

RESEARCH BRIEFS

E-Commerce in Financial Services: An E-Agenda for the Corporate Parent

ROBERT PARK, *Ashridge Strategic Management Centre, London*

ANDREW CAMPBELL, *Ashridge Strategic Management Centre, London*

Following interviews with financial service companies in the European Union, the authors propose an 'E-Agenda' for corporate parents or corporate centres in the light of the Internet and e-commerce. The Agenda consists of three broad elements: Existing business initiatives; New business ventures; Corporate level strategy review. The parental role or model faces a large range of options as a result of the Internet and e-commerce; the authors' E-Agenda will help companies to navigate these options. © 2001 Elsevier Science Ltd. All rights reserved.

Keywords: Financial services, Internet, E-commerce, Corporate parenting, Corporate strategy

Even before the Internet and e-commerce, the financial services industry had been transforming itself. Deregulation and new technology has been bringing new competitors into the market for many years. Margins have shrunk in developed countries as markets have matured and become over supplied. Attempts to internationalise have mostly failed; so companies have looked to consolidation as one of the few ways to maintain growth in earnings.

Now we have the Internet and e-commerce. How should companies respond? Is it just another turn of the screw, with agendas remaining much the same — continued transformation of what we have got plus preparing for, or defending against, the next consolidation move? Or is it more fundamental? Do corporate parents need to rethink their overall strategies more radically?

Almost all business, in the increasingly complex portfolios of major financial service groups, are affected. Some, such as private stockbroking, are under threat from Internet competitors such as Charles Schwab. Some, such as First Direct, can transform themselves using the Internet. Some, such as Reuters, are using the new channel to extend their product range and market reach. Abbey National are using the Internet to target new markets with new propositions with their new online bank, cahoot, as well as using the Internet as an additional delivery mechanism for their existing business. Nearly all businesses are able to reduce costs. But this article is not primarily about the challenges facing the businesses it is primarily about the corporate parent. What is its role? How can the corporate centre add value in this new economy? How can the centre avoid being a drag on progress? What are the issues it needs to tackle? Does the centre need to lead or follow? Does the centre need to rethink its consolidation strategy?

The Ashridge Strategic Management Centre has focused on corporate-level strategy and the role of the corporate parent for many years. Parenting theory states that corporate centres need to create more value than they cost. They create value when their skills and resources match the needs of the business opportunities in their environments. They destroy value when they have habits, biases and predispositions that do not fit the success requirements of their chosen portfolios.

Parenting theory also states that centres find it difficult to be neutral. They have a big influence on what happens in the rest of the organisation whether they want to or not. With regard to the technologies of the new economy, centres are likely to amplify or dampen the organisation's response; they are likely to steer their companies towards or away from the right answers. As such they need to think through their e-agendas with care.

We have recently interviewed seven major financial services companies, mostly in the UK, but also in continental Europe. These conversations have strengthened our belief that something fundamental is happening. The right strategies are not yet fully clear, and most companies are making excellent progress towards resolving the issues. More activity, however, is probably needed in four areas. Corporate centres need to:

- ❖ check that their company has a comprehensive portfolio of e-initiatives;
- ❖ think about their own role with regard to the e-agenda: how far they should be coordinating or leading initiatives;
- ❖ challenge the robustness of their corporate level strategies, in particular the likelihood of continued success in some of their current businesses and marketplaces, and the need for more integration across businesses in highly devolved structures;
- ❖ make more use of e-technologies to transform their own activities, and to develop new skills and behaviours more appropriate to the new economy.

The first two areas are being covered to a fair degree

by most of the companies we interviewed. Companies could benefit from auditing their activities against our full e-agenda. The last two areas, however, have received much less attention. Companies need to address them with some urgency.

The E-Agenda

The full e-agenda includes the totality of issues across the whole company; what needs to be addressed both by businesses and their parent. The agenda consists of three broad elements (see also Figure 1):

- ❖ Existing business initiatives,
- ❖ New business ventures,
- ❖ Corporate level responsibilities, not least the review of corporate level strategy.

Figure 2 sets out how the three agenda areas are being tackled in practice by the companies we interviewed. Most corporate attention is focused on the first two agenda areas.

Priorities vary considerably. Much is explained by the relative market positions and strategies of the different companies. HSBC is focusing strongly on their existing businesses and capabilities. E-commerce supports their strategy of achieving growth through expanding the boundaries of their existing global network without having to rely so heavily on geographic expansion through acquisition. Acquisition would bring more bricks and mortar than they now deem necessary. Given the international opportunities open to them, creating new competing banks,

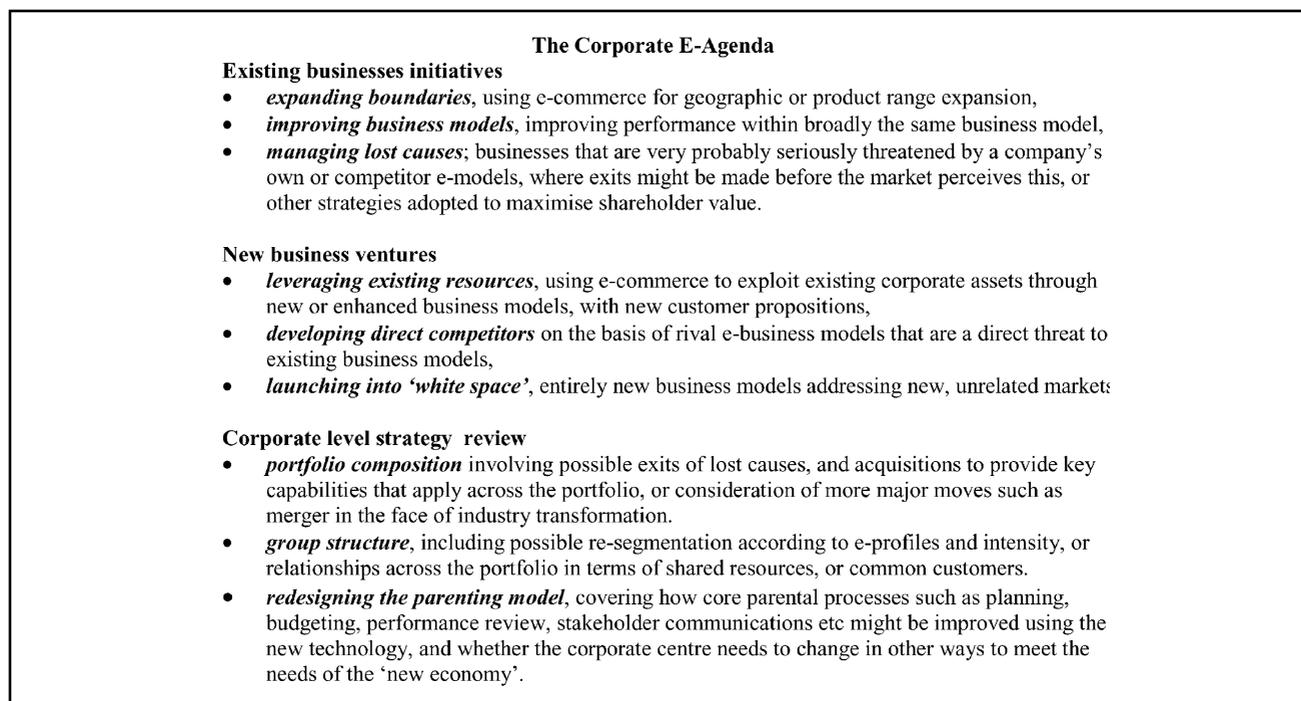


Figure 1 The Corporate E-Agenda

The Agenda		Financial services companies						
		A	B	C	D	E	F	G
<i>Existing business initiatives</i>	Expanding boundaries	■		■	■	■	■	■
	Improving business models				■	■	■	■
	Managing lost causes							
<i>New business ventures</i>	Expanding boundaries	■		■	■	■	■	■
	Improving business models		■	■		■		
	Launching into 'white space'		■			■	■	
<i>Review of corporate strategy</i>	Portfolio review		■					
	Group restructuring					■		
	Improved parental processes	■					■	

Attention at the corporate level: High ■ Mid ■ Low □

Figure 2 The Corporate Agenda in Practice

or launching into white space would be a distraction. Prudential on the other hand clearly see opportunities to use the Internet to enter the UK banking market in entirely new ways through Egg, their online bank.

Companies need to make sure that their current portfolio of business initiatives is appropriate given the full agenda that is possible. Some may want to drive the agenda from a central strategy. However, it may be still too early for the centre to have a clear view of the priorities. A better response may be to scan the agenda and make sure that there are not any major gaps.

Challenges for Existing Businesses

On specific initiatives, three ways of improving existing businesses were identified:

- ❖ using e-technologies to improve the cost structure or service quality of existing products and services;
- ❖ using the new channel as an opportunity to expand the product range or market coverage of a business;
- ❖ developing strategies for coping with the negative impact on some businesses.

Considerable attention is focused on improving and transforming existing business models. Barclays believes that most customers will prefer to have an integrated solution so see the Internet as a complementary delivery channel. Nevertheless, e-commerce also provides the means to transform existing business models, reducing costs and improving customer service, both essential for success in more competitive, lower margin markets. First mover advantage to gain market share in fiercely contested mature markets is also seen to be important in achieving low unit costs. Procurement, HR and achieving general back office efficiencies are common agenda items.

Considerable attention is also being given to the changed interface with customers. This is enabling the expansion of boundaries, with initiatives on both geographic and product reach; expanding into new territories without extensive branch networks, or being able to undertake much more in territories where representation has been rather thin on the ground. Some, like Reuters also see opportunities to expanded product reach, taking traditionally wholesale and professional products into retail markets, though the majority of their £500m investment is to transform the economics of product delivery to traditional markets. HSBC make considerable play on bringing their global capability, once directed largely at major corporates, to SME's.

Most strategies for existing businesses are 'clicks and mortar'. The Internet is viewed as an extra channel not a separate business unit. Initiatives are more about enabling customers to handle fairly traditional products in an easier, more direct way, alongside other delivery channels. Abbey National see the Internet as one element in their Martini delivery cocktail — a consistent brand experience available when, how and where the customer chooses. It is interesting to see Egg, the pure Internet bank of the Prudential, say that they are thinking about more physical channels.

Most accept that the scope for a more personalised and interactive customer interface will change the business model. Thus the differentiation between expanding boundaries and improving the current business model is not clear cut. However there is little evidence as yet of more innovative models, such as interactive pricing or bargaining, though such approaches are clearly on the longer term agenda of some.

The nature and pace of change, which all believed was an order of magnitude different than experienced to date, is statistically likely to create some losers. The largest missing agenda item seems to be strategies for dealing with businesses in potential

decline. Little attention is being given to business or market exits, though some did say that certain businesses had been put under the spotlight. Attention has been focused more on aspects of a business that might become unattractive or redundant such as branch networks, or particular parts of the value chain, rather than seeking to understand, before it is widely recognised, which businesses are going to be serious losers.

New Business Ventures

Three approaches to new business ventures are on the agenda:

- ❖ exploiting existing corporate assets to create new or enhanced business models;
- ❖ developing direct competitors to existing businesses on the basis of rival e-business models;
- ❖ launching into 'white space', with entirely new business models addressing new, unrelated markets.

There have been many new major business initiatives, and others are in the pipeline. Most are leveraging existing resources, often as JV's with strategic partners. Good examples are HSBC's initiative with Merrill Lynch targeting the mass affluent market globally, or Barclays' B2B venture launched with Oracle and Andersen Consulting, which includes an e-procurement service. New business model initiatives tend to be developed, or at least initiated centrally as major, 'big bet', corporate investments.

None of the new ventures of those spoken to have been launched as direct competitors to existing businesses. Abbey National's online bank, cahoot has been deliberately differentiated from the parent proposition. It is targeted at a different segment to their more traditional middle range family market, though it is accepted that there could be some competitive overlap. There has been a conscious decision, by several, not to launch separate, competing e-banks. Examples such as Wingspan, launched by Banc One in the US, were cited as salutary tales. The cost of building an entirely new brand is unlikely to be covered by the narrow margins necessary to attract in customers, who were by nature the most promiscuous and rate sensitive.

Pure 'white space' initiatives were generally dismissed by many as diversionary. Given the scope for expanding and transforming existing businesses, most felt that few distractions are needed. Some of the new standalone businesses being launched could be seen as 'white space' for the organisations concerned. For example Prudential's online bank, Egg, was about new products directed at new customers for the Pru. Abbey National's Inscape wealth management service is directed at a new segment for

Abbey National — the mass affluent market. But, they are both well within financial services.

The Parental Role

So what parental role should companies attempt to play? How far should the centre be coordinating or leading initiatives? All have sought to play greater or lesser roles in influencing existing businesses and developing new business ventures. All the companies interviewed have e-commerce on the corporate agenda, and have created some level of corporate unit, resource, or specified responsibility. These range from a senior individual working for the CEO, temporary teams with outside consultants, internal units or senior external appointees with considerable resource and clout. Many have a high level executive committee, supporting the central resource.

To achieve well-defined portfolios of initiatives across the company, some have been proactive and challenging. Others have brought order to an explosion of local initiatives. ABN AMRO counted 253 known projects before they decided, a couple of years ago, that a more concerted approach was needed at a group level. Reuters allowed 'a thousand flowers to bloom' before the issue was taken up as a key strategic issue and brought together through a more formal group strategic planning approach, with a coherent strategy being presented by their CEO in February last year.

The style of parental influence covers a wide spectrum, embracing:

- ❖ hands off, leaving it entirely to the businesses — 'tell us about it, but it is up to you';
- ❖ guidance and information — 'this might be helpful';
- ❖ framework and direction — 'you need to take account of this';
- ❖ strict rules — 'here are some basic givens';
- ❖ joint working — 'we need to work on this together';
- ❖ central leadership — 'your support is required on this one';
- ❖ central initiative — 'this is one for us'.

Most companies have dealt with the e-agenda in whatever style was normal for them. Few have treated the Internet as a new factor requiring a different reaction from the centre. There has however been some mould breaking. Barclays has traditionally had a devolved approach to strategic business issues, though the initial impetus to their e-commerce strategy was provided by the group centre. The creation of a shared services function has also raised the role played centrally. Business groups are however responsible for leading their e-commerce initiatives with the centre providing assistance and support.

E-commerce is being lead centrally at HSBC by the first external hire to the top executive team in a company that has traditionally 'grown its own'. Recruitment of people with venture capital backgrounds very different to usual home grown corporate management is becoming more common. At a subtler level, one company recognised that much has been taken forward more on gut judgements about people, than pure business case logic.

For existing business initiatives, most parents are at the 'hands off' end of the scale. Influence is mostly 'guidance and information', certainly in the early stages. A group conference organised at Reuters early on in the process ensured that the many people involved in initiatives across the group shared information and learning. Abbey National found that their major, centrally sponsored scenario exercise invaluable in creating a common internal language. Barclays also built scenarios to help map out for them their major uncertainties, and made extensive use of competitor research and benchmarking, especially against US and Scandinavian exemplars. Central teams generally have provided background information and briefing, setting out issues to address, such as business model analysis to stimulate business level thinking. HSBC found use of virtual teams and interest groups using the technology itself to be valuable, in particular for engaging younger managers and other employees more familiar with the technology.

More directive approaches have been used, often in response to external pressures to present a coherent group strategy for e-commerce. The typical response has been to set up a central team under a 'joint working' style. Most corporate centres are now moving to a 'framework and direction' stance, using the strategic planning process as the main vehicle. Abbey National now require all their businesses to include e-commerce explicitly in their strategic plans.

New business ventures have been undertaken largely through 'central leadership' or as 'central initiatives', often with major strategic partners. One company found its central initiative a competitive spur to business level initiatives. ABN AMRO has set up an 'accelerator group' within its investment banking division, to act as internal venture capitalists within the bank. Reuters has its Greenhouse Fund to invest in new ventures and its Chief Technology Office has a remit to keep abreast of leading-edge technology. Outside of financial services, Shell has formed its new business to focus on step-out and cross-business Internet opportunities, Shell Internet Works.

The corporate centre tends to be most prescriptive on IT standards and architectures, setting down 'strict rules'. An early initiative by HSBC was to ensure that all its systems could be 'delivery device indifferent'. With the importance of providing consistency of interface to customers, HSBC has found the web mas-

ter role becoming akin to a group marketing function, a concept that would have been alien a few years ago.

Finance is also a strong instrument of parental influence, which has been used by some as an incentive, earmarking available funds outside of the usual planning and budgeting process for which businesses can bid. Others have used finance as a control mechanism, seeking to earmark a total group budget for e-initiatives, thus forcing some investment prioritisation.

Review of Corporate Strategy

The third major agenda area, review of corporate strategy purely as a result of e-commerce developments has received far less attention. Three elements are important:

- ❖ portfolio composition — exit of lost causes, acquisitions to provide key capabilities, or more major M&A in the face of industry transformation;
- ❖ group structure — possible re-segmentation according to e-profiles, or changed group relationships because of shared resources, or common customers;
- ❖ improving parental processes — making use of the new technology in planning, budgeting, performance review, and stakeholder communications, and changing behaviours in other ways to meet the needs of the 'new economy'.

We found little evidence of e-commerce itself as causing major changes in strategic direction. Consolidation was still at the top of most agendas. Many companies have exited businesses, but mostly for broader strategic reasons. Portfolio changes as a result of e-commerce were expected to be largely through flotation of new businesses, JV's, and acquisition of competitors. The companies we spoke to were mostly the larger players with a strong desire to be in the driving seat on consolidation. However, one interviewee did say that e-commerce permitted smaller, more refined market segments to be addressed profitably, which could be seen as counter to continued consolidation pressures.

The general view is that e-commerce and the Internet are not 'just another development'; they are an order of magnitude different to previous changes, eg moves to electronic banking. The potential for interactivity, and transfer of power to consumers make it different. Given this belief, one might expect more fundamental questioning about what businesses and markets companies should be in, both existing and new.

One might also expect more questioning about group structure and integration. Greater standardisation and cross-business co-operation seems necessary.

Integrated, multi-product customer propositions and a common customer interface are also likely to be important. Greater emphasis on shared processing, even across fiercely independent businesses is also necessary to reduce costs. Group restructuring is a traditional way of strengthening linkages between businesses, especially where the autonomy of specialist product divisions needs to be curtailed. Reuters has recognised the need for a more customer focused structure.

Coordination of e-initiatives across the portfolio remains a key parental role, but restructuring is only one alternative. Some like HSBC and ABN AMRO anticipated the need for greater standardisation by moving toward common IT standards and architectures a few years ago. Some have also found that cross business standardisation and working seems easier to achieve than has often been the case. Widely acceptable open IT standards certainly help, but there also seems to be a more accommodating attitude amongst many managers. Perhaps younger, less hidebound individuals are involved. Sharing experience is seen as important, as is building networks of expertise. Intranets supporting virtual teams are increasingly used.

Thus our third major conclusion is that corporate parents need to challenge the robustness of their corporate level strategies: what are the prospects for success in some of the current businesses and marketplaces and what additional integration is needed across businesses in highly devolved structures? This latter aspect could involve restructuring or using other less formal cross-business working.

Parenting in the 'New Economy'

Finally, corporate parents need to think about their own processes, practices and skills. Use of the technology to improve parental processes such as planning, budgeting, performance review, and stakeholder communications was generally low on the agenda. However, improved knowledge management is being taken seriously by some, and Intranets are used extensively in both Reuters and HSBC to support group e-initiatives and corporate learning. More important, we believe, is creating the right climate for innovation.

Much is talked about the centre becoming more entrepreneurial, and some centres are being strengthened by hiring venture capital expertise. Should the centre become more like a venture capitalist? Selection and backing of new e-business ventures and initiatives could benefit from the more entrepreneurial approach of the venture capitalist rather than the more considered approach of a traditional risk management approach.

Corporate centres tend to be reactive to investment opportunities, responding to bids for scarce resources from businesses. Venture capitalists actively seek out scarce good investment opportunities, competing with other private equity firms in their search. On value creation and realisation, corporate centres look to return on equity and enhanced earnings, whereas venture capitalists measure their e-enterprises by direct market valuation via an IPO. Corporate cultures tend to be risk averse and intolerant of failure, whereas venture capitalists take a portfolio approach. They expect only a small proportion of investments to succeed, but those handsomely. Decision-making is often slow, dominated by formal planning and approval processes, whereas venture capitalists are more opportunistic within an overall level of capital to invest.

Personal rewards at the centre in major corporates are still predominantly cash based, with share options related to overall corporate performance. With venture capitalists, much more is at risk, with the opportunity to invest directly in private equity funds themselves. In terms of rewards to others at business or venture level, rewards are largely cash based in a traditional corporate. In standalone new ventures there are high levels of options in the venture itself. One of the companies interviewed sees IPO's as a means of creating a currency to attract the sort of people they need in their new e-business ventures. But in the main large financial conglomerates cannot currently compete for the top talent.

Time horizons can be different, up to five years or more in a corporate; three years at most in a venture capitalist. There can also be a difference in involvement. Major corporations tend to be largely hands off once a venture or new investment is backed, leaving initiatives to the businesses. Venture capitalists often seek an involvement, certainly at a non-executive director level.

The venture capital model thus has many attractions for new business ventures, especially where they are standalone entities, and full or partial flotation is expected. We believe that it is a model that could also assist in creating a more entrepreneurial and innovative culture across existing businesses.

Whether companies choose a new corporate model or not, all face the need to raise their skills in e-commerce. At present, most of the initiatives need relatively small amounts of money, and benefit from a high degree of autonomy. However, as the market for online interaction grows and as companies face large investments in infrastructure, the demands on central coffers will exceed their capacity. At this point, board level executives will have to make tough judgements for which they are currently ill prepared. While we have come across active 'education' efforts in some companies, we were surprised how few were

treating the skills of the board as a possible constraint.

Conclusions

The pressure for change and the scope for innovation are considerable in this industry. E-commerce is a major issue to all the companies we interviewed, consuming considerable resource and corporate energy. We believe that the e-agenda we propose could help guide companies through the huge range of options they face.

Much is being covered but they need to check that their company has a comprehensive portfolio of initiatives. They need to think about their own role with regard to the e-agenda: how far they should be coordinating or leading initiatives. However much

the centre becomes more like a venture capitalist, the centre will still need to play a role where strong cross-business linkages are required, or difficult win/lose decisions need to be made. It will need to ensure necessary standardisation, integration and possible centralisation to achieve integrated customer delivery and low cost in a very low margin world. The centre will have to get the devolution balance right when far better information flows from e-empowered businesses and reporting processes may allow more devolved responsibility.

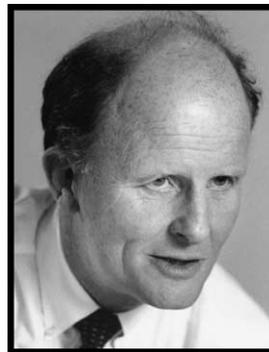
The corporate centre needs to adapt, just as it expects heroic transformation from its businesses. As the Internet and e-commerce bring about entirely new business models, so we can expect new parenting models. At this time of year, is it fanciful to see Janus as the appropriate god of corporate parenting, looking one way with a more dispassionate, critical examination of the old, but also in the opposite direction with an optimistic and supportive face to the new.



ROBERT PARK, 108, Turney Road, London SE21 7JJ. E-mail: robertpark@btinternet.com

Robert Park is an independent consultant working largely within financial services as well as being an Associate of the Ashridge Strategic Management Centre. He was previously

Head of Group Strategy at NatWest Group.



ANDREW CAMPBELL, Ashridge Strategic Management Centre, 17, Portland Place, London, W1N 3AF. E-mail: andrew.campbell@ashridge.org.uk

Andrew Campbell is a Director of the Ashridge Strategic Management Group and a Visiting Professor at City University Business School, London. He has directed research projects on corporate-level strategy, corporate mission and linkages between decentralised business units. He has authored nine books and many journal articles.