COURTING TODAY'S BANK CUSTOMER

WHY A NEW WAVE OF CRM INVOLVES THE WHOLE ENTERPRISE

White Paper
SAP for Banking

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CONTENT

EXECUTIVE SUMMARY

As economies of scale continue to drive both global and domestic consolidation of the banking industry, financial assets have become concentrated in fewer institutions and product portfolios have broadened. Knowing that this type of growth is finite, banks have turned their attention to organic, top-line growth.

Indeed, 84% of the institutions responding to a 2007 EMEA-based retail banking study, conducted by SAP and sponsored by the European Financial Management and Marketing Association (EFMA), identified growth as their primary business strategy (see Figure 1). It's unclear, however, how banks will attract and retain the retail customers that they need for this growth. Financial consumers have become increasingly fickle in recent years, and their loyalty to even the strongest bank brands is on the wane.

In a highly competitive market, where financially savvy consumers with easy Web access have learned to flex their muscles and demand more from bank products and services, the primary differentiator has become the quality of the customer relationship. Banks that recognize the importance of this relationship, and install the infrastructure to support it, will be most likely to succeed in this challenging environment.

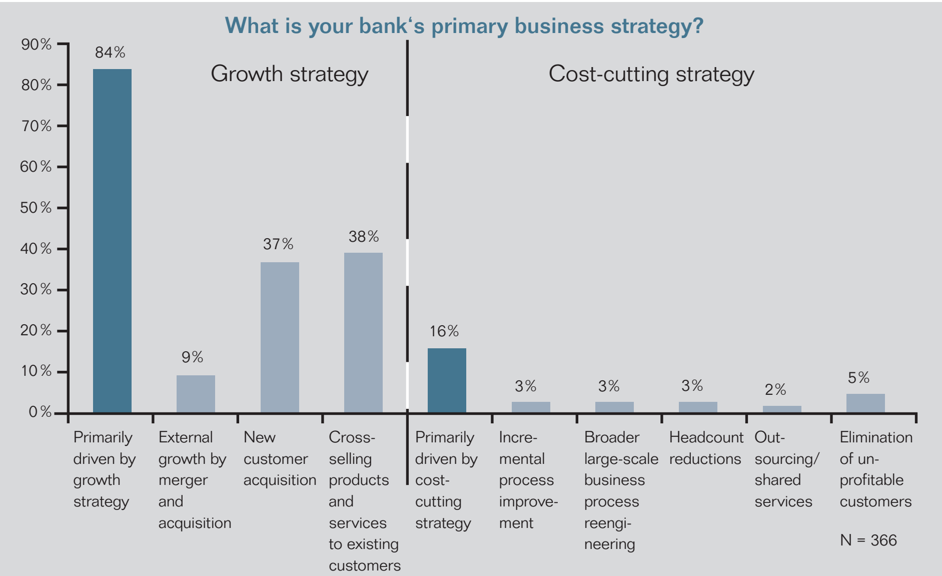

Figure 1: 2007 EMEA Retail Banking Study – Primary Business Strategy

STANDING OUT FROM THE PACK
SURVIVAL IN AN INCREASINGLY CROWDED MARKET

To build long-term relationships that are based on trust, knowledge, and flawless execution, banks must put customers at the center of every role, resource, and business function across their businesses.

Gaining customer loyalty has become much harder in the competitive marketplace that banks face today. Even as the industry has consolidated, a proliferation of products has saturated the market – giving consumers far more choices than ever before. In addition to the Internet, these choices have expanded beyond such traditional channels as bank branches and call centers to supermarkets and other retail outlets.

Consumers see financial offerings everywhere. The wide array of products and services from Internet-based providers, "big-box" companies, and other nontraditional entrants is rapidly eroding the market share of traditional banks. The new entrants have several advantages, according to a report from Datamonitor[1] on nontraditional players in the retail banking market. In addition to a relatively inexpensive and effective distribution system, these advantages include the ability to leverage strong brands and provide better customer service.

"Many consumers are increasingly skeptical of the service that banks provide and are more and more willing to change provider to get the right kind of service they want," the Datamonitor[2] report notes. "With the right organization and distribution, many non-traditional financial service institutions can cater to such customers."

Financial providers "cannot expect to rely on customer inertia in order to keep customers," notes a recent report from Mintel Group[3]. "They may have to step up the competitiveness of their products and improve their service in the name of customer retention."

Banks must also do a better job of showing customers that they care about their needs. They must make their products available through a broader range of channels and find innovative ways to differentiate themselves from the newer players – as well as from each other.

Such differentiation has become even more important as consumers grow more savvy about their finances. Easy access to financial information through the Internet, every possible media outlet, and a profusion of investment seminars has made bank customers more informed. It has also increased the demand for products and services that are tailored to specific customer needs.

Standing out from the pack has become more difficult for banks, however, as increased competition shortens the life cycles of product and service innovations. Even when banks can create the new offerings that customers demand, they soon find their innovations copied and then commoditized. As customers leap to different institutions every few years to get better mortgage or credit card rates, many banks find themselves offering various products and services as loss leaders just to attract customers to their brands. Without true differentiation, however, those brands are worth little with respect to long-term customer loyalty.

In addition to these complex market forces, banks must deal with a host of new legal hurdles that affect their relationships with customers. With the increased threat of customer litigation, banks must be clever about how they interact with customers, record those interactions, and handle personal customer data. They need a full audit trail to prove that they have offered the right advice to the right person at the right time. The information they offer must also meet new national and international requirements intended to assure that customers fully understand the products and services they are buying.

It's interesting to note, however, that for the first time in several years customer satisfaction and revenue generation seem to have overtaken regulatory compliance as the top goals for banks, according to research on the European market from Datamonitor[4]. With a greater feeling of control in the com-

1) "Non-traditional Players in the Retail Banking Market", Datamonitor, October 2006

2) "Non-traditional Players in the Retail Banking Market", Datamonitor, October 2006

3) Current Accounts, Financial Intelligence, June 2007

4) European Retail Banking Technology, Datamonitor, Business Update, March 2007

pliance area, Datamonitor says, banks are turning their attention to activities that will make them more competitive.

At the same time, of course, banks must find the most cost-effective way to manage their relationships with customers and thus enjoy the full benefits of top-line growth. Increasing pressure to cut costs has driven banks to close local branches in favor of call centers based overseas that presumably can handle customer transactions more efficiently. While some banks have ably supported their customers through a strong, well-managed bank network despite branch closings, others have been challenged to provide the level of support their customers need.

In call centers and other parts of the banking operation, greater efficiency and lower costs have resulted from the increased use of technology. Technology has become an increasingly important competitive factor as banks seek higher transaction volumes while maintaining their existing platforms. Efficiency has also resulted from a greater focus on "return on process" – the value gained from investing in end-to-end technology and processes. Using technology to enhance customer relationships can greatly increase this return.

GETTING ACQUAINTED
THE UNSEEN COST OF FIRST-WAVE CRM

> A bank must be able to respond to a customer query on the Internet with a phone call, or transfer that query to the appropriate branch advisor. To complete the circuit, banks need to connect their customers with all stakeholders through a seamless, fully integrated, enterprise-wide solution.

It's become clear that to improve customer satisfaction and loyalty banks must learn more about the needs and preferences of their customers. In addition to answering customer questions quickly and effectively, banks must understand why customers asked those questions in the first place. They must provide best-of-breed service, develop innovative offers that address changing customer needs, and find the most effective ways to market and distribute those offerings.

To start, banks must recognize that the means to improve customer loyalty will vary by geography and offering, as well as by customer segment. Research from Datamonitor[5] shows, for example, that while customer loyalty is declining across all retail banking markets in Europe, customers in Nordic countries and the United Kingdom are more fickle than customers in other countries. In the Nordic region, a proportionately large number of customers use the Internet to compare prices and purchase financial offerings. In the United Kingdom, comparison shopping is encouraged by aggressive pricing strategies.

The research also shows that European financial consumers are more likely to shop comparatively for mortgages and personal loans than they are for credit cards. The exception is in the United Kingdom, where credit card offerings are highly competitive due to frequent price wars. The one universal truth, Datamonitor[6] found, is that customer service initiatives seem to be the most successful means of maintaining customer loyalty – outperforming price discounts, product innovations, increased advertising, and various branding programs.

In addition to a better understanding of customer needs and tastes, banks require more information about customer profitability and risk – especially at a time of downward pressure on interest income and transaction fees. They must improve distribution and channel management, which can mean turning local "main street" branches from service centers into sales outlets. And they must find better ways of safeguarding customer information in the face of growing identity fraud.

To achieve these goals, the entire institution must be oriented toward the customer. There must be a commitment to addressing customer needs from the very top of the organization and, in many cases, a fundamental change of culture. In addition, banks must more effectively aggregate and manage customer data and find new ways of using this information to differentiate themselves from their peers. With the proper data, banks can create products and services that will suit the requirements of specifically targeted customer segments and develop the best strategies to make those offerings available through multiple distribution channels.

Banks began to move in this direction with a "first wave" of customer relationship management (CRM) initiatives in the 1990s. At the time, however, the thrust of such initiatives focused on reducing retail banking costs. In the name of CRM, many banks replaced their local branches with call centers that managed customer transactions via telephone and the Internet.

According to research by British Bankers Association and Mintel Group, between 1999 and 2005 the number of branches for the top 16 banks in the United Kingdom fell an average 11%. But while trading branches for call centers may have reduced costs, it had a decidedly negative effect on bank brands.

"Without the regular face-to-face contact with bank staff," Mintel says,

5) Trends in Customer Loyalty and Acquisition Strategies in Europe, Datamonitor, February 2007
6) Trends in Customer Loyalty and Acquisition Strategies in Europe, Datamonitor, February 2007
7) Current Accounts, Financial Inelligence, Mintel Group, June 2007

"Many consumers are increasingly skeptical of the service that banks provide and are more and more willing to change provider to get the right kind of service they want."

"Non-Traditional Players in the Retail Banking Market," Datamonitor, October 2006

"there was one less reason to maintain the traditional lifelong relationship with a single current account provider." A significant proportion (35%) of British consumers still visit a branch regularly, according to Mintel. "Furthermore, most consumers prefer to open a new account in person at a branch. Some 83% of people that have switched current account providers did so via a branch."

In addition, the call centers could only efficiently handle transactions to the extent that individual sales representatives had the information at hand to address specific customer needs. When representatives had to search for the information, they often never got back to their customers or got back too late – after the customers had moved on to other institutions. For the most part, the call centers were limited to transaction management rather than true management of customer relations based on an in-depth understanding of customer needs. Only the latter can lead to greater customer satisfaction and loyalty.

What the first-wave call centers lacked was a single customer view that spanned the entire bank enterprise. Instead, they created yet another silo of rich data that was not integrated with the core banking system. The same was true in corporate banking, which simply focused on making sure that the sales staff made a certain number of calls to specific customers.

In essence, first-wave CRM technology primarily logged customer interactions. The processing of trades, overdrafts, loan applications, or other transactions was carried out in a separate system. The investment manager or corporate banker handling a transaction had to retrieve and enter customer information a second time. Often, bank employees would use the product system by default then update the CRM solution later. Their only reason for using a CRM solution was to ensure that they were paid for closing their deals.

While the call centers gave managers a greater feeling of control, customer-facing employees lacked the automated processes they needed to feel fully empowered in selling their banks' products or servicing customer needs. This damaged the relationship between banks and their customers rather than improving it.

MAKING A LONG-TERM COMMITMENT

A NEW WAVE OF CRM

In a 2007 EMEA-based retail banking study conducted by SAP and sponsored by the European Financial Management and Marketing Association, only 17% of the respondents said their current IT systems offered a strategic competitive advantage. Just 12% have fully automated tools to help frontline employees provide personalized service with retail products. Only 14% said their marketing campaigns are always based on segmented profiles of potential customers. But 59%, 62%, and 51%, respectively, expect to reach such goals.

After years of decline, bank branches are experiencing a revival, according to Mintel Group, due largely to their potential as sales centers.

"Helping this transformation has been the growing popularity of telephone and Internet banking," Mintel says, which have freed branch employees to sell a greater range of products. In addition, banks now realize that their branches are often the best place to handle certain types of transactions – such as making mortgage loan applications and opening new accounts. This has put bank brands shoulder-to-shoulder with other main street retail centers that can display their products to every customer that comes through the door.

"Although many branches are already located in prime retail locations," Mintel notes, "some banks and building societies are taking cues from retailers and are working on creating a more retail-like environment inside the branches."

While the branch may now be the most fertile sales channel for banks, it is also the final frontier for IT solutions that support customer relationship management. Most branch operations are still dominated by legacy solutions that cannot provide an integrated view of the customer, centralize marketing strategies, or empower a bank's sales force.

In the 2007 EMEA-based survey, only 17% of the responding banks said that their current IT systems offered a strategic competitive advantage. Just 12% have fully automated tools that help frontline employees provide personalized service and advice across all their retail banking products. A mere 14% said that they always base their marketing campaigns on segmented profiles of potential customers. Appreciating the importance of these three areas, however, 59%, 62%, and 51%, respectively, expect to reach such goals in the next three years.

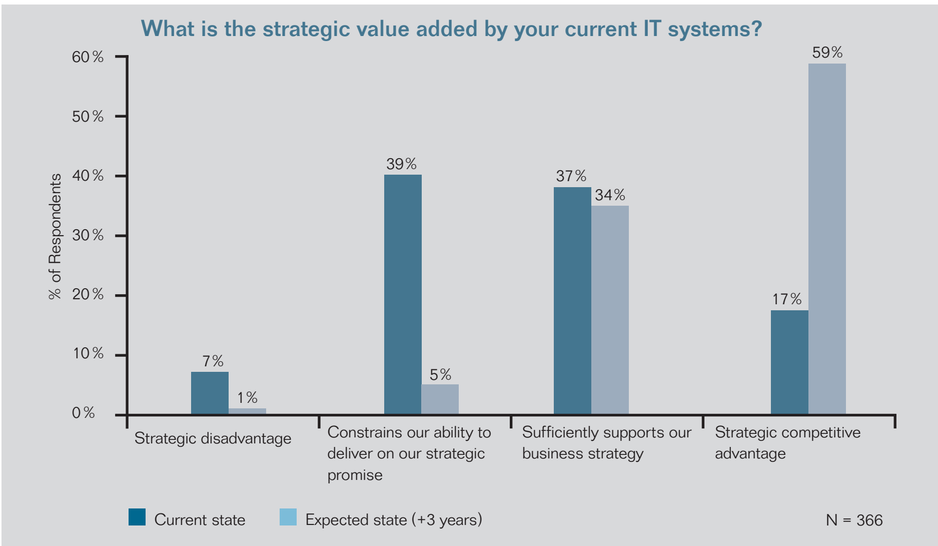

Figure 2: 2007 EMEA Retail Banking Study – Strategic Value Added by IT Systems

A recent global survey conducted by the Economist Intelligence Unit (EIU)[8] and sponsored by SAP shows the importance of centralizing and coordinating a bank's CRM strategies. But while 70% of respondents to the EIU survey say they will spend more money on CRM over the next three years, only 20% plan to target spending on analytics and only 9% on system consolidation or integration that could improve the sharing of customer data among departments.

Effective customer relationships do not just require the alignment of front-office activities with customer concerns. The whole bank must be organized around the needs of its customers. While banks are slowly moving toward automation (typically with respect to the sales process), there is much room for improvement. With greater automation, banks can realize the process efficiency and agility that drive true market differentiation.

To transform their branches from mere service centers to robust sales outlets, banks must consolidate all customer information into a single database that can provide qualitative customer analysis to managers throughout their institutions. Banks must also adopt enterprise-wide CRM business processes that seamlessly connect to their core banking systems. With this support, they can build a more accurate picture of individual customers that would show, for example, that a certain customer is the spouse of another customer who has a corporate account with a particular relationship manager. There would also be information about a customer's life stage and spending habits that could help a bank's sales representatives match the right products and services to the customer's individual needs. At the management level, this information could be used both to create new products and services that accurately reflect current customer demands and to market those offerings more effectively.

Whereas the first wave of CRM was focused above the line, at the point of customer interaction, a second wave of CRM is starting to focus below the line. Here, the single, enterprise-wide view of the customer is joined with enterprise processes and communications to make this valuable information available to everyone involved in sales or service transactions. In the past, this is where the customer relationship has all too often died. Everyone involved in the customer service supply chain – from sales agents and risk assessors to loan officers and external appraisers, surveyors, and lawyers – needs access to information that is fully centralized, highly accurate, and available in real time.

The second wave of CRM has been slow to take hold in the business community at large. A recent global online survey of 114 executives from various industries conducted by the Economist Intelligence Unit (EIU)[9] and sponsored by SAP reached the following conclusions:

- While 90% of those surveyed felt CRM was important to their business, only 60% had a formal CRM strategy. Of those, only 40% thought their strategy was better than "acceptable."
- A possible reason for the failure of CRM strategies is the lack of coordination at the enterprise level. Almost half of the respondents said that conflicts in the priorities of different departments made it difficult to realize the full value of CRM (see Figure 3).
- Nearly 60% of respondents who described their CRM efforts as disappointing cited a lack of executive sponsorship as a major obstacle to success.

8) Improving Customer Relationships, EIU 2007
9) Improving Customer Relationships, EIU 2007

- The reasons for adopting CRM strategies – such as improving marketing effectiveness (51%) or driving new revenue (47%) – were not aligned with the metrics that respondents use for gauging the success of such strategies – such as improving customer satisfaction (49%) or customer retention (42%).

These results clearly show the importance of centralizing and coordinating a bank's CRM strategies. But while 70% of respondents to the EIU survey say they will spend more money on CRM over the next three years, only 20% plan to target spending on analytics and only 9% on system consolidation or integration that could improve the sharing of customer data among departments. That compares with much higher levels of spending for sales (56%), customer service and support (51%), and marketing (45%).

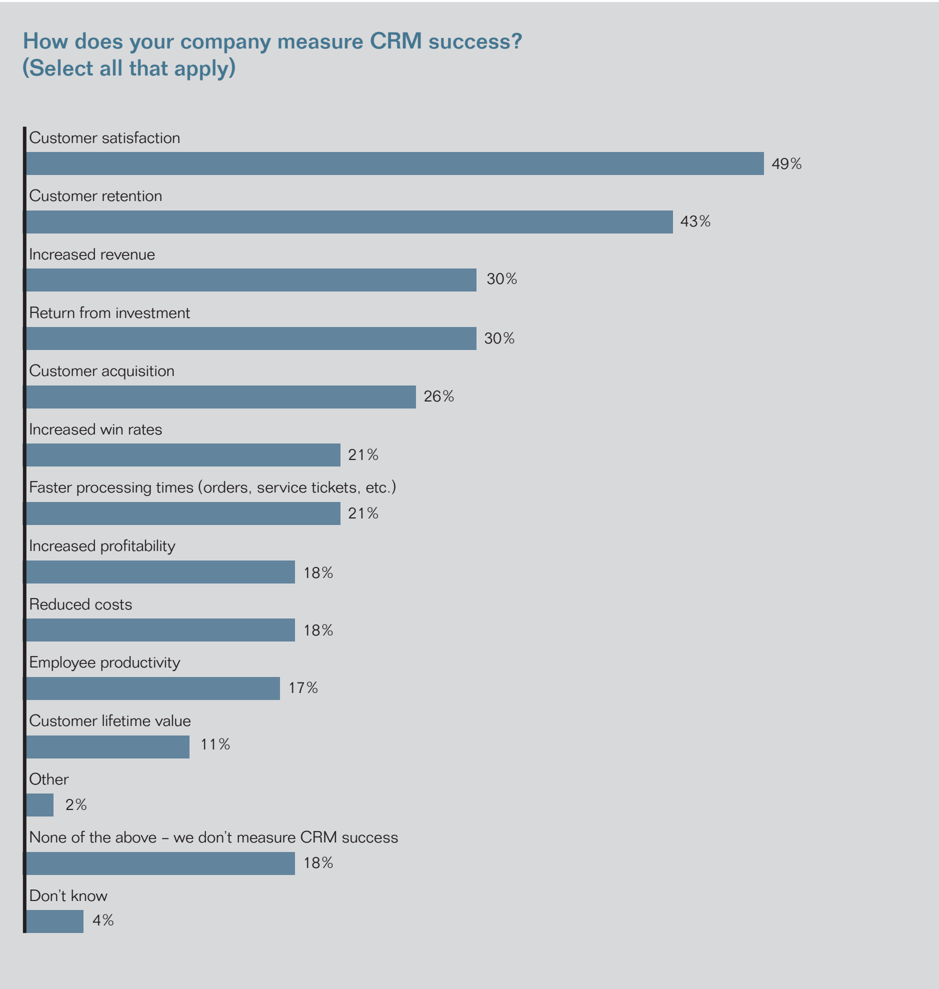

Figure 3: 2007 EIU/SAP Survey – Obstacles to Integrating CRM Systems

TAKING THE RELATIONSHIP TO THE NEXT LEVEL

A MARRIAGE OF STRATEGY AND TECHNOLOGY

As with all key business strategies, approaches to CRM vary enormously within the banking industry. Some banks have broadly defined CRM as a strategic focus on customers and are gradually pulling in the entire enterprise to collaborate on two fundamental and often conflicting goals: consistently meeting customer's needs and making money doing it. Other banks are focusing on the technology and software that will improve some or all of their business processes and channels for sales, marketing, and service.

To succeed in today's environment, banks probably need both a new IT strategy and an overarching, enterprise-wide vision of CRM that plans for and prioritizes specific deliverables. They must integrate sophisticated processes and applications, process automation, real-time information, executive sponsorship, and well-trained employees.

Many banks operate complex, disparate IT systems that run a myriad of processes and store volumes of customer data – much of which is difficult to access at any given moment. They lack the robust capabilities for business process management and enterprise-wide workflow that can help them integrate front- and back-end functionality. They may also lack process-oriented user interfaces that can simplify employee tasks and reduce errors.
In addition, they require the means to consolidate customer data from all their sales and distribution channels to give employees access to the reliable information they need to perform their jobs effectively.

The convergence of customer interactions and data across distribution channels provides the opportunity for greater insight into product uptake and other banking habits. It can also show the relationship of this information to the specific channels customers use, their demographics, and their life stages. This insight, when mined using traditional analytical tools, can underpin bank strategies for product innovation and distribution. Banks that collect customer information by market segment can target product offers much more appropriately.

Analyzing rich customer information in real time gives banks a further opportunity to differentiate their approaches for customer service. The ability to interpret a customer's situation in a specific interaction context or upon a specific request for service helps banks introduce the right offer to the right customer at, crucially, the right time. It can also transform the traditional service cost center into a profit center.

Banks that provide this kind of support make it possible for employees throughout the institution to achieve the customer focus that is so important today.

- Marketing executives can identify their most profitable markets and customers and meet customer needs with the right products and sales campaigns.
- Service executives can operate profitably while delivering appropriate services to all customers across all service channels.
- Sales executives can identify customers with the greatest profit potential and provide their sales forces with the data and equipment they need to engage those customers.
- Finance and IT executives can deploy and maintain standard, cost-effective technology solutions that support their banks' business needs and ensure corporate compliance with government regulations and accepted accounting principles.
- Call center executives can enhance customer-oriented services and support.
- Loan origination officers can employ business intelligence to identify valuable customer relationships so they can increase product penetration with those customers.

REACHING A HAPPY ENDING
A LONG-TERM, PROFITABLE CUSTOMER RELATIONSHIP

Just as banks now realize that customer service can be a primary differentiator in a highly commoditized market, they must learn that the customer experience extends beyond the initial bank contact. It's what the bank does afterwards that promotes true customer loyalty.

A valuable customer experience also extends beyond friendly front-office representatives. To build long-term relationships that are 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 continuous evolution, ongoing refinement, and rapid response.

For every customer action there is an equal and opposite reaction. Even one-of-a-kind transactions trigger the back office to do something. A bank must be able to respond to a customer query on the Internet with a phone call, or transfer that query to the appropriate branch advisor. To complete the circuit, banks need to connect their customers with all stakeholders through a seamless, fully integrated, enterprise-wide solution.

With the proper vision, strategy, and infrastructure, banks can target their most profitable customers and use real-time insight about those customers to build long-term, profitable relationships. They can enhance customer loyalty and increase their wallet share by developing the ideal portfolios of financial products and services for each customer segment. They can then target relevant offers that suit individual customer needs and deliver a consistent and personalized experience across every interaction channel.

To learn how SAP can help your organization build profitable, long-term customer relationships, call your SAP representative today or visit us on the Web at www.sap.com/banking.

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