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Management Accounting and CRM in Financial Services

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Management accounting infrastructure needs to be revitalized and rethought as management strategy moves towards a customer centric focus.

Customer Relationship Management (CRM) as a way of doing business has been making inroads in the Financial Services Industry for years. Having spent billions of dollars collectively on technology, training and organizational change, many executives are expressing concerned interest in the return on their CRM investment. In this article we suggest the time has come to recognize that CRM has created demand for entirely new management information that is imperative to meet the needs of the evolving customer centric financial services provider.

WHERE THE MONEY WENT

Banks have invested heavily to facilitate relationship management strategies. Typical investment of a mid-sized Regional US bank runs in the tens of millions all told. Most of the money has been spent on building technology infrastructure. Today's well-equipped bank has a customer account hierarchy (CIF), household hierarchy, a well-stocked data warehouse, precise customer profitability measurement, automated campaign management and customer contact management (SFA), statistical behavior prediction models and a variety of OLAP and other data mining tools at the ready.

In addition to the tech spend, many banks have also invested heavily in sales training and attempts to shift the organizational culture away from geography and product silos towards customers and customer segments. A lot of money has changed hands along the way.

Today s bank looks and behaves differently than it used to as a consequence of the investment and shift in focus, but performance measurements essential to internal control have not kept up with the changes in the business.

WHAT WE NEED TO KNOW

Banking is no longer just about portfolios of products that spin off spread and fees. The focus of today s executive is less on what s in the portfolio than what s going into and out of it. In other words the industry has gone from managing inventories of product to managing the acquisition and retention of customer relationships.

This creates new demands on management accounting. A new dimension —customer —has been added to the already complex matrix of geography, product, legal entity, and currency needed by the executive of the bank. Adding a new dimension has been done before - we added product line and line of business to our reporting structures in the 1980s and 1990s. What is different this time is the level of detail needed to support customer centric information —it is no longer general in the General Ledger sense.

Adding the customer dimension is only part of the requirement. We also need to change the content of what we are measuring and reporting to inform management about business flows into and out of the portfolios in addition to the status of what s already there. Just as Purchase and Sales Journals are essentially different from Inventory Control, the needed information content is completely different.

EVIL GROWS IN THE DARK

Internal control is all about having information that enables informed decisions by management. Present MIS systems are missing critical information about the way banks are conducting business. The inevitable result is na ve decisions. What can we expect as consequences? —Inappropriateresource allocations. Inappropriate strategy decisions. Lost profits.

At the beginning of this article we said many executives are expressing concerned interest in their return on CRM. This is the reason: they don t honestly know if their investments and strategy in this arena makes sense or not. The management accounting function has let them down by not giving them the information they need to run the business.

So what do they do? Increasingly, business managers who face the customer are relying on information that is not subject to the rigorous validation that is inherent in financial control systems. They rely on data marts full of questionable data, manipulated by ad-hoc programs and reported on by query and OLAP mining tools in the hands of business end user computing specialists. These are the tools that are really being used to run the business.

The validity of information that is relied on daily by management is highly suspect, yet the management accounting function — and even the audit function —appears complacent. In our view, this is just plain wrong. It is a recipe for major negative consequences and those consequences are inevitable.

THE WAY OF THE DINOSAUR

First of all, we need to understand that the complexities added by introducing customer centric management are not going to be the last major changes we can anticipate. We now have product, geography, legal entity, currency and customer. We are already seeing the need to know channel and processing path. As time goes forward other as yet unforeseen dimensions will inevitably be demanded.

Each time a new dimension is added to management structure, the amount of information we need to manage rises exponentially. When we added product line and line of business exponentially. When we added product line and line of business dimensions to General Ledgers the number of hierarchical nodes and accounts increased drastically. A typical bank today has well over 20,000 general ledger accounts to support this information. Add customer and we explode this by multiplying by the number of customers…not a pretty picture.

Clearly the traditional financial accounting systems will fail to meet the challenge of the dimension issue.

Then there's the issue of information content. Bank financial systems typically do not have journals that record inflows and outflows of business in the same manner as purchase and sales journals. Neither do the underlying customer account service systems. Even if are willing to invest in new extracts from all our account service systems and classify the transactions to construct journals we find that the transaction data we need is not even there!

The financial management systems we have today simply aren't going to meet the changing needs of our business - a better solution must be identified.

EVOLUTION, NOT REVOLUTION

In our view, the only way out of the box is to re-think what our business goals for management accounting really are, and address them independently of the traditional accounting processes.

High quality databases can produce excellent multidimensional information models (and accounting is just a model after all). In fact, relational technology is ideally suited to supporting the matrix business structures that are common today.

A good database combined with good models can produce sufficiently accurate information on which to base decisions. We have seen implementations of customer level profitability that are accurate to within 2% and better of financial reports – by line item, product and geography simultaneously – certainly credible information on which to make decisions. In fact, good enough.

Databases also open up the way to addressing the need for information about business flows. Customer Currents™ from Exchange Synergism Ltd. creates this information by measuring time series data in multiple hierarchical views. This unique methodology measures both inflow and outflow precisely, right down to the account level.

While abandoning the financial control system in favor of alternative information seems radical, the truth is we have been moving in this direction for a long time. What is important to remember is that we still need to validate information back to authoritative sources, but we don't have to rely on them to be the source of all the detail we require.

SYMBIOSIS

Adopting a management information infrastructure founded on the same databases the business uses day-to-day, is the best way to get the information we need to run the business. We can relieve Financial Accounting of the burden of cluttered account and hierarchy structures which proliferated to support Management Accounting needs in what turns out to be the wrong place, after all. The good news is we've already spent most of the money needed to make this vision of symbiotic accounting systems a reality.