

Swot analysis and porter's 5 forces analyses for union bank of switzerland (ubs)

[Finance](#), [Financial Analysis](#)



This paper looks at the Union Bank of Switzerland (UBS), one of the leading banks in the world and a very successful brand in the EU region. It examines the environment in which UBS operates while scrutinizing the attractiveness and competitiveness of the banking industry (Porter's Five Forces analysis). The SWOT analysis is done to bring in to light the banks strengths and weaknesses and to expose any opportunities that it can capitalize on and the possible threats it may stumble upon in the process of further development.

Introduction

Organizations and businesses are in most cases under constant pressure to improve their levels of performance and productivity throughout their existence. To meet the set organizational objectives, various businesses have shifted towards expanding their portfolio and operations to other regions. WetFeet (2012) asserts that the success of a new or existing company is based on the efficiency the company exhibits in terms of market research, customer satisfaction and strategy formulation. With this in mind, this report shall set out to give a detailed analysis of various factors that have enabled UBS to remain profitable despite the unfavorable business environment experienced by the banking sector globally. This shall be achieved by performing a comprehensive Strength, weakness, Opportunity and Threat (SWOT) analysis and Porters Five forces analysis.

SWOT Analysis

Strengths

UBS is the second largest financial institution in Europe and the largest private wealth asset manager in the world. It has branches in 50 countries across the world. Some of its strengths include but are not limited to:

i) Geographically diversified operations UBS operates in fifty countries within America, Europe and Asia Pacific. Over 40% of the group's annual revenues are derived from its branches abroad (UBS, 2012). This is indicative of the group's global diversification in terms of operations. By diversifying its operations, UBS is shielded from economic downturns that may affect a particular economy.

ii) Strong market position UBS is the world's largest wealth manager and the second largest bank within Europe in terms of market capitalization and profitability. In addition, it is the leading retail and commercial bank in Switzerland. These among other market factors enable the group to gain a competitive advantage over its rivals in various markets by leveraging its leading position.

iii) Strong Capital Adequacy Ratio The group has a Tier 1 capital adequacy ratio of more than 11% as compared to that recorded by its rivals. In addition, this ratio exceeds the set global average of 8% (UBS, 2012). This is a desirable ratio since it shows the group's ability to meet set goals whenever a crisis occurs.

Weaknesses

Despite its strengths, there are some weaknesses that threaten the success of UBS. They include the following:

i) Decrease in net income interest The net income interest of the group has been on a downward trend for the past few years. This is indicative of a decline in the profitability of the group's assets, which earn interest. In addition, this also indicates that some operations are curbed by inefficiencies.

ii) Waning profits and returns Since 2006, the group has recorded significant decline in net profits. This is attributed to a fall in the interest margins and reduced revenues accrued from the cash equity business. Similarly, returns on average assets have declined below the industry's average, which stands at 1.21%.

iii) Poor performance in Switzerland Considering that Switzerland is the group's home market, the poor performance recorded over the years could have an adverse impact on the overall financial performance of the financial institution in the long-run.

Opportunities

There are some emerging avenues through which UBS can further advance its interests and those of its clients. They include the following:

i) Lucrative asset management industry In 2010, the asset management industry grew by 7.8% globally (UBS, 2012). This was equivalent to \$52,706 billion. This figure is expected to rise to \$71.6 trillion by the end of 2012

(Economist, 2012). By investing in this segment, UBS will be able to expand its profitability and operations.

ii) Growing investment banking industry The investment banking industry has been on an upward trend over the past decade. Considering that UBS has a division that contributes over 43% of its total revenue dedicated to this segment, it is likely to reap significant benefits if this opportunity is fully utilized.

Threats

i) Consolidation of the financial services industry While many financial institutions are merging so as to reduce individual risks and share the market, this is leading to the establishment of stronger competitors in this sector (Economist, 2012).

Porter's 5 forces analysis

Level of competition

As mentioned earlier, competition in the financial sector is very stiff globally. This is further worsened by the consolidation of the financial industry, which leads to the creation of bigger and more diversified competitors. However, UBS has a dedicated research team and a large pool of resources that enable the group to innovatively devise better means of staying ahead of the game (UBS, 2012).

Threats of substitutes

To a large extent, there are no substitutes when it comes to financial services. This fact makes the threat of substitutes significantly low. However, UBS operates on a high margin regime, which can be substituted by low margin products and services offered by rival companies.

Threat of new entrants

The threat of new entrants is relatively low. This is mainly attributed to the fact significantly large amount of capital and resources are required to set up an institution that would actively threaten the progress or success of UBS.

Bargaining power of buyers

By globally diversifying its operations, UBS has a larger market. This means that there are more clients and UBS has to cater for their needs in order to maintain and expand its market base. Since UBS has established itself as a top notch investor, its client has a higher bargaining power (WetFeet, 2012).

Bargaining power of suppliers

The suppliers of UBS have a low bargaining power since they all want their product and services to be associated with UBS. By availing their products and services to UBS, suppliers are guaranteed that whatever they are offering will reach a large consumer base. As such, they cannot bargain effectively since they bank on the long-term returns that will emanate from such an association.

Value Chain Analysis

According to Financial Times (2012), the value chain analysis sets out to identify specific functions carried out by a company in order to create a competitive advantage over its rivals. Some of the recognized primary value chain activities include: Inbound logistics, Operations, Outbound logistics, Marketing and sales and Services (Van Bennekom & Goffin, 2010). according to WetFeet (2012), the support value chain activities in UBS bank relate to Human Resource Management (HRM), technological development and firm infrastructure among others.

Conclusion

The success of any organization relies on the leadership and management skills exhibited by the organization. UBS has succeeded over the years due to its ability to plan, lead, distribute and control its resources effectively. As such, no matter the prevailing economic situation, the group has diligently managed to maintain its professionalism, reputation and profitability at an acceptable level (Arnold, 2012). This paper set out to explore various factors that have contributed to UBS's success. To that end, a SWOT and Porter's five force analyses have been conducted to evaluate the performance, competitive advantage and organization of this company. While there is room for improvement, UBS should formulate strategies to deal with its threats and weaknesses if it wishes to survive the current market situation.

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