

Commonwealth Bank of Australia

Table of Contents

Executive summary	2
1. Part A.....	3
a. Introduction.....	3
b. Mission.....	3
c. Current value strategies.....	3
i. Creating Value for Its People.....	4
ii. Legal Responsibilities.....	4
d. Market definition of the firm.....	4
2. Part B.....	5
a. Situational Analysis.....	5
b. Internal Analysis.....	5
i. Resources.....	5
ii. Capabilities.....	7
iii. Core Competencies.....	8
iv. Competitive Advantage.....	9
c. Strengths and Weaknesses.....	10
d. Internal Opportunities.....	11
3. Part C.....	11
a. Situational Analysis with regard to Information and Communication Technology.....	11
4. Conclusion.....	12
References.....	14

Executive Summary

This is a marketing strategic report, which is divided into three parts. Part A describes about the mission, current value strategies and the market definition of the Commonwealth Bank. This bank is the second largest bank in Australia which is providing financial services. The study identifies numerous strategic variables which significantly influence the performance and the profitability of the bank. Part B, describes the vital strategic variables that form the part of internal analysis like: Resources, Capabilities, Core competencies and Competitive advantage.

Resources form the main element for any organization and hence availability of adequate resources determines the success of the organization. Resources and capability together determine the core competencies. These competencies are unique for every organization. Commonwealth bank has successfully utilized its core competencies and converted them into its competitive advantage.

This paper also describes about the factors through which the bank has gained competitive advantage. Apart from this, it also explains the strengths and weaknesses of the bank. Last but not the least, technology and communication have played a vital role in the success of the bank. Part C describes about the role of technology and communication in the success of the bank. Therefore, this report describes the situational analysis with regard to information and communication technology. The Commonwealth Bank has its international presence in New Zealand with the name of ASB Group. In Asia and Fiji, it operates in life insurance businesses, in UK, Singapore and Hong Kong it has its fund management operations. This report will help the reader to obtain detailed information about the internal activities of the bank, to know how the bank is capitalizing over its strength and mitigate the risk and other weaknesses.

Part A

Introduction

The second largest bank in Australia is the Commonwealth Bank of Australia. The bank operates in Asia, New Zealand and the United Kingdom. The bank is offering a variety of financial services in the field of banking like business and institutional banking, fund management, insurance, superannuation, broking services and investment. It is commonly known as the Commbank or Commonwealth Bank. The bank is recognized in the market for its better customer services. In 2003, the bank received NSW Australian Tele services Centre of the Year Award (About us 2008).

Mission

Commonwealth Bank's mission statement is to deliver unparalleled services to its customers, exceptional value to shareholders and goodwill to the community and also an ameliorating experience to its employees (About us 2008). The group mainly focuses on attracting more customers through undertaking value business with each customer. This is achieved by providing offerings which are oriented towards the customer needs and also through the adoption of a multi-channel distribution network. The group tries to provide value services through innovation and on-line leadership. For this purpose, the bank looks for excellent teams.

Current value strategies

The Bank strives hard to create a strong value. Its value statement reflects Trust, Truthfulness or Honesty and Integrity. In order to maintain its current value, the Bank has followed the practices of code of ethics. This code of ethics is known by a statement called Professional Practice Statement. These statements set standard for an appropriate behavior that is supposed to be shown by the directors and the employees. Current value strategy includes the following:

- While dealing with the bank's objectives, an efficient and proper code of conduct is expected from the employees and the directors.
- Avoiding those situations that may lead to a conflict of interest.
- Adhering to the Bank's policy of Equal Employment Opportunity.
- Maintaining confidentiality in the dealings of Bank and its customers
- Last but not the least, showing honesty in the professional activities.

These standards are conveyed to the staff on a regular basis. Insider trading guidelines have been established to ascertain that unpublished price sensitive information about the bank or any other company can not be misused under any circumstances.

Creating Value for its people:

The Bank is entrusted to provide fair, secure, challenging and rewarding work. It aims to provide the best customer services and also realizes the importance of attracting new employees and retaining the present ones.

To achieve these goals, the Bank has several policies and systems, which include: Review of Fair Treatment, Equality in the employment opportunities, Recruitment and selection, Occupational Health and Safety, Talent management, Performance Management & Succession Planning and Remuneration & Recognition.

Legal Responsibilities:

In terms of the ethical and legal responsibilities, Commonwealth bank has shown a firm commitment in favor of maintaining an ethical workplace. The policy anticipates from the employees that they can easily raise their voice against the fraud and faulty conduct and bad-administration done by others. The bank gives due attention to the implementation of these policies. Therefore, these standards are communicated to the staff and employees from time to time.

Apart from this, the bank has laid down an insider trading procedure for its staff so that the information that is price sensitive and crucial for the bank or any other company can not be used in an unlawful manner. The Bank has shown its devotion in providing safe, fair, challenging and honoring work by recognizing, attracting and retaining superior quality of staff and by consequently excelling in customer service.

Market definition of the firm

It is an effective tool to interpret the effect of competition in the related market as well as to identify the boundaries of it between different firms. It is a necessary condition for the assessment of competition in order to effectively face the competition in the market. It plays an important role in developing a structure with the help of which competition strategy is applied by the commission. Market definition is aimed to assess the competition effect in the market as a subsidiary so it is termed as a flexible exercise (Terpstra & Sarathy 2008). Hence, it can be interpreted that both the definition of market and its objectives are flexible in nature. Market

definition of Commonwealth bank is the delivery of non-advisory stock broking to its retail customers.

Part-B

Situational Analysis

Situational analysis is the first and the most important step in preparing a marketing plan. It basically covers six major areas, which are: product, target market, distribution, financial, competitors and other issues. Situational analysis can be categorized as internal analysis, customer analysis, industry analysis and competitor analysis. In this report, my area of study is internal analysis.

Internal Analysis

Internal analysis focuses on identifying strengths and weaknesses of the company. This analysis considers the structure, resources and culture. Apart from this, it also includes sales reviews, profits, costs, organizational structures, technologies, financial results and the styles of management. The main functional area related to marketing, production, finance and human resource is analyzed during the internal analysis. The internal analysis also describes the Core businesses and core competencies, which are considered crucial for the existence of the company (Arvanitakis 2006).

For this bank, the internal analysis can be described under four categories:

1. Resources
2. Capabilities
3. Core competencies
4. Competitive advantage

1. Resources

Resources constitute the elements with which it will carry out its operations. Resources must be integrated in an effective manner so as to build the capability. Commonwealth bank's resources can be classified under the following types:

- a) Tangible
- b) Intangible
- c) Brand Equity

a) Tangible Resources

It includes those resources, which can be seen, touched or quantified i.e. assets. By 31st December 2005, the Commonwealth Bank of Australia had assets worth \$330 billion. Tangible resources of the bank include natural resources, the broadcast airwaves and public facilities like stadiums, parks and civic institutions.

Tangible resources of the bank can be further classified into the following categories:

Financial resources: In terms of the financial resources, the bank is known for providing integrated financial services, which comprise of the business, retail and institutional banking. It also includes the management of the funds, pension, life and general insurance. Services provided by the Retail Banking will assist in fulfilling the financial requirements of the customers of small business, who are looking for affordable banking. With the help of these resources, financial services offered by the bank play a leading role in the planning of international growth of the bank by focusing on structuring an offshore expansion strategy in the region of Asia pacific. These resources are also responsible for the group's life insurance and retail banking operations in the regions of New Zealand, Indonesia and Fiji.

Physical Resources: It comprises of buildings, electricity, public utilities, training materials and products etc.

Organizational structure: The Commonwealth Bank has made significant modifications in the organizational structure so as to develop vertically integrated businesses. This structure will help the Bank in aligning the development of product and service delivery to its customer segments. Apart from this, an alteration has been made in the responsibilities for leading the team. The bank has planned to open four new business divisions; each will focus on a specific customer base. Combination of an enlarged Commonwealth bank and its positioning of a strategic outlook display the new organizational structure, which is actually the picture of a changed business (Organization Structure 2008).

Organization structure of Commonwealth bank offers many benefits to its customers as the main strategy of bank is to emphasize on wealth management. This structure makes it possible for the organization to meet various needs of different customers whether it is a simple transaction of banking services or wealth management needs of complex nature with the help of large institutional customers (Organization Structure 2008). Combination of various manufacturing activities and related services to a specific segment of customer makes it possible

for the bank to afford a greater explanation and also removes the overlapping of service and distribution resources. Integration of business units is vertical in nature and also proves that the decisions of bank are made with accuracy and responsiveness.

b) Intangible Resources

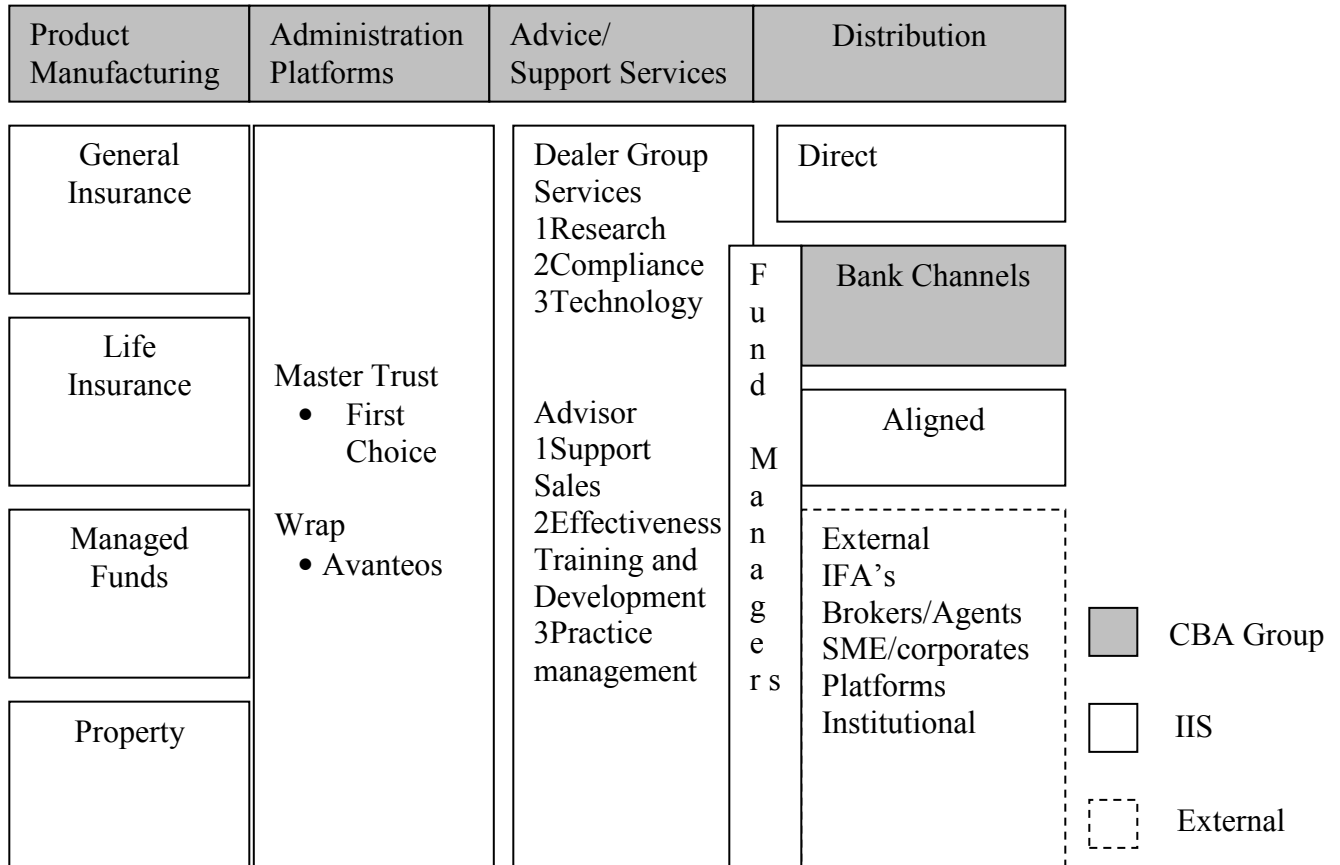
Intangible resources comprise of the services provided by the Human resources i.e. resources that are used for innovation and reputation. Human resource is concerned with experience, skill, temporary workers, training and quality of work life, the HR administration and remuneration benefits. On the other hand, the resources for innovation include the technical employees and the facilities.

c) Brand Equity

Commonwealth bank is successful in creating its brand name and has maintained its brand equity. The bank has the honor of having AA- rating from the international rating agencies like Standard & Poor’s and AA ratings from Fitch. The bank is known for its outstanding services to the customers. The bank is focused on providing huge values to the business of life insurance and fund management. For this purpose, the directors are focusing on increasing volatility and uncertainty in the world of equity market.

2. Capability

Value Chain element



Capability is defined as the ability to incorporate the resources of the firm effectively. This capability is derived from intricate interactions among the firm's brand equity as well as the tangible and intangible resources. Commonwealth bank has the capability to compete across all the elements of the value chain. The presence of bank in all the components of wealth management value chain entails that it is less susceptible to pricing pressure in any of the above mentioned elements.

3. Core Competencies

Core competencies are developed through resources and capabilities. In order to determine the correct mixture of resources and capabilities, a value Chain is used. Since the Commonwealth bank has sufficient resources and capabilities that too in the appropriate activities, the bank is said to have a core competency. The important issue in this regard is that how the firm converts its core competencies into a competitive advantage (Dwyer 2005).

Commonwealth bank has gained huge opportunities through its market operations. The Bank has four customer-centric business divisions that align product development and delivery of service with client segments. Apart from this, it has access over services like:

Retail Banking Services:

The main role of the Retail Banking Services is to provide customized services, giving attention to the needs of the personnel and providing convenient banking.

Premium Business Services:

The main aim behind the development of Premium Business Services is to satisfy the usual needs of the premium client groups. These premium clients are from personal business, corporate business and institutional business (Clasquin 2008).

Wealth Management

Managing wealth brings together the funds of Commonwealth Bank along with the support divisions. These divisions include the famous brands also. Its support divisions are manufacturing, distribution, capability, domestic insurance and financial business.

International Financial Services

International Financial Services are providing the company with international growth opportunities offshore especially in the Asia-Pacific region.

Apart from this, the bank has developed its core competencies through four support divisions, which are: Financial Services and Risk Management, Enterprise IT, Human Resources, Marketing and Communications.

Financial Services and Risk Management: This group is aimed at providing services like advices and information on the issues related to risk, financial and capital management.

Enterprise IT: It provides assistance in the implementation of the new projects and looking after the existing operations. Apart from this, it is also responsible for the facilitation of Information Technology and Telecommunication services.

Human Resources: It supports the entire department by providing them with suitable employees through recruitment, leadership development training and other activities.

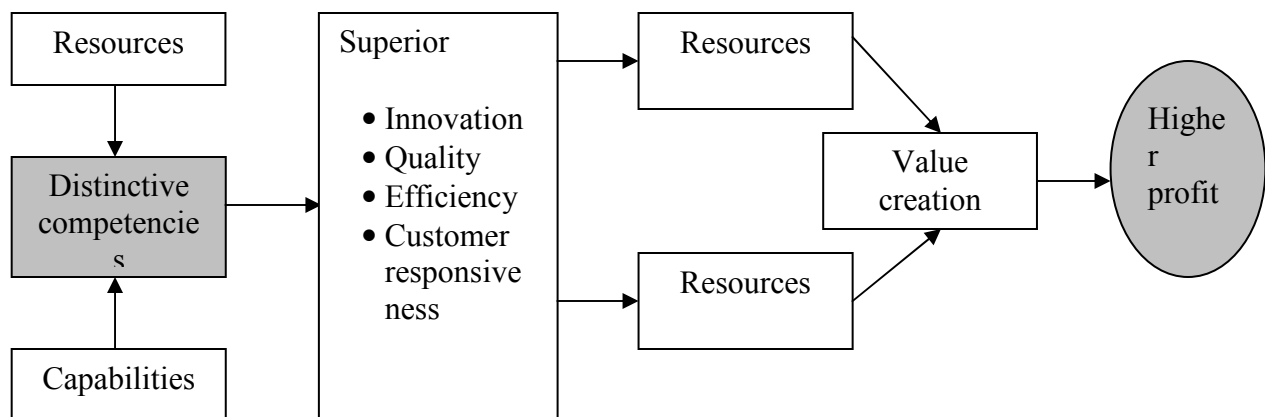
Marketing and Communications: It brings together the sponsorship, media & public relations, employee communication, brand and customer insights teams, which provide strategic support to the Commonwealth bank.

It has successfully developed its core competencies as it fulfills four criteria: Value, Rarity, Exclusiveness and Causal ambiguity (Grimshaw 2004).

4. Competitive Advantage

It is defined as the ability of a firm to do better than its competitors and earn higher profits. Value creation has been considered as the basic source of gaining competitive advantage. If the bank wants to have a sustained competitive advantage, it has to maintain high profits for longer duration of time in comparison to the competitors. Therefore, the core competencies should be utilized in an effective manner and should be developed in such a way that they can successfully meet the changes of the global environment (Clasquin 2008).

Paths that should be followed to gain a competitive advantage



The Bank has derived its competitive advantage from the following streams:

Value chain: This includes the flexibility in pricing, margin capture and involvement throughout all the components of the value chain.

Distribution Mix: The bank has an international capacity of distribution and follows a multi channel strategy.

Scale: It holds the number one position in the retail management fund of Australia and Life insurance.

People: The bank has a team of experienced people in its management. It also organizes leadership and talent based programs. Apart from this, it has also opened centers for the development of the advisors.

Brand: It is the leading brand in Australia. At present, the bank comprises of numerous award winning products and services.

Strengths and Weaknesses

Strengths and weaknesses are the main elements of the internal analysis. Any firm can gain success if it knows its strengths and weaknesses. Following are the strengths of the Commonwealth bank:

Strengths

It has widespread distribution networks with a solid brand and comprehensive diversification strategy. Commonwealth bank has a good quality of assets and shows a profile of strong earnings. Apart from this, its main strength lies in the diversified form of funding base. An important aspect, which forms the backbone of the bank, is its adequacy of capital. This bank possesses a sound capital for managing the risks (About us 2008).

Bank has a domestic franchise in the sector of Australian financial services. It has on balance sheet assets of \$397 billion by 2006. Bank also has the home loans share and retail deposits of 18.2% and 21.9% respectively in December 2006. Commonwealth bank has a substantial funding ability. It has a huge access to the international and domestic wholesale markets. Bank represents a superior funding capability because of the highly-developed and fully utilized ability of securitization. The bank has a good liquidity and hence is capable of mitigating the financial stress in the short run. The bank has attained this liquidity position through its sound management of liquidity convention and also by the cash portfolio and money market.

Based on the strengths of the bank, it can be interpreted that with long lasting improvements in earning, capitalization and offshore expansion, its business position can be enlarged.

Weaknesses

The major weakness with the bank is its capitalization. The lending and the deposit markets in the Australia are very competitive. As a consequence, it has lost a considerable market share in the current year especially in the home loan, business loan, retail deposit and credit card business. Another weakness linked with the bank is that it has a limited geographical diversity and relies largely on the wholesale funding.

Internal Opportunity

Key Internal opportunities, which will help the bank to drive its growth, are:

- Product expansion and innovation: With an expansion in the product category, the Commonwealth bank can take the advantage of its internal opportunities through the implementation of creative strategy in that particular group of products.
- Improvement in productivity and distribution capacity: It is another internal opportunity for the bank, as it can capitalize this opportunity to expand the business.
- Improvement in capital efficiency: By internal analysis, it is revealed that if the bank can improve its capital efficiency, it will result into its growth.
- Efficiency gain: Improvement in efficiency is another area of internal opportunity and by focusing on it; the bank can achieve its growth.

Part C

Situational Analysis with regard to Information and Communication Technology

Microsoft Net framework: In the present scenario, the importance of information and communication technology is crucial in situational analysis of any organization, as it reveals the state of operation and growth strategy of that organization. Commonwealth bank has a strong information and communication technology background, which makes it possible for the bank to meet all the needs of the customers timely and effectively. It has its own Microsoft Net framework which is an internal component of its operation system and plays an important role in providing all the web services and customer related applications. This software is developed for the purpose of relationship management, which helps the bank in providing an overview of various transactions of the customers. This software helps the bank in collecting all the necessary data of key customers and develops a system which merges all different systems into a single

application. This provides all the employees of the bank a common view of its key customers and helps them in managing the workflow as well as easiness in accessing the information related to the customer.

Thus, the information and communication technology of the Commonwealth bank plays an important role in providing its customers with quality services and satisfaction. This software helps the bank in establishing its image as a reputed bank and saves the valuable time of its employees in dealing with a large base of customers. It proves as a cost effective system for the organization, as it is capable of performing the assignments of thousand of workers. It also reduces the cost involved in the manual paper work of transactions. This software also helps the bank in saving the time involved in heavy transactions and building a brand image of the bank so effectively that its customers always use to avail its services (Tay 2008).

Implementation of the six sigma approach in the business is an effective step to measure the service quality and therefore it is considered to be the best practice of the bank. IT Infrastructure library is also used as a tool of information and technology system and proves to be as a benchmark for providing quality services. The bank has its own infra Enterprise software for the purpose of monitoring, tracking and reporting on every component of the service process. Improvement in the service of IT is an important area of concern for the managers of IT department as well as the practitioners in Commonwealth bank and this is achieved through the use of an approach which involves all the basic components like people, process and technology (Tay 2008).

Conclusion

The brand of Commonwealth bank is well known in Australia in the service and finance industry. Wealth management business and retail broker Commonwealth securities are the well known award winning brands which come under the category of Commonwealth bank brands. The bank has a powerful domestic presence with a large scale of customers in comparison to any Australian bank with an inclusive distribution channel of financial services. Commonwealth bank is well known for its innovative alliances, the emphasis of which is to enhance the customer service by implementing the use of technology (Terpstra & Sarathy 2008).

Partnership with Telecom New Zealand is a major step of the bank for fulfilling the requirements of the telecommunication field. Hence, keeping the above given factors in concern, Commonwealth bank can capitalize on its strengths and overcome from its weaknesses.

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