State street bank and trust corporation

Business, Company

For the past decade, State Street Bank has been very successful in its core custody business and it had derived significant revenues. It has been the main driver for growth for State Street Bank during the 1980s and early 1990s, returning on average 18% on equity every year. But the Industry has started to mature and Custody Business is becoming more of a " Commodity Business" and revenues have started to erode. Marsh Carter, CEO and Chairman of the board, is thus seeking to expand the bank's presences in other financial value-added services.

Developing these services will require the bank to rebuild their organizational capabilities to leverage and integrate the skills present in multiple divisions. One of the many issues that the CEO had to grapple with was that the company had very little product development capabilities. Its core competency has been informationtechnologycapability, which it leveraged to create a competitive market position in the Industry. The increasingly complex nature of financial transactions posed both challenges and opportunities, and State Street Bank's access to real time market data made it uniquely positioned to take advantage.

The key to successful new product development is to create a value proposition to the target market. State Street Bank had several limitations including lack of a proper new product development process, organizational issues involved in the new products development, the risk assessment system. Also, he was in a dilemma on whether to develop modular application or go for an enterprise-wide application system. Trends in the RegulatoryEnvironment/ Nature of Business:

The nature of the custody business changed when the government passed the ERISA legislation which required the plan sponsor of public fund to hire an independent company to provide all trustee work independently of the plan sponsor. Over a period of time, these requirements changed from simple safekeeping of assets, recording and reporting to regulatory agencies to that which offered value added services and helped the pension funds, institutions andmoneymanagers manage risks. New financial instruments were being developed, which consequently increased the complexities of the transactions.

All these factors present State Street Bank with an unique opportunity to pursue growth by development of new products aimed at the changing customer preferences. The divisions complemented each other and provided a complete array of services, thereby seizing a large chunk of the market. Apart from custody services, the GFAS provided daily portfolio valuation, multi currency portfolio, performance management, and services to institutional investors in non-US countries. This would enable vigorous cross-selling of products between the various divisions.

Customer relationships are very strong and State Street Bank was flexible enough to customize solutions based on the individual needs. Overall, the clients thus had a fair amount of switching costs because they got some value from customized solutions and personalized customer service. The banks clients had also started dealing in derivatives to hedge their risks. These financial transactions were complex in nature and to meet the clients information needs, the process reporting and analysis needed to be automated.

State Street Bank had made significant investments in IT infrastructure and services and had skilled IT labor with rich experience and expertise in this field. Moreover, it had access to real time market data on securities transactions. It was thus well positioned to develop the corresponding code to address this particular need. Hence, its main value drivers were its Technology and Customization capability that led to its solid financial performance over the last two decades and its global presence were a definite plus.

However, State Street Bank were too focused on its core custody business and had failed to develop new product development capabilities. Further, as one executive noted, even if they made a small portion of IT investments towards building teams and integration, they would have had a good organization capability. Moreover, the different division worked in isolation and there was a lack of information flow across the divisions.

Historically, each business unit had developed products on its own and there was no mechanism to coordinate product development across the divisions. This had led to a very fragmented approach to new product development and there was lot of duplication of effort. Moreover, even though the management had put in place an M&PD (Market & Product Development) group, problems in cross divisional coordination persisted. State Street Bank also lacked sufficient expertise in derivatives trading.

Moreover, derivatives themselves meant different things to different people and hence a clear cut approach was required in risk assessment product. But with differing opinions and lack of clear cut marketing plans, State Street Bank faced an uphill task for success. Another major dilemma was that, though customization was a value driver for them in custody business, it has become a impediment when they wanted to integrate the systems. Because the various divisions had their own unique processes and they were reluctant to change since it might affect current customers.