

Arc Horizon

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Special points of interest:

- Benefiting from CRM
- The year at Arc reviewed
- New web site!
- A discussion on motivational styles
- A new feature for online readers*

* If you use Adobe Reader, you can now navigate the newsletter by clicking on entries from 'Inside this Issue', 'Continued on... Continued from...' notations, or 'Special Points' above.

Unfortunately, while many firms believe they are investing in a CRM system, in reality they are only building an overpriced contact management system...

Featured Article

Getting the Most Benefit from Financial Services CRM Systems

Customer Relationship Management (CRM) systems have been proposed as a panacea for many problems within financial services firms. Portrayed as a smart solution that takes advantage of a bank or brokerage firm's current knowledge about a client, a good CRM system can increase sales and improve customer service. Unfortunately, while many firms believe they are investing in a CRM system, in reality they are only building an overpriced contact management system, and as a result, are underperforming in both the sales and service arenas.

At Arc Partners, we have identified several key features that a system must have to ensure your bank or brokerage firm lives, and earns, up to its potential.

The difference between CRM and Contact Management Systems

A contact management system keeps track of interactions

between employees and clients such as service or sales calls. Current examples of contact management systems can be as simple as a piece of stand-alone software, such as Act, Goldmine or Broker's Ally, or as sophisticated as SalesLogix and SAP, but all include defined data fields and notes fields for non-defined data.

A contact management system seldom has any integration with other bank or brokerage legacy systems. Initially, there is a data fill with the client set but after that the system is only as good as the data input by the employees.

In contrast, a CRM system contains much of the information included in a contact management system, however, that data is combined with other available information in order to create synthesized data that can be used to direct client and employee behaviors.

The end result of a good CRM system is to make each employee

who interfaces with a client the modern equivalent of the old-time General Store clerk. Your employees should know a lot about the customer; everything from their purchasing history to their preferences to their capability to take



additional products. They should know how likely they are to stay or leave, and be able to estimate what

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Leaders' Notes

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Thanks!

On behalf of the Arc team, Brendan, John, and I extend best wishes to our clients, colleagues, and friends for a happy, healthy and safe holiday season.

We also want to thank our many loyal clients for showing their confidence in us by using our services in 2005. Overall, this was a good year for Arc. We continued many of our longstanding relationships with organizations such as Credit Suisse, UBS, HSBC, Wachovia, United Health Care (Exante Bank), NASD, and the American, New York, and NASDAQ exchanges.

We also began new relationships with organizations including Lehman Brothers, Citadel Investment Group, Land America, Bank of Amer-

ica, GSO Capital, Warburg Pincus, and American Express.

Since we began, Arc has performed more than 400 projects for over 50 different clients. About 90% of our projects are repeat business with companies or executives we've worked with in the past. I think our individual loyalty award has to go to our friend John Moore, currently the CIO of Too, Inc. (a spin off of The Limited chain). As John moved from NASDAQ to Dell, Best Buy, and now Too over the last several years, he's used us to help him with a variety of IT-related projects. Of course, we take full credit for the increasing responsibilities and more senior positions that John advanced to in each company.

2006 will mark Arc's 10th anniversary. We are looking forward to

another 10 challenging, interesting, and rewarding years of service to our clients, and we hope to continue to extend our client community through new projects and relationships. We are launching a new internet site this month (www.arcpartners.com) that will provide easier access to background information on our Company, and overviews for many of our past projects. If you pay a visit, let us know what you think.

Here's hoping for a prosperous and rewarding 2006 for one and all from all of us at Arc!

— Don Harder is a Managing Director at Arc Partners

Inside Story

Arc Partners Debuts New Website

Arc Partners Inc., a New York based Operations and IT management consultancy, launched its redesigned corporate website www.arcpartners.com on December 22, 2005. The launch coincides with a major milestone in the company's history; Arc Partners' 10-year anniversary.

The new website marks a dramatic improvement in appearance, navigability, accessibility and usability. All the 'top-level' pages of the site have been redesigned and reorganized to better present Arc Partners' capabilities

and service offerings. The website also features a content management system which allows associates to quickly and easily deliver success stories, company news and publications to the company's current and potential clients.

Another notable feature, not available to the public, is the employee knowledge and document management portal which will provide immediate access, for associates at client sites, to a wealth of tools, templates, models, and other consulting materials designed to assist clients and as-

sociates in the field.

The new website will be the online information gateway for current and future clients, potential investors and partners, third party solution providers, media representatives, and career seekers. It will increasingly serve as a channel where clients can learn of the latest industry trends, read "lessons from the trenches," and gain valuable insights to help them transform their vision into profitable reality.

– Henry Zhang is a Senior Consultant at Arc Partners

Arc Partners, Inc.

Transforming Your Vision
Into Profitable Reality

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Arc Partners transforms your vision into profitable reality

Arc Partners is a business and technology management consulting firm focused on serving the needs of the financial services industry. Since our founding in 1996, Arc Partners has performed over four hundred projects on behalf of forty corporations. The performance of multiple engagements per client is our best indicator of satisfaction.

Experience, industry focus, and project customization enable Arc Partners to exceed expectations resulting in lasting client value. A typical project consists of two or three consultants each with an average of fifteen years of experience at consulting, financial services, or technology firms.

Our professionals work as one with your team to deliver practical solutions from a business perspective, harnessing the benefits of today's tools and technologies.

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Consultant's Corner

I've Got Problems, Bub!

"...a lot of people are simply not motivated by the mere re-labeling of problems as golden opportunities... because most people are intelligent enough to recognize the inherent disconnect."

Somewhere in the antiquity of consulting times; say around 15 years ago, some over-eager guru (probably a consultant) began preaching the gospel that 'problem' is a four-letter word that de-motivates the listener.

"Let's call it an opportunity!" he said seriously. "The word 'problem' is so negative. We should see these things in a positive light and motivate people with positive thinking. Let's think in terms of goals." It was probably just good social timing, but we've all been marching in lockstep into the morass of political correctness ever since.

For many people such a broad categorization is probably a good thing, however, it fails to take into consideration one important point. *Motivation doesn't come in one flavor.* Read the

works of MacGregor, Hertzberg, Maslow, and Argyris; you'll find that even the acknowledged masters can't agree on a common definition and approach.

With apologies to all of the above, I happen to think the true masters of motivation work about one block west of here on Madison Avenue. They look at motivation through the prism of the real world and have come up with a fairly simple, yet elegant paradigm. In the eyes of Madison Avenue there are really only two types of motivators, fear and hope. Some people (academic-types usually) prefer to think of them as repellants and attractants.

Examples of Madison Avenue's blatant attempts to pry open our pocketbooks with avoidance motivation are

myriad. (Ok, think "Mama Mia, that's-a one spicy meat-a-ball!" and is there anyone who doesn't remember the little ditty that goes with the lyrics, "Buckle Up for Safety, Buckle Up!"). But just as typical are the ads trying to separate us from our cash by making us believe in the attractiveness of the product or service ("You're in Good Hands with...", "Takes a Licking and Keeps on Ticking," or "Good to the Last Drop.")

Regardless of what you think of the mass media, you have to admit Madison Avenue knows motivation. They also instinctively know what our eager friend the 'consultant of antiquity' did not; a lot of people are simply not motivated by the mere re-labeling

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of problems as *golden opportunities*. Personally, I think it's because most people are intelligent enough to recognize the inherent disconnect. In my opinion, it's OK to use the P-word -- people will pick up on the a lack of consistency if you say, "We exceeded our budget by ninety grand... wow, what an opportunity!"

What Madison Avenue does best is create a three-way match between problem, potential solution, **and** the likely motivational style (attract/avoid) of the intended target. As you've probably realized, there is nothing to keep us from doing something similar. We can match our problems and potential solutions to a motivational style that our staff will connect with. In fact, we have an advantage over Madison Avenue -- we actually know (or can learn) how our people are likely to react to different types of motivational styles -- so we don't have to rely so heavily on 'human nature.'

So, you've got a PROBLEM and

you need your staff to help solve it. How do you know which kind of motivator to use? Attract? Repel? There are no easy answers, but some guidelines may help.

Start by listening to the stories that people tell about situations in their lives. Are they largely stories about personal achievement, striving for excellence, or overcoming obstacles? These are probably your 'hope motivated' individuals. They're usually the easy ones to get into action with a few goals, a couple of Knute Rocke-type speeches, and a pat on the back.

Conversely, while everyone can have an occasional 'down-period', consistent stories or concerns about potential loss (without actual loss) and sometimes generalized cynicism or even sarcasm can be the hallmarks of the 'fear motivated.' But be extremely careful here... remember, people react negatively to being browbeaten or threatened. Fear must have enough of an 'edge' that we are motivated to correct action, but not so much that we are paralyzed into inaction. Unfortu-

nately, the primary cause of procrastination is -- you guessed it -- fear.

It's only in drastic situations where motivating people requires them to be in dread of some foreboding event like the potential loss of a job; even then, motivation based on power and intimidation doesn't usually work, or worse, it produces effects the opposite of what was intended. This is especially true if you use it too liberally or never follow through on a threat.

More often than not, an effective 'fear-based' motivator will be much less tangible, more subtle and complex. For many of the 'avoidance-motivated' their personal motivators will be more along the lines of, "I don't want to appear foolish or inept in someone else's eyes," or "I don't want to let someone down who is relying on me." Those are examples of positive fear-based motivators...

Confusing, eh? Now you know why so many managers default to a goal-oriented motivational style... this stuff can be difficult! But if your people are not responding to your attempts at

charging them up with high-flying goals at least now you may have another option for why that may be occurring.

Motivation can sometimes be a tight-wire act but there are only two ways to get things done; do it yourself or motivate someone else to do it. Since your job as a manager is primarily defined by your ability to do the latter, becoming adept at the appropriate use of different motivational styles and presenting a consistent and candid message may be a key to your own personal success, and a good starting point can be... telling it like it is. So go ahead-- use the P-word!

Then, if we ever meet across your desk and --God forbid-- I characterize your situation as an 'opportunity' you have my permission to reach across the desk, smack me in the head and say, "I've got **problems**, Bub!"

-- John Harris is a Senior Manager at Arc Partners. The opinions expressed in this article are entirely his own.

Getting the Most Benefit from a Financial Services CRM--cont'd

(Continued from page 1)

they are spending with the competition.

What data goes into a world-class CRM system?

A good CRM system starts with the firm's legacy systems. Legacy systems are those systems that are integral to running the business. In a bank, legacy systems include the DDA, loan, mortgage and savings systems. In a brokerage firm, they include contact management systems, client account systems at the clearing firm, fund and annuity company systems, as well as the trading system.

The data from these different systems is then "household." Household is the process of

bringing together all the relationships that make up an economic unit, the household. It also works where the household is a corporate entity and exceptional systems even tie corporations and individuals together where appropriate. Household requires complex algorithms to calculate which accounts go with each household. These algorithms can be developed internally, bought from software providers, or a firm can send its different data systems out to be householded by an outside vendor.

Bad householding renders all further use of the data problematic. The use of bad householded data can destroy rather than build relationships, so it is imperative that the original data be accurate. As part of householding, outside vendors will often clean the data that is

going into the CRM. Sophisticated vendors also provide clean-up files for legacy systems so that the original data can be scrubbed. This means less time will be required to do subsequent householding.

Once an accurate picture of the household has been assembled, it is time to bring in the next type of data, commonly known as appended data. The first level of this data consists of commercially available demographic material which includes addresses, ages, memberships, etc. Also appended is the psychographic data, the famous segmentation or life-cycle classifications ("blue bloods," "shotguns and pick-ups," "young influentials") available from data management firms.

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Employee Profile

Dominic Gee, Manager

It's not very difficult to pick Dominic Gee out of the crowd in Arc Partners, at least not when you hear him speak. Dom is British and hails from the South -- London to be exact -- so it's kind of like talking to James Bond without the Walther PPK and remote detonator wristwatch (nowadays most companies frown on people wearing explosive devices to work anyway).

We're quite sure that Dom doesn't mind NOT having a Q to stuff little techno-toys in his tuxedo because, although he deals with

technical issues at work, at home Dom is what he refers to as "a low-tech kind of guy." It seems a television, small radio, camera, and an alarm clock may be the extent of the technical gadgetry at Chez Dom.

But that's understandable because where Dom likes to go you don't usually find much electricity anyway. You see, when he's not out solving business profitability and process optimization problems for clients, Dom is a world traveler. He's been in about 30% of the 52 countries in Africa and we've seen

photos of his solo treks through Thailand, Vietnam, Cambodia, Laos, Burma ...and Salt Lake City. Although Dom doesn't talk very much, it's fascinating listening to stories about sleeping in huts with bugs as big as a small dog, riding in a truck from Morocco to South Africa, and eating things that you just can't get in this country, even in New York City. His plans for the (hopefully) near future are to go visit the Silver Back Gorillas in Rwanda. Wow. Most of us think an exciting vacation is a week in the Poconos...

"...it's kind of like talking to James Bond without the Walther PPK and remote detonator wristwatch."

"Transforming vision into profitable reality"

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Arc Partners was founded during a time of unprecedented business and technology change in the financial services industry. Our goal is to assist financial services companies in improving business performance through better management and application of technology.

We are a high performance management consulting firm that works with clients to ensure key business process and technology initiatives succeed. We don't do projects to our clients. Our combination of industry expertise and consultative skills allows us to creatively analyze fast-changing environments and recommend best-fit solutions.

Arc Partners has earned a reputation for high quality, value-added service. We perform multiple engagements for over 90% of our clients, reflecting their satisfaction with their service. We continue to expand, but pace our growth to ensure continued excellence in the quality of our work.

Getting the Most Benefit from a Financial Services CRM—cont'd

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At this stage, the CRM contains only "known" data. A sophisticated CRM then begins modeling on the known data; building such predictors as the "propensity to purchase" a specific product, "next product to sell," and "likelihood to attrite" (cease to be a customer). This information will be used for sales or marketing campaigns and the results will be written back to the CRM.

Finally, customer profitability is calculated and tiered for each household. Profitability for each relevant segment is calculated, and the difference between each individual household in the segment and the top client is known as the "profitability gap," or the amount of incremental profitability that could be earned from that particular household.

What should a resourceful financial services firm do with its CRM system?

Once a firm has all the key CRM data, there are several potential approaches to using it.

Sales & marketing campaigns: Direct response campaigns can be created to target different segments based on customer preferences. Responses, or non-responses, to these campaigns are written back to the CRM system so that customers are not annoyed by frequent solicitations that they are not interested in, despite what the CRM system may have predicted. In this

manner, the CRM system grows and "learns" becoming an artificial intelligence expert on clients while tracking the effectiveness of the marketing campaigns.

Internet marketing engines: How does Amazon know that you want to buy the next Grisham thriller or Fado CD from Portugal? Amazon's CRM system feeds automated marketing engines that synthesize customer preferences and histories to solicit additional sales opportunities. These capabilities are also available for banks and brokerages today.

Retention campaigns: If an organization knows a customer is likely to leave, and the customer's business is profitable to the firm, the company can undertake a proactive campaign to retain the customer. As everyone is aware, it is cheaper and easier to hang on to an existing customer than to try and win them back once they have gone over to the competition.

Behavioral campaigns: What does your bank do if Mrs. Jones is in the branch every day? The frequency of her visits may make Mrs. Jones' business unprofitable even though she does all her banking with your firm. If the organization could get Mrs. Jones to bank electronically, she might move from unprofitable to profitable. Don't say it can't be done; inventive banks have already invested in programs to develop such behavioral changes, with measurable success.

Call center phone prioritiza-

tion: How long do your firm's clients wait to get through at the call center? Are calls answered in order of arrival, or does the organization put the most valuable clients through first, while giving the less profitable inquirers longer wait times? Does the organization match the best phone sales people to the maximum selling opportunity? If not, why not? CTI (computer technology interface) and CRM combinations exist today that accomplish just that.

The key to CRM success is to get the right information in the hands of the right employees at the right time. A firm should get the profitability numbers to all employees who interface with that client. Let employees know how valuable the client is then hold them accountable for good sales and service procedures. Also, a firm should provide employees with attrition information and hold them accountable for retention of key clients.

Make sure that all salespeople are provided with the "next product to sell" information. Sales of undesired products can actually lower a customer's profitability, for example, selling someone who is consistently overdrawn overdraft protection privileges.

Of course, the CRM system should also be used as the contact management system with each client contact diligently logged. Legacy systems provide core data, and by adding sales and service events the financial service firm has a complete picture of its interactions with

the client.

Avoiding Implementation traps.

This article has focused on what to do with your system once it is fully implemented, but while getting to that point it is important not to fall into the classic implementation traps:

- ◆ Failure to assess and correct data quality issues
- ◆ Excessive modification of a vendor product to the point where upgrades become problematic
- ◆ Inadequate rollout planning

... and probably the most important...

- ◆ Getting so tied up in 'installing a system' that you fail to make the organizational and process changes required to meet the original business need.

When reviewing your CRM systems, ask yourself whether your organization is getting optimal results from its technology investments. If your CRM system is not leading to measurable improvements in sales and service performance, your organization can do better.

OR

To learn more about how you can have a successful CRM system to improve sales and service to your clients, contact Arc Partners at (212) 370-9460, or e-mail Bob Ellis at robert.ellis@arcpartners.com.