



Royal Bank

The Pursuit of a New Virtual Strategy

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"We are in the midst of major shifts in the economy: the traditional business logic based on the fundamentals of the industrial revolution is being challenged by new possibilities signaled by the information revolution. Well-understood sources of competitive advantage through tangible, physical assets are being challenged by new capabilities rooted in intangible, intellectual assets. Companies are experimenting with a wide array of strategic alternatives and alternative organizational forms for the new economy. There is a widespread feeling that business designs need to be reconstructed for the new millenium."

- N. Venkatraman and John C. Henderson, Real Strategies for Virtual Organizing, Sloan Management Review, Fall 1998, Volume 40, No. 1

As we witness the transition from an industrial based economy to a new, networked based economy, the traditional enterprise, with its pre-established brand and resources, faces a new threat: virtual innovators. New entrants exploit their nimble stance and flexible structure to create new value added services through innovative portfolios of relationships and alliances.

On March 24, 1999, the University of New Brunswick at Saint John hosted a business case competition that was solely devoted to this transition. Hailing from graduate programs throughout the United States and Canada, student teams

gathered in Saint John, New Brunswick to test the very latest in academic theory and practice within a competitive case analysis.

The student teams were given a case on one of Canada's largest integrated financial services companies, Royal Bank Financial Group. With over \$270 billion in on-balance sheet assets and \$1 trillion in off-balance sheet assets, Royal Bank Financial Group has been managing web services for over four years through a site located at www.royalbank.com. With 6000+ pages of content, the group conducts over 1.2 million client sessions and receives 16,000 e-mails per month. The group not only offers a full range of online transactional capabilities to consumers and small businesses, but also extends private network packaged software solutions to commercial and corporate banking clients. The group's online relationships total 340,000 and grow at a rate of 700 new enrollments a day.

Despite being ranked as the number one financial services website by moneycanada.com, Royal Bank Financial Group recognizes the threat of the new market forces that are evolving in the new virtual business arenas. In today's electronic business world, time and space continue to shrink which presents new and unimaginable business opportunities and challenges. The challenge set before the student teams was to recommend a new plan, both tactical and strategic, that would enable Royal Bank to use its web capabilities to race ahead of competitors by generating new revenues and enhanced customer value. Each team had 24 hours to deliver a presentation and a five-page executive summary of its recommendations.

The competition was narrowed to three finalists: McGill University, University of New Brunswick at Saint John, and Boston University. The McGill University team submitted "Leveraging the Power of the Networked Economy," the UNBSJ team submitted their strategy, titled "The Lion Never Sleeps on the Web," and Boston University submitted "Creating Value in the Knowledge Economy." Judges included the Vice President of E-Commerce at Royal Bank, Marketing Director of VideoActive Network, Sun Microsystems, NBTel, and various governmental agencies.

The following details the three strategies:

McGill University: "Leveraging the Power of the Networked Economy"

Introduction

The management team was asked to identify how the Royal Bank Financial Group (RBF) could leverage the power of the new networked economy.

The driving factor in this analysis is the customer, whether it is an individual, a small or medium sized enterprise (SME) or a large corporation. In all the hype surrounding the Internet and e-commerce it is imperative that RBF not lose focus of the customer. The financial services industry is built on human relationships and trust. This customer contact must be maintained in all of RBF's products and services. In order to *add value to the customer* and *increase revenues*, we are proposing that RBF expand its existing Web services into new realms. This involves expanding their Internet service for both the individual and the business clients. At the corporate level, our analysis deals mainly with SMEs as large corporations have very different and specific needs that warrant an account manager. Their transactions are typically high value and low volume, which defeats the purpose of an e-commerce facility.

The Evolving Financial System

The financial system has evolved from a model that was centered around the financial institution. It offered standardized products and services and the individual customers, SMEs and corporations, were required to adapt to the offerings of the financial institution in order to satisfy their needs. The customer revolution has changed this system in the sense that now financial institutions offer customized products and services tailored to specific needs. We envision a system where the financial institution continues to offer customized products and services (represented by the 'S'). Furthermore, the system of tomorrow will see individuals, SMEs and large corporations interacting and transacting with each other under the RBF umbrella. The financial institution will become the hub of many transactions while maintaining the important relationships with the customers. They will provide a marketplace where all their customers

are freely able to transact with each other. The following sections outline how RBFGB can create such a financial system.

Personalized Services

"My Royal" Web Site

Individuals who do their banking online are attracted to the convenience of the Internet and the customization it can offer. We recommend that RBFGB implement online Web transaction access for all their customers, be they individuals or small businesses. This page will include the customer's current personal information, account information, investment portfolios, up to date financial news and stock quotes. The customer should be able to transfer funds, pay bills, trade stocks, and apply for additional financial products such as credit cards and mortgages. In addition, personalized and relevant news articles and stock information should be available on 'My Royal'. The customer should also have the capability to ask questions on the web site database using natural language queries.



Remembering the importance of relationships, each online customer should be assigned their own customer service agent. This agent will be available online, through chat, phone or Voice over IP (VoIP) to answer the customer's questions and provide value added service on financial products. A back-up agent should be identified for situations of unavailability of the primary agent. The agent would provide the human interaction and personal touch to the service as well bring in the notion of accountability.

The customer service agent will be the customers' single point of contact and will provide the customer with information about all their financial life events. For example, if a customer requires information on life insurance their agent will search out the relevant individuals the customer needs to get in touch with. In order to expedite this process a link is required between the web site and the internal computer system the agents use. When an agent is discussing an issue with the customer they should be able to access the same screen the customer is currently accessing. At least once a year an agent will review their customers' portfolio and offer additional services. The agent is a necessary aspect of the networked economy for they provide the "human face on the Web".

Smart Cards

In order to increase convenience and customization RBFGB needs to launch a new product: the smart card. The smart card is a technology that is very popular in Europe but which is only slowly gaining acceptance in North America. This card stores information, credits or currency value on an embedded chip. The card is entered in a reader and the transaction cost is debited from the chip. Smart cards can provide a secure transaction for both online and off line purchases. In order for these cards to gain acceptance, RBFGB needs to work in conjunction with the other major banks to ensure that an adequate infrastructure is in place (such as the Interact payment system). Royal Bank should take the initiative with this technology in order to gain a first mover advantage.

EXPENSES	Phase 1	Phase 2	Phase 3	TANGIBLE BENEFITS	Phase 1	Phase 2	Phase 3
One time Expenses	8			Stationery & Printing	3	5	7
Integration Expenses	5	3	1	Human Resources	1	2	3
Operating Expenses	5	6	6	Rent & Property Taxes	5	8	10
Marketing/Promotional Expenses	10	5	5	Postage	0.25	0.5	1
Training Expenses	5	2	2	Total Savings	9.25	15.5	21
Total Expenses	33	16	14	<i>Figures in million CA\$</i>			
<i>Figures in million CA\$</i>							

The expenses are for a high volume, commercial grade, e-commerce web site that would handle between 40,000 - 60,000 transactions per day and over a million hits per day. The one time sunk costs would include implementation of the entire project in phases. The solutions we recommend would be implemented over a 3 phase time-frame, where most of the investments in phase 2 and 3 would be to enhance transaction load handling capability. The biggest cost, however, would be the integration of all the new softwares with RBF's existing infrastructure. To be the pioneer and create high awareness, RBF will need to launch this new offering with a bang.

The benefits of this investment can be observed in many ways. The more obvious ones, the tangible cost savings, are as seen above. But the intangible cost savings such as brand image enhancement, efficiency of the system, man hours reduction, customer value, increase in sales, increase in subscribers, etc. are a lot more difficult to measure and allocate. However, the benefits far outweigh the costs. Indeed, the tables show that without taking the intangible benefits into account, the new RBF web-based value proposition starts being profitable in phase 3.

Implementation

The implementation would be done in three phases. The strategic aspect of the implementation would entail formulating strategic alliances with content providers, businesses and other banks for various aspects of the RBF gamut of solutions. The alliance process would be an on-going process, which would change over time. However, the tactical implementation would be fairly well defined. The first phase would involve making all the possible upgrades on the existing products and services to meet the objectives defined above. Simultaneously, we would prepare for phase 2 and 3 of the implementation. In phase 2, we would introduce the new and improved web service to the market place. The details of the Fidelity Program would be worked out for launch in phase 3. All services defined in our recommendation would be implemented by the end of phase 3.

Post-implementation

This phase ties more with the activities RBF would undertake to measure the success of this implementation and to keep a watch on developments in the market place, both in terms of technology and competition. Feedback on the

changes required would be received from the customer service agents and from the web site itself. The Royal Bank would incorporate these changes in its strategy to stay one step ahead of competition.

Conclusion

We are attempting to assist RFBG in keeping pace with the every changing financial paradigm. The Internet service is demanding convenience and customization. By adopting the above strategies Royal Bank can offer this to their customers today, IN WEB TIME. The medium is no longer the message on the Internet but rather the medium is the market.

University of New Brunswick at St. John: "The Lion Never Sleeps on the Web"

The *Lion* Never Sleeps on the Web: Personal and customized integrated solutions for Royal Bank Online Services

Since the introduction of the Royal Bank Financial Group's online banking services, the technological platform for business has changed dramatically. Emerging trends and new entrants into the financial services industry's already competitive market are making it increasingly more important for the present leaders (eg. RFBG) to adapt. To guard against the disintermediation of traditional banks and financial service providers, expansion beyond the existing services through the capitalization of all the available knowledge and technologies is becoming essential.

If the Royal Bank is to remain a strong contender, new strategic alliances that enhance the present services must be formed. The changing nature of industry competition must be acknowledged, and new lines of products and services must be explored.

The following proposal offers the Royal Bank an alternative: a completely integrated online strategy that benefits both individual customers and business clients. Not only are individual clients' web pages customized to meet their needs, but the information obtained through transaction records is also used to complement the services offered to businesses.

It's a jungle out there, however with the introduction of Leo Online, the Royal Bank's virtual expert, the customers can rest soundly at night knowing that *the Lion Never Sleeps on the Web!!*

Introduction

As we are hurled into the third wave economy, all firms are being forced to adapt to the rapid rate of technological change. Characteristics of competitors and customers alike can no longer be assumed. In the virtual world, everyone can potentially be your customer, and everyone can equally be a direct or indirect competitor. The question becomes, how do you identify and sustain your competitive edge?

The current Canadian banking industry, with the Royal Bank Financial Group leading the pack, has traditionally been focused on providing purely financial services to its Canadian customers. The array of present services provided by RFBG place them among the top performers in the country, however, their position is becoming increasingly threatened by other non-traditional entrants into the market.

A strong network of strategic alliances and the creation of virtual personally integrated experiences will increase the current tangible and intangible assets to unbelievable magnitudes. This proposal will outline an approach to provide personalized financial gateways that will lead each and every customer into the 21st century. It will introduce Leo Online, the user-friendly lion that never sleeps. New business alliances and endeavors, including the interactive *Shops Royal* will also be explored.

The Customers

The current customer base comprises three basic categories, most of whom are Canadian based:

- Individual customers
- Small and Medium size enterprises
- Corporate clients

Any efforts by the Royal Bank to increase any segment as well as to integrate members from each group will add value to the firm.

The Competitors

Along with the changing face of the industry as a whole comes the changing face of competitors. With access to the amounts of equity that large corporations are securing, these capital capable firms (CCF) are quite able to offer any line of financial services.

Sources of Competition - examples:

- mBanx: A subsidiary of the Bank of Montreal that provides exclusively electronic banking services.
- President's Choice: A large grocery product company recently began offering mortgages along with incentive programs for product dollars. This effort is done in cooperation with the Canadian Imperial Bank of Commerce - with no fees to the customer.
- Extremely CCF firms like Microsoft Corporation could feasibly enter the financial services industry.

Enhancements to Existing Services

Welcome to the newly developed window of opportunity for Royal Bank Online Services. We are introducing Leo Online, a virtual expert that will navigate RBC's customers around their personalized websites. These sites will provide an up-to-date snapshot of customers' complete financial portfolio. Leo will work around the clock to seek tailored information and provide relevant and timely advice on all financial matters.



New Product Development and Implementation

The Virtual Mall - *Shops Royal* will be a compilation of various services and products in a one stop shopping experience. While many of these are coming into existence, the benefits to Royal Bank operating this type of service are endless. By aligning themselves strategically with all the individual service and product providers, they are placing themselves in a position to finance all the transactions handled through the mall. This is an avenue for increasing the customer base - both individuals and business clientele.

Services to Customers	Services to Business Clients	Source of Revenue for RFBG
<ul style="list-style-type: none"> • One stop shopping • Minimize transactions • Earn mall dollars • Customized interface 	<ul style="list-style-type: none"> • Improved access to target markets • Easy transaction process 	<ul style="list-style-type: none"> • Leased space at mall • Fees for tagging/links • Business transaction fees • Financing charges

This retail portal will allow for an infinite number of transactions. Access to such services as real estate, automobile dealerships, vacation packages, home entertainment, home and office computing, international financial consulting, retailers and international banks will be included. Some specific examples include:

- Booking vacations through a mall partner, and financing the purchase through equal monthly payments from your Royal Bank account.
- Customers can obtain pre-approved loans for vehicles through Royal Bank, and use *Shops Royal* as a brokerage house for the product.

Implementation of Marketing Strategies

We recommend a "launch and learn" strategy to get these new initiatives to the market quickly. A comprehensive monitoring program should be established to identify any areas for improvement in an expeditious manner. To effectively target those clients presently under-served by Royal Bank's online services, particularly youth and middle aged adults who are yet uncomfortable with the security risks of online banking, the following measures are proposed:

- Implementation of fully online kiosks (essentially enhanced banking machines) at various branches. This dismantling of the physical barrier will allow customers the opportunity to explore the benefits of online banking without the perceived risk of their financial information being lost in cyberspace.
- The placement of similar units in schools and post-secondary education facilities as a means for instructors to teach personal banking to students. This will have the added bonus of establishing customer loyalty at a young age.
- Maximizing the information available to the bank through transaction records in order to develop specific target market approaches.
- International translators can be incorporated to encourage global customers to consider Royal Bank an option for services. This also increases the services available to national customers expanding abroad by providing business-to-business links.

And so the Future Holds

Regardless of the recent dynamism of the industry, and the plethora of electronic business opportunities that have steadily emerged over the past few years, the train is not about to stop. The Next Generation Internet (NGI) promises to be 1000 times faster than today's technology. Applications of NGI in banking business will be more safe, reliable and able to provide instantaneous updates. Digital signatures and real time face to face communication will also be incorporated into the online business transactions of the near future. The expansions and enhanced services provided in this proposal allow Royal Bank to stay on-board.

Value Added and Shareholder Equity

Knowledge in the third wave economy is powerful. To be able to capitalize on this knowledge, the Royal Bank must think outside of its traditional boundaries, and seek new opportunities that enhance and complement their traditional

services.

He who captures the share of the market will be crowned king. With the unleashing of Leo Online, the lion will be awakened, and the new technological jungle may be ruled by the Royal Bank. Leo will never sleep, so that Royal Bank's customers can rest comfortably.

Boston University: "Creating Value in the Knowledge Economy"

Introduction to the Challenges

Royal Bank, like all organizations, is confronting enormous industry changes in the face of electronic commerce. The new challenges include creating value in the knowledge economy, competing in 'marketspace,' and managing knowledge workers. Royal Bank faces the challenge of reinventing itself to remain the market leader in financial services in Canada. It must develop new strategies in the face of new stakeholders and new competition. The principal driver for these changes is technology, and specifically, the World Wide Web.

Recommendations

We have four recommendations to help Royal Bank change its line of business to meet the challenges of the new economy:

1. Web-Path Tracking
2. "Life Events" Program
3. On-Line Communities
4. Knowledge Capture and Distribution

Through out the paper we use the model below that describes the organization, its customer relationships and its products. Organizations must increasingly be able to function on all three levels of the model to be competitive. Our recommendations move the Royal Bank from level two through level three.



Source: Ernst & Young, LLP

Level One, Operational Excellence

In the operational excellence layer, superior transactional capabilities are the result of the seamless integration between the web and the company's back-end systems. The Royal Bank has achieved operational excellence by incorporating the web into its current business processes, achieving the benefits of high convenience, trouble-free service and

efficient processes. Evidence that the Royal Bank is already at level one include:

- Electronic access to bank statements and personal finances
- Ability to transfer funds
- Electronic bill payments
- Mutual fund trading

Level Two, Dynamic Customization

As Royal Bank is clearly aware, proficiency in operations does reduce costs to the company, but as it replicable, it will not give Royal Bank a sustainable competitive advantage. Royal Bank needs to become more customer-oriented through dynamic customization of its product line. We clearly see the movement from a production-oriented economy, in which a company's one product is produced for many customers, to a knowledge economy, where the information allows us to meet the needs of each, individual customer. Here, Royal Bank can take the information it gains from its customers and essentially, become a technical advisor and bundle appropriate products for the consumer. To do this, we recommend the use of Web Path Tracking and a Life Events Program. By recognizing each customer's online banking activity, the Web Path Tracking Program will enable the bank to tailor their service offerings to best suit the needs of each individual customer. In addition, through the Life Events program, the bank can further enhance its virtual customer relationships by offering customized financial services that are tailored to each customer's life transition (ie. Educational loans, automobile financing, homeowners insurance etc.).

Level Three, Relationship Management

With the ability to customize products to consumers' needs as described in level two, customized products become commodities. The challenge for the Royal Bank is to find ways, other than product or price differentiation, to create customer loyalty and secure business. We propose that the Royal Bank:

- Use customer communities to create value by developing a sense of shared purpose, trust and loyalty

Specifically, we recommend that within the next three to twelve months, the Royal Bank begin to offer online investment clubs. These clubs would function similarly to Yahoo! Finance and would encourage customers to become committed to a common goal or interest and to develop a shared sense of purpose.

After implementing the clubs, we recommend that the Royal Bank begin to offer a Web Card. This would be a credit card (and perhaps at a later date a Smart Card), with a customer community incentive. When the customer enrolls in the Web Card, he must join an online interest group. A small percentage of each purchase made with the card will be deposited to the group's account. Based on several models provided by the Bank, the group will use the money for a cause. This cause could be philanthropic, for example a Breast Cancer Research group, or a local school support group or it could be profit-motivated, for example a high-risk investment group. In order to ensure access to the community, the Bank should allow communities to access their discussion space through the Web from home or from designated terminals in the Bank's branch offices. Another possibility is to migrate the technology to ATM machines to broaden access.

These groups would serve several purposes. First they would increase customer awareness of online communities. Second they would increase brand allegiance for the Bank by creating an incentive program. Third they could encourage new business as special interest groups drew in members in support of their cause. Finally, they will enable the Bank to gather information about customer interests.

Gathering information and creating knowledge is an important task for the Royal Bank to compete in the Knowledge Economy. We believe that by creating strategic business alliances and using those alliances to manage an information product, Royal Bank will position itself to continue to be a market leader. The following model outlines the strategy:

By forming online communities, the Royal Bank has the opportunity to gather data from the content generated within those online spaces. By partnering with a firm with a competency in data processing and packaging, Royal Bank can leverage its own competency in moving financial assets from areas with surpluses to areas with deficiencies and move

into distributing *knowledge* assets.



Metrics

The knowledge economy will also require new organizational success metrics. While the ultimate goal of financial returns will remain, there will be new metrics to gauge an organization's movement toward the goal. We have summarized the balanced scorecard of metrics we believe the Royal Bank should use in the following table:

