DEVELOPING MATURE INTERNET STRATEGIES

Insights from the Banking Sector

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Although the banking industry plays a central role in the world economy and has traditionally been an innovative user of information technology, banks are struggling to develop mature Internet strategies. A model used to analyze the type of Internet activities among a sample of banks as well as their level of sophistication and customization is useful not only for revealing unexploited opportunities in the banking sector but also for guiding the strategy-building process of organizations in other industries.

The exponential growth of worldwide Internet adoption and the rapidly increasing use of the World Wide Web as a platform for electronic commerce are forcing companies to reconsider and redesign their IT strategies. The Internet represents a new source of opportunities as well as threats for companies of all sizes operating and competing in every sector of the world economy.

It is particularly useful to focus on the banking sector to gain a better understanding of emerging Internet strategies. Banking plays a central role in the world economy and indirectly determines developments in other sectors. In addition, IT has traditionally played a key role in the banking sector as a tool for achieving cost reduction, business expansion, and competitive advantage, for instance through new or qualitatively improved services to corporate or retail customers.

It is therefore natural to expect a leading approach to the Internet in the banking sector. This sector has recently been so radically transformed by information and networking technology that by 1995 more than half of all banking transactions with customers took place outside the bank (i.e., they were electronically mediated).

A superficial look at the statistics of banks’ presence on the Web confirms this expectation: In January 1995 there were just a couple dozen banks on the Web. One year later there were more than 800 (see Exhibit 1). But this initial impression based on quantitative data is contradicted by a more in-depth analysis of current Internet strategies, as reflected in the way banks are actually present on the Web. In particular, the analysis shows that banks have fallen into the brochure syndrome, the affliction that makes companies perceive the Web exclusively as a repository for digitized versions of the paper brochures used traditionally to advertise and provide information about themselves and their products/services. Thus although banks show a high level of Web activity, they are still struggling to develop mature Internet strategies.

CLASSIFYING INTERNET STRATEGIES

The ICDT model illustrated in Exhibit 2 is used as a framework for classifying four distinct
domains for development of Internet strategies, reflecting a company's intention to exploit the Internet as a new information, communication, distribution, or transactions channel.

Presence in the new virtual information space (VIS presence) created by the Internet reveals a company's intention to exploit the Internet as a channel for exchanging information (e.g., on itself...
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EXHIBIT 3 Classification of the Four Internet Strategies by Level of Sophistication and Customization

and its products) with other economic agents, extending its traditional marketing strategy. A virtual distribution space (VDS) presence includes strategies aimed at exploiting the Internet as a channel for distributing different types of online services. A virtual transaction space (VTS) presence reflects strategies for using the Internet as a channel for engaging in business-to-business or business-to-customer transactions such as invoicing and payments. Lastly, a virtual communication space (VCS) presence means a company is using the Internet as a channel for monitoring and influencing business-related communications between economic agents operating on the Internet, including potential and existing customers, partners, government agencies, customer associations, and competitors.

The ICDT model thus provides a systematic framework for identifying and classifying Internet strategies. For instance, it reveals that in the first wave of Internet adoption, the majority of companies—in banking as well as in other sectors—have focused their strategy on the virtual information space, establishing VIS presence through relatively simple sites. As a result, the Web is currently crowded with mostly static, text-based versions of company brochures and catalogues with highly questionable marketing effectiveness.

In contrast, software and publishing companies have begun developing strategies oriented toward establishing VDS presence, using the Internet as a distribution channel for their easily digitizable products (e.g., software, manuals, books, and data), for online services such as customer support lines, as well as for interactive access to libraries of technical notes or archives of articles. The retail sector is increasingly interested in establishing VTS presence, as confirmed by the growing number of goods sold directly over the Internet as a result of the availability of electronic commerce platforms such as the American CommerceNet (www.commerce.net) and the European GlobeOnline (www.globonline.com). Finally, establishing VCS presence is becoming a priority in sectors such as the hardware and pharmaceutical industries; large portions of the customer base, organized in virtual communities, are adopting the Internet as an efficient way for communicating and exchanging experiences and opinions worldwide.

As illustrated in Exhibit 3, the ICDT model induces a further classification of the four basic types of Internet presence. For each type of virtual presence (VIS, VCS, VDS, and VTS), two further dimensions are considered: level of sophistication and level of customization.

Sophistication reflects the degree to which specific characteristics of the underlying medium are exploited, and customization reflects the degree to which the Internet is used to provide individualized services to users. For instance, companies with an advanced, customized VIS presence (top right quadrant in Exhibit 3) exploit the Web to provide company- or product-related information through sophisticated
multimedia presentation techniques, including mechanisms to gather data about users and to recognize regular visitors or customers, capture their preferences, and target them individually. Such a one-on-one marketing approach corresponds to what might be called a mature VIS strategy, because it attempts to leverage the unique characteristic of the Web—its interactivity. On the other hand, the simple, generic VIS presence adopted by the vast majority of companies is limited to setting up simple Web pages displaying information to users in an undifferentiated way (i.e., in terms of screen layout, language, and provision of interactive options).

IN-DEPTH ANALYSIS OF BANKING STRATEGIES

The ICDT model was used to perform an analysis of the Internet strategies of the top 40 international banks (in terms of the Fortune 500 listing by revenue). Of these 40 banks, 25, or 70%, had established a Web presence by June 1996; these banks constitute the sample of banks surveyed for in-depth analysis. The sample included six American, 13 European, and nine Asian banks (a list of the banks is available from the authors).

VIS Strategies

Although all the top banks included in the sample of 28 had established some form of virtual information space presence, their strategies can only be positioned in the simple, generic quadrant (see Exhibit 4), which represents a low level of both sophistication and customization. Whereas all the 28 banks offer corporate and contact information, only 20 of them (71%) give access to a detailed catalogue of products/services, only eight (28%) illustrate their pricing policies for retail customers, and only one bank (CS Holding) discloses information about pricing at the level of corporate clients. Besides providing access to basic information, 25% of the surveyed banks give free access to stock quotes in various product areas, and three of them (Deutsche Bank, Bayerische HYPO, and J.P. Morgan) deliver information on employment opportunities.

In terms of sophistication, the most advanced banks have started using a few multimedia or other advanced components. Even so, they still lag far behind companies from other sectors, such as the software company Macromedia Inc. (www.macromedia.com), whose VIS presence includes several animations and fully exploits the interactive features of the Web.

On the other hand, banks have started exploring ways of extending the level of customization of their VIS presence through more individualized or at least segmented information displays. Representative of this trend is, for instance, the Dresdner Bank (www.dit.de), the only top bank that has left the simple, generic quadrant and entered the simple, customized one by offering clients access to their account status through a secure server system (see Exhibit 4). The client first applies for an access code through one of the conventional channels such as mail, phone, or fax. This code is then used to access individual account information on the Web.

Greater customization (e.g., in providing information on account status, portfolio and investment performance, and payment rates) appears to be a major trend in terms of enhancing banks’ VIS strategies. This trend might force banks to extend their VIS presence and provide individualized, well-targeted presentations as well as access to individual customer data as do companies in other sectors. As a reference point, clients of major distribution companies such as Federal Express (www.fedex.com) already use the Web to easily access specific information on the location of the parcels they have sent.

Security issues constitute a widely mentioned barrier to the development of more mature VIS strategies in the banking sector. Competitive pressure and technical enhancements guaranteeing a higher level of privacy in information exchange are likely to eliminate this barrier in the near future and stimulate top banks to design VIS strategies corresponding to the still-deserted advanced, customized quadrant of Exhibit 4.
VCS Strategies

The virtual communication space created by the Internet provides a truly new space for economic agents to communicate globally, exchanging information and opinions through E-mail, online forum discussions, real-time chatlines, or more advanced 3D- and virtual reality–based interaction spaces such as Alphaworld (www.worlds.net). The analysis clearly shows that top banks have not yet begun considering, let alone leveraging, the Internet as an alternative market communication medium. A first step taken by 92% of the banks surveyed is the opening of simple, noncustomized E-mail–based communication channels. Only the French Credit Lyonnais (decf.creditlyonnais.fr) went beyond this level to begin offering visitors the possibility of interacting in closed user groups, exchanging information and ideas through online forums, and formulating requests for meetings with bank representatives (see Exhibit 5).

In terms of sophistication, banks might have to look more closely into developments taking place in the publishing and education sectors. Web sites such as Europe Online (www.europe-online.com/gbr/basic/talking/) or the German newspaper Die Welt (www.welt.de/forum) already include communication spaces in which customers/readers are invited to submit comments and views, as well as to participate in online discussions.

Even higher levels of sophistication are reached, for instance, in sections of the European Institute of Business Administration (INSEAD) Web site (www.insead.fr/Programmes/Executives/CIIA/). Here international groups of managers who have participated in an executive development program keep in touch, exchange knowledge, and discuss topics related to the program. Communication spaces designed for this purpose range from open and closed online discussion spaces to a Virtual Business Centre located in a 3D environment in which managers virtually walk around using 3D representations (i.e., avatars), engage in online conversations, or attend a lecture sitting in a virtual amphitheatre accessible directly through the Web (www.insead.fr/Programmes/Executives/CIIA/BusinessCentre/).

To enhance the level of customization of their VCS presence, banks might start to increasingly monitor and set up well-targeted communication spaces and to experiment with intelligent agents, such as the ones illustrated in the FireFly (www.ffly.net) Web site. Such agents make it possible to efficiently capture and record the characteristics of individual users to better address their communication needs, orienting them for instance to relevant discussion groups matching their individual interests, purchasing patterns, or taste.

As the analysis confirms, more mature VCS strategies, both in terms of sophistication and customization, have yet to emerge in the banking sector. Such strategies might lead banks to monitor, exploit, and influence the communications activities and patterns of Internet-based virtual communities in order to better capture and understand emerging business trends, involve groups of customers in the design of new services or in the improvement of existing ones, and enhance customer loyalty through customized communication services.

VDS Presence

None of the surveyed banks employs the Internet to distribute advanced online services or customized products (see Exhibit 6). Virtual distribution space presence is generally limited to downloading simple documents (typically brochures) or software packages. Of the 23 surveyed banks, 15% (or 12% of the complete sample) had established this simple form of VDS presence. For instance, the entire annual report of Bank of America Corp. can be downloaded directly from the bank’s site (www.bankamerica.com). Similarly, Deutsche Bank AG offers clients the distribution of brochures and reports explaining the financial support program for small- and medium-sized enterprises (www.deutschebank.de). Only two of the surveyed banks
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EXHIBIT 6 VDS Strategies

High
Netscape
La Tribune
VDS
PointCast

Low
Deutsche Bank
Bank of America
12%

Wall Street Journal
InfoSeek

Customization
Low
High

Bank in the sample
Example from other sector

(Deutsche Bank and NationsBank Corp.) offer demonstrations or calculations related to loan or investment requests, but all of them provide customers the opportunity to download either banking- or finance-related software and direct links to Web sites with relevant Internet software.

The analysis shows that even in this domain, top banks are hesitating to integrate the Internet into their service distribution strategy, as has already happened for instance in the software and publishing sectors. Netscape Corp. (www.netscape.com) does not only distribute products directly (i.e., without intermediaries) through the Web, it also uses this channel to distribute handbooks, seminars, workshops, and customized online support (e.g., in terms of language and optimization of download time). Even higher levels of sophistication and customization are achieved by publishers and information providers such as the Wall Street Journal (www.wsj.com), InfoSeek (www.infoseek.com), and La Tribune (www.globenews.com/en/CC/FGO/07269.html), which supports users in personalizing (e.g., through bookmarks) the information distributed on the Web or in identifying relevant documents through simple data base queries of the type “Find and show me all the articles included in your archive reporting on options and derivatives over the last three months.”

One of the best examples of a company with an advanced, customized VDS strategy is PointCast (www.pointcast.com), which broadcasts news, stock quotes, weather, and other information sources in a highly sophisticated and personalized way. Although PointCast is from a different business sector, it provides an interesting reference point for the type of advanced online services banks might start distributing to their customers through the Internet.

VTS Presence
The analysis reveals that in terms of a virtual transaction space presence, banks have not yet started considering the Internet as a new channel for business-to-business or business-to-customer transactions. At the time of the study, the Dutch ABN Amro Bank (www.abnamro.nl) was the only bank in the survey that offers the possibility of initiating transactions such as opening a new bank account over the Web (a specific service targeting students). The technical and legal problems currently associated with electronic commerce, such as security, help explain why the majority of the top banks are electing not to handle their core services online as yet.

Even in the VTS domain, other sectors, such as the retail and computer industries, are more advanced in their Internet strategies, both in terms of sophistication and customization. For instance, IBM Corp. (www.ibm.com/Orders) offers customers the possibility of browsing through a catalogue of products and then placing orders interactively through a secure credit card information form or E-mail, depending on the customer’s location. Online shops like CDnow (www.cdnow.com) have already entered the high customization quadrants (see Exhibit 7) providing ways for regular customers to personalize not only their navigation through the site, but also their transactions (e.g., orders and payments).

A further trend comes from new entrants, or banks not included in the list of surveyed banks, such as the Security First Network Bank (www.sfnb.com). These banks already provide full-featured banking services on the Web. For instance, the SFNB site employs state-of-the-art US encryption technology to offer a wide range of transaction services to US customers. Owing to export restrictions (in the US this technology is classified as a class 2 weapon), such services are currently not available worldwide. Whereas different alternatives are under development to enable global access to such banking services, existing solutions, such as EDI-related payment and transaction technologies, do not yet meet the level of security acceptable for major banks. Transaction control will surely be a major step in the development of mature Internet strategies in the banking
sector and probably lead to more radical changes in this competitive arena.

CONCLUSION

The application of a systematic framework to the ICDT model, to the analysis of current Internet strategies in the banking sector reveals that large banks have focused their initial Internet strategies on a massive, but relatively simple and generic VTS presence. Only a few of the banks have started establishing a simple and generic VTS presence by supporting a still limited number of Internet-based financial transactions (e.g., opening and operating transactions on personal accounts through the Web).

It is only in a second stage, under competitive pressure from new operators in this sector (e.g., Security First Network Bank), that large banks are likely to extend their Internet strategies to the new communication and distribution spaces. The banks should establish at least a simple VCS presence (e.g., by allocating personnel to monitor and intervene in discussion groups, virtual communities, and other Internet-based interaction spaces) and achieve higher levels of VTS and VDS presence by extending the number and type of Internet-based transactions and distributing products such as banking-related training modules, video-based consulting, and customized online services.

In addition to providing a systematic framework for the analysis of current business-related Internet activities (i.e., a diagnosis and research dimension), the ICDT model has been used to facilitate the identification of unexploited Internet-related opportunities, cross-sector comparisons, and benchmarking. Hence, it can be successfully employed to inform and guide the strategy-building process of companies aiming to create innovative products and services in response to the new opportunities and competitive pressures generated by the Internet.

Recommended Reading


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