

General Certificate of Secondary Education
June 2004



BUSINESS STUDIES SPECIFICATION A
Foundation and Higher Tiers

3132/PM

Case Study

F&H

To be distributed to candidates no sooner than Monday 8 March 2004

NOTICE TO CANDIDATES

You will be given **one** copy of this Case Study for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

You will be provided with a clean copy of the Case Study, along with the question paper, for use in the examination.

You are advised to carry out your own research using this Case Study. It is the business concepts and ideas raised by the Case Study which should be researched.

DO NOT ASK THE COMPANY ITSELF FOR MORE INFORMATION.

Your teacher is encouraged to give assistance and advice as required.

Case Study: The Co-operative Bank



Introduction

The Co-operative Bank is one of the UK's major high street banks. Its headquarters are based in Manchester. The Bank has over 140 branches throughout Britain but most are found in the north of England. It also operates 170 Handybanks, which are banking points located in Co-op stores. Here, shoppers can pay in cheques and withdraw money from their Co-operative Bank accounts. The Bank has an internet banking section, smile.co.uk. It also has a large call centre, based at Skelmersdale in Lancashire, to deal with customers who prefer to operate their bank accounts by telephone.



Figure 1: Smile logo

The Co-operative Bank is a public limited company. However, it has only one equity shareholder, the Co-operative Group (CWS) Ltd. In addition, there are approximately 2500 preference shareholders, who receive a half-yearly fixed dividend on their investment.

The Co-operative Bank has produced a detailed ethical policy. The Bank has set itself very strict rules on how it conducts its business. It believes that it is more important to behave ethically than to make high profits. As a result, the Bank will not deal with any organisation whose behaviour does not come up to certain standards, even if this means losing business.



Figure 2: The Manchester Headquarters

The Co-operative Bank has equally strict social and environmental policies. The Bank considers that it has a responsibility to minimise the effects of its business on the environment. It also seeks to add value to local and wider communities. For example, the Bank will often give money to finance social or environmental projects.

History of the Bank

The Co-operative Bank has its roots in the co-operative movement, which began in the north-west of England. In 1844, a group of poor Rochdale mill workers started the movement when they co-operated by forming a grocery club. The group bought food and household items in bulk, so that they could pass on the benefits of cheaper prices to their members. Any profit which the group made was shared out between them, according to how much each person spent in its shop.

The origins of the Co-operative Bank can be traced back to 1872. It was set up as a bank to receive deposits and to make loans to the different Co-operative Wholesale Societies (CWS). It was not long before it started to offer these banking services to customers who shopped at co-operative stores.

The Co-operative Bank expanded during the twentieth century and became known for the innovations it made to its services. It was the first bank, for instance, to introduce convenient hours of opening (banks used to close at 3.30 pm and at weekends). It was also the first bank to provide free banking for customers whose accounts were in credit. In 1999, the internet subsidiary of the bank, smile.co.uk, was established.

Company Objectives

Unlike many businesses, making a profit for its shareholders is not the most important objective of the Co-operative Bank. The Bank believes it should deliver value to all of its stakeholders in an equal and fair manner. The Bank's ethical policies very much shape how it behaves.

The Co-operative Bank is selective about whom it lends money to. The Bank has a policy of not dealing with any business that operates in a way that:

- might harm the environment;
- deals in undesirable products, such as weapons, alcohol and tobacco;
- is involved in testing products on animals;
- supports oppressive regimes abroad.

One benefit of the Bank's ethical position is that it is identified as one of the top trusted names in the world. According to an international survey in 2002 by US-based organisation, Echo Research, the Co-operative Bank brand joins the famous names of Ford, BP, Coca-Cola and IBM as businesses that consumers trust.

The Co-operative Banks feels that, as it operates in the financial sector where trust is important, recognition such as this helps it to win new customers. The Bank believes that its strong ethical stance gives it an advantage over its competitors.

Many public sector organisations, such as local authorities, schools and hospitals, do their banking with the Co-operative Bank. The Bank has managed to create a niche market with these types of customers. Public sector organisations need a bank through which to pay salaries and suppliers' bills. Also, they may wish to invest surplus money in a deposit account.

Turn over ►

In 2002, the Co-operative Bank undertook a cost-benefit analysis and calculated that its ethical stance was worth about £20m in additional profit each year. The main costs and benefits that the Bank identified can be seen in **Table 1** below.

Costs	<ul style="list-style-type: none"> • Donations to charity • Financial support for community and environmental causes • Lost income from turning away unsuitable business
Benefits	<ul style="list-style-type: none"> • Income gained from attracting new custom through its ethical policies • Lower costs by using natural resources more sparingly, for example: solar energy, paper recycling

Table 1: Costs and Benefits of taking a strong ethical stance

Stakeholders

The Co-operative Bank states that it is run for the benefit of all of its stakeholders. To emphasise this point, stakeholders are called ‘partners’.

To discover the needs of its partners, the Bank frequently conducts surveys. In these, the different partners are asked for their opinions on how the Bank is conducting its business.



Figure 3: The Co-operative Bank’s Partners (Stakeholders)

Marketing

Product

Like all other banks, the Co-operative Bank obtains its income by lending money to customers. This money can be in the form of loans, overdrafts and mortgages. The Co-operative Bank must offer suitable financial packages for both its personal and business customers, if it is to attract them from its competitors. In order to encourage savers to provide the money it lends, the Bank needs to offer a competitive rate of interest and to provide suitable savings accounts as well.

The Bank gives advice on investments and operating a small business. This is done through its CBFA (Co-operative Bank Financial Advisors) subsidiary. In recent years, the Bank has diversified into some non-banking areas. It is able, for example, to provide its customers with vehicle breakdown insurance and the ability to book holidays through the co-operative travel agents, Travelcare.

Promotion

Most of the advertising undertaken by the Bank is to promote specific products, such as credit cards, savings accounts and personal loans. The Bank finds it more effective to use the national press (newspapers and magazines) rather than television to promote its products. However, it occasionally runs regional television advertisements to promote the brand name. For instance, in 2002, it used the Channel 4 South network to promote the name of the Co-operative Bank in the south of England.

The Bank also uses direct selling. Existing customers are targeted to receive mailings of promotional leaflets. This usually occurs when the Bank communicates with its existing customers, for instance, when monthly bank statements are sent.

The Co-operative Bank supports VisABLE, a campaign to get more disabled people used in advertising. The Bank believes that, as a caring business, it should be willing to support this type of campaign.

Price

The price of lending and borrowing money is the rate of interest. The banking sector is very competitive, so the Co-operative Bank tends to offer similar rates to its competitors.

The internet bank, smile.co.uk, benefits from not needing the costly overheads of a network of branches. It is estimated that each internet banking transaction (such as transferring money or applying for a loan) costs about 10% of the equivalent branch transaction. The lower costs can be passed on to customers as lower prices. This means that savers can receive higher interest rates and borrowers pay less than they would in a traditional branch of a bank. Smile, like its main competitors, Egg and Cahoot, has attracted customers in the past by offering loss leader rates of interest.

Turn over ►

Place

The total number of Co-operative Bank branches has remained constant for many years. Some of the Bank's branches have closed in recent years, but others have been opened in areas where the demand for its branch services is higher. During this period, there has been a steep increase in the number of transactions that take place using postal, telephone and internet banking.



Figure 4: A Branch of the Co-operative Bank

Interest Rates

Interest rates are very important to banks. The base interest rate, set by the Bank of England, has a great effect on banks' incomes and costs. When interest rates are low, individuals and businesses are more willing to borrow money from banks. Low interest rates, however, discourage people from saving their money. Banks have to ensure that they have enough funds coming in to match the loans that others take out.

The Bank of England controls the base interest rate on behalf of the government. Interest rates are seen as an important mechanism for controlling the economy. In times of recession, for instance, pressure groups might try to influence the Bank of England to lower the base interest rate. The Bank of England may raise interest rates if the rate of inflation is becoming too high.



Figure 5: Cash and Deposit Machines

Information and Communication Technology (ICT)

Much of the work in banks traditionally undertaken by bank employees is now performed electronically. The popularity of internet and telephone banking has increased the need for employees to have good ICT skills.

The Co-operative Bank provides training to employees to ensure that they have the up-to-date skills that a modern bank needs.

Employees

The Co-operative Bank states that it values its workforce. The Bank operates an equal opportunities policy to ensure that there is no discrimination towards applicants or employees. The Bank has reduced the layers of management, creating a flatter organisation structure.



Figure 6: The Call Centre at Skelmersdale

The Co-operative Bank has an open culture where employees are actively encouraged to give feedback on any aspects of their work. Each year, the Bank carries out a confidential staff survey. This allows the Bank to find out how the employees feel about their work. The results are analysed and published for everyone to see, and action plans are put in place to make improvements.

The Bank pays a competitive wage and offers other fringe benefits, such as discounts on loans, mortgages and holidays.

In 2001, research carried out by the Bank found that its employees valued these things in order of importance:

- salaries and other fringe benefits;
- training and career opportunities;
- relationships and the working environment;
- job security;
- co-operative culture and ethical values.

The Co-operative Bank's Director of Human Resources said: "Our staff are our most important asset, and therefore as a responsible employer we have to ensure that they can get the right balance between work and home life." The Bank recognises that many employees have to struggle with demands from both work and home. Many employees are carers, such as parents, and need a more flexible approach to working hours than some employers are prepared to give.



Figure 7: Bank employee

The Bank worked with its staff and the banking trade union, Unifi, to come up with ways in which employees could have more flexible working arrangements. The solution was to provide increased part-time working, job sharing, school term-time working and compressed hours (working longer hours one day to gain more free time another day). The Co-operative Bank believes that its employees benefit from belonging to a trade union and they are encouraged to join Unifi.

In 1998, the Co-operative Bank was the first high street bank to gain Investors in People status. In order to achieve this award, the Bank had to demonstrate that it had good training programmes and career opportunities. In 2002, the Bank was selected as one of *The Sunday Times*' "Top 100 Businesses to Work For".

In recent years, the UK banking sector has restructured, moving increasingly towards postal, telephone and online banking. It is estimated that this has led to losses of up to 200 000 jobs throughout the industry. Unlike other banks, the Co-operative Bank has resisted the pressure to close branches. The number of the Bank's employees has remained constant at around 4000 since the early 1990s.

Turn over ►

Finance

During the period 2000 to 2002, the Co-operative Bank witnessed a steady increase in its profits over several years. Extracts from the Company Accounts are given in Table 2.

	2002 £m	2001 £m	2000 £m
Operating Income	483.4	455.6	429.0
<i>less</i> Operating Costs	290.8	281.9	272.9
<i>less</i> Bad Debts	70.1	66.2	59.9
Operating Profit	122.5	107.5	96.2
Other Income	0	0	0.1
Profit before Tax	122.5	107.5	96.3
Retained Profit	78.2	68.5	59.2
Bad Debts as a percentage of loans to customers	1.60%	1.71%	1.78%

Table 2: Extract from Co-operative Bank Company Accounts

Issues for the Future

- The move towards electronic banking transactions has seen a decline in the demand for high street banks. The pressure is on all banks to close branches in remote parts of the country.
- The Co-operative Bank still has its branch customer base in the north of England.
- Internet banking has created differentiated pricing for banking services. Those customers with internet connections are able to get better deals. Those on low incomes are less likely to have easy access to computer facilities.
- The Co-operative Bank has demonstrated that there are benefits from taking a strong ethical stance. Other banks might decide to enter this niche market.

Key Websites

www.co-operativebank.co.uk

www.smile.co.uk

www.unifi.org.uk

www.cbfa.co.uk