

# CUSTOMER RELATIONSHIP MANAGEMENT IN BUSINESS NETWORKS: LESSONS FROM THE FINANCIAL SERVICES INDUSTRY IN GERMANY AND SWITZERLAND<sup>1</sup>

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## Executive Summary

*Recent consolidation in the financial services industry and the decision by many financial services executives to focus on their core competencies have led to these firms forming business networks. These networks face numerous challenges ensuring that their member companies serve their customers well, and in an integrated manner, using Customer Relationship Management (CRM) systems.*

*This article describes our analysis of six financial services companies in different financial services networks – one of which illustrates best practice. The six main challenges these networks faced were: creating a joint strategy; rationalizing their distributed core competencies; integrating their CRM processes of marketing, sales, and service; being able to exchange knowledge<sup>2</sup> about customers; adhering to data privacy laws; and integrating their CRM systems.*

*Based on our observations of these financial services networks, we recommend five steps for creating successful joint CRM in a business network: (1) Define integrated CRM processes, (2) establish a joint customer data model, (3) establish a central customer database for customer master data, (4) link distributed CRM and transaction systems to the central customer database, and (5) integrate customer-oriented systems via views (portals).<sup>3</sup>*

## FINANCIAL SERVICES NETWORKS ARE EMERGING

During the past few years, we have witnessed a trend toward financial services companies building cooperative networks to offer their customers a broader range of financial services. These networks, however, are complex, sometimes containing many companies with loose ties to each other. This complexity presents significant obstacles to implementing effective joint CRM within the network.

Financial services networks have emerged because of three trends:

First, many customers, especially high-value customers, increasingly demand comprehensive coverage of their financial requirements. Consequently, financial services companies must support every single customer requirement, ranging from account management to life insurance to granting home loans. In short, they need to provide ‘one-stop finance.’ This requirement has led to increasing consolidation in the industry. Many banks and insurance companies have merged or jointly distribute their products to offer such a broad range of services. Specialized companies, called relationship managers, often handle the integration of the different financial services; see Figure 1<sup>4</sup>. A relationship manager employs customer consultants to advise customers (consumers or corporate clients)<sup>5</sup> and sell

<sup>1</sup> Jack Rockart is the accepting Senior Editor for this article.

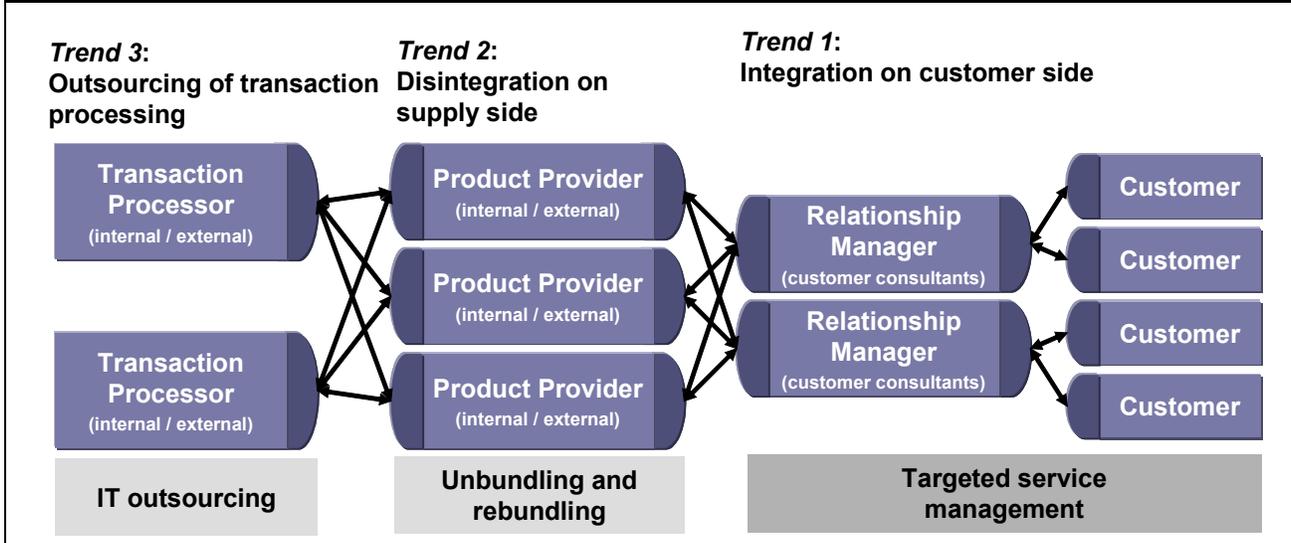
<sup>2</sup> In this article, the term “knowledge” includes both *implicit* knowledge in the heads of people as well as *explicit* knowledge in the form of documents or data. The term “information” denotes only explicit knowledge, which can be stored in databases.

<sup>3</sup> An earlier version of this article was presented at *The Tenth Americas Conference on Information Systems* (AMCIS 2004) in New York City.

<sup>4</sup> Lehmann, A. P., “Financial Services – Veränderungen von Märkten, Leistungen und Unternehmen [Change of Markets, Services, and Enterprises],” in Belz, C. and Bieger, T. (Eds.), *Dienstleistungskompetenz und innovative Geschäftsmodelle [Service Competency and Innovative Business Models]*, St. Gallen: Thexis, 2000, pp. 22-35.

<sup>5</sup> The term “customer” always denotes end customers of a financial services network, which can be either consumers or corporate clients.

**Figure 1: Trends in the Development of Value Chains in the Financial Services Industry<sup>8</sup>**



the network’s products. The consultant serves as the distribution intermediary between these end customers and the product providers. Relationship managers focus on providing customers with financial products and services targeted to their specific needs.

Second, new and aggressive market entrants<sup>6</sup> have forced financial services companies to focus on their core competencies<sup>7</sup> to remain competitive. As a result, while mergers are occurring, the industry is also deconstructing, with specialized companies or business divisions (product providers) focusing on delivering specific products and services. This deconstruction of the financial value chain is similar to what is occurring in other industries, such as the automotive industry, which has decreased its formerly high vertical integration through outsourcing and cooperation.

Third, financial services companies increasingly outsource their transaction processing to external transaction processors to focus on their core competencies.<sup>9</sup> The transaction processors can achieve economies of scale and offer more competitive prices than an individual financial services company because they handle

transactions of several product providers or relationship managers.

While each member of a financial services network can focus on delivering a specific product or service, the entire network is meant to meet every financial need of its customers (consumers or corporate clients),<sup>10</sup> such as buying a home, building a tract of houses, or investing an inheritance. Satisfying such a wide diversity generally requires financial as well as non-financial services. For example, buying a home may require finding an appropriate house, securing the home loan, and purchasing household insurance, to name just three needed services. The ultimate objective of a financial services network is to support customers in every step, providing a true ‘one-stop’ experience.

Figure 1 is the framework used in this article to analyze CRM in financial services networks, to determine the roles the different companies play. All the companies we studied took some combination of the three roles noted in Figure 1 – transaction processor, product provider, or relationship manager.

### Two Types of Networks

Two different types of financial services networks are forming: The first, and most common, is a ‘universal bank’ with different and legally independent divisions operating under a holding company. We call this type an ‘intra-organizational network.’

<sup>6</sup> Knights, D., Murray, F. and Willmott, H., “Networking As Knowledge Work: A Study of Strategic Interorganizational Development in the Financial Services Industry,” *Journal of Management Studies*, Vol. 30, No. 6, 1993, pp. 975-995.

<sup>7</sup> Prahalad, C. K. and Hamel, G., “The Core Competence of the Corporation,” *Harvard Business Review*, Vol. 68, No. 3 (May-June), 1990, pp. 79-91.

<sup>8</sup> Lehmann, A. P., “Financial Services – Veränderungen von Märkten, Leistungen und Unternehmen [Change of Markets, Services, and Enterprises],” in Belz, C. and Bieger, T. (Eds.), *Dienstleistungskompetenz und innovative Geschäftsmodelle [Service Competency and Innovative Business Models]*, St. Gallen: Thexis, 2000, pp. 22-35.

<sup>9</sup> “Banking on the technology cycle,” *The Economist*, September 4, 2003.

<sup>10</sup> Österle, H., “Enterprise in the Information Age,” in Österle, H., Fleisch, E. and Alt, R. (Eds.), *Business Networking: Shaping Collaboration Between Enterprises*, Berlin et al.: Springer, 2001, pp. 17-54.

The second type consists of financial services alliances that include several independent companies cooperating without central control, but with individual collaborative arrangements binding them. We call this type an 'inter-organizational network.' One of the objectives of our study was to discover the differences and similarities between the CRM initiatives in these two types of networks, to develop appropriate recommendations for each.

## CRM IN THE FINANCIAL SERVICES INDUSTRY

Customer Relationship Management emerged as a response to decreasing customer loyalty in various industries. In financial services, the three interconnected reasons for decreasing customer loyalty have been.<sup>11</sup>

- New technological opportunities: The intangible nature of financial services makes them ideal for distribution through electronic channels, such as the Internet. Consequently, competitors can more easily enter these markets.
- Increasing competition by new market entrants: Supported by new opportunities from technology and deregulation, the financial services market is being transformed into an increasingly heterogeneous marketplace. Non-banks and near-banks (such as telecommunication providers and financial consultancies) pose an especially growing threat to established players.
- Customers' changing behavior: Financial services customers are becoming more self-confident, better informed about products and services, and increasingly demanding of additional services.

CRM has been seen as a means to retain customers by nurturing customer relationships.<sup>12</sup> Shaw and Reed<sup>13</sup>

<sup>11</sup> Körner, V. and Zimmermann, H.-D., "Management of Customer Relationship in Business Media – The Case of the Financial Industry," *Proceedings of the 33rd Hawaii International Conference on System Sciences*, Maui, Hawaii, 2000; Krishnan, M. S., Ramaswamy, V., Meyer, M. C., and Damien, P., "Customer Satisfaction for Financial Services: The Role of Products, Services, and Information Technology," *Management Science*, Vol. 45, No. 9, 1999, pp. 1194-1209; Walter, G., "Customer Relationship Management bei Banken [Customer Relationship Management in Banks]," *Banking and Information Technology*, No. 4, 2000, pp. 10.

<sup>12</sup> Payne, A. and Ryals, L., "Customer Relationship Management in Financial Services: Towards Information-enabled Relationship Marketing," *Journal of Strategic Marketing*, Vol. 9, No. 1, 2001, pp. 3-27; Peppard, J., "Customer Relationship Management (CRM) in Financial Services," *European Management Journal*, Vol. 18, No. 3, 2000, pp. 312-327.

<sup>13</sup> Shaw, R. and Reed, D., "Measuring and Valuing Customer Relation-

ships: How to Develop the Measures That Drive Profitable CRM Strategies," London: *Business Intelligence*, 1999, pp. 4.

1. Acquiring and continually updating the firm's knowledge on a customer's needs, motivations, and behavior over the lifetime of the relationship
2. Applying knowledge about customers to continually improve business performance by learning from successes and failures
3. Integrating marketing, sales, and service activities to achieve a common goal
4. Implementing appropriate systems to acquire and share information about customers, and to measure CRM effectiveness.

### **Financial Services Networks Are Struggling to Perfect Their Joint CRM Systems**

Today, most financial services companies apply the concept of CRM, that is, manage their relationships with their customers. CRM is supposed to positively impact the cost-revenue ratio by giving companies a way to both know their customers' expectations and to identify high-value customers, to focus on them.

However, networked companies face several difficulties in implementing effective CRM systems. For one, every member in the network usually has its own systems for managing contracts, processing payments, and managing customers. These differences need to be reconciled for the companies to work jointly. Two, each system contains only part of the firm's information about each customer. To collaborate, the companies must combine these pieces of information to create a more complete picture of each customer. Even large, well-known, centrally managed companies face this challenge. According to *The Economist*, "many CRM systems used by financial conglomerates cannot even tell whether a banking customer also has, say, a mortgage or a stock broking account with its various subsidiaries."<sup>14</sup> An example, the customer consultants in one network we studied had to work with more than 30 operational CRM systems,<sup>15</sup> each giving access to a just piece of customer information.

<sup>14</sup> "Banking on the technology cycle," *The Economist*, September 4, 2003.

<sup>15</sup> CRM systems are usually classified into operational, analytical, and collaborative. *Operational* CRM systems improve the efficiency of CRM business processes and comprise solutions for sales force auto-

**Figure 2: Overview of Case Sites**

Network Type	Intra-organizational Network			Inter-organizational Network		
Purpose	Best Practice	Description of Key Challenges				
Company	MLP AG	UBS Global Asset Management (UBS GAM)	“Universal Bank” (UB)	“HomeLoan Bank” (HLB)	“Investment Bank” (IB)	Lucerne Cantonal Bank (LCB)
<b>Description</b>	Independent financial services provider offering a full range of third-party financial services, complemented by own services	Business unit of UBS, a Swiss universal bank	Swiss universal bank with legally independent business units (banking & insurance)	German home loan bank in a cooperative financial alliance with other product providers and banks (as distributors)	German fund managing company in a cooperative financial alliance with other product providers and banks (as distributors)	Independent Swiss cantonal bank cooperating with other cantonal banks and product providers
<b>Value chain position</b>	Relationship manager (and product provider)	Product provider and relationship manager	Product provider and relationship manager	Product provider	Product provider	Relationship manager (and product provider)
<b>Business segments</b>	Private banking, asset management, insurance	Asset management	Corporate/ retail/ private banking, insurance	Home loan funding	Investment funds, asset management	Retail and private banking, asset management
<b>Total assets under mgmt.</b>	€ 3.5 billion	€ 340 billion	€ 640 billion	€ 30 billion	€ 100 billion	€ 11 billion
<b>Employees</b>	ca. 1,800 (and 2,700 consultants)	ca. 3,000	ca. 75,000	ca. 3,000	ca. 2,000	ca. 1,000
<b>Customers</b>	ca. 560,000 consumers	ca. 1,000 corporate clients	ca. 3 million consumers and corporate clients	ca. 6 million consumers	ca. 4 million consumers and corporate clients	ca. 590,000 consumers and corporate clients
<b>Analyzed relationships</b>	Cooperation between relationship managers and product providers	Cooperation with other UBS business units focusing on institutional investors	Cooperation between banking & insurance business units	Cooperation with other product providers and banks within the alliance	Cooperation with other product providers and banks within the alliance	Cooperation with other cantonal banks and product providers

For the consultants to see a complete picture of each customer, they had to integrate the data from the 30 systems manually. This effort made the analysis extremely time-consuming and, in some cases, impossible.

## KEY CRM CHALLENGES IN FINANCIAL SERVICES NETWORKS

From April 2003 to April 2004, we analyzed six Swiss and German financial services companies in financial

mation, marketing automation, and call center/customer interaction center management. *Analytical* CRM systems manage and evaluate knowledge about customers for a better understanding of each customer and his or her behavior. Data warehousing and data mining solutions are typical systems in this area. *Collaborative* CRM systems manage and synchronize customer interaction points and communication channels (e.g. telephone, e-mail, and Web).

services networks (Figure 2). Three are intra-organizational, three are inter-organizational. We studied their annual reports, organizational charts, and system charts and interviewed key individuals in each, asking them:

1. How do you cooperate with the other companies in your financial services network?
2. How do you cooperate in product development and in the CRM processes of marketing, sales and service?
3. What are the key challenges in CRM cooperation? How are you addressing them?
4. How is CRM cooperation supported by information systems?

Two of the companies are product providers, two are primarily relationship managers, and two are large universal banks that handle both roles, product provider and relationship manager (see Figure 1). By ana-

lyzing them by their roles, we gained a more complete picture of the challenges each role has encountered.

Two of the case sites (UBS Global Asset Management and “Universal Bank”<sup>16</sup>) are large, well established companies that pursue intra-organizational CRM initiatives in the form of a holding company. Three of the other four cases (“HomeLoan Bank,” “Investment Bank,” and Lucerne Cantonal Bank) have implemented CRM as part of an inter-organizational financial network of essentially independent companies. We used these five cases to analyze and understand the most important challenges in implementing CRM in a networked organization. The sixth case (MLP AG) is discussed in more detail later. Founded some thirty years ago as a holding company, and therefore an intra-organizational network, MLP AG is, in our opinion, an example of ‘best practice.’

Our analyses revealed that the initial conditions for CRM in an intra-organizational setting (universal banks) differed from the conditions in an inter-organizational setting (financial services alliances) in two major ways.

1. The universal banks exhibited a higher degree of central management and standardization, whereas the alliances were managed more decentrally.
2. Data privacy played a far greater role in the alliances than in the universal banks.

The privacy protection laws in Europe are much stricter than in the U.S., so networks have difficulty exchanging customer data. Customer data is essentially bound to the company that collects it and can be used only for the stated purposes. Customers own their data. Thus, companies either have to include a very broad declaration of data sharing in their ‘general terms and conditions’ when signing their first contract with the customer or obtain explicit permission to use data for each new purpose (including providing it to another company in a network). However, special privacy laws prevent banks from sharing any customer data without a court order – even with customer permission. Therefore, partners can share data with banks, but banks cannot share data with partners.

As a result, it is easier for intra-organizational networks to share data because it does not cross legal borders and the purpose is often subject to broad interpretation within an organization (although occasionally challenged by customer advocacy groups). On the other hand, the only way inter-organizational networks can usually share data is by making explicit agreements with customers or by making the data

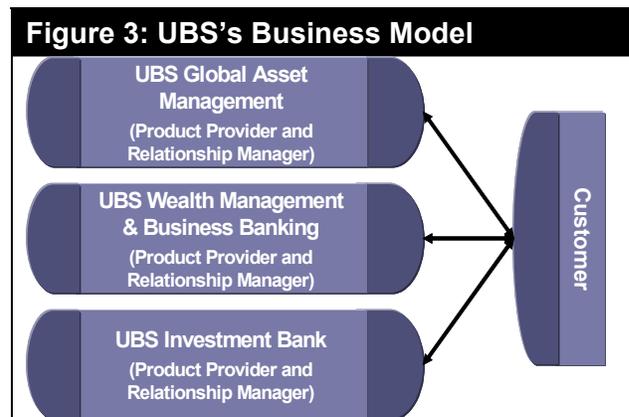
anonymous, which admittedly delivers inferior analysis results (but is better than nothing).

To delve in more depth into the CRM challenges of financial services networks, we first discuss one intra-organizational network (UBS Global Asset Management), then two companies in an inter-organizational network (HomeLoanBank and InvestmentBank), followed by the key challenges faced by both types of networks, and finally, the best practice case (MLP AG).

### **CRM Challenges in an Intra-organizational Network: UBS Global Asset Management**

UBS Global Asset Management is a division of UBS Group, one of the world’s largest financial services enterprises. UBS Group is a universal bank that offers customers a complete range of financial services in three strategic business divisions: UBS Global Asset Management (GAM, responsible for asset management), UBS Wealth Management & Business Banking (WM&BB, responsible for retail banking, private banking, and business banking), and UBS Investment Bank (IB, responsible for investment banking).

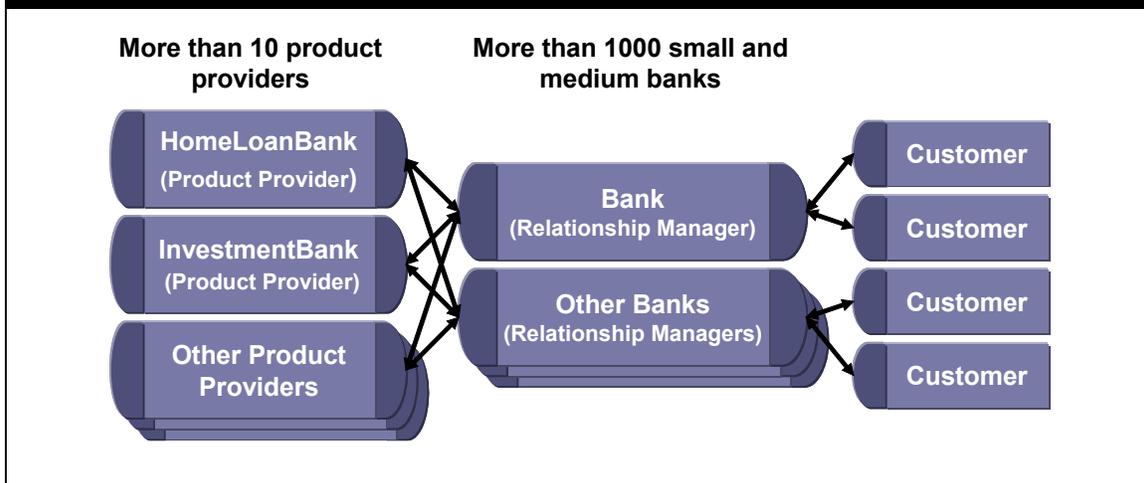
As Figure 3 shows, all three business divisions act as both product provider and relationship manager. This means that each division develops and manages products – the task of the product provider – and advises customers and sells products – the task of the relationship manager. This dual role is typical for universal bank divisions, most of which are product-oriented.



### **Collaboration Challenges: Time to Coordinate, and More**

Because all three divisions consult and deal with corporate clients, the divisions have to cope with overlapping businesses. For example, a company’s pension fund may be a GAM customer, while at the same time, the company’s treasury department is a WM&BB customer. The three divisions also collaborate to provide services, especially in marketing, sales, and after-sales

<sup>16</sup> Some of the company names had to be changed due to non-disclosure agreements. We put these names in double quotes.

**Figure 4: HomeLoanBank's and InvestmentBank's Business Model**

service, but also in service innovation and service production. The goal of cooperation is to use all the divisions' current resources to serve customers in the most effective and efficient ways. Collaboration thus includes using all three divisions' knowledge of current and prospective customers, to tap their full financial potential.

The UBS Corporate Center coordinates the three divisions. One challenge the center faces is coordinating the overlapping service-production processes. For example, GAM and BB offer similar services (asset allocation, packaging, etc.). Clear competencies and responsibilities are necessary to avoid duplicate work, to use resources efficiently, and to answer the question, "Who is responsible for this customer's permanent care?"

In marketing, the three collaborate in market research by undertaking it together and by jointly defining their strategic direction for market development. GAM and BB also collaborate in market segmentation and carry out sales processes of many services together.

The sales process can be divided into four phases: initiation, consulting, offer, and closing. In the initiation phase, cooperation among the three divisions is especially important in determining the available knowledge about a current or prospective customer. In contrast, the division offering a specific product can complete its own consulting, offer, and closing sales phases without needing to depend on cooperation with the other divisions.

The divisions collaborate in initiation by first compiling a list of sales opportunities (leads) by region, customer segment, and attractiveness of the specific services to each. The divisions collect further information on these customers (e.g., financial statements, primary bank contact, and contacts to competitors), and then prioritize the leads. Existing business relationships

with high-priority customers are then identified. All this knowledge, which has been generated through multiple customer contacts (e.g. call reports, e-mails, interviews with key account managers and customer consultants), is collected on each relationship. In the initiation phase, knowledge on customers is also exchanged via telephone or at informal and impromptu meetings among the divisions' sales staffs.

The main current challenge to collaboration is the great deal of time required. Also, the sales staff need to know one another to effectively exchange customer knowledge across the divisions. Business opportunities for up-selling and cross-selling may therefore not be recognized because there is no transparency on 'who knows what on a customer' across the three divisions.

A second challenge is unclear responsibilities. For instance, who is responsible for generating the list of prioritized leads or processing this 'lead management' list?

A third challenge is coordinating customer contacts. Each division handles its own complaint management and reporting (on the financial performance of customer services) in its after-sales service group. As a result, customers can receive multiple performance reports and may have to deal with a different contact person for each service they receive.

### ***Information Systems Challenge: Fragmented Systems Landscape***

We observed that an information systems infrastructure can contribute to some of the above-mentioned collaboration challenges when the infrastructure does not support certain processes. For example, the transaction systems in each division record customer transactions and can therefore provide information on a

customer's business with UBS. The challenge is that these systems are not integrated.

Additionally, the divisions operate seven different CRM systems to communicate with their customers. These systems store customer information collected by customer consultants in face-to-face meetings and telephone conversations – such information as financial goals, organizational structure of corporate clients, and sales opportunities. Corporate clients, for example, prefer personal contact and consulting rather than electronic information exchange. Therefore, e-mail and the Internet play only a secondary role in dealings with these 'high-value customers.'

So neither the divisions' transaction systems nor their seven CRM systems are integrated with one another. The sheer multitude of CRM, transaction, and customer data-collection systems form a huge barrier to compiling an integrated picture of a customer. In turn, this barrier sometimes prevents customer consultants from gathering all the relevant business knowledge – especially for the sales and service processes – in the needed time frame.

Coordinated CRM faces slightly different challenges in a network of loosely connected financial services firms.

### **CRM Challenges in an Inter-organizational Network: HomeLoanBank and InvestmentBank**

HomeLoanBank and InvestmentBank are product providers in an inter-organizational financial services network. As shown in Figure 4, this network consists of several product providers and more than 1000 small and medium-sized independent banks acting as the relationship managers for the network. These banks jointly own two large central banks, which, in turn, hold a majority of shares in two data processing centers and most of the product providers. The data processing centers, and several small IT services providers, act as the transaction processors (not shown in Figure 4).

Cooperation among HomeLoanBank, InvestmentBank, the other product providers, and the relationship managers in this alliance focuses on mutual needs and composite products. No strategic guidelines provide goals for the network as a whole. Rather, each company has its own financial and operational goals. This structure differs greatly from the intra-organizational networks, like UBS, where the corporate center largely controls cooperation and sets the strategic guidelines.

This inter-organizational network focuses on cooperation in sales, with the relationship managers distribut-

ing the products of the product providers. However, the participating companies also have joint initiatives in marketing, service, and product development. HomeLoanBank and InvestmentBank, for instance, offer a composite product of a home loan and an investment plan. This product lets customers profit from the government's pension and retirement program.

### **Collaboration Challenges: Strategy and Data Privacy.**

The two main collaboration challenges center around the lack of a joint strategy and the limitations imposed by data privacy laws.

In this network, the companies are not centrally controlled. Thus, coordination occurs decentrally without long-term strategic goals for the network as a whole. In addition, some tasks are duplicated because competencies are distributed among the participating companies, leading to overlaps in market research, development of a customer typology, and lead management.

Cooperation is endemic to this network and all inter-organizational networks, because each member must cooperate with others to acquire the competencies it lacks to offer a broad range of services to customers. Thus, the relationship managers and product providers naturally collaborate in product development, marketing, sales, and service.

In marketing, they jointly create commercials, score customers, and perform direct marketing. For example, HomeLoanBank cooperates with relationship managers in customer scoring. In sales, the relationship managers and product providers cooperate by mutually referring customers to one another: The relationship managers' sales consultants sell the product providers' products to their customers; HomeLoanBank's field sales force sells both the relationship managers' products (bank products) as well as other providers' products.

On the other hand, cooperation in service processes is less intensive. Generally, each product provider is responsible for after-sales service of its own products. Therefore, customers using services from several providers must deal with several contact persons. However, performance monitoring is an exception: Customers can obtain a single performance report on all their products from their specific relationship manager (bank). To achieve this consolidation, the product providers transfer product performance data to the relationship managers.

Due to the overlaps among the companies, this inter-organizational network has established a few simple rules to resolve conflicts. The most important rule is that the relationship managers have 'primary access' to the customers, which means the relationship man-

agers can decide whether they want to approach a customer directly or pass this right to a product provider, such as HomeLoanBank's field sales force. Detailed commission policies also control the referral of customers among the network members.

Data privacy laws are the second major challenge in an inter-organizational network. To comply with these stiff European laws, this network uses a trusted third party to consolidate customer data from HomeLoanBank and the relationship managers, using names and addresses to match customer records. The third party then makes this consolidated customer data anonymous and sends it to HomeLoanBank's data mining competency center, which develops a prognosis model to identify likely customers of specific HomeLoanBank products. The relationship managers and sales staff use this model for direct marketing and consulting.

In marketing, sales, and service, the data privacy laws also present cooperation challenges by allowing only the relationship managers to have access to all the customer information in the financial services network. This restriction means that product providers, like HomeLoanBank, only have customer information related to their own products, which is an incomplete picture of all their customers.

### ***Information Systems Challenge: Fragmented Systems Landscape.***

Product providers share their customer information with the relationship managers in two ways: through the transaction processors and via their own operational CRM system.

First, they deliver the 50 most important variables (e.g., products held, investments, products' durations) to the transaction processors. These transaction processors integrate the customer information from the different product providers and relationship managers to provide integrated, basic customer information to the customer consultant responsible for the specific customer. Because the member companies do not use a single, unique customer identification number, this integration results in partial matches of customer names and addresses. When a match is inaccurate, the integrated information is incorrect.

Each product provider also shares its customer information with relationship managers by giving them access to its operational CRM system, thereby providing the customer consultants with customer information related to specific products, including customer transactions and correspondence with the product provider. Because each CRM system has its own data pool and user interface, customer consultants have to deal with up to 30 different CRM systems in this net-

work. Transferring data between systems is mostly impossible. Therefore, the customer consultants cannot gather all the relevant business knowledge – especially for sales and service – on a customer within an adequate period of time.

### ***Summary of CRM Challenges in a Financial Service Network***

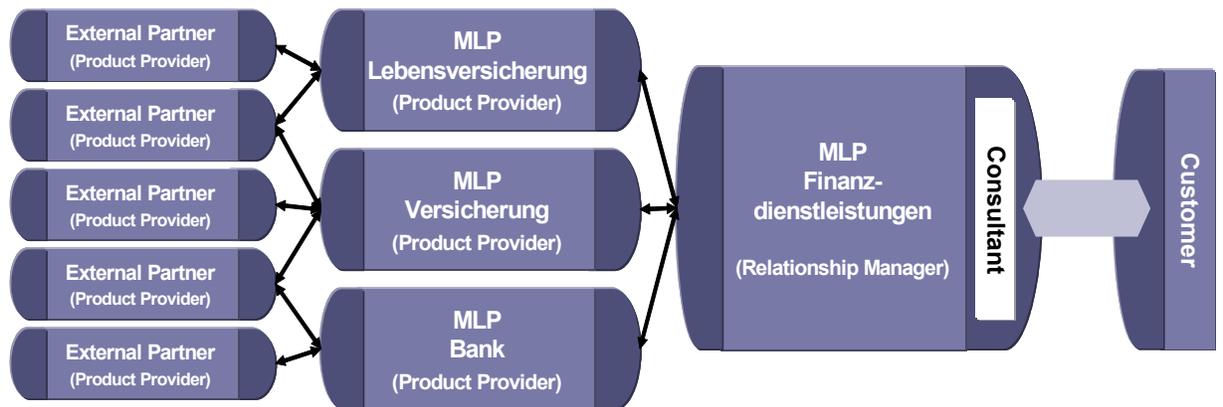
Six key challenges to creating effective and efficient CRM in a financial services network emerged from our analysis of the five companies:

1. *Joint Strategy*: To leverage a network's resources, the members need a joint strategy. Intra-organizational networks address this challenge automatically: their central office creates the strategy. Intra-organizational networks, on the other hand, do not. The members need to address this challenge directly.
2. *Distribution of Core Competencies*: Overlapping competencies can lead to the same tasks being unnecessarily performed in the different business divisions or cooperating companies. This situation can lead to redundant systems, and other problems. Although sheer size may be a barrier to increased efficiency in some large companies, each division or company should focus on a few core competencies so that the network as a whole can exploit the advantages of disintegration (trend 2, Figure 1).
3. *Process Integration in Marketing, Sales, and Service*: It is not always clear who is responsible for which process. Especially in service management, customers have to deal with different contact persons for each product they own. To integrate customer service (trend 1, Figure 1) and to promote the concept of relationship manager, networks must create a single point-of-contact for customers.
4. *Customer Knowledge Exchange*: Often, customer consultants need to know each other before they will exchange information about customers with each other. But personal contact is time-consuming. Yet without the combined knowledge, business opportunities can be missed. To reduce task redundancy and to support collaborative CRM processes, network members need to share customer knowledge while simultaneously complying with data privacy laws.
5. *Data Privacy*: Data privacy laws sometimes hinder organizations from sharing customer data with each other. This challenge is greater in inter- than intra-organizational networks.
6. *Systems Integration*: The networks we analyzed had non-integrated transaction and CRM systems.

**Figure 5: Key Challenges of Joint CRM in Financial Services Networks**

Intra-organizational networks	Inter-organizational networks
	Joint Strategy
Distribution of Core Competencies	
Process Integration	
Customer Knowledge Exchange	
Data Privacy	
Systems Integration	

**Figure 6: MLP's Business Model<sup>17</sup>**



The great number of autonomous systems prevents companies from having an integrated view of a customer. Customer data (from transaction systems and data warehouses) needs to be integrated with operational CRM systems to create such an integrated view of customers.

Due to companies' independence and legal sovereignty, the two most worrisome challenges for inter-organizational networks are creating a joint strategy and being able to share data within the bounds of the strict data privacy laws. Figure 5 graphically highlights these differences between the two types of networks. The shaded areas represent the challenges.

With the key challenges uncovered, we now describe how one best practice network addressed them and designed its CRM processes and systems. MLP uses state-of-the-art technology and application architecture to address the challenges, and, in contrast to the other case studies, has integrated its processes and systems.

## LEARNING FROM THE BEST: THE CASE OF MLP

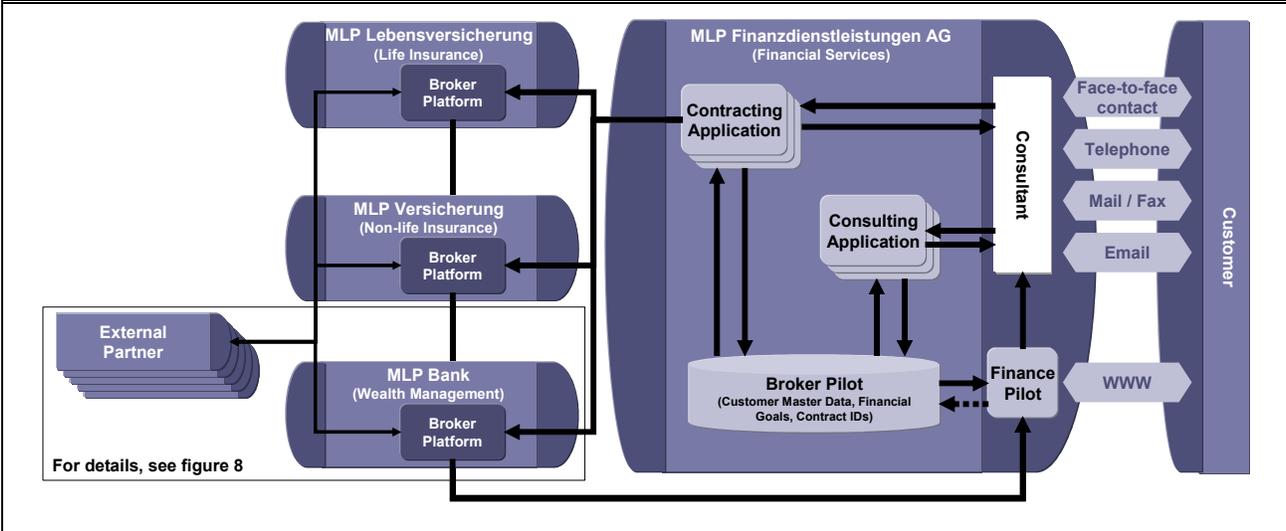
MLP is an independent financial services provider that focuses on its relationship manager role. In contrast to large universal banks, which focus on selling their own products, MLP focuses on selling the products of third-party providers. MLP complements these products with its own products only when no suitable product is available on the market, to offer a tailor-made solution to clients. Since its founding in 1971, it has targeted its advisory services to university graduates and consumers with sophisticated requirements in three areas: pension provision, asset management, and risk management. With its approximately 2,800 financial consultants and an extensive service offering, MLP is able to guide its 560,000 customers in six European countries through every aspect of personal financial management.<sup>18</sup>

### Focusing on Core Competencies

The MLP Group is comprised of a holding company and five subsidiary companies. As a publicly listed

<sup>17</sup> Some MLP, *The MLP group*, www.mlp-ag.com, 21.07.2004.

<sup>18</sup> Some MLP, *The MLP group*, www.mlp-ag.com, 21.07.2004.

**Figure 7: MLP Application Architecture<sup>20</sup>**

holding company, *MLP AG* defines the goals and coordinates the business strategies within the group. Figure 6 shows MLP's business model, with three major product provider divisions and one relationship manager division.<sup>19</sup>

The first listed provider, *MLP Lebensversicherung AG*, produces endowment policies, life insurance policies, occupational disability policies, and annuities. It also coordinates MLP operations in this field, acting as a 'general contractor' to the life insurance companies involved. The second provider is *MLP Versicherung AG*, the service center for non-life insurance. *MLP Bank AG*, the third provider, performs the role of 'general contractor' for MLP Group's investment and financing products. It coordinates the combination of product modules from different banks and investment companies and acts as a custodian.

*MLP Finanzdienstleistungen AG*, the relationship manager division, is the core company in MLP Group. It is responsible for customer consulting and development of tailored solutions using the best products and components (modules) in the financial market. Not shown in Figure 6 is *MLP Login GmbH*, the IT service provider for the MLP group. It is responsible for technical development and operation of the Internet platform and customer consulting systems.

### **Collaboration Solution: Integrated Collaborative CRM Processes**

<sup>19</sup> Stockmann, C., "Private Financial Engineering: Voraussetzung integrierter Finanzdienstleistungen [Private Financial Engineering: Prerequisite of Integrated Financial Services]," *Banking and Information Technology*, No. 4, 2003, pp. 37-43.

<sup>20</sup> Stockmann, C., "Private Financial Engineering: Voraussetzung integrierter Finanzdienstleistungen [Private Financial Engineering: Prerequisite of Integrated Financial Services]," *Banking and Information Technology*, No. 4, 2003, pp. 37-43.

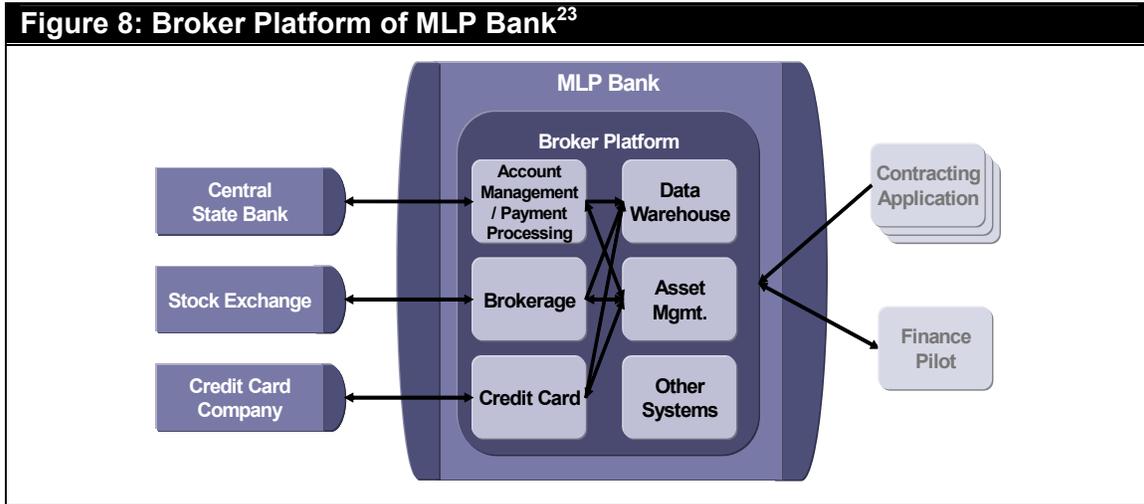
In the product development process, the MLP product providers develop products that complement external providers' products. *MLP Finanzdienstleistungen AG*, the relationship manager, can then bundle the resulting banking, life insurance, and non-life insurance products with external partners' products to provide integrated solutions that can be tailored to a customer's needs.

MLP's offer management process is centralized in *MLP Finanzdienstleistungen AG*, with MLP customer consultants advising customers. Depending on a customer's needs, the consultant can offer only partners' products, only MLP products, or a combination of both. The customer consultant is the customer's single point-of-contact, handling complaint management and service management for the customer. Each consultant is also responsible for acquiring additional customers in the lead management process. *MLP Finanzdienstleistungen AG*'s central campaign management activities support its customer consultants in this role.

After a contract has been signed by a customer, though, contract management is decentralized; it is handled by each respective provider.

### **Systems Solution: Modular, Yet Highly Integrated, Application Landscape**

The MLP business model is made possible by a modular, but highly integrated, application landscape. IT's strategic objective is to enable the MLP product providers to distribute the management and processing of products and contracts among one another, while, at the same time, allowing the customer consultants (and the customers themselves) to obtain an integrated view of customer information (needs, products, activi-



ties).<sup>21,22</sup> Figure 7 illustrates MLP's application architecture.

*Consulting and contracting applications.* The consulting process begins with 'fact finding.' Using different consulting applications, a customer consultant enters a customer's master data and works with the customer to discover the financial goals. Typical consulting applications are modules for liquidity planning, asset management, risk management, and loan management. All customer data gathered in the consulting process are transferred into a central customer database (Broker Pilot) so that customer consultants can always draw upon the customer data already in the customer database.

At the end of the fact-finding consulting process, about 80% of a customer's data is available to fill out the contract. The customer consultant enters any missing data into a contracting application, while the contracting application obtains all the other data from the Broker Pilot database. For some commodity products (e.g. car insurance), customers can use the specific contracting application on-line, to fill out and submit a contract themselves, via the Internet.

After all the needed customer data has been entered, the contracting application sends it to the Broker Platform of an MLP product provider that offers the specific product.

*Broker platforms.* The broker platforms are used to create and manage contracts. In contrast to normal brokers, who have no influence on the data processing after the initial transfer of a contract to an external product provider, the MLP product providers process accounts, deposits, and contracts – even for the products of third-party providers – on their own broker platform. They therefore store all the customer and contract data on their own system. This capability is a prerequisite for MLP achieving an integrated view of customers to consult them comprehensively. The broker platforms have interfaces to the external product providers' transaction systems. Figure 8 shows the broker platform of one MLP product provider, MLP Bank.

*Broker Pilot.* The Broker Pilot is the central database for customers' master data. Master data comprises names, addresses, personal information, and financial goals of customers. Contract data, on the other hand, comprises data on contracts (product, investment, duration, etc.). Contract data is stored in the respective broker platforms. Each contract is identified by a unique contract identification number (ID). The IDs of contracts that a customer holds are also stored in the Broker Pilot, to make the connection to his contract data.

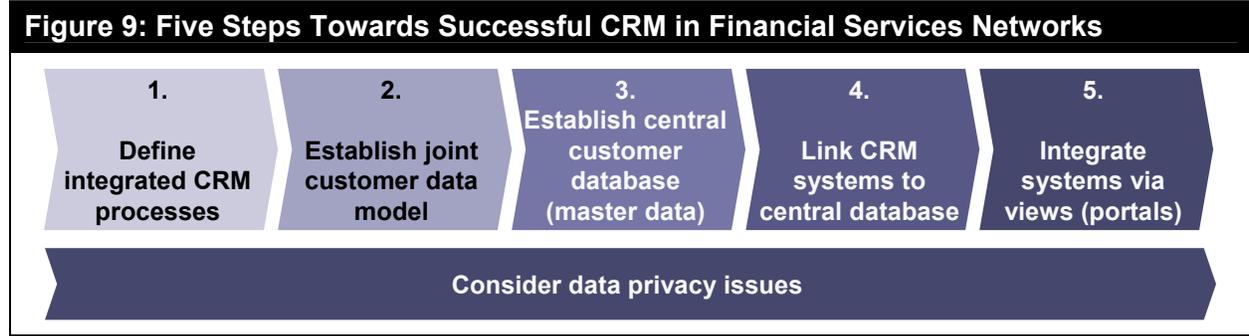
The Broker Pilot serves as a data source for consulting and contracting applications, as well as for the Finance Pilot. It is also the data source for analytical CRM systems that analyze unusual customer activities and customer potential for new consulting outlets.

*Finance Pilot.* The Finance Pilot is a Web-based portal system that integrates all customer data from different systems (Broker Pilot and broker platforms) to achieve an integrated view of a customer. Both customer consultants and customers themselves can use Finance Pilot. It also offers functions for electronic banking and brokerage. Because MLP has all its cus-

<sup>21</sup> Mehlaui, J. I., "State-of-the-Art Report: IT-Architekturen für Finanzdienstleister [IT Architectures for Financial Services Providers]," *Banking and Information Technology*, Vol. 3, No. 2, 2001, pp. 41-58.

<sup>22</sup> Stockmann, C., "Die IT-Strukturen bei MLP [The IT Structures at MLP]," in Moormann, J. and Fischer, T. (Eds.), *Handbuch Informationstechnologie in Banken [Handbook Information Technology in Banks]*, Gabler, 2004.

<sup>23</sup> Stockmann, C., "Private Financial Engineering: Voraussetzung integrierter Finanzdienstleistungen [Private Financial Engineering: Prerequisite of Integrated Financial Services]," *Banking and Information Technology*, No. 4, 2003, pp. 37-43.



customer data and contract data available to its own systems, and can integrate this information by using the unique Customer ID in all systems, it was possible for the company to develop Finance Pilot.

With this state-of-the-art architecture, MLP can serve as a 'best practice' example for financial services networks that face the challenges of taking a joint CRM approach.

## FIVE STEPS TOWARD SUCCESSFUL JOINT CRM IN BUSINESS NETWORKS

The five previous cases (not including MLP) show that the key challenges in creating a joint CRM approach center around collaboration and information systems challenges. At the CRM system level, no substantial differences exist between what an effective intra- or inter-organizational CRM needs. The most important difference is that data privacy challenges are more important and problematic in inter-organizational CRM initiatives.

Insights from case studies and literature in other industries reveal that the challenges discussed in this article are not limited to financial services but are relevant to all conglomerates that offer a wide range of products and strive to exchange and share customer information to optimize the overall relationship with their customers. The challenges apply to serving consumers and corporate clients alike.

Integrating systems with allies on the supply-side has been widely covered for years, but not until recently have companies started to assess the value of systems integration on the demand-side.

MLP shows how process integration and modular-yet-integrated customer information systems can address these challenges. From this case, we distilled five steps for managing customer relationships in business networks. We are well aware that these steps may require organizations to make major changes in the way they operate. Ingrained organizational practices, organization size, and other factors can make some steps

difficult to implement, as do data privacy laws. However, we believe that networked organizations should work toward these goals. The case of MLP proves that it can be done.

The five steps build on each other. The first focuses on integrating business processes; the others focus on systems.

### **Step 1: Define Integrated CRM Processes**

This step addresses the need to integrate processes first. Before systems can be integrated, companies need to clarify how their joint CRM processes in marketing, sales, and service (e.g., the customer counseling process) should be handled. Process responsibilities should be clear and divided among the companies in the network. If possible, give each customer a clearly specified contact person for every process, rather than a different contact for each product. To achieve this single point-of-contact, networked companies must integrate the CRM processes that involve multiple products, e.g., customer counseling or performance reporting. Once integrated CRM processes are defined, the companies can then define the necessary information systems infrastructure to support these processes.

### **Step 2: Establish a Joint Customer Data Model**

This step mainly addresses the challenge of exchanging customer information. To exchange and integrate customer information among networked companies, these companies need a means to merge the different customer data. While many financial services networks work with a matching algorithm based on names and addresses, this approach should only be temporary because it is not reliable. A joint customer data model and a unique customer ID for each customer, usable in all applications, should be the goal. Using this data model, the customer master data, contract data, and transaction-related data stored in different systems can be integrated more easily. Of course,

implementing a single unique customer ID for use in different companies is a major undertaking.

### **Step 3: Establish a Central Customer Database for Customer Master Data**

This step also addresses the customer-knowledge-exchange challenge. As MLP and its Broker Pilot database illustrate, a central basic customer master database should have links to contracts, transactions, and other customer data. With this architecture, the relationship manager can maintain this database, because this network members needs the data most, to interact with customers. But this member must also have acquired the necessary legal rights in terms of the data privacy laws to store this data. A transaction processor member, which should be provided with the appropriate legal rights, could also maintain the database as an intermediary between several product providers and relationship managers. Special attention must be paid to distributing appropriate access rights so that every employee only has access to relevant customer data, and no other.

### **Step 4: Link Distributed CRM and Transaction Systems to the Central Customer Database**

This step addresses the need for systems integration. To ensure flexibility and short time-to-market delivery of new products, CRM systems and systems, for example, should be modular and dispersed, not monolithic. Nevertheless, data and processes should be integrated. These systems should work with a 'federated data model,' meaning the systems should store customer master data in a single jointly used database and store non-master data in databases associated with each relevant system. To ensure data consistency and integration among data stored by the network members, all customer-oriented systems need to be linked to the central customer database.

### **Step 5: Integrate Customer-oriented Systems Via Views (Portals)**

This step also addresses the challenge of integrating systems, and, as the final step, depends on the previous steps. To ensure collaborative CRM processes (Step 1), it is not sufficient to only integrate the data. The functions in the systems need to be integrated as well, so that, for example, customer consultants have all the relevant functions and data to complete a collaborative process. Functional integration can be achieved either with monolithic systems (combined CRM and ERP systems, comprising all the relevant functions) or using portal technology. Portals, such as the MLP Finance Pilot, integrate different operational systems and data sources, while, at the same time,

retaining the flexibility of modular and distributed systems. And, both customers and customer consultants can use the portal.

While these five steps are sequential, data privacy needs to be addressed in each one of them because violations of the regulatory restrictions may lead to customer dissatisfaction and even legal consequences, not to mention risk to a firm's reputation. Therefore, depending on the local market, the first step in pursuing CRM in a network of companies (especially an inter-organizational network) should be careful evaluation of the impact of data privacy laws. Re-evaluation should then take place at each subsequent step.

Figure 9 summarizes the five steps for successful customer relationship management in financial services networks.

We are aware that legacy information systems infrastructures and cost pressures increase the difficulty of migrating to such an architecture. Clearly, a stepwise 'think big – start small' approach is appropriate in such cases. Nevertheless, it is necessary to address the mentioned challenges to create a truly networked operation and, more importantly, to meet increasingly demanding future customers.

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