Business to Business Relationship Management in E-Investment Management

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Abstract

The purpose of this paper is to investigate business-to-business solutions to the investment management by the adoption of the information technology. Specifically, a customer chain management model was developed. Then, a set of business-to-business solutions were developed based on the model. Finally, the implementation pattern of the top six dominant investment management companies was derived. The findings will be helpful to the acceleration of the information technology and information systems adoption in the investment management industry.

Keywords: Business-to-business, customer relationship management, investment industry

1. Introduction

Investment management firms have been aggressively expanding globally. Before the early 1980s, the investment services industry was limited to domestic operations. Information technology has changed the investment industry dramatically (Albrecht, Seifert, Menza, 2006c). The Internet has revolutionized traditional distribution channels and led the industry to expand its scope to provide a wide range of financial products and services globally.

The ongoing information technology (IT) revolution gives global dimension to the consolidation in the investment management industry. Technology-driven advances, such as round-the-clock trading and the Internet, make national borders irrelevant. With the increasing use of the Internet, it has become much easier to acquire assets, distribution channels, and expertise on a global scale (Barbash, 2006).

In recent years, information technology has become a key factor in the industry's development. Advances in technology and growing client demand for specialized investment products has driven the industry to introduce a wide variety of financial products, such as various new hedging vehicles, derivative products, and specialized mutual funds. (Albrecht, Seifert, Menza, 2006d). IT has led to ease and convenience of investing assets and has been a major driving force in the industry. The competitive challenge for firms in the industry has been to increase the number of products and services sold to each client in order to protect and expand their relationships, thereby increasing client retention rates.

Even though the IT is becoming more important in today's investment management industry when the industry moves global, the adoption of the IT is still slow in the industry. This paper aims at developing a set of business-to-business (B2B) solutions in order to accelerate the adoption of IT in the investment management industry.

The reminder of the paper is organized as follows: Section 2 presents a conceptual model of electronic customer chain. Section 3 develops a set of B2B solutions based on the model developed in Section 2. Section 4 investigates the top companies in the investment management industry and derives the pattern of the B2B implementation. Section 5 presents conclusions.

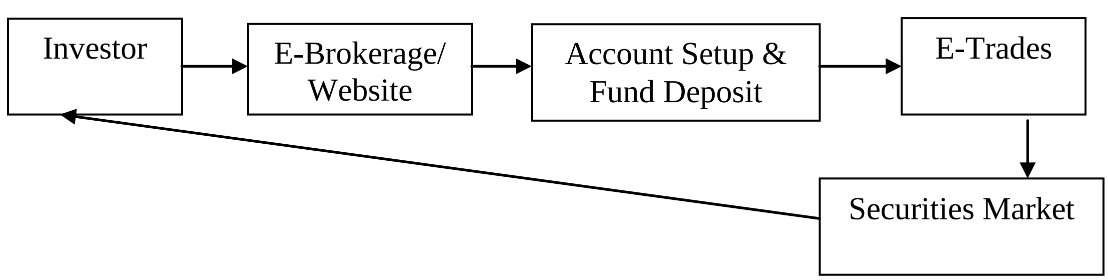
2. Electronic Customer Chain Model

Knod and Schonberger define customer chains as "provider-customer links, extending from origin of a product or service through sale to the end consumer and on to postsale service. Every employee has a customer-the next process, or where the work goes next. Also, each employee is a customer of the previous process" (Knod & Schonberger, 2001, p.21).

Further research has revealed that a customer chain has a major process that transforms inputs (raw materials) into outputs (products or services), which focuses on coordinates business activities that provide the final product to the next (another) business customer. This process can be viewed as B2B chain. By utilizing and promoting customer chain, employees will feel more responsible for the quality and success of the final product. The primary goal of customer chain is to meet and exceed a customer's expectations, such as high level of quality, a high degree of flexibility, high level of service, low costs, quick response, and little or no variability (Knod & Schonberger, 2001).

Electronic (E-) customer chain is a customer chain that is linked electronically. The e-customer chain allows B2B customers to communicate in a more efficient and timely manner. The e-customer chain benefits both an investment management company and its investor and helps increase companies' sales through the convenience, reliability and availability of investing options through the companies' websites (Heng, 2006). In addition, the e-customer chain allows business to monitor customer's demand in a more effective and efficient manner. Figure 1 illustrates an e-customer chain for the investment management industry.

Figure 1: E-Customer Chains for the Investment Management Industry



Once an investor chooses to go with an e-brokerage, his/her fist step is to open an account on the company's website. Upon successfully opening an account, the investor makes an initial deposit via electronic transfer and/or check. Once funds have cleared, the investor is free to trade all available securities through the company's website, which would be impossible without companies' servers. The server offers an interface for the customer to access different areas of the business without involving an investment professional. Since servers have instant access to financial data and customer information, online trades are executed quickly. A company's website also reduces the cost of customer service by allowing customers to solve some of the more frequent problems themselves with the help of FAQs or website instructions. Through a correctly executed IT plan, companies can ensure a smooth flow through the e-customer chain.

Many B2B applications shorten the flow of the e-customer chain making it more efficient. In addition, utilizing various B2B applications in the customer chain help companies get closer to their customers, serve customers better, reduce cost, and introduce new products and services (Heng, 2006).

3. Business-to-Business Solutions

Based on the e-customer chain model in Figure 1, Table 1 was derived to illustrate B2B solutions that could be used in the investment management industry. In the investment management industry most B2B operations occur in either inbound or outbound stages.

Table 1: Business-to-business Solution in the Investment Management Industry

Items	Application	Description
A1	Partnership/Mergers/Alliances	Use of partnership to increase the efficiency of operations and lower operating costs
A2	Internet Security	Investment management companies must ensure an adequate level of internet security because it is critical to the companies' operations. Loss of internal or external customer's information can be detrimental to a company.
A3	Online Customer Portfolio Management	Online access to managed assets. This service enables customers to reallocate their assets
A4	Billing Options	Internet BillPay options apply to businesses as well as individual customers
A5	Extranet Interface with Potential Investment Firms	Collecting information on companies in which the investment firms might want to invest
A6	Regulatory Agencies	The government, SEC, and FDIC are few agencies whose restrictions greatly affect operation (online operations as well) of the investment managements companies
A7	Asset management	Core competencies of the investment management companies – managing funds of other companies, institutions, and individuals.
A8	Translator (for investment companies operating globally)	Option on the website to switch to languages of countries in which an investment company operates
A9	Sponsorships	Sponsoring events or charity organizations with the help of online ads

4. Implementation Pattern of the Dominant Companies

Investment management companies earn their fees for investing and managing customers' assets. Since these fees are typically calculated based on the assets under management (AUM), analysis of the AUM growth is a key driving factor in a company's performance. The growth in AUM is directly correlated to the revenue growth (Albrecht, Seifert, Menza, 2006a). Six of the top companies in the investment management industry based on the revenue growth were: Bank of New York, Ameriprise Financial Inc., State Street Corp., Mellon Financial Corp., Northern Trust Corp., and Franklin Resources Inc..The top six investment management companies were analyzed on their utilization of B2B applications. Table 2 illustrates the dominant six companies in the investment management industry and their association with various B2B applications. A score of “2” was assigned to the companies with full utilization of the application at hand. A score of “1” was assigned to the companies that practice partial implementation of the application. A score of “0” indicates no sign of implementation of a specific B2B application. The percentage total shows the progress of implementation of each system overall for the six companies. The subtotal shows the overall implementation of each system for each of the six companies. Data included in Table 2 was collected by visiting each company’s website.

Table 2: Application of B2B Solutions in the Top 6 Investment Management Companies

B2B Applications	Bank of New York	Ameriprise Financial Inc.	State Street Corp.	Mellon Financial Corp.	Northern Trust Corp.	Franklin Resources Inc.	Total
A1	2	2	2	2	1	2	**11**
A2	2	2	2	2	2	2	**12**
A3	2	1	1	1	2	2	**9**
A4	2	2	2	2	1	2	**11**
A5	2	2	1	2	2	2	**11**
A6	2	2	2	2	2	2	**12**
A7	2	2	2	2	2	2	**12**
A8	0	0	0	0	0	2	**2**
A9	2	1	1	1	1	2	**8**
Total	**16**	**14**	**13**	**14**	**13**	**18**	

In Table 2, the highest scores were assigned to Internet security (A2), regulatory agencies (A6), and asset management (A7). The reason all companies scored 12 out of 12 in those areas is as follows. None of the investment management companies would simply be able to operate without internet security because customer personal information and funds are transferred via the Internet; consequently, the loss of confidential information or funds would have a negative effect on the business.

All analyzed companies scored 12 out of 12 in their compliance with regulations. It makes sense because Securities and Exchange Commission (SEC) would not let any investment company operate without proper filings. SEC “protects investors, maintain fair, orderly, and efficient markets, and facilitate capital formation” (Securities and Exchange Commission, 2006, p.1). In addition, all the six companies scored 12 in asset management because it is their core competency.

The total score for online customer portfolio management application reached 9 out of 12 because investment management companies produce most of their revenue by managing their client’s assets; therefore, in order to preserve a source of revenue, companies are reluctant to fully implement that application. Another application that is not fully utilized is sponsorship (A9), which only reached a total score of 8 out of 12 because implementation of this application is not vital to investment companies.

5. Discussions and Conclusions

This paper developed a set of B2B solutions based on an e-customer chain model for the investment management industry. The top six companies in this industry were investigated based on these B2B solutions. Some of the investment management companies should incorporate more B2B applications into their operations to increase convenience and ease of the process. Implementing more B2B applications would help companies attract more customers and increase their revenues. One of the major differentiators in a highly competitive market is offering an excellent customer service, which is nearly impossible to achieve without advanced IT systems.

The industry is growing at an amazing pace, being driven by globalization, demographic changes, and automation of the industry. One of the industry’s driving forces is globalization.

As the market place becomes more global, the investment management firms are expanding more aggressively into international markets as a source of growth.

Another driving force of the industry's growth is the need of the baby boom generation to save for retirement. Currently, there are about 82 million baby boomers in the United States, who represent about 35% of the country's population. Considering the shortage of the Social Security funds, aging Americans rely more on individual account retirement plans such as 401(k) and Individual Retirement Accounts. In addition, asset managers have aggressively increased their overseas presence. Realizing that the mutual fund and pension industries of many foreign markets lag far behind those of the United States, they are seeking to leverage their research and stock picking expertise as well as infrastructure (Albrecht, Seifert, Menza, 2006c). Retirement investments have been among the most important inflows of money into the stock market and mutual funds, and this trend is expected to continue.

With the increasing use of technology, the investment management industry is progressing in accuracy, security, and efficiency, which are the main issue in the industry. In order to survive in the highly competitive market, it is critical for any investment management company to incorporate a highly skilled IT teams, e-customers chains, and customer focus.

References are available upon request