

Optimizing the Value Chain: Collaborative Customer Knowledge in Global Insurance

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Executive Summary

As the global economy recovers from a state of financial crisis, insurance firms around the world are faced with key challenges across their value chains regarding customers, distributors, and workers. Insurers have to rebuild trust with customers as well as foster loyalty among the agents/brokers who distribute their products. Financially, premium volumes have been constrained or have fallen in key segments around the world and investment performance has been inhibited. The need to boost profitability through operational efficiency is critical. Agility is needed in technology and processes to adapt to expanded regulatory reporting requirements and provide more transparency to clients, who expect anytime access to their insurance provider via the Web, a call center, or a voice response unit.

Beyond regulation and financial performance, the top three priorities for insurance companies are superior customer experience, efficiency, and effective distribution management. Although there are regional and line-of-business differences, insurance companies generally are looking to improve their interactions directly with customers, as well as those through captive and independent agents and brokers. Increasingly, insurance carriers acknowledge that powerful technologies are available to tap the enterprise's potential to improve sales and service interactions, address customer preferences, automate processes, and reduce cost. A major advantage to leveraging these technologies is to provide visibility for channel partners into client needs, leading to additional sales opportunities and increased customer loyalty.

To accomplish these priorities, insurance companies need technology platforms and tools that enable collaborative customer knowledge—the seamless unification of accurate data that empowers company representatives with insight into customers' history, preferences, and needs in order to deliver more personalized service, which results in higher sales and satisfaction levels.

Customer information, the foundation of customer relationship management (CRM), must be treated as a corporate asset that allows organizations to compete in a complex and rapidly evolving world. Without collaborative customer knowledge, the value chain breaks down, becoming disjointed and thus failing to meet expectations for a superior service experience. Internal operations remain inefficient and costly. The best distributors seek out insurers that provide value and ease of doing business to the value chain. Leading insurance executives recognize that they must invest in technology that can leverage the customer data from disparate systems and deliver it to workers and distributors immediately to address customer needs in real time.

This report describes the importance of collaborative customer knowledge built on a foundation of a CRM platform. It presents the key business trends and challenges, discusses primary issues in the top regions globally, and highlights initiatives that forward-looking firms are undertaking to improve customer experience, efficiency, and distribution management. The report also relates, in case study format, the business results achieved by a leading global insurance institution that has focused its investments in collaborative, customer-centric systems.

The Global Insurance Business Landscape

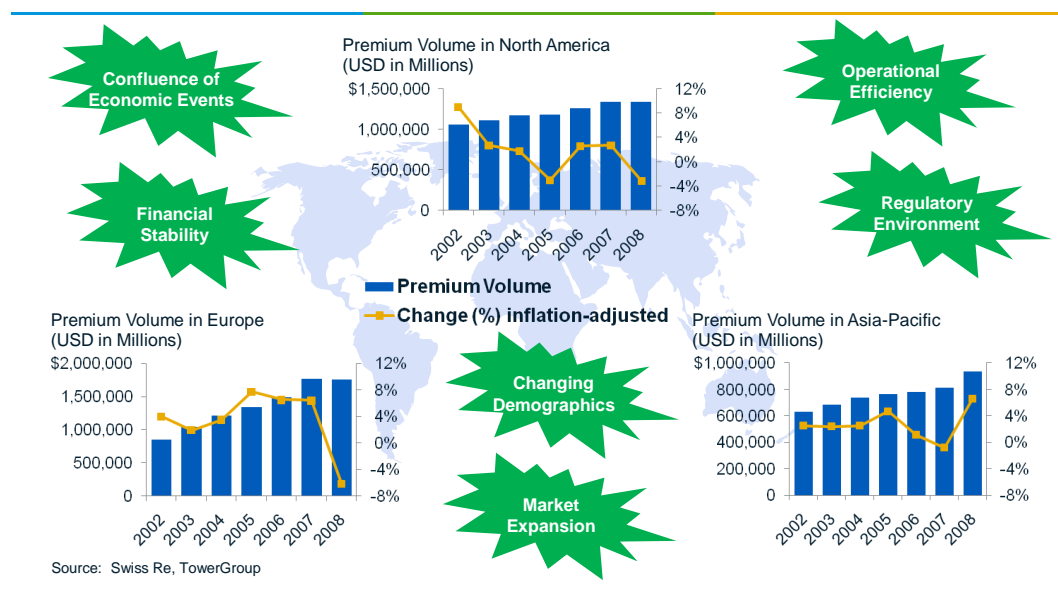
Although important distinctions exist within major regions, insurance companies worldwide are facing similar challenges in their businesses. The principal drivers of change in the insurance industry are the main forces affecting business and determining the strategic responses of leading players. They define the starting point for decisions insurance executives must make as they analyze their business situations and determine how to respond to the challenges of today's transitional environment and strive for profitable growth and strong market positions.

Exhibit 1 identifies these drivers and compares recent years' data on policy premium volumes across the major global regions.

Exhibit 1



The Major Drivers of the Global Insurance Industry (2002–2008)



Confluence of Economic Events. The lingering effects of the global financial crisis continue to be felt as reduced discretionary income constrains personal consumption and sales of both nonlife and life insurance products. Heightened risk aversion has driven many consumers to purchase simpler product vehicles in place of variable annuities and other market-linked products.

Financial Stability. In the wake of lower investment returns and flat or declining premium volumes in many lines of business, insurers are tasked with the urgent need to rebuild capital and regain financial stability. Part of the challenge rests on making prudent investment decisions, but there is also a realization that better underwriting processes can help remove future financial uncertainty.

Operational Efficiency. In a reduced top-line environment, the need to contain costs is also a critical imperative. Insurers are looking at how to reduce expenses without compromising service quality. To this end, they seek to improve distribution, ongoing policy administration, claims processing, investigations, and technology infrastructure.

Regulatory Environment. The regulatory vise is tightening on all financial services institutions, including insurance companies. Among the challenges worldwide are requirements for greater amounts of capital and for more compliance reporting. Another challenge is regional versus national regulation in Europe and, in the United States, state regulators attempting to prove that they are more effective than federal regulators.

Changing Demographics. Younger customers and intermediaries, especially in developing markets, expect to interact with insurance providers via sophisticated, personalized Internet delivery. Many existing, older customers are also drawn to the convenience of Internet and self-service models. To meet these demands, insurers are building out the online experience for all customer touches in sales, service, and claims.

Market Expansion. To offset declines in developed markets, some insurers are looking to the BRIC nations (Brazil, Russia, India, and China) and others such as South Korea, Malaysia, and Saudi Arabia to fuel growth. Developing markets are generally healthy, despite the financial crisis, and are recovering fairly rapidly. Of course, the growth prospects of the emerging markets are tempered by their relatively small size at this point. For example, China's nonlife premiums are one-third those of Germany, and less than one-tenth those of the United States. However, the less restrictive business climate in some developing nations, coupled with the low penetration of insurance there to date, represents great opportunity.

At the heart of these six drivers are consumers and distributors seeking a better, more intuitive insurance experience. Insurers that focus on delivering personalized products and services in collaborative, customer-centric environments will yield positive results and address top business challenges. Successfully developing these initiatives can happen only when insurers have first created a platform of customer knowledge. Reviewing how successful companies are managing their technology strategies within the context of these major drivers shows that most have three business challenges in common:

- Delivering superior customer experience that leads to retention and revenue stability
- Focusing on increasing operational efficiency
- Streamlining and maximizing the value of distribution channels

Enabled with collaborative customer knowledge, client-facing professionals (including captive and independent agents) and other players in the insurance value chain are able to vigorously address these business challenges.

Collaborative Customer Knowledge

Collaborative customer knowledge, enabled by CRM technology platforms, is the seamless unification of accurate data that empowers company representatives. It provides sales representatives, agents, and customer support staff with insight into customers' history, preferences, and needs in order to deliver more personalized service resulting in higher sales and satisfaction levels.

Insurance companies have a wealth of customer data, product data, business rules, and analytical tools, but the typical technology architecture does not make it easy for different functional areas to share information or for carriers to provide the full insurance picture to their agents.

From a technology standpoint, the success of collaborative customer knowledge depends on coordinating CRM data and solutions across all elements of the architecture. By creating a shared repository of the data and a platform to allow its ready use, insurers gain a 360-degree view of the customer that serves as the primary source of customer information for other processes throughout the firm, including sales, marketing, service, underwriting, and policy management.

Why Collaborative Customer Knowledge Is Important

Aggregating customer data with enterprise-wide technology to deliver information and insight in real time to workers, distributors, and consumers addresses insurance firms' goals of expense reduction, customer satisfaction, and agent satisfaction. Historically, insurance companies have dictated to workers, distributors, and consumers how they would be allowed to interact with the company. This operating methodology is no longer acceptable. Even random instances of this attitude will cost the insurer the best employees, distributors, and customers.

Leading insurance executives realize that customer retention is one of the most critical business outcomes today. TowerGroup believes customer retention requires aggregated customer knowledge to be available at the point of decision so workers and distributors can deliver personalized service based on customers' needs and preferences. An example of aggregated knowledge is the information that a claims call center needs from underwriting, policy administration, and billing systems to handle a customer's first report of loss with speed, accuracy, and compliance with internal and external requirements.

Sustainable profitability for an insurer requires a base of precise, actionable customer information to make processes efficient and cost-effective. Collaborative customer knowledge, enabled through CRM data and solutions, is the foundation that allows carriers to build a true *value* chain. Without centralized customer knowledge and tools that enable representatives to collaborate across lines and channels, an insurer is simply executing a set of disconnected processes that deliver little value.

Regional Considerations

The three principal global regions have important differences that are shaping the insurance business.

North America

Growth will resume in US and Canadian insurance markets, and client retention and expense reduction will remain common strategic themes. This applies both to life and annuity carriers and to property and casualty carriers in North America through 2010. Client retention will hinge on carriers' ability to prove they know and understand the customer, which requires technology support for a 360-degree view of the customer. Regulatory compliance is complicated by the continued struggle between local (state or provincial) regulators and national regulators, which will increase reporting and disclosure requirements. Efficiency and transparency will be essential to rise to these challenges.

Europe

Across most of Europe, economies are recovering despite having experienced severe dislocations due to the financial crisis—with even Eastern European markets beginning to return to a growth path, albeit unevenly. The technology gap between Eastern Europe and the West has also diminished substantially. The distribution network in Europe is made even more complex by country-specific preferences. Unified customer information is needed to meet requirements. The emphasis among leading insurers in the region has been on restoring consumer confidence by creating new products that are straightforward. Recognition is growing that a seamless customer experience can help restore confidence. European insurers are not immune from regulatory or other burdens in the current environment. Firms in the region are focusing more than ever on protecting and rebuilding their capital bases and fostering efficiency and risk control across the enterprise. The enactment of Solvency II in March 2009 marked a

turning point in the oversight and control of insurance companies in Europe. Centralized data stores will be a key for reporting.

Asia-Pacific

The Asia-Pacific region is characterized by a bifurcated market: It is a hotbed of growth in the developing markets (albeit from a small base), but it is challenged in the established markets like Australia and Japan by declining numbers of new policyholders and aging populations. As in Europe, customers, insurers, and intermediaries in the region are subject to country-by-country divergences of product preferences. Successful companies therefore tailor their strategies for capturing business to each country’s circumstances. Centralized customer data is critical to their success. Development of the insurance industry in many Asian nations is constrained by a shortage of qualified workers. Eliminating unnecessary steps and hand-offs is thus important for efficient operations.

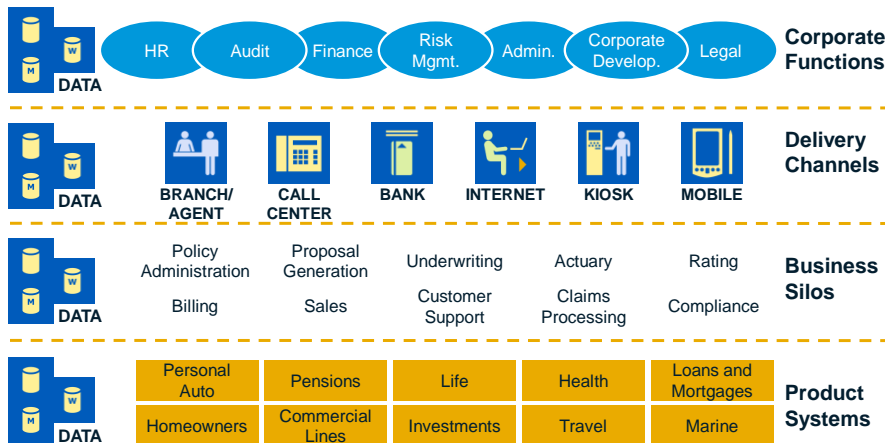
Business Challenges for Insurance Carriers

In addition to challenges that vary from region to region, every insurer must deal with complex organizational, process, and systems environments to be able to deliver collaborative customer knowledge founded on robust CRM tools. Carriers are addressing the fundamental business challenges they face in customer experience, efficiency, and distribution management through use of customer-centric data and access technologies. To harness customer data, insurers have to understand and map technology solutions to an array of corporate and business functions, channels, and product systems. Exhibit 2 illustrates the many points across the value chain where customer data can reside.

Exhibit 2



Existing Insurance Architecture Compounds the Difficulty of Leveraging Enterprise Data



Source: TowerGroup

It is clear that many organizations face huge challenges in bringing customer data together for actionable purposes. It is equally clear that without consolidation of customer information on one platform, all functions are

executed with limited effectiveness. Customers are subjected to multiple contacts to accomplish a single request. Distributors are frustrated by the amount of duplicate work they must perform due to disparate systems and process inefficiencies. Those insurers who understand the importance of integrating disparate systems enabling real-time access to information, regardless of channel, will clearly differentiate from their competitors, reduce costs, improve client retention, and stabilize premium levels in this soft market.

Customer Experience

TowerGroup finds that insurers in all the key regions are grappling with the challenge of customer experience. In the developed markets, the question of how to enhance the customer experience is one of the most pressing issues because it can make the difference between establishing a durable franchise with new and existing customers and lagging behind the leaders. In newer markets, where the fight is less for market share than for mind share, customer experience may matter less in the short term but will, without question, matter in the longer term.

With superior customer experience as a primary goal for insurance companies, the key is to make the most of the available customer data and to structure workflows and customer-centric processes appropriately. Legacy systems often stand in the way. Considerable work has to be done to integrate with a front end that can aggregate claims, administration, sales, and other core sources and present them in a structured and insightful way that allows representatives, salespeople, and customers to interact productively.

The second step is to adopt leading modeling technology (for example, pattern recognition models to assess the likelihood of a customer's repeat buying potential). The models allow a representative to decide, on the spot, whether to try to cross-sell or up-sell another product. With such customer-centric intelligence, touch points can be more valuable for the insurer. Making the interaction productive and free of unnecessary complexity not only benefits the insurer operationally but also enhances the customer's perception of the firm's value as an institution that understands the individual's needs.

The final objective is to deploy technology platforms that pull all the components together and integrate them using standards-based messaging and forms (such as ACORD), whether it be source data from legacy systems or data enriched through analytics. The front end must be intuitive and easy to use by employees, agents, and customers. Consistency of experience across product lines and transaction types is extremely important to customers. Leading firms are aggressively implementing platforms that can aggregate customer data across products, distribution channels, and geographies for an optimal outcome from beginning to end of the value chain.

Efficiency

The drop in investment income due to the economic recession has pressed insurance companies to focus on reducing expense ratios by improving operational efficiency. The urgent search for efficiencies is difficult because of the complexity of the insurance value chain. On one end of the spectrum, basic products such as personal auto or term life insurance can be bought and sold over the Internet with no advisor intervention. On the other end, complicated, advice-based products such as large commercial lines or group life and health policies require an infrastructure of consultative advisors and support teams. Clearly, flexible solutions are needed to achieve efficiency across such a complex business system.

Collaborative, customer-centric systems help the customer as well as the insurer. Every time an automated workflow links sales, proposal generation, underwriting, and policy issuance/renewal, the customer's service expectations are met more quickly and efficiently. For the insurance company, automation reduces or eliminates the costs of rekeying and error reconciliation and eliminates expensive callbacks by enabling call center personnel to address service requests on the first contact.

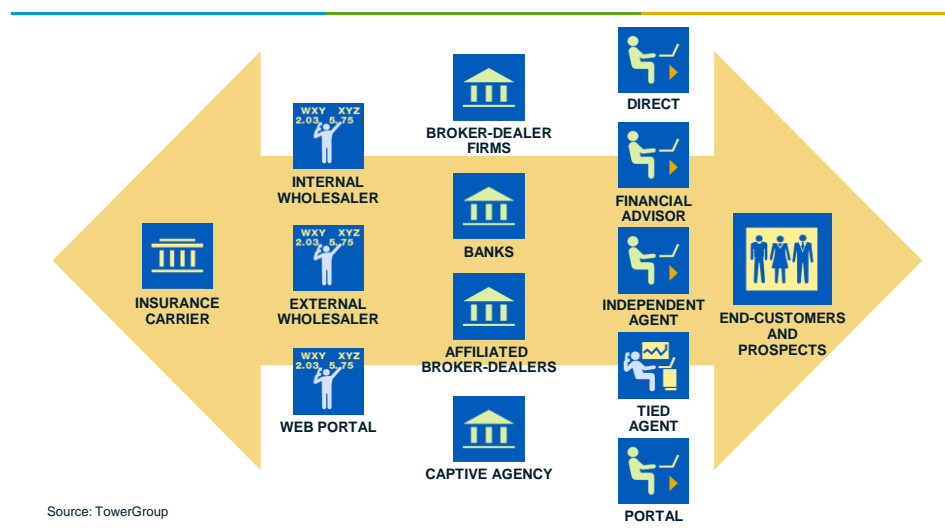
Distribution Management

Insurance firms are struggling with shifts in channel and product focus as traditional agency and captive models are challenged by consumers seeking greater control and choice in distribution. Exhibit 3 illustrates the distribution complexity that insurance companies experience.

Exhibit 3



A Simplified View of Global Insurance Distribution



Multiple distribution channels present a number of complex issues. Foremost are determining the right channel for each product and customer segment and choosing the best technology solution to facilitate product purchase via multiple channels. Building systems on CRM data with tools that enable collaborative customer knowledge allows a carrier to manage channel shifting seamlessly and not treat channels as separate, unrelated areas. Failure will lead to customer complaints and defection.

For example, while bancassurance is the main distribution channel for life insurance products in Europe and many other emerging markets, country-by-country differences remain significant on the Continent and in Asia-Pacific. Understanding the distinctions among national preferences for how, and from whom, insurance and pension products are bought is clearly critical for any successful global, multicultural, or multi-country distribution strategy. Analytics that can delve into customer information will allow carriers to understand the evolving needs of various customer groups and respond appropriately.

Distribution management ties back to the theme of efficiency. One of the biggest expense drivers remains that of managing multiple distribution channels, each with its own service needs and cost components. Insurers need to differentiate among agent/brokers that bring value and those that simply drain resources. Understanding which distributors provide the most value allows insurers to extend value-based support to those intermediaries who can

make the best use of their investments. Tailoring the right kinds and degrees of service to the right intermediary can vastly improve the productivity of all the company's distribution relationships.

How Leading Insurers Are Dealing with Major Challenges

The most significant win that leading insurance companies have achieved by addressing the challenges described above has come from building true transparency regarding their customers' characteristics, products, claims, and even future tendencies. Through this thorough analysis of the key elements of the customer profile, an accurate understanding of what makes a customer valuable emerges. Insurers are finally able to address all three of their major business challenges: customer experience, efficiency, and distribution management.

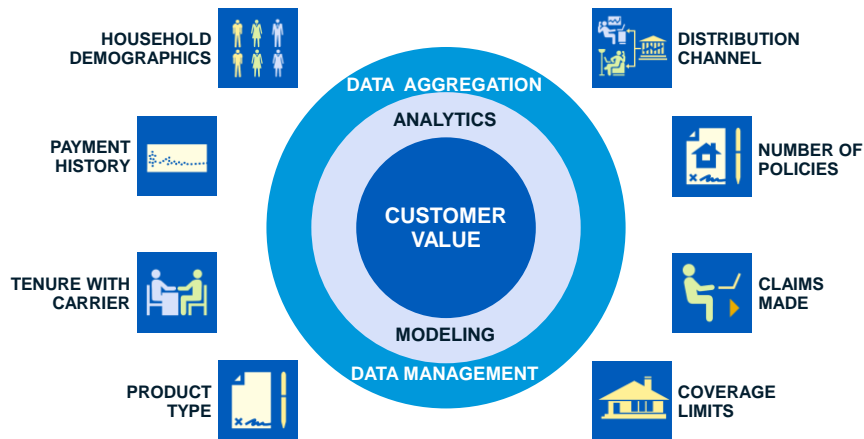
Some industry leaders are actively engaged in repositioning strategies: rebranding, shifting product emphasis to more straightforward offerings, and reorienting the entire enterprise around customer-centric processes. These initiatives will have a significant impact on reestablishing a sense of security and soundness that customers value. As these efforts delve into detail revealing what a customer has and needs, the bond forged with the customer, based on true knowledge, will become much more unbreakable.

Creating total customer-value models provides a road map of the best way to deal with each customer. Without centralized customer knowledge that is accessible across lines and channels, insurance companies cannot create holistic customer-value models. These models must evolve through the use of leading-edge technology platforms that first pull data from various core claims, product, and service systems; then aggregate and analyze them based on sophisticated statistical models; and finally communicate the results to the point of sale so that immediate judgments can be made regarding the next offering. Insurance leaders recognize the need for such a model and are responding. Exhibit 4 illustrates some of the points of information that must contribute to a knowledge platform to create a holistic customer-value model.

Exhibit 4



Customer Value Development Model



Source: TowerGroup

Predictive analytics to “score” clients in terms of claims history, likelihood to purchase add-on coverages, and other criteria is another critical means that leaders in the insurance industry are using to improve efficiency and bottom-line results. With a factual criterion for deciding where to devote sales resources based on which customers are good risks, tailoring services and product offers to the customers who generate outsize revenue relative to their losses becomes demonstrably more productive and efficient.

In terms of distribution management, insurance industry leaders are fundamentally re-architecting people, process, and technology elements of the relationship for profitable growth and expense management. Agents and brokers prefer to do business with insurers that make their lives easier. The use of collaborative platforms to centralize customer data (for example, in order to present the agent or broker with a holistic picture of a customer’s policy, investment, and claims profile) has enabled distributors to engage in more meaningful conversations with their customers.

Additionally, with such collaborative platforms insurers’ employees are better equipped to support the intermediaries’ day-to-day interactions with the insurance company and more motivated to build their relationships with agents and brokers around higher-value activities.

Case Study on CRM-Based Collaborative Customer Knowledge: How a Leading Global Institution Addresses the Business Challenges

One leading global insurance institution has addressed the key business challenges in ways that exemplify best practices in the use of collaborative customer knowledge and CRM tools.

Company profile:

- Headquartered in the United Kingdom and wholly owned by Zurich Financial Services
- Has over \$100 million (USD) in assets
- Provides life and nonlife products, commercial and personal lines of business, and investment products
- Has two geographically separated call centers
- Distributes through both a captive and an independent agent/broker sales force

The following discussion describes some of the approaches and technologies this firm employed to increase customer knowledge and enable collaboration across lines and channels to deliver personalized service and sales to both customers and distributors.

Business Challenges

Several business issues barred the institution from making major leaps forward in performance. First was its very large and costly branch network, 130 locations in total. The second was customers' swift transition to Web-based business transactions. A survey showed that 85% of the institution's customers would prefer to deal with the company online or on the phone, not in the branch. The institution was not in a position to capitalize on this opportunity.

One major obstacle to success was customer information scattered across unconnected systems. This meant that customer interactions were generally slow and required several manual processes. Incoming customer inquiries generated multiple handoffs to sales to trigger responses.

Growth in the insurer's commercial lines and a strategic shift to aggressively growing its life and pensions business were constrained by limitations imposed by its cumbersome processing environment. Customer retention was an ongoing challenge and, like most firms in a soft insurance market, the company struggled to find ways to become more efficient and lower its cost base. Regulatory requirements were both a significant cost driver and source of frustration for customers.

Without centralized customer data, there was no way to create a robust online experience. This situation could not continue if the organization was to compete successfully for new customers and new markets.

The Road to Success

Before making the effort to harness and apply customer-focused data to address these issues, the firm studied its operations extensively and evaluated the most potent means it could employ to impress both its customers and its distribution channels to win and retain more business. The company carefully studied key points of dissatisfaction among its customers and agents and assessed the costs and returns. It found that a technology solution already existed in the marketplace that could simultaneously improve customers' perception of the firm and the insurer's efficiency and distribution productivity. The answer, though not simple, was nonetheless within reach. The solution

would require reorientation around customers and the data associated with serving them, enabled by the implementation of a customer relationship management platform that aggregated customer data and connected processes and people across lines and channels.

One of the most significant areas the firm tackled was enriching the end customer's and the agent's access to relevant information. The goal was to allow them both self-service in designing bundles of product coverages, often triggered by a push e-mail suggestion from the insurer. This step was highly effective at hitting several key levers of the insurance value chain—sales, product information, servicing—by leveraging a unified view of all elements of the customers' relationship.

Agents enjoyed the ability to see what the customer sees and to jump-start a sales conversation that is meaningful and appropriately targeted. Customers benefitted from a thoughtful, customized offer from the insurance institution and the ability to consider it using their own computer, away from a high-pressure sales environment. With a collaborative customer platform, everyone was able to operate efficiently, connected to all other parties involved in the transaction.

Benefits Achieved

By choosing a collaborative, customer-centric platform, the company was able to move past the competition. The company created an interaction that is targeted and highly efficient. The head of IT at the firm describes the value of the firm's new customer platform:

"Due to the standard interfaces, the new customer platform was quickly adopted by staff, which enabled business benefit to be achieved more quickly, with minimal costly training. The collaborative customer platform also enabled the instant transfer of business intelligence on the street to back-end processes; i.e., customer account changes made in the field are effective immediately for any financial transactions such as commission payments. There is a reduced need for back-room overhead because client maintenance is done within the field. We have an improved holistic view of clients, particularly those with multiple branches."

In addition, the company was able to consolidate the 130 branches into two service centers. This allowed the firm to redistribute resources to support field relationship managers, which enhanced their capabilities to reach out to new sources of business.

For this firm, Internet contacts are at least 10 times less expensive than phone or in-person interactions. Through the collaborative customer-centric platform, the firm was able to institutionalize this cost advantage. Additionally, agents gained a 360-degree view of the customer relationship. As a result, they are more productive, targeting their business development and relationship-building efforts. The distributor is now able to focus on high-value up-selling and cross-selling instead of low-value or undirected work to get the customer engaged. The systems capture the "DNA" of the customer—everything the firm needs to know to respond quickly and intelligently to sales and service opportunities—and share it seamlessly with the people who can act on it.

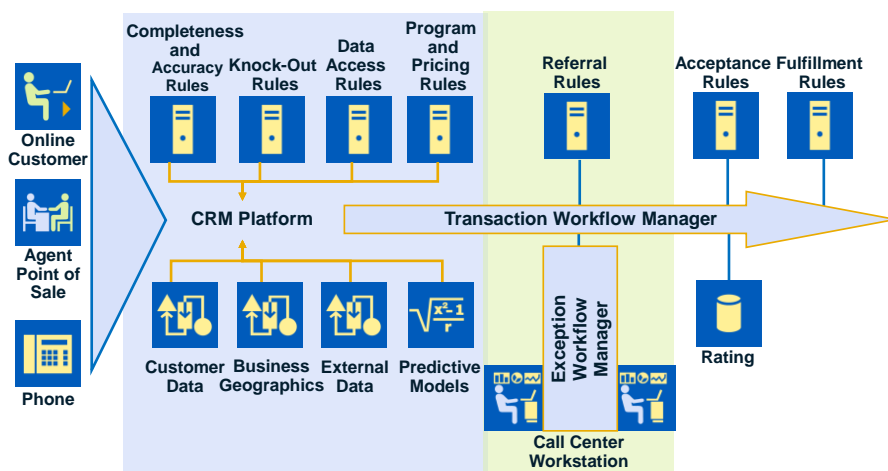
Automating commission calculation, reporting, and agreement monitoring is another way this insurer used collaboration platforms to dramatically improve the intermediary relationship. Agents are paid more quickly, accurately, and painlessly than ever before, without manual intervention by either side. This is a major motivator for agents to do business with this firm.

The insurer's goal in pursuing a CRM-based, customer centric approach to customer knowledge was a 360-degree view based on straight-through processing and ready accessibility by customers and company representatives. Exhibit 5 depicts the state this company achieved in the use of collaborative customer knowledge.

Exhibit 5



Ultimate Goal: Decisioning at Point of Sale



Source: TowerGroup

By implementing a robust collaborative platform based on CRM technology, this firm has been able to achieve the future state *now* and make a significant impression on its young, highly tech-savvy customers while improving the quality, cost-effectiveness, and productivity of all of its interactions.

The company has been able to support offerings to all its other demographics too. This clearly adds to enterprise efficiency and to product and process transparency. The technologically advanced solution leapfrogs traditional service delivery models, and its benefits accrue across all relationships and cost elements in the company's value chain.

The investments this firm made are paying dividends on all of its key business priorities today: customer experience, efficiency, and distribution management. These investments will enable the company to continue to project a powerful presence in the battle for customer attention in the future.

Conclusion

Even in periods of economic growth, the value chain from insurance carrier to distribution partners to customers is complex. This complexity has caused insurers to conduct business in a tangle of expensive manual processes and time-intensive service hand-offs. Customers feel disconnected and wonder if the company that provides their insurance protection actually knows them at all. Old legacy systems hide customer data and prohibit its access. No one has purposely ignored these challenges; the problem has simply been how to address them.

The recent global financial turmoil, the impending regulatory reaction, and evolving demographic and geographic target markets force insurance providers toward three responses: Know the end customers and better align products and services to client interests, reduce sales and service expenses by way of efficient client-centric processes, and manage distribution channel partnerships effectively. Those insurers striving to differentiate themselves acknowledge that technology is the key to support these critical business drivers. Enabling efficiencies, maximizing the potential of each distribution channel, and improving the customer experience in a framework where collaborative customer knowledge is represented accurately in real time are the fundamental tenets of leading insurers. With CRM-enabled, customer-centric knowledge as the foundation, insurers are able to deliver powerful capabilities—including legacy and application integration, analytical and modeling tools, and accurate fee/billing systems—across the value chain.

Leading insurers recognize that they must establish aggressive initiatives to harvest customer data and transform it into collaborative knowledge. Doing so will separate leaders from laggards in the eyes of customers, distributors, and employees. Long-term financial stability can come only from cost-efficient operations and a profitable customer base. TowerGroup believes that a collaborative customer knowledge strategy gives insurers the approach they need to make this happen.

One global insurance institution, highlighted in this paper, achieved significant gains in customer experience and distribution efficiency by focusing on and implementing customer-centric, CRM-based tools and platforms. Other leading insurers are applying the same lessons. Customer and distributor needs and preferences are not static, so insurance companies must be armed with the technology to address their changing demands now and into the future. The 360-degree view of the customer will assume greater importance as insurers reap the rewards of business strategies driven by CRM tools and collaborative customer knowledge.



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