

Westpac Refuses to be Jilted: Please Refer to me by my First Name; Bank of Melbourne

What was reported?

Damon Kitney, From: The Australian, March 10, 2011 12:00AM

Westpac to resurrect defunct brand name

“More than seven years after it was relegated to history, Westpac will today resurrect the Bank of Melbourne brand in Victoria. The move is part of a nationwide multi-brand strategy that includes plans to spend up to \$100 million on new branches in the state, The Australian reports.

Westpac scrapped the name Bank of Melbourne in January 2004 as part of its move to a single national brand. The Bank of Melbourne was taken over by the Sydney-based Westpac in 1997 in a \$1.4 billion deal.

The move comes in the wake of the big four banks recently escalating their battle to win new home loan customers. National Australia Bank and Westpac have taken the unusual step of carrying out an aggressive nationwide direct marketing campaign to target each other's existing mortgages and a potential new customer base. All the banks have been offering cut-price mortgage deals”.

For its part, National Australia banks' (NAB's) strategy was to announce:

“We've broken up with the other banks. We just grew apart.”

When commenting on the reaction this campaign may have on competitors, Business Spectator (26 Feb 2011) noted that Cameron Clyne, National Australia Bank CEO held three concerns about the potential response, including;

- That *“our rivals would give no reaction to the advertisements”.*
- That *“one of our competitors would move to our position, lowering (mortgage) rates and cutting fees for all of their customers, not just their existing customers, because then we'd have no point of differentiation,”*
- That *“a wholesale acquisition strategy would emerge, with deals being offered to all bank customers”.*

Clyne was however most pleased about the opposite outcome to the above, stating *“Instead, what we got was the response we were least concerned about – the other banks having a bit of a go at us and competition goes on.”*

Observations

The Australian corporate environment is filled with small groups of very large national and international companies who each compete ferociously for the number one or two spot in the market. Market dominance means a lot as those who occupy the number one or two positions wield the greatest influence in the markets in which they chose to compete. For those close to the top, it is worthwhile going out on a limb once in a while to shake up the market place in order to steal as many market share points as possible. In commodity markets (milk, bread, eggs) it is hard to gain market share through differentiation so the next most obvious weapons are price and then relationships. The current battle between Woolworths and Coles over the price of milk is one of the best examples of

this. In the case of the two banks described above, price is in the equation, but each are really selecting relationships as their weapon of choice. Although Clyne refers to lower fees and rates, he is not proposing NAB adopts a wholesale 'low cost' model in the same way that Virgin Credit, or Aldi Supermarkets do. Rather, Clyne is building a perception of lower cost as a part of a program to improve customer relationships. His approach to relationship building is a much better option than wholesale price reductions, as this approach is longer lasting and consumes significantly less cash. However, we can observe from Clyne's comments so far, that the other Australian banks have been reluctant to buy in to the war. To do so would be expensive, although Westpac has succumbed to a degree by copying NAB with the lowering of interest rates, introduction of rebates and scrapping of fees.

Westpac's reintroduction of the Bank of Melbourne brand allows it to build relationships while avoiding a long commitment to a war on price. While Westpac is attempting to reengage its local market through a return to an original name, NAB is adopting the persona of strength by building on a perception of leadership and inventiveness. By taking the initiative in lowering fees, NAB is in effect capitalising on common perceptions of power: "*I love a person in uniform*".

Strategising methodologies to consider: In their attempts to steal market share, the Australian Big Four Banks are still holding back on the use of differentiation of as one of the more potent weapons of competition. Differentiation is achieved by either; building and leveraging unique/scarce resource sets into market positions (Inside Out Strategy) or, the occupation of unique market positions where no one else competes (Outside In Strategy). In the absence of any of the Big Four banks committing to the development of a unique set of skills and resources, the best way for them to compete is through the establishment of a market presence that is noticeably different to competitors; an Outside In Strategy.

According to Michael Porter of Harvard University, firms can obtain differentiated market positions through lower cost (e.g. Jet Star vs. Qantas), better service (e.g. Homestead vs. InterContinental Hotels) or focus (e.g. Ferrari vs. Toyota). A more recent approach to sustainable market positioning has been proposed by Chan Kim and Renee Mauborgne who suggest the application of the concept of Blue Ocean Strategy. In direct contrast to Porter, Kim and Mauborgne argue that successful businesses do not have a choice between value and cost but in fact, must find a market position that offers both high value *and* lower cost at the same time.

The best known Australian application of Blue Ocean Strategy is the Griffith based Casella Wines Pty Ltd., who succeeded in taking the United States market by storm through the marketing of their Yellow Tail wine brand. The result was so successful it resulted in them landing a multimillion dollar expansion of their business.

There are many ways that the banks and indeed business entities in general can obtain a sustainable competitive advantage. For those interested, these are explored in our recently launched Certified Strategy Practitioner program through completion of the two core subjects of; *Concepts of Strategy and Leadership* and *Practice of Strategy*. Details are available at www.smiknowledge.com/CSP.html