



BANK BE NIMBLE

SATISFYING RETAIL CLIENTS IN A
TURBULENT MARKET – AND BEYOND

Today, banks can create a closed-loop CRM system that spans the development of new marketing campaigns, the execution and fulfillment of those campaigns, and the analysis of campaign results.



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EXECUTIVE SUMMARY

MAKING THE MOST OF EVERY BANKING CUSTOMER

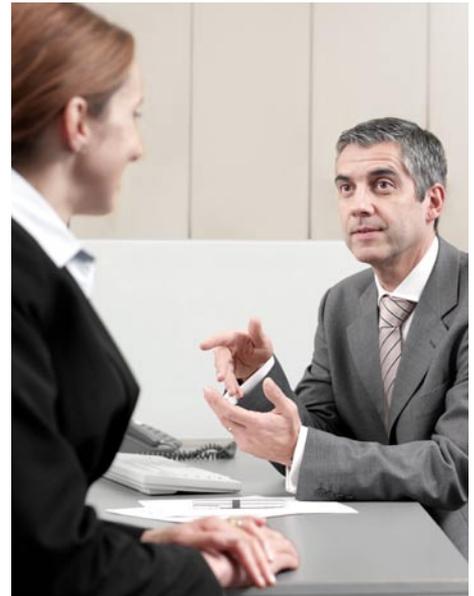
In today's unsettled market, banks serving retail, investment, and corporate customers must all make the most of each customer contact and strengthen customer relationships – while quickly adapting their products and services to mitigate risk and maximize profitability. The current market underscores a need for differentiation that has bedeviled retail banks in particular for some time. True differentiation involves both best-of-breed service and innovative offers based on shifting customer preferences. Banks can best achieve such goals by helping the whole enterprise address customer needs, effectively analyzing customer data to identify those needs, and automating their processes to enhance the customer experience.

A first wave of technology supported customer relationship management (CRM) through call centers that handled customer interactions separately from other banking activity. Now, a second wave is integrating CRM processes across the banking enterprise and providing the insights banks need to understand and serve their customers more completely.

Today, banks can create a closed-loop CRM system that spans the development of new marketing campaigns, the execution and fulfillment of those campaigns, and the analysis of campaign results. Such a system – underpinned by an enterprise architecture that helps to ensure end-to-end process automation and data reliability –

can also support the real-time management of marketing offers and effective, consistent treatment of customers across the enterprise. Management dashboards that offer customer metrics and drill-down analysis can provide the deeper understanding of customers that banks need to create market-relevant products and services and make those offerings available through the most appropriate distribution channels.

Banks that recognize the importance of providing distinctive products and services – and install the infrastructure to support such differentiation – will be most likely to come through this challenging environment ready to maximize new opportunities.



LEVERAGING TODAY'S ECONOMIC AND MARKET CHALLENGES

TO BUILD PROFITABLE CUSTOMER RELATIONSHIPS FOR THE FUTURE

Making the most of each customer interaction has become both more important and more challenging for banks in today's turbulent marketplace. As difficulties in the U.S. mortgage market spawn a worldwide credit crunch, banks in all sectors are scrambling to maximize profits and mitigate risk. Retail banks – at “ground zero” in the credit crunch – must also meet new expectations for social responsibility and differentiate themselves from Internet-based providers, “big-box” competitors, and other new market entrants.

Some banks are withdrawing offers for 100% mortgages, charging larger fees for high loan-to-value contracts, or instituting fees for the privilege of locking in a loan. A few have launched new mortgage products such as the offset account, into which the borrower automatically deposits a paycheck to pay off the mortgage principal and interest more quickly.

Other banks are temporarily de-emphasizing sales of mortgages to build up their capital through innovative savings, wealth management, or private banking programs. In addition to courting customers with higher credit ratings and incomes, this may mean identifying those who have mortgage contracts that are relatively mature or involve lower loan-to-value ratios.

“In dealing with a lower growth environment, banks must be able to bring new products to market rapidly and move beyond mass market products to provide

true customer-focused product bundling and pricing,” according to a Datamonitor report. “This requires banks to be far more nimble in changing [their] products, channel focus, and processes to capture opportunities from shifting customer trends.”¹

Advanced technologies for real-time offer management and business communication management can separate leading institutions from the rest of the pack.

In difficult economic times, banks often look to their current customer base as the most fertile ground for new sales and top-line growth. It is well documented that banks can more easily derive additional revenue from existing customers than from new customers. Banks that seek to expand in this market must find better ways to identify the most profitable of these customers. They must then develop the product and service innovations that strengthen relationships with this group, offer the precise products and services each customer needs at the most appropriate time, and ensure consistent interactions across multiple customer touch points.

In addition to designing enterprise-wide strategies and processes for effectively managing customer relationships, achieving these objectives requires

robust information technology that can integrate and automate those processes and supply the analytics for tasks such as database marketing, target profiling, segmentation, personalization, and lead tracking. Advanced technologies for real-time offer management and business communication management can further separate leading institutions from the rest of the pack.

Standing Out from the Crowd

Even before the current economic downturn, retail banks were hard pressed to find and keep profitable customers. Today's consumers have more product choices than ever before and easier access to information about the offerings of individual banks and other providers via the Internet. This has increased demand for products that are flexible and innovative, such as the new mortgage and savings accounts that have been launched to address the current credit crisis. Retail customers also want service that responds to their needs in real time and distribution channels that suit a wide range of individual banking styles.

Standing out from the crowd has become more difficult, however, as intense competition shortens the life cycles of new products and services. Indeed, many banks find themselves offering certain products and services as loss leaders just to attract customers to their brands. Copying a competitor's innovation does little to establish a bank's brand or create long-term customer loyalty, however.

1. “2007 Trends to Watch: Retail Banking Technology,” Datamonitor, February 2007.

True differentiation means developing innovative offers that uniquely address changing customer tastes and finding the most effective ways to market and distribute those offerings. It also means providing best-of-breed service. Besides answering customer questions quickly and effectively, banks must capture this unstructured data and analyze it so that they can understand why customers asked those questions in the first place.

To achieve these goals, the business staff in each department of a bank must be able to integrate, analyze, and track large amounts of customer data from back-end systems to determine how they can identify and provide the products and services customers need. Unlocking customer data by empowering business users with intuitive self-service access, along with the ability to plot trends and metrics, can drive true innovation. While most retail banks have highly-customer-focused strategies for their marketing campaigns or call centers – and some have used such strategies for wealth management and corporate banking – few institutions have expanded this approach enterprise-wide.

Enhancing Agility to Meet New Demands

The rapid acceleration of product and service innovation today has also underscored the need to improve a bank's agility. Historically, banks have allowed about two years for introducing new offerings. That's just not fast enough in a quickly evolving marketplace.

This need for agility includes quickly training bank staff to make and process new offerings. It also includes the ability to address new regulations by installing specific checkpoints throughout the sales cycle.

Riding the Next Wave of CRM

In the 1990s a "first wave" of CRM focused on initiatives and technology investments that could reduce retail banking costs. During this time, many banks replaced their local branches with call centers that handled customer transactions via telephone and the Internet.

Unfortunately, many sales representatives in these call centers lacked the information to address specific customer needs and maximize customer satisfaction and loyalty. Rather than facilitating a single customer view that spanned the entire bank enterprise, the call centers generated yet another silo of customer data that was not integrated with the core banking system.

Failure to integrate the call center with a bank's other communication hubs meant that calls could not be routed to staff with the best understanding of customer service issues or to sales specialists who could make the most of cross-sell and up-sell opportunities. Without the data-based insights to sell products or service customer needs effectively, many call centers did more to damage the relationship between banks and their customers than improve it.

Today, due largely to their potential as revenue centers, bank branches are experiencing a revival, according to research from Mintel Group.² However, most remain dominated by legacy solutions that prevent an integrated customer view, limit centralized marketing campaigns, and fail to empower a bank's sales force. As recently as 2007, according to a study by the European Financial Management & Marketing Association (EFMA) and SAP, only 12% of banks provided their customer-facing employees with the tools they needed to offer personalized service or advice across all their retail products.³

To transform their branches into robust sales outlets, banks must give their front-line workers better access to information on customers, branch performance, product cross-sell rates, and lead conversion ratios. Whereas the first wave of CRM concentrated on single points of customer interaction, a second wave seeks to join a bankwide view of the retail customer with processes and communications that run across the enterprise. The objective of the second wave is to give everyone in the customer service supply chain – from sales agents and risk assessors to loan officers, external appraisers, surveyors, and lawyers – information that is fully centralized, highly accurate, and available in real time.

2. "Current Accounts," Financial Intelligence Series, Mintel Group, June 2007.

3. EFMA/SAP Study "Five Pillars of Excellence in Retail Banking 2007: A European Benchmark Review," 2007.

BUILDING PROFITABLE CRM STRATEGIES THROUGH A UNIFIED TECHNOLOGY INFRASTRUCTURE

To succeed both today and in the future, banks need an overarching, enterprise-wide vision of CRM that aligns with their strategic goals and a comprehensive IT approach for realizing that vision. They must integrate an increasingly sophisticated set of processes and software applications to facilitate real-time information and customer-specific offerings. This means replacing complex, disparate IT systems with a single platform that offers robust functionality for business process management, enterprise-wide workflow, and customer analytics.

Improving Customer Insight for Targeted Sales and Service

Analyzing customer interactions and data across different distribution channels gives banks the opportunity for greater insight into product uptake and other customer banking habits. Comparing this information with customer demographics and life stages can help banks refine their strategies for product development and distribution.

Analyzing rich customer information in real time gives banks the further opportunity of differentiating their approaches toward customer service. The ability to interpret a customer's situation during a specific interaction or request for service helps banks both customize that service and introduce a new offer at a point when the customer is most willing to accept it. Seizing such opportunities can transform the traditional service cost center into a bona fide profit center.

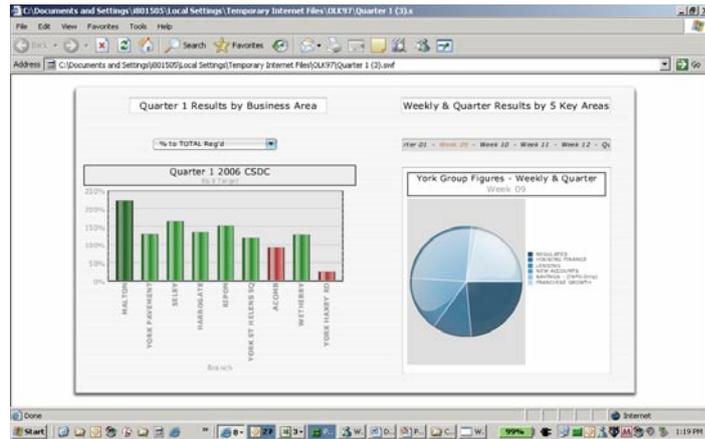


Figure 1: An Example of a Manager's Dashboard Showing Results Breakdown



Figure 2: An Example of a Manager's Dashboard Showing Franchise Growth

Leveraging such insight for practical use requires banks to adopt a strong culture of information-based decision making. One way to foster such a culture is to provide key customer-facing staff with role-based dashboards.

A branch manager, for example, might have a dashboard that displays up-to-date information on branch goals and performance in easy-to-read metrics that help identify consumer trends and

improve employee activity. A regional manager might use the dashboard to compare performance among different branches and better identify those branches where staff or skill shortages are adversely affecting customer service.

These and other dashboards can be configured with a highly personal, tailored view to help managers feel completely comfortable in accessing key business information (see Figures 1 and 2).

Access via familiar tools – from Web portals to Microsoft PowerPoint and Adobe Acrobat – further enhances their usability.

By providing analytical tools that are both innovative and readily accessible, a bank can help employees throughout the institution achieve the customer focus and differentiation that is so important today, as follows:

- Marketing executives can identify their most profitable markets and customers and design products and sales campaigns that suit their specific needs.
- Regional managers can identify resource bottlenecks and skill shortages to better organize staff and improve productivity.
- Sales executives can better understand customer trends, target profitable market segments, and help their sales force engage target customers more effectively.
- Service executives can operate profitably while appropriately supporting each service channel.
- Loan origination officers can identify valuable customer relationships and increase product penetration with those customers.

Besides answering customer questions quickly and effectively, banks must capture unstructured data and analyze it so that they can understand why customers asked certain questions in the first place.



HARMONIZING THE CRM TECHNOLOGY PLATFORM

THROUGH A CLOSED-LOOP EXECUTION SYSTEM

A valuable customer experience extends beyond friendly front-office representatives. For every customer-facing action there is an equal and opposite back-office reaction. Even one-of-a-kind transactions trigger the back office to do something. A bank must be able to respond instantaneously to a customer query on the Internet or transfer that query to the appropriate branch advisor. To complete the circuit, banks need to connect their customers with stakeholders throughout the institution using a seamless, fully integrated, enterprise-wide IT solution.

Banks face many challenges in creating such a closed-loop system. These include:

- Limited access to real-time information about customers and products that spans all distribution channels
- Limited collaboration across sales, marketing, and service
- Limited performance tracking across customer-facing channels
- Use of different systems for segmenting customer information and for building, approving, and executing sales campaigns
- A lack of real-time information to support decision making
- The use of multiple and disparate systems for handling campaign execution and sales fulfillment

To address these challenges, banks need a harmonized platform for both analytical and operational CRM processes that provides detailed information to all levels of the organization. With such support, banks can ensure absolute attention to detail in all customer-

focused activities. They can react with greater agility and effectiveness to both near-term and long-term market changes.

Using Customer Insight to Set Business Strategies

Let's examine a typical case. The CEO of a bank wants to improve capital ratios and address current market conditions by emphasizing savings accounts over mortgage products. Ideally, he should have ready access via the Web or his PDA to an executive dashboard to run scenarios on new product strategies and immediately see the effect of those scenarios on the bank's profits and capital.

The CEO could then have the bank's head of marketing conduct research for customer and product profitability in these lines of business and even drill down into the potential profitability of individual customers. This research might show, for example, that cross-selling the bank's new savings products to existing mortgage customers with strong credit histories and later-stage mortgages would yield the greatest profitability.

Planning and Executing the Sales Campaign

The marketing manager could then use business intelligence to build a list of existing high-income customers who have fewer than 10 years left on their mortgages and are not already using the bank's savings products. She might then plan a campaign using both e-mail and traditional direct mail contact to make a pitch to these customers.

Customers could be provided with a questionnaire about their savings needs and the opportunity to meet with a bank advisor. Leads generated from the campaign could be forwarded to the bank's customer relationship manager.

The marketing manager could also set specific key performance indicators for the campaign. These might include the time to market for a new savings product, cross-selling and up-selling performance, the campaign's return on investment, the rate of offer acceptance, retention metrics, and a measurement of customer lifetime value.

Optimizing Sales and Service

The bank's relationship manager would be able to view all leads that were generated from the cross-sell campaign. He would also be able to see how well he is currently meeting his sales targets for investments and services in the wealth management area. In addition, he could check a bankwide view of information on specific customers to identify the most promising leads. This information could include data on each customer's current income and holdings.

As he chooses the specific investments and services that his staff will discuss with each customer and approximates their value, the relationship manager can log these opportunities against his monthly revenue targets. He can also monitor performance indicators such as his group's close rates or the penetration of products and value-adding services.



Meanwhile, customer service representatives can use the system to support the cross-sell campaign over the phone.

making an appointment with a local bank advisor and book the appointment while the customer is on the line. The

“Banks cannot expect to rely on customer inertia in order to keep customers. They may have to step up the competitiveness of their products and improve their service in the name of customer retention. Poor service, followed by price, are the two most likely reasons why customers switch banks.”

“Current Accounts,” Financial Intelligence Series, Mintel Group, June 2007

The system helps each representative verify the identity of customers who call, and it provides a script. When a campaign alert notifies the representative that a customer qualifies for the savings offer, the representative can ask about

representative and her manager can later track such performance indicators as lead generation, the close rate of cross-sell and up-sell efforts, and customer satisfaction.

Analyzing the Campaign

At the end of the campaign, the marketing manager and head of sales can review actual statistics from the campaign. This might include comparing product penetration figures from before and after the campaign as well as other indicators. Each manager can use the system to report these analytics directly to the CEO and members of the bank’s board of directors – allowing them to make adjustments for future campaigns.

Adjusting the Campaign

The marketing manager can also use the analytics to change or modify elements of an existing campaign. Business dashboards provide her with real-time visibility into the success of ongoing campaigns. This becomes possible because the data is unified within a single repository and all information is accessible by all systems at the same time.

CUTTING-EDGE TECHNOLOGY

THAT MAKES CRM STRATEGIES MORE EFFECTIVE

Advances in IT infrastructure – including service-oriented architecture and enterprise information management solutions – provide the process integration and data integrity that make such a closed-loop system possible. Two evolving areas that are built on these foundational advances – real-time offer management and business communication management – can take CRM strategies to the next level.

Making Offers in Real Time

An increasing number of service-intensive firms – from banks and insurers to telecommunication companies, utilities, and retailers – now use customer-selected channels to pitch individualized offerings in real time. Typically such pitches are made during interactions that customers initiate via inbound phone calls or the Internet. They leverage customer information that exists in a company's own databases as well as information that they gather during the interaction to make real-time offers. Such offers can produce significantly greater response rates than traditional outbound direct marketing.

Real-time offer management helps banks make the most of every customer interaction – regardless of the medium. With the proper IT support, banks can immediately analyze customer responses and quickly refine their offers. The analytics may involve product affinities, cluster sampling using demographic data, discovery of response profiles, prioritization based on offer profitability, and predictions of offer acceptance.

As the system scans the central offer repository, it can identify factors such as agent skill and the original intent of the interaction. This could be a complaint, a request to change payment terms, or a request to close an account. Arbitration functionality selects the optimal recommendations and ensures that offers are optimized according to a bank's strategic goals.

Tight integration of real-time offer management software with other CRM solutions ensures that the system is updated with the most recent orders and offer responses. Integration with call center functionality is also essential to ensure that an offer is relevant to the interaction context and current customer preferences. Integration of decision data with CRM marketing functionality can improve any outbound marketing campaigns that a bank designs.

Improving Communication for Better Collaboration

Many problems with customer relationship management can be traced to poor management of business communications. Typical issues include calls that are incorrectly routed or ineffective tracking of communication among multiple responders. These challenges are often due to communication channels with self-contained infrastructures – such as call centers in the first wave of CRM. The result can be outdated customer information, cold leads, and limited visibility into campaign responses.

In the truly customer-centric enterprise, both analytical and operational CRM processes should be fully communication enabled. Today, banks

can transfer customer communications and transactions across the business using IP telephony so that each query or activity gets to the right processor as quickly as possible.

Whereas the first wave of CRM concentrated on single points of customer interaction, a second wave seeks to join a bankwide view of the retail customer with processes and communications that run across the enterprise.

By integrating the technology for communication-enabled business processes with their business applications, banks can significantly improve the effectiveness of customer-facing sales and service. By leveraging such business communication management solutions, they can reduce latency, locate people with the right skills, improve visibility into customer interactions, and enhance end-to-end processes that involve their employees and customers.

Business communication management yields the most value for banks and other enterprises in contact-intensive situations with a high volume of interpersonal interactions, customers that demand service through multiple contact channels, and globally distributed resources. They can simplify interactions for a bank and its customers, shorten response times, and break down organizational silos.

MEETING TOMORROW'S OPPORTUNITIES

IDENTIFYING, ATTRACTING, AND SERVICING CUSTOMERS IN NEW MARKETS

Banks that adopt these types of forward-looking technologies will find themselves better prepared to address today's market challenges, as well as new opportunities that will emerge. This includes opportunities created by the evolving technology relationship between banks and their customers with increased contact through the Internet, cell phones, and other nontraditional channels. It also includes opportunities provided by the "white labeling" and outsourcing of bank services and the development of new distribution models.

"[Price] is the single most important feature for EMEA customers while choosing a mortgage, personal loan, credit card, and current account. Customer service and an existing relationship with the bank are the next most important factors."

"Trends in Customer Loyalty and Acquisition Strategies in Europe 2007,"
Datamonitor, February 2007

New markets will provide additional opportunities. While economies in both the United States and Europe have been in turmoil, many emerging markets have enjoyed significant growth. The momen-

tum of economies such as China's and India's is formidable, and the developing world – encompassing countries in Asia, eastern Europe, Latin America, the Middle East, and North Africa – are experiencing rapid economic growth.

This changing global economic landscape may allow financial institutions to recoup some of the losses they've experienced in the developed regions. As banks around the world compete for a share of these new markets, however, they must find ways to identify, attract, and service customers that are the best fit for their business.

To build long-term relationships based on trust, knowledge, and flawless execution, banks must put customers at the center of every role, resource, and business function across their businesses. Effective customer relationship management also requires ongoing refinements built on rapid responses to continuous market evolution.

By enabling business users at every level to make fact-based decisions, banks can effectively exploit future opportunities without exposure to unnecessary risk. Greater access to real-time information that is more visual and understandable ensures that the bank's managers and other business users have constant access to the information they need on a daily basis – without draining valuable IT resources. The shift from report-based to metric-based intelligence, combined with alerts and management by exception, can transform decision making from reactive to proactive.

With the proper vision, strategy, and infrastructure, banks can target their most profitable customers and use real-time insight about those customers and effective communication systems to build long-term, profitable relationships. They can enhance those relationships by developing portfolios of financial products and services that are innovative and responsive to customer demands and by delivering a consistent and personalized experience across every interaction channel.

About SAP

SAP provides operational customer relationship management support for the best-run banks and companies in more than 25 other industries. The SAP® Customer Relationship Management (SAP CRM) application provides best-in-class operational functionality for campaign management, marketing, sales, and service. By supporting customer-facing business processes across multiple interaction channels, SAP CRM can help organizations focus on strategies for customer-driven growth and differentiate themselves in the market by providing a superior customer experience.

With SAP CRM, banks can capitalize on customer insight, improve front-line efficiency and effectiveness, streamline critical business processes across customer touch points, and quickly adapt to changing business and customer needs.

About Business Objects

Business Objects, an SAP company, is the world's leading provider of business intelligence. Its CRM solutions provide the robust analytical support banks need to enhance customer insight, customer segmentation, product insight, and profitability analysis.

Banks can use this support to create an integrated view of the customer relationship across different lines of business, produce lists of cross-sell candidates for marketing campaigns, segment and track customers by a variety of criteria, measure response to marketing campaigns, and analyze products and channels by different dimensions. The CRM solutions from Business Objects help banks deliver the precise information that managers require to understand customer needs more fully, make customer representatives more productive, identify profitable customer segments, and align their marketing campaigns with enterprise-wide business strategies.

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