



# Achieving customer centricity throughout the enterprise

The second wave of CRM

Sponsored by SAP



Survey conducted by EFMA



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## ABOUT DATAMONITOR

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We help our clients, 5,000 of the world's leading companies, to address complex strategic issues.

Through our proprietary databases and wealth of expertise, we provide clients with unbiased expert analysis and in-depth forecasts for six industry sectors: Automotive, Consumer Markets, Energy, Financial Services, Healthcare, and Technology.

Datamonitor maintains its headquarters in London and has regional offices in New York, Frankfurt, Sydney and Japan.

## ABOUT EFMA:

The European Financial Management & Marketing Association (EFMA) promotes innovation in retail finance by fostering debate and discussion among peers supported by a robust array of information services and numerous opportunities for direct encounters. Efma was formed in 1971 by bankers and insurers to encourage their colleagues to share experiences, promote the best practices of their institution, and collaborate through alliances and partnerships

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## DATAMONITOR VIEW

### CATALYST

Banks are no strangers to customer relationship management (CRM) technology, with many institutions having carried out deployments around the turn of the millennium. That first wave of CRM adoption in the industry was relatively limited in its scope, however, mainly consisting of a veneer to address customer interactions and support marketing campaigns. On the whole, the technology lacked any deeper integration into core systems, and there is a general perception that it failed to live up to expectations.

However, developments in the financial services industry, such as the proliferation of channels, increasing competition, and the need to improve brand image, suggest that an ability to gain an enterprise-wide view of a bank's customer, updated and queryable in real time to form the basis for marketing decisions, is more vital now than ever. This white paper considers whether there is currently an appetite for such 'next-generation' CRM.

### SUMMARY

Examining the results of an online survey of 108 banks in Europe (east and West) and the Middle East, carried out by the European Financial Management & Marketing Association (EFMA) in conjunction with SAP, Datamonitor finds five key take-outs:

- Banks recognize the strategic importance of CRM. They are also keenly aware of the importance of adopting a customer-centric approach to business, and the increasing importance of such an approach going forward. The key challenges that they face, however, are still primarily of a tactical/operational nature rather than strategic. These challenges include price competition, pressure to lower operating costs, fragmentation of customer segments and channel proliferation. While customer-centricity is a long-term goal, many institutions face challenges in execution and focus, rather than vision.
- Most banks have moved towards a customer-centric approach, but they are still only halfway there. These banks define the customer-centric stance as the adoption of increased customer segmentation and a greater focus on customer satisfaction, rather than a customer orientation process and the delivery of service across the enterprise.
- Today, for many of the respondent institutions, CRM is still driven by individual departments or, at best, is used in customer interactions across multiple channels. Either way, it is still primarily a front-end process, and this situation is clearly a legacy from first-generation CRM deployments. The focus for such implementations is still one of enabling channels or

individual departments with customer interaction and marketing support, rather than the creation of processes extending across the entire enterprise.

- The relatively early developmental stage of banks' CRM strategy can be gauged from the fact that most of them are using comparatively basic criteria to measure how successful their utilization of CRM has been. These criteria include customer satisfaction, customer retention, increased revenue and customer acquisition. Customer lifecycle value, employee productivity, ROI and faster processing times are less widely used metrics; largely because banks have limited ability to obtain this information.
- While banks would like CRM to become a more company-wide, strategic technology in their operations, with nearly half of the survey respondents currently investing in CRM, or about to invest, implementation complexity remains the single biggest barrier. This, in turn, makes it more difficult to achieve the level of integration between the middle and back office with the front that is required for a truly successful CRM deployment. Hence, there is a continuing disconnect between vision and execution.

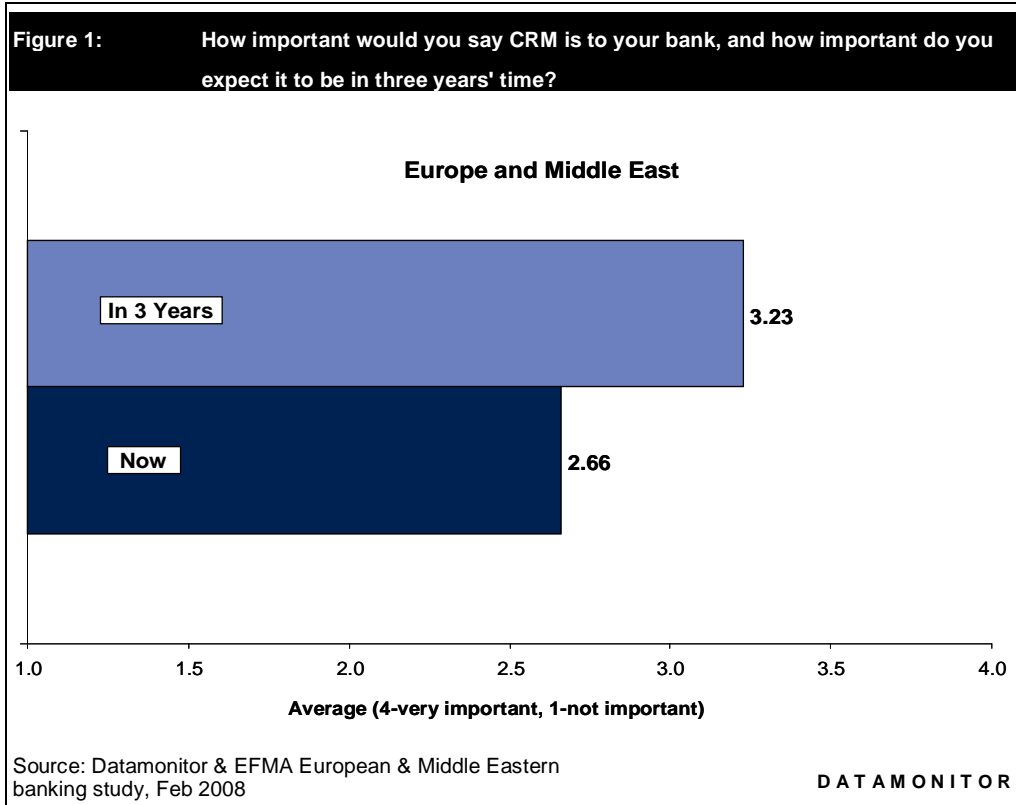
## ANALYSIS

### **CRM is seen as strategic, but operational issues dominate the agenda**

Banks are finding themselves in an increasingly competitive environment, challenged not only by incumbent financial services providers, but also by new market entrants that typically aim to address particularly lucrative customer segments. At the same time, consumers are becoming ever more sophisticated in their approach to purchasing financial products, as well as more demanding as far as customer service is concerned. In less mature markets, banks are faced with the additional challenge of rapid growth, which further increases the pressure on IT systems as well as processes.

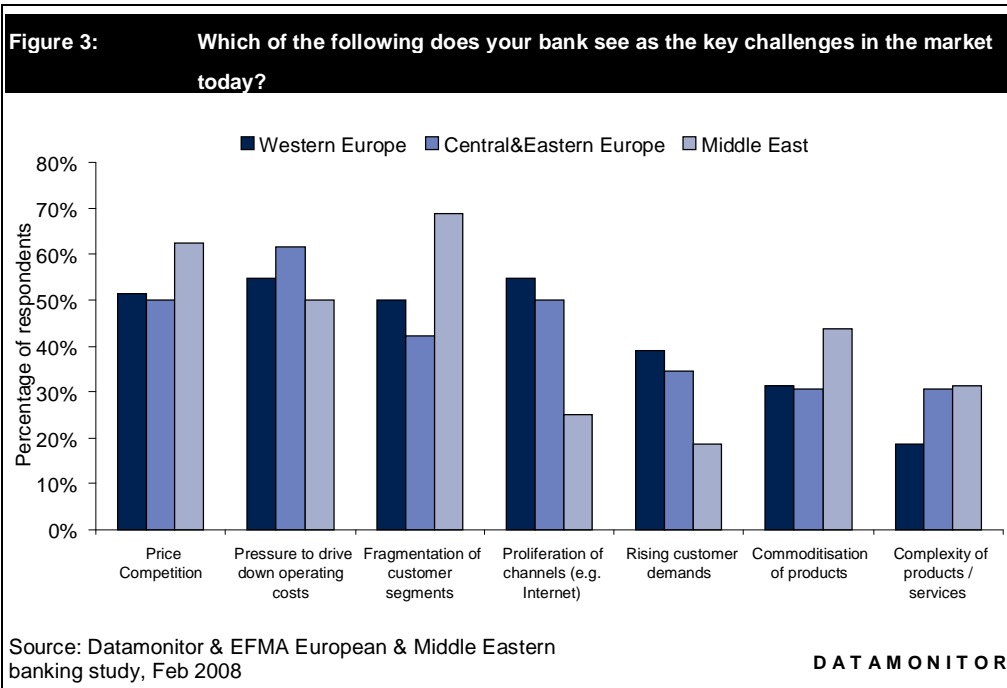
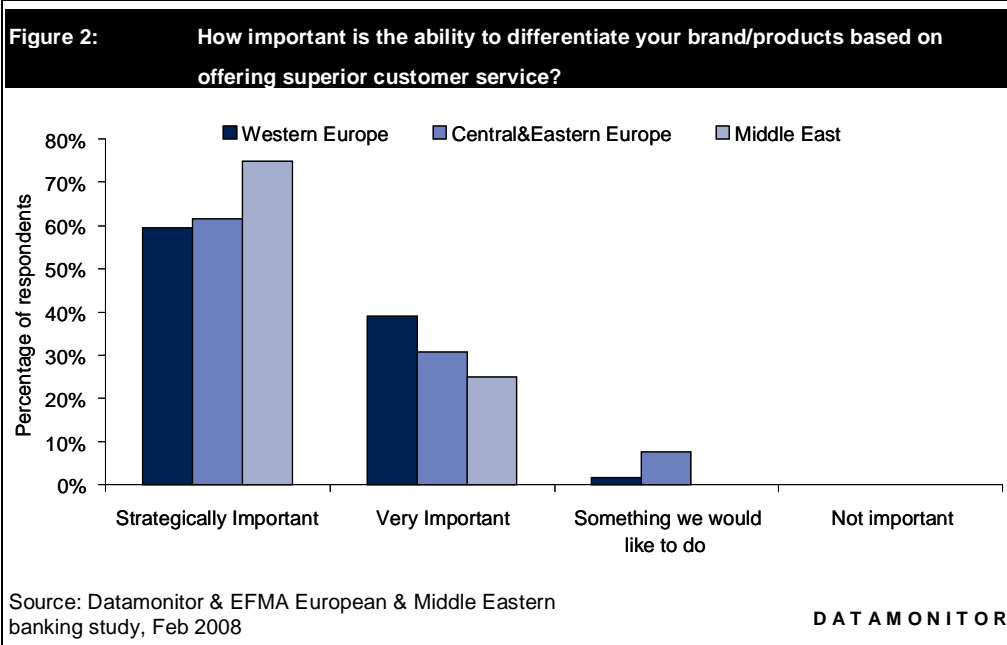
Added to this is the constant pressure to drive down operating cost; in our survey, this issue topped the list of key challenges, chosen by 56% of survey respondents. As we will show later, banks' responses also confirm that they have not yet been able to address satisfactorily the fragmentation of customer segments, and proliferation of channels.

Seen in this context, it is not surprising that most banks have sought to adopt a more customer-centric approach to their business, and are aware of the importance of CRM, in the present and going forward (see Figure 1). The key challenges that they face, however, remain primarily of a tactical/operational nature, rather than strategic. While customer-centricity is a long-term goal, many institutions face challenges in execution and focus, rather than vision.



### Why customer-centricity is increasingly important

Banks are clearly aware of the growing strategic importance of customer-centricity as a means of differentiating themselves. This is shown in Figure 2, below, which shows the response to a question about the importance of differentiating products and brand through superior customer service. Unless banks have the IT systems and processes in place to gain a true understanding of their customers' and prospects' interactions and needs, any claim to superior customer service will always remain a thin veneer, which cannot hide a bank's process breakdowns and silo'd approach to channels. At the same time, tactical and operational issues continue to dominate the agenda, as shown in Figure 3.



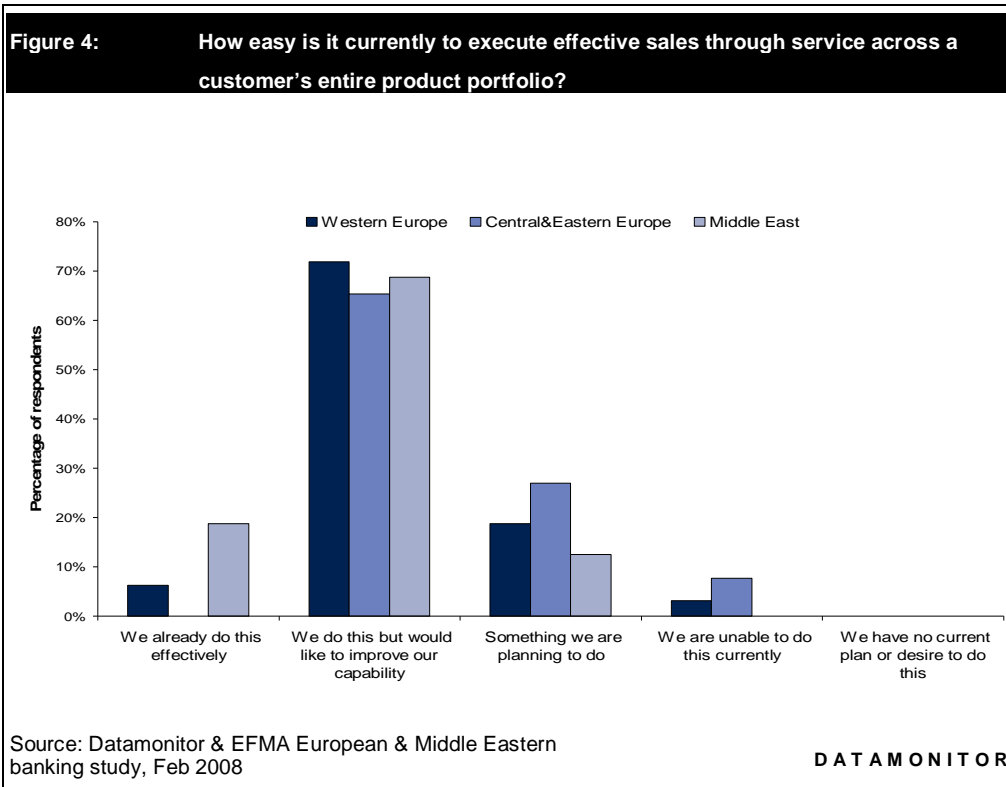
With price competition putting their top line under strain, the pressure on banks to lower operating costs is increasing further. The current turmoil in the financial services sector intensifies this even more; fall-out from the credit crunch not only means that it is necessary to be more discerning and selective when it comes to product sales, in particular loans of any kind, but is also likely to provoke headcount reduction. One method by which firms can reduce costs while increasing the quality of their loan portfolio is to target sales at carefully selected existing customers, rather than aggressively seeking new ones. This factor alone is a powerful argument in favor of increased customer-centricity.

The argument for an enterprise-wide CRM approach is further supported by the need to address the increasing fragmentation of customer segments, which many banks have identified as a challenge (see Figure 3). This is a phenomenon affecting not only financial services but many sectors of the economy, as a more affluent consumer base promotes ever greater levels of individualism, supported by increasingly diverse and specific media, including websites, digital TV channels and niche publications, among other outlets. Banks that fail to reach out to their customers in ways that they can relate to will have difficulty increasing their share-of-wallet.

Channel proliferation, meanwhile, is a problem the banking sector has been wrestling with for some time, as firms seek to balance customer requirements, and measure the respective benefits of branch, call center/phone and online banking. Two factors in particular have complicated the introduction of new channels, many of which are self-service. The first is the cost associated with making new channels available, particularly when such channels are often intended to reduce costs rather than increase them. Not only do many customers end up using a wider variety of channels, but they also expect data and processes to move seamlessly between channels, which has additional cost implications. The second factor, which banks in many countries discovered as they convinced customers to move to lower-cost channels, is that the most attractive and profitable clients tended to abandon the branch, while potentially less desirable customer segments continued to make extensive use of branch tellers. As one Scandinavian banking executive said two years ago: "We've successfully got them [the customers] out of the branches. Now we want them back". Indeed, there is now a recognition on the part of many institutions that the branch can be an invaluable shop front, particularly for more complex products that require greater levels of customer interaction.

However, to realize the potential of the branch, there is a need for bank tellers to have better decision support tools, as well as real-time information that enables them to make the most appropriate offer for each individual customer, rather than merely pushing the promotion that head office has mandated for that week in a blanket marketing approach. Many banks still use this approach, much to the annoyance of their customers. Exploiting the potential of the branch again advocates a greater level of customer-centricity than most institutions have so far been capable of achieving.

Of course, the issue of having specific information about the customer does not just affect employees in branches, it is equally important for the representative in the call center, and the methods by which the bank interacts with its customers through self-service channels. As Figure 4, below, illustrates, banks would like to improve their ability to make more targeted sales approaches to existing customers.

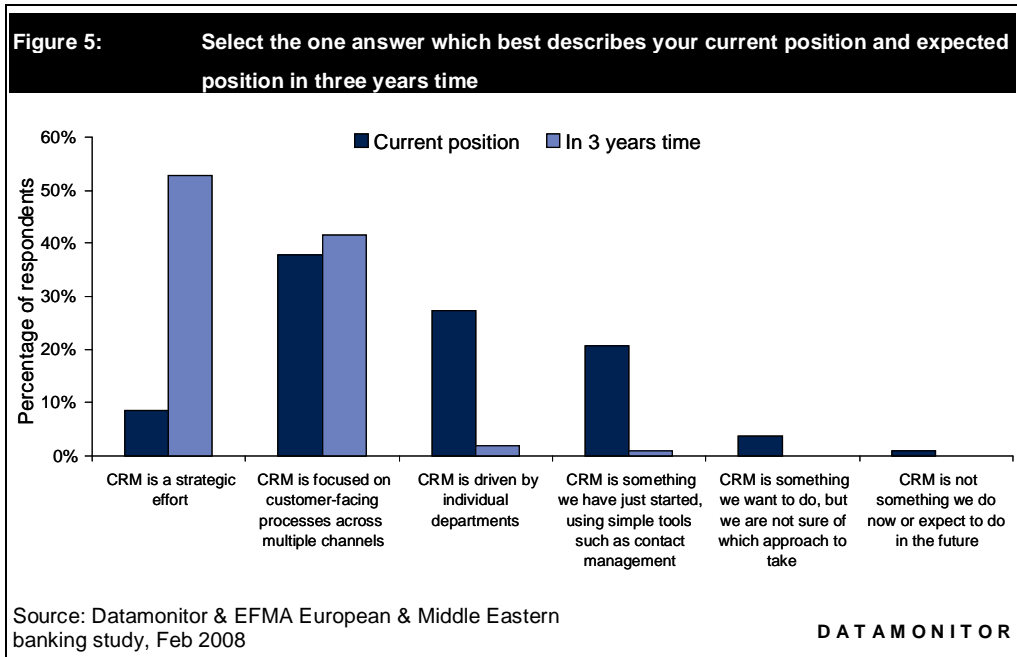


Finally, the need for customer-centricity is underlined by banks' desire to differentiate themselves through superior customer service, as shown in Figure 2 above. Unless they have a greater understanding of who their customers are, what they have purchased, which channels they use, and how responsive they are likely to be to a product offer, banks will not be able to achieve that goal.

### The move to customer-centricity is happening, slowly

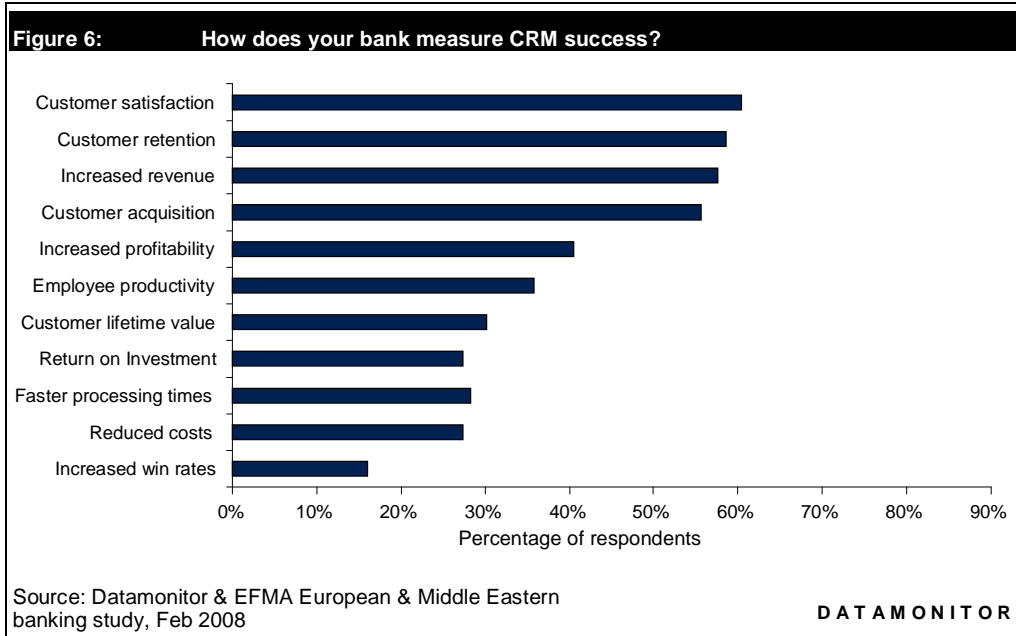
Most banks claim to have moved towards a customer-centric approach, but they are still only halfway there. They typically define their customer-centric stance as the adoption of increased customer segmentation and a greater focus on customer satisfaction, rather than a customer orientation process and the delivery of service across the enterprise.

For many of the respondent institutions, CRM, at present, is still driven by individual departments or, at best, is used in customer interactions across multiple channels. Either way, it is still primarily a front-end process, a situation which is largely a legacy from first-generation CRM deployments, but also reflects the difficulty banks encounter in trying to adapt systems and processes to the requirements of a customer-centric approach. As Figure 4 illustrates, however, banks clearly intend to take a more strategic approach to CRM, and expect to move away from the silo-driven approach to CRM within three years.



Enhanced customer service and operational efficiency can both be achieved through focusing on the speed of operational processes. The challenge for banks is to launch products and give them the visibility and serviceability that they require across all the channels which are appropriate to each individual offering. To achieve this, banks need to move their CRM strategies to the next level as quickly as possible.

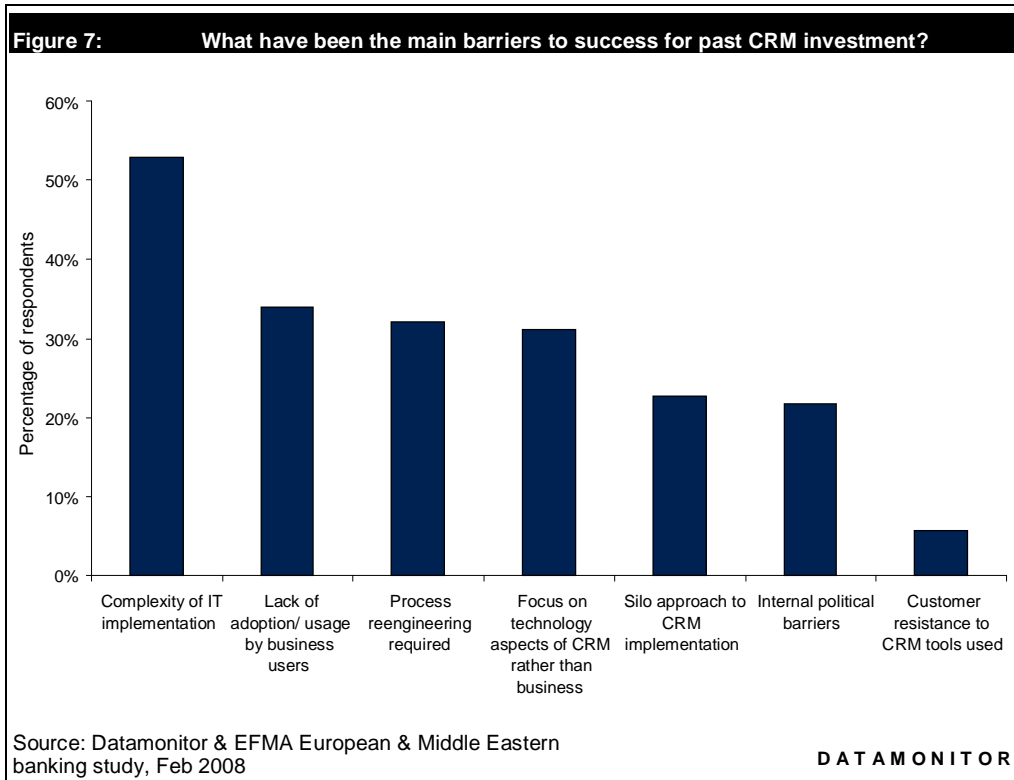
One indicator for the relatively immature level of banks' CRM strategies is the method by which banks measure CRM success. Most banks use comparatively basic, but reasonably easy to obtain, criteria, as shown in Figure 6 below. Metrics that are more difficult to determine and gather, such as customer lifecycle value, employee productivity, ROI and faster processing times, are less widely used. The lack of alignment between a bank's operations-focused middle and back office and its customer-centric front end is typically the key barrier to obtaining any deeper metrics. This makes it difficult to take measurement beyond the basic concepts of customer satisfaction and retention.



The importance and usefulness of indicators such as customer satisfaction and customer retention should not be underestimated. However, it must not be forgotten that these factors do not deliver shareholder value in their own right. As it is, the lack of true CRM integration throughout the enterprise not only limits banks' ability to look at their customers' lifetime value and profitability, but also prevents them from assessing the true ROI of their CRM investment; therefore, the benefits of CRM tend to be undervalued.

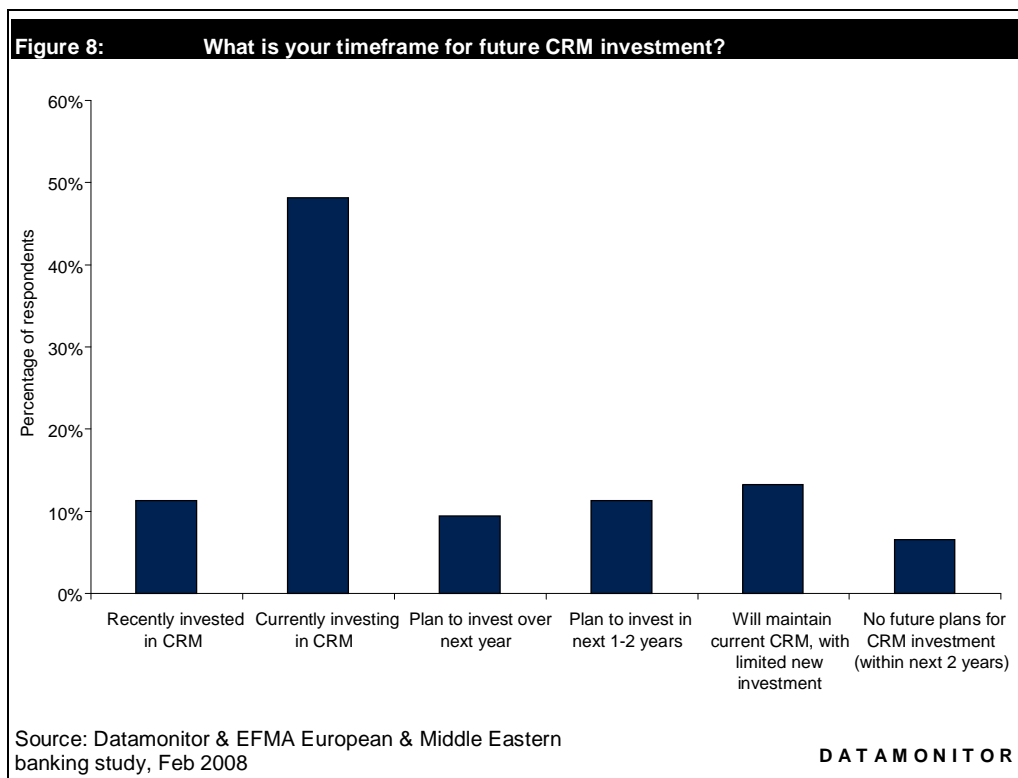
### Implementation complexity continues to be a stumbling block

While banks want CRM to become a more company-wide, strategic technology in their operations, the complexity inherent in the IT implementation of CRM remains a major inhibitor to achieving that goal, creating a further disconnect between vision and execution. Other barriers include low take-up by the business and the need for process re-engineering; both of these issues have adversely affected past efforts at rolling out CRM, and are indicative of banks' unwillingness, or inability, to address the business and process issues fundamental to CRM success. On the other hand, cultural issues, such as internal politics or customer resistance, are no longer seen as significant barriers.



### Investments in CRM reflect the importance of the technology

Nearly 50% of respondent firms have either recently invested in CRM, or are currently investing. This reflects a clear recognition by banks that CRM is not a “nice-to-have” asset, the uptake of which can be postponed, but an approach that should be implemented as soon as possible, in order to help them to improve their competitive positioning and achieve corporate goals.



### Conclusion

On the whole, banks have a clear vision of their desired strategic position; they want the ability to differentiate their brand and products through superior customer service, and to drive effective sales through a customer’s entire portfolio. They also clearly recognize the strategic role that CRM has to play, as reflected in current investment levels, as well as the increased importance ascribed to CRM in the future. At the same time, banks know that the enterprise-wide adoption of CRM will not be easy.

While it is encouraging to see that internal politics and customer resistance to CRM tools are no longer seen as major stumbling blocks, there are explicit as well as implicit indications that a great deal of progress must be made in order to achieve the internal process changes necessary to gain the maximum effect from CRM implementations.

Two key aspects need to be addressed if banks want to get maximum value out of their current and future CRM investments:

- First of all, the recognition that without deeper integration of the CRM-supported front office processes with the middle and back office of the bank, it will simply not be possible to achieve the goal of offering superior service across a customer's entire portfolio, nor to increase cross- and up-sell potential. A lack of deeper integration will also make it impossible for banks to increase the sophistication of the metrics used to measure CRM success.
- Secondly, banks, software vendors and systems integrators need to work closely together to address implementation complexity, which is seen as the greatest obstacle to adoption. Once the nature and source of this complexity are clearly understood, it will be possible to develop plans, and the business case, to overcome this obstacle, and move to a truly customer-centric operation.