Accounting for the success of a community retail banking model: Bendigo Bank

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Abstract

Bendigo Bank has built a successful community bank branded as Community Bank™ built from focusing on locations where the major commercial banks could not justify servicing with branches. It is the purpose of this paper to account for this success by applying the theories of embeddedness, virtual options and customer relationship management.

The conclusion from this analysis is that not only may its success be accounted for, but it is also likely to have a sustainable advantage.
Introduction

From the establishment of its first community bank in Minyip and Rupanyip in Victoria in 1998 Bendigo Bank has built a very successful retail banking model. This paper seeks to account for its success by applying the theories of embeddedness, virtual options and customer relationship management and is able to not only achieve this result, but also suggests that the model may well have a sustainable advantage. While CRM has a long history with respect to its application (whether successful or not) to traditional banking models, virtual options and embeddedness have not been applied to traditional banking models. It is the view advanced in this paper that they allow us to account for the success of a community banking model such as that of Bendigo Bank. While their initial locations could be said to have given them a monopoly advantage as they were the only on-site provider of direct banking services the successful replication of their model in an increasing number of suburban settings suggests that this is not such a key issue. Equally while it might also be said that small communities are more easily able to demonstrate as suggested by McMillan (1996, at p.315) the “sense of community as a spirit of belonging together, a feeling that there is an authority structure that can be trusted, an awareness that trade, and mutual benefit comes from being together, and a spirit that comes from shared experiences that are preserved as art”, again the Bendigo Bank experience of replicating their model successfully within the suburban environment of major cities suggests that the uniqueness of their success is not just due to the particular small community aspects of rural Australia.

Embeddedness

Zukin and DiMaggio (1990) identify four forms of embeddedness; structural embeddedness which concerns the material quality and structure of the ties among actors; cognitive embeddedness, that is, the structured mental processes that direct economic logic; cultural embeddedness which is the shared beliefs and values that shape economic aims; and political embeddedness which comprises the institutional limits on economic power and incentives.

Let us consider for a moment the features of a rural community from an embeddedness point of view. If the community is defined and localised then it is
likely to have a level of structural embeddedness. Any community has a mix of pessimistic and optimistic actors. What if it was possible from outside the community to identify the positive optimistic actors and to form ties with them? The Community Bank scheme of Bendigo Bank does this very well. Let us consider it in the creation of its first community bank.

In 1997 when the last branch of a major commercial bank left Minyip and Rupanyip, two small rural communities in the Wimmera wheat-growing area of Victoria, the locals found that their banking now required a 100 km roundtrip to Horsham, the nearest town with a full bank branch.

In 1998 their position took a turn for the better when Bendigo Bank suggested that the community might be able to have a Community Bank. Consider who in these local communities would be interested in developing the feasibility study and the branch proposal? Clearly these would be those who saw an optimistic future for the area. The project allowed them to exhibit cultural embeddedness.

The local communities of just 1100 raised $20,000 for a feasibility study and from this a prospectus for a community bank was compiled and distributed among the communities. A management group was formed to run the bank and $230,000 was raised to fit-out two branches and train staff. In order to maximise community participation in the bank a cap of $5000 and a minimum of $500 were decided on. This maximised the members of the community (750) who were involved in the project and also implemented political embeddedness by putting limits on the economic power of individuals.

**Bendigo Bank provides this list of ten steps to establishing a community bank.**

1. Contact Bendigo Bank for an information kit
2. Form a local steering committee
3. Raise enthusiasm, awareness, etc. Begin raising pledges of financial support for start-up capital (Bendigo Bank will supply pledge forms, information forms and supporting campaign material)
4. Continue raising pledges until full community support can be shown from as many people as possible
5. Hire independent consultant to conduct feasibility study. All residents asked to pledge banking support.
6. Feed aggregate results into Bendigo Bank's Community Bank® model to produce three-year business plan.
7. Have your community vote on whether to proceed.
8. If yes, release prospectus to invite share subscriptions in local company formed to operate branch.
9. Once share capital is raised, Bendigo fits out your branch & recruits staff.
10. Open branch.

How did the structure of the community bank affect the relational quality of interactor exchanges and the architecture of network ties? First, it created a network of investors in the community bank whose interests were to maximise exchanges between the bank and the members of the community so as to ensure the survival and profitability of the bank. Second, the structure of the bank allowed the local community to derive the benefit of the operational bank knowledge provided by Bendigo Bank which imbued the endeavour with a sense of security and trust. The Community bank branches while owned by their communities were effectively franchisees of Bendigo Bank which contributes the products, services and computing infrastructure of the business.

The CEO of Bendigo Bank, Rob Hunt (2003) said “By involving locals as the investors, and having them engage the broader community, we have been able to develop a commercial model which is proving to have the capacity to not only secure banking services but to generate local profit, regain employment, and instil a can-do attitude in many districts. “

The Parkdale Community Bank Branch diverted $60,000 of its profits to sponsoring the area’s community bus service for 3 years, and providing 4 Community Bank art scholarships in music, literature, dance and the visual arts.

Let us consider these attributes within the embeddedness frameworks. In structuring and funding the bank, the community has lent its most optimistic members to the cause. Once the bank has been formed it is in the interests of all its shareholders to ensure that it gets the maximum business from the community.

Profits made by the bank are divided as initially agreed between the community bank and Bendigo Bank. The directors of the community bank decide what percentage of the profits are returned to shareholders in the form of dividends and what percentage
is directed towards local projects. By this process both cognitive and cultural embeddedness are enhanced.

The Virtual Options Framework

We may also consider this same process through the virtual options framework. In the virtual options framework the key assets are information Chen, Conover and Kensinger (2001) suggest that an organisation that has the same potential uses for particular information as another organisation but also one or more additional possible uses for that information unique to that organisation will gain a higher NPV by gathering the information and note further that the value of a virtual option is greater the more innovative the information operation, and the stronger the barriers to entry for potential competitors.

The virtual value chain as explicated by Rayport and Sviokla (1995) has five stages: first, gathering information from the physical realm; second, organising the raw data into structured data bases for later use; third, selecting information from the databases and organising it into a product, which might be a report or a new product design; fourth, the information is distributed through information channels; and finally, the information is applied in order to add value in the physical realm. Because virtual options do not involve the destruction of the input, they are capable of multiple exercise.

To apply this to the Bendigo Bank strategy, from the information acquired in the process up to and including the feasibility study, will have identified the committed optimists in the community. From the independent feasibility study conducted they will clearly have a good idea of the range and volume of products and services that may be profitably offered. And from the start up of the branch operation they have a significant group of shareholders in the branch operation whose business will be captive and who will have an important incentive to attract other customers to the branch. Because of the level of security and trust engendered by the partnership of Bendigo Bank with the local community through the branch the branch board members are a continuous focus group for the Bank in terms of not only potential products and services but also the information about the community’s preferences in terms of the expenditure of its profit share on support for the local community.
Customer Relationship Management

Let us now move to consider the same approach in terms of its delivery within the customer relationship management framework. Fisher (2001) divides the customer franchise profile for UK banks into 5 groups depending on their loyalty to their existing brand. The groups are: brand champions, contenteds, passives, seducibles and aggrieved. Brand champions are those who are completely loyal to their bank and are not interested in any of the competitors. Contenteds are loyal to their bank but do not have as strong a relationship as the brand champions. The passive group do not have a strong relationship with their existing bank or any other bank. The seducibles are satisfied with the service they receive from their existing bank but another bank looks more attractive to them. The aggrieved group comprises those who are actively dissatisfied and believe that they can do better for themselves by shifting to another bank.

Let us consider how the Community Bank model would suggest the customers are grouped by comparison with more traditional banks. First, for the communities within which there is a community bank the number of brand champions is likely to include all the shareholders in the bank and in the case of communities that would be branchless without this facility a larger proportion of the community still could be expected to fall into this category. Those that do not are more likely to be passives. The proportion of aggrieveds should be smaller because of the ability within the community branch operation to make problems known speedily without necessitating the call centre approach necessary with other banks servicing the market. Fisher’s study suggested that with respect to the UK banks the direct channel had more brand champions than the high street or new banks. In an interesting graph plotting a retention against low and high profile banks, Fisher shows that the demutualised building societies and new banks combine a high profile with a high retention rate. Within the area that the Bendigo Community Banks are operating they are unquestionably high profile which is another element in the retention of customer battle.
Rust et al (2004 @ p.78) refer to five important measures of the customer mind-set, adopted from Ambler et al (2002):

1. Customer awareness which in essence is their ability to recall and recognise the firm, its products and services.
2. Customer associations which comprise the strength, favourability and uniqueness of perceived attributes and benefits for the firm and its brand.
3. Customer attitudes which are the customer’s overall evaluations of the quality and satisfaction generated by the firm and its brand
4. Customer attachment which refers to the customer’s loyalty towards the firm and its brand and
5. Customer experience which deals with the extent to which customers use the brand, talk to others about it and seek out brand information.

If we consider the Community Bank™ with reference to these measures it is relatively easy to see that the Bank has a head start with respect to all of these measures compared to other banks. Part of this is due to the combination of roles that customers have here. Payne, Holt and Frow (2000) describe the three stakeholder groups or value domains in a business as employees, customers and shareholders and refers to them as key components of relationship value management. Reichheld (1996) describes the three groups as the “forces of loyalty”. The process of establishing a community bank branch leads to all of the community prospectively meeting the customer awareness and customer experience measure. The combination of shareholder and customer should meet the customer attachment measure.

**Conclusion**

In this paper we have considered the Bendigo Bank strategy through the lens of three theories: embeddedness, virtual options and customer relationship management. A striking feature of our analysis of the Bendigo Bank strategy through the lens of these theories has been the recognition that their advantages are of a sustainable rather than of a temporary nature.
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