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EXECUTIVE FORUM

Maximising customer relationships and minimising business risk

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Abstract *Notes how banks have changed radically in recent years, from being providers of simple banking services, to vast groups selling a range of services from banking, insurance, loans, mortgages, business advice, asset finance and fleet services. Banks hold an extensive amount of data on their customers but struggle to share and use it effectively. Information about customers is the key to increasing sales and instituting profitable relationships, so banks need to organise these data, to easily differentiate their key customers and prospects and to grow relationships by offering relevant services and proactively developing relationships. By adapting internal process and culture to a customer-centric one, that is shared across the group, banks can vastly improve the way they manage customer relationships and the returns from one of their greatest assets.*

Introduction

The banking industry has faced unprecedented changes in the last ten to 15 years. Banks have evolved from providers of simple banking services to vast groups selling services that range from banking, insurance, loans and mortgages, through business advice to asset finance and fleet services. Competition for customers is fierce. The objective for client-facing staff in banking is to understand, own and then maximise customer relationships: their biggest asset.

To do this, banks are striving towards a scenario where they have a strong sales culture that shares information and leverages group customers and services. For example, when a customer hires five new sales people and contacts the bank to request new corporate banking cards, the corporate card sales team, whilst taking the order, could offer car finance, pensions or other bank services. At present, the card sales team is unlikely to do this.

However a proactive cross-selling environment would clearly ensure that the bank and other companies in the group make the most of every single customer-facing opportunity. By leveraging customer relationships across the group in this way, banks can maximise business for each division by improving the level of service provided to some customers as well as through cross-selling products and services. This also means that each division can benefit from the economies of shared resources, reduced cost of sales and ultimately, reduced risk in doing business.

Implementing changes to the way customer relationships are managed and the systems that support this has not been easy and many banks are still working hard to

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improve their practices in this area. Developing best practice in the way banks manage customer relationships will require changes in sales and marketing culture, information management and supporting systems and processes.

The rest of this paper will discuss the challenges associated with making those changes happen. Particular emphasis will be placed on the process of gathering, managing and using information.

Cultural changes

One of the inherent difficulties for bank relationship managers and marketing professionals is the cultural differences that sometimes exist between the core bank and other group companies. There can be considerable variation from highly advanced sales culture, usually found in the group companies, to no sales culture at all, which is more typical of the core bank.

Before any improvements can be made to systems, processes or information management, culture will need to change and become more unified across the group. In particular, bank relationship managers need to be more sales focused if they want to build more profitable relationships. Indeed, recent high level appointments in some of the larger UK banks from the more traditional sales industries, indicate that this cultural shift has already started. Other ways to encourage a more sales-focused culture are sales training, and systems that can support business development functions – all areas that banks are starting to invest in.

Banks understand that they must get to grips with improving the process of cross-selling group services in order to reap the rewards of cost-savings and increased revenues and ultimately look to build a loyal and profitable relationship, where customers recognise the group brand as providing a full range of financial services. This is particularly important because banks are finding more competition for their expanded portfolios.

At the moment customers typically do not visit their bank first for additional financial services, asset finance or credit cards for example. They still perceive their bank as providing "banking services". However today's bank needs to find a way to sell additional services to its own banking customers and leverage some of the brand loyalty it has already gained, rather than continuing to operate as a completely separate business unit. It also needs to sell banking services to customers of other group divisions to help consolidate resources and make selling for the group more efficient. In the long term, this will help to build stronger customer relationships for everyone in the group.

Customers are becoming more sophisticated and the successful bank will be proactively anticipating customers' needs, providing them with all the additional services they require.

Knowledge is key to nurturing customer relationships

Being more proactive in the way they target new business can help maximise revenues. In fact, banks spend billions of pounds each year to attract and retain customers, yet they still find themselves locked out at critical points in the customer's decision-making process.

Business information is one of the most fundamentally important aspects of managing prospective and existing customer relationships. A good business information solution will provide all the information needed on a prospective company and the market it operates in – including number of employees, revenues and other financials, technology used, parent or subsidiary company details, competitor information, and the latest news and analyst reports on the company and its industry.

It should also allow relationship managers to specify the information they require, creating a regional, national or even global prospect list that can be downloaded onto a spreadsheet or internal application. They should be able to search for other companies in the same sector with the same profile. This can dramatically cut the time it takes to put together a prospect list and the additional research required. The more knowledge a relationship manager has about its prospects the greater the chance of turning the prospect into a client.

For example, by monitoring news about a business client, relationship managers could find a compelling reason to make a call and be ready to position a particular product or service to meet the company's needs – a company expanding for example could indicate the need for many bank products – loans, mortgages for new premises or other business services.

In addition, relationship managers need to know about the companies they are selling to in order to establish an understanding of their business, adding credibility and making it much more likely that the business client will want to work with them.

Finding the balance between sourcing too much intelligence and not enough continues to be a balancing act. The type of information they access and how it is used is an important consideration. Different users need different information. Ideally an information solution should provide a "snapshot" of customer data tailored for different functions – like relationship managers, risk managers and front-office staff.

Bank relationship managers typically require detailed insights as to who their clients are (in terms of the services they purchase), what they do and what their financial status is. This allows them to quickly ascertain risk as well as make the most of every sales and contact opportunity. With business banking customers in particular, finding the right information at key stages in the customer lifecycle can make a difference to developing and maintaining the right accounts that will impact profits across the group. For instance more detail on corporate family trees will enable the relationship manager to see which other companies are affiliated, for additional cross-selling or up-selling opportunities.

Moreover, relationship managers will need to have details of non-bank names (those potential customers who are not existing bank customers). It is widely known that customers with bank accounts are more loyal due to the trouble of changing and it is possible to offer other group services at preferential rates. It makes sense therefore that banks should first look to convert non-bank customers to bank names whilst selling additional services.

Combining internal and external data

All banks maintain masses of internal information and some external data on their customers, prospects, partners and competitors. This information may include customer lists, call reports, purchase histories, financial data, competitor profiles and more. In the larger banking organisations, many of the companies in the group will buy in and maintain their own separate prospect lists, creating massive duplication and inefficiency at a group level. If banks truly want to make the most of the economies that can be achieved through a large group, they will need to consolidate many, if not all, of these separate systems. By adding external information to existing internal data, banks can ensure that they are getting the most up-to-date information on each company record.

In addition, many companies want to upgrade the quality of their own internally held customer and prospect data before integrating it with external business information. Internal information can be radically improved by normalising for consistency, deleting duplicate records, and applying a standard taxonomy to link relevant items and index by unique identifiers.

Accurate and integrated data will provide banking organisations with quicker access to all the information they need to relate to their customers, reduce the risk of doing business and improve relationship management and prospecting.

Up to the minute intelligence

Monitoring industry news and trends can help bank relationship managers keep up to date with events such as new legislation, company strategy, revised product line or executive moves. One of these events could provide just the hook or reason for calling a new prospect or an existing client that will make the call successful.

For example, the prospective company that is expanding or just appointed a new MD may be ripe for a new premises loan or other banking services. At the same time this information may be used to alert the bank of a potential risk. The customer that announces a profit warning may make the bank want to review the loan application that is in process.

Recognising customers' needs and responding with a solution before they have even requested, demonstrates excellence in customer service and enables accounts to be grown. Moreover it ensures that banks are working as strategic partners with their customers, giving them a much needed competitive edge.

It is not just the customer and their corporate family that needs to be monitored, but the entire value chain including those companies who are supplying their customers. This is essential to minimising risk.

Minimising risk

With so many opportunities for error, little margin and many regulations to adhere to – such as the New Basel II Accord, or Sarbanes Oxley, that affects all US companies – minimising operational risk is top of the agenda for many banks.

Doing business today is not about maximising how much business the bank can make from one customer, it is also about minimising the risk of doing business with the customer. In fact, this makes it more important than ever that relationship managers (RMs) have more information on the state of their customers, the industries they operate in and the customers' value chain.

Monitoring a customer's "reputational" risk (any operation that can damage the reputation of the customer and therefore affect bank business) requires access to up-to-date information. This could include trade press and business news reports on that company, as well as the latest industry analyst reports. The bank will want to know about a customer that has appointed a new director with bad credit history, for example, as this could affect the level of risk attached to that customer.

In this way, information is a key enabler in the risk process. It changes the way relationship managers look at finance and monitor the business of their customers. As a result, this can reduce risk and improve business performance.

In fact, all financial services companies can benefit from using information as part of risk assessment. During the sale of an insurance policy for example, if the insurer is able to see a corporate linkage between the applicant company and an oil and gas company, the risk profile is increased with reassessment of policy and can avoid undervaluing the quotation. Knowing which subsidiary companies belong to a group or holding company, which can affect the business, will ensure costly risk mistakes are avoided. This is becoming more important today with so much consolidation and disintermediation in many more markets.

Banks need to be much more aware of what their customers are doing. Sarbanes-Oxley, for example, requires all US companies to submit financial reports more frequently. For banks, accessing this additional information will provide advantages, in that it will enable them to react more quickly to good or bad conditions. However, it will also create more workload to source, collate and act on the information.

Traditionally, financial services organisations have done a lot of the legwork involved in sourcing this information themselves – mostly in order to limit risk. However with more information to source and manage, banks will face a growing resources problem.

CRM systems

Banks invested heavily in customer relationship management systems (CRM) hoping they would be able to provide access to all information about a customer and their behaviour from any touch point (cashpoint, branch, phone or Internet for example).

Unfortunately, an alarming 80 percent of these CRM applications fail[1]. They fail not only because the emphasis is on technical issues rather than end user issues, but also because the people integrating them lack critical information skills.

Different business units within the bank and group companies tend to store their own customer data on many different bespoke systems. However changing this silo approach is unlikely. This is because most organisations will not be able to integrate the data held on so many bespoke systems in an acceptable way without the costs far exceeding the benefits. In fact, industry analysts Gartner Group (Nelson, 2003) say that through 2006, CRM-wide integrated databases will remain unachievable.

In order to enable consistent, integrated customer interactions across multiple channels, Gartner says enterprises will need to create the perception of an operational customer view through a federated database approach and application integration – i.e. integrate or link existing customer databases that currently exist in silos across product marketing groups.

This means that sharing customer data across the group is still possible and the benefits to be gained here will always be worth the investment. The challenge is to help find structures that will align information databases and systems as closely as possible without losing the bespoke nature that fits the products.

It is unlikely that most banks will have the necessary in-house resource to do all the integration themselves and so external expertise will be required. In this instance it is important that banks look to a company that has the required expertise in content integration and understands the nuances of information and the importance of a good taxonomy to sort and manage customer-focused data. Technical skills alone are not enough.

To ensure success, any customer-facing system (whether a portal, CRM, intranet) should be populated with enough knowledge on the customer to make a difference at key stages of the customer lifecycle – prospecting, selling or servicing for example. Greater customer knowledge can provide a competitive differentiator and improve the sale of additional products and services to existing customers – ensuring that only customers that fit the profile for a service or product are targeted. At the same time, too much information can make the system difficult to use, leaving relationship managers searching for the information they need.

Building a shared customer database

Whatever systems banks adopt to support the way they manage business relationships, they should start by assessing the state of all internal data.

Data may reside in multiple repositories and have diverse formats and structures. The bank may even have a large data warehouse, where it stores all sorts of data it has gathered on its existing customers in particular and their behaviour.

Wherever data are stored, the quality of it is likely to be uneven because of incomplete, inaccurate or duplicative records; in the banks' case, much transactional data are kept on file for years. Data should be compared with an extensive content database to identify gaps, duplicates and inconsistencies. Banks will need to be clear about the data they require for their front-end systems, since not all of the data gathered is going to be necessary to view in all instances. Depending on the level of quality and consistency within the data, the next step is to fill information gaps where possible and eliminate extraneous information and duplicate records.

Applying an extensive taxonomy creates an organised, interrelated dataset that can be explored and filtered quickly and accurately. This will be essential for a CRM system to work effectively. Banks need to choose a taxonomy that allows data to be integrated immediately with the external content by assigning unique identifiers to each company. Typically external business information providers will provide real-time links to their accurate and continuously updated data warehouse that will ensure data in the CRM system is kept up to date.

When these steps are performed well, data are consistent and relevant across the board. At this point it becomes a straightforward technical project to integrate internal and external information within the enterprise application.

With proper content optimisation and client data preparation, many companies can manage the integration work themselves. Still, they should make sure that an information service provider can offer all the necessary guidance, or a full-service integration solution, if desired.

Conclusion

Minimising risk and maximising customer relationships are key goals for many financial services organisations and particularly banks. Banks hold an extensive amount of data on their customers but struggle to share and use it effectively. However information about customers is the key to increasing sales and instituting profitable relationships. Banks need to organise these data so that they can easily differentiate their key customers and prospects to grow relationships by offering relevant services and proactively developing relationships.

By adapting internal process and culture to a customer-centric one that is shared across the group, banks can vastly improve the way they manage customer relationships and the returns from one of their greatest assets.

Note

1. Wolfgang Martin, Meta Group.

Reference

Nelson, S. (2003), "CRM data strategies", paper presented at the Gartner Symposium.