

The Application of Customer Relationship Management in Investment Banks

Fan Wang

School of Economics and Management, Changchun University of Science and Technology

7989 Weixing Road, Changchun 130022, China

Tel: 86-431-8595-9845 E-mail: jlccwang@sohu.com

Fang Hu

School of Economics and Management, Changchun University of Science and Technology

7989 Weixing Road, Changchun 130022, China

Tel: 86-431-8595-9845 E-mail: 189548@qq.com

Li Yu

School of Economics and Management, Changchun University of Science and Technology

7989 Weixing Road, Changchun 130022, China

Tel: 86-431-8595-9845 E-mail: laoduan001@hotmail.com

Abstract

Customer Relationship Management was put forward in the 90s by American companies. CRM has been widely applied by the investment banks abroad. The investment banks in China (securities) are in the early stage of CRM. The institutions which carried out CRM successfully and profitably were few. Based on the importance of CRM to the investment banks management, this essay compares the application of CRM between domestic investment banks and the foreign ones, and points out that in applying CRM, domestic investment banks must make clear their cognitional misunderstanding, base themselves on the customers center and customers satisfaction, and their own status and characteristics, take efficient measures to perfect CRM, then realize the maximizing value.

Keywords: Customer relationship management, Investment banks, Individuation

1. Introduction

The main idea of Customer Relationship Management (abbreviated as CRM in the following) is to improve customer satisfaction degree through the thorough analysis to customers' detailed information, therefore, to improve the corporate competition ability. It includes the following aspects (abbreviated as 7P): Profiling Analysis, Persistency Analysis, Profitability Analysis, Performance Analysis, Prospecting Analysis, Product Analysis, and Promotion Analysis.

CRM was put forward in the 90s by American companies. In this stage, there were mainly exploratory and relatively subjective articles. In the middle of the 90s, it came to the stage of practicality, and at the same time, there were plenty of thorough academic research. For example, Robert B Woodruff and Sarah Fisher Gardial put forward the definite process of customer value and the value delivery strategy of sales departments; James L Heskett and Gary W Loveman researched the relationship of Customers Satisfaction degree and Customer Persistency; R.Kalakota put forward the value chain research on customer relationship. In management consultation and the business application of software, the international consultative companies, such as Gartner Group, Hurwits Group, etc., and the software giants, such as IBM, Oracle, SAP, etc. released their own system on customers' relationship management and solutions one after another. From 2002, the international academic research on customers' relationship management has moved into a steady development period. Further research on different aspects went on continuously. H.W. Shin and S.Y. Sohn introduced the artificial intelligence into the evaluation application of customer value; S.Gupta, D.R.Lehmann and J.A.Stuart carried out the positive analysis

on the correlation between customer value and corporate performance and corporate value. R.Venkatesan and V.Kumar updated the customer lifetime model and applied it in the research of customer selection and the allocation of sales department resources, etc.

With the development of Internet, the introduction and the spread of CRM were accelerated. Overall, the researches in our country were mostly after the year 2000. For example, Zhang Yunming believed that customers were the company's most important property. Customer retention had already been the essential target of corporate success. So the research on how to keep customers was crucial to sales departments; Chen Mingliang studied the customer life cycle theory in-depth. He put forward the typical forms and some atypical forms of customer life cycle modes. Based on this, the mechanism of customer retention in sales departments was proposed; Guo Feng analyzed the value and applications of customer relationship management. He applied the data mining on the analysis of customer loss. From the information he got he concluded the commodity assortment favored by customers, consumption habits and the features of outflow customers. In our country, in business application of customer relationship management, banks, insurance companies, and telecommunications are industries in which customer relationship management is popular. They are in the early stage of customer relationship management implementation or restricted by the pure theoretical research. Overall, in the domestic customer relationship management research and application, the theory falls behind the practice, and China falls behind the foreign countries.

2. The importance of CRM to investment banks

The appellation of investment bank is varied in different countries (or regions): It is called Investment Bank in America, Merchant Bank in Britain, Deposit-taking Companies in Hong Kong, and Securities in Japan and in China. Investment banking plays an inevitable role in modern market economy and financial system. Customers are the valuable resources of the survival and development of investment banking. They are the indispensable part of investment banking integrated business strategy. How we obtain, retain, and increase profitable customers is crucial to investment banking. There is no big difference between investment banking and services. The people who can grasp customers' intention and trend, and strengthen the contact with the customers, can exert the advantages in market competition. Investment banks must supply personalized products and services, establish close relationship between themselves and customer in the long run, Hence, undertaking CRM is very important.

2.1 Innovate investment banking business, and expand new markets

With the increasing development of investment banking, investment banking is completely beyond the traditional narrow business frame of securities underwriting and securities brokerage. It forms a diversified business structure which includes securities underwriting and brokerage, private placement, mergers and acquisitions, project financing, corporate finance, fund management, investment consulting, asset securitization, and investment advisor, etc. But it is short of depth and width. Except the common products such as stocks, bonds, funds, and repurchase, the financial derivatives such as forwards, financial futures, option, and swaps are never involved. Serving customers should be the aim of investment banks, the starting point and the foothold of the business. We must cultivate our own customer groups, provide personalized services, and make the business innovation be the lifeblood of investment banking.

With CRM, the investment banking can set different standards of profit and potential profitability according to customers, and classify them according their different demands; also we can predict their future investment trends in the light of customers' previous investment habits, and predict the future development trend of market combining the changes of external economic environment, and related data in economic statistics. Through the analysis, we can make investment banking grasp the market dynamics on one hand, exploit new products and occupy the market in time; on the other hand, we can adopt different strategies to different contributing customers, and provide different products and services.

2.2 Integrate customer resources, and improve customer satisfaction degree and persistency

The complete CRM in the configuration system of investment banking will play a role in inheriting the past and ushering in the future and integrating resources. Onward, it can extend the all-around contact channel between the investment banks and customers. CRM can integrate different kinds of resources, such as over-the-telephone transaction, the internet transaction, and sales departments, etc. to form a set of front-end service system; backward, CRM system can penetrate into different departments, such as investment banking management, products design, planning and finance, human resources, etc. and make the clerks in service, sales, and market management departments center on the customer needs, therefore, form a strong team facing the customers. CRM system can make the departments in the investment banks share the same customer information platform,

fully integrate customer information resources, and realize the information sharing. This will make the clerks in services, sales and management departments, who worked separately, originally, coordinate and cooperate revolving around the market, make the investment banks center on 'agglomerating customer relationship, improving the value of resources', and continuously improve the customer satisfactions degree and persistency.

2.3 Improve the decision support competence, and create core competitiveness

Customer relationship management can create advanced customer intelligence and decision support competence for investment banks. It is beneficial to the improvement of strategic decision competence and integrated planning capacity of investment banks. Through the customer relationship management system, investment banks can analyze the profitability and the riskiness of different products. It can also analyze the business data running in different platforms and external information, find out the relation among the data, and supply the foundation for the establishment of business decision.

The implementation of CRM will bring the advanced developing strategy and business theory which is centered on the customers. It will optimize the value chain, the organizational system, and the functional structure of the investment banks, thus improve the level of IT application, establish efficient management system and smooth information system, and finally strengthen its ability in exploitation, innovation and marketing products, improve the staff's knowledge, skills and working ability. Just in this case, the competitive ability of investment banks can be assured.

3. Comparative analysis of CRM between Chinese and foreign investment banks

CRM is widely applied abroad nowadays. For example, American investment banking, the traditional business of securities is to provide service for institutional investors. Because the demands of institutional investors fluctuate greatly with the market and economy conditions in different years, securities emphasize greatly keeping steady relationship with their customers in the long run; Merrill Lynch regards 'customer-center' as their successful key; Lehman Brothers insists 'relationship investment banking', and increases their customers constantly. In the numerous financial examples, the CRM in Charles Schwab is the most outstanding. Charles Schwab was founded 30 years ago. Now it has become the leading company in American personal financial services market. The customers are provided all kinds of consulting services on the basis of low cost and discount economy. Its purpose is to attract customers with its customer-center services. The business idea that the operation of customer relationship far outweighs gaining profits and the core value that customers should be provided excellent services made the success of the company. Charles Schwab divides their customers into different levels. The highest level is the customers whose turnover is above \$ 100 thousand or who carry out 12 transactions each year. These customers' telephones are designated special persons to take charge. The company spent a sum of money on the analysis of customers' information from its establishment, and provided the analytic material to the clients who are in charge of customer services and branches managers for reference.

In China, CRM is introduced in the securities such as, Guotai Junan, Dapeng Securities, Pingan Securities, Tiantong Securities, etc. They are in the early stage of CRM and mostly in call center and data warehouse. The institutions which carried out CRM successfully and profitably were few. It is mainly used for special purpose. Including: first, innovate the off-site transactional channel. The Net transaction is released one after another. Yin-zheng-tong business is released like hot cakes, such as mobile-phone stock trading, TV stock trading, WP stock trading and online communities, etc. The new forms of transaction made people dazzling. Second, rebuild sales department. Making use of the financial services platform, release more non-stock investment products, such as open-end funds, bank deposits, trust and investment plans, national debts and corporate debts, insurance products. Investors in different demands can find products which are suitable to them in sales departments. The brokers can enjoy their intermediary services income which is free of risk. Third, promote their investment consulting capability. Various services methods come into being, such as the FC investment consultant in Dapeng Securities, the 'one to one service' in Guangfa Securities, the three-people service team in Southwest securities, the golden west in Ping An securities, the value-added services program in Bohai securities and customers call centers used by many securities, etc. The brokers, relying on their corporate research departments, introduce different kinds of consulting products to their customers through sales departments, internet, faxes, and tour reports. Fourth, integrate the application through multi-channels, multi-departments, and multi-business. In this aspect, Haitong securities are in the leading position. When the online transaction system is updated, customer relationship management is introduced. Thus realize the update of internet platform, and the re-planning of the web sites function. The personalized personal home page can be presented.

From the concrete application of CRM in foreign investment banks above, we can see that the investment banks which successfully implement customer relationship management system focus on customer analysis, and

personalized services. Merrill Lynch, Charles Schwab, etc. study their customers thoroughly; divide their customers into different types, define their target customers, match different products and services to different customer groups by the support of advanced information and technology. However, there are short of understanding to customers and personalized services in domestic investment banks. The common idea is that the customers with a great deal of money can bring more profit to brokers. This made the numerous customers with little money lack of customer concern. The salespeople in business departments in investment banks, they recommend the same stocks and provide market analysis and consulting services to the millions of customers every day. Besides, it is difficult to gain the customers persistency by applying the primitive and extensive promotion methods such as accumulative discount sales, etc. Charles Schwab defines itself as the biggest discount economic operator in America. It is famous in securities by establishing one to one marketing with the help of internet techniques. Merrill Lynch emphasizes making tailored financial plans for customers, emphasized the services to important customers. It designed the customer services program – Integrated Choice – according the theory that let customers choose the products they need, choose the consultation they need, and choose the transaction method. The domestic investment banks provide almost the same products and services. They seldom have their own features.

4. The strategies in applying CRM in Chinese investment banks

The CRM in Chinese investment banks must be implemented according to the external environmental variation, and combing their own business conditions and characters. The application of CRM should be started from the following points mainly.

4.1 Get rid of their cognitional misunderstanding

Customer relationship management is not a new concept. But many brokers misunderstand its contents to some degree. Some brokers believe that the application of CRM in corporation is equal to software, and it's the technical application. In fact, CRM is not only a set of application software system, but a set of solutions, moreover, a modern business management idea. In order to apply CRM successfully, corporations should regard CRM as a chance to shift their focus from obtaining customers to servicing their customers. This needs the corporations to evaluate and inspect their business flow on the side of optimizing customer relationship. Not just optimize the efficiency and quality. Some brokers believe it is better to use the existing customer relationship management software and for the function, the more the better. In fact, because of different scales of securities, different corporations should choose suitable software according their own characters. Excessive pursuit of the comprehensive functions will lead to the shortage of pertinence. Moreover, corporations probably don't budget for complicated multi-component software package.

4.2 Train the staff with the idea of CRM

Nowadays, many large corporations which are in the leading position in the world realize the importance of implementing CRM and get benefit from it. But on the other hand, according to the statistics, at least 70% corporations which applied CRM failed. The main reason of their failure is that they focus more on the latest techniques of CRM, and neglect the people and idea. Only reforming from the people and directing by the theory can CRM play its efficient role. For example, TidalWire, a provider of storage networking equipments in Massachusetts, adopts Siebel Sales and eSales, and encourage its salespeople to apply CRM in all kinds of methods. According to Steve Bonadio, the senior project manager in Meta Group, in the process of implementing CRM, the corporation takes a series of measures to overcome the obstacles such as the refuse of innovation from a strategic level. The measures mainly include a series of training handbooks and courses provided by the corporation, illustrating the functions of CRM and how to use it. Then change a meeting room into a training classroom which is equipped and in which PC can be presented. Operate different model contacts, such as how to create accounts and finish orders. In connection with the biggest obstacle that the salespeople don't like to be ruled and don't like to share the information with others, the corporation actively eliminates the staff's horror to innovation and resistance to traditional flexible sales methods.

4.3 Bring the providers and customers into the management system

Integrated supply chain includes suppliers, nuclear corporations and terminal customers. Only if forming the management mode of supply chain integration will the customers be better administered. After making clear the supply chain flow, the brokers can design their own customer management system according to the supply chain flow. Integrate functional departments and production operation system. Work together with customers as the center. Change the brokers form the original production push into customer demand-pull. Through the production flow and the rebuild of organization construction, eliminate the previous barriers in servicing customers and satisfy the customers' personalized demands. For example, Shaoxing sales department of Haitong

securities, provide customers with video switch. Install switches on customers' computers free of charge. In order to meet the customers' demands and provide convenience for financial management, some brokers provide 'Yin-zheng-tong', 'Lian-ming-ka', 'Yin-bao-tong', 'Yin-quan-tong' etc. They establish their own loyal customer groups as they provide convenience to customers. It's easy to manage and provide services.

4.4 Implement CRM system techniques step by step

CRM system has four subsystems. They are exploitation, services, maintain, and feedback. The main tasks of exploitation subsystem include market analysis and demands evaluation. Market analysis is to classify customers' demands. This is the process in which the products market is subdivided. And then get the information of market demands quantity on the basis of enough evaluation to each subdivided market. Through market analysis, grasp the developmental rule of customer demands, predict the developmental trend of demands scientifically and accurately. Market evaluation is to further evaluate whether customers can become the suitable services subjects of investment banks. The first step, configure human resources to specific customers. The configuration of public relations officials and technicians is more important. In the process of servicing customers, the staffs in investment banks often visit customers, and keep close contact with them. Thus they thoroughly understand customers' demands and the background of the demands. Ensure the services they provide suit the customers' hobby. Improve customers' evaluation to investment banks. The second step, after investment banks finish serving their customers, the cooperation between them pauses temporarily, but investment banks should maintain their relationship with their customers through keeping on visiting them and extending their services. The third step, analyze and manage the customers' evaluation and send the result to relative department managers. Get hold of market chances and new business chances. Guard against the problems existing in the services and avoid the similar problems appeared again later. Overall, establishing database is not the purpose. It's the method. Our ultimate purpose is to shift the data into customer knowledge, into serving the customers through analyzing customer resources, then achieve win-win event between securities and customers.

5. Conclusion

In the ever-accelerated development of information technology today, CRM is widely applied in different fields, such as finance, correspondence, and transportation, etc. Through application of CRM, these corporations promote their market competitiveness, keep long-term relationships with their quality customers, exploit new sales opportunities, avoid business risks, and make steady profit. The application of CRM in investment banking happened in recent years. Investment banks must base themselves on customer-center and customer satisfaction in applying customer relationship management system. Through establishing and maintaining harmonious relationships with customers, maximize the value between investment banks and customers.

Through the development of domestic investment banking in recent 20 years, the number of securities is increasing and the scale is increasingly expanding. Especially through the integration and resources optimization and configuration in recent years, some comprehensive and large securities groups appeared, such as Zhong Xin securities, Guo Tai Jun An securities, and Merchants securities, etc. These securities own relative advantages, are capable of comprehensive services, and are in the leading positions in business innovation and business scales. This sets examples for the development of domestic investment banks. Compared with the famous investment banks abroad, these institutions showed insufficient capacity in scales and business innovation. The application of CRM theory needs improving urgently. Investment banks abroad truly realized customer-center. While domestic securities advertized themselves customer-center. What they did was service-center in fact. 'Service-center' is a product concept. Establish service contents, and then introduce them to proper customers. 'Customer-center' should define what customers need first, and then provide tailored services. This is the problem which should be solved primarily by domestic securities.

Of course, the difference exists among securities in specific management, sales strategies, etc. So, when CRM is designed, the real things such as business demands, the present equipments, and human resources, etc. should be considered. And then analyze, plan and make basic business flow. Plan powers, responsibilities and requirements of different departments.

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