SIGNET BANKING–PARTNERSHIP DYNAMICS

It was October 1, 1996 when Jane Mason received a call from Signet Banking’s IT department head, Rob Demon, asking for her help to understand an escalating challenge with their long-time contracted partner at ABC Information Systems. Jane was a Vice-President in the Leadership and Strategy group at Signet Banking headquarters in Richmond, Virginia, and recognized as the Systems Thinking guru who could always make sense of a complex situation.

ABC Information Systems was a highly reputable IT firm which prided itself on methodically designing programmed information and technology products which met the needs of their customers. For this service, they charged a very competitive initial fee, and built in a higher than average long-term service agreement.

In the fall of 1991, Signet was just recovering from the downturn in the real estate market of the late 1980s. In an effort to improve business efficiency in the handling of the vast amounts of information Signet was maintaining, especially in light of its new credit card business, Signet decided to outsource all commodity type information activities. Signet’s goal was to establish a standardized, reliable, outsourced corporate-wide processing system. Given the amount of this style of work which ABC Information Systems was already doing for much larger banking institutions, Signet believed they would be the perfect match to capture the technology of an organization already far down the learning curve.

Signet established a contract with ABC to be the sole provider of all information and technology products and services necessary to help Signet improve its business efficiency and ultimately its profit. The contract was in keeping with ABC’s standard format, where ABC’s long-term service fee schedule was based on the volume of Signet transactions. There was of course a baseline fee for a guaranteed number of transactions and then a decaying increase for additional transactions above the baseline.

As Signet’s business processes became more efficient, the number of customers they could handle increased and in turn the number of transactions upon which ABC’s fee was based also increased. The success of the ABC contract with Signet and ABC’s desire to continue to help Signet improve were linked to the number of Signet transactions. Improvements and profitability for both organizations moved hand-in-hand for several years.

This case was written by Laurence G. Mueller, General Faculty and Research Associate, as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 1997 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@dardenpublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any other form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.
In the fall of 1994, market and investment conditions surrounding Signet’s credit card division, constituting almost 50% of the bank, made it imperative to spin-off the credit card business from the bank. The new credit card business would now be a completely separate company, Capital One. In light of this spin-off, all Signet Banking’s contracts were in the zone of the exception clause and were all renegotiated. ABC Information System’s contract with Signet was one of these.

The credit card division had represented at least 50% of the gross number of transactions at Signet. With the exception clause, Signet was able to lower their baseline guaranteed transactions with ABC accordingly. Furthermore, Capital One and their share of the transactions upon spin-off were not required to maintain any contract with ABC Information Systems. ABC did not have extensive experience in products for credit card services, nor were they quick enough in response time in developing new products as needed by credit card companies, never-the-less, they would be allowed to compete for a small fraction of Capital One’s business. In spite of the exception, which legally allowed Signet to redefine their contract with ABC, Signet paid ABC a lump sum of $49 million for the loss of the credit card business.

ABC Information System’s response to the profit lost in reduced transactions and the redefined contract was to utilize the highest most inflexible pricing policies allowed within the contract at all times. Any time the fees paid by Signet went down, an extraordinary effort on the part of ABC was made to increase the amount charged for each transaction, to keep from losing any more ground. In addition, the priority handling of information system requests and improvements which Signet was formerly provided as a good customer and in light of the potential for increased transactions due to efficiencies, now required a substantial additional payment. Without additional monetary incentive, all Signet projects were just placed in the standard ABC project queue. Although it might have seemed that switching Information Technology providers would be the best answer, this would involve very high changing costs and an interruption of services to customers which might take a full year to be fully forgotten.

The financial services industry was in a period of rapid consolidation, rising customer service expectations, and increased competition from non-bank alternatives such as mutual fund and insurance companies. Simultaneous with the credit card spin off, Signet realized that it must create new and profitable ways of delivering products and services to its customers in order to stop customer attrition and remain independent. The increased pressure for rapid product and service development often led to stalemates between ABC and Signet project teams. Signet needed rapid, flexible technology support and ABC was not willing to change the queuing process for top priority projects. It was not uncommon for meetings to extend into the night and expletives to be exchanged between team members. Consequently, neither Signet nor ABC was satisfied with the relationship.

As a result of two years of changes in the business practices of Signet and ABC towards one another, and a decreasing number of business transactions, there was an animosity created between these two organizations. Individuals in the two organizations had become very hostile towards one another. Now, Rob had to face his adversaries at ABC for this last round of negotiations for the 1997 contract. He appealed to Jane to come and review all the occurrences in the Signet and ABC relationship to determine if there were some way of explaining how things reached this point and if
there were any way to alleviate the growing animosity.