

# [Discuss a local or national issue](https://assignbuster.com/discuss-a-local-or-national-issue/)

Competitive advantage in the Banking Industry of USA Competitive advantage refers to an advantage gained over competitors by offering s greater perceived value, either through lower prices or by delivering more benefits that justify higher prices. (Fletcher and Brown, 2005)
Porter’s five forces model centres on the competition and rivalry with other firms. This rivalry is originated from five forces of competition – barriers to entry, threat of substitutes, buying power, and degree of rivalry and supplier power. (Porter, 1980)
Theoretically in a competitive scenario, there are free entry and free exit, but practically barriers are present. The unique characteristics of the banking industry of USA help in protecting the firms from earning high profits and prevent addition rivals from entering the market. (QuickMBA, 2008) In retail banking payment services and delivery system hold the key. (Li, 2004) In investment banking maintaining relationships with firms and investors can help. Commercial banks are redefining themselves in order to increase earning and hence shifting to investment products. (Kulkarni, Itz and Hans, 2002) A powerful supplier may exert influence on the production side to capture most of the industry profits. Managing credit risk is important for retail banking sector in order to sustain a high profit. In investment banking, “ the stronger the network of critical investors a bank has, the more supplier power it has and the more rents it can extract.” (Kulkarni, Itz and Hans, 2002) Commercial Banking sector is focusing on investment banking to retain profits and prevent new entries.
Buyers’ bargaining power refers to the customers who can generate maximum profits for the banks. Innovations like the Internet IPOs and online brokerages along with the rising number of such suppliers will increase buyer power in investment banking. (Kulkarni, Itz and Hans, 2002) In retail banking, buyers’ power has strengthened since deregulation and banks have competed through lowering of interest rates, etc. Combined with the innovations in Information Technology, the integration of commercial and investment banking would increase buyers’ bargaining power.
Threat of substitute comes into the picture when the demand of a product is affected by the change in price of the substitute. Competition is coming even from non-banking sectors especially in case of commercial banks. The delivery and payment services in these private non-bank sectors are more accessible to local people and foreign banks usually suffer. Loan approvals and lending process is fast in these non-banking groups. With change in technology substitutes for IPOs, underwriting distribution, M&A advisory are coming into the picture. The retail, investment and commercial sectors shall be affected alike with the popularization of substitutes. (Kulkarni, Itz and Hans, 2002)
Firms are not passive price takers and therefore rivalry is combated through constant design of strategies and products. Global banks are constantly engaged in competition from other financial institutions as their numbers are on the rise. (Abdelhamid, 2003, 145) Global banks often end up with fee income only instead of interest income. The banks from all sectors (retail, commercial and investment) face this rivalry by product differentiation, integration of investment and commercial services and maintaining strong relations with firms and investors.
The global banks will have to update themselves according to the demands of the customers, the new markets and their search for efficiency as well as the need to control risks of reputation and operation. Since the banks are facing slow growth in the existing markets they are looking for a reconnection with retail customers through the means of technology. Offshoring will get more importance than global consolidation in order to increase efficiency. Rising interest rates and a flattening yield curve are most likely to depress margins and more so in the United States. According to (Deloitte, 2007) national markets could be dominated by few large global banks especially with the diversification of businesses and integration of services. Branch strategies will become increasingly important in order to local markets especially as many banks will go global. Hedge funds have entered the debt markets and shall create new opportunities and risks for the banks. Banks need to take account of this changing landscape. Banks will concentrate on operational efficiency to combat the reducing interest margins and fee income.
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