

The cooperative bank essay sample

[Literature](#), [Russian Literature](#)



The Cooperative Bank, a wholly owned subsidiary of Co-operative Wholesale Society (CWS) became a settlement bank in United Kingdom by 1975. The bank was having an impressive growth and enjoying an increasing customer base until 1990 when the bank recorded losses due to the recession in UK.

The bank was in the process of a strategic overhaul. The management identified the need to be much more focused. The bank had too many products for the customer base it was catering. So the target was to identify the profitable and non-profitable products and customers and devise the appropriate strategic plans to increase its profit levels.

THE PROBLEM

The organization is facing with a high cost-income ratio and hence as a result was suffering operational losses. FLAWS IN TRADITIONAL COSTING SYSTEM

- Cost centers were geographical and departmental
- Center HQ expenses were allocated to operating expenses. This approach couldn't identify and relate the activity costs to the respective products. So, project SABRE (Sales and Business REngineering) was launched by the organization. The motive of the project was to lower cost-income ratio and increase customer service. The bank decided to follow ' Activity Based Costing (ABC)' methodology for the operating cost allocation exercise of the bank. To reduce the cost-income ratio the bank had to focus more on the fixed cost base and relate these costs to the products. RELEVANCE OF ' ABC'

ANALYSIS

In the case of Co-operative Bank the volume of customers is not as important as the number of transactions processed. Traditional costing is inappropriate

in this case. The ABC costing was the right tool for the analysis of the existing situation of the Bank because of two reasons: 1. The business had a large variety of products and services. So the traditional costing system shall not be a right tool for decision making because the high overhead expenses can't be directly related to the products/services. 2. Direct material and direct labor are not major in the given situation. The high sustaining costs need to be downsized by taking the right managerial decisions.

PRODUCT DECISION

The Bank has to decide on the right product from the present variety of products to improve the cost-income ratio. Based on the revenue and activity costs (Exhibit 7 & 8) of the various products the bank should pursue the product options of –

- Current account Plus

- VISA Accounts – Classic, Gold and Affinity
- Personal Loans

Current Account Plus: This is the highest revenue generating stream of the bank with 30 % of revenues (\$8877370) generated from this product.

However, activity costs for this product account for 80.6 % (\$7157339) of the revenue. So the bank should plan its operations in a way to reduce this cost. Some of the activities that should be targeted for cost reduction are –

1. Computer Processing (\$1215933) – The bank can outsource this activity to achieve the cost benefit on overhead expenses.
2. Clear Debit Items (\$1022140) – The process of clearing Debit Items can be majorly automated through Automated Clearing Houses (ACH). The manual clearing facility may still be made available only on the basis of need and customer profitability.

3. Customer Inquiries (\$850569) – This process/activity can be automated through Point of Sales (POS). The strategy can reduce the associated overheads and at the same time improve customer experience.

VISA Accounts: The VISA account is the second highest revenue generating stream. The revenue is contributed by the three products viz. VISA Classic, VISA Affinities and VISA Gold. Activity costs account to 40 % (\$3385954) of the product revenue. The target cost reduction activities in this case are –

1. Process VISA Transactions (\$917056) – These transaction activities can be automated through computer processing and this reduces the associated overheads. 2. Marketing and Sales Activity (\$453886) – These costs can be reduced by having cross-sales of Credit cards with the current Account customers Personal Loans: The product gives the highest net profit among the range of available products. The Marketing and Sales Activity (\$815211) and Computer Processing activity (\$113403) can be reduced by the deploying of strategies as for Visa Accounts and Current Account respectively. CUSTOMER EXPERIENECE AND PROFITABILITY

The improvement in Customer Experience and Profitability was another key aim of the project. The study done by the bank revealed the customer profitability of Current account and Visa account. Current Account: The current accounts of those with low balances were unprofitable. The bank was targeting on making the product more attractive to profitable customers. The bank's strategy should be to focus on both profitable and unprofitable customers: •Profitable Customers – The bank should focus on improving the customer experience of these customers. The bank can do so by offering ‘

Cross-Sales' and Electronic Banking options. This strategy is also in line with the Bank's strategy to reduce the cost-income ratio.

The ' Cross-Sales' can reduce the Marketing and Sales Cost of the other products such as Credit Cards, Personal Loans and Electronic Banking will enhance customer experience and at the same time reduce overhead expenses. •Unprofitable Customers – To improve overall customer profitability the bank should try to upgrade the unprofitable customers to profitable ones. It can introduce reward schemes for maintaining a minimum balance in the account. Such a move will encourage the customer to have high balances and the bank can also have increased revenue from interests. Visa Account: As the Exhibit 8 denotes the net commission (\$4349839) from the Visa Account is high as compared to the Net Interest (\$4128509). So the motive of the Bank should be to encourage customers to perform more transactions. This can be accomplished by introducing point based systems wherein the consumers can exchange the accumulated points to gifts. The system can be a part of the Marketing strategy of the Bank. REDUCING SUSTAINED ACTIVITY COST:

The sustained costs accounted for 15% of the bank's operating expenses.

The Sustained Activity Cost structure of the organization consists of the following components: 1. Accounting

2. Finance

3. Strategy

4. Planning

5. Human Resource Department

6. Information Technology Development

A careful analysis of the various components shows that the 'IT Development' component has a scope of being transformed from a Sustaining Cost to Variable cost. The Bank should carry out an exercise to determine the feasibility of outsourcing this activity. This strategic move will reduce the fixed costs associated with the activity. THE RECOMMENDATIONS

The following are some of the recommendations for the Bank:

1. As the ABC analysis pointed out the product 'Independent Financial advice/Insurance' is a less profitable one. So, the bank should consider discontinuing it. 2. The bank should have focused set of products in order to improve operational efficiency. 3. Outsource all the activities that are not business critical to reduce the indirect/overhead costs. ACTION PLAN

The following are the list of action plans for the Bank based on the above analysis: 1. Determine the right product mix for operations. Scrap the less profitable products and focus on the products/services which generate more profits. 2. Strategize the business process automation. All the activities which can be carried out by computers can be automated. 3. Outsourcing Activities – Supplier selection and Negotiations. 4. Enhance/Improve 'Cross-Sales' among the products.

5. Improve on the 'Sustaining Activities' cost structure.

LEARNINGS:

- Cost-Income Ratio: Exposure to a new financial analysis ratio. This ratio can be very useful when internal managerial decisions need to be taken.
- ABC costing methodology can be very useful in revealing the not so obvious loss

makers. In this case, the product ‘ Independent Financial Advice and Insurance’ was actually a loss making product as opposed to the company’s perception of it being highly profitable. •Use of ‘ ABC’ Analysis in Service Business.

Word Count: 963

Exhibit 1: Capacity status at KCPL Production Plant

tons/month

Plant Capacity240

Monthly Sales110

Contract from Pearson50

Surplus Capacity80

Exhibit 2: Capacity status at KCPL Production Plant

PearsonAPL

Quantity Supplied (tonnes/month)5070

Conversion Rate (Rs./kilo)31. 5

Revenue (Rs./month)150000105000