

Report on the strategic approaches of bnp paribas



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The objective of this report is to critically evaluate and analyze the strategic approaches in the operation of a financial institution of our choice. The chosen institution of study is BNP Paribas. This report will include a PESTEL analysis, an evaluation of the Singapore environment examining the political, economical, social-cultural, technological, environmental and legislative aspects of the environment and an application of the theory to BNP Paribas. In addition, we will look at the organization's products, target market, strategies and critical changes, the application of Porter's five forces model, and conduct a SWOT analysis looking at the strengths, weaknesses, opportunities and threats presented to the organization. This will be followed by a STP analysis, looking at the segmentation, targeting and positioning of the organization, as well as a financial statements analysis and recommendations for future development strategies for the organization.

Introduction of the Company

BNP Paribas has been at the forefront of the banking sector with a 10 year history and deep-rooted traditions in innovation banking which has led them to the success they are today. They have earned the title of being France's premier bank and are known for their strong market positions and robust risk management. They have risen to become a global leader in the provision of financial services and its brand is the company's major asset, ranking 6th most valuable banking brand according to Brand Finance's 2010 rankings (Brand Finance, 2010[i]). This ranking is largely due to the Group's financial strength and part due to its success brought about by Michel Pébereau former CEO who led BNP to merger opportunities that transitioned the company (S&P, 2010[ii]).

With such noted growth and success, the company truly lives up to its motto 'the bank for a changing world', incessantly evolving and adapting successfully to the ever-changing environment, seizing opportunities that come along with a strong focus on achieving its goals, carefully planning and managing its business activities and ensuring effective cost-cutting measures.

Nature of the business

BNP Paribas is a universal bank providing a diverse range of banking services predominantly offering and specialising in three core business areas: corporate and investment banking services, investment solutions services and retail banking which includes services for personal finances and equipment solutions. Its financial services are offered to a variety of customers both individuals, corporate businesses and other financial institutions (BNP Paribas, 2010[iii]).

Present situation

On 23rd July 2010, Fortune Magazine had presented its annual global rankings of America's largest corporations. Achieving a modest improvement from 2009, BNP Paribas placed 18th in this year's rankings and 7th largest Banking Corporation in the banking sector based on revenues and sales (CNN, 2010[iv]). Such positive results achieved by the Group can be attributed to its strong Board of Directors who possesses the skills, leadership, performance and experience required to lead the way into the future. BNP Paribas' success also stems from the effectiveness of their diversified and integrated business model and their committed focus on investment strategy and innovation.

Mission

BNP Paribas's mission is to achieve its goal to become 'the bank for a changing world'. In order to achieve this, they plan to provide diversity, creativity and efficiency that generate performance gains and to value differences among people in various countries. Respecting and promoting differences among employees are major assets when it comes to 'the bank for a changing world' (BNP Paribas, 2010[v]). See Appendix 1 for its core values.

Vision

BNP Paribas is determined to be a benchmark banking group with focus placed on customer satisfaction and the active pursuit for improvements in its earning capacity. BNP has adopted the motto of 'bank of the changing world' from its core values and it is their core values which motivate and direct them towards their vision (BNP Paribas, 2010).

Goals

Technological development, globalisation, environmental issues are challenges that face both businesses and individuals today. BNP Paribas is committed to assisting its customers to confront these rapid changing issues. Therefore, the Group's goal is to constantly seek out new sources of progress by developing innovative ideas and initiatives (BNP Paribas, 2010).

An Application of PESTEL to Singapore's environment & BNP Paribas Singapore

A PESTEL analysis is essential in every organization as certain factors within the macro-environment will have significant impact on the organization and

the decisions it makes. There are various political, economical, social and cultural, technological, environmental and legislative factors that need to be taken into consideration (Kotler, P & Armstrong, G, 1999[vi]). Each will be discussed further below in context of Singapore and its impact on BNP Paribas.

P- Political

The People's Action Party (PAP) dominated the political scene since 1959 (Janus Corporate Solutions, 2010[vii]). The party's choices of action, ideas, policy-making and planning proposals are well supported by the community and the integrity and effective leadership demonstrated by the PAP secured economic growth and political stability. With the adoption of a collective leadership style with its corrupt free-government image, Singapore's government has maintained a strong sturdy political framework.

It is Singapore's political stability and corrupt-free environment that banks like BNP Paribas see Singapore as an opportunity to venture into the Asian markets. Their success in Singapore was led by Singapore's aim to liberalize the banking sector which they followed in 1999. This move was rewarded as they became one of the pioneering foreign banks.

E- Economical[viii]

The hustle and bustle economic scene of Singapore is part due to its geographical location. Its strategic location which houses an industrious population though it lacks physical resources and has a relatively small domestic market has given the country an economic importance in Southeast Asia. Singapore carried out an economic strategy to overcome its

problems and achieved an average of 7.8% growth from 1965 to 2009 (US Bureau of Public Affairs, 2010[ix]). Though its economy has suffered setbacks due to pandemic outbreaks, the economy bounced back each time. See in Appendix 2 on GDP and Government Debts.

BNP Paribas must firstly identify the relevant economic factors that would influence their company. Singapore's tourism scene is an opportunity to target those tourists' needs financially. In addition, economic growth is tied with profits made as such it is another motivating factor to operate in Singapore.

S-Social & Cultural

Social factors are the demographic and cultural aspects of the environment such as age and gender distribution, religion and employability rates, which can impact the demand for a firm's products and the availability and motivation/willingness to work. See Appendix 4 on analysis of GDP and employment rates.

BNP Paribas has contributed much to the employability in Asia. According to an article in Forbes Magazine titled; 'BNP Paribas Wealth plans Singapore hiring spree' (2010), BNP plans to increase its employees count in Singapore from 300 as of 2008 to 500 employees, while other banks like DBS and Deutsche Bank plans job cuts. This increase in employees is a result of BNP's involvement in the wealth management business and 'their aim to be the largest most profitable and attractive for its clients and their assets' as explained by Serge Forti (BNP Chief Executive for Asia Pacific Wealth Management) (Forbes, 2010[x]).

T-Technological

Singapore has sophisticated state-of-the-art Telecommunications and Internet facilities which cater to the needs of its users, providing them with high quality communications accessible worldwide.

Innovation is a strong differentiating factor in the banking sector. It is a core tenet of the BNP Group's strategy. Innovation will enable them to adapt quickly to the ever-changing environment and to deliver the best quality products and services to its clients. An example of innovation demonstrated by BNP Paribas is in its ' photovoltaic loan'[1](BNP Fortis Bank, 2010[xi]).

E- Environment

The leading researcher on Global Warming, an American government scientist Hansen (2007) believes that ' the speed of the natural changes is dwarfed by the changes that humans make to the atmosphere and surface' (Hansen 2007)[xii].

This scientific evidence has created greater environmental awareness among individuals and businesses. Since then, there has been a growing desire to protect the environment. Singapore's Government environment commitment extends to the ecological footprint of business organizations and could accelerate the potential environmental leadership role that transnational corporations can play. The greatest challenge in the climate change action is to make people aware of the consequences of our actions. As such, BNP Paribas has launched programs to raise their awareness of the impacts of Climate Change.

L-Legislative

According to Singapore Academy of Law (2006)[xiii], there are specific laws that banks are required to abide to. As such BNP Paribas must follow the common laws and principles as stated in relevant Acts passed by Parliament[xiv]. The Monetary Authority of Singapore (MAS) who publishes and administers Acts and Subsidiary legislation governs legislation in the financial industry. Changes in legislation can affect a firm's cost for adaptation and demand of goods and services.

Singapore's economic policy is to promote wealth through sustained and stable economic growth, guided by the ' free market economic system' which allows market forces to determine the pattern of trade (ADB, 2010[xv]). In addition, Singapore does not have any sector-specific policies; this freedom within the policies could provide BNP Paribas with an advantageous opportunity to manipulate this area.

Financial Analysis

A financial analysis uses financial performance indicators to judge the performance of the company. It looks at 5 categories of ratios which are; Profitability, Liquidity, Efficiency, Investor and Financing.

The tables below are the summarized results for BNP Paribas from Year 2005 to 2009 (5-year performance analysis);

Profitability Ratios

Ratios

Year 2005

Year 2006

Year 2007

Year 2008

Year 2009

Gross Profit

—

100%

100%

100%

100%

Gross Profit

€27, 648million

€29, 823million

€22, 105 million

€31, 909 million

Revenue/Sales

€27, 648million

€29, 823million

€22, 105 million

€31, 909 million

Net Profit

—

26%

26%

14%

18%

Net Profit

€7308 million

€7822million

€3021million

€5832million

Revenue/Sales

€27, 648

million

€29, 823million

€22, 105 million

€31, 909 million

Return on Capital Employed (ROCE)

—

—

15. 8%

5. 7%

9. 5%

Profit before Interest & Tax

€7308 million

€7822million

€3021million

€5832million

Average Capital Employed

€45, 065+53, 799/2 million

€53, 228+53, 799/2 million

€53, 228+69, 501/2 million

Return on Assets (ROA)

—

0. 51%

0. 46%

0. 15%

0. 28%

Net Income

€7308 million

€7822million

€3021million

€5832million

Total Assets

€1, 440, 343 million

€1, 694, 454 million

€2, 075, 551 million

€2, 057, 698 million

(Source: Created for the purpose of this assignment)

The table above shows that for every sales dollar, the same amount will be available to cover its expenses and profits. This is relatively bad for the company if there were any fixed expenses that require payment after the gross profit has been calculated. The return on assets (ROA) tells the efficiency of the company in using its assets to generate profits. The table above shows that ROA has a decreasing trend reaching as low as 0.28%. The net profit is a result of deducting all expenses from gross revenue. In this case, the net profit over the 4 year period has decreased to 18%. Therefore this suggests that the company's widely known success does not match with its actual financial performance.

Liquidity Ratios

Ratios

Year 2005

Year 2006

Year 2007

Year 2008

Year 2009

Current Ratio

—

87c

73c

81c

53c

(Source: Created for the purpose of this assignment)

Current ratio gives an indication of the company's ability to pay its short term liabilities and debts with its short term assets. A low ratio below 1 suggests that the company will have trouble paying its debts and liabilities. This shows the company's efficiency in its operating cycle in turning its product into cash is weak. As such, the company is financially unhealthy and they would need to develop strategies to go about providing more financing for the company or they may run into liquidity issues.

Efficiency Ratios (Source: Created for the purpose of this assignment)

Ratios

Year 2005

Year 2006

Year 2007

Year 2008

Year 2009

Debtors' Collection Period

—

276 days

282 days

431 days

313 days

Trade Receivables

€20, 919 million

€23, 008 million

€26, 079 million

€27, 379

Revenue/Sales

€27, 648

million

€29, 823million

€22, 105 million

€31, 909 million

The debtors' collection period ratio is an indicator of the period of time taken for money to be collected from debtors. The figures above suggest that the debtors' collection is relatively slow, especially in 2008. This could have been caused by the Global Financial Crisis which caused worldwide panic and market fluctuations. By 2009, BNP Paribas was able to reduce its debtors' collection period by 313 days. Although this figure is an improvement to 2008, it is still considered to be slow for debt collection. This will have an impact on the liquidity issues faced by the company. If the company can

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reduce its debtors' collection time, it will have the necessary funds to resolve its liquidity issues and raise its current ratio above €1 or even €2 which suggests the company has more than enough assets to cover its liabilities.

Investor Ratios

Ratios

Year 2005

Year 2006

Year 2007

Year 2008

Year 2009

Earnings per Share (EPS)

6.77

7.81

8.25

5.20

2.99

Dividend Cover

2.68

2.59

2.53

5.36

2

EPS

€6.77

€7.81

€8.25

€5.20

€2.99

Dividend per Ordinary Share

2.53

3.01

3.26

0.97

1.50

Price/Earning Ratio (P/E Ratio)

8.50

9.24

8. 12

5. 52

18. 13

Current Share Price per share

€57. 56

€72. 13

€66. 97

€28. 71

€54. 20

EPS

€6. 77

€7. 81

€8. 25

€5. 20

€2. 99

(Source: Created for the purpose of this assignment)

The EPS is the core tenet in determining a share's price. It shows the company's ability to generate income which is allocated to each outstanding

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share of common stock. A positive increase in EPS suggests that the company is finding more ways to earn profits. However, it does not seem to be the case in 2008 and 2009 where EPS fell sharply. There is no stability in the EPS pattern.

BNP Paribas's dividend cover fell sharply in 2009. However, a low dividend cover may be acceptable if a company's profits are at a stable level, while a company with fluctuating profits indicates dividends are at risk.

The difference in the market price and earnings' movement will cause the price earning ratio to fluctuate. BNP Paribas's P/E ratio in 2009 shows that there is a disconnection between the market price and the profits as such, it has caused the P/E ratio to rise. A low P/E ratio is potentially good for investors as there is a chance for making profits.

Financing Ratios

Ratios

Year 2005

Year 2006

Year 2007

Year 2008

Year 2009

Debt to Equity Ratio

—

7.83

8. 80

11. 98

8. 29

Total Debt

€352, 918 million

€473, 504 million

€637, 592 million

€568, 130 million

Total Equity

€45, 065 million

€53, 799 million

€53, 228 million

€69, 501 million

Debt Ratio

—

0. 31

0. 28

0. 26

0. 28

Total Debt

€352, 918 million

€473, 504 million

€637, 592 million

€568, 130 million

Total Assets

€1, 440, 343 million

€1, 694, 454 million

€2, 075, 551 million

€2, 057, 698 million

(Source: Created for the purpose of this assignment)

A high debt equity ratio is a result of high debt usage in financing operations.

This is particularly true for Year 2008 with a debt/equity ratio of 11. 98.

However, each year from 2006 show a high debt/equity ratio. This shows BNP could potentially generate more profit without outside financing. If this

were to increase earnings by a greater amount than debt cost, then the shareholders of BNP Paribas would benefit from receiving more earnings.

However, there are greater costs involved which may outweigh the return

the company generates on debt through investment and its operations. BNP

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Paribas's debt ratio from Year 2006 to 2009 is below 1 as such, this indicates that the financial institution has more assets than debt as evident in the Statement of Financial Position.

Corporate Social Responsibility (CSR)

BNP Paribas's corporate social responsibility plays a major role in its environment and forms an integral part of its business ethics and embedded in its core values. They have taken charge of leading companies in implementing environmental friendly practices by signing up to the United Nations' Global Compact in 2003 and in its financial sector initiatives, BNP has encouraged companies to include climate change issues in their investment decisions and have brought together companies to promote responsible behaviour by companies within the community. BNP has also signed up for Principles for Responsible Investment (PRI) which provides assistance to companies in incorporating environmental, social, and corporate governance concerns into their mainstream investment decision making practices (BNP Paribas Annual Report, 2009, p. 118[xvi]). See Appendix 5 on CSR as a management duty.

Porter's Five Forces Model Analysis

Diagram 3: Porter's Five Forces Model

Source: Porter, M 2008

Threats of New Entrants (Strong)

Singapore is relatively lenient when it comes to foreign businesses operations set up in Singapore since the country has a pro-business environment with rich cultural diversity and stable politics. We can also

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suggest the threats of new entrants may be strong because financial institutions are becoming universal, providing a diverse range of financial services and not just restricted to banking services. The new entrants are exploring innovative banking as such BNP Paribas adopts innovation as a key driver to outshine its competitors.

Bargaining Power of Suppliers (Weak)

The power of suppliers in influencing BNP Paribas is considered to be weak. The customers being the depositors do not have control of the interest rates set by the bank or on any internal operations, whereas for corporate clients, the bank still holds a greater power in the offering of services and package deals to its larger clients. The Credit Market provides the source of raw materials and liquid assets which is unmeasurable. Lastly, the Central Bank being MAS is responsible for the issuance of currency, supervision of financial services and stability surveillance and who is of last resort and provider of liquidity in the markets. Therefore, the Central Bank who controls the liquidity in the markets has some power in its influence on BNP Paribas as a whole than in day to day operations (Ackerman, J 2008[xvii]).

Bargaining Power of Buyers (Medium)

The buyers of BNP Paribas's products are the customers themselves; the depositors whom have some power in deciding which bank they would settle for. However, for the corporate clients, it is difficult to determine the differences in the services provided/offered by each bank as there is no specific service offer to each bank.

Threats of substitute products or services (Strong)

There are a variety of financial services being offered from various banks in Singapore who specialises in different business lines and have various experiences and successes. BNP Paribas Singapore faces greater threats towards its Corporate & Investment Banking as well as Asset Management services. However, though various banks offer similar services to them, like its threats from new entrants, innovation is their key to compete with substitute products, to set themselves apart from its competitors (Bernet & Partner, 2008[xviii]).

Rivalry among existing firms (Strong)

There is intense rivalry among the financial industry. BNP Paribas competes with money centre banks, super regional banks and institutional asset management providers and financial planners. In Singapore, there are 113 competitive commercial banks, 49 merchant banks and 3 finance companies and three local banks; DBS, UOB and OCBC , the three largest banks in Southeast Asia (MAS, 2009[xix]).

BNP Paribas faces strong competition from in the area of asset management as Singapore is the premier asset management locations in Asia (MICA, 2009). A central location for the provision of risk management, insurance broking and offshore insurance services in which BNP is engaged in. It is BNP's innovative strategic plans and its prime financial attention to serving customers' needs which sets them apart from its competitors.