Cross-selling financial services to small and medium enterprises via e-banking portals

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CROSS-SELLING FINANCIAL SERVICES TO SMALL AND MEDIUM ENTERPRISES VIA E-BANKING PORTALS (RESEARCH-IN-PROGRESS)

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Research referring to e-Banking portals has often been conducted focusing on acceptance and usage of private customers. The customer group of small and medium enterprises (SME) was only rarely an object of investigation. Especially SMEs are a difficult group for banks to be profitable in. An obvious trend in this context is the strategy of banks to increase profits by improving cross-selling financial services via e-banking portals. The presented research project aims at analysing the status quo of e-banking in the customer segment of SMEs and at giving suggestions how to improve cross-selling. This paper introduces a research approach based on the current research in IS and marketing and presents the status quo of the project and its next steps.

Keywords: E-Banking, Cross-Selling, Data Mining, Multi-Channel-Management, Customer-Relationship-Management (CRM), Small and Medium Enterprises (SME)
1 INTRODUCTION

In the last couple of years, German banks have been facing heavy profitability problems. Especially in the customer segment of small and medium enterprises (SME), German banks face serious problems in making money and outperforming their competitors (Harris et al. 2003, Brinker et al. 2001). They are clearly underperforming their foreign competitors in profitability, which is very dangerous in the mid term in respect to the European Union. Harris et al. (2003) found out that German banks make a pre-tax Return on Risk-Adjusted Capital of only 6 % compared to 30 % in the UK and 22 % in Spain. The main reasons for the poor performance of German banks are the strong focus on old fashioned bank loans and a lack of sales attitude.

Authors usually criticize the missing sales attitude in SME-banking (Harris et al. 2003; Ibbotson & Moran 2003 and Brinker et al. 2001). As a reaction, banks try to improve their profits by enforcing the distribution through the two main marketing channels in this customer segment, the internet (e-banking portals) and the relationship manager. In the context of this work e-banking portals are defined as websites provided by a bank, to perform secure transactions, payments etc. over the internet. Because of their future importance, special attention has to be turned to e-banking portals in this context. Today the relationship manager is the favourite banking-channel of SMEs with 53.7 % of customers doing business with their bank via their manager. Only 11.4 % use e-banking portals as their main interaction channel. Research predicts that e-banking will rise to a percentage of 46.6 %, while the relationship manager will drop to 36.5 % (Johannsen & Deibert 2001). For example, Dandapani (2004), Hamilton (2003), Ibbotson & Moran (2003), O'Donnell et al. (2002) and Stehling and Moormann (2002) have similar expectations of the future role of the internet in banking, especially in SME-banking.

To increase profits via the e-banking portals, German banks utilize mainly two levers. Firstly, they offer more self services via the internet. In doing so, distribution costs will be lowered and relationship managers will have more time available to strengthen relationships with customers. Examples for online services are historic and current currency rates or stock quotes. Furthermore, regarding a lack of sales attitude in the SME segment, many German banks try to strengthen cross-selling. Deighton et al. (1994, p. 61) define cross-selling as “encouraging a company’s customers who have already bought its product A to also buy its product B”. In other words banks try to improve the share of wallet of every existing customer.

As studies show, German banks are not very successful in enforcing cross-selling. Wiedmann et al. (2003) show that almost 75 % of German banks are unsatisfied with cross-selling success. Furthermore, Homburg and Schäfer (2001, p. 2) estimate that German financial service providers only use a third of the existing cross-selling-potential. Neither banks nor scientific research give appropriate solutions to solve this problem (see part 2 – related research).

Based on this situation, the resulting central research question is: “How can German banks successfully increase their cross-selling to SME via e-banking portals?”

2 RELATED RESEARCH

As stated above, past research gives only little help to answer this question. An Analysis of information systems (IS) and marketing research shows that in IS, research concerned with cross-
selling is typically from the field of data mining. Furthermore, usage of e-banking portals is mainly focused on private clients, not on SME. In marketing literature, special interest is paid to cross-selling in general, often in the context of relationship management, but again the focus is on private consumers. Moreover, for the most part marketing research is concentrating on creating suggestions from a strategic point of view and evaluating whether cross-selling is positively correlated with a company’s/bank’s profits.

2.1 Cross-Selling Financial Services in IS Research

IS research typically combines cross-selling financial services with data mining. Cross-selling is a marketing area where data mining can be applied. Cabena et al. (1998) define data mining as “the process of extracting previously unknown, valid, and actionable information from large databases and then using the information to make crucial business decisions.” IS literature usually presents different methods of data mining operations, e.g. clustering/segmentation, visualization, predictive, modelling, link analysis, deviation detection, dependency modelling or summarization (e.g. see Hormozi & Giles 2004) and illustrates how they can be used to increase cross-selling. Cabena et al. (1998) present the example of Mellon Bank, which uses data mining to identify consumers with deposit accounts who are potentially interested in a home equity. Storey and Cohen (2002) show how data mining operations can be used to improve cross-selling in retail banking using data from Scotiabank, a North American financial institution. These examples show the main focus of IS research in cross-selling financial services and data mining. Normally, data mining methods are discussed using data from retail banking and giving advice for improvements. These results give a good basis for future research but adjustments must be made because of the SME characteristics.

Other research referring to cross-selling in financial services is from the field of human computer interaction (HCI) in e-banking. But as in data mining, the majority of research is focussed on retail banking, often aiming to evaluate the service quality. In German IS research, Bartmann and Rill conduct a yearly evaluation of about 400 retail banking websites using a detailed criteria catalogue (Bartmann & Rill 2005). It is aligned to the concept of the customer buying cycle (CBC), which structures the customer's process of product or services acquisition into four stages: awareness, evaluation, purchase, and after sales (see figure 1)

![Diagram](attachment:image.png)

**Figure 1. The Customer Buying Cycle (CBC)**

They aim to capture the status quo of how customer-centric advisory services in the banking industry are implemented in the retail segment. The results show possible suggestions for improvement. Also Bauer et al. (2005) give advice on how to improve service quality in e-banking portals using an extended approach of the traditional service quality model SERVQUAL (Parasuraman et al. 1988). Nevertheless these studies do not pay much interest to the topic cross-selling and to SME-banking.

Two surveys dealing with e-banking portals for SME are Krabichler (2003) and Graczorz and Schwencke (2005). Both aim to compare e-banking portals in Europe and the USA to identify best
practices. Krabichler (2003) is using the CBC while Graczorz and Schwencke (2005) develop their own framework to analyse the e-banking portals. None of the two studies is focusing on cross-selling. Both touch on the topic but do not go very deep. In both cases, the results are recommendations for using the internet as a distribution and service-channel.

Altogether, IS research in cross-selling financial services has been conducted from a rather strategic point of view. They all develop recommendations on a strategic level giving suggestions to management on whether and how (especially using data mining operations) to cross-sell financial services. Moreover, research is concentrating on retail banking. In IS research, a vacancy exists regarding electronically facilitated cross-selling for SMEs.

2.2 Cross-Selling Financial Services in Marketing Research

In marketing research the main focus of conducted works is, as in IS research, on retail banking. Furthermore, there is only limited research regarding e-banking portals. Existing research focuses on a more strategic focus and is not concentrating on special distribution channels. Another shortage in this context is a concentration on Anglo-American banks and SME, raw empirical verification and negligence of current trends like Basel II, the growing usage of information technology in SME and in the banking industry as well as the growing internationalisation of SME’s business.

Ritter (1988 and 1993), for example, identifies critical success factors of cross-selling financial services from a top management perspective. He concentrates on American retail banking and only uses weak empirical research methods. The same applies to Gertner et al. (2000) who try to identify the emerging difficulties caused by implementing a cross-selling program for a US bank. Other reviewed marketing literature in the research field 'cross-selling financial services', for example, is from Jarrar and Neely (2002), Schäfer (2002) and Cainey et al. (2002).

The main success factors to support cross-selling, according to Homburg and Schäfer (2001), are anchoring the topic in the corporation’s strategy, building customer centric enterprise structure and information systems (CRM-systems), motivating employees to accept cross-selling as a part of their job and establishing a cross-selling culture.

A lot of research has been conducted in retail banking, normally from a strategic point of view and usually only using weak empirical research methods. Main results, next to success factors from above, are that, in general, users of e-banking portals are more profitable than offline banking customers (Boehm & Gensler 2005, Verhoef & Donkers 2005 and Campbell 2003). They buy more products, i.e. they have a greater potential for cross-selling, and have a higher frequency of transactions. In addition, serving e-banking users is more cost efficient due to a higher level of automation and self services. But nevertheless special research for SME is also rare.

3 PLANNED RESEARCH

3.1 Research Approach

As stated in section 1, the main research question is “how can German banks successfully improve their cross-selling to SME through e-banking portals?” To answer this question, the research approach is derived from a cross-selling process developed by Homburg and Schäfer (2001) and Ritter (1988).

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2 Basel II is a round of deliberations by central bankers from around the world, under the auspices of the Basel Committee on Banking Supervision in Basel, Switzerland, aimed at producing uniformity in the way banks and banking regulators approach risk management across national borders.
Based on this process, four research questions arise to support the answer of the main research question: “How can German banks successfully enforce their cross-selling to SME through e-banking portals?” To answer the questions, the general marketing literature will be synoptically analyzed as well as literature from the areas on online and internet marketing, and internet banking.

**Q1:** Which factors influence the cross-selling potential of SME customers and how can it be measured?

The first question covers the first two steps of the cross-selling process, “customer analysis” and “potential estimation”. To answer this question, mainly literature on customer equity\(^3\) will be used. To measure the value of a customer for a company, effects like customer retention, cash flow, willingness for positive recommendation and cross-selling potential have to be taken into account (e.g. Rust et al. 2000, Blattberg et al. 2001, Rudolf-Sipóz 2001). In this context it is very important to consider the specific needs of SME customers concerning the distribution channel internet and their effect on the choice of distribution channels. A combination of current research gives a rudimental framework to measure cross-selling potential (figure 2). The framework must be adjusted concerning SME and e-banking specialities.

**Q2:** How can the identified potential successfully be used?

The second question refers to the third and fourth step of the cross-selling process, i.e. action planning and realisation. The step „action planning“ can be divided into two more substeps. The first one is to identify products and services which fit a customer’s needs. The second step is to specify how a solution should be offered to the customer to increase the probability of acceptance. Here the typical marketing mix (e.g. Grönroos 1994, Zeithaml & Bitner 2003), product, price, promotion and place, should be taken into account. After the appropriate solution is found, it is offered to the customer (realisation).

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\(^3\) In marketing literature customer equity and customer value are often used as synonyms.
Q3: Which role do the alternative distribution channels play?

As the banking industry is a multi-channel-industry (Hamilton 2003, Coelho & Easingwood 2003, Ibbotson & Moran 2003 or Verhoef & Donkers 2005), the role of different/alternative distribution channels has to be considered. Research concentrates on e-banking portals but where necessary other channels should be taken into consideration. In cross-selling in SME-Banking, especially the role of the relationship manager and his “collaboration” with the e-banking portal is important (O’Donnell et al. 2002) Also the usage of IT (front and back office activities) in this context should be considered.

Q4: What are the (general) success factors of cross-selling financial services to SME?

Based on the results of the previous research questions, SME-banking experts will be interviewed. Therefore a survey will be carried out. The analysis will raise questions form separate corporate levels. So far these levels are strategy, corporate structure and management, corporate culture, employees’ incentives and usage of information systems like CRM or date ware houses.

3.2 Proposed Research methods

The four questions shown can be assigned to different types of research fields (considering interactions). To answer the questions, research methods usually used in these fields adopted to the particular problem will be used. Table 1 shows the proposed methods.

<table>
<thead>
<tr>
<th>Type of Research Field</th>
<th>Research Question</th>
<th>Research Methods</th>
<th>Reference Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measuring Cross-Selling potential (as an element of customer equity)</td>
<td>Q1</td>
<td>Desk Research, Interviews</td>
<td>(Schäfer 2002, Blatthberg et al. 2001, Rudolf-Sipötz 2001)</td>
</tr>
<tr>
<td>Buying Behaviour of Firms</td>
<td>Q1, Q2, Q3</td>
<td>Desk Research, Focus Groups, Survey</td>
<td>(Bauer et al. 2005, Ibbotson &amp; Moran 2003, O'Donnell et al. 2002)</td>
</tr>
<tr>
<td>Multi-Channel Management</td>
<td>Q3</td>
<td>Desk Research, Case Studies, Interviews</td>
<td>(Hamilton 2003, Krabichler 2003, Verhoef and Donkers 2005)</td>
</tr>
</tbody>
</table>

Table 1. Summary of research fields, adopted research methods and reference examples

The research will be divided into three phases. Phase 1 is already finished and consisted of desk research and expert interviews on the general topic of SME banking. In part two, a survey was conducted in a special group of SME. These were mainly freelancers like health professionals, tax advisors, auditors, lawyers and architects as well as engineers. The research followed two goals in this part. The first was to gain experience in conducting surveys in the customer group of SME. Secondly, we researched the general banking habits of SME in general and particularly in using e-banking portals. We surveyed 580 freelancers and received 130 answers.

Based on the two phases, we will start phase three to identify cross-selling opportunities of e-banking portals by conducting a focus group. The group will consist of bankers who are responsible for marketing and data mining in SME-banking and familiar with cross-selling. The main focus is on measurement of the cross-selling potential in practice and the role of e-banking portals. Afterwards, we will develop a questionnaire to find out which financial services SME use and which channel they prefer for each product. Special interest lies in the question which products SME want to buy over e-banking portals and which services do they comprehend to fit together. Before sending the questionnaire to SME, we will pre-test and afterwards optimize it. Especially, to answer the question
about critical success factors on cross selling, we will conduct a survey with bankers. If possible, we will try to find a financial service provider to implement our findings in his e-banking portal.

4 EXPECTED CONTRIBUTIONS

The benefit of the research project will be divided in a research part and a practical part. The research contribution is to close the vacancy in the described research field of cross-selling financial services to SME through e-banking portals. Furthermore, the research will provide a framework for future research in related areas. The main benefit for financial services providers is the opportunity to better cross-sell to their SME customers because of the knowledge of the causal connections. Furthermore, the chosen research methods will help them to exchange their experience on cross-selling to SME using the distribution channel internet. A further benefit is the possibility that SME will be offered more appropriate financial services, which leads to a win-win-situation between banks and their customers.

References


