EUROPEAN ACADEMIC RESEARCH
Vol. I, Issue 12/ March 2014

ISSN 2286-4822
www.euacademic.org

Impact Factor: 3.1 (UIF)
DRJI Value: 5.9 (B+)

How do banks gain competitive advantage nowadays by using the latest technology trends?

ORKIDA ILOLLARI
European University of Tirana
Tirana, Albania
Raiffeisen Bank, Albania

Abstract:

With the latest technology developments, there is a pressure for the banks to keep up-to-date. One of the main reasons that makes this change necessary is the fast growing innovation in the international market, which increases the competition. The demand is rapidly growing from the market and the customers to innovate and invest in technology. The way that the banks innovate is by investing in better products and services that they offer to the customers. This investment is beneficial for both. On one hand, the banks benefit because of the automated services that become available and on the other hand is beneficial for the customers because they have improved services and can access their account 24/7 even out of the banks working hours.

But, how do banks manage to keep their competitive advantage regardless of the rapid changes in technology and the customers' demands? How is that possible and how do they achieve that?

Beside implementing the new technology and services the banks need to make sure that their investment is not wasted, at the contrary, it is used efficiently.

Offering what the clients want and need is the one of the main drives behind all these investments. The rush to keep up-to-date and offering the best services to their clients is what helps the banks to maintain their competitive advantage.

Key words: Strategies, ATM, Retail Banking, IT, Innovation

The challenges that banks face due to innovation

Because of investment from retail banking in information technology, there have been developments of new electronic tools. Bank transactions continue to progress due to their relative price advantage compared to the paper-based banking system.

The opposition is growing from various agents in the financial services industry continues to waste the market-share of banks. This opposition along with the major changes in information technology imposes to the banks the need to innovate in services, products and delivery channels.

The essential functions of a bank consist in providing payments, services, and facilitating the allocation of economic resources over time and space. These have not changed in the past decades, but the structure of the banks had radical changes during the same period. The main reasons of this dramatic transformation are the augmented international competition, liberalization of internal procedures, rapid innovations in new financial instruments and the rapid growth in information technology.

This has addressed the need to the managers and employees for instant changes in productivity and financial performance.

One of the questions that comes naturally is how banks manage to bridge these challenges, as there is an increment in competition in the retail banking system and a rapid technological evolution.

The main purpose of this report is to answer the above-mentioned question. This will be achieved through the reflection of general trends in retail, discussing the factors that are leading the need to innovate and how banks manage to bring these innovations. It is a known fact that not all innovations are necessarily good and even if the innovation is a good idea, its execution can cost much more than its profits.

Recent changes in the banking sector

There is a change in the retail banking system recently. It is having a period of rapid consolidation as well as expansion into non-traditional banking products and services.

At first there was noticed weakening in the regulations that restricted banks interests and the expansion of product lines of the banks.

The changes in regards to bank powers, reserve limits, the weakening of Glass-Steagall Act (Banking Act 1933) restrictions and geographic restraints, permitted banks to merge through the product lines. The bank holding companies are progressively acquiring similar brokerage companies, financial companies and insurance ones in order to offer a full spectrum of financial products to their customers.

The main purpose of every bank is the scope to attract and retain the financial business of the consumer and The Shared Wallet with others. A reason for the consolidation of this industry is the want to have ample extent to exploit scale economies in the processing of the transaction, and have purview cross-selling financial products.

Nevertheless, many studies of efficiency in the banking industry demonstrate that the scale economies and the range efficiency are not the core cause of inefficiency.

Consumer's Behaviour

The main reason of changes in the banking sector is the fast growth in the consumers' demands in various financial services. This makes the banks to invest more in implementing new technology to fulfil the customers' wants and needs. If they do not do that, they can lose market share. On the other hand, there is a dilemma whether the banks get their profits from all these investments done in technology. Looking at the ATMs we can have a clearer idea how this affects the banks as they have invested a lot in ATMs during the last 10 years.

Speaking of what it costs to the bank, we can say that using the ATM or telephone banking is less expensive than the traditional transaction. Making all these changes requires many efforts, first in changing the customers' behaviour by increasing the fees for certain transactions. This change in customers' behaviour gives the utmost profit to the banks by reducing costs. One thing that needs to be mentioned is that the banks still need to keep up-to-date with the latest technology trends and innovations to keep up with customer demands alongside introducing the fees to costly transactions for the bank. One example is pushing them from the manual transactions in paper-based ones. All the above-mentioned steps, measures, and policies taken by the banks involve many investments and research in the IT field.

Strategies applied by the Banks

According to some studies, we can conclude that the banking market has evolved and changed radically in the past few years. What it is important in all this process is that the new features should not be seen as factors that stop the change. Even though investments in technology are faster and provide more convenience and efficiency, its implementing and usage must be planned accordingly. As it concerns the banks, the choice of going online is also associated to some costs for them. The biggest ones are related to investments in technology. Mainly, these costs go for the purchase and installation of equipment, hardware and software systems, and after for the reorganization of the internal structure, for hiring new expert staff, for the safety and integration with internal information systems. Technology is evaluating at a very fast pace and to follow its rhythm, as well as to maintain and improve the quality of providing services it is needed to continuously update technology.

New strategies are often applied keeping in mind the new trends in market. This process is achieved by market analysis as these steps decide the future of the bank. The real key to success is to have clear strategies. So a bank should have a clear strategy plan including the human resources employment, the reference indicators, the technological choices, the products that will be distributed, the formatting that will be implemented, how the communication will be done, the "pricing" policies, the workflow and the process of counters and staff retraining. In this way, the banks will be able to prevent issues arising from the new strategies.

It is also vital that the bank keeps the customers informed and instruct them on the new services available for them. The customers should have full information on hand and feel valued and involved. The success of the new technology or software implemented is measured by looking at the number of customers using it. The bank can make analysis of the customers' features and where they are located. The location can be a new or existing area. Based on the classification there are two types of strategies according to Porter: Differentiation and Cost Leadership. The differential strategy is used by banks as a tool to help on differentiating services through virtual channels. Virtual channels were adopted initially by many traditional banks with the objective of differentiation from other competitors. The process was aided from the introduction of information technologies.

New operators also use this strategy, as a second stage of their growth, after implementing firstly a "cost-leadership" strategy. Differentiation means not only passing to various distribution channels of products and services, but also to being able to create a quality differentiation from the offered services. The differentiation policies are created on the capacity of offering a range of services, the capacity to apply all the powers that technology offers and the perception of those advantages by customers, the capacity to supply added-value information, the capacity of paying attention to customer needs and helping them step by step on using these new channels.

There will be an extended competitive advantage if the bank is able to do this. With the condition that it is a high quality and it gives the possibility of differentiation, by several competitors that use these new technologies, but in passive manner.

In the case of applying in an internet site or in a call centre, which is quite easy, the problem is when starting to use these new channels. It was concluded that these channels have the ability to delivery higher quality service compared to traditional ones. It can be said the same when compared to competitor virtual channels. However, the advantage of these interventions was very limited.

It should be taken into account that only the average customer as the greatest integral part of the clientele are unable to demonstrate the difference between channels or banks. As a result, the quick implementation of technologies does not bring success and it strongly related to the risk to confuse the customer even worse.

If this risk happened in the future, it demonstrates a poor awareness of the bank's mission and objectives. That is going to be a waste of resources for the bank and for its clients it will be a change in the objective of a "cost leadership" policy. The bank oversees both the people that who know exactly what they want and what they expect from a banking service. Since their time is precious, they are more open to the use of virtual channels. Customers with high demands are difficult to be pleased and a lot of effort is required.

If the bank manages to offer added value services it is all worth it as they would be willing to pay a "premium price" and will have a higher level of trust compared to the customers to which a "cost leadership" strategy is used. The customers of this bank can be what Kotler (1993) classifies as "consumers pioneering" as they are the first to identify quality and embrace the innovation.

The second important strategy is the Cost Leadership

Strategy that is mainly used by the virtual banks. It alludes to those institutes that have chosen to utilize their information in the field to enter the financial market by getting autonomous from the individuals, which were their customers. It refers to the conventional banks. These have the benefit of having a "know how" but have the issue of the absence of a self-delivery network in the territory, they miss a public figure. It is beneficial for the banks as it cannot be easily applied by the traditional banks and they have the option to charge better prices than the competitors for the same services offered. The level of the latter needs to keep the same as it might spoil the reputation of the bank.

The traditional banks have some more expenses that the virtual banks do not have, such as the distribution system. As a result, they cannot afford to low the prices of their services because it is going to cause them lower profits. On the other hand, the virtual banks do not have the issue of administration and coordination between virtual and conventional channels. They do not use the distributing system and they do not have the issue of high expenses for staff, for retraining and so on. All this means lower expenses and permits them to have expenditures policies without the issue of lowering administration costs and offering good deals. The banks not always the use the "cost leadership" policy. These low offers attract the clients but it might also be the case that they are attracted by the smart way of displaying the services where in reality the prices have remained the same. This is to target the normal customers that do not have much knowledge on the finance section and need standard services and easy to understand ones. On the other hand, there is a risk for the banks as this type of client can go anywhere they get the best offers. These clients cannot evaluate and are not interested on the benefit that a service provides. For this reason, the banks need to implement new strategies and ensure this category of clients that the services the bank offers are the best ones in price and quality. This is the only way of retaining these clients. If banks continue with this strategy, they risk being included in a vicious circle, with consecutive price sales with negative consequences.

From the analysis in this section, we can conclude that the choice between these two strategies should be made after detailed analysis in regards to the customers it will be applied, the competencies and objectives of the bank. A mistake at this stage can have many negative effects and influence operationally for a long period. Besides these two main strategies, we could mention other smaller ones that can be used before the above-mentioned strategies or with a combination of both.

Innovation and Technology

Banks are able to classify all the services used by any customer in regards to the profit/loss on these services and the potential profitable services that can be offered to that customer. The innovation in technology in the retail banking has been supported by new distribution channel systems. Adding new services and options for its customers to access their account also means to the bank more investments, i.e. added costs. The banks tried to cut these costs or balance them with what they saved form the back-office automation. The latter is a technological innovation that has been completed. Banks realized that that was the key to make profits.

As mentioned above technology has a major weight in banks' performance. It affects the outcomes of the financial services, but to assess this aspect it is not easy. Roach as cited by Wiley (2009) states that as a result of IT investments, the consolidation of back-office operations is due in large part to scale economies.

Lichtenberg (1995), points out in his study that in fact due to investments in IT there have been great results and profits in relation to staff and devices. The improvements will be seen in the integration of front- and back-office functions, i.e. in integrating business processes, but not in the traditional back-office functions.

Roach also writes that due to technology there is a quick spread of productivity options in sales function of the service sector. The new trend according to Kotler (1993) is to make the major part of the investments in the front-office functions. The bank can be seen as a point of sale with flexible production capabilities, rather than as a gathering line provider of standardized services.

The indicator of service that is important to the customers is the speed with which the processing of a loan application is completed. In the case of the ATMs there is a service available 24/7 compared to what it used to be before the ATMs availability which one could access their account only during the bank opening hours.

At the macroeconomic level is not a higher banking output. Innovations involve the platform automation as the first attempt of retail banking industry at giving employees a single view of the customer. Before using the innovation, it was not possible for an employee to view the entire customer relationship at once. A single look on the system, gives the information to the employees how important a customer is based on their portfolio of products, rather than their balance in the account. At the retail banks, the information is collected and processed not by the customer but by product and transaction.

However taking some of the data for one customer is difficult to be achieved on the technological side, because the systems were built according to the transaction processing per product.

Electronic banking signifies a new distribution channel as well as representing a zone for significant technological innovation. The new channel offers the banks many options available. That is strongly related to the managerial decisions regarding outsourcing, alliances and creating new products and services that impact the profits of a bank.

Conclusions

Contrary to past market trends where focus was on growing opportunities (often based on questionable forecasts), the financial banking market in recent times has changed to also identify the expense-benefit proportion even at the time of reaching the breakeven stages. The computer technology was seen to be only a support for the life and work aspects in industrial societies and not a changing factor.

There has been noticed a merging of the banking with the technology made of acquisitions and alliances. Thanks to the new technologies implemented, it is made possible to meet deadlines, to administrate faster and more efficiently personal finances, to save time and reduce any bureaucratic aspects of traditional banking. All these is customer focused by placing the customer at the centre of the bank and supported by the policy of Customer Relationship Marketing.

Being up-to-date with innovation enables the banks to gain competitive advantage through rapid development of innovative products. Enhancing the customer experience by responding to customer requests in a uniform way through various channels, increased the benefits through "cross sell".

Retail banking cannot be assessed by the number of counters. By investing in technology, the distribution activities will be strengthened by new systems and electronic channels. The main purpose of using innovation is meeting customer requirements. The strategies used are called "Customer oriented" and they “predict” the future. After analysing the investments done in innovation the banks should make sure that they are having the profits on the business performance. Therefore, it is very important to have a clear plan and strategy as cost reduction cannot managed if it is not done on time.

BIBLIOGRAPHY:

Amabile, Teresa M. 1998. “How to kill creativity.” *Harvard Business Review*.

Berger, Allen N. & Humphrey, David B., 1997. "Efficiency of financial institutions: International survey and directions for future research." *European Journal of Operational Research*, Elsevier 98(2): 175-212, April.

Brynjolfsson, Erik and Loryn Hitt. 1996. “Paradox lost? Firm level-evidence on the returns of information systems spending.” *Management Science* 42(4).

Carlo Bernacchi. 2007. *Sportelli bancari virtuali, decollo lento in Europa*. Score Media Metrix.

Dosi, Giovanni. 1988. *Technical Change and Economic Theory*. London, UK: Pinter Publishers.

E-banking http://www.ffiec.gov/ffiecinfobase/booklets/e_banking accessed on 14/02/2014.

EFMA Studies. 2012. *The future of face to face, how to make the transmission a reality*.

Ferrier, Donald Shawna Grosskopf, and Suthathip Yaisawarng. 1993. “Economies of Diversification in the Banking Industry: A Frontier Approach.” *Journal of Monetary Economics* 31: 229-49.

Finalta & EFMA. 2012. *Multichannel Banking in Europe, Reaching the next level in on line sales*.

Eaton, Jonathan and Samuel Kortum. 1999. “International technology diffusion: theory and measurement.” *International Economic Review*.

Hunter, Larry W. 1996. “When fit doesn’t happen: The limits of business strategy as an explanation for variety in human resource management practices.” Academy of Management Annual Meeting, Cincinnati, Ohio.

Keller, Wolfgang. 2000. "Geographic localization of international technology diffusion." NBER Working Paper.

On-line banking service. http://www.investorwords.com/3420/online_banking accessed on 11/02/2014