REAL WORLD CASE 3

E-Trade and Wells Fargo: The Business Case for Clicks and Bricks e-Commerce

E-Trade Inc. (www.etrade.com), should be gone—just like eToys, eAuto, and every other company founded on the belief that the prefix "e" exempted it from all the rules of business. So why is E-Trade not only still alive, but posted its largest profit ever—$36 million in the last quarter of 2002—when so many other online brokerages are either losing money or gone? Because E-Trade's survival is a victory not just for the new economy, but also for a key tenet of the old one: diversification.

During the past five years, E-Trade has moved beyond being a mere online brokerage to become the nation's 62nd-largest bank (bigger, for example, than Capital One), with $17 billion in assets and more than 500,000 accounts. Banking revenues—which last year topped $457 million, 35 percent of the company's total—have provided a lifesaving cushion.

E-Trade started its diversification campaign back in 1999, at the apex of the stock mania, when it gobbled up Telebanc Financial, a branchless bank, for $1.8 billion in stock. At the time, the move was widely criticized as a costly distraction from its core trading business. But the move allowed E-Trade to begin offering its customers and investors risk-free alternatives such as savings accounts, money-market checking accounts, and certificates of deposit.

Subsequent acquisitions brought E-Trade the nation's second-largest ATM network and, in February 2001, an entry into the mortgage origination business. The latter was especially timely, as it gave E-Trade a way to capitalize on the cooling economy's hottest sector. Since online banking's overhead is low, E-Trade can also offer savings yields more than twice the national average and loan rates that match or beat those of its brick-and-mortar competitors.

Still, diversification offers only so much protection in a weak or recovering economy. To further bolster its staying power, E-Trade has deliberately shed its free-spending dot-com ways and implemented a rigorous cost reduction program. All told, the company has squeezed $250 million out of its operating costs. So the new E-Trade is in much better shape to expand on its present diversified business success.

Wells Fargo. At a 1999 meeting of Wells Fargo (www.wellsfargo.com) commercial banking executives, Steve Ellis asked the largest bank west of the Mississippi to radically reinvent itself online. As if that weren't stressful enough, just as he walked in to make his presentation, he learned that CEO Richard M. Kovacevich would be sitting in.

Ellis argued that it was time to allow Wells Fargo's wholesale customers—companies with revenues of $10 million and up—to do all their banking on the Web. It would make life far easier for the clients and allow wholesale banking reps to spend less time on routine services and more time selling new ones. Ellis cautioned that the system would not be cheap, requiring a total of 140 people and a budget in the tens of millions. At the end of Ellis's presentation, Kovacevich gave him the green light—with one condition: The online project had to be profitable.

Launched in July 2000, the Commercial Electronic Office (C.E.O.) is a one-stop shop on the Web for corporate banking needs, ranging from foreign exchange loan servicing to quarter-billion-dollar wire transfers. The C.E.O. turned profitable in April 2002, but the real payoff came during the next 12 months: As other big banks suffered along with their recession-wracked corporate customers, Wells Fargo's Internet-based revenues grew 25 percent. More than half of the bank's 30,000 wholesale customers are now signed up.

Where do the profits come from? Essentially from the Net's ability to deepen client relationships. "We found that the longer a customer has been online," says Danny Peltz, who now runs the wholesale Internet group that Ellis established, "the more of our products he is likely to have."

The Web's success at cross selling makes perfect sense: Regular Web users are exposed to all of Wells Fargo's banking products when they log on, and the bank's sales force emphasizes that if customers sign up for new services, they can access them through the same familiar interface. In 2000, more than half of Wells Fargo's commercial customers banked primarily with another institution. Today most consider Wells Fargo their main bank, and the average customer buys five Wells products.

Like many forays onto the Web, there were some mistakes. For example, Ellis and his team originally assumed that the C.E.O. needed to be a destination site, or portal. But Wells quickly learned that clients didn't care about financial news feeds or e-procurement of business supplies. So Ellis and Peltz focused on what customers *did* want: convenience, instantaneous account information, and, most of all, industrial-strength security and access controls.

Ellis, now executive VP for wholesale services, downplays C.E.O.'s role in Wells Fargo's corporate banking success. The Web is just one of the doors the bank opens to customers, he says, modestly. But Kovacevich brushes that aside. "I don't think our customers could live without the Internet," he says.

Case Study Questions

1. What lessons in business strategy can be applied to development of the e-commerce channels of other companies from the experience of E-Trade?
2. What is the business value of the C.E.O. online wholesale banking portal to Wells Fargo?
3. What can other companies learn from the successes and mistakes of the Wells Fargo e-commerce system?

Source: Adapted from Mark Athitakis and Thomas Mucha, "How to Make Money on the Net," *Business 2.0,* May 2003, pp. 83–90.