

Choose the Best Strategy

This mini-case study lists seven potential growth strategies for most regionally-based banks in Australia (and probably most countries).

Your task in this exercise is to evaluate the bank's strengths, assess its dynamic environment, and then select the most suitable strategy direction for them to at least survive and hopefully to continue to expand.

About the Environmental Changes in the Banking Sector

The Australian banking industry was deregulated in the early 1980's. Since then, this once 'sleepy' industry has turned into a more aggressive and more profitable sector. The major banks in Australia are now among the largest publicly listed firms.

As a result of this increased level of profitability, many new forms of competition have emerged in recent years. Examples include: Virgin (with home loans and credit cards), ING (with internet savings accounts), home loan brokers, online bank comparison websites, pay-now lenders, digital wallets on smart phones, and many others.

Clearly a number of these new competitors are targeting highly profitable product categories only, and tend to have fairly lean operational expenses. The major banks continue to be profitable because they offer a full range of services (hence, convenient), have long-term customers (that is, habitual loyalty), and operate internationally (great for businesses and higher net worth customers).

How Does a Small Local Bank Compete?

However, our strategy concern is with the average local bank, which operates in a particular geographic region only. Typically, their success has been due to having many branches in an area and having strong ties to the local community through sponsorships. Because of this previous advantage (and due to a lack of resources and expertise), they typically had a limited range of average products (as compared to a major bank).

However, with the rise in popularity of internet, mobile and phone banking, along with the increased use of credit cards and ATM's; having lots of local branches is no longer a competitive advantage (in fact, it is now a cost burden). And, as well, many of the new competitors have targeted and stolen away reasonable proportions of their more profitable business.

Their Strategic Direction Choices

Therefore, this bank now needs your help in determining the right choice of these strategies:

1. Dramatically update and broaden their existing product range to allow them to compete directly against the major banks
2. Divest a number of products, in order to become a product specialist, perhaps in home loans only
3. Add a range of supporting services targeted at their existing customers, (such as financial planning, seminars, buying shares courses, etc.)
4. Expand geographically, with a 10 year plan of becoming a major bank
5. Introduce services that are actually targeted at the new competitors (that is, offer their expertise in administration/accounting/loans/systems) as an outsource option for these new players
6. Simplify their product range and offer simple financial products (as a way of being unique to the banks - 'easy-to-understand financial solutions') and/or
7. Close all their branches and become an internet-based bank only

Student Discussion Questions

1. What strengths does this bank have?
2. What challenges is it facing from the dynamic environment in which it operates?
3. Given your responses in Q1 and Q2, which of the strategic choices listed above would be the most suitable for them to pursue? Why?
4. Are you confident in their long-term viability, given the environmental factors they need to contend with?