

CRM AT CAPITAL ONE (UK): CASE STUDY

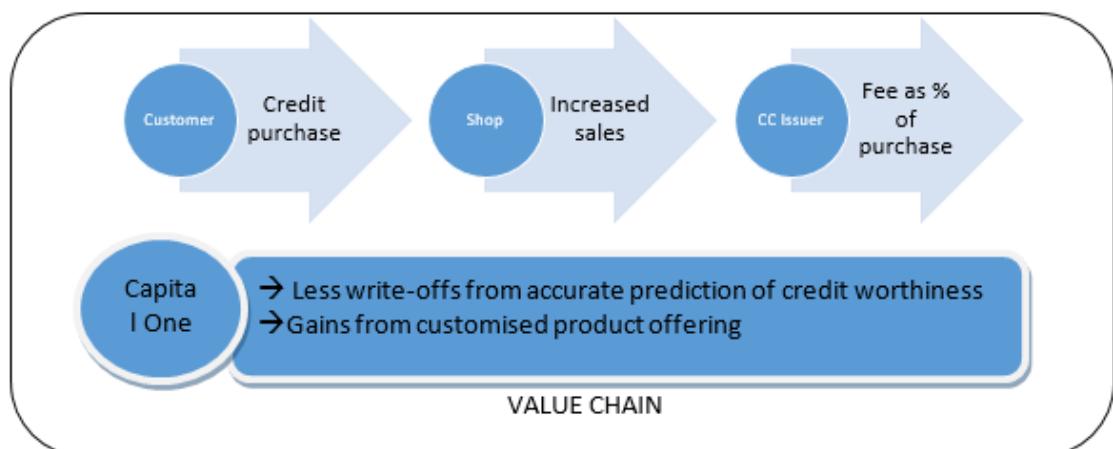
INTRODUCTION

Capital One, the very successful financial services company, has built an organization that loves to change. Change is integrated into the way Capital One formulates strategy, structures itself, and measures and rewards performance. Capital One's founder and chief executive officer (CEO), Rich Fairbank, was the first to see and believe in the power of integrating information technology in the complete system.

In 1994-2000, the stock price of the company has increased by 1,000% Company average annual rate of about 40% 2001 the company handled more than US\$45 billion in loans and 43.8 customers worldwide, serviced by more than 20,000 employees. In 2002 company profitability reached top six credit card issuers. The below is the dimensions in which Capital One has implemented changes.

TABLE 1 ELEMENTS OF A BUILT TO CHANGE ORGANIZATION.		
BUILT TO CHANGE FEATURE	DEFINITION	CAPITAL ONE DIMENSIONS
Strong future focus	Spend more time thinking about the future - give possible future scenarios more weight in current strategic decision-making	Dedicate a large percentage of analysts' time to thinking about future trends and their implications on a line of business
Robust strategy and momentary advantages	A recurring metaphor that explains a series of advantages over time	"Test and learn" strategy generates opportunities for new revenue streams
Flexible organization design	Create empowered organizations, flat structures, flexible performance management systems	Few tiers of jobs, pay for results and competencies related to changing, reorganize frequently
Orchestration capability	The ability to change routinely	Building a Change Capability Project

The Growth of Capital One's Revenues(Worldwide Operations) took place in the below ways :-
Capital One has translated CRM into strategy, organizational design, hiring, marketing processes, research, IT infrastructure of a company .Different depts. work in an integrated fashion towards understanding and satisfying customer.



Business Model :

- Business model of Capital One is founded on the simple, premise that each customer requires a different product and service from its credit card provider.
- Each customer carries a specific and unique credit risk. The better the company can understand and assess a customer's specific risk, the better it can manage it. Risk is a crucial factor in the credit card business.
- It is one of the competitive advantages to understand and manage these different levels of risk.

Information-Based Strategy (IBS) :

- The company uses information technology to accumulate and manage large amounts of data on its customers. This data contain customer demography and behavioural information.
- Company executes "Test and Learn" strategy. It is a scientific, hypothesis-driven approach to test any customer related activity in a controlled condition on a sample of customers before rolling it out on a large scale.
- On the basis of this data marketing team develop ideas, design products, and select target customers.
- On the basis of this information company develop products and the key products are Credit cards with different conditions and designs like products directly related to the credit card such as card protection plans and cross selling Other financial services such as travel insurance was provided.

Customer Relationship Management Practices at Capital One (UK) :

- Managing its relationships with customers is at the heart of Capital One's strategy.
- Various corporate function are interlinked. As Capital One managers usually say "All departments work in an integrated fashion and there are no sites within the company".

Internally the company is grouped in four key activities :-

- ✓ Marketing and Analysis (M&A)
- ✓ Operation
- ✓ Information Technology (IT)
- ✓ Human Resources (HR)

Marketing & Analysis (M&A) :

- Segmentation , testing and analyzing customer data in order to elaborate the company's marketing strategy, and development of new products and services.
- Capital One has followed a strategy to provide its product to 2 completely different target segments in a way which resonates with the needs of that segment.
 - ✓ *Prime and Super prime customers* - A customized product on the basis of different preferences and habits of the consumer(Some extra features over core features)
 - ✓ *Subprime customers* - A product which serves the core purpose of credit card only. Truly a basic offering. They tap this segment

because most of the major banks don't provide products to this segment.

- The company's database has many type of customers. Two type of customer
1) transistors" 2) Revolvers
- *Retention Strategy*
To attract "low risk revolvers", Capital One offered them a card with an introductory low rate and no annual fee. Low risk revolvers are price sensitive customers tend to reduce their debt or leave Capital One without notifying the company or closing their account.

Operation

- Capital One align its operations with customers requirement
- company attempts to handle its customers in a personalized and flexible way.
- Big Yellow Square model :-
Low cost efficiency, high quality customer service, flexibility and associate satisfaction are four measurements that are cornerstone of a model known as the "Big Yellow Square" (BYS). The BYS indicates that Capital One's view on operating a call centre differs from most other organizations particularly in the way it weights "**associate satisfaction**", which is equal important as "**service quality**" and "**cost efficiency**".
- People are trained in one or more disciplines for handling sudden demands and services.
- Customer profitability analysis.

Information Technology (IT)

Associates use the sales system "SALSA" when attempting to cross-sell. The element that differentiate Capital One's operations department from others is its IT infrastructure.

Maintaining real time data of each customer so that each employee can deal with customer at any time without any repeat propositions.

Automated decision algorithms has helped in making quick and decision and alarming future fraud probability.

HUMAN RESOURCES :

Hiring & Training Evaluation Compensation

COMPANY CULTURE Housing Culture of Involvement Continuous Improvement

Effective upward communication: Inputs from front end associates are given due importance in crafting strategy for customers.

Effective manpower management

Potential Future Problems

To carry on its differentiation strategy and stay a step ahead of competition Capital One would face the following issues in the future.

1. **Short Half Life of Products** - Capital One had to continuously innovate to come off with new products in the market to maintain its differentiation strategy and mass customization. This would also ensure it staying ahead of competition. It also needed to track changes in the behaviour of the

customers due to the short life of its products because the behaviour changes once they learned to “game the system”.

2. **Advent of new Competition and the Internet** - Apart from facing competition from credit card companies Capital One also faces a growing competition from smart cards, debit cards, e-wallets, etc. The internet opened up opportunities but at the same time brought new form of competition. Hence, Capital One needs to innovate and adapt to the changing circumstances to remain ahead.
3. **Loss of Entrepreneurial Structure** - Having evolved from a small subsidiary to the 7th largest issuer, Capital One had become big in size. Its entrepreneurial structure is one of its key building blocks which needs to be preserved even when the company is growing at a very high rate.
4. Resistance to switch to a new model
5. Individual based customisation is a hurdle for revenue forecasting and sustenance.
6. **Growing Company Concern:** It is very difficult for the company to keep up the culture that supports innovation with increasing size of the company. The very advantage it has over competitors will be at risk as the company grows.

Recommendations

- Leverage your capabilities in diverse segment in the credit card industry and into other industries
- Retail banking with online presence
- 4 out of the top 5 credit card companies (Exhibit 7) have presence in the retail banking which gives them access to cheap source of funds. So the company may go for some brick-and-mortar branches and roll out an extensive online retail banking service.
- Partner with a big retail chain to increase point of sales.
- Capital One can tie up with a big retail chain and utilize their Point-Of-Sales purchase data to generate trends and offer customized promotional schemes to shoppers.
- Venture Capitalists
Tying up with VCs will be a mutually beneficial option. Capital One gets to gain more information about their target customers. They can put into use their large scale information processing capabilities. The VCs can also leverage the partnership when Capital One helps out their investees test out businesses.

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