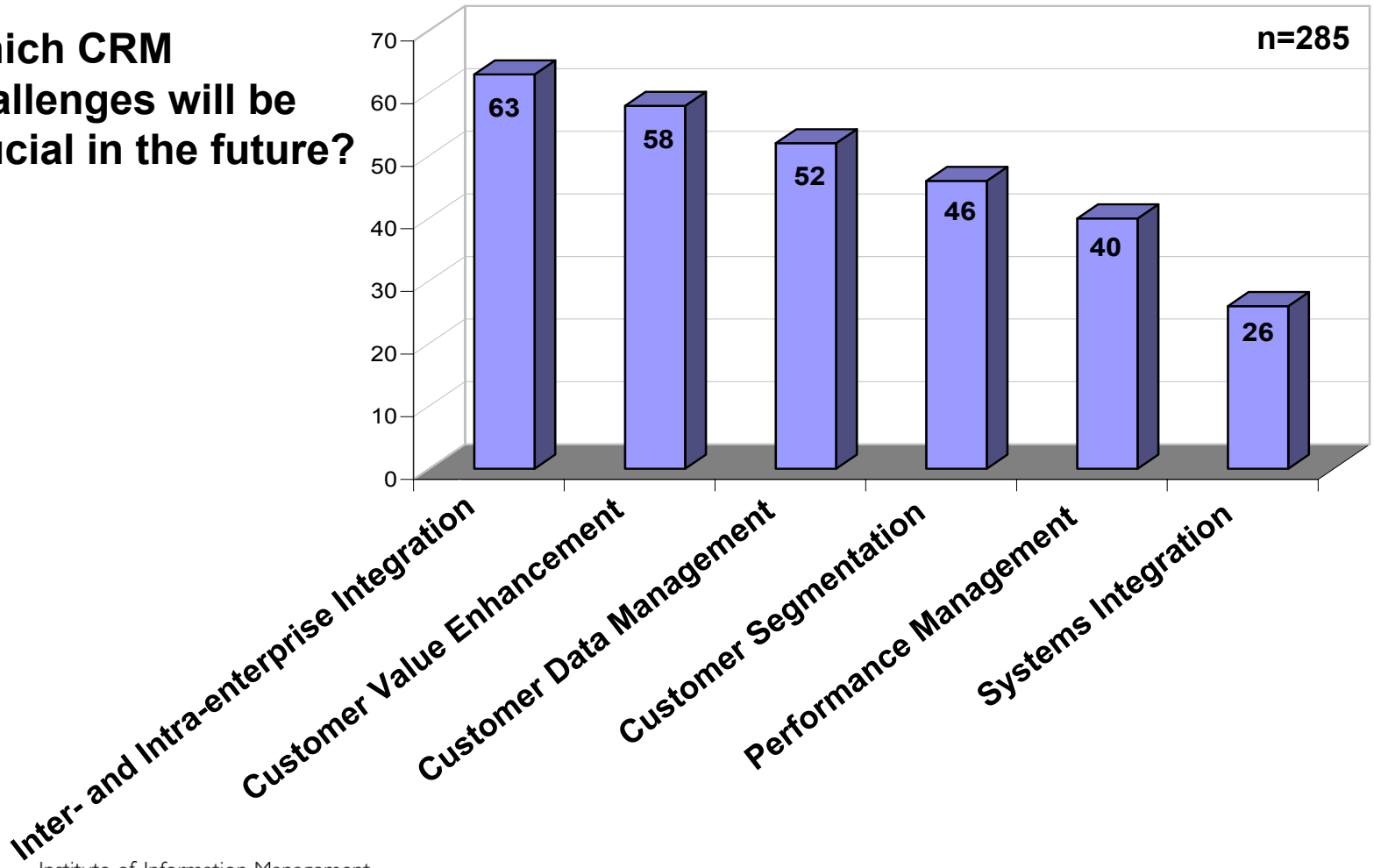


CRM systems support these processes



Integration across business units and enterprises will be crucial.

Which CRM challenges will be crucial in the future?



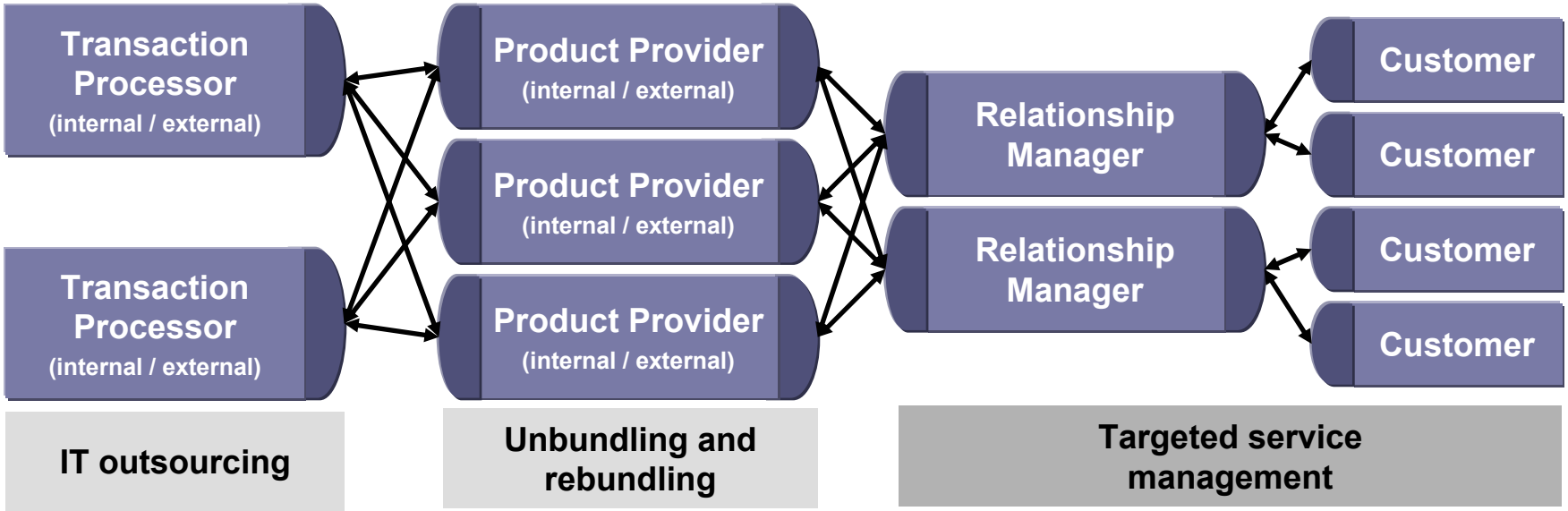
Source: Survey of 285 Swiss and German CRM officers in 2004.

Trends in the development of value chains in the financial services industry

***Trend 3*:**
Outsourcing of transaction processing

***Trend 2*:**
Disintegration on supply side

***Trend 1*:**
Integration on customer side



Consequences:

- **Processes require collaboration of several partners.**
- **Systems and customer data are distributed across the network.**

Three types of business networks

Attribute	Internal network	Stable network	Dynamic network
Purpose	Introduction of market principles in enterprises	Flexibility by partial outsourcing of processes	Agility by massive outsourcing of processes
Vertical integration	High – production factors are kept centrally	Medium – a few companies apply their ressources to create value	Low – ressources of many partners are allocated by a broker company according to project demand
Transactions	Long timeframe, high repetition probability	Long timeframe, high repetition probability	Medium timeframe, medium repetition probability
Communication	Continuous, via (vertical) communication channels, 1:n or n:1	Continuous, direct, m:n	Demand-oriented, limited lifetime, direct, m:n
Organization principles	Shared service, profit center, fractal enterprise	Outsourcing, supply chain management, strategic alliances, Keiretsu	Virtual enterprises

Source: Fleisch 2001

Research goals

- **How should financial services networks design their customer-oriented information systems?**

  (1) Analysis of strategic conditions

  (2) Analysis of collaborative processes in marketing, sales, and service

  (3) Development of a reference information systems architecture

… based on case study research.

Methodology
Why case study research?

- Case study research can be used to examine socio-scientific phenomena, in which the unit of analysis cannot be separated from its environment [Yin 2002].
- Information systems architectures in enterprises
  - have a multitude of influencing factors (e.g., company strategy, business model, culture, history)
  - lack clear differentiability between solution and context.
- The benefit of CRM systems is difficult to measure because
  - implementation projects are never carried out isolated, and
  - Success (in terms of increased revenues and decreased costs) is dependent on many other factors.

Methodology
Case selection criteria

- Company is part of a financial services network
- Company is willing to cooperate
- Maximum variety sampling [Patton 1990]
  - Successful and unsuccessful companies
  - Different roles in the value chain (relationship manager, product provider, transaction processor)
  - Internal networks and stable networks

Methodology
Overview of case sites

Purpose	(1) Key Issues Identification					(2) Good Practices Analysis	
Company	**UBS Global Asset Management**	**"Universal Bank"**	**"HomeLoan Bank"**	**"Investment Bank"**	**Lucerne Cantonal Bank**	**MLP AG**	**FIDUCIA IT AG**
Value chain role	Product provider and relationship manager	Product provider and relationship manager	Product provider	Product provider	Relationship manager (and product provider)	Relationship manager (and product provider)	Transaction processor
Business segments	Asset management	Corporate, retail, and private banking, insurance	Home loan funding	Investment funds, asset management	Corporate, retail, and private banking	Pension provision, asset management, risk management	IT services for financial services companies
Total assets under mgmt.	€ 340 billion	€ 640 billion	€ 30 billion	€ 100 billion	€ 11 billion	€ 3.5 billion	€ 446 million (assets)
Employees	3,000	75,000	3,000	2,000	1,000	1,800 (and 2,700 consultants)	3100
Customers	1,000 corporate clients	3 million consumers and corporate clients	6 million consumers	4 million consumers and corporate clients	590,000 consumers and corporate clients	560,000 consumers	940 banks (with 30 million customers)

Methodology
Data gathering

1. **Semi-structured interviews with key informants (CRM officer, marketing/sales/service director, CIO)**
   - **2 interviewers, posing questions and taking notes**
2. **Document analysis**
   - **Annual reports**
   - **Project documentation**
   - **Organizational charts**
   - **Process and systems documentation**
3. **Case study write-up**
   - **Reconcilement between both interviewers**
   - **Reconcilement with interview partners (further interviews and review cycles may be necessary)**

Methodology
Data analysis

1. Within-case analysis

- Build explanation of the case
- Carried out by the 2 interviewers

2. Cross-case analysis

- Examine similarities and differences across the cases
- Determine influence factors

Results

Key issues in financial services networks

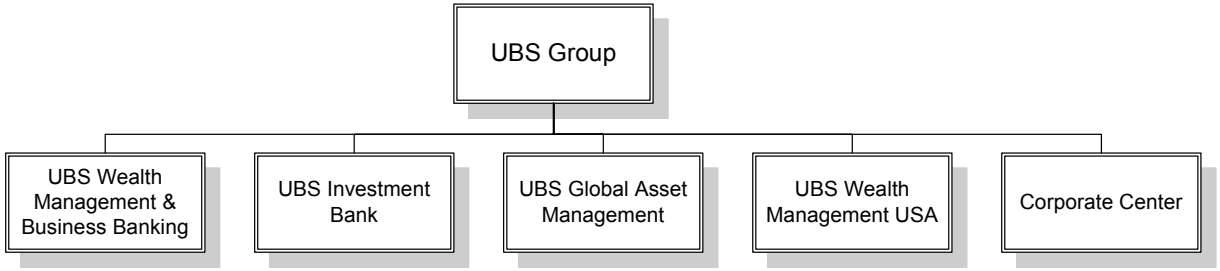
Company Issue	UBS Global Asset Management	"Universal Bank"	"HomeLoan Bank"	"Investment Bank"	Lucerne Cantonal Bank
Redundant competencies	↗	↗	↗	↗	♋
Privacy constraints	↗	■	■	■	&
CRM process integration	■	■	■	■	↗
Customer information exchange	◆	■	■	■	&
CRM systems integration	&	♋	◆	◆	&

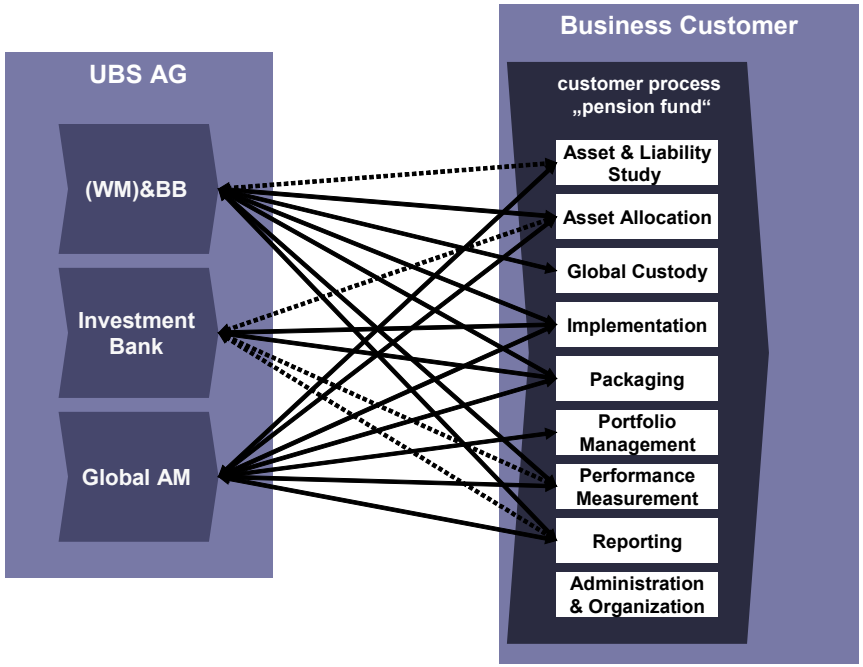
Legend: ♋ no ↗ minor & major ■ big ◆ critical (according to the researchers' assessment of the case studies)

Privacy constraints

- **Strict data privacy protection laws in the E.U.**
  - **Product providers require a customer‘s consent to share data with relationship managers**
  - **Relationship managers (banks) cannot share customer data with product providers**

Customer information exchange





- **Different business units deal with a customer**
- **Who knows what about the customer?**
- **Sales initiation phase requires consolidation of information**

CRM systems integration

- **Operational systems integration**
  - **Customer consultants of banks have to deal with up to 30 different operational CRM systems**
- **Customer data integration**
  - **Manual consolidation of customer data is often necessary**
- **Integration of transactional and relational data**

Results

Patterns of successful CRM collaboration

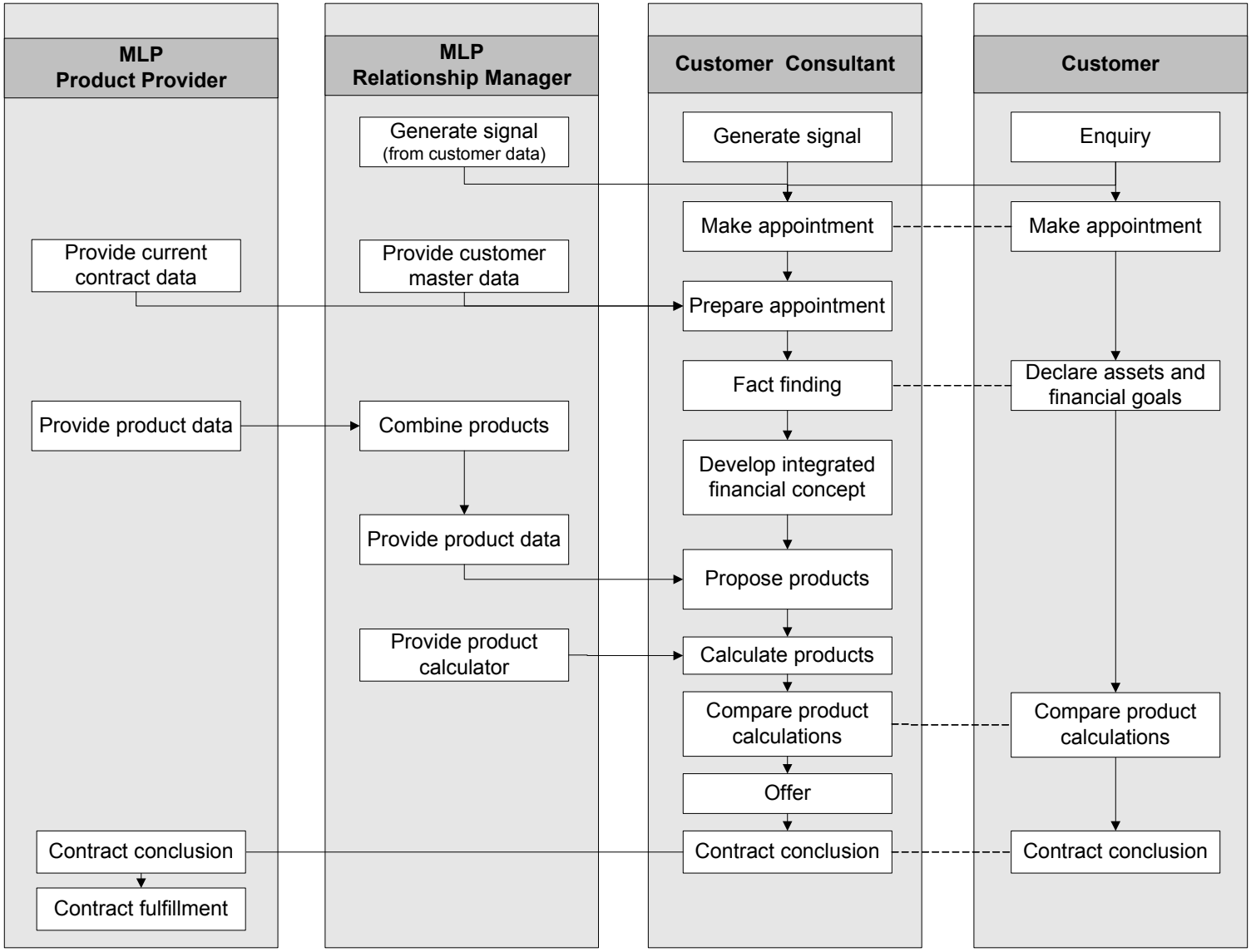
Company	MLP AG	FIDUCIA IT AG
Distribution of competencies	• Partnering companies have discrete competencies • High degree of outsourcing	• Partnering companies have partially overlapping competencies • Low degree of outsourcing
Approach to privacy	• Customer consent in general terms and conditions • Only personal customer consultant has access to all customer information	• Customer consent in general terms and conditions • Only banks have access to all customer information
CRM process integration	• Automated and seamless processes	• Automated and seamless processes
Consulting workplace	• Several modular applications	• One application (“portal”)
Customer data integration	• Joint data model • Unique customer ID • Federated customer data storage	• Joint data model • Master data matching algorithm • Federated customer data storage
Systems integration architecture	• Web-services standards and EAI • Some open source technology (Apache)	• Web-services standards and EAI • Some open source technology (Apache)

Approach to privacy

- **Customer consent to personal data exchange in general terms and conditions**
- **Only relationship managers have all customer data**
- **„commissioned data processing“**
  - **Data analysts of product providers work on customer data of relationship managers**

CRM process integration

Collaborative consulting and sales process



Customer data integration

- **Joint data model**
  - **Explicates a specific view of relationships between business entities**
- **Federated data storage**
  - **Partly centralized**
  - **Without redundancy**
- **Mapping of customer data**
  - **unique customer ID**
  - **or matching algorithm**

Conclusion

- The financial value chain is disintegrating
- Three different roles are emerging: relationship managers, product providers, and transaction processors
- Companies have to re-integrate their processes and systems using flexible technologies
- Successful implementations in leading financial services networks can provide a reference model

Questions?

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Comparison of data privacy approaches in the E.U. and the U.S.

	EU and Switzerland	USA
Focus	Personal data protection	Privacy protection
General principle	Personal data protection is a fundamental human right, which cannot be given away. Right of „informational self-determination“	Privacy is a personal asset , which can be given away or can be sold.
Primary implementation	Government laws and control	Self-regulation of the market
Legislation	Proactive	Reactive (crisis management)
Legal approach	All-encompassing („omnibus approach“)	Industry-specific („sectoral approach“)
Relevant laws in the financial services industry	European Data Protection Directive, National Data Protection Laws of individual countries	Gramm-Leach-Bliley Act, Fair Credit Reporting Act, Safe Harbor Agreement
Control of personal data by customers		
Control of secondary use in a company	opt-in	No control [opt-out in California]
Control of data transfer to affiliated companies	opt-in	opt-out
Control of data transfer to third-party companies	opt-in	opt-out [opt-in in California]