CUSTOMER RELATIONSHIP MANAGEMENT AS A MODEL FOR GROWTH IN BANKS

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TO WHOM IT MAY CONCERN

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Chin Govender

January 2004

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

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Table of Contents

Chapter Two: Theoretical Framework of Strategy

Chapter Three: State of the Industry

Tables and Figures

EXECUTIVE SUMMARY

The banking industry has been characterised by changes and a turbulent operating environment. Increased competition, the entry of non traditional players in the market, and a more aware and demanding client base has made it imperative for banks to understand their customers. The need to attract and retain good customers is critical to the top and bottom line, as is the need to effectively sell and cross-sell to the customer. The recognition that it is more costly to gain new customers makes it imperative that maximum value is extracted from the existing customer base.

The important trends that defined business in the nineties, such as globalisation, deregulation, and extraordinary technological advancement, made customer facing initiatives both a way for corporations to show that they cared for their customers, as well as a strategic and operating imperative. Customer relationship management (CRM) was viewed as a critical strategic process in order for banks to protect their customer base and to improve stakeholder value. CRM is as much about improving profitability by effectively tapping into the client base, as it is about managing information in a way that ensures that the customer enjoys a consistent experience with the organisation regardless of which channel he/she transacts through. The process is designed to make customers feel that their bank understands and appreciates them.

The CRM process must be supported by a well thought out strategy and must contain clear goals. Technology is an essential component underpinning CRM and the supporting processes and procedures. Whilst this is an inescapable fact, CRM is not about plugging in some expensive technology that will solve the organisations problems. On the contrary, it is an initiative that requires commitment and a mindset in order for it to succeed, and an over-arching strategic customer relationship management ethos.

This paper will critically examine the CRM strategy as a means of effectively servicing bank customers and leveraging the database to prevent the loss of customers to competitors and increase the value of stakeholders through effective delivery of products and services, and ensuring a consistently good customer experience at all points of contact. Whilst the focus will be on the generic principles of the CRM process as it relates to one major bank, the essentials are true for any other bank or financial institution for that matter. Issues such as the different channels that clients could use to interact with their bank, and how the bank can optimise these interactions will be aired. In addition the rationale for distinguishing between the various categories or segments of customers and how this influences CRM will be discussed. For years organisations and banks in particular have plodded on; treating each customer either the same or indifferently. Interactions were haphazard and often unplanned. The banks relationship with its customer lurched from inter-action to inter-action, often without any continuity. Different areas of the bank viewed the customer differently; there was no coherent all encompassing view of the customer. This often led to frustrations for the customer and equally as often, loss of business. The need for a seamless and profitable series of interaction with the customer becomes more and more obvious as the industry becomes more competitive.

The process leading up to the implementation of CRM is just as critical as the implementation of the technology itself. For Standard Bank this process started in 1999 after the failed take over bid by Nedcor. The organisation set out to reinvent itself and embarked on a strategy of growth and enhancing stakeholder (shareholders, customers and its people) value. The growth came from entry into new markets such as Africa and Europe, as well as concentrated growth in the domestic market. The company focussed on its existing customer base and sought to increase its penetration by improved cross-sell.

The strategy involved an assessment of the internal and external operating environment, and its resources and capabilities. New technology was acquired and new skills were developed to ensure success of the strategy. In this paper, we shall analyse this process and the appropriateness of the strategic customer relationship management as a model for growth.

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

The banking industry in South Africa has been through some turbulent and exciting times, characterised by failure of banks, a flurry of bank mergers, and (failed) takeovers. Through that wonderful phenomenon 'globalisation' numerous overseas players have entered the local market and local banks have extended their activities into foreign markets. The line between banks and assurance companies has become blurred and the advent of 'banc assurance' has quietly made an appearance. Standard Bank owns Liberty Life and Liberty holds significant interests in Standard Bank. Permanent Bank has become Old Mutual Bank and Old Mutual, a traditional life assurer, now offers banking services. Likewise you can purchase life assurance in any of the major banks banking halls. Banks have scaled down on their branch networks and the friendly face of the bank teller behind a cash counter has been replaced by the steely countenance of the friendly automated cash machine. The weekly visit to the bank to get a statement has been replaced by clicking onto the internet banking services offered by most major banks. In all of this, there is one constant. That's the customer. The customer has been subjected to all these changes and must surely wonder how all of this can be good for him (any reference to the male gender applies equally to the female and vice-versa). When Santambank froze customers deposits in the run up to its failure, what could the customer have been thinking about the banking industry. When the same almost happened with BOE Bank, there was a flight of money to what is often referred to as "under the mattress" banking. The meaning of the customer being the most important part of our business becomes more and more obscure when, in their efforts to promote electronic banking, banks tell their customers that they cannot withdraw funds over the counter unless they pay a hefty fee for the 'privilege'.

It is useful to broadly consider the nature of the customer base that keeps the banking industry in business. The market is split up into the retail and wholesale sectors. The retail sector is made up of a dichotomy of a fairly small affluent (personal) client base, a large unsophisticated, low income (personal) base, generally known as the mass market, and a fair size base of small and medium sized business (enterprise) customers. Add to this a sophisticated corporate market (consisting mainly of the large listed companies) which make up the 'wholesale' market, and it becomes evident how widely disparate the South African market really is.

The industry is governed by a well structured, sound banking regulatory system, which is comparable to that of many western economies. The Reserve Bank, whose independence is enshrined in law, keeps a watchful eye on the industry, and the Banking Ombudsman is there to ensure that customers get a fair deal. Notwithstanding the few bank failures recently (Santambank/ Regal Bank) confidence in the system is evident, and the industry is stable and a cornerstone of the country's economic system. The 'big four' banks, namely, Standard, First National, Nedbank, and ABSA, dominate the industry and the others such as Investec have their fair share of their various markets.

1.2 CHALLENGES IN THE INDUSTRY

Against the above background, the banking industry is facing challenges on numerous fronts:

- Customers are becoming more sophisticated and demanding.
- Increased competition from non-traditional sources such as chain stores (for instance Pick and Pay). Fourie, Falkena & Kok (1999:75) state that banks are losing their traditional monopolies of being deposit takers and lenders in view of the lower barriers to entry into the industry. Finance houses such as McCarthy Finance, Meridian Finance and Super Group have entered the market aggressively in the asset (particularly motor vehicles) financing arena.
- Increased foreign competition with the likes of Citibank (USA based) and Barclays (UK based) making an aggressive entry into the market. These institutions are not hamstrung by large infrastructures and heavy cost structures and they generally cherry pick the best customers of the traditional banks with ease.

- Changing regulatory framework that compels banks to provide banking services to the low-income market, and to become involved in high-risk projects such as low cost housing in the interests of good social responsibility.
- The need to embrace new technology and leverage off this to deliver a quality service at a profit.
- The advent of banc-assurance and how banks and assurance companies can team up to serve the market in a more profound and meaningful way.

These are broadly but some of the issues. The challenge for the banks going forward would be to mould and implement a strategy that allows these institutions to meet these challenges and to ensure that these strategies are flexible and adaptive to the changes in the industry. This study will examine some of the above issues and focus on how banks in general, and the big four banks in particular, are adapting to these challenges. Despite the hurdles posed by the above, banks have consistently presented strong financial results and as a sector on the Johannesburg Stock Exchange, it has been a good performer compared to others. Notwithstanding the frequently ventilated feelings that banks charge too much, offer poor service, and are not there to assist in time of need, these institutions have generally flourished and have by and large remained sound as an industry and have met the needs of the vast majority of its constituencies.

1.3 THE TRADITIONAL MODEL

The steadfast traditional way of doing business may mean that South African banks may not be able to compete effectively in the future. The old approach of 'one size fits all' cannot work any longer. Banks have to be responsive to what their customer wants and not be product driven. The customer centric approach means that banks must get to know their customers. To understand their financial and lifestyle needs and to design solutions (not products) to meet those needs. The days of banks opening their doors at eight thirty on a

Saturday morning and closing punctually at eleven regardless of the fact that there are clients still wanting to do their banking is traditional banking at its worst. Suburban shopping centre based outlets need to keep hours that suit the shopping habits of their customer. 'That's the way it's always been done' is not good enough any more. Good business savvy dictates that that if you want to get ahead of the competition and win the customer from the competitor, the business must do something different. Perm Bank, for instance, (before they became Old Mutual Bank) offered their customers fresh filtered coffee and a comfortable armchair and television viewing for clients that entered the banking hall. Their target market was the affluent personal customer and their service offering reflected the lifestyle of that client base.

The threat by overseas players and non-traditional financial institutions means that the customer base of banks is under constant threat and unless something is done to safeguard this base, the bank may lose market share. The consequences of this is declining profitability, drop in confidence in the institution, and loss of value.

It is evident therefore that retaining customers is a major pre-occupation for banks, and that in order to survive, they should have a strategy around this. Banks cannot rely on loyalty of their customer base and as far as the big banks are concerned, their dominant positions, in order to ensure that their customers stay with them. This then begs the question as to what banks need to do to safeguard their (profitable) customer base. The way forward is to ensure that the competition does not succeed in dislodging the customer; the marketing spin is that it costs ten times as much to gain a new customer than to retain an existing one spring to mind. And yet, it is fair comment that banks do not really know who their customers are. Customers are identified by their account numbers or their electronic card numbers. They cannot query a transaction in the bank branch but need to phone a call centre and listen to a computer generated voice tell them how important their call is and still wait to be attended to by some remote person five minutes later. This in any event is the experience of the majority of customers.

What then can banks do to keep their customer base and meet their business objectives? In a highly competitive industry, banks are constantly vying for each other's customers. Each of the large banks has 'hunters' on the lookout for an opportunity to entice the competitor's customer to their fold. After all, there are only a finite number of profitable customers in the market, and for a bank to grow its customer base, it needs to target, woo, and ultimately attract the customer. If this is common practise in the industry, and it is, then surely the objective must be for a bank to lock in and ensure that it retains the client; this is a non-negotiable business imperative. **How to achieve this objective is a matter for debate. In this paper we take the view that the essence of a good solution to the question lies in customer relationship management (CRM).**

1.4 CUSTOMER RELATIONSHIP MANAGEMENT

Against the background of unprecedented change in the banking industry, a key challenge is how to generate growth. One way is to capitalise on existing relationships, and extract more value from these relationships. CRM is one strategy that can be used to achieve this. Effective customer relationship management can yield enormous benefits for all stakeholders from customers to shareholders.

The term CRM embraces many facets; essentially it is about getting closer to the customer. "CRM is about attracting and retaining profitable customers and this is achieved by recognising the strategic placement of the customer at the centre of everything that an enterprise does" (Treasury Management International, December 2000). Parveen Bansal describes CRM as "a fundamental company-wide business strategy to deliver highly specialised service which exceeds customer expectations and creates and maximises customer life time value" (The Banker, March 2001). CRM is about identifying, attracting, and retaining the most valuable customers to sustain profitable growth. Perhaps a more encompassing definition of CRM is "the strategic process of shaping the interactions between a company and its customers with the goal being to maximize the lifetime value of customers for the company as well as to maximize satisfaction for the customer" (International Journal of Customer relationship Management, March/April 2002). This definition seems to have all the essentials in it-customer satisfaction, value, strategic process and company-customer contact.

The above definitions recognise CRM as being of strategic importance. To quote a very tired cliché, 'the customer is king'. Organisations voice it and believe in it. Whilst the call is noble in its intentions, it will be seen later in this paper that the concept is fundamentally unsound in that it does not take into account the characteristics of the different segments of customers. The extent to which the organisation differentiates between its customers and is committed to serving these segments is what differentiates the one organisation from the other. Banks are a good case in point. Every bank offers overdrafts, home loans, cheque accounts and the like. These products are standard fare; it is what the customer expects and the banks cannot compete on product alone. Even when an innovative new product is launched, it is only a matter of time before the competition has a similar of better offering in the marketplace. In his report in Standard Banks 2002 annual financial statements, the Managing Director of Retail Banking, Peter Wharton Hood, is quoted as saying " you can dream up the most innovative product imaginable and launch it...within days, your competitors can bounce back with a similar product. There is little opportunity to gain a significant edge. But service is different-that's how you retain and grow your business. Through loyal satisfied customers."

1.5 THE CUSTOMER –CENTRIC APPROACH

Consider this. A client goes to his bank and asks for a cheque account. The bank undertakes its usual checks, asks the usual questions and generally gathers a whole lot of information about the client. If satisfied with the information it has it sells the customer the account. *Thereafter what?*
The 'thereafter what' is precisely the space within which CRM functions. The product centric organisation having sold the customer the account does nothing further until the client calls in again to enquire about another product. The organisation that embraces CRM principles takes that customers information and places it at the centre of its database and endeavours to pro-

actively sell further products/ services that suit the customer; this is the customer centric approach. Here the customer is the focus of what the bank does, and the organisation is committed to serving the 'king'. This is the transition from a transaction-based model to a relationship-based model. A key part of CRM is to engage with customers as much as possible and to pro-actively recognise their needs. An important aspect is to manage customer interactions and experiences with the systems within the organisation.

CRM is there to benefit the customer, and in so doing also benefit the top and bottom lines of the organisation. Businesses are there to make money and banks are no different. The organisations level of understanding and effort towards influencing the customers' experiences in dealing with it are shaped by its CRM policy. Greenberg (2001: 33) suggest that one of the most important objectives of CRM is to create a "consistent customer relationship". He likens the relationship between the company and the customer as being an ongoing conversation without end, whereby the customer has a sense of being appreciated by the company regardless of whom he/she interacts with. In the banking environment, this would mean that the customer has a consistent experience regardless of whom or which division the customer is dealing with. Greenberg (2001:34) refers to this as a "collective consciousness". Still pursuing a definition that captures the essence of CRM, Greenberg refers to it as a "business strategy to select and manage customers to optimise long-term value" which requires a "customer centric business philosophy and culture to support effective marketing, sales, and service processes." (2001:36).

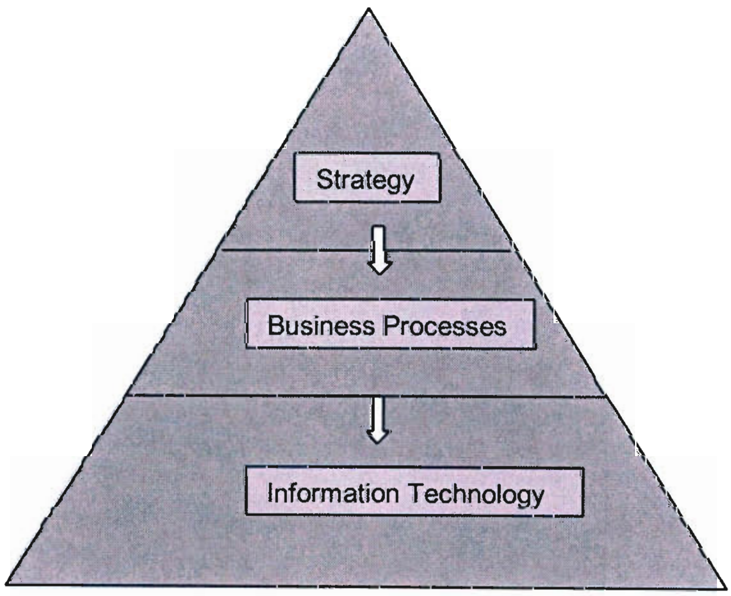
The business strategy must drive change and commitment in the organisation. Work processes must be created to support this strategy, and these in turn are enabled by technology, which is the backbone of the banking industry.

Today customers have more choices and businesses have more competition than ever. Building "valuable long lasting customer relationships is even more critical to the success of the enterprise and has given rise to extraordinary interest and new developments in CRM." (Zingale and Arndt, 2001:41) An important part of CRM is to manage the multiple points of contact between the customer and the organisation. Technology, whether by use of the telephone or the Internet, is used to leverage the relationships that the enterprise has with its customers.

1.6 TECHNOLOGY IN CRM

The introduction of the technology component in the CRM process is fundamental to its success. The strategy must be driven via technology, though the introduction of technology alone is not necessarily a pre-cursor to success. The business strategy and philosophy must align the company's activities to the customer and technology is the enabler that turns strategy to results as illustrated by the model below.

Figure 1.1: Technology in CRM



Source: Greenberg, R. CRM at the Speed of Light, 2001

In analysing the role of technology in the CRM process, it is not intended that this paper should dwell on the various types of technology hardware or software that is available in order to implement CRM. Rather, the paper will comment on the importance and role of technology in the CRM process. Again the reference to 'process' implies an ongoing state rather than static one. CRM cannot be plugged in and expected to work; technology in CRM is not about expensive equipment and gadgetry in as much as this is what is required. Rather it is about effective "customer information management" (Zingale and Arndt, 2001, 41). Zingale and Arndt state that the multiplicity of customer contact points adds to the challenge of retrieving customer information and ensuring a consistent experience across the enterprise. Within the banking environment, the customer has a multiplicity of contact points which range from face-to-face, to electronic channels such as automated machines and the internet. In the face-to-face encounter as well the customer is likely to interact with numerous individuals; a home loans consultant, a motor vehicle finance specialist, the bank teller, etc. As well, the customer could interact with different branches or divisions of the same bank, each of which may be with a new person whom he has never before met. The challenge is how to utilise the information on the client to ensure that there is a consistent profile regardless of which point of contact the customer uses, and also to use the information to maintain and improve customer relationships and generate new business. Getting back to the bank customer, information management via technology is absolutely critical given the size of the organisation (most major South African banks are geographically spread out) and the numerous agencies within the bank that may need to access the information for purposes of cross-selling. Consider for a moment the process of a customer applying for a credit card at a bank where she holds her current account. It is without doubt that the customer would have to endure the process of filling out an entire application all over again not-withstanding the fact that she has had a cheque at the institution for many years and nearly all the pertinent information is already held in the database. The process should be seamless and a pleasant experience; and yet this basic aspect of CRM is not evident. Take again a non-profitable customer that does not have a great relationship or track record with a particular branch of the bank; he goes into another branch or division of the same organisation and enjoys the benefits that should normally be reserved for the best, most profitable customers, resulting in misdirected expenditure and effort.

As the global economy lurches through the early part of the 21^{st} century, the industry is searching for ways of maintaining and improving growth and profitability. Better management of the customer base offers great potential for companies to improve their top and bottom lines, especially given how difficult it has become for companies to attract and retain loyal customers. Whilst CRM is seen as a possible solution to this, it is not as easy as it seems. Costs are high, as is failure rate. Organisations have to be vigilant in identifying which CRM capabilities will provide the greatest benefits. The process of adopting CRM entails putting together a bullet-proof case for the project, gaining stakeholder acceptance, tailoring a smart execution plan, and using the system to develop customer insights that will lead to more effective strategies and programs for marketing, sales and customer service.

1.7 THE CUSTOMER RELATIONSHIP CHALLENGE

Businesses are facing new challenges on many fronts. Organisations have only a vague picture of their customers' revenue potential and an even more vague understanding of the true cost of serving them. Infrastructure and service costs are increasing faster than revenues, and companies' cost-to-income ratios, by which standard many banks are judged, are coming under increasing pressure. Although the top executives in the organisation may have an understanding of the scope and complexity of the changes that are needed, they seem slow in putting new strategies in place in the banking industry to drive significant sustainable benefits. These are not minor challenges that can be handled by a series of small tactical programs and belt tightening; the organisation needs to rethink its assumptions about how customer interactions are designed, funded, and managed. This involves aggressive, ambitious solutions and a new strategic attitude towards investment in solutions. In a scenario where investment and operational spend remains scarce as companies trim costs, a more profitable approach to getting and serving customers requires comprehensive strategies that both reduce the cost of service delivery and improve the value of the customer interaction. In other words, companies must align how much they spend in servicing customers with how much revenue is generated from the customer interactions.

In the past decade it has become increasingly difficult for companies to connect with existing or prospective customers. There are a variety of reasons for this, some of which are:

- Commoditisation of brands and products, with the number of items offered to customers increasing significantly.
- Tougher markets with more competitors in almost every industry.
- The explosion in the amount of market noise with the huge increase in the number of messages that bombard customers on a daily basis.
- The proliferation of interaction channels especially with the advent of electronic mediums such as the Internet, cellular phones and other devices.
- The ever increasing demands and expectations of customers which is driven by their increased ability to evaluate offers prices through various mediums such as internet.

1.8 THE CASE FOR CRM

CRM represents a new way of doing business. It is the rallying point harnessing the value in the existing database and growing the customer base. It incorporates such "seminal concepts as the sales culture, one-to-one marketing, data mining, customer segmentation, loyalty programs, and cross selling" (ABA Banking Journal, October 1999). It is a state of mind. It puts the customer at the centre and organises the bank around the needs of the customer. It involves a "customer –centric business strategy that harnesses information technology to discover and anticipate customers' financial needs and engages all the business lines in the bank in satisfying those needs" (ABA Banking Journal, October 1999). It is perhaps appropriate to add 'at a profit', for surely that must be a key objective. Talk of getting to know your customer must appear so basic that one wonders what the fuss is about. Surely this does not need second thought or deliberation? Unfortunately whilst the answer is a simple yes, the fact is that banks have moved away from the personal touch with customers and have lost contact with their most valuable assets. The irony is that the technological advancement that has distanced the bank from its customers is now being harnessed to bring the bank closer to its clients again. The parameters though are being re-defined. The old broad based approach of delivering the best service to all customers regardless of cost-benefit considerations is no longer valid.

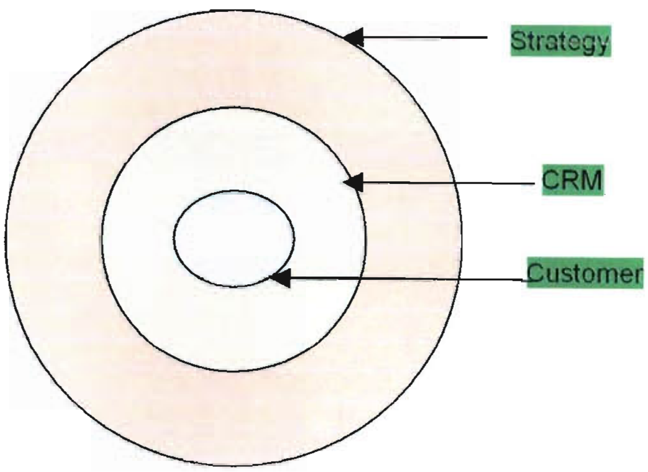
In the previous chapter it was argued that the CRM initiative must by driven by the strategy of the organisation. The CRM process involves a fundamental change in the way the organisation does business and must therefore be supported by a strategy that filters through the entire organisation, with commitment from the top. The challenge would be to develop a strategic vision, with clear objectives and to formulate a strategy that will enable the organisation to achieve those objectives. It was mentioned earlier that a key objective of any bank, or any business for that matter, must be to improve the top and bottom line. The bank wants to deliver a good-quality service at a profit. These must be measurable. Good-quality service must be measurable. The ability to measure the profit generated by the service must also be present. The strategy to support the vision and the objective should answer the issue of how to achieve the objectives.

1.9 A WINNING STRATEGY

Strategy making focuses on the critical question of how to achieve the desired objectives. Whilst it is largely planned, there is also a reactive element as well to adapt to the changing business environment. A strategy is concerned with the *how*: how to grow the business, how to satisfy customers, how to beat the competition, how to respond to market conditions. In so far as the 'how to satisfy its customers' in the banking industry is concerned, this must be the most critical question in strategy making. At a profit one might add, but this must be taken for granted. It is a market and customer driven approach that recognises that the customer is at the centre of the universe and a search for the answer to how to attract, maintain and enhance desirable customer relationships at a profit where individual (stakeholders) and organisational objectives are met.

The reference to desirable relationships is important as it defines the parameters within which efforts must be directed. There are too much resources wasted chasing the non-profitable business and too little heed paid to the cost benefit aspect of customer relationships. CRM is a fundamental component of the strategy in the financial services industry, which includes life assurers and banks. This is to say that CRM in itself is not the end all and be all of the strategy. Rather it is the core of the organisations overall strategy. This must make sense in that if CRM places the customer in the centre, and the organisation then makes CRM central in its strategy, then it must stand to reason that the customer is central in the strategic management process. Whilst this deduction is not flawless, the point is that any customer relationship initiative must invoke CRM as a beacon in the strategic planning process.

FIGURE 1.2. The Core of Bank Strategy Planning



Source: Chin Govender

In order to understand the need for CRM initiatives and the mad dash that banks find themselves in trying to get to know their customers, we come back to the question of 'Why CRM?' After all, it requires expensive technology and a fundamental shift in the way in which the organisation is doing business, so there must be benefits in the strategy that has convinced the organisation that CRM is worthwhile. In order to answer this, it is useful to look at the process in the early days along with the setbacks.

1.10 CRM IN THE 1990's

It must be remembered that in itself CRM is not a new concept. Introduced many years ago in a substantial number of organisations where a sales culture was evident, the programs were placed on hold when the economic downturn of 1998 bit into revenues. Several banks were looking at CRM programs and were tinkering with the components thereof. The old CRM models however had several setbacks and flaws. Briefly these are:

1.10.1 FLAWED INTERACTION STRATEGIES

Organisations strived to provide each and every customer with the highest possible level of service. Ideally each customer should be a market of one. Realistically though, not all markets or customers are equal. Although customers are even more demanding today than they were ten years ago, banks simply cannot afford to conduct every customer interaction without regard for whether the cost of the interaction aligns to the value of the customer.

1.10.2 INFLEXIBLE INVESTMENT OPTIONS

In the past organisations spent large sums of money to build contact centres and interaction infrastructures. Banks are saddled these days with the bricks and mortar that previously meant success for the organisation. These investments mean high fixed costs and excess capacity, which weigh down the revenues from profitable customer interactions. This in turn slows down the investment in customer capital (customer segmentation, relationship building, target marketing) and limits the capacity of the organisation to drive transformational change.

1.10.3 SUB OPTIMAL DELIVERY MODELS

The CRM models of the past lack sustainable solutions for satisfying customer and market expectations. The costs of CRM initiatives have become institutionalised without institutionalisation of the benefits. Whilst there have been improvements in certain areas, organisational silos have prevented the benefits from pervading other areas of the organisation which limits the efficiency of the strategy, and results in less than significant gains. In order to address the problem, organisations focus on trimming costs without necessarily focussing instead on increasing revenues.

In order to overcome the above weaknesses, entire new approaches are necessary. Those companies serving large numbers of customers through increasingly complex interactions as in the banking industry, stand to gain the most as profitability can rise or fall dramatically with even a small change in the cost of serving the customer (which is the fundamental rationale for the introduction of automated delivery systems). However the challenge of measuring the cost of customer interactions remains largely misunderstood even today. How does an organisation measure the true cost of serving a customer without falling into the trap of looking at only the direct costs? Secondly, how does the organisation align what they spend with the individual value of the customer? In other words, because all customers are not equal, how can the company ensure that they focus their spend on the most profitable customers? Is the company too busy delighting all its customers without regard for the value they get from the customer? These are some of the challenges facing the proponents of CRM.

1.11 CRM: A NEW PARADIGM

Where customer care and service is critical to business performance, organisations must transform their approaches, not merely fine tune or improve them incrementally. It requires farsighted visionary leadership and a fundamental paradigm shift towards customer service in order to benefit from CRM. In order to achieve this, the organisation must invest to a point where the outcome is a level of performance improvement not previously evident, and which is capable of being sustained and delivering market-relevant results. Incremental change is as good or bad as no change at all. It is waste of valuable resources. Whilst the change process itself may be rolled out slowly with careful planning and masterful execution, the results must be a fundamental shift in how the organisation approaches its business. It must be all encompassing and dramatic in its outcome and it must improve the value of customer interactions to a point where it far exceeds the cost of the customer service delivery. In order to achieve this, according to Robert Wollen (Transforming Customer Contact: http://www.crmproject.com/documents) there are various essentials in changing the economics of customer interactions where there is an alignment between value generated and costs incurred.

Figure 1.3: Customer Contact Parameters

	TYRANNY	MERITOCRACY
Customer Role	King	Citizen
Customer care philosophy	Highest possible level of service for every customer.	Tailored care to customer needs based on value of each interaction
Orientation	Historic including: Spending patterns Preferences Demographics	Historic plus future including anticipated profit potential evolution of tastes, and lifestyle changes
Breadth of Contact **Targeting of Contact** **Frequency of Contact**	Broad based Undifferentiated Repeated	Selective Highly focussed Timed to coincide with anticipated need
Relationship Goal	Retention only	Long term customer value

Source: Transforming Customer Contact: CRM Project
http://www.crmproject.com/documents

The model recognises that all customers are not equal. It recognises not just the differences based on historical data, but seeks to anticipate the customers' likely characteristics and behavioural patterns and actively seek ways of interacting with the customers and extracting value from the interactions.

Customers are segmented along various criteria, and differentiated on the basis of these criteria. Interaction with the customer is not haphazard, but planned and timely. The goal is to enhance the long-term value of the customer relationship. Customer retention is only an incidental goal- it is the retention of valuable customers that matters.

The organisation needs to build integrated capabilities for analysing data, modelling and segmenting the customer base, and creating links between customer channels. Customer profiles are key in deciding how to interact with the customer.

1.12 CREATING A CUSTOMER SERVICE MERITOCRACY

In isolation, the motto the "customer is king' appears sound. Wollen (Transforming Customer Contact, http://www.crmproject.com/documents) argues that in context of customer service, this statement is tyrannical. Whilst it dominates customer service in traditional organisations, it paid no heed to defining a customer strategy based on who the customer really was, the value of the customer, and what he really wanted. Without the benefit of these insights, how could the organisation optimally distribute sales and service resources? The thinking is that what was required is a "meritocracy" that discriminated in how the various segments of customers were serviced. The thought that all customers had to be accorded the same highest level of service was wasteful and counterproductive. The interaction has to be tailored to take into account different customers on an individual and group (segment) basis.

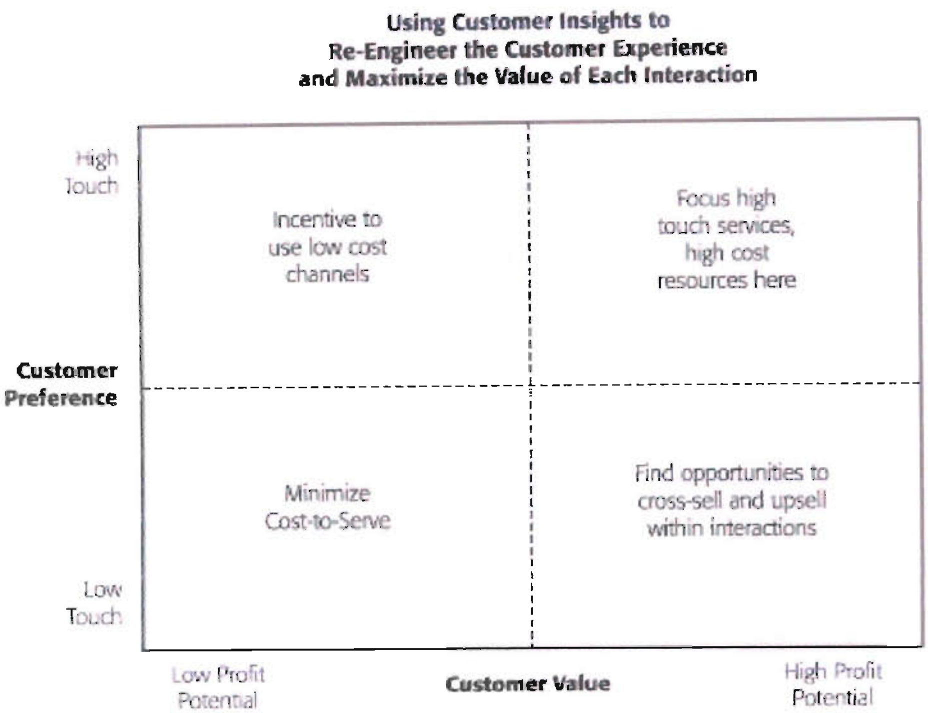
1.13 DEFINING COSTS

The process of segmenting the customer base and designing sales and service models for each base carries both direct and indirect costs. Whilst the direct costs such as labour, telecommunications and such are immediately obvious; the indirect costs are less so. The components making up these indirect costs need to be delved; such areas as operational support, technology, and vendor management are less obvious but important considerations.

1.14 COST –REVENUE ALIGNMENT

Whilst segmentation provided insights into each customer category, and the costs of a sales-service model determined, these insights need to be utilised to re-engineer customer experience and maximise the value of each interaction.

Figure1. 4: Transforming Customer Contact



Source: Transforming Customer Contact, CRM Project
http://www.crmproject.com

The above model emphasises the value of each interaction. Whilst segmentation based purely on demographics is useful, customer value is more appropriate, as costly resources must not be directed to low profit potential customers. The model emphasises profit potential as this recognises the latent value in the customer base and guards against sidelining potential sales opportunities by focussing purely on historical dated measures of customer value.

It is also evident that the cost-revenue alignment is a key consideration in how the organisation interacts with the client. The Low Touch-Low Profit Potential customer should not attract many resources and must be serviced as cost efficiently as possible. The opposite is true for the High Touch-High Profit potential customer. Again this illustrates the importance of segmentation in strategic planning around customer interactions.

1.15 MOTIVATION FOR STUDY

The catalyst for the study has been the authors experience in terms of his interactions with various clienteles of financial institutions. As a manager within one of the major four banks, and responsible for the management of a portfolio of clients, the author has on numerous occasions encountered criticisms levelled at financial institutions around various issues. Looking beyond the specifics of these criticisms, it is apparent that the underlying cause of customer dissatisfaction is that the customer feels that the bank does not value his patronage and has not taken the time to know him/her/ the business. It is seldom the hard issues such as bank charges etc. that are the underlying cause of dissatisfaction. More often than not, it is dissatisfaction as a result of poor communication by the bank with the customer, lack of knowledge of the client, and lack of the 'personal touch'. Customers do not mind mistakes so long as they are informed of the problem and see that the bank is acting in their (the customers) interest in resolving the problem. Customers want their bank to know them by name, and understand their needs. They are generally happy to pay a fair fee or charge for what they perceive to be caring, quality service. Giving customers what they want can only come about through a sound understanding and knowledge of the customer.

Equally, it is often the case that banks spend time in non-profitable interactions with non-profitable customers. This results in the good customers being ignored and as a result loss of opportunities and possibly the customer.

The motivation for the study is to understand the fundamentals of CRM, and to explore how this can be applied in the author's sphere of work that involves the management and retention of a portfolio of profitable customers. Over and above this the study will also assist the author in critically assessing the rollout of the CRM project in Standard Bank as part of its overall strategy of achieving growth through strategic customer relationship management and improved financial performance. It will examine the processes that shape interactions with customers and provide appropriate input where possible towards recommended changes. It would appear that the huge wealth of information that banks hold on their customers is not being exploited effectively to capitalise on the banks relationship with its customers whether in a marketing context or in the customer contact process.

In addition it is also apparent that the industry has not yet reached a point where a single 360-degree view of the customer is available. Customers interact with various departments and divisions of the bank, and yet each department or division is blissfully unaware of the results of the customers' previous interactions with the other divisions. To give an example of this, consider the following: A customer goes into a bank branch to do a deposit. Whilst in the banking hall, he is approached by a consultant who advises and engages the client on the merits of investing in a unit trust investment. The client either accepts or declines. A week later, the tele-sales department of the bank calls the client and again tries to interest the client into investing in an unit trust investment. Why? Because each of these different agencies of the same bank do not have a common view of the customer. The net result is that the customer is annoyed and the bank is viewed as being incompetent in that the one area does not know what the other is doing. This poses a reputational risk for the bank and in an environment where the customer is more sophisticated than in the past, few organisations can risk this.

1.16 PROBLEM STATEMENT

Is customer relationship management an effective strategy for banks to ensure they lock in and retain their profitable client base? The "profitable' qualification is crucial because it is not imperative to retain every single customer. In the same way a retailer retains its profitable product lines and discards the unprofitable ones, so too must a bank determine whom its best customers are and ensure that it retains them.

1.17 OBJECTIVE OF STUDY

- To evaluate the CRM rollout process in Standard Bank and its strategic value and importance
- To examine elements of the challenges that face the banking industry and to speculate about what banks may do in order to meet these challenges
- To critically examine the various elements of CRM and how this may suit the South African banking industry in meeting the challenges it faces particularly with regard to keeping its best customers.

1.18 RESEARCH METHODOLOGY

The study is of a qualitative nature rather than a quantitative one. The approach will be to analyse aspects of the banking industry generally with particular reference to its customer relationship management initiatives. The study will focus on one of the big four banks in particular and will review its CRM policies and procedures. In view of the sensitive nature of the information, the analysis will be limited to the broad generic parameters rather than the technical details of the CRM initiative.

1.18.1 DATA COLLECTION

Data collection will be by means of internal documents and unstructured interviews with selected individuals involved in the CRM process. This will include IT personnel and key players within the marketing/sales environment. Whilst this will be restricted to just one financial institution, the fundamentals are nevertheless not very different from bank to bank, with the obvious differences being in the technological systems employed. There is for obvious reasons sensitivity by the banks to disclose information relating to the CRM initiative in view of the strategic criticality of the process. Whilst the author is able to glean general information from interactions with management of the various financial institutions, it is accepted that these disclosures are not detailed and again of a general nature.

The strategy guiding the CRM process essentially differentiates the 'customer - centricity' of one bank from another. Underpinning the strategy are the information management processes and in this regard, the input from IT is critical.

1.18.2 PRESENTATION OF FINDINGS

The dissertation will be presented in report form. It will comprise of an analysis of the CRM initiatives and an assessment of the suitability, acceptability and feasibility of the strategy going forward. It will highlight areas of excellence and weaknesses (or development) and will present certain recommendations in so far as these are practicable and within the overall context of the existing strategy. It must be taken as granted that the current strategy will not be changed in so far the fundamentals are concerned; merely the processes and procedures that need to be rolled out.

1.19 LIMITATIONS OF THE STUDY

The main limitation of the study is that it is confined to one organisation in the banking industry. The nature of the CRM initiative is that the information is considered sensitive and thus cannot be disclosed in fine detail; the broad principles are nevertheless known. The study examines the CRM process and the rollout within one of the big four banks, and on the basis that this bank typically represents the industry, the study is useful in gauging the appropriateness of CRM for the industry overall.

1.20 STRUCTURE OF THE STUDY

The structure of the study will be as follows:

In chapter two we shall examine the theoretical models of strategy that will form the basis of examining the subject matter. Chapter three will outline the details of the case i.e. the rollout of CRM in Standard Bank, the rationale, and the planning and implementation. In chapter four we will examine the subject in the light of the principles established in chapter two; in other words, the strategic processes involved in the CRM project. In chapter five we will briefly cover certain areas that might have been given more thought, and will conclude the paper.

1.19 QUALIFICATION OF RESEARCHER

The researcher holds a Bachelor of Commerce degree completed in 1989, and currently works in a major commercial bank. The author has been involved in various CRM processes, such as market segmentation, and implementing of differentiated delivery channel strategy to the various segments. In addition, the researcher is currently involved in the management of a core base of customers with the key result areas being retention and product expansion, which are the basic objectives of CRM.

CHAPTER TWO: THEORETICAL MODEL OF STRATEGY

2.1 INTRODUCTION

This chapter introduces the strategic management process. This process involves a set of decisions and actions that result in the design and activation of strategies to achieve the objectives of an organisation. Further this chapter gives a brief overview of the nature, benefits and the need for strategic management. Generally a company can use numerous strategy tools to determine from a strategic perspective the direction it should be pursuing, including the supporting activities necessary to achieve sustainability of the business. This chapter outlines the various strategic tools that can be employed. Where applicable a critique of the tool may be given and, in some instances, an adapted model is developed to satisfy the purposes of this study. In developing the model for this chapter consideration has been given to aspects, which are particularly relevant to the industry in question and may not necessarily be used for strategic purposes in other industries. This chapter also goes on to discuss how strategies are selected and evaluated on different criteria.

2.2 WHAT IS STRATEGIC PLANNING?

Johnson & Scholes (1999) argue that strategic decisions are complex, involve a high degree of uncertainty and affect the organization as a whole.

In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. The firm must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track (Hanson & Dowling, 2001).

However, strategic planning is not always advisable. It may not be the best first step for an organization in crisis or for an organization, which lacks skills, resources or commitment from key decision makers. Some may prefer to rely on the intuition of gifted leaders. Some organizations have enormous difficulty in reaching decisions that cut across levels, functions, or programs and find that "muddling" is the only way to effectively bring change to the organization. Finally, strategic planning should not be undertaken unless timely and complete implementation of the results is likely.

2.3 STRATEGY EXPLORED AS ANALYSIS-CHOICE-IMPLEMENTATION

Whilst definitions and descriptions of the levels of strategy are useful, the focus is upon what it *is*, rather than what it *does*. A number of frameworks are available to help to understand further the nature of strategy as a managerial process, however; in this paper only the analysis-choice-implementation framework is explored below.

The process of managing strategy involves three elements:

2.3.1 STRATEGIC ANALYSIS

- Understanding the strategic position of the organization involves an assessment of how the environment affects the organization;
- Understanding the strategic capability of the organization, based on its resources and competences; and
- Understanding the organization's purpose and the expectations of key stakeholders.

2.3.2 STRATEGIC CHOICE

This involves the formulation and evaluation of potential courses of action. Johnson & Scholes (2002) argue that strategic choice can be conceived in terms of:

- Identifying the bases of choice by determining how the firm creates an advantage, how it balances its activities and its aspirations for the future.

- Generating options by establishing the directions in which the organization could move and by what methods.
- Evaluating and selecting options by the extent to which options meet tests of suitability, feasibility and acceptability.

2.3.3 STRATEGY IMPLEMENTATION

This involves the planning and managing of the required change. It is how strategy is translated into action and forms part of the third element of Johnson & Scholes' (2002) framework of strategic management. This process involves consideration of issues like organizational structure, resource planning and the management of strategic change.

Each of the elements of the model will be explored in more depth, by examining how they provide an insight into the strategic management of a real-life organization.

2.4 TOOLS AND TECHNIQUES OF STRATEGIC ANALYSIS

The development of strategy within an organization requires the application of a range of tools and techniques and by their nature they tend to be analytical. Many of the techniques are used to assist in the analysis and evaluation of different options while others can assist in identifying problems in changing the organization, designing new structures or assisting in resource allocation and control. Indeed, many of the tools can be used, in slightly different ways, to address many of these different elements. For example, the technique of SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis can be used to assess the external and organizational environments, evaluate strategic options and identify resource gaps. With an overall understanding of strategic management it becomes easier to see what tool can be used where and how.

2.4.1 ANALYSIS OF THE ENVIRONMENT

Instead of being routine and fairly predictable, the business environment has become increasingly volatile; according to many managers the pace of change has accelerated and will continue to do so. At the same time the complexity of the environment has also increased.

Strategists are agreed that an understanding of the environment is an essential element for the development of corporate strategy. The ability to understand the impact of the external environment upon an organization will not guarantee strategic success but to ignore the external environment is highly likely to make failure a distinct possibility.

A host of external factors influence a firm's choice of direction and action and ultimately, its organizational structure and internal processes. These factors, which constitute the *external environment,* can be divided into three interrelated subcategories:

- Factors in the remote environment;
- Factors in the industry environment;
- Factors in the competitive environment.

2.4.2 ANALYSING THE REMOTE ENVIRONMENT

According to Pearce & Robinson (2000:71) the remote environment comprises factors beyond and usually irrespective of, any single firm's operating situation. It is already clear that there are no simple rules governing an analysis of the organization.

The business environment can be sub-divided into four sections as the Political, Economic, Socio-cultural and Technological aspects of the environment. This allows one to conduct what is often a called a **'PEST'** analysis.

2.4.3 INDUSTRY ENVIRONMENT ANALYSIS

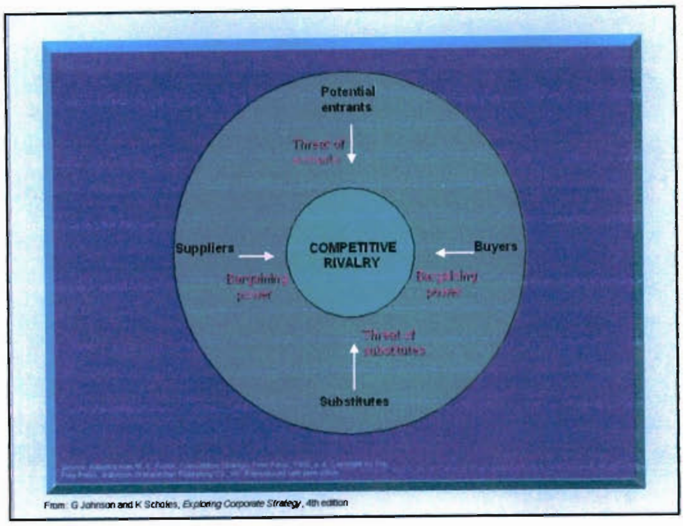
Whilst the remote environment is important, the more immediate environment that surrounds most organizations is the industry environment. The concern of most managers is on the ways the competitive environment will impact upon their own organizations. Accordingly an industry can be defined as a group of firms producing products that are close substitutes and in the course of competition, these firms influence one another. Typically, industries include a rich mix of competitive strategies that companies use in pursuing strategic competitiveness and above-average returns. In part, these strategies are chosen because of the influence of the effects of an industry's characteristics on the organization.

- **ANALYZING PORTER'S FIVE FORCES THEORY**

An industry analysis usually begins with a general examination of the forces influencing the organization. According to Porter, whether an industry produces a commodity or a service, or whether it is global or domestic in scope, the level of competition in an industry depends upon the strength of the competitive forces to which it is exposed. These forces, act individually and together to determine the ultimate profit potential of the industry and are a result of the structure (the underlying economics) of the industry. Many of the broad influences identified through PEST analysis have an impact upon organisations through the way in which they affect the underlying competitive structure of the industry.

An understanding of the competitive dynamics of an industry requires analysis of the structural factors influencing each of these five forces of competition and this is shown below in figure 2.1:

Figure 2.1: Porters Five Forces



Source: Adapted from M. E. Porter, Competitive Strategy, Free Press, 1980.

These forces, which go beyond the immediate competitors in the industry, are:

- the threat of **new entrants**;
- the existence of **substitute products** or services;
- the bargaining **power of suppliers**;
- the bargaining **power of customers** or buyers;
- **existing rivalry** within the industry.

2.5 COMPETITION ANALYSIS

The competitor environment is the final part of the external environment analysis. Competitor analysis focuses on each company against which a firm competes directly. Accordingly when engaged in a competitor analysis, the firm seeks to understand (Porter, 1980: 49):

- What drives the competitor, as shown by its future objectives;
- What the competitor is doing and can do, as is revealed by its current strategy;

- What the competitor believes about itself and the industry, as shown by its assumptions; and
- What the competitor's capabilities are?

Information about these four issues helps a firm to prepare an anticipated response profile for each competitor. Thus, the results of an effective competitor analysis help a firm to understand, interpret and predict its competitors' actions and initiatives (Young, 1999:52).

Critical to effective competitor analysis is the gathering of data and information that can help the firm to understand competitors' intentions and strategic implications resulting from them (Norman, Ireland, Artz & Hitt, 2000). Beyond this, some firms forget to analyze competitors' future objectives as they attempt to understand their current strategies, assumptions and capabilities, resulting in incomplete insights about those competitors.

2.6 INTERNAL ANALYSIS

Whilst it is clear that the external environment in which an organization operates will have a significant impact upon its performance, this is hardly the whole story. Even a superficial glance across a range of organization's involved in the same area of activity will reveal differences in performance, whatever the measure used. It is clear that what organizations do, as well as how well they do it, will have a significant impact upon their success or failure.

In recent years, the study of strategy has focused increasingly upon the capabilities of the organization to use the resources available to it in order to build success. As a result, a range of frameworks and techniques has been developed in order to understand and analyze the strategic capabilities of organizations. These frameworks and techniques are explored below.

2.6.1 THE NEED FOR CAPABILITIES ANALYSIS

Organizations have different strengths and weaknesses, which means that they have different abilities to deal with the threats and opportunities presented by the external environment. In an increasingly unpredictable world it is also important to understand how well equipped an organization is to cope with the changes.

Internal analysis of an organization aims to identify and understand the strategic capabilities it possesses that will lead it to deal successfully with the challenges it faces, currently and into the future, by meeting the needs and requirements of its customers and users, better than other providers (Johnson & Scholes, 2002).

The focus of capability analysis is upon the identification of those factors that will allow an organization to outperform its competitors. This is achieved by (Johnson & Scholes, (2002):

- Assessing the resources of the organization through a resource audit and exploring the traditional SWOT analysis;
- Identifying the key activities and linkages between activities across the organization through value chain analysis;
- Understanding the bases of competitive advantage that underpin potential unique resources and core competences;
- Identifying and analyzing the core competences and strategic capabilities of the organization.

The overall approach taken here is to see strategic capability as resulting from the resources the organization owns or to which it can gain access, the way in which it performs and links together activities to create competences that use these resources, so creating products and services valued by users.

2.6.2. THE RESOURCE-BASED VIEW

The resources available to the organization can be critical to strategic success. If an organization does not have the quantity of resources necessary, or they are not of sufficient quality, then it is unlikely that the organization's strategy will be realized. Further, as argued above, necessary resources are also available to competitors so offer no more than the opportunity to participate, whilst unique resources may contribute to competitive advantage.

The resources of the organization go beyond a simplistic list of the factors of production, land, labour and capital, to include the skills possessed within the organization and resources created by previous activities. In auditing the resources of an organization it is also important to consider not only those resources it owns but also those to which it has access. In broad terms, resources can be split into tangible assets, intangible assets and organizational capabilities.

Pearce & Robinson (2000:199) provide four guidelines when using the resource-based view in internal analysis:

- Disaggregate resources – break them down into specific competencies rather than stay with broad categories;
- Utilize a functional perspective;
- Look at organizational processes and combinations of resources and not only at isolated assets or capabilities.
- Use the value chain approach to uncover organizational capabilities, activities and processes that are valuable potential sources of competitive advantage.

Although the resource-based view analysis enables a systematic assessment of internal resources, it is important to stress that a meaningful analysis of those resources best takes place in the context of the firm's competitive environment. Possessing valuable resources will not generate commensurate

profits unless resources are applied in an effective product market strategy and they must be deployed in an optimum way and align related activities for the firm to pursue its chosen sources of competitive advantage. Traditional strategy formulation – externally positioning a firm to capitalize on its strengths and opportunities and to minimize its threats and weaknesses – remain essential to realizing competitive advantage envisioned from a resource-based view (David & Montgomery, 1997:30).
The next section examines a traditional approach, often called the SWOT analysis, as a conceptual framework that may complement the resource-based view in conducting a sound internal analysis.

2.6.3 SWOT ANALYSIS

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or threats (T). Such an analysis of the strategic environment is referred to as a SWOT analysis. The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

SWOT analysis can be used in many ways to aid strategic analysis. The most common way is to use it as a logical framework guiding systematic discussion of a firm's resources and the basic alternatives that emerge from this resource-based view.

2.6.4 VALUE CHAIN ANALYSIS

Whilst the resources available to an organization are important, the ways in which these resources are utilized by the organization are also critical to strategic success. Michael Porter outlined the concept of the value system and the value chain as a means of understanding how an organization could create competitive advantage through the activities it performs and the linkages between activities. The value chain provides a systematic basis for analyzing the activities an organization performs and the linkages between these activities. Through these activities the organization creates value and gains competitive advantage through reducing costs or increasing value more efficiently or more effectively than its rivals do.

Value chain analysis involves disaggregating the organisation into the specific activities it performs in creating the products or services valued by customers or users. The linkages between activities within and external to the organization's value chain also need to be identified. Once both these tasks have been undertaken, attention can be focused upon those activities and linkages that are critical to the creation of core competences.

2.7 THE BASES OF COMPETITIVE ADVANTAGE

The underlying assumption of strategic capability analysis is that sustainable competitive advantage results from an organization having access to unique resources and core competences. These factors are important because they allow the organization to lower costs or increase revenues more than its competitors.

Together, the unique resources and the activities and linkages that create core competencies contribute to competitive advantage by allowing the organization to exploit sources of cost efficiency or value added not available to other organizations or difficult for them to imitate. Therefore, it is important to understand and recognize these potential bases of competitive advantage and they are as follows:

- Economies of Scale is achieved when unit costs fall as the scale of output increases;

- Economies of scope were is also the possibility that cost savings can result from the simultaneous production of several different products in a single enterprise. Such costs savings are referred to as economies of scope.
- The Experience Curve relates to the cost per unit output to the cumulative volume of output since the production process was first started.
- Creating Value added through differentiation occurs when an organization achieves competitive advantage by adding value to their products and services for which customers are willing to pay more. This is best achieved if the customer perceives the product or service to be different from others on offer - this is achieved through differentiation.

2.7.1 MEASURING ORGANIZATIONAL CAPABILITY

The definition of core competences discussed above highlighted that they are hidden, unique and extend across the organization. Consequently, overall strategic capabilities built on unique resources and core competences are difficult to identify. A further range of frameworks and techniques have been developed that can help make things more visible.

- **ACTIVITY MAPPING**

An activity-system map can highlight the core competences of an organization, linking it them to a cluster of other activities that support these higher-order themes.

- **STEPS TO IDENTIFY CORE COMPETENCES**

According to Prahalad & Hamel (1994: 225), " *Core competencies are the soul of the company and as such they must be an integral part of the process* *of general management."* Johnson & Scholes (2002) outline a series of steps and questions that can help identify core competences:

- Identify successful business units within corporations – this is important in multi-business organizations that may be operating in many different markets.
- Identify the bases of perceived value from the perspective of customers – these are labeled the primary reasons for success. It is important here to identify those reasons where the organization performs better than its competitors.
- Unpack the bases for success by asking managers why the business is successful in creating each of the primary reasons. These are the secondary reasons for success and are likely to include activities where the organization is no better than its competitors but others where they again have an advantage.
- Unpack the secondary reasons for success by asking what operational activities contribute to these successes. Although difficult, this stage can reveal extensive explanations of why things work well in practice – sometimes by people breaking the rules or exploiting slack in the system.
- Look for patterns of explanation by linking factors within and between the levels.

- **CORE COMPETENCE ANALYSIS**

Mahen Tampoe (2000) suggests that this breakdown can be achieved using the following steps:

- Analyze the revenue stream to identify products and services that make a significant contribution to the organization's success.
- Taking each product and service:
    - Disassemble them to identify core products and services, then disassemble these to identify the basic technologies, people skills, processes and strategic assets used.

  - Dissect services to identify core processes or unique talents that confer unique value to the service.
  - Relate products or services to the technical, administrative or institutional sub-systems of the organization.
- Analyze the sub-systems to find basic technologies, people skills, processes and strategic assets that combine to create the market strength of the core products or services. This is a core competence.
- Test core competences by asking:
  - Do they provide potential access to a wide variety of markets?
  - Do they make a significant contribution to the perceived customer benefits of the end products and services?
  - Are they difficult for competitors to imitate?

Having focused upon the ways in which an organization can create strategic capability based on the resources available to it and the competences it possesses to make use of these resources. The importance of unique resources and core competences that are better than those of competitors and difficult to imitate in the creation of sustainable competitive advantage was stressed.

The resources available to the organization can take various forms, but can generally be classified into physical, human, financial and intangible resources. Frequently, the most important resources of the organization are the intangible assets and resources that, by their very nature, are difficult to copy by competitors.

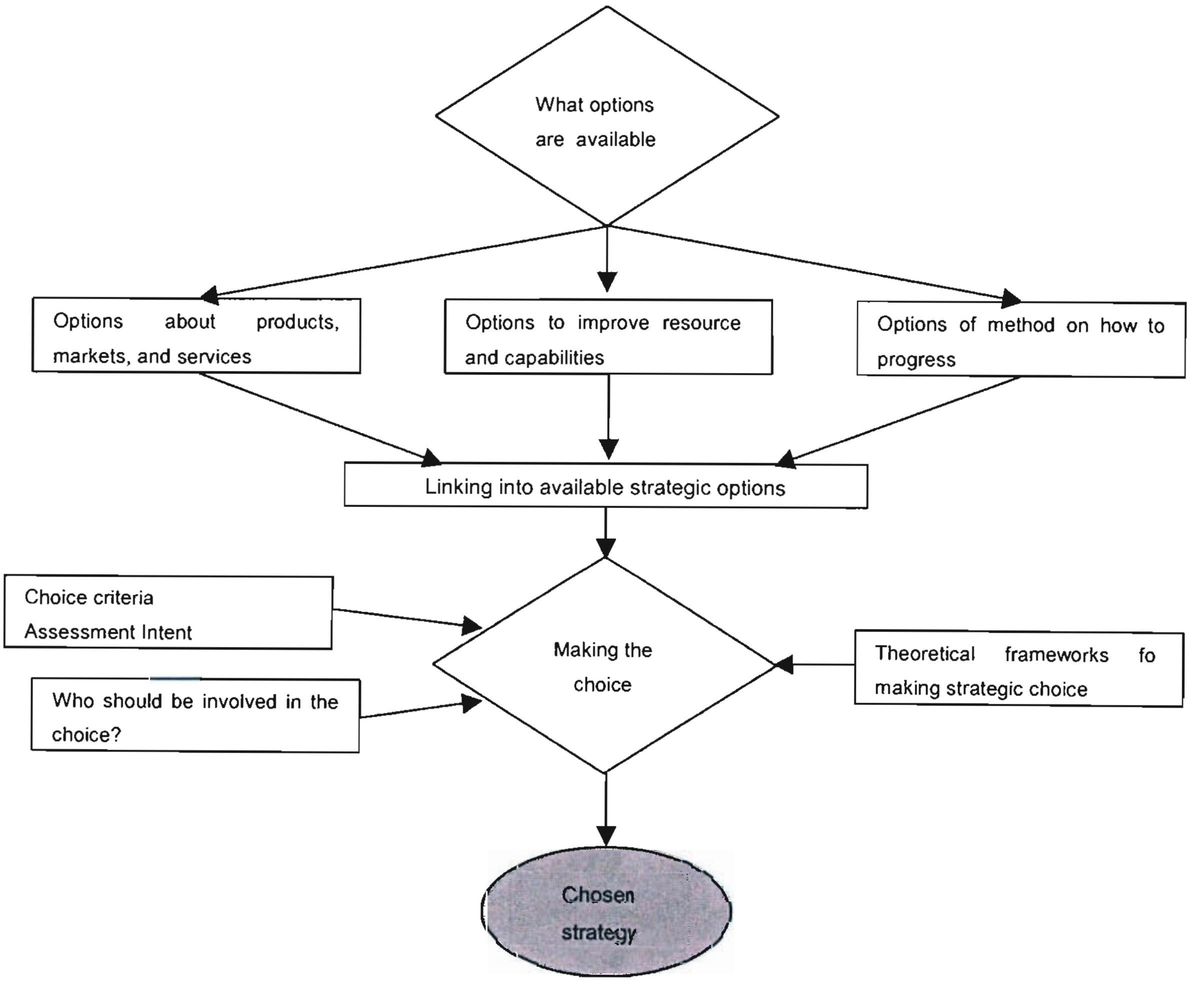
2.8 DEVELOPING STRATEGIC OPTIONS

The development of strategy within an organization requires the application of a range of tools and techniques. By their nature they tend to be analytical, but it would be too restrictive to say that they are all limited to the first element of the analysis-choice-implementation model mentioned previously. Many of the techniques are used to assist in the analysis and evaluation of different options (choice) and others can assist in identifying problems in changing the organization, designing new structures or assisting in resource allocation and control (all elements of implementation).

2.8.1 STRATEGIC CHOICE

Strategic choice is the third logical element of the strategy formulation process. Choice is at the centre of strategy formulation. If there are no choices to be made, there can be little value in thinking about strategy at all. On the other hand, there will always, in practice, be limits on the range of possible choices. In the public sector, the politicians may make the genuine strategic choices so that the role of the manager is limited to devising how best to implement strategies rather than to ponder fundamental choices of future direction for themselves.

Figure 2.2: STRUCTURE FOR MAKING STRATEGIC CHOICE



Source: Johnson&Scholes, 2002

The chosen strategy will have to answer the questions 'what', 'how', 'why', 'who' and 'when', so each option will provide provisional answers to each of these questions.

- **OPTIONS FOR MARKETS AND PRODUCTS / SERVICES**

The most obvious type of option relates to which products or services to offer in which markets. Igor Ansoff suggested the following.

- 'do nothing' – that is, continue present strategies. This strategy is important as it is usual to compare any proposed change with the 'do nothing' as a baseline. The 'do nothing' option is rarely viable in the long term, as competitors will gradually take the market by improving products, processes or relationships.
- 'withdraw' – leave the market by closing down or selling out. This appears to be a negative option but may be necessary to focus available resources into areas of greater strength.
- 'consolidate' – attempt to hold market share in existing markets. This is a defensive option, which usually involves cutting costs and perhaps price. It is more common in markets that are mature or beginning to decline.
- 'market penetration' – increase market share of the same market. This is a more aggressive option and usually involves investing in product development, advertising or channel development. Acquiring the businesses of competitors who are withdrawing from the market may be a necessary related resource option.

- **OPTIONS FOR BUILDING RESOURCES, CAPABILITIES AND COMPETENCE**

Just as strategic assessment was necessarily concerned with both the internal and external perspectives, so strategic choice has to consider options about resources, capabilities and competencies as well as those for markets and products. It may well be, therefore, that the strategic assessment has identified strengths and weaknesses in existing resources and capabilities in comparison with competitors,

The time-scales for developing resources and capabilities may be very long and may be longer than the time-scale for market entry. For instance people are a major resource, but changing the overall mix of people in a company is likely to take years or decades. Strategic options about building skills and experience may therefore have to precede choices to enter new markets or to develop individual products.

- **OPTIONS IN METHODS OF IMPLEMENTATION**

There are likely to be options in methods of implementation. There are many methods by which companies can grow their capabilities:

- Internal development – where the organization seeks to develop using its own resources and capabilities;
- Mergers and acquisitions – where the organization seeks to develop by buying another organization or two organizations combine their assets and activities;
- Strategic alliances – where organizations seek to develop using a range of approaches based on co-operation with other organizations.

2.8.2 THEORETICAL FRAMEWORKS FOR ASSISTING STRATEGIC CHOICE

In broad terms, two distinct approaches have emerged from the debate about this central issue within strategy content: the positioning approach and the resource-based approach (or more accurately, approaches). Much of the debate has concentrated upon two key questions:

- Is competitive advantage achieved by concentrating on <u>either</u> low cost <u>or</u> differentiation or should a strategy seek to exploit <u>both</u> low cost <u>and</u> differentiation?

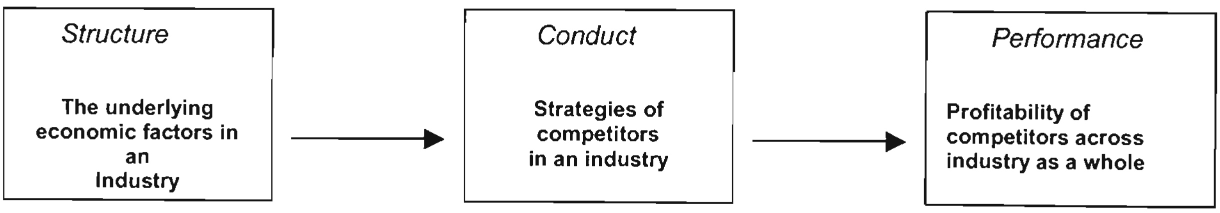
- Does an organization develop strategy to respond to or shape the environment in which it exists – is strategy outside in or inside-out?

As the primary purpose of the tools of strategic analysis is to help organizations to develop and implement successful strategies, then an understanding of the underlying context in which these models and frameworks can be applied is an important requirement. The ensuing discussion explores the development of these competing approaches to competitive advantage.

- **POSITIONING – AN OUTSIDE-IN APPROACH TO CREATING AND SUSTAINING COMPETITIVE ADVANTAGE**

This approach to strategy is associated particularly with Michael Porter and largely started the debate about the search for sustainable competitive advantage. As originally outlined in the mid-1980s, this was essentially an outside-in approach to strategy, which stressed the positioning of the organization within its environment: shaping the organization to meet externally imposed pressures. This approach is based upon the structure-conduct-performance paradigm drawn from industrial economics as presented below.

Figure 2.3 – The Structure – Conduct – Performance Paradigm



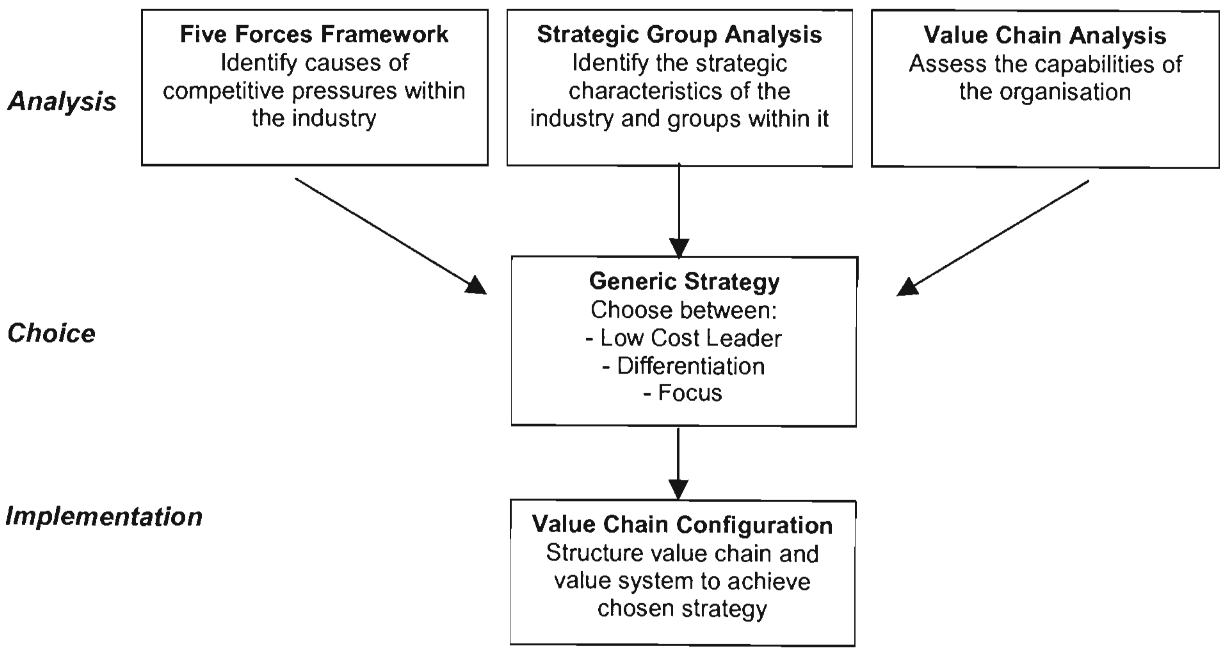
Source: Johnson & Scholes, Exploring Corporate Strategy, 2002, 6 Ed., Ch 4.

Porter argued that a company needed to understand the structure of its industry, so that it could change its strategy (its position within the industry) in order to achieve improved performance by outperforming its competitors. A successful strategy depended upon the company exploiting the underlying economic factors (such as economies of scale and scope) inherent within the industry better than its competitors and maintaining this over time so achieving sustainable competitive advantage. In essence, this is an outside-in approach to strategy, with the company choosing a strategy that meets the challenges posed by the external environment.

- **POSITIONING APPROACH**

Michael Porter outlined the main features of his approach in his text *Competitive Advantage* that was first printed in 1985. In this book he brought together a series of tools and models, some of which he had outlined in his earlier work. Although not described by Porter in precisely these terms, the **analysis-choice-implementation** framework can be used to highlight how the tools and models come together within the positioning approach.

Figure 2.4: OUTLINE OF THE POSITIONING APPROACH



Source: Johnson & Scholes, Exploring Corporate Strategy, 2002, 6Ed. Ch 4

The positioning approach commences with an analysis of the external environment, the five forces framework being used to understand where the competitive pressures come from within the industry and strategic group analysis being used to better understand the main strategic characteristics within the industry and identify particular competitor groups. A value chain analysis can also help the organization to understand its existing capabilities. In choosing a strategy the organization needs to consider how it can position itself against the forces of competition within the industry:

- by using its capabilities to provide the best defenses against these force(s);
- by influencing the balance of forces so that they favour the organization's strategy; or
- by anticipating shifts in forces and reacting to exploit them quicker than the competition.

Porter argues that positioning determines whether a firm's profitability is above or below the industry average. A firm that establishes a favourable position can earn high rates of return even if general conditions within the industry are unfavourable and the average profitability of the industry is modest.

Positioning depends upon exploiting the sources of competitive advantage that exist as a result of the underlying economic structure of the industry. Competitive advantage can be divided into two types - low cost or differentiation. A further dimension to be considered is the scope of activities over which advantage is to be sought - many segments of the industry or just one or two. Porter argues that requires organizations to make a choice between the generic strategies outlined in the diagram.

Figure 2.5: GENERIC STRATEGIES

		Competitive Advantage	
		Low Cost	**Differentiation**
Competitive scope	**Broad**	Low Cost Leader	Differentiation
	Narrow	Low cost focus	Differentiation focus

Source - Adapted from M E Porter, Competitive Advantage, Free Press, 1985

The axes of figure 2.5 are therefore the scope of the chosen market and the chosen basis of competition. The four quadrants of figure 2.5 suggest four possible generic strategies. If the scope is narrow, the distinction between cost and differentiation becomes unimportant so Porter defined just three 'generic' strategies – cost leadership, differentiation, and focus (which combined the two lower squares in the diagram).

2.8.3 RESOURCE-BASED APPROACHES TO SUSTAINABLE COMPETITIVE ADVANTAGE

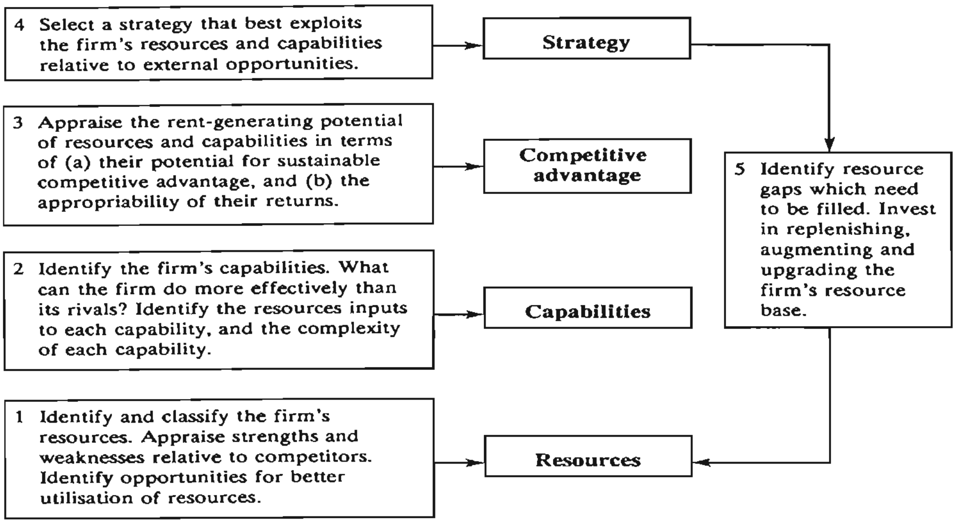
The emerging critique of positioning during the 1990s led to the development, by a number of different authors, of broadly similar views about the nature and creation of sustainable competitive advantage.

- **RESOURCE BASED APPROACH**

Just as with the positioning approach, a range of tools and models can be used to assess and construct a suitable strategy. Many of the models, particularly the value chain, are used by proponents of both camps and the differences often lie in the way in which the tools and for what purpose they are used.

Grant (1999) gives an overview of a resource-based framework that can be used for strategy formulation, forming a useful link between the principles outlined above and strategy tools/models. The outline of this approach is illustrated in Figure 2.6.

Figure 2.6: GRANT'S RESOURCE-BASED FRAMEWORK



Source: Grant (1999)

Grant (1999) argues that the essence of strategy formulation is to design a strategy that makes the best use of a firm's most important resources and capabilities. Building upon the previous point, he identifies these key resources and capabilities as "those which are durable, difficult to identify and understand, imperfectly transferable, not easily replicated, and in which the firm possesses ownership and control".

For Grant, as with the other resource-based authors, this may well combine sources of cost efficiency and added value. In practice this means that many would dispute the underlying assumptions of Porter's original generic strategy framework but that many could accept the options outlined within the strategy clock. The key is to recognize that whilst the resource-based approaches stress the importance of looking internally at the resources and capabilities of the organization, any successful strategy will still rest upon the strength of this mix of low cost and added value advantages relative to the external opportunities. Frequently, this is described in terms of the uniqueness that the strategy creates or is built upon.

- **CRITIQUES OF THE RESOURCE BASED APPROACHES**

Michael Porter leveled criticism about the resource based approach in his article published in 1996 called "What is Strategy?"

1. One Size Fits All? - Porter illustrated a point, that the resource-based approach may suit companies in certain industries but cautioned that it is dangerous to assume that similar strategies will suit all contexts.
2. Operational Effectiveness and Strategy – Porter made a distinction between operational effectiveness and strategy. Operational effectiveness meant performing similar activities better than rival competitors, whilst strategy was about performing different activities to rivals or performing similar activities in different ways.
3. Dangers of Hyper-competition - For Porter, the risk of pursuing operational effectiveness alone is that the competitors merely shift the productivity frontier outwards over time. Whilst absolute operational effectiveness increases, there is no relative improvement for any one competitor

- **TOWARDS A COMBINED APPROACH**

Despite the critique of resource-based approaches, Porter has moved from his 1985 position. Porter is in effect arguing that the search for competitive advantage is both outside in and inside out. Sustainable competitive advantage comes from a firm's capability to innovate better than its competitors over time, but at any moment in time its position relative to the competition will be crucial, but this position is both defined by the firm's activities and the market it seeks to serve. In effect, Porter has changed his own position, stressing both the need to be resource-based and to use positioning, albeit in a redefined sense, to sustain competitive advantage.

2.8.4 GROUPING OPTIONS INTO STRATEGIC OPTIONS

Options about products/markets, resources/capabilities and the method of implementation have to be combined into a much smaller number of strategic options. This may be a bottom-up or top-down process. The bottom-up approach implies linking what might be done in detail into potential strategies that seem to make wider sense. The top-down approach means testing general ideas of future direction against detailed options. In practice, the process is likely to combine top-down and bottom-up thinking.

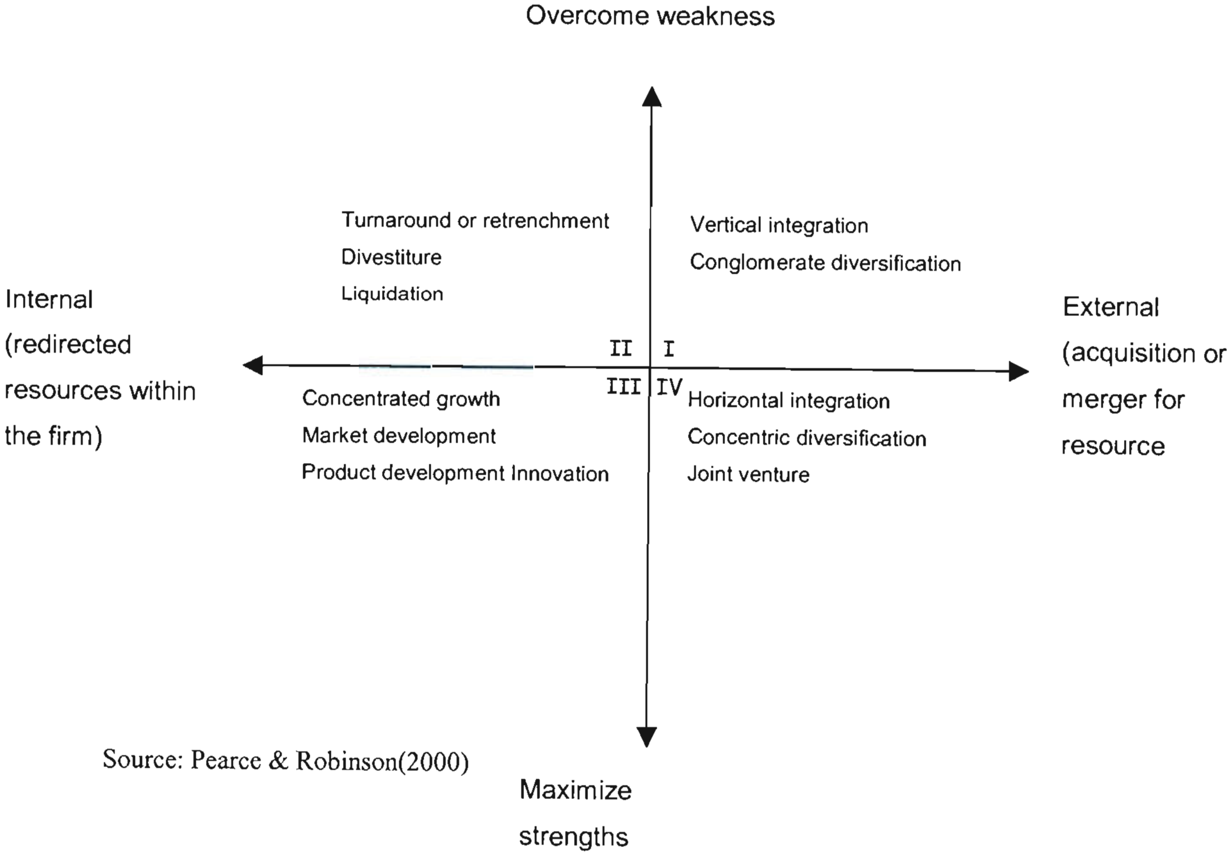
- **GRAND STRATEGY SELECTION**

This matrix below is a valuable guide to assist in the selection of a 'promising' grand strategy and is shown as figure 2.7. The basic idea underlying the matrix is that two variables are of central concern in the selection process (Pearce & Robinson 2000:315):

i). The principle purpose of the grand strategy; and

ii). The choice of an internal or external emphasis for growth or profitability.

Figure 2.7: GRAND STRATEGY SELECTION MATRIX



Source: Pearce & Robinson(2000)

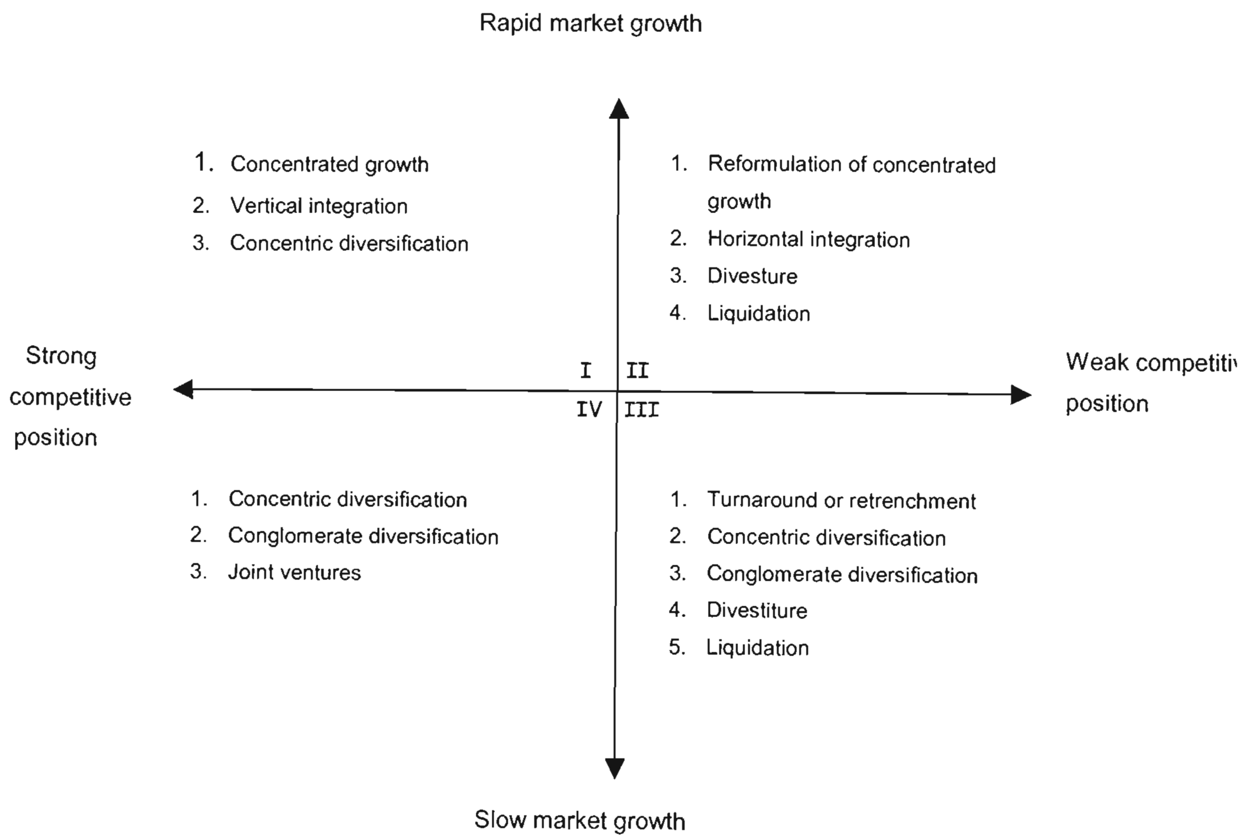
- **MODEL OF GRAND STRATEGY CLUSTERS**

The second guide to selecting a promising grand strategy is shown in figure 2.9. The matrix is based on the idea that the situation of a business is defined in terms of the growth rate of the general market and the firm's competitive position in that market. When these factors are considered simultaneously, a business can be broadly categorized in one of four quadrants, which can be stated as (Pearce & Robinson 2000:317):

I. Strong competitive position in a rapidly growing market;
II. Weak position in a rapidly growing market;
III. Weak position in a slow growth market; or
IV. Strong position in a slow-growth market.

Each of these quadrants suggests a set of promising possibilities for the selection of a grand strategy.

Figure 2.8: MODEL OF GRAND STRATEGY CLUSTERS



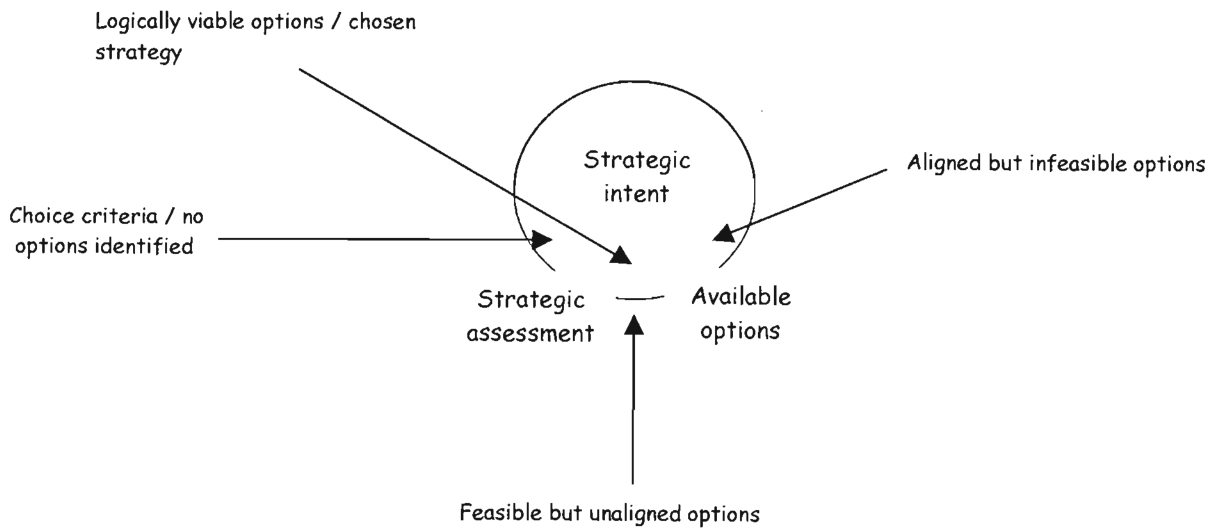
Source: Pearce & Robinson (2000)

The model of grand strategy selection or the model of grand strategy clusters matrices is a useful tool to help organizations evaluate and narrow their choices among alternative grand strategies. It assists in the challenge of how to chart the future and continue to build shareholder value.

2.8.5 GENERAL TESTS OF STRATEGIC OPTIONS

Each strategic option has then to pass two tests based on the logic of figure 2.2 and figure 2.9.

Figure 2.9: CHOOSING FROM AMONG STRATEGIC OPTIONS



Source: Hanson, D & P Dowling, (2001)

2.9 GAP ANALYSIS

In assessing strategies for the future, managers are usually interested with understanding the motive or incentive for change. This entails the extent to which current strategies (if unchanged) would fall short of meeting the organization's aspirations or objectives (Ambrosini, 1998:219). Gap analysis can assist a manager to better understand the dynamics of the competitive environment. Further it can assist an organization to reveal its weaknesses and strengths in relation to its competitors (Ambrosini, 1998:220).

Gap analysis is a technique that can be understood in many different ways. The dictionary defines the word "gap" in a number of ways (Ambrosini, 1998:220):

- As a physical space between things;
- As a period of time when not involved in a particular activity;
- When something is missing that prevents the successful completion of an activity;
- As a great difference between two things, people or ideas.

Recognition of the fact that a gap exists is only one stage in the process. Having recognized that there is a gap, the manager needs to develop strategies that will close the gap, manage the process of the change, and finally, monitor the process to ensure that the same gap does not reappear and, if possible, to open a favorable gap with the competition (Arnbrosini, 1998:220). The process of the gap analysis can thus be portrayed diagrammatically in Figure 2.11 (Ambrosini, 1998:220).

Figure: 2.10- Theoretical Model Of "Gap Analysis"

RECOGNISE THE GAP

↓

DEVELOP STRATEGIES TO CLOSE THE GAP

↓

MANAGE THE PROCESS OF CHANGE

↓

MONITOR AND WIDEN THE ADVANTAGE OVER COMPETITORS

Source: V. Ambrosini, 1998

2.10 EVALUATING STRATEGIES

Having reached this stage there is likely to be a number of strategic options available to a company and these options need to be evaluated. Most organisations follow a more incremental model of strategy development. Never the less, the evaluation of strategic options is an important part of the strategy process, whether largely incremental and implicit or an explicit stage within a formal planning system. However conducted the focus of attention is on the future of the organisation rather than assessing past performance. The primary purpose of this section is to analyse the tools, models and frameworks that can be used in the assessment and selection of strategic options.

In his article "*The Evaluation of Business Strategy*", Richard Rumelt in Wit & Meyer (1998) identified the key criteria against which strategic options need to be evaluated as being consistency, consonance, advantage and feasibility. Similarly, in "*Exploring Corporate Strategy*", Gerry Johnson and Kevan Scholes (1999) identified suitability, feasibility and acceptability as the broad tests to be used. Whilst not identical, there are many similarities between the approaches in terms of the questions that they pose about particular strategic options, as indicated in Figure 2.11 (Wit & Meyer, 1998).

Figure 2.11- Comparing Tests for Evaluating Strategic Options

Johnson & Scholes' Criteria	Rumelt's Criteria
Suitability • Does the strategy address the circumstances in which the organisation is operating? • Is the strategy viable? • Does the strategy exploit core competences?	**Consonance** • Does the strategy address the external environment? **Advantage** • Does the strategy create/maintain competitive advantage in the selected area of activity?
Acceptability • What are the expected performance outcomes and are they consistent with stakeholder expectations?	**Consistency** • Are goals and policies mutually consistent?
Feasibility • Has the organisation got the resources and capabilities to deliver the strategy?	**Feasibility** • Can the strategy be attempted within the physical, human and financial resources available?

Source: Johnson & Scholes, 1999 and Wit & Meyer, 1998.

To the criteria identified above can also be added the following questions:

- **Attractiveness** – does the strategy look attractive in terms of financial returns and the timescale required for delivery?

- **Vulnerability** – what are the risks involved in following the strategy and how significant are they?
- **Validity** – are the assumptions made about the strategy reasonable and justifiable given the context?
- **Achievability** – what is the likelihood of success for the strategy given conditions within the external environment? (Johnson & Scholes, 1999)

All these questions can be combined under the three broad criteria of suitability, acceptability and feasibility, but to find answers to the questions involved in assessing and selecting particular options requires the application of relevant tools, models and frameworks. In Figure 2.12, a revised list of the questions implied by each of the broad sets of criteria are linked to relevant strategy tools.

Figure 2.12 - Framework for Evaluating Strategies – Questions and Tools

Criteria & Questions	Tools, Models & Techniques
Suitability • *Does the strategy address the external environment?* • *Is the strategy viable and achievable given conditions within the environment?* • *Does the strategy build upon or exploit the strategic capabilities of the organisation?* • *Does the strategy create exploit synergy across the organisation?* • *Does the strategy fit with the current corporate culture of the organisation?* • *Does the strategy create maintain competitive advantage?*	- SWOT analysis - PEST analysis - Five forces framework - Strategic group analysis - Market segmentation analysis - Resource analysis - Value chain analysis - Core competences analysis - Activity mapping - Cultural web mapping - Generic strategy identification - Synergy analysis – portfolio; linkages; core competences; management styles - Sources of competitive advantage appraisal
Acceptability • *What are the expected outcomes of the strategy and are they consistent with stakeholder expectations?* • *Does the strategy look attractive in terms of financial returns and the timescale required for delivery?* • *What are the risks involved in following the strategy and how significant are they?*	- Stakeholder mapping - Profitability analyses – return on capital employed; payback period & net present value of discounted cash flows - Risk analyses – financial ratio projections; sensitivity analysis & simulations
Feasibility • *Has the organisation got the resources and capabilities to deliver the strategy?* • *What gaps in resources and capabilities need addressing in order to ensure success?*	- Resource analysis - Value chain analysis - Core competences analysis - Activity mapping - Resource and capability gap identification - Cultural web re-mapping - Stakeholder re-mapping

Source: Johnson & Scholes, 1999

Some of the tools and techniques identified in Figure 2.12 can be used to provide input into addressing the questions under more that one set of criteria. This does not imply that the analyses need to be undertaken repeatedly, just that their results have application in more than one area. The following sections explore each of the criteria in more detail, reviewing the questions and how the tools, models and techniques can be applied.

- **SUITABILITY**

The assessment of the suitability of a particular strategy is concerned with the logic or rationale on which it is based and how the proposed strategy creates and/or maintains competitive advantage. This can be broken down further to assess the extent to which the strategy addresses the challenges of the external environment, is based upon or enhances the resources and capabilities of the organisation, builds or exploits synergies and is consistent with its corporate culture.

It is not unusual for discussions about suitability to stress the importance of fit between the elements outlined above. However, the more important point is that the assessment needs to ask if the strategy makes sense and to identify where there are gaps that need to be confronted – which links into the assessment of feasibility. Using these elements a range of criteria can be articulated as implied by the questions outlined in Figure 2.13. In some cases a simple "yes/no" test will be sufficient, but if a range of options are under consideration then an assessment of the extent to which each criterion is met or surpassed might be required.

Figure 2.13 – Assessing the Suitability of a Strategy

The assessment of the **suitability** of a strategy depends upon answers to these questions:

- *Does the strategy address the external environment?*
- *Is the strategy viable and achievable given conditions within the environment?*
- *Does the strategy build upon or exploit the strategic capabilities of the organisation?*
- *Does the strategy create exploit synergy across the organisation?*
- *Does the strategy fit with the current corporate culture of the organisation?*
- *Does the strategy create maintain competitive advantage?*

Source: Johnson and Scholes, 1999

An environmental analysis is the starting point for assessing whether suggested strategies meet the criteria related to the external environment. The tools and frameworks previously outlined, like PEST analysis, the five forces framework, strategic group analysis and market segmentation analysis may be employed, as appropriate, to identify the main external pressures.

Resource and capabilities analysis underpins the evaluation of the criterion related to capabilities. The tools and frameworks discussed in internal analysis, including resource audit, value chain analysis, core competences analysis and activity mapping may all provide useful insights into the extent to which any strategic option meets the test indicated.

In many organisations, any new strategic option needs to be evaluated within a multi-business context. The creation and management of synergy can provide a major contribution to the organisation as a whole. The range of frameworks and models that may prove useful in this assessment include portfolio matrices, linkages and core competences analysis, the identification of management styles and the parenting matrix. The use of some or all of these tools can help assess the extent to which any new strategy (an acquisition for example) is consistent with, relies upon or can enhance existing synergies within the organisation (Johnson & Scholes, 1999).

Any test of suitability of a particular strategic option needs to consider the extent to which it is consistent with the existing corporate culture of the organisation. Mapping the cultural web allows for a more explicit assessment of how the proposed option may be interpreted and possibly resisted by those within the organisation (Johnson & Scholes, 1999). However, this need not be a passive assessment – the new strategy may well aim to change key aspects of the cultural web as discussed previously in this chapter.

The evaluation of suitability of a new strategy also needs to identify and appraise the sources of advantage on which it is based, in terms of cost efficiency and added value. This can be done by considering its classification within the generic strategies framework and/or assessing the sustainability of the sources of advantage and appropriateness of returns.

- SWOT ANALYSIS

SWOT analysis was introduced earlier in this chapter as a means of summarising how an organisation's capabilities (strengths & weaknesses) matched with the challenges of the external environment (opportunities & threats). This is a simple framework for listing the key points of a largely intuitive analysis. However, the technique can be extended to provide a more rigorous analysis of the current strategy of an organisation and to evaluate the suitability of a range of strategic options.

In their article *Strengths, weaknesses, opportunities and threats (SWOT) analysis* Tony Jacobs, Jill Shepherd and Gerry Johnson show how a simple scoring scheme can be used to assess the impact of each environmental change upon the existing strengths and weaknesses of an organisation. This can provide an evaluation of the current strategy and highlight areas for action in terms of building on strengths or rectifying weaknesses (Ambrosini, 1998:122).

They then go further to extend their scoring technique to the screening of strategic options. Within the context of the assessment of the suitability of a range of strategic options, this adaptation of the technique can provide a useful way of bringing together and summarising the outcomes from the many analyses outlined above (Ambrosini, 1998:122).

This approach works by systematically evaluating the impact of each environmental change as identified from the environmental analysis on the range of possible alternative strategic options. The other analyses can be used to identify the strengths and weaknesses and assess the effects of each option upon them. Using a simple scoring system (such as +3 to –3) to indicate the intensity of the impact, scores can be attributed to each element for each strategic option. Finally, the results from the assessment of each strategic option can be summarised on a combined matrix. By aggregating the scores the organisation will be able to see (Ambrosini, 1998:226):

- Which strategies capitalise on environmental changes, build on strengths and overcome weaknesses, and which do not.
- Which strategy or strategies, in relation to others, are likely to offer the best way forward?

An example of this approach as it could apply to a pharmaceutical company is illustrated in Figure 2.14 (Ambrosini, 1998:127).

Figure: 2.14 – SWOT Analysis: Analysing Suitability of Strategic Options

Strategy A – Impact analysis of forming alliances with biotech companies					
Environmental Changes (Opportunities & threats)	Increasing industry globalisation	Entrance of new technologies	Health care rationing	New diseases & resistance to antibiotics	**Total - Strength or Weakness (+/-)**
Strengths					
Large sales force	0	+1	+1	0	+2
Leading research facilities	0	+2	-2	+2	+2
Global recognition of main product	0	-1	+1	+1	+1
Weaknesses					
No competences in biotech or genetics	+3	+1	-1	+2	+5
No new products in line	+1	+1	-1	-1	0
Over-reliance on main product	0	+1	+1	0	+2
Environmental Impact Scores	+4	+5	-1	+4	

Suitability of all strategic options identified in impact analyses

Strategy	External Changes				Strengths			Weaknesses			Sum
	Increased global-isation	Entry of new tech-nology	Health care rationing	New diseases & antibiotic resistance	Large sales force	Leading research facilities	Global recog-nition of main product	No comps. in biotech or genetics	No new products in line	Over-reliance on main product	
Option A Alliances	+4	+5	-1	+4	+2	+2	+1	+5	0	+2	+24
Option B Global Research	+3	+2	+1	+1	0	+2	+3	-1	+2	-3	+10
Option C Own Biotech. Capability	0	+3	+2	+2	-1	+2	0	-1	+3	-1	+9
Option D Improve on past strengths	0	-1	+3	-3	0	+1	+1	0	0	0	+1

Source: Adapted from A Jacobs, J Shepherd & G Johnson, "*SWOT Analysis*" in V. Ambrosini, 1998

A point of caution: whilst the approach uses scores, a process of qualitative judgements is so spurious that accuracy should not be attributed to the outcomes; the main purpose is to apprise them and present an assessment about the suitability of each option.

- **ACCEPTABILITY**

The assessment of the acceptability of a strategy involves consideration of the anticipated rewards relative to the goals of the organisation. The goals of the organisation are likely to be a reflection of the expectations of its key stakeholder groups (Johnson & Scholes, 1999). Anticipated rewards reflect the possible returns of the strategy relative to the risks incurred. In defining the criteria for acceptability consideration should be given to the questions outlined in Figure 2.15.

Figure 2.15 – Assessing the Acceptability of a Strategy

The assessment of the **acceptability** of a strategy depends upon answers to these questions:

- *What are the expected outcomes of the strategy and are they consistent with stakeholder expectations?*
- *Does the strategy look attractive in terms of financial returns and the timescale required for delivery?*
- *What are the risks involved in following the strategy and how significant are they?*

Source: Johnson & Scholes, 1999

In assessing stakeholder expectations and their likely reaction to any particular strategy, stakeholder mapping can be of considerable assistance. This technique, allows for an assessment of the relative importance of different stakeholder groups and implicitly their expectations. The framework can highlight the alignment of different stakeholders in response to a particular strategy, so providing an assessment of its likely acceptability. However, it can also be used to proactively manage the relationships with stakeholders to improve the acceptability of such a strategy (Johnson & Scholes, 1999).

The assessment of the acceptability of the returns from a particular strategy is frequently defined in terms of financial measures and the timescale needed to achieve them. Organisations often set "hurdle rates" for the return on capital employed of potential strategic options, rejecting those where the projections fail to jump the hurdle. Another measure used is the payback period, which provides an assessment of the timescale required to recover any investment by comparing this with other options under consideration and/or a general timescale limit (e.g. less than two years) applied across the organisation (Johnson & Scholes, 1999). More sophisticated assessment of the returns can be made using discounted cash flow techniques, particularly the net present value of the option(s) under consideration. Only options with positive net present values after using a suitable discount rate (normally linked to the organisation's cost of capital) will meet the criteria for acceptability. Net present values can also be used to rank and adjudicate between a range of possible options (Johnson & Scholes, 1999).

As well as assessing the returns from particular strategies, the risks inherent in the strategy need to be considered for acceptability. Again, a range of financial measures can be used. Break-even analysis assesses the volume of business needed to ensure that the particular option covers its investment and acceptability will be based on an assessment of the likelihood of this volume being met and the consequences of falling short. The consequences of adopting a particular strategy upon projections for the liquidity (short-term financial solvency) and gearing (long-term capital structure) ratios of the organisation also provide measures of the riskiness of a strategy (Johnson & Scholes, 1999).

The acceptability of risk can also be assessed through sensitivity analysis, which allows for the evaluation of "what if" questions about the key assumptions underpinning the projections for a particular strategy.

- **FEASIBILITY**

Assessing the feasibility of strategic options involves considering whether the organisation has the resources and capabilities to successfully implement the strategy. Frequently this leads to an analysis of the tangible resources of the organisation, finance in particular, but a wider consideration of all resources and capabilities should not be ignored.

As well as assessing the feasibility of current resources and capabilities to meet the needs of particular strategies, the gaps need to be identified and an assessment made of the ability of the organisation to address these issues. These criteria are highlighted by the questions in Figure 2.16.

Figure: 2.16 – Assessing the Feasibility of a Strategy

The assessment of the **feasibility** of a strategy depends upon answers to these questions:

- *Has the organisation got the resources and capabilities to deliver the strategy?*
- *What gaps in resources and capabilities need addressing in order to ensure success?*

Source: Johnson & Scholes, 1999

An assessment of the financial feasibility of a particular strategy can be made using funds flow analysis. However, a broader assessment, particularly of strategic capabilities built on core competences and unique resources is important.

The tools and techniques of resource and capability analysis discussed above, such as resource audit, value chain analysis, core competence analysis and activity mapping, can all contribute to this broader assessment of feasibility.

Richard Rumelt in Wit & Meyer (1998) points to several questions that can provide a critical focus in this area:

- Has the organisation demonstrated that it possesses the problem solving abilities and/or special capabilities required by the strategy?
- Has the organisation demonstrated the degree of co-ordination and integration necessary to carry out the strategy?
- Does the strategy challenge and motivate key personnel and is it acceptable to those who must lend their support?

The third of these questions highlights the importance of those within the organisation to the feasibility of pursuing particular strategies. Their impact may be experienced through both the cultural and political contexts of the organisation. Consequently, the use of cultural web re-mapping and stakeholder re-mapping may offer insights into the feasibility of a particular strategy, by pointing to the extent of change required.

Finally, all these analyses may lead to the identification of resource and capability gaps. Any assessment of feasibility will need to assess the ability of particular strategies to bridge these gaps.

Accordingly there are particular criteria available to evaluate potential strategic options developed within an organisation. Whilst there are a range of possible criteria that can be identified, many can be consolidated into three broad categories (Johnson & Scholes, 1999):

- Suitability – an assessment of the underlying rationale or logic of the potential strategy.
- Acceptability – an assessment of risks and returns of a potential strategy relative to the goals of the organisation.
- Feasibility – an assessment of the resources and capabilities needed to achieve the potential strategy.

2.11 THE IMPLEMENTATION PROCESS

When the organization faces major strategic problems or the opportunities of new technologies, it will have to draw up plans to pursue its strategies. Essentially, these need to address the following questions:

- What activities need to be undertaken in order to achieve the agreed objectives?
- What is the timescale for the implementation of these plans?
- How will progress be monitored and controlled?

To turn general strategies into specific implementation plans involves four basic elements (Day, 1984):

- Identification of general strategic objectives
- Formulation of specific plans
- Resource allocation and budgeting
- Monitoring and control procedures

A powerful determinant of successful strategy implementation and execution is how well management leads the process. Different business practices, competitive circumstances, work environments, cultures, policies, compensation incentives, mixes of personalities, and organizational histories all require a customized approach to strategy implementation – one based on individual company situations and circumstances, the strategy-implementer's best judgment and the implementer's ability to use particular change techniques adeptly (Thompson & Strickland, 2001:347).

One-way of bringing the various strategy elements together is the Seven S Framework. Peters and Waterman of McKinsey & Company developed the framework in 1982. Each element is equally important and all need to be considered in the development of corporate strategy: strategy, structure, systems, style, staff, skills, and super-ordinate goals. However, the model does little to explain the logic and the methodology of developing links between the elements. (Lynch 2000: 974)

2.11.1 STRATEGY AND STRUCTURE

Matching structure to strategy centers around making strategy-critical activities the main organizational building blocks, finding effective ways to bridge organizational lines of authority and co-ordinate the related efforts of separate internal units and individuals and effectively networking the efforts of internal units and external collaborative partners (Thompson & Strickland 2001: 375).

2.11.2 STRATEGY AND SUPPPORT SYSTEMS

Company strategies can't be implemented or executed well without a number of support systems to carry on business operations. Accordingly well-conceived, state of the art support systems not only facilitate better strategy execution but can also strengthen organizational capabilities enough to provide a competitive edge over rivals. Further strategy-supportive motivational practices and reward systems are powerful management tools for gaining employee buy-in and commitment (Thompson & Strickland 2001: 405).

2.11.3 BUDGETS

Finally any change in strategy nearly always calls for budget reallocations. Reworking the budget to make it more strategy-supportive is a crucial part of the implementation process because every organization needs to have the people, facilities and other resources to carry out its part of the strategic plan (Thompson & Strickland (2001: 405).

2.12 CONCLUSION

Managers conceive and implement strategy in the context of organisational history, environmental complexity and uncertainty, and prior individual experiences. Despite having to tackle emergent, short-term operational challenges, they must also take time to consider strategic management questions about the long-term direction, growth and profitability of the organisation. Fundamental questions arise from concerns and issues relating to corporate mission and governance and how the organisation should develop: growth through self-reliance or via acquisitions; diversification, multi-business portfolios and internationalisation; the role of alliances and the management of knowledge specific to the firm, for example. Managers also have to implement and apply processes of business planning and decision-making, appropriate forms of organisational structure, culture, leadership style and initiatives for constructive change. Looking into the future, strategies often seem much less obvious than they do in retrospect. Leaders who articulate a clear vision of the future may sound convincing, but how can others test the robustness of what they propose?

CHAPTER THREE: STATE OF THE INDUSTRY

3.1 INTRODUCTION

The one constant in the banking industry is change. As clichéd as that may sound, it is nevertheless true of the industry in many aspects. According to the December 2002 financial statement of the Nedcor Group, in a commentary on the state of the banking industry, it has been mentioned that no fewer than 50 banking licences were cancelled either through consolidation or through voluntary termination. It goes on to say that though there is some concern with the degree of concentration in the industry in South Africa, this is not out of line with comparative emerging economies (Brazil, Chile, Turkey) and in order for local banks to become competitive with their international peers on cost, volume and distribution, further consolidation may be necessary. Cost structures as measured by the cost to income ratio (for example, cost of 67cents for every R1 earned) are key in the way banks are judged and thus far the South African industry are way above their international counterparts.

South Africa, and indeed Africa, is looking more and more attractive for overseas banks to be invested in and old stalwarts, such as Barclays and Standard Chartered bank, which left the country during the apartheid regime, have made a reappearance (Barclays in a joint venture with Standard Bank and Standard Chartered has acquired online bank Twenty Twenty from the defunct Saambou Bank). The increased number of players in the industry, particularly overseas niche banks that are not encumbered by bricks and mortar of the traditional local institutions, has led to increased competition.

Whilst the industry has been warding off the competition and have been busy aligning the business with the changes in the industry, it would appear from the authors point of view that at some time or the other, the customer has been somewhat overlooked. The point is that change is endemic to the industry and whilst the players are looking to secure their positions in the industry, it is an absolute imperative that it does not lose sight of its most important asset- its customer base.

3.2 STRUCTURE OF INDUSTRY

The industry is dominated by what is commonly referred to as the 'big four' banks, namely, Standard, ABSA, First National, and Nedbank. Between these four institutions they have about 6 million customers (Business Report, Natal Mercury, 09July2003). This constitutes over two-thirds of the market share (Nedcor Annual Report, December 2002). Investec is also a major player in the industry, after which there is a flurry of smaller institutions.

Whilst there are differences in the organisation structures of the various banks, in general the broad basic structure is roughly the same. For the purposes of this paper and merely by way of background information, a simplified overview is more than adequate. The basic structure of the major local institutions is as follows:

3.2.1 RETAIL BANKING DIVISION

This area consists essentially of the traditional banking business, which comprises the branch network and the automated banking structure. The business is made up mainly of personal customers and small and medium enterprises.

Included in the personal client base are the low income (commonly referred to in the industry as the mass market), the middle income, and high income/ high net worth customers. This is chunky portion of the business and by far makes up the largest portion of the customer base.

Some institutions, like Standard Bank, for instance, include in their structure an interim level comprising of business customers that are not large enough to be corporate (as in the listed companies), but are bigger, in terms of turnover levels than what is traditionally classified as small and medium enterprises. This is referred to as the business-banking unit. Within Nedcor's structure this falls under the Wholesale division.

3.2.2 WHOLESALE DIVISION (also called Corporate Banking)

This is essentially the corporate business market consisting mainly of the listed companies in the South African market. In numbers this constitutes a small portion of the total business, but in terms of earnings, contributes a sizeable proportion of total revenues of the organisation (39% of Nedcor's earnings and 26% of Stanbic's 2002 earnings as per their December 2002 financial statements).

3.3 SEGMENTATION PARAMETERS

The above distinctions are clearly based customer characteristics such as income level and type of customer, and demonstrate how this influences organisation structure. This is critical in the segmentation process, which is the basis of dividing the client base into manage-able units and tailoring a strategy around each segment. This will be commentated on further later on in this chapter.

Whilst the impact of geographic location and functionality cannot be overlooked, this is not important to the discussion. The major banks have international and African operations that offer a variety of services. In addition, each of the major players has an affiliation with a life assurer. For example, Nedcor with Old Mutual, Standard with Liberty Life, ABSA with Sanlam, and First National Bank with Momentum. As we shall see later, this relationship is critical to the industry and goes beyond a relationship of shareholding; it is relationship that is key extracting greater value from the client base.

In very broad terms, this is the structure of the major institutions within the industry. So then, are all (major) banks the same? Yes and no would be an appropriate response. There are many similarities in the business models of the major banks. Differences are largely one of systems and processes. Product offering is hardly a distinguishing feature. What the one institution offers can equally as well be obtained at any other of the banks – cheque accounts, investments, loans, and so forth. The above descriptions tend to simplify the position, but nevertheless give a general understanding of the overall structures of these institutions. It also demonstrates the significance of customer characteristics in defining organisational structures.

A reference to the financial statements of the big four banks reflect earnings broadly reported in terms of segments. Nedcor's 2002 financial statements report earnings in terms their Retail, Commercial, Corporate and Investment, divisions. Reference is also made to their international and Private bank (Gerard) divisions. Standard Banks financials also make reference to similar groupings for purposes of reporting on earnings. The segmental approach based on customer characteristics is particularly useful having regard to the fact that the CRM is aimed at influencing how we interact with our various customers and the different categories of customers will influence the CRM strategy.

3.4 SEGMENTATION OF THE CLIENT BASE

Whilst the previous discussions with reference to the retail and wholesale approach to the business is useful in that it sets out the broad parameters of the organisations within the industry, the segmentation argument needs to be developed further. The customer base is broadly divided into the personal and business markets, each with its own characteristics. The personal customer base resides in the Retail Division of the bank along with the small and medium sized businesses, whilst the Wholesale Division houses the corporate customer base.

3.4.1 PERSONAL MARKET

Within this market customers are divided into segments based generally on income levels. These levels are categorised as:

Income Range	Segment
R500-R4999	Mass market
R5000-R17499	Middle Income
R17500+	Affluent

It must be emphasised that these categorisations are not cast in stone. Certain institutions are comfortable with classifying individuals earning R12,500 per month as being affluent. Whilst the income levels are not material, it is nevertheless important because it stands to reason that the institution will direct more resources towards the affluent client in the knowledge that this segment of the client base has a bigger wallet and therefore more likely to be in a position to purchase institutions goods and services. To clarify the statement that income levels are not material, one must consider this in the light of the fact that banks offer a differentiated service to certain professionals such as medical doctors based not on their current income, but on their expected future income generating potential.

An affluent segment customer is more likely to take up a hire purchase agreement over a motor vehicle than a mass-market client. However if affluent income levels were set too low, say R6000 per month for example, the likelihood of a sale emerging from marketing efforts directed at this customer base is less likely than if the income levels were set at R12,500. Thus to reiterate, the actual income levels as contained in the above table is not an issue, but institutions need to take this into account in decisions relating to what effort is needs to direct at each segment and what the objectives are of that effort.

3.4.1.1 MASS MARKET

This segment is characterised by a huge number of low income earning clients. It is driven by volumes of transactions rather than focused marketing. The preferred strategy of servicing this segment of the market is via the electronic medium such as automated teller machines. Clients are provided with electronic cards and usually have little or no need to call into the bank branches. Those that prefer not to utilise the electronic delivery channels are usually penalised by high transaction charges if they are serviced within the branch. Whilst this may seem harsh, it is imperative in order for banks to service this segment in a cost efficient manner. The 80/20 principle applies here as generally this segment consists of about 70-80% of the customer base and contribute 20-30% of total revenue.

The industry usually adopts a 'low touch' approach to this segment in that no effort is made to ring-fence or protect the relationship. In essence a relationship does not exist! The customer is not known personally to the bank and is usually identified by an account number.

It is an unfortunate consequence of the past (political regime) that this segmentation approach has become politically sensitive in that the majority of clients in this base are black, and the industry's approach has been construed as being 'discriminatory'. There is however greater acceptance of this approach recently with the increased focus by the industry to make banking facilities more accessible to the previously unbanked. Systems have been put into place by all the major players to make personal and home loans accessible to the market on a reactive basis and products such as low value low premium life assurance products have been tailored to meet the needs of this segment.

It is apparent from the afore-going that CRM is not a feature of this segment of the client base. Nevertheless, strategies around this market aim towards reaching critical mass in order to be economically viable.

The major banks have all set up separate divisions to service this market. Nedbank have their People's Bank Division and Standard have eBank (the 'e' standing for electronic). Nedbank's recent acquisition of BOE Bank, also gave it access to their hugely successful NBS Bank network that focussed on this market segment. Thus whilst as mentioned previously CRM is not a key feature of this segment, the industry nevertheless recognises the importance thereof. In its financial report as at December 2002, Standard Bank refers to the substantial potential of this segment and the fact that it features prominently in the bank's future strategies.

3.4.1.2 MIDDLE INCOME MARKET

An important distinguishing feature in the way the industry interacts with this segment of the client base is in product offering. Whereas the mass-market client would not be offered or qualify for chequebook facilities, the middle-income segment does. Access to chequing facilities in itself though is not the be all; the cheque account is merely used as the launch pad to interact with the client.

The industries socio-economic view of this segment is one of an upwardly mobile client base, with an appetite for products and services that promote and encourage their life-styles. Consumption expenditure is credit driven and loan products such as personal loans and credit cards are actively sought . The market consists of white collar, skilled, semi-skilled, and professional clients. This segment is usually the largest in value terms of credit facilities such as motor vehicle and home loans, and ancillary services such as life assurance products, foreign currency for travel, credit card facilities, and numerous other products and services.

This market segment is critical in driving the banc-assurance model adopted by all the major banks and is key in terms of justifying the tie up between banks and assurance companies. Banks dedicate vast resources to this segment is terms of electronic product offerings (internet banking), and people such as personal bankers and personal investment planners. Personal relationships are forged and the client is usually known by name and personal details rather than account number. When these clients come into a banking hall, they are accorded preferential treatment. Certain institutions such as ABSA and Standard Bank have separate queues and dedicated personnel to serve this customer base. Other institutions such as Old Mutual Bank (previously Perm Bank) offer the customer coffee and newspaper whilst waiting. In addition their branches are dedicated entirely to servicing this segment of the client base and others, such as the mass market client are directed to electronic outlets (Peoples Bank) so as not to crowd the banking halls and inconvenience the middle income segment customer.

3.4.1.3 AFFLUENT MARKET SEGMENT

This segment of the market consists of the top end of the personal market in terms of income and personal wealth. All the major institutions in the industry have set up what is known as the Private Banking units, which looks after this segment. Very close personal relationships are forged with these clients. Relationship managers are allocated to look after these clients, as opposed to the personal banker (non-managerial), which looks after the middle-income customer segment. The value proposition governing this segment is taking the bank to the client, not waiting for the client to come into the bank. In the event the client does in fact wish to call on the bank, he is invited to plush offices that are distinguished from the usual banking halls that one is used to seeing in the industry. These offices are usually in the best part of the major cities such as Umhlanga Ridge in Durban and Sandton in Johannesburg. Bank personnel are deployed to the clients' place of work or residence in order to interact with the customer. The client is entertained by the bank and enjoys various preferential services such as estate planning, discretionary portfolio management, equity trading, and fiduciary services such as trusts and wills and such that is not readily available to the rest of the client base. Differentiated products such as Platinum credit card facilities are offered to the client that has value add services such as access to first class airport lounges and concierge services, for example. The customer is made to feel special and differentiated.

Relationship staffs are usually well qualified (CA's, BA LLB and such) and are responsive to the clients needs; customer satisfaction is paramount. The client is provided with a cellular phone contact number so that the relationship manager is always on hand. The linkages between marketing, customer service and quality is closely monitored and exploited. Retention is key; the bank endeavours to lock in the customer through exceptional service levels and cross-sell and the client is closely guarded. These clients get to meet and be entertained in special ways (theatre, dinners, personal gifts) by the general manager of the bank.

3.4.2 BUSINESS MARKET

This comprises of the corporate (usually listed companies) clients and the medium to small size businesses. Here again, the distinctions are based on turnover level, and whilst there are minor differences in the parameters used by the various banks they are generally similar.

3.4.2.1 SMALL AND MEDIUM ENTERPRISES

Small businesses are generally those with a turnover of less than R5 million, and medium sized enterprises are those with turnovers in excess of R5 million per annum bur less than R50 million, but are not listed companies. The small and medium enterprise market is serviced in much the same way across the banks. Managers are assigned a portfolio of customers and interact with the enterprise owners on a one-on-one basis. Customers call into the branches or business centres and meet with a business manager whom provides advise on a variety of areas, as well as the various standard off the shelf products and services designed for this market.

3.4.2.2 CORPORATE ENTERPRISES

The corporate business we mentioned is usually listed companies and these account relationships are usually housed in the Wholesale Division of the bank. In addition, corporate customers at Standard Bank include those customers that have turnovers in excess of fifty million rand per annum. The corporate customer enjoys the services of a dedicated relationship manager. Portfolio size is much smaller than those in the small and medium business market and as in the Private banking individual market; these corporate relationships are usually very close. Product offerings are distinguished, and comprises of simple to extremely complex financial solutions custom made for the client's business. The critical importance of this segment is highlighted by the fact that whilst the number of customers is small (as at 2002 there were 418 listed companies in South Africa), contribution to earnings is significant (39% in Nedcor and 26% in Standard Bank as at December 2002).

As will be seen later, this customer base forms the basis on which Standard bank implemented its CRM initiative.

3.5 THE DATABASE

The backbone of the financial services industry is its technological capability. The vast amounts of information that it gathers on its customers can only be effectively managed by its information technology capability. How it manipulates this vast quantity of information to provide excellent service quality and attract and retain good customers is the domain of CRM. However the integrity of the information contained in the database must be beyond reproach. Over the years, banks have evolved from a manual system of information management to computerised systems. In the computer age, systems have been implemented, overhauled, and changed. Whilst this process was meant to be seamless, the reality is that there have been system failures and corruption of the database.

3.5.1 DATA MANAGEMENT PRE –1990's

As surprising as it may seem, the process of capturing customer information onto computers is a fairly recent phenomena in the banking industry in that it was only implemented from the seventies using rudimentary technology. In the eighties, the only information available off the banks database was information of a demographic nature i.e. the usual name, identity number, age, address, and such. Customer history and track record was a matter of manual record keeping. For instance, every cheque account holder had a file opened in his or her name, or in the business name. Into this file, such information as the conduct of the account (dishonoured cheques, etc), correspondence, history, was inserted. This involved manual record keeping. When the customer called into the branch where the account was held and discussed certain issues, the manager or whoever interviewed that customer would prepare a summary of that discussion and place it in the file. This information was then only available to the members of that particular branch of the bank. If no summary note was made of the interview because someone did not feel like it, then the details of that particular client interaction was forever lost. Even worse, when for example a manager retired or left the bank for some reason, the client almost had to re-establish a relationship with the next incumbent. Unless the previous bank employee kept a comprehensive record of the clients' affairs, continuity of relationship was compromised. The system was fraught with problems and the relationship usually proceeded jerkily from interaction to interaction. It was unheard of for the bank to initiate a sales interaction with the customer. The customer usually did this; if the client needed a product or service offered by his bank, he called on his bankers. The only time the client heard from his bankers was when there were problems such as insufficient funds in the account to meet a cheque that had been issued. In other words, the bank initiated those interactions that were generally of a negative variety rather than those that enhanced or progressed the customer-banker relationship. Whilst this is a generalisation, it is nevertheless the over riding feeling; the author has had ten years experience in a customer relationship role and still to this day hear these comments about banks and their arrogance and the fact that they do not hear from their banks unless there is a problem.

3.5.2 DATA MANAGEMENT POST 1990

From the nineties, the database management system began to change in all the major banks. Customer information other than those of a purely demographic nature was placed onto the database. When a client called into the bank, details of that interaction was captured onto the customers' history file that was housed in the banks computerised database. Details such as customer correspondence, details of bounced cheques, record of transactions passing through the account, and other such information were now available off a central repository to be accessed and viewed by multiple users. Whilst under the previous manual record keeping system, the customers history was only available to the personnel of that particular branch where the account was housed, under the new system, the customers' history was available to users in various areas of the bank. The significance of this will become apparent later. A customer could walk into any branch of the bank and his records could be accessed off the central database without the need for the client to call into his own bank branch. This was the next stage in convenience banking after the appearance of automated teller machines, which whilst it made life easier, did little to enhance the relationship with customers. A customer with an account in Durban could call in to a branch of the bank in Johannesburg and be attended to in a seamless manner. All the information relevant to that client was available in the central database and with the press of a button could be accessed from any customer interaction point within the bank. If the customer called into his bank in January and thereafter at the year-end in December, a record of the January inter-action will still be on hand to provide continuity. Certain banks such as ABSA offered customers a single account number for life so that the number did not change no matter which bank the customer held his account. Others such as Standard whilst not offering this facility nevertheless focussed on 'bank at any branch' processes so that it was irrelevant where the customers account was held, as she or he could call in at any branch of the bank and enjoy hassle-free banking. Thus a customer re-locating from Durban to Johannesburg did not have to transfer his account to a branch in Johannesburg and suffer the inconvenience of changing account numbers.

3.5.3 OPTIMISATION OF DATA MANAGEMENT

It is difficult to imagine that something as fundamental and as simple as this was not in place until only recently, and is as much testimony to the advances in technological systems as it is to a realisation by the banks of the critical need to manage the customer relationship in a manner that optimises the value of each interaction and offer the customer quality service. With this realisation the have been various initiatives that are designed to enhance valuable relationships and ultimately improve profitability, for at the end of the day valuable relationships mean nothing to stake-holders unless they contribute to the top and bottom line. Customer Relationship Management is one such initiative. Banks have put in place smart systems that are technologically driven to order the client base in a way that allows the bank to tap into the value therein. First National Bank have implemented a system called Common Knowledge, whilst Standard Bank and Nedcor have implemented Siebel. In itself, these mean nothing. As mentioned earlier, CRM is not a plug in solution to managing the customer base. Installing a very expensive software package called Siebel does nothing, if the fundamental paradigm on which the bank interacts with its customers is not overhauled. Paradigms are questioned and it is no longer enough to go forward on the basis that that is how things have been done and it has worked well; if it has worked well, then lets try and make it better. With this in mind, we shall proceed to look at the process in Standard Bank.

3.6 CRM: IMPLEMENTATION AT STANDARD BANK

CRM was introduced at Standard Bank. The bank's decision was to implement the process in their Wholesale Division, which dealt with the corporate client base, made up principally of the listed companies and large corporates with turnovers generally in excess of fifty million rand per annum. Keeping in mind the 80/20 principle, whereby it is held that 20% of customers contribute 80% of business, the underlying reason for focussing on this customer base becomes apparent. First things first, the bank in its handbook to staff during the rollout process focussed on the following definitions of CRM, sourced from the website www.crmguru.com:

- "Real CRM is serving customers in a way that makes them feel valued, while at the same time making a good return on investment for our investors"
- "CRM is leveraging of people, process, and technology to optimise the way we market to, sell to, and service customers."
- "CRM refers to a customer-focused approach to building long-term customer loyalty through the creation of emotional as well as functional value for the customers and the cultivation of an emotional attachment to the firm and/or brand"
- "Real CRM is the process of getting, keeping and developing customers as measured by number of customers, customer profitability, customer behaviour, and customer satisfaction and also making the company customer-centric in terms of organisation, communications, an information."

- "CRM starts with understanding the needs and goals of the customer and determining if your business is equipped to fulfil them. It ends with equipping your business to follow through to deliver on this understanding."

The point has been made. CRM offers the essentials of happy customers, increased sales and an improving bottom line. Getting it right means happiness. Whilst this may seem to be an emotional statement, the general feelings around the CRM project have been emotional; the process has prompted much passion and strong feelings from the top executive management level to the bottom. The commitment in making sure the project succeeded was evident in many aspects, the planning, the execution and rollout, the training, and in the resources expended in terms of covering all aspects to ensure success.

3.6.1 THE PLANNING

In 1999, Standard Bank faced the unhappy prospect of a hostile take over bid by Nedbank, which it resisted and overcame. The circumstances that led to the event is complex and not of importance. The banks reaction and subsequent response is. The bank embarked on a process of rejuvenation, which saw the then CEO step down to make way for a much younger candidate, the current head Jacko Maree. This was also done in the various divisions; age and experience made way for youth and energy. The Retail, Commercial and Corporate banking divisions embarked on a process of re-engineering the business in a way that will ensure that it was never faced again with the threat that it had managed to overcome. It was an extremely critical period in the banks history and it came away with flying colours. Standard is one of the strongest players in the industry and has performed consistently well and has been lauded by analysts. To date, the process of continuous improvement has not stopped- the business has been tuned and constantly fine-tuned so as to remain ahead of the competition. At all times, the bank constantly watches the competition, mindful of changes and competitive threats.

3.6.2 RATIONALE FOR CRM

The vision was simple- being the best financial services organisation with the most number of satisfied customers. This vision will be discussed in further detail later in this paper. The strategy had to support this vision, a key element being to satisfy the customer. The focus on the customer was absolutely paramount. The pool of valuable customers was finite and the bank had to attract, grow and retain these customers. The competitor banks of course realised this as well and were striving to do the same. Standard had to remain ahead of the competitor. A decision was taken to change the structure of the organisation (see below) as part of the customer strategy. CRM was introduced as a means of improving service levels to customers and improving profitability of the client base. The decision was to roll it out to only the corporate client base at this stage as this represented the most profitable segment of the total market and thus the one most susceptible to competitor threats.

3.6.3 WHY CRM

In the early stages of the planning process, fundamental questions were asked about the present business model and how CRM would enhance the business. One of the early stumbling blocks identified was that the bank was operating in silos rather than as a single business unit and was perceived as being separate units by the customer. Within the wholesale division, 13 distinct units were recognised. Each of these divisions was acting independently and the customer was not enjoying a co-ordinated coherent experience in interactions with the bank. This also resulted in opportunities being missed or squandered and thus less than optimal value being extracted from client interactions. The conclusion was that the whole was greater than the sum of the parts and they (the divisions) had to be pulled together.

3.6.4 CRM AND ORGANISATIONAL STRUCTURE

One of the fundamental features highlighted in the early stages was that the organisational structure was not suited to the integrated approach that was necessary to supporting CRM. The bank had three 'entities' within the same organisation viz. the Retail bank, the Commercial Bank, and the Corporate and Merchant Bank (which functions as a single unit). This meant duplication of structures and reinforced the silo effect that was evident in the way clients were serviced.

Between the Commercial Bank and the Corporate and Merchant bank there were numerous overlaps in the client /market they serviced. These were the medium to large corporate customers. It was recognised that this customer base was responsible for the majority contribution to the organisations revenues. The value propositions of how these clients were serviced were similar in the commercial and the corporate banks i.e. close personal one on one interactions with clients, and yet there wasn't a consistent approach in the way the bank interacted with these clients. In addition, there were two separate structures that performed roughly the same functions, which meant duplicated costs.

In 2002, a decision was taken to collapse the commercial bank structure into the corporate structure. This decision was implemented in the early part of 2003; the Commercial Bank disappeared and what were left were the Retail and the Corporate and Merchant Bank divisions. The medium size corporate clients from the Commercial bank were absorbed into the Corporate Bank environment and this provided the critical mass needed to undertake the CRM project. The substantial resources needed to implement CRM meant that the cost benefit implications had to be closely watched and supported by the organisational structure, which was achieved as above.

With the integration of the Commercial and Corporate Banks the bank then focussed on the structures of the enlarged Corporate Bank along product/ service and geographical lines. With the banks presence in Africa and overseas, the best way was sought of ensuring accessibility of the

products, services and expertise resident in the Bank to all clients no matter where in the organisation they resided.
Within the corporate (wholesale) environment, the various divisions that existed had to be knitted together in a manner that improved efficiencies and avoided duplication and unjustified costs. It was recognised that there had to be a way of ensuring that these units were integrated in a way that allowed them to have a holistic view of the customer and function as a coherent whole. CRM was recognised as the thread to pull it all together.

3.6.5 CROSS DIVISIONAL TEAMS

In order to overcome the silo effect, the virtual team concept was introduced. This recognised that customers dealt with various divisions which in essence were centres of excellence and that in order to service the customer in a coherent way, the different divisions had to have a single view of the customer. Hence the need for co-operation across all divisions with which the customer interacted. Very simply, all divisions within the corporate bank environment had access to the Siebel CRM system, and all interactions were entered onto the common framework. When a customer interacted with one division of the bank, and it was recognised that there was a need to refer the client to a team member in another division, the referral was done via the logging of an opportunity onto the common framework. This triggers of a reaction from the division that needs to take action, and the transaction/ opportunity is tracked systematically until it has been finalised.

3.6.6 CHANGING MINDSETS

CRM set out to challenge mindsets. In the planning, the bank looked at the present and now thinking to what should be. Some of the areas that were identified as needing to change were summarised as:

- Changing from a business unit-product-client mindset to a client-product-business unit mindset.
- Moving from incremental sales to aggressively pursuing bigger share of wallet.
- Working as teams across business units rather than as independent businesses units.
- Change in thinking from a bank perspective to focussing on helping clients to succeed in their business.
- Change from focussing on sales to focussing on the economic and relationship worth of the client.

These are some of the areas identified as being problematical and that needed to be addressed. Staff had to buy in to the concept and numerous workshops were run to communicate the rationale.

3.6.7 THE VISION

The strategic vision of the bank with regards to its CRM project can be summarised as follows:

To increase the number of right clients i.e. clients that add great value to the business. This bears out the earlier assertion that it is not imperative to retain and give the best service delivery to every customer.

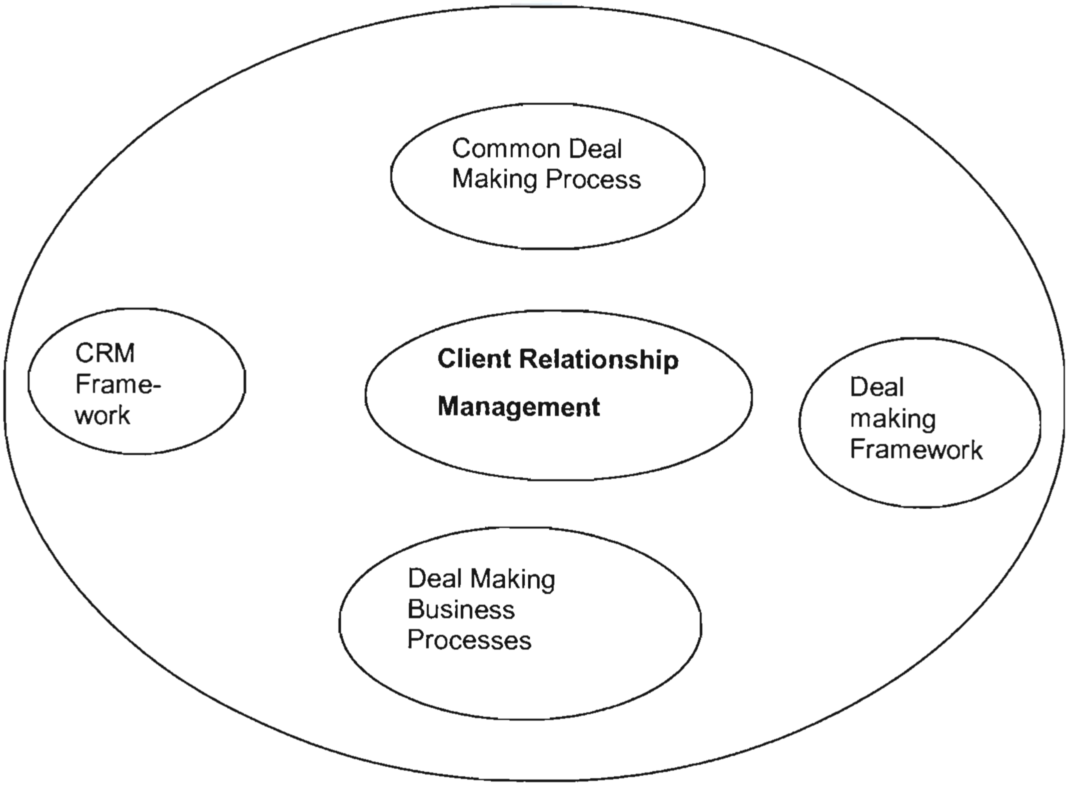
- To increase the number of products per client through deliberate cross selling. This differs from the situation where the bank lurches from interaction to interaction without any apparent plan and usually relying on customer initiated interaction opportunities.
- To increase the profitability of clients as measured by the revenue generated by each client.

This is set out in the CRM handbook handed to all staff at the CRM workshops in an effort to get buy in and understanding of the need for the project.

3.6.8 CRM: THE STRATEGY

The business strategy was to put the client first and position the bank (around the client) so as to improve their relationship with the customer, thereby increasing revenues. This involved a CRM Framework (Siebel), a Common Deal Making Framework, and Deal Making Business Processes (see below). This basic outline was premised on the fact that everything the bank does revolves around the customer. From the relationship we have a flow of deals (i.e. transactions that lead to a sale of a product or service) that need to be harnessed and channelled through a pre-planned process leading ultimately to the finalisation of the deal (sale), thus satisfying the customers needs and improving revenues. This is illustrated by the following:

Figure 3.1: Deal making framework



Source: Standard Bank

3.6.9 THE CRM PROCESS

The fundamental thinking in CRM is that instead working from the inside out (business to client), one needs to start from the outside and work inwards.

This involves answering questions such as whom our clients are and what are their needs, and then asking ourselves what we need to do or change to meet those needs. It is that simple. Once the organisation has answered these questions then it can start to look ahead to position itself for the future.

3.6.9.1 LOOKING OUTWARDS

The first step of the process involves segmentation of the client base. In the previous paragraphs the various parameters of segmentation were discussed. The focus from now on is segmentation as pertains to the corporate customer base. In other words, having recognised the broad segment of who the Corporate client was, the bank had to drill down into this client base and further fine-tune the clients within this segment. Identifying what constitutes the corporate customer i.e. all listed companies and corporate businesses with turnovers in excess of R50 million with bank accounts within the organisation was the first step. Within this broad grouping, the bank further segmented the client base based on a scoring system under-pinned by various criteria. Broadly these are:

Figure 3.2: Segmentation of Corporate client

QUALITATIVE MEASURES	**% OF SCORE**
Strategic importance – Size 4% - Credit risk 6%	10%
Discretionary adjustment	20%
QUANTITAIVE MEASURES	
Current financial value	40%
Future potential growth	30%

Source: Standard Bank

The above table highlights the basic tenets of the segmentation process. Each customer is measured against these parameters to take into account the size and importance of the customer, its credit risk profile, its current profitability, and the projected future profitability. The interesting aspect is that the process takes into account the future revenue potential of the customer as well and in this way confirms the forward looking approach of CRM- how to extract value from the customer base not in the present only, but in the future as well. In essence, this recognises the lifetime value of the customer.

Using the results of the above process, the customer base was arranged into four tiers from Tier1 to Tier4 based on value of the customer and their contribution, where Tier 1 was the most valuable/profitable and Tier 4 the least. The result was that of the 4,249 clients identified, 47 Tier 1 clients accounted for 54% of total revenue, whilst 3,999 of the Tier 4 customers accounted for 14,8% of revenue. The balance of 31,2% of revenue came from the Tiers2 and 3 customers. The 80/20 principle is clearly demonstrated by these figures.

3.6.9.2 INCREASING RETURNS

Having identified the various customer tiers and profitability of each client, the bank looked at the product usage of each customer and arrived at the conclusion that the more products/solutions a client had with the bank, the more value the client receives from the relationship and the more value the bank obtains from the relationship. Simply, in order to leverage value from the relationship, the bank had to ensure cross-sell success.
This raised various challenges. How does the bank support and develop top clients? How does the bank provide clients with pro-active solutions? How does the bank effectively work together across all business units with a single view of the customer? This was the challenge- the need for an integrated customer strategy across all business units so that 'the left hand knew what the right hand was doing'. This meant that the bank had to take an inward look at itself.

3.6.9.3 LOOKING INWARDS

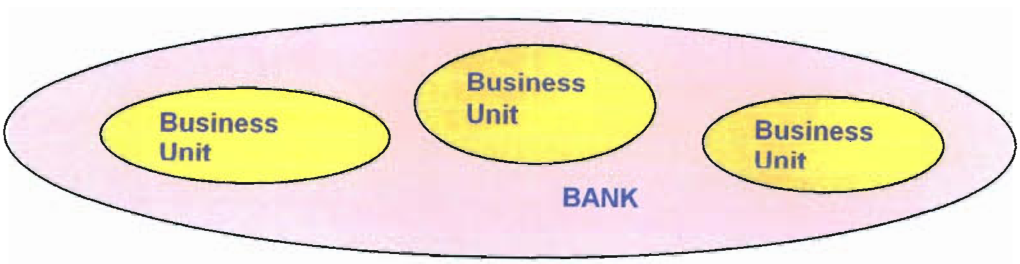
Having identified whom its clients are and what their value was to the bank, the next step was for the bank to take a look at its structures and how these were positioned to support servicing of the client. This proved to be an eye opener; the bank realised that the various business units/ divisions operated in silos when it came to customer interactions. Most business units had little knowledge of how clients were serviced by the other units. Knowledge of the customer was often fragmented and uncoordinated. Clients themselves had the frustrations of different experiences with the various units of the bank and there was no consistency. The various business units had little or no knowledge of what other services the client enjoyed with the bank. There was no single consistent view of the bank by the customer and no single consistent view of the customer by the bank. To illustrate the point, this is what the client sees:

Figure 3.3: Clients view of Bank

Source: Standard Bank

What the bank wants the client to see was a coherent single unit as illustrated below:

Figure 3.4: Desired Client view of Bank



Source: Standard Bank

In order to unify this fragmented view of the client and the bank from either side, there had to be a shift in the way the bank did business. CRM provided this shift from having isolated relationships with customers in separate business units to understanding and managing clients in a coordinated and seamless way. This involved a change in mindset and thinking. It involved a 360-degree view of the customer and thinking out of the silos that the various business units functioned as. Past mindsets were challenged and up-staged. Business units and the staff within these units moved from an independent individualistic approach to a collaborative teamwork approach. The focus was first most on the client and then the business unit. Rather than focussing on individual deals the focus was on the economic profit and the worth of the total relationship. The strategy had to take into account what the bank wanted to achieve and put in place a framework that will weld all the various components into a coherent whole.

Next the bank had to analyse the framework within which deals were done as this process ensured effective cross-sell of solutions to the customer.

3.7 THE DEAL MAKING STRUCTURE

It was stated previously that in order to leverage value from the customer relationship the bank had to cross-sell as many products and services to the client; there had to be a flow of deals that was channelled through a predetermined process. This involved the bank examining the processes that make the various business units operate. Some processes were common across all business units whilst others were unique to particular business units.

It was agreed that there had to be a single common deal-making process that was applicable across all business units. This involved:

- Identifying the lead.
- Qualifying the lead.
- Structuring a solution.
- Proposing the solution to the customer.
- Closing the deal.
- Post deal management.

This provided the tool for recording and tracking all opportunities through the various stages, from identification of the lead to post deal management. In addition training was provided on the way to approach deals and how to manage the progression of the deal through the various stages. This involved training in sales skills through use of a licensed service provider. All divisions had access to a common database that gave the staff in these divisions a unified view of the customer. Where an opportunity presented itself for a deal to take place, the system was engineered for this opportunity to be placed onto the database in order for all participants to view and progress.

3.7.1 DEAL MAKING PROCESS

The bank then examined the business processes involved in progressing the deal and engineered these processes onto the CRM system so that all users followed a common approach. Whilst there was a danger of over-engineering the processes, the framework nevertheless had to be sound and capture all the critical processes in deal making. Once this was done, comprehensive training was provided to ensure that all users were competent. In other words, once an opportunity was identified, it had to follow a pre-determined process regardless of where in the bank the opportunity originated.

3.7.2 DEAL-MAKING COMPETENCIES

Siebel Systems, the technological service provider identified the broad deal making competencies as:

- Building and executing strategic account penetration plans by mapping the process for doing business with clients. This involved tapping into the existing account base and new customers.
- Cultivating basic selling skills such as establishing rapport with the customers, uncovering needs, relating benefits to product features, handling objections and closing the deal.

In addition, Siebel also identified the following seven competencies, based on research conducted within several leading organisations. These are:

- Aligning the strategic objectives of the client with the supplier by identifying new opportunities and applications that add value to the client and enhances the relationship.
- Discovering the potential for business process improvements and opportunities that add value for the client's customers. This means going beyond mere product to solutions.
- Understanding the financial impact of decisions on both the clients and suppliers' organisations. This involves quantifying and communicating the value of relationships.
- Building collaborative client focussed relationships.
- Using consultative problem solving to create new solutions, customised products and services. This is characterised by a willingness to work outside the norm.
- Establishing a vision of a committed client/supplier relationship by identifying value adding products and services.
- Engaging in self-appraisal and continuous learning by securing feedback from clients.

It was a critical success factor of the CRM project that the organisation experienced a fundamental paradigm shift; in order to achieve this, key competencies had to be identified and embraced by the people involved. Whilst the above competencies were identified as the most current competencies within the deal-making framework generally, there was no evidence to suggest that the bank had identified or undertaken an assessment of present competencies within the organisation. In itself this was not problematic in that having identified what the key competencies were in successful organisations as identified by Siebel, the technological partner to the bank's CRM project, the next step was to use this as a benchmark to identify where the bank needed to close the gap between present practise and best practise.

3.8 COMPETENCY DEVELOPMENT

As an integral part of the CRM project, all stakeholders, from Executive Management had to attend various workshops that covered the above areas and delved into the rationale for CRM. It was paramount that there was buy in from all stakeholders and these workshops were designed to achieve this.
In addition critical skills training was also undertaken to ensure that staff were equipped with the competencies required to implement CRM.

3.9 CRM: THE STRATEGY AND EXPECTATIONS

Having gone through the entire process, at a cost of several million rands (the exact cost is unknown but runs into eight digits) the fundamentals of the project had to be revisited.
The bank had been 'shocked' into action with the hostile takeover bid in 1999. It reacted swiftly and after a shake-up at top management level, embarked on a growth strategy. In order to grow it had to examine the fundamentals of its existing business models and change these where it was found wanting. To achieve growth, it had to grow its client base and optimise the value of its existing valuable client base. CRM was a core aspect of the strategy.

The benefits expected from rollout of CRM can be summarised as:

- Improved productivity
- Improved analysis and reporting
- Cost savings
- Enhanced revenue and growth in market share

It is still too early to measure the success or quantify the return of the CRM project. The expectations are that enhanced revenue and growth in market share will be evident on a sustainable basis, and that this will underpin the banks overall strategy; the reality is that it is too early to tell. Nedcor had implemented Siebel systems prior to Standard Bank; industry analysts have not been particularly kind to that organisation and there have been no glowing reports of successful growth.

3.10 CONCLUSION

The rollout of CRM as a key component of Standard Corporate banks growth strategy was carefully thought through and implemented. The process involved examination of existing business processes and the organisation structure and re-formulating these where necessary. The customer base was thoroughly analysed and reconfigured and the way it bank interacted with these customers was redesigned. Processes were re-engineered and care was taken to ensure that the organisation had a common 360-degree view of the client.

CHAPTER FOUR: CRM- STRATEGIC CONTEXT

4.1 INTRODUCTION

With the rollout of the Customer Relationship Management (CRM) project at Standard Bank, and the huge cost of the project, it is understandable that the bank would be keen to ensure that the process was compatible with its overall strategy and supported its vision. The rollout was a giant step in the way the bank did business, not just a tactical change but a bold over-arching initiative that challenged the way things have been done and put in place a whole new way of doing things.

The process begins with the simple but powerful gap analysis by asking the following three questions:

- Where are we now
- Where do we want to get to
- How can we get there

The strategic vision is an outline of the broad direction that the organisation will follow for a certain period of time, and as suggested by Thompson and Strickland (2001) needs the company to engage various questions such as the following:

- What changes are occurring in the market the organisation operates in and the implications of these changes?
- How customers are changing.
- What market segments the organisation should be concentrating on.
- What new markets the organisation can pursue, and
- What kind of company we are trying to become.

In this chapter we will examine the strategic importance of the CRM initiative and its rollout in the organisation in the light of the principles established in chapter two. Before we do so however, it is appropriate to refresh on the objective that CRM is intended to establish as discussed in chapter four. This was stated as:

- To increase the number of right clients i.e. clients that add great value to the business.
- To increase the number of products per client through deliberate cross selling.
- To increase the profitability of clients as measured by the revenue generated by each client.

4.2 STRATEGIC CONTEXT OF CRM

The first step is to understand how CRM fits into the context of the company's overall business strategy. This entails first confirming the company's vision for the CRM project as well the project's business imperative. It must take into account the company's existing business environment, its resources, and its corporate strategic priorities.

The company needs to answer various questions in order to determine what CRM capabilities it needs to pursue. These are:

- Is the company's market growing, or is it stagnant or declining.
- What are the organisations priorities? Cutting costs and/or increasing revenues.
- What is the relative emphasis between customer acquisition, development, retention, and cost to serve?
- Which channels are most critical for interacting with and serving customers?
- What the balance is between product focus and customer focus.
- Who the company's most valuable customers are.

This broadly is the backdrop or the context of the CRM project. We shall analyse the process against this backdrop.

4.3 STRATEGIC ANALYSIS

The organizations vision was to be the best financial services provider with the most number of satisfied clients. The financial objectives were to reduce its cost to income ratio (through reducing costs and improving revenues) and to create extra-ordinary value for all stakeholders. Its position as at 1999, was that of a financial services provider that was somewhat bloated, inefficient in terms of its cost to income ratio, and as was seen, vulnerable to attack from competitors. There was clearly a gap between the desired state and the position pertaining in 1999.

We shall now endeavour to analyse the strategy in the light of the suitability, acceptability and feasibility criteria as established in chapter 2. But before doing so, we shall evaluate the organizations position in 1999.

4.3.1 ANALYSIS OF PERFORMANCE GAP

It was evident in 1999 that the organization was performing below its capability. It took the shock of the hostile take over bid to galvanise the company into action. A summary of the position pertaining at that stage is as follows:

- Sub-optimal organisation structure with duplication of functions
- Cost to income ratio in excess of acceptable industry standards
- Incoherent approach to customer service in that there was no collaboration between the various divisions of the bank
- Lack of customer relationship strategy leading to loss of opportunities and clients
- Inefficient utilisation of resources, especially the database
- Financial performance that was not spectacular

The need for improvement in existing processes and for growth was recognised. It was evident that the potential evident in the market and in the existing customer base was not being exploited (the usage gap as referred to in Ambrosini 1998).

4.3.2 SUITABILITY

To determine the suitability of the its chosen path, the organization needed to undertake an analysis of its environment and its internal capabilities.

4.3.2.1 ENVIRONMENTAL ANALYSIS

It is clear from the data gathered that the organisation had undertaken an in-depth analysis of the environment prior to implementing the changes evident since 1999. The organisation functioned within a domestic and global context, and had to take into consideration the operating circumstances not just in South Africa, but also in Africa and Europe, where the bank has a significant presence. When the bank overcame the Nedcor takeover threat, the CEO undertook to improve performance of the company; the aggressive growth strategy followed from that point saw the bank open numerous branches in Africa and the United Kingdom.

4.3.2.2 ANALYSIS OF THE REMOTE ENVIRONMENT

The challenges posed by the changing political scenario made it a non negotiable business imperative that the bank had to adapt to these forces, and recently, its CEO was instrumental in drafting the Financial Charter within which framework the industry will operate. Whilst no final decision has been taken in terms of acquiring an equity partner various steps have been put in place to ensure equitable distribution of the business so as to address historical imbalances. This in itself is a matter that requires comprehensive analysis as it is of strategic importance, but is beyond the scope of this paper. The political and social backdrop in which the bank functioned meant that the bank had to show commitment to provision of financial services to the unbanked and in this regard the organisation led the way with the installation of electronic channels, joint ventures with retailers and involvement in provision of funding for low cost housing.

The economic environment since 1998 was characterised by the weak rand, and in order to improve earnings, the bank diversified into new geographic markets so as to create diverse earnings streams. Hard currency earnings in times of the weak rand meant that financial performance was above average and this improved the banks ratings.

The rapid rate of technological improvement meant that the organisation had to engage in continuous improvement in order to stay ahead of the competitor. The technology driving CRM is fraught with anecdotes of costly failures. The consulting company Accenture was engaged to oversee the process and the choice of Siebel systems as the technology partner was made after extensive analysis of various alternatives and its track record. Accenture and Siebel were involved in CRM implementation in Bank One in the USA, which was a beacon of the systems success.

4.3.2.3 INDUSTRY ANALYSIS

Ever mindful of the constant changes in the industry, which included regulatory changes and competitors, the Bank has endeavoured to keep ahead of developments. The Financial services Charter mentioned above was critical in the industry-operating environment.
Having been in existence in excess of 132 years, an industry leader, and one of the big four companies in the industry, it is easy to understand why sometimes a sense of complacency may creep in. The company had a fair share of the market and was firmly entrenched in the economy.
In so far as the competition was concerned, the ongoing strategy was to constantly survey the competitors and their initiatives. However in this regard Standard has in a number of instances adopted a wait and see approach rather than a pioneering one. This was especially evident in its CRM initiative, where its rollout lagged that of Nedcor and First National Bank. In itself, this was part of the strategy; being a follower in certain instances rather than leading the pack.

4.3.2.4 COMPETITOR ANALYSIS

The threat of new entrants in the South African banking industry is ever present and such players as Barclays (UK), Citibank (USA) , HBZ and other new (foreign) entrants constantly challenged the status quo and posed a threat to the client base. These institutions cherry picked the banks best customers and with their substantial foreign reserves, were a formidable threat. Where appropriate, Standard formed alliances with the foreign entrants as it did with Barclays in respect of the branded credit card market.

As well, considerable attention was paid to what CRM initiatives competitors had implemented and what successes and pitfalls were evident.
The events of 1999 in the foiled hostile take-over bid was more than enough reason to stay close to the competitors, both local and foreign, and Standard has done just that. Being in the service industry, the one area that the company could compete in was through the use of differentiation. Products were much of the same thing across all the players in the industry. Differentiated services were not, and there was a recognition that the company had to go beyond the expected in order to compete effectively.

4.3.2.5 INTERNAL CAPABILITIES AND RESOURCES ANALYSIS

The CRM team was required to conduct a comprehensive assessment of the company's current CRM capabilities such as marketing program management, customer interaction management, and message alignment. This helps to understand how current performance compares with the benchmarks for the project and the industry. It helps answer the question of whether the company is leading the industry, or is at parity with, or lagging its competitors. This exercise also shows the areas of strength and opportunity and highlights specific gaps between current and potential performance.

The resources audit focussed on the existing technological capabilities and the human resources capabilities. This highlighted areas requiring investments in order to bridge the gap between the current technology and the Siebel technology being implemented. The actual implementation itself took longer than planned, but this was as a result of strenuous pilot phase testing rather than major setbacks as a result of incompetent implementation.

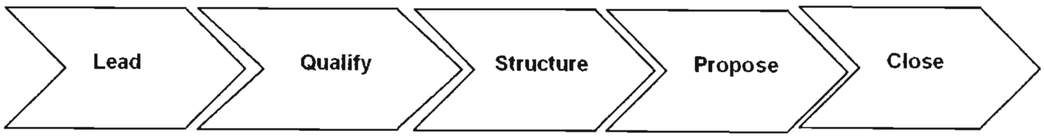
The human resources audit highlighted areas of development in terms of training people in use of the technology and this was undertaken at considerable cost. In addition, behaviour had to be directed and this was achieved via tracking of use of the system by users, and a comprehensive support team to guide people along.

4.3.2.6 RESOURCES BASED ANALYSIS

It was evident that close attention was paid to this aspect. In addition to a comprehensive human resources audit, the bank engaged in an analysis of the value chain, which determined how customers were served. The specific competencies highlighted as being critical to the deal making process were developed by use of out-sourced training (Miller Heimann, a US based training agency, was engaged to develop this key resource).

In addition the value chain analysis mapped out the steps necessary in achieving the successful flow of deals that was necessary to guarantee success of the CRM program. The bank analysed all the steps and processes necessary to finalise the deal from the time of first interaction with the client up until the deal was closed. This also provided a solid framework to guide dealmakers, and to ensure that the client received a consistent experience with the bank no matter where or with whom the client interacted. This value chain analysis can be summarised as follows:

Figure 4.1: Value chain of Deal



Source: Standard Bank

Within the Qualify, Structure and Propose steps the business processes were further identified and integrated into the CRM process so as to ensure that a consistent approach was adopted. Once the deal is closed, Post Deal Management is then undertaken.

A final word on the resources based approach evident in the CRM rollout process was the recognition of the unique abilities of the organizations people, from their skills levels to the way they identified with the organization. This aspect will be commented on further in the final chapter.

4.3.2.7 COMPETENCY ANALYSIS

Standard Corporate and Merchant Bank (SCMB) is generally a well-recognised and respected brand in the market; it is a bank of choice for a large number of corporates. This is generally recognised as strength of the bank; the actual attributes that make it a leader are both tangible and intangible. In the tangible sense, the bank is a clear leader in term of its infrastructure and international presence, whilst the intangibles are less easy to pinpoint and quantify. It has something to do with its people, but there was no evidence to suggest that these intangible competences were unravelled.

4.3.3 ACCEPTABILITY

The overriding consideration in analysing the strategy was financial performance. In 1998, the company's share price dropped from over R30 per share to under R10 per share. Shareholders obviously were not pleased. In addition the cost to income ratio was a problem and this had to be aligned to industry standards. In other words, there was a gap in the existing financial performance and the desired performance.

Gap analysis begins by estimating how the organisation could improve its financial position by enhancing its performance on key drivers of revenues and costs. Such drivers on the revenue side include customer acquisition, customer retention, and sales per customer; on the costs side this includes such areas as call handling time, number of calls answered, and costs of communication. By understanding these revenue and cost drivers, the company can benchmark its performance against the industry, quantify the gap and look at ways of improving performance potential. With an understanding of where it can generate improvements in the financial performance-increasing revenue and reducing costs-the company then needs to identify which CRM capabilities are necessary to bring about the improvement. By prioritising capabilities in this way it can help management decide which capabilities provide quick win solutions, which requires a longer term investment, and which can be discarded because of low value and implementation difficulties. These can then be grouped into logical initiatives and prioritised.

The project team must then tally how much additional profit each CRM capability can realistically generate for the company, against the costs associated with implementing the capability such as hardware, software, training, third party resources, and maintenance.

As CRM and the related strategic initiatives were only recently implemented, this process is still ongoing and it is estimated that in 2004, the cost-revenue alignment can begin to be measured.

4.3.4 FEASIBILITY

From the foregoing, it was clear that there were numerous areas that needed to be strengthened and that the organisation would have to acquire additional resources and develop new competences in order to ensure success of the project. The company certainly had the resources to make the project feasible. Acquisition of resources included equipment, hardware and software, and the expertise to implement the project that was provided by Accenture.

New skills had to be acquired and this was achieved through intense training and acquisition of critical skills through head hunting from competitor organisations. Whilst the final cost of the initiative is not available, the point is that the company had taken the decision and committed vast resources to the strategy.

4.4 STRATEGIC CHOICE IN CRM

From the preceding analysis, the company must make certain choices in terms of what strategy it will follow. It is evident from the evidence gathered that the bank had embarked on what generally can be referred to as a growth strategy, both internally and externally. External growth came in the form of joint ventures and expansions into new geographic areas, but this is of passing interest for purposes of this study. The focus here is on the internal areas of growth.

4.4.1 SELECTION OF STRATEGY

Within the generic strategies, the company chose differentiation and focus, as suggested in Figure 2.7 in Chapter 2 of this paper, as a means of competitive advantage rather than low cost.

Within the grand strategy matrix, the choice falls into quadrant III of Figure 2.6 as discussed in Chapter 2. The focus was on concentrated growth, market development, and product innovation. The bank positioned itself as a strong competitor in a rapidly growing market. More appropriately, growth was to come from the following sources:

- Attraction of new business.
- Expansion from within existing client base through a market strategy of vigorous cross selling of products and services (financial solutions).

CRM was the platform on which the strategy was to be implemented. Whilst the strategy selection process was well underway in 1999/2000, CRM was rolled out in 2003. In order to pursue growth, it was imperative that the company had to ensure that it was customer focussed (also referred to as customer centric) in terms of processes and skills.

Of equal importance as attracting new clients, retention was also key to the growth strategy. We have seen from the preceding chapter that the bank undertook a detailed analysis of its most valuable customers. The process of segmenting these clients into the various tiers and implementing a retention strategy around these tiers was critical to ensuring that the competitor did not dislodge these relationships. In a sense this was a defensive move on the part of the bank, but also important for its expansion strategy.

4.5 Implementation of selected strategy

In undertaking the study, it became obvious that implementation was taking place at the same time as planning was ongoing. This is important, as the environmental dynamics did not allow for static analysis-choice-implementation process to be followed. In a sense this is perhaps true in most strategic planning processes where strategy planning is emergent rather than static. It also became evident that whilst numerous initiatives were on the table as it were, that the over arching goal was to create an organisation that was financially sound and better than its competitors and that was focussed on its key assets i.e. its customers.

The various changes that were implemented were the building blocks towards achieving the above goal. Briefly these are:

- Organisation structure changed form 3 broad divisions to 2. This had the effect of reducing cost and providing critical mass to implement CRM.
- Reduction in staff numbers through rationalisation, attrition, and where necessary retrenchments.
- Skills development to ensure that its people were of the right calibre to take the strategy forward.
- Segmentation of the client base in order to identify its most profitable customers and direct resources towards these customers. This also was used a base for tailoring value propositions that met the expectations of the clients and ultimately improved the cross-sell success and profitability of these clients.
- Implementation of CRM technology that provided a consistent 360-degree view of the client to the entire organisation and acted as a catchment for deal flow, thus improving customer cross-sell and ultimately profitability.

4.6 CONCLUSION

Strategy is about allocating scarce resources to create competitive advantage and superior performance. Whilst strategic customer relationship management is not the panacea to overcoming poor performance, it is nevertheless a powerful means of improving market penetration and improving profitability.

The technology employed in CRM in itself is a resource that can be utilised to improve the utilisation of existing resources and unify the organization

> so that it functions coherently and efficiently. But in the end it is less about technology and more about doing business differently- to be more efficient, better than the competitor, and to place the organisation in apposition to achieve sustainable growth.

It would appear that in pursuing a growth strategy, the bank focussed on strategic customer relationship management as a key element of its market growth strategy. Changing its organisation structure to ensure better use of resources, and undertaking a segmentation analysis of its customer base was part of the implementation process. In the end, whilst it would appear to be an appropriate strategy in that the ultimate goal is to achieve concentrated growth through excellent customer service, the final test would be the additional revenue generated against the costs incurred. This is yet to be seen; the problems of measuring true benefits against true costs would suggest that at the end of the day the organization would have to rely on extrapolating success measures from such results as cross-sell ratios, cost-income ratios, and perhaps from a more abstract measure such as customer satisfaction rating.

CHAPTER FIVE: RECOMMENDATIONS

5.1 INTRODUCTION

There appears to have much deliberation in the way the bank had embarked on its journey forward post 1999. There is little to suggest that the improvement in the company's performance to the point where it is regarded as the industry leader in terms of its financial performance was coincidental. Rather there is clear evidence that this was achieved as a result of a deliberate strategy and a planned rollout of various initiatives culminating in the implementation of CRM.

However, in the process of data gathering, certain areas were identified that the author feels should have received closer attention. In itself, these are not critical as to impede success, rather they are important enough to warrant mention as it could enhance success of the strategy. In this chapter we look at these 'deficiencies' for want of a better word, and suggest how they could have been treated.

5.2 GAPS IN ANALYSIS

In evaluating the suitability of the strategy to the organisation, it would appear that there were important aspects that did not receive as close attention that the author feels it should have merited. These are:

5.2.1 CORPORATE CULTURE

Every organisation has a unique culture that unites the players therein. Corporate culture can be thought of as the artefacts of the organisation such as the organisational routines, systems and structures (Ambrosini,1998). Within SCMB there is a culture that pervades the organisation that is implicit in the processes used, the people in the organisation, and the relationships that exist within. The people are highly qualified generally and there is almost an air of 'invincibility'.

CRM challenged the taken for granted processes and routines. It is therefore felt that this aspect of corporate culture should have merited closer attention. Whilst the workshops that were conducted (at which the author was present) were useful in that it sought to realign thoughts around the project, there may still be many that are steadfast in the 'that's the way its always been done' mindset. Given the successes that the organisation has enjoyed traditionally, this is hardly surprising. It is also felt that the strength inherent in the sort of culture that pervades the organisation must not be taken for granted nor squandered. As CRM challenged this, the need for closer examination and realignment of thinking was critical.

5.2.2 CORE COMPETENCES

The core competences, which drive the organisation and its success, were an intangible factor. Besides the obvious wealth in its people, generally qualified (CA, LLB and the like), the way the various members of the organisation inter-acted with each other was unique.

A service organisation exists because of its people. This is a given fact. It was also evident that there were numerous centres of excellence within the organisation. The tangibles were identifiable-great product, great systems, and technology. The intangibles however existed in the goodwill of the staff, their sense of identification with the organisation, the existing relationships with customers and within the organisation itself.

The author acknowledges the difficulty posed by this aspect of analysis, but feels that this is a key success factor in the rollout of the CRM strategic initiative. Whilst CRM is mooted as a new way of doing things, one cannot ignore the good within the organisation that has led to its successes up until now. The competences within the organisation should have been deliberately identified and placed for discussion in the workshops held.

5.3 MEASUREMENT TOOLS TO EVALUATE SUCCESS

The measurement of the success of a growth strategy must lie in the financial results that ensue from implementing the strategy. Whilst broad measures are suitable for ascertaining overall organisational performance, there needs to be a process of measuring benefits at a more grass-roots level. This aspect was not emphasised. In pursuing a deal, expenses are incurred and unless these are offset by a stream of revenues that exceed the cost, then it is wasted effort. Fortunately, upfront fees charged in putting a deal together simplifies the measurement process; however where profitability measurement is dependent on the lapse of a period of time, the process measuring the benefits tends to be lost.

The structures in place provided for reporting of financial performance at business unit level. The thirteen business units within the SCMB division together made up the whole. However, with the implementation of CRM, in the processing of a deal, various business units would provide input that ultimately led to finalising the deal. There was no system in place to provide the sort of incremental measure of value added at each step. The value of the deal could only be assessed at the finalisation stage and at this point it is not possible to disaggregate the value added at each stage by the different business units.

Recognising this difficulty, it would perhaps have been appropriate to perhaps introduce a system of costing the input at each stage. In other words, if an accountant of a particular business unit spent five hours, say, on that part of the deal that required his input, then the cost of the that input needs to be deducted from the final value derived on finalisation of the deal.

5.4 ORGANISATION STRUCTURE

In the previous chapters it was mentioned that the bank changed its organisation structure to avoid duplication of costs and to give the CRM project the critical mass for implementation. Briefly, the bank consisted of three divisions, the Retail Bank, the Commercial Bank, and the Corporate and Merchant Bank. The Commercial Bank was disbanded and rolled up into the retail bank structure, with the top end of the Commercial customers being absorbed into corporate.

This left two banks, viz. the Retail Bank on the one hand, and Standard Corporate and Merchant Bank (SCMB) on the other. Whilst these two divisions support each other, the systems, technology and processes employed in each are different. Siebel systems were launched in SCMB. Retail Bank used a system referred to as E-cubed. The markets served by the two divisions are widely disparate; the most valuable clients reside in SCMB. SCMB nevertheless relies on the support structures that are the domain of the

Retail bank such as the branch network, depositing facilities, and the like. CRM was therefore not available to the Retail staff and thus when an interaction took place between a corporate client and a member of the Retail bank, there was no single view of the client. Retail bank lacked the systems to access the profile of the client. Incidentally, this was also the case when the Commercial Bank was in existence, whereby each of the three divisions then existing operated on different systems that could not be accessed by the other divisions.

It is thought that there should be some degree of compatibility between the Corporate and Retail divisions systems that will result in a truly single view of the client by the entire bank regardless of which division the client was in. This must also surely make sense from a cost point of view and from an optimal resource use viewpoint.

5.5 CONCLUSION

Notwithstanding the above, the is ample evidence to suggest that the concentrated growth strategy, through strategic customer relationship management, had substantial merit and was an appropriate response to the precarious position that the organization found itself in 1999.

The bank set out deliberately to re-engineer the business, making promises to shareholders relating to earnings, and achieved that which it promised to deliver. Indeed, the CEO was bold in his promise to stakeholders, and the message was clear that the bank was serious about being the best financial services provider in the industry. If consistently good earnings, analyst comments, and market sentiment is a measure of success, then the organisation was successful.

With the implementation of the new technology to support the strategic customer relationship management initiative, it is vital that this be followed through in the months ahead to ensure that it is firmly bedded down and that the desired goal of growth through better penetration of the client base is achieved. The process has been characterised by commitment from executive management, and this arguably is the first step to success. That this commitment filters to every part of the organisation has been the purpose of the intense communication initiatives around the project. The cost has been immense and the returns must justify that cost so as to ensure that the cost-revenue ratio remains aligned to or is better than the industry norm.

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