Retail Banking Strategies in Europe

The strategic vision of Rabobank Group

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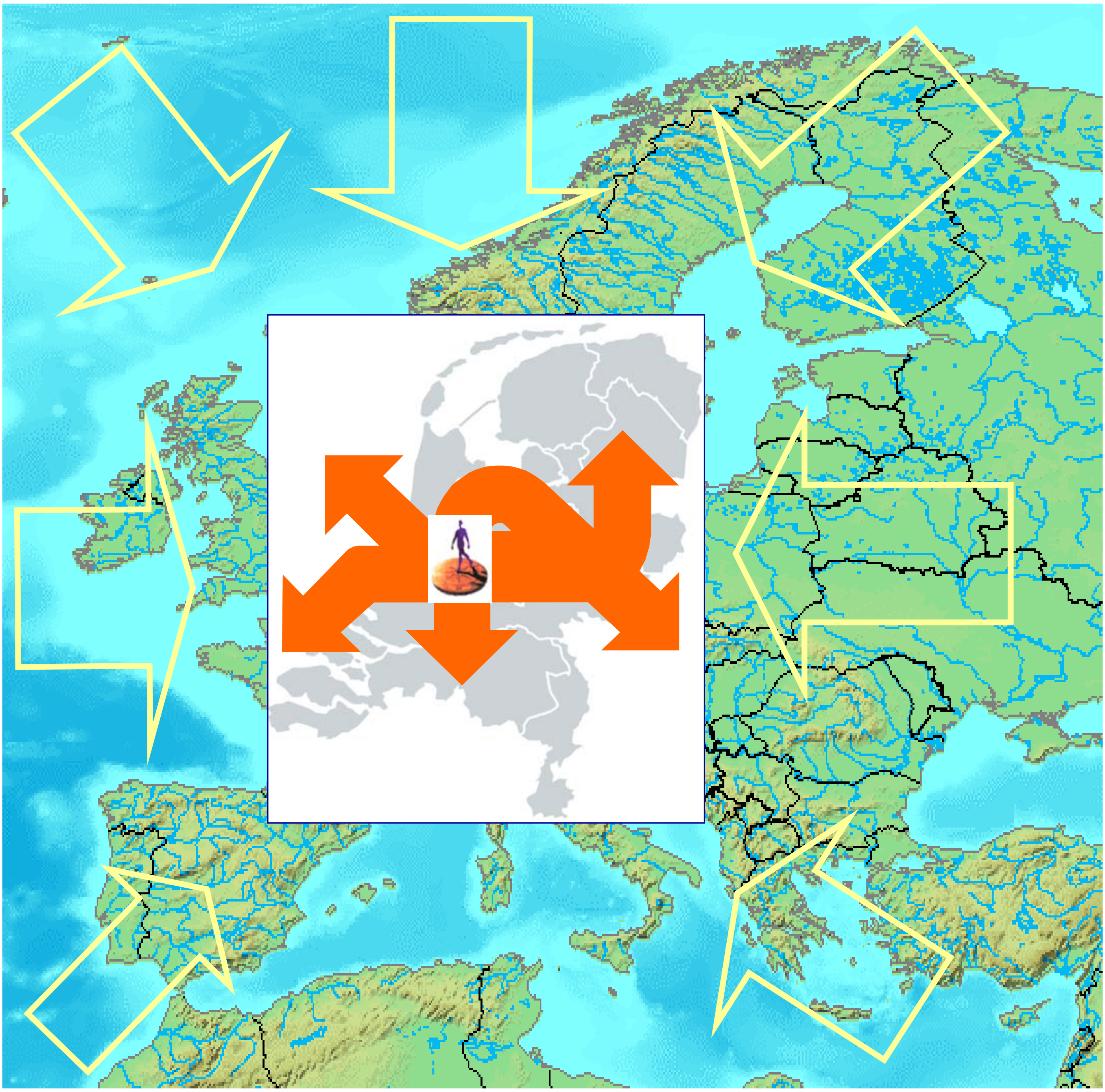


Rabobank

1. Introduction

Although retail banks throughout Europe are confronted with quite similar challenges and changes, the responses vary considerably.[1] This points to variations in the strategic orientation, which stem from divergent – organisational – structures of individual banks and different characteristics of national markets. The corporate governance and capitalisation of banks play an important role in the selection of an appropriate banking strategy. Country specific factors comprise customer preferences, the degree of competition and (in)formal legal frameworks, among other things.

This article focuses on retail banking strategies. The emphasis lies on retail banking in the broadest sense of the word. Indeed, many banks 'rediscovered' retail banking after the collapse of corporate and investment banking activities and the drop in stock prices in the last few years. In section 2, we start with a brief summary of well-known trends in banking. Sections 3 and 4 focus on domestic and international banking strategies, respectively. Both sections have the same set-up. The first part describes retail banking strategies in general terms. The second part deals with the strategic positioning of Rabobank Group and explains how Rabobank Group copes with these general challenges and trends.

2. General trends in European banking

The European banking landscape will continue to undergo drastic change over the next few years (see McDonald and Keasey, 2003). Trends affecting banking comprise privatisation, regulation and supervision, demographic factors, technological innovations, – still – the EMU and the increasing importance of sustainable banking.

The *privatisation* of banks is high on the agenda in France, Germany and Italy. As the influence of governments wanes, competitive relationships in the financial sector, and in the banking industry particularly, will undergo considerable change. Developments in *regulation and supervision* influence the banking industry via various channels. Firstly, deregulation of the financial sector will further erode the obstacles that deny access to the market for new providers of financial products. On the other hand, we see an increase in national regulation, especially in the area of consumer protection. Regarding supervision, the new BIS capital adequacy rules will have a tremendous impact on the entire banking business. The combination of an *ageing population* in Europe and budgetary constraints on state pensions will produce a sharp increase in top-up retirement benefit plans. These various developments will have implications for traditional forms of saving and hence for the funding activities of banks. In this context, analysts envisage strong growth among institutional investors, including pension funds. White (1998)

[1] See Deutsche Bank Research (2004) for an analysis of banking strategies in European countries.

argues that *technological developments* fundamentally alter the cost structure, output mix and distribution channels of banks. In fact, he goes so far as to say that the developments in information technology (IT) are "… the most fundamental force for change in the financial sector…". The process towards deeper and more liquid Euro capital markets as a result of *EMU* will go on for some time. This will make it increasingly cheaper and easier for medium and large corporates to raise money directly in these markets instead of borrowing from banks. Finally, the growing importance of *sustainable banking* is a trend that cannot be denied. Banks are judged and selected on their visible social and environmental responsibility by customers as well as investors.[2]

All these driving forces behind the structural changes in the European banking industry not only have an independent effect on the structure of the market but also interact and can therefore reinforce each other. These factors have far-reaching implications for the market structure, which encompasses features like: concentration, capacity, competition, efficiency and profitability (Groeneveld, 1999). There will be intensified competition among banks but also between banks and other, new financial intermediaries.

3. Domestic strategies of retail banks

This section describes domestic banking strategies in general terms. The strategic vision and choices of Rabobank Group are discussed in section 3.2.

3.1 Domestic strategic options

Banking strategies to improve performance and to grow in domestic markets can be divided in three main categories:

A. Cost reduction
B. Revenue or organic growth
C. Domestic mergers, acquisitions and alliances

A. Cost reduction

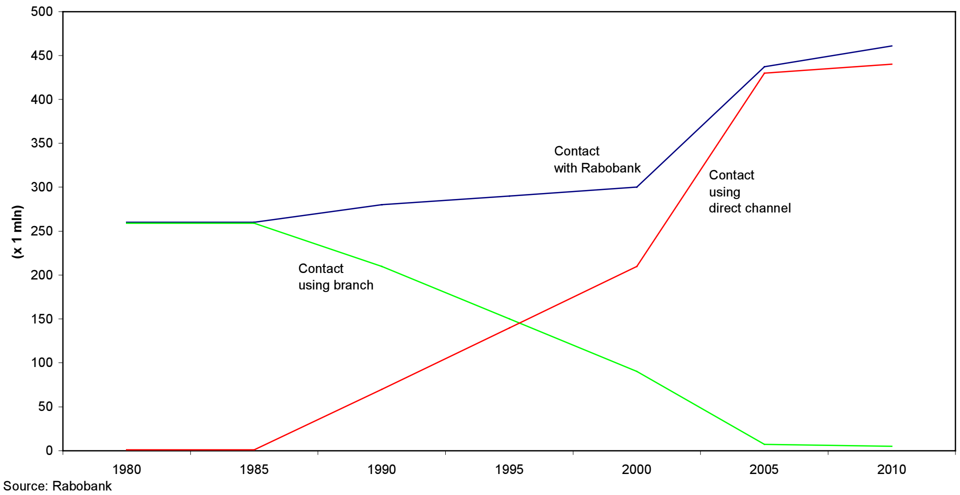
Various cost reducing strategies can be distinguished, such as regular slim downs, multi-channeling, and out- in- and co-sourcing. Slim downs refer to banks' assessments of ways to improve their internal cost structure and to increase efficiency. This occurs when economic circumstances are unfavourable and happens every few years. New choices are made regarding priorities and the volume of the working staff is closely examined throughout the bank. Like

[2] See Bouma et al. (2001).

other firms, banks tend to grow 'fat' in prosperous times, which is usually compensated for in an economic downturn.

An additional driver for cost reduction is the current trend of changing distribution channels, which is induced by ICT innovations. Banks are forced to invest heavily in ICT to remain competitive. Most banks now apply a multi-channeling approach in the distribution of their products and the servicing of their customers. They use branches, telephone, ATMs and Internet all at the same time. The public has massively turned to the new (direct) channels, which has reduced the number of visits to the bank itself. Figure 1 shows the development of the customer contacts and a projection for the future. This changing customer preference offers a great opportunity to reduce the costs of the relatively expensive branch-network. Many banks are therefore currently re-examining their distribution processes.

Figure 1 *Banks' customer contacts*

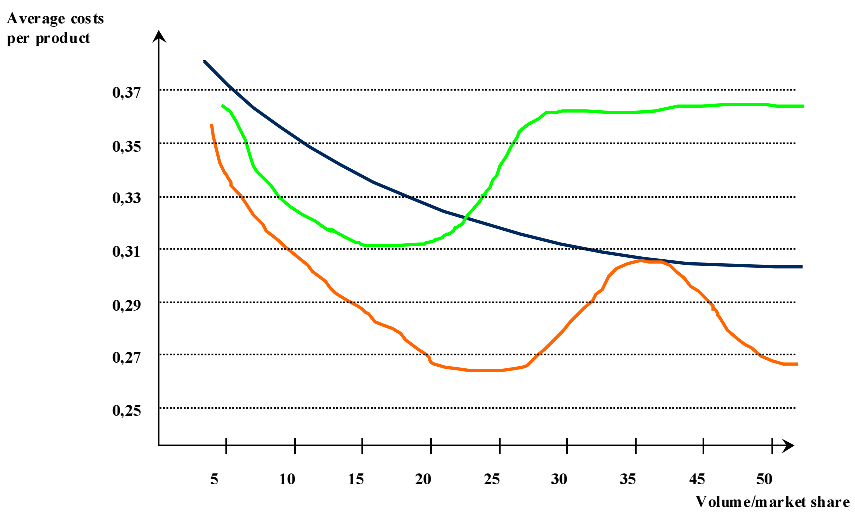


However, ICT investments are high and therefore it is increasingly essential for banks to organise their back offices in the most efficient way. Sufficient scale to reduce unit or transaction costs is the key. Banks can choose from several strategies to optimise their backoffice activities: co-sourcing, insourcing, outsourcing and white labelling. Co-sourcing is the joint establishment of backoffice platforms together with another bank. Insourcing means carrying out backoffice operations for other parties in order to realise sufficient scale. Outsourcing is the disposal of activities and buying them back from other companies. White labelling implies the production of products for other, mostly non-financial parties without a label.[3] Within organisations, scale economies can be attained by establishing shared service centres. Shared service centres implies the merging of backoffice activities of the various subsidiaries. They can be seen as internal co- or insourcing initiatives.

[3] This strategy is further described under the revenue enhancing strategies.

Technically speaking, the preferred type of sourcing strategy predominantly depends on the shape of the cost curve for a certain product, the bank's position on that curve, and the price of the alternative.[4] Figure 2 shows three hypothetical cost curves. The shape of the curves can differ for different products, because the ratio between fixed and variable costs varies per product. The curves do not necessarily show a continuous descending slope with growing volumes, since at a certain point new investments might be necessary to handle the increasing scale. Theoretically, insourcing can thus lead to counter intuitive results: increasing unit costs. The position of the cost curve may also differ between countries, which is the main driver behind the current trend of outsourcing ICT activities to low wage countries such as India.

Figure 2 Hypothetical development of average costs



Source: Rabobank

Cost reduction is not a viable long-term strategy. Constantly focusing on cost reduction will eventually affect the quality of the products and services as well as the innovative strength of the institution, which would endanger its competitive position and continuity. Too much focus on cost reduction will lead to poorly motivated employees and a decreasing capability to benefit from new market opportunities when the economic climate improves.

B. Revenue or organic growth

Apart from cost cutting, banks also have to determine which strategy they want to follow to enhance revenue. Revenue growth can be attained in basically two ways:

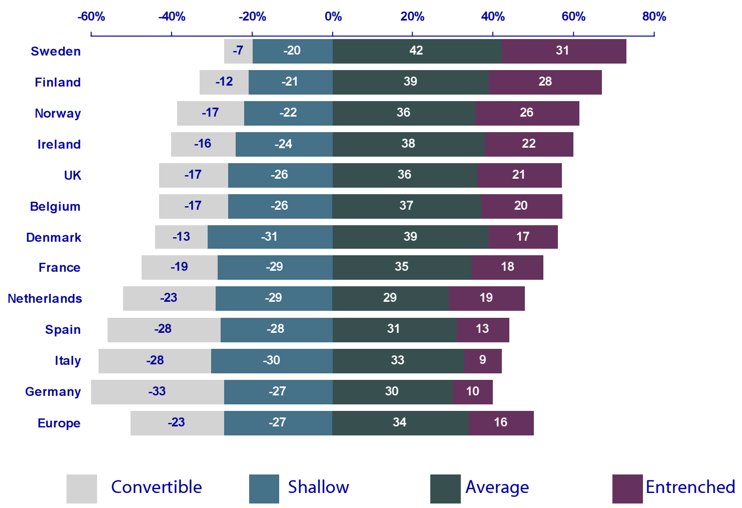
1. Attract new customers or

[4] Apart from cost (curves) considerations, sourcing decisions also depend on the regulatory framework, questions regarding process complexity and their impact on the competitive environment. Why would you help a competitor to stay in the market by executing (part of) its back office activities (see Auguste et al., 2002)?

2. sell more to existing customers.

The feasibility of these strategies depends largely on the characteristics of the banking market of the specific country. First of all, successful cross-selling requires committed and loyal customers. If customers are not committed, it might be advisable to focus on new customers instead of existing customers. Figure 3 shows the customer commitment profile of several European countries.

Figure 3 *Customer commitment profile by country*

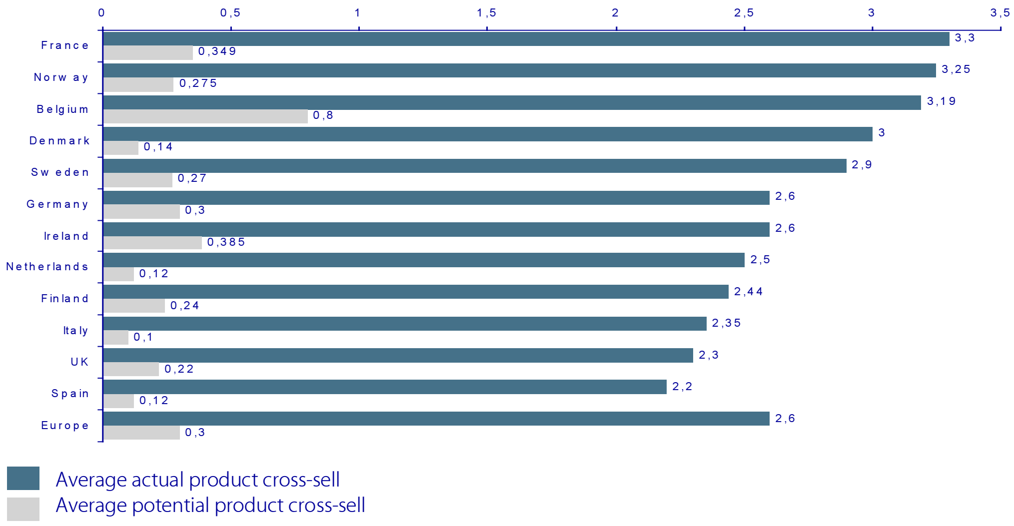


Sources: European Health Barometer and Schroder Salomon Smith Barney

Interestingly, the commitment levels differ widely across Europe. Customers in Nordic countries are generally fairly satisfied with their banks. On the other hand, customers in Southern Europe as well as in Germany are less pleased with their banks.[5] Linking customer commitment with the level of cross-selling indicates that countries with high customer commitment show the highest cross-selling ratios. One would expect the potential cross-sell to be highest in the countries that have limited actual cross-selling, but this is not visible (see figure 4). Countries with low actual cross-selling also have low potential cross-selling. The commitment profile therefore also seems to determine the potential cross-selling.

[5] The reasons for these differences are beyond the scope of this paper.

Figure 4 *Actual and potential cross-sell by country*



Sources: European Health Barometer and Schroder Salomon Smith Barney

The chart illustrates that the possibilities for individual banks to attract new customers are different across countries. One strategy to enhance revenues is to increase the 'share of wallet' of the retail client's products (satisfy all the financial needs of the customer), which can take the form of cross-selling or deep-selling. This strategy appears to become more difficult, since customers tend to be less loyal to one provider of financial services. The internet has made the market for financial services much more transparent and therefore reduced loyalty. However, banks wanting to increase the share of wallet will need to focus on customer satisfaction (as we have seen above). Another way of improving the loyalty of the customer is the introduction of loyalty programs providing special benefits to loyal customers. Potentially, cooperative banks possess a strong loyalty tool, the membership of the bank. Cooperative banks have to find smart ways to fully benefit from this strategically important feature.

Good knowledge of your customer is another prerequisite for a successful increase of the share of wallet. CRM systems are a helpful tool to realise this. A good understanding of the customer and an appropriate product range are very important. This is why some banks choose to adopt a niche-strategy and focus on a specific customer segment.

Banks do not have to limit themselves to their existing distribution network and brand. There are many alternative distribution options, which is often referred to as multidistribution. Table 1 presents an overview of the options that are available for banks. Additionally, banks can try to diversify their product offering with non-financial products. Banks often have extensive retail networks that can be used to sell all kinds of products. However, experience has taught that products have to be related to financial products to be successful.

Table 1 Multidistribution options to realise revenue growth

Strategy	*Description*	*Pros*	*Cons*
Multi-channeling	Selling products and servicing of clients with different channels, such as branches, ATMs, telephone and internet	- Customers can choose how and when contact with the bank is wanted - Different channels appeal to different types of customers - Cost savings, because of relatively cheap virtual channels	- Customers become more anonymous - Customers can switch more easily between banks - High investments in ICT systems - Complexity of control
Multi-labeling	Selling identical self-made products under different labels in the market	- Reach different target groups - Economies of scale in production	- Cannibalisation of existing labels - Complexity of processes - Reputation risk - Complexity of control
Open architecture	Distribution of products produced by another financial institution	- Larger product offer for customer - Reduce the need for customers to switch banks - Fee income	- Customer may loose overview if too many products are offered - Cannibalisation of own products - Complexity of control
Co branding	Linking two brands for the selling of one product or group of products	- Product is also sold through the network of the partner - May change the image of the brand - Explore new markets - Cooperation may lead to innovation - Create a bond with the customers of the partner - Sharing of the advertising budget	- Customer can find the combination of brands illogical - Negative publicity of the partner harms your own brand - Complexity of control
White labelling	Production of products that others will sell with their own label	- Increase scale of production - Revenues from the selling of the products	- Cannibalisation of your own labelled products - Deterioration of competitive position - Supervisory institutions might not allow it - Reputation risk - Complexity of control

Source: Rabobank

C. Domestic mergers, acquisitions and alliances

Banks can also grow in their domestic markets via mergers and acquisitions (M&A's). The attractiveness and feasibility of this option depends on the circumstances in the country. These circumstances include elements such as concentration, diversification possibilities, synergetic opportunities and the attitude of the supervisory authorities.

Domestic M&A's can deliver both cost and income synergies. Cost synergies are reached mostly when two banks merge, since they both have the same type of support departments, ICT systems and distribution channels. Intersectoral mergers (for instance banks with insurance companies) show less promising cost synergies, because of the complexity of the integration process and cultural differences. These intersectoral mergers do show the potential for revenue synergies, because the different products of the merged companies can be sold through the distribution channels of both institutions. However, in practice, these synergies are hard to achieve and the costs of the merger often exceed the revenue synergies. Forming an alliance can be an attractive alternative. The alliance offers the possibility to achieve income synergies without the expensive integration process. Alliances are often complemented with cross-shareholding to underline the dedication to the cooperation. Alliances that work out well may eventually lead to full mergers.

3.2 Domestic strategy of Rabobank Group

Overall strategy: The Strategic Framework

Rabobank's strategy is a mixture of cost reduction and revenue growth strategies. The actual implementation differs from competitors in significant ways. The strategic actions have to be in line with our cooperative identity. The main goal is to maximise customer value instead of profit maximisation. Our shareholders are the members of the local Rabobanks. However, a significant level of profitability is indispensable to survive and to fulfil the core objectives in the future. That is why financial targets are set for individual local banks and the subsidiary companies.

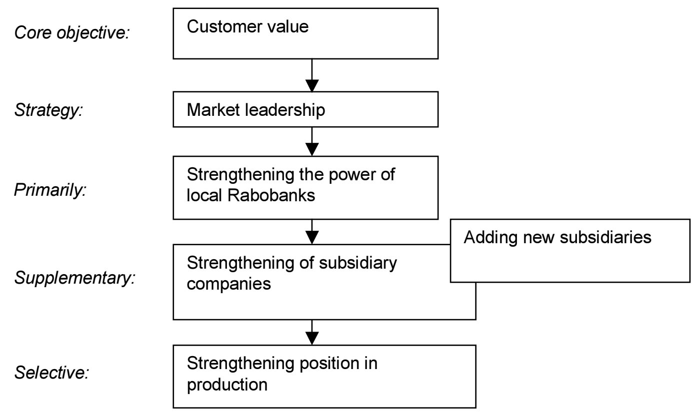
Table 2 Key figures Rabobank Group (2003)

Financial	*(in EUR mln)*	*Ratings*	
Total assets	403,305	S&P	AAA/A-1+
Tier I capital	19,660	Moody's	AAA/P-1
Net profit	1,403	Fitch-IBCA	AA+
Ratios		*Other data*	
BIS ratio	10.9	Member banks	328
Tier I ratio	10,8	Branches	1,378
Efficiency ratio	67,60%	Agencies	356
Return on reserves	9,4%	Employees	57,055

Source: Rabobank

The overall Rabobank interpretation of the trends is reflected in the so-called Strategic Framework. This Framework sets out the domestic strategy of Rabobank Group. Figure 5 summarises its main elements.

Figure 5 Strategic framework Rabobank Group



Source: Rabobank

The overall strategy is aimed at market leadership. Market leadership means that the clients see the Rabobank as leading in the respective segments of the financial retail markets. This implies that Rabobank is convinced of the advantages of the allfinance concept. To be considered a market leader by customers and shareholders, it is important to be a frontrunner regarding new products and distribution channels.[6] In fact, Rabobank was an early adopter of the new virtual distribution channels and it is the largest internet bank in Europe (see table 3). At the end of 2003, Rabobank became the first European bank to offer transaction services on i-mode technology.

Table 3 European Top 10 internet banks (measured by domains, March 2004)[7]

Domain	Unique visitors	Page Views
rabobank.nl	1.809.054	87.108.211
credit-agricole.fr	1.511.025	53.662.341
postbank.de	1.461.599	83.581.084
lloydstsb.co.uk	1.321.619	64.134.092
egg.com	1.271.230	25.632.023
foreningssparbanken.se	1.235.638	102.715.348
lloydstsb.com	999.003	8.505.850
postbank.nl	991.516	70.803.562
vr-networld-ebanking.de	960.566	40.003.317
halifax.co.uk	743.388	5.552.525

Source: NetRatings, Inc (2004)

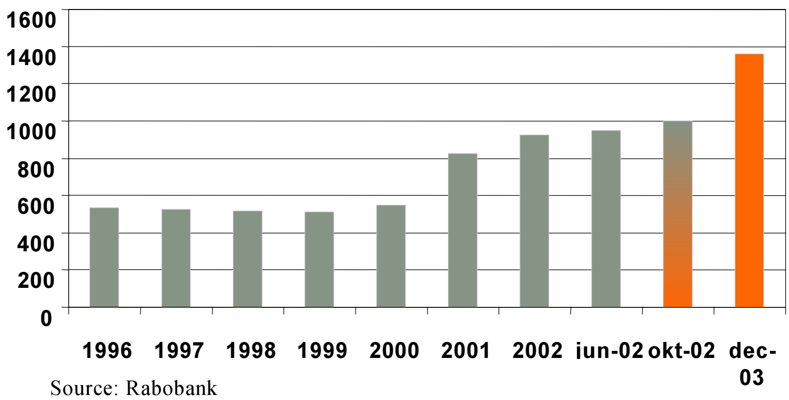
[6] See Smits and Groeneveld (2001).
[7] Based on research in Germany, France, Italy, the Netherlands, Spain, the UK and Sweden.

To achieve the market leadership ambition, Rabobank Group has formulated five strategic priorities:

1. Strengthen the cooperative local Rabobanks, the core of Rabobank Group
2. Strengthen the position as Allfinance Group
3. Development of new (international) growth possibilities
4. Strengthen the capital base
5. Strengthen synergy and cooperation within Rabobank Group

Rabobank Group has the ambition to be market leader in the field of financial services in the Netherlands. Local Rabobanks have realized this ambition in most market segments. Their success results from being close to the customers through the network of branches that are strongly rooted in the local communities. To counter the trend of decreasing customer loyalty, we are continuously looking for ways to vitalise the cooperative identity. A few years ago, Rabobank introduced the so-called membership certificates to raise capital, to motivate clients to become member and to offer members an alternative investment instrument. These member certificates were a great success. The number of members rose considerably, which offers opportunities to boost customer loyalty. Of course, a higher customer loyalty level requires the offering of innovative and competitive products and services. With these member certificates, Rabobank Group was also able to enhance the capital base.

Figure 6 *Number of members (x 1,000)*



Source: Rabobank

In the daily pursuit of retail banking, a high degree of corporate social responsibility is becoming increasingly important. The internationally renown rating agency ‘Sustainable Asset Management’, located in Zürich, asserts that the social responsible entrepreneurship of Rabobank Group sets the tone internationally. In 2003, the sustainability rating for Rabobank Group amounted to 74 on a scale from 0 to 100, which is the highest of all European banks. A high sustainability score is also important from a financial point of view. Investors are increasingly led by these ratings, because they provide useful information about the risk and reputation profile of a bank. In this respect, Rabobank bonds are a unique investment opportunity. These bonds combine a triple A rating for creditworthiness with a triple P rating for sustainability[8]. For the future, Rabobank Group has set priorities for its sustainability policy. For instance, additional social and environmental criterions will be applied when granting loans.

We shall now describe some salient aspects of Rabobank's domestic strategy in three respects:

A. Cost reduction
B. Revenue or organic growth
C. Domestic mergers, acquisitions and alliances

Of course, these strategies are not mutually exclusive and are related in practice.

A. Cost reduction

Cost reduction has high priority for Rabobank. Customer value is the core objective and customers do not benefit from an inefficient organization. In this light, Rabobank is working on a structural reorganization of its local banks and support units, which is referred to as 'Vision Rabobank 2005+'. This project will result in a consolidation wave among the local banks, creating bigger banks that need less support from the central institution. It is not solely a cost reducing project. Rabobank Vision 2005+ has to shape the organization and its customer service according to the new market circumstances and customer preferences. The project is dealt with in more detail in box 1.

Box 1 Vision Rabobank 2005+

Rabobank consists of 341 autonomous local banks that together have 1.445 branches, by far the densest network in the Netherlands. These local banks currently differ a lot in size and also comprise many small banks. The customer visits to the bank decreased by 95% in the last 25 years, because they have adopted the new virtual channels. Remaining visits mainly concern more complex financial issues, which require highly qualified advisors at every branch. To deal with these changing circumstances, Rabobank started the project 'Vision Rabobank 2005+', which draws the lines of the required organization and network for the years to come. One of the findings of the project was that the local banks should have a minimum size that guarantees a certain level of service and knowledge. This will lead to a process of consolidation between the local banks, with about 150 remaining local banks. The branch network will also be reorganized. The branches will be differentiated in three categories: advice centers, bankshops and service points.

The up-scaling of local banks also has consequences for the central supporting unit, Rabobank Nederland. More responsibilities can be placed within the local banks and their need for support will therefore diminish. Hence, the current and future tasks of Rabobank Nederland have recently been examined. The results indicate that Rabobank Nederland has to be restructured and slimmed down to meet the future demands of the bigger local banks. Priorities will shift and certain tasks will disappear. It is envisaged that this will result in a reduction of employees within Rabobank Nederland of 15% to about 6,000 FTE's.

[8] The three P's stand for People, Planet and Profit.

The domestic strategy also encompasses a policy for optimizing back office activities. This strategic element entails strengthening the position of Rabobank as producer of financial services and products. Internally, there is a strong tendency to centralize the processing of similar products in one unit (shared service center). Externally, Rabobank is providing specific third parties with products or administrative services. This mirrors the increasing importance of scale in the production and processing of financial services. Scale is crucial to cover the ever mounting investments in ICT, which are important for continuous innovation and efficiency. Some interesting initiatives have been undertaken in this field. The securities transactions of Friesland Bank (small competitor in the northern part of the Netherlands) have been insourced to increase the scale of operations. All of the stock transactions in turn will soon be carried out by a joined backoffice platform of Rabobank and the Belgian bank KBC (co-sourcing). The development of the systems for the securities transactions has been outsourced.

B. Revenue or organic growth

To strengthen the position of the local Rabobanks, several revenue enhancing programs are currently running. The program FAST is aimed at improving the selling power of the front office of the local banks, which has to become more pro-active. To support this, a new CRM system is installed to give the frontoffice a better insight in the needs of their customers. This system is also necessary in light of the reduction in the amount of traffic to the branch office by 95 percent in 24 years. Customers have chosen electronic channels, which has reduced the 'physical' sales opportunities of local banks.

In some areas, the local Rabobanks have not realized market leadership yet. Due to our agricultural roots, market shares in larger cities are notably smaller than those in more rural areas. Therefore, an increase in the market shares in larger cities has a high priority. This includes strengthening the market position under immigrants. In other areas, the high market share is somewhat under pressure. For instance, newcomers and the popularity of internet banking have put Rabobank's position on the savings market under pressure. On the mortgage market, intermediaries have gained market shares. Furthermore, local Rabobanks do not occupy a dominant position on the insurance market.

It is recognised that the Rabobank brand and its distribution network have their limits. Not all customers are attracted to the same brand and want to be serviced in the same way. Rabobank's response to this varies for the different market segments. The local Rabobanks are still the primary distribution channel, but multidistribution initiatives have been undertaken to reach client segments outside the Rabobank-scope. Recent examples are the acquisition of an online broker (Alex) and the establishment of a mortgage provider for intermediaries (Obvion). Rabobank also has subsidiary companies that operate under their own label, such as Interpolis for insurance and Robeco for investment funds.

C. Domestic mergers, acquisitions, and alliances

Rabobank has done several acquisitions in the past, which were largely driven by the ambition to be an Allfinance institution. Another reason for Rabobank to do acquisitions is to strengthen the position on market segments that fall outside the scope of the Rabobank brand.

A recent example is the acquisition of the Dutch online broker Alex in 2003. This acquisition helped to fulfill several goals simultaneously. On the revenue side, Rabobank taps a client segment that does not feel primarily attracted to the Rabobank brand and proposition. At the same time, this acquisition increased the number of stock transactions of all subsidiaries considerably. On the cost or back office side, the merging of all processing activities into one unit created significant economies of scale.

In order to fulfil the ambition to become market leader on the insurance market, Rabobank Group has recently formed an alliance with the insurer Achmea, which both have a cooperative heritage. Rabobank already has a strong position on the Dutch insurance market, with its subsidiary Interpolis. However, Achmea has a particularly strong position in the area of health insurance, of which the products are now going to be sold through the local Rabobanks. Rabobank has also acquired a 5% stake in Eureko (the holding of Achmea) and both parties will be represented in each other's Supervisory Boards. The cooperation is seen by both parties as a first step towards closer future cooperation.

4. International strategies of retail banks

Many financial retail institutions do not only focus on their traditional home markets, but also aim at international growth. Before discussing the selected international strategy of Rabobank Group, standard arguments for penetrating foreign markets in retail banking are addressed and assessed. Attention wil be paid to the pros and cons of options to enter foreign markets. Generally speaking, one can opt for cross-border M&A's, cooperation or strategic alliances or organic growth.

4.1 Strategic options for international expansion

In press releases and the literature, several standard arguments are mentioned to justify international expansion by retail banks. High on the list is the wish to follow domestic clients to and in foreign countries. For this, it is deemed necessary to establish a foothold in foreign countries. Realising economies of scale and scope as well as synergies is also frequently mentioned as a reason to go abroad. Cross border expansion is further expected to have a positive effect on - potential - clients and employees. It will also improve the image and perception of the institution. Furthermore, internationalisation is seen as a way to diversify activities and risks as well as to increase the profit and growth potential.

The truth is that some of these arguments are hardly convincing in the area of retail banking. It is questionable whether enough private clients and SME's will become internationally oriented in the future to justify expansion abroad. Internal research also reveals that a good international image and reputation are important but not decisive for customers and employees when selecting a bank. Moreover, it is an illusion to think that you can just export your products and services abroad. The modalities of most retail banking products still differ a lot due to (in)formal rules, different tax systems and diverging national preferences. This makes it rather unlikely that substantial economies of scale and scope or synergies can be reached (Davis, 2000). Risk diversification through geographical diversification is relatively limited since economic cycles do not differ much across Europe. Then, there is the issue of integrating foreign and domestic activities and bridging cultural differences. These aspects are difficult and hamper the realisation of clear synergies. In practice, successful cross border M&A's mainly take place in certain linguistic and geographical regions. An important reason for internationalisation of retail activities therefore seems to be the "me-too" argument: "*competitors have pan-European or global ambitions, so we have to have them too*." The increased status and income of managers resulting from international expansion is probably another (hidden) argument.

For other banking areas, it is much more relevant to have a certain (international) scale. Table 4 displays the overall synergetic potentials of cross border M&A's for different banking markets. Obviously, these potentials are fairly limited in retail banking, but considerable synergies can be reached in corporate and investment banking and asset management.

To sum up, cross borders M&A's are generally surrounded with risks and uncertainties. A less risky alternative is to establish cooperation or a strategic alliance with a foreign counterpart. This enables access to each other's distribution channels. The viability of this option depends on the degree to which the parties involved are supplementary with respect to competences or products. Possible problems are the lower level of commitment and cultural differences, which may impede the success of the alliance. Crucial is the willingness to promote and sell each other's products and services. This option is sometimes considered to be a stepping stone for closer cooperation of even a possible merger. Cooperations and alliances seem particularly suited for small and medium sized players, that do not have the strength to realise geographical diversification or do not have the size to have all products and services in house.

Table 4 Cross border economies and synergies

	Revenue economies and synergies	Cost economies and synergies	Synergetic potential
Retail banking	• Export successful products • Develop new international services	• Eliminate overlap in international retail netwerk • Integrate back office activities	Low
Corporate& investment banking	• Reach scale by broadening client and product coverage (especially mid corporate investment banking)	• Eliminate overlap in functions (e.g. FX trade, international payments) and international network • Sharing of industry expertise	High
Private banking	• Provide international services to 'global' clients	• Share part of back office costs • Close overlapping locations	Medium
Asset management	• Cross selling to larger distribution network • Reach scale to attract institutional investors	• Share research-, product development and back office costs	High
Leasing	• Vendor leasing for Pan-European clients	• Share back office costs	Medium
Insurances	• Export successful products • Develop commercial lines	• Risk diversification	Low
Internet/M-banking	• Export successful products and concepts	• Share back office costs	Low
Credit card	• Export successful products and marketing approaches	• Administration can be centralised	Low
Headoffice/IT	• not relevant	• Eliminate costs in overlapping functions	High

Source: Rabobank

Foreign parties can also penetrate other geographical markets organically. However, for the complete spectrum of retail activities, this strategy is hardly followed in practice. In retail banking, it is just too costly and time consuming to acquire substantial market shares in foreign markets yourself. Apart from the absence of a foreign branch network, differences in tax systems form a major obstacle. Besides, many European banking systems still have – some – excess capacity.

4.2 International strategy of Rabobank Group

Based on the above considerations and convictions, Rabobank has formulated its international retail strategy.[9] It is acknowledged that the cooperative nature makes significant expansion in Europe via M&A's difficult. A prerequisite for Rabobank is to maintain the cooperative identity of retail banking activities in the Netherlands. Rabobank also believes that the advantages of international expansion are often smaller than argued. Rabobank Group has opted for practical and pragmatic international steps that do justice to Rabobank's cooperative nature and history. The international retail strategy is built on three pillars:

[9] Rabobank International has a presence in many countries around the globe. It pursues a niche strategy in investment and international corporate banking with a specific focus on Food and Agribusiness.

1. *Alliances with other European (cooperative) banks*
   In Europe, Rabobank Group wants to be (part of) a prominent bank with a European dimension. To this end, alliances with other banks across Europe have been established. Inside some banks, Dutch desks are installed to help our clients abroad properly. This contributes to delivering customer value to our domestic clients.
2. *Entering foreign markets virtually*
   Our successful internet banking in the Netherlands has inspired us to export this concept. In November 2002, we have entered the Belgian market via Rabobank.be. This pure internetbank focusses on private households and offers simple products like savings and a limited number of investment funds. Rabobank.be differs from traditional Belgian banks by offering sharp prices, simple and transparent products and a user friendly site.
3. *Niche markets*
   Using our core competences, we launched the Country Banking Concept a few years ago. The long standing experience in the food and agri business makes it possible to realise managerial synergies by acquiring small foreign banks worldwide that are primarily involved in the same business but can hardly grow organically themselves. Table 4 gives an overview of the most important acquisitions so far.

Table 5 Overview Country Banking acquisitions

Year	*Bank*	*Country*	*Note*
1994	Primary Industry Bank of Australia	Australia	17% market share rural credit market
1998	Wrightson Farmers Finance	New Zealand	12% market share rural credit market
2002	ACC Bank	Ireland	Serves SME, agri, and personal customers
2002	Valley Independent Bank	USA	Californian bank with an agri-focus
2003	Lend Lease Agri-Business	USA	Origination and managing of farm loans
2004	Ag Services of America	USA	Flexible operating financing to growers

Source: Rabobank

5. Conclusion

On a macro level, domestic and international retail banking strategies can be neatly divided into a few main categories. The actual implementation and details of the strategic orientation vary remarkably across European countries and between individual banks. Banks cope differently with the same challenges and major trends. On the distribution side, banks struggle with questions like multi-channeling and decreasing customer loyalty. On the production side, ICT investments lead to issues like out- or insourcing. The strategic responses are also largely associated with the organisational structure and core values of banks. Banks try to distinguish themselves from their competitors by adhering to or creating different images. This way, they aim at attracting different markets and/or customer segments.

In this article, we have sketched the background of Rabobank's strategic positioning regarding actual banking issues. It appears that Rabobank Group has selected a strategic stance fitting its cooperative nature. Judged by the triple A rating, the increasing number of members and strong market positions of the local Rabobanks, this concept has proven extremely successful for many decades. Rabobank Group is convinced of the advantages of the Allfinance concept. Diversification stabilises earnings without reducing the efficiency if the internal organisation is in order. The cost structure of Rabobank is carefully monitored and out-, in- or co-sourcing strategies are applied when appropriate. Furthermore, multidistribution is used to acquire market share beyond the scope of the Rabobank brand. Internationally, Rabobank Group expands selectively with the Country Banking Concept, which stays close to the roots of the bank.

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