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White Paper | Social CRM

Social CRM in German retail banks

How social media is transforming
the business world

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1. Introduction

The retail banking industry is currently facing major challenges after the financial crisis. Several banks have gone through a restructuring process and the traditional business models of banks are currently being challenged by internal and external drivers. All this has led to loss of trust and a decrease in customer loyalty.

To add to the complexity, there have been several innovations in the customer management landscape, where customers now have numerous ways of interacting with banks. The new, digitally connected customer now has the choice of communicating with the bank over various channels, such as phone, internet, iPhone apps etc., and some of these channels are available 24/7. The new, digitally savvy customer is always connected and is becoming more demanding than ever.

The emergence of social media has drastically changed the way people communicate amongst themselves and how brands communicate with their customers. The emergence of social-networking platforms like Facebook, Twitter, Xing, MySpace, Orkut and LinkedIn has empowered the average person to influence a large number of people on social networks very quickly. The number of people joining social networks and the power of these social networks is rapidly increasing.

The social-media platforms have also provided banks with a new channel of communication and a CRM tool that is being effectively used by only a few banks. While some industries, such as the lifestyle industry, telecommunications or the automotive industry, have realised the importance of social media, most banks are still struggling to get their social-media strategy right. Banks that have an effective social-media strategy have a huge advantage in being able to develop a closer relationship with their customers.

The objective of our analysis is to put forward the demand conditions that led to the social-media trend. The next objective is to study the implications of this novel communication channel on the business world through analysis of real-life case studies. We analyse the top 30 retail banking institutions with respect to their social-media strategy. Each bank was graded on the number of initiatives undertaken and the engagement level of each of the social-media initiatives. We later propose how German retail banks can effectively use social media to enhance their existing CRM capabilities.

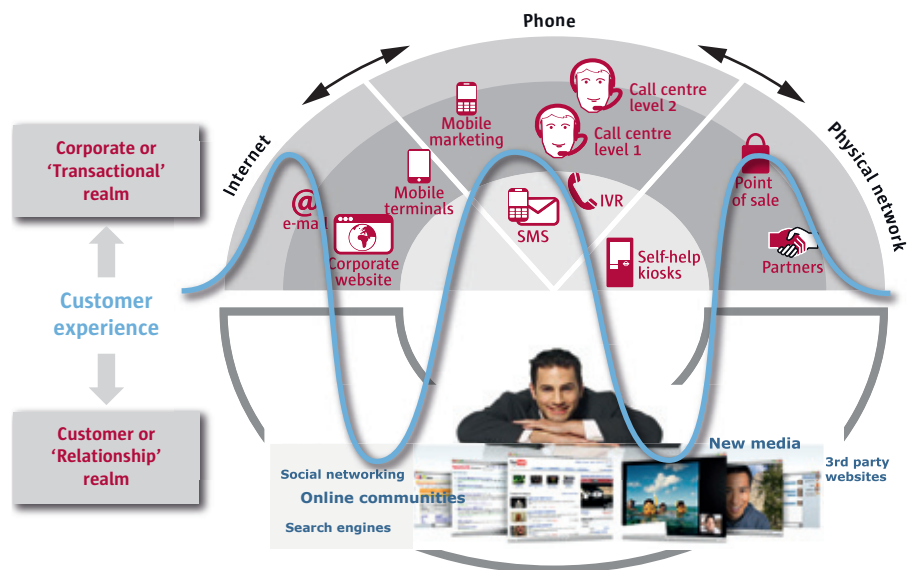
2. German retail banking industry post-crisis

The financial crisis severely damaged the reputation of banks, and caused their customers to lose trust in them. Whilst banks are still trying to recover from the crisis and are trying to rebuild their reputation in the eyes of customers they are also facing fierce competition. There is competition within the retail banking industry to keep existing customers and also to get new customers. There is also competition from new non-traditional financial services providers that now want a piece of the retail banking pie. These non-traditional banks include

- Peer-to-peer banks like smava.de, Auxmoney.de
- Direct banks like Comdirect, ING DiBa ...
- Social banks like BankSimple

The competition within the industry and from other players has increased the need for 'customer advocacy'. Customer advocacy means doing what is right for the customer and most banks are realising that they need to enhance their customer advocacy drive to maintain customer loyalty in a competitive environment. High customer advocacy also builds the fundamentals for cross-selling and helps regain customer trust.

Figure 1: Digitally connected customer

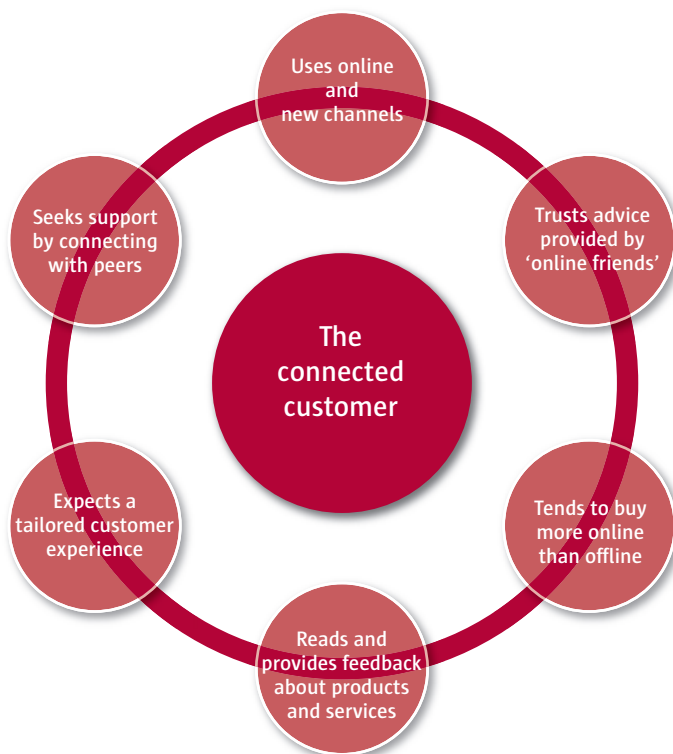


Another recent trend is the impact of technology on retail banks. Customers are now used to having various channels, such as ATMs, Internet and mobile banking available to them. This has made banking available 24/7 and bank branches are becoming less important. Customers now expect solutions to their banking needs anytime, anywhere and through various channels.

In addition, customers are also increasingly looking for information online. Information has become ubiquitously available and customers now do thorough research before they approach a bank to buy a new product or service. The online behaviour of a typical customer can span from looking for a product online after referring to advice given by trusted peers to seeking support from peers when needed.

In this complicated landscape, we think that social media could provide banks with a competitive advantage in building successful relationships with their customers. The chart below illustrates the characteristics of the new retail banking customer. In the near future, retail banks need to start communicating and interacting with this customer.

Figure 2: Online consumer behaviour cycle



3. Changes in consumer behaviour

Social media does not only include the commonly known platforms like Facebook and Twitter, but also includes any online interactive community where people are joined together by common interests and friendship. The main characteristics of social media include reach, accessibility, usability and recency (information on social networks usually stays fresh). Social-media platforms provide users with a way of engaging socially and allow them to be socially active online.

Customers communicate a great deal on social-media platforms and very often they talk about their telecom provider, their kids' school or their retail bank. People are communicating about companies and brands on social networks, and not listening to social-media conversations can be costly. An example of what can happen from ignoring social media is the case of 'United Breaks Guitars' which happened in July 2009. A Canadian musician, David Carroll, and his band were travelling with a US based airline and his guitar was broken while in airline's custody. Carroll was unable to get compensation from the airline for his broken guitar and became frustrated with the matter. He decided to make a funny music video describing the whole situation and put it on YouTube. The video became an instant hit and within four days of the release of the song there was a 10% drop in the airline's share price and stockholders lost about \$180 million in value. The airline's belated compensation offer of \$3,000 was refused by Carroll and by the time the compensation was offered the airline's reputation had already been tarnished.

The examples quoted above depict how anything, true or untrue, said about a company online has a far-reaching and rapid impact not only on the minds of the current and potential customer pool but also the minds of investors. To contain this, it is indispensable for banks to have a presence in social media. It increases the span of awareness and provides opportunity to respond to the posts and comments being made. It is obvious that the faster the response to an unwanted post, the less damage is done.

4. Necessity of social-media engagement

Apart from providing a so-called 'insurance' against propagation of 'bad news', a mature social-media engagement definitely provides very good returns on investment. The modern-day financial marketing experts know that customers today are rather sceptical about products that are being 'pushed' onto them. Pushing products also works against increasing the interest of the customer in the products, which means that it is more important than ever before to be with the customer at all times and educate them about the products indirectly.

Thus, social media would perform two important functions for the German banking industry, namely: provide protection against potential brand equity loss and increase financial gains with increased sales and reduced service costs. In addition, banks can hugely leverage their marketing and support activities with social media if they provide a sophisticated customer service through dedicated 'Twitter accounts', which are an inexpensive way of providing support, encouraging the staff (apart from the appointed customer service personnel) to take part in responding to the posts online and providing necessary information on its products.

Social-media usage is a trend that every bank will have to adapt to, especially since 'Generation Y' and the generation of digital natives is increasingly becoming an important market segment. Bank customers will continue to demand fast solutions to their banking questions and ultimately banks will have to switch to a full duplex mode of communication where they talk and listen to their customers simultaneously.

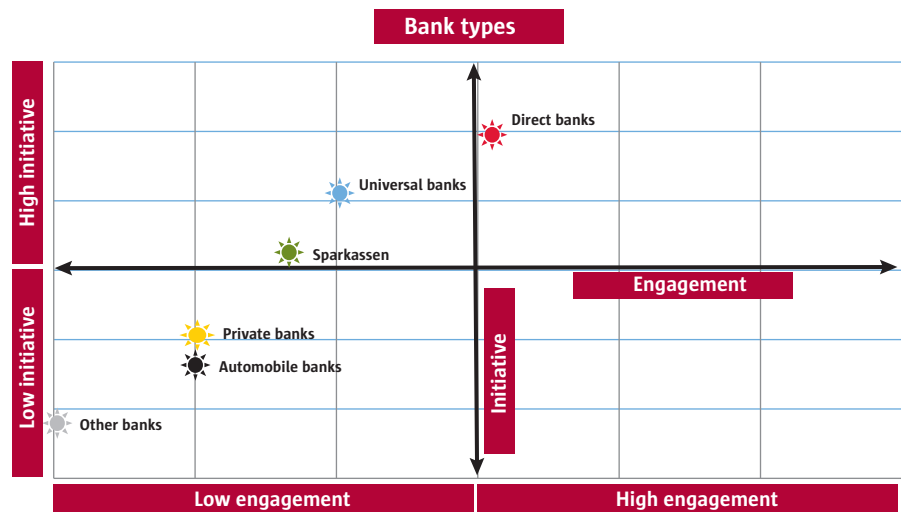
By using social media, banks will be able to add to their customer centricity drive and provide fast and easy resolution of customers' problems. Banks can also strengthen their corporate identity and increase their brand value, which can result in an increase in the level of trust customers have in banks.

5. Social-media usage in German retail banks

Our study analyses how banks are using the channel of social media to build a community of their customers and prospective customers. We measure how much initiative banks are taking in building communities using various channels (*Initiative score*) and how much effort banks are putting into talking to their community and keeping them engaged in a meaningful conversation (*Engagement score*). Some of the aspects covered by the engagement score are the frequency of posts, the number of interactions per post and the frequency of video updates. The ‘*Initiative score*’ and ‘*Engagement score*’ are calculated for all the banks surveyed.

In our analysis we study the top 30 German retail banks based on the amount of total assets on their balance sheets in 2009. Two European best-practice example, Caja Navarra from Spain and Jyske Bank from Denmark, are also included in the analysis for benchmarking and comparison purposes.

Figure 3: Social-media engagement of different bank types



Amongst the German retail banks the ‘direct banks’ have a clear lead in terms of social-media initiative and engagement, this of course is expected and necessary for the direct banks since these banks have no regular branches where they can interact with their customers and most of their business is online. Universal banks are in second position, showing high initiative but lacking a good strategy to keep their followers engaged. Automobile banks and private banks are showing very little to no initiative or engagement.

The following chart shows the ‘social-media position’ of each bank we analysed. All in all, the social-media engagement of German retail banks compared to some best-practice examples is fairly poor.

Figure 4: Bank ranking



Amongst *universal banks* in Germany the most initiative is being shown by one of the largest universal banks, as they are using several types of social media, but they lack a proper engagement strategy and are using social media for one-way communication rather than two-way communication. Along with this bank, most big universal banks have realised the need to be involved in the new medium and they are taking the initiative, but lack a proper strategy that can effectively engage people interested in banks.

The *Sparkassen* and *Volksbanken* are traditional savings banks in the German banking system. Since these banks are very comparable in terms of their business model, target customer group and product range, we put them in the same group for the purposes of this case study.

According to the study results, the performance of most of the Sparkasse and Volksbanken with regard to 'Initiative score' and 'Engagement score' is not outstanding. Sparkasse and Kreissparkasse in Cologne show the best engagement and initiative amongst the German savings banks, but there is significant room for improvement since they are still very far behind European best practice. Other savings banks in Germany are present in the social media channels but the level of activity is very low and most of them do not have engaging content being pushed through the social channels.

German *private banks* and *automobile banks* are showing little to no social-media initiative and are far behind best practice. There are either no Facebook or Twitter channels for these banks, or after setting them up initially, they are not updated at all. There are no other initiatives by the banks to keep their customers engaged through other online community-building efforts. Just next door in Denmark, Jyske Bank can be considered a really good example of effective social-media usage in private banking: a brief description of their social-media efforts is provided in the 'European social-media best practices' section.

Automobile banks are missing out on a huge opportunity for engaging potential customers that want car financing. Automobile banks have the advantage of being associated with the big automobile brands that already have a fan following on social networks like Facebook.

Although the *direct banks* in Germany have high levels of initiative and engagement there seems to be a large divide in the level of engagement achieved by these banks.

Nevertheless, when looking at individual banks within a segment we see a very diverse picture. We observe Sparkassen with fairly high engagement in social media and others with almost none. This applies similarly to universal banks or the other segments.

All in all we can see that German retail banks are far from using social-media effectively.

6. European social-media best practices

There are several banks throughout Europe that have understood the importance of social media and have started engaging with their customers and prospective customers. Caja Navarra in Spain and Jyske Bank in Denmark are two banks in Europe that are leading the pack in how they use social media to interact with their customers.

6.1 Caja Navarra (Spain)

Caja Navarra is a Spanish savings bank located in the Navarra region and headquartered in Pamplona. The bank follows the new 'civic banking' model, which places the customers at the centre of their business and assigns them their 'rights'. Caja Navarra is a true 'bank 2.0' in Europe that uses all the available social-media channels very effectively to reach out to its customers.

The bank's main website is well designed, with links to all its social-media assets clearly visible. The bank uses Twitter to keep the community engaged and also to provide support. The bank provides support through Skype, Facebook and Twitter, reducing the number of phone calls made to the support centre and providing support 24/7. Their Facebook page provides relevant news and information about their promotions. On their website Caja Navarra has communities built around various social causes, social responsibility and other similar interests. There are active and some not so active blogs about their social initiatives in various parts of Spain and other parts of the world. Caja Navarra has a frequently updated YouTube channel and they also have an online TV channel.

6.2 Jyske Bank (Denmark)

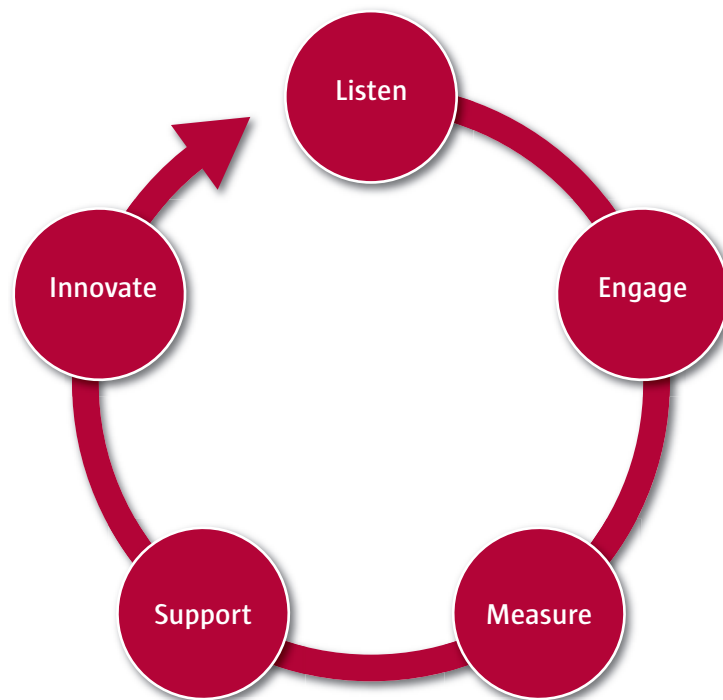
Jyske Bank is a Danish private bank that heavily uses social media in building online communities to keep its customers engaged and updated. Jyske Bank's key differentiating feature is its online TV station, which provides expert interviews as advice to its customers about market trends, how to invest and current topics related to investment and asset management. The TV channel's website also provides users with the ability to interact with each other and put questions to the experts. The website of the TV channel is available in Danish and English, making it accessible to the outside world. In addition to the TV channel, Jyske Bank is actively using other new-media technologies, providing iPhone apps for its users to manage their account and introducing an application for the iPad, for example.

7. Social CRM strategy for a German retail bank

Before a bank starts with its social-media initiatives it needs to establish a baseline and clear objectives about what is to be achieved. Requirements from the Marketing, Sales and Customer Service departments should be gathered and the various business processes should be mapped. Different channels have different characteristics. Hence, selecting the right channel strategy, which befits the objectives of the engagement, is crucial. Lastly, a suitable technological solution, which allows integration or disintegration of channels on demand, should be chosen to implement the strategy.

The social-media activities of any organisation can go through several stages of maturity depending on the amount of commitment shown by the organisation and the amount of resources dedicated to social-media initiatives. When an organisation is able to co-create and innovate new products along with its customers using social media, then that organisation can be said to have reached full maturity.

Figure 5: Social CRM strategy



7.1 Listen

Banks need to first identify who is talking, where they are talking and what they are talking about. The capabilities of the various channels (Wikis, blogs, social networks, etc.) available should be identified and analysed. Based on the business objectives, the proper channel should be selected and the perceptions of the customers, the engagement level and the influencers in the community need to be identified.

7.2 Engage

Next banks need to engage the various communities that already exist in a dialogue and start talking to people. Then a bank can also start building its own social-media communities on Facebook, Twitter, YouTube and Blogger. Traffic needs to be driven to these social-media assets using traditional media and the social-media assets need to be interlinked in order to provide the user with a seamless experience. Social-media policy, guidelines and 'rules of engagement' need to be defined before initiating this step.

7.3 Measure

There is no straightforward way of measuring the success of a social-media initiative, but certain KPIs need to be defined to measure the success of the initiatives. Social-media initiatives are measured in terms of number of followers, community sentiment, customer loyalty, response speed and rate and the post-to-comment ratios.

A bank's purposes would be well served by measuring aspects like NPS (Net Promoter Score), customer satisfaction, reduction in call/email volume, customer loyalty and increase in customer lifetime value because of reduced retention and acquisition costs. However, the actual KPIs will depend on each bank's marketing strategy and the key objectives that a bank would like to achieve with its social-media initiatives.

7.4 Support

Banks need to get their customers involved with the online communities to help answer common questions that customers have. The advice needs to be free and friendly. In order to provide customer support banks can use 'verified' accounts on Twitter or Facebook. Social media have to be integrated into the support process of the organisation and guidelines and KPIs need to be established.

7.5 Innovate

Banks need to gain customer insight by listening to customers and identifying their needs. This can be done using opinion polls, blog comments, Facebook analytics and website analytics. Once the needs have been identified they can start designing new products and improving service levels.

8. Outlook

Social-media usage is a trend that every bank will have to adapt to, especially since 'Generation Y' and the generation of digital natives is increasingly becoming an important market segment. Bank customers will continue to demand fast answers to their banking questions and ultimately banks will have to switch to a full duplex mode of communication where they talk and listen to their customers simultaneously. While social media cannot replace a 'classic CRM', it can provide a platform for individualised customer service and a way to influence the customers' decisions.

The adoption of social media will have some non-financial impacts on banks, whereby banks will get a chance to add to their brand and be seen as an innovative company. By using social media, banks will be able to add to their customer centricity drive and provide fast and easy resolution of customers' problems. Banks can also strengthen their corporate identity and increase their brand value, which can result in an increase in the level of trust customers have in banks.

The financial impact that banks can expect from the use of social media can include the reduction of retention and acquisition cost of customers, increase in deposit generation, increase in marketing return on investment, reduction in churn rate and thereby increased contribution margin per customer.

Facebook will be one of the key platforms in the near future and has the potential to act as the hub for an organisation's social-media initiatives. Facebook is already being used by some banks to set up 'virtual branches'.

There are huge opportunities for all German retail banks, as they are far from using social-media channels effectively. Especially German Volksbanken, Raiffeisenbanken and Sparkassen, as they can be seen as local banks and are deeply rooted in the regional economic life, have enormous potential. These banks have excellent knowledge about the local market and personal contact with the people in the region, and they support local cultural and social activities. For these banks, the communities already exist, and they need to take these communities to their social-media assets.

The fact that social media will greatly influence our everyday life as we know it is indisputable, and efforts need to be made in the short run in order to secure a competitive advantage.

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