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The Marketing Strategies of Modern Cooperative Enterprises (as Illustrated by Cooperative Banks)

INTRODUCTION

Modern cooperative enterprises, including cooperative banks, have the ability to adapt to the changing socio-economic conditions, which is confirmed by their over 170-year-long presence on the market. What contributes to the consumer confidence in the cooperative banking is how the banks adhere to the idea of cooperatives understood as collaboration, mutual assistance, responsibility, and fair competition.

The market position of cooperative banks is being jeopardised by the surge in competition in the form of commercial banks and near bank financial institutions which begin to operate on the field of cooperative banks, both with their own facilities as well as through electronic banking. Unfortunately, the task of cooperative banks is slightly more difficult if they are to compete with commercial banks due to a limited access to share capital and the local focus of their activities. Cooperative banks must therefore adopt appropriate marketing strategy through the implementation of mutual goals, in particular in the field of computerisation and marketing.

The purpose of this Article is to present the situation of cooperative banks on the background of the entire banking sector, as well as to delineate the marketing strategy undertaken by cooperative banks in order to maintain and strengthen their competitive position.

The method used in the article is a critical analysis of literature relating to the subject matter. The article will also present information on the operation of cooperative banks found on websites. A properly prepared and implemented mar-

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keting strategy is a strong foundation for the development of cooperative banking, especially in a local environment. Implementation of new services and innovations desired by customers gives it an ability to compete with commercial banking.

SITUATION OF COOPERATIVE BANKS IN THE BANKING SECTOR

The current conditions of financial market institutions are determined by stark competition. Cooperative banks are the largest group of banks in Poland, with the longest history of all the financial entities. Despite their relatively small share in the market, they constitute a part of the economy with a high potential and strong development prospects [Szelągowska, 2012, p. 123].

Cooperative banks rank high in the Polish banking market. Table 1 provides data on the number of cooperative banks in the years 2009 to 2013.

Table 1. Cooperative banks in figures 2009–2013

Description	2009	2010	2011	2012	2013
Number of banks	576	576	574	572	571
Number of branches	1552	1584	1611	1689	1723
Number of agencies, subsidiaries, representative offices	2290	2314	2393	2522	2572
Number of employees	31691	32132	32736	32976	33085
Number of the accounts	6805692	6740586	7104079	6782596	6832371

Source: <http://stat.gov.pl/monitoring-bankow-2013>, download date 14.07.2015.

In 2013, there were 571 cooperative banks in Poland. Number of their branches constituted approximately one quarter of all branches in the entire banking sector, whereas the number of employees in 2013 equalled 19% of all persons employed in the Polish banking sector. Accounts held in cooperative banks in 2013 accounted for mere 9.4% of all bank accounts held at that time, as the remaining part belonged to commercial banks.

The status of cooperative banks is portrayed inter alia in the *Information on the Situation of Cooperative and Associating Banks [Informacja o sytuacji banków spółdzielczych i zrzeszających]*, developed on a quarterly basis by the Polish Financial Supervision Authority. According to the report issued at the end of Q3 2014, the net financial result of cooperative banks increased by 11.3% compared to Q3 of the previous year, amounting to 79.7% of the result achieved in Q3 2012.

The average solvency rate for cooperative banks increased from 13.2% in December 2010 to 15.8% in December 2014. This was a relatively rapid increase in the own funds in relation to the 48.6% result from December 2010 [*Informacja o sytuacji banków spółdzielczych i zrzeszających*, 2015, p. 3].

Considering the condition of the cooperative banking sector against the backdrop of the entire banking sector, it is visible that the share of cooperatives

assets in the banking sector has increased by 1.6 percentage points since December 2008. The share of credits and loans to non-financial sector in said period has increased by 1.6 percentage points, whereas the share of deposits of the non-financial sector has increased by 1.2 percentage points (Table 2).

**Table 2. The percentage share of cooperatives sector
(cooperative and associating banks)
in the entire banking sector (as of 31.12.2014)**

Description	Years			
	2008	2010	2012	2014
Assets	7.3	8.3	8.6	8.9
Own funds	7.7	8.0	8.2	8.6
Credits and loans to non-financial sector	6.3	7.2	7.7	7.9
Deposits of non-financial sector	8.8	9.0	9.4	10.0
Employment	18.7	19.3	20.0	20.2

Source: developed on the basis of [Informacja..., 2015, p. 5].

In respect of the share of employment in cooperative banking, the results show an upward trend. Over the last six years, the employment in cooperative banks has increased by 1.5% (32940 posts). Deposits in cooperative banks show a steady upward trend. The fastest growth can be observed in deposits of individuals due to their high interest rates.

For many years, cooperative banks have been a permanent feature of the Polish banking sector. This proves that they have certain characteristics which enable them to operate in different socio-economic conditions.

Another challenge for Polish cooperative banking is to reduce operational costs and increase productivity, which will be possible if various forms of cooperation within associations are developed [Węclawski, 2010, p. 247].

This type of action may be illustrated by Podkarpacki Bank Spółdzielczy (*PBS Cooperative Bank*), which worked intensively in recent years on implementation of innovations, and was the first in Poland to introduce biometric services, involving tools for scanning blood vessel system in order to verify customer identity. Cooperative banks in the associations have been recently focused on intensive promotion with the use of various forms of communication (television advertising, mobile advertising, social media, sponsorship).

MARKETING STRATEGY OF COOPERATIVE BANKS

Socio-economic development in a market economy gave rise to the phenomenon of competition and attracting customers in order to acquire them. It has become an important problem to devise a marketing strategy for diverse facili-

ties, including banks. The specific nature of financial services marketing concerns primarily the significant role of the human element in the marketing activities of banks. This furthermore applies to all the other elements of the strategy, as well as bank rules, price factors, or promotion and distribution methods [Szopiński, 2013, p. 87].

An important element of the functioning of a bank is its marketing strategy aimed at smooth operation. It is achieved by understanding customer and market needs, acquiring customers and maintaining them as permanent service recipients, as well as by shaping their attitudes so that they are adapted to the changing situation on the financial services market.

The area of activity of a cooperative bank is contingent on its own funds. Pursuant to Article 5(1) of the Act on the functioning of cooperative banks, their associations and associating banks, a cooperative bank with the value of its own funds lower than 1 million euro may act freely in the area of the district in which its registered office is located. With own funds larger than 1 million euro, it may conduct its activities in the territory of the province in which its registered office is located. Cooperative banks whose own funds exceed the sum of 5 million euro may operate countrywide. Cooperative banks may not conduct business activities outside of the Republic of Poland (Act of 7 December 2000 on the functioning of cooperative banks, their associations and associating banks).

Bank Marketing requires development and implementation of a comprehensive strategy of bank activities aimed to create a suitable bank image, ensure customer confidence and attract customers.

Marketing activities undertaken by a bank involve possibly best solutions to achieve strategic objectives. The main task of bank marketing is therefore to identify changes in the market, to anticipate the actions of their competitors and to learn about customer needs and wishes, and finally to prepare appropriate service portfolio.

In order to build and maintain lasting relationships with customers, a marketing oriented bank must develop an effective and efficient strategy, as well as an adequate composition of marketing mix [Koniński, Nowak, 2004, p. 162].

Identifying customer needs is the key to recognising crucial moments in which the bank should offer the customer a particular financial product. It is only by meeting the needs of customers that a bank can gain their trust and a lasting loyalty, as confirmed by the Customer Journey studies. Essential in this process is the analysis of the banks customers' path to purchase, conducted by Deloitte, the results of which were presented during the 3rd European Financial Congress in Sopot [<http://it-manager.pl>, 2015, download date 14.07.2015]. The path to purchase of a bank customer is illustrated in Figure 1 below.

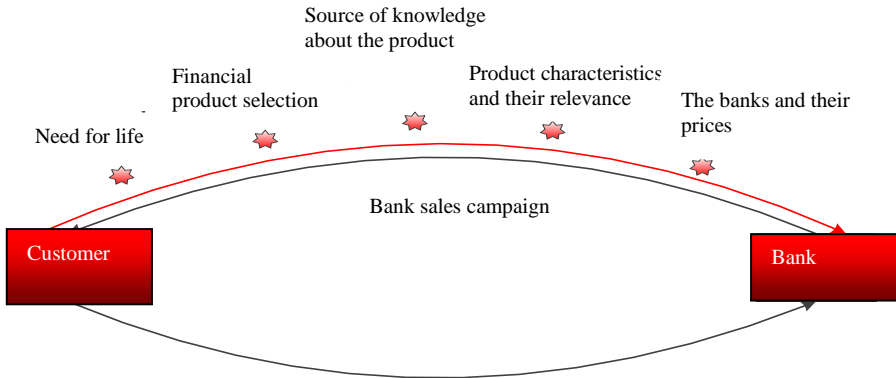


Figure 1. The path to purchase of a bank customer

Source: <http://it-manager.pl/droga-banku-do-klienta/> (download date 14.07.2015)

The process of devising an appropriate marketing strategy can be divided into a number of stages. It begins with an analysis of the current situation, which is to give answers to some fundamental questions:

- Is the cooperative bank brand well-known and recognisable?
- How does the market perceive the company?
- What is the image of cooperative banks in general?
- What is the position of cooperative banking among its competition?
- What is the level of customer loyalty for cooperative banks?
- What distinguishes cooperative banks and their portfolio from the competitors?
- What are the competition activities in respect of communication with customers?

The next step entails setting goals for further proceedings. In determining those objectives, it is helpful to consider the following questions: What is the desired image of the cooperative banking? What is the company's desired image? How can cooperative banks distinguish themselves from the competition? What are the desired customers' associations with cooperative banks?

As a next step of strategy building, a bank needs to select its target groups, so that it can match suitable tools and communication channels to be employed. This and action planning is the next stage, at which the bank also decides whether it should use the traditional media, or employ the modern ones as well (the Internet, social networking sites, blogs, etc.) [Iwankiewicz, 2014, p. 18].

For years, marketing strategies of commercial banks directed at rural areas have been deeply rooted in the belief that entering this market is not cost effective because of low population and low financial capacity of potential customers. This led to a monopoly of cooperative banks in their immediate vicinity. This situation, however, began to change with an increase in mobility of residents of

rural areas, as well as with the provision of technology banking services outside bank facilities. That is why the potential customers of cooperative banks are currently taking advantage of commercial banks services owing to a wider product portfolio, mainly in respect of electronic banking services. While cooperative banks have accepted the competition's challenge in respect of self-service banking, the issue of online and mobile banking is still pending, given the high costs of its implementation, which are easier to bear for commercial banks. A possible solution for this situation would be to implement integrated systems within the sector of cooperative banks in collaboration with associating banks [Węclawski, 2010, p. 239]. Figure 2 below illustrates the prospective for marketing strategies of cooperative banks.

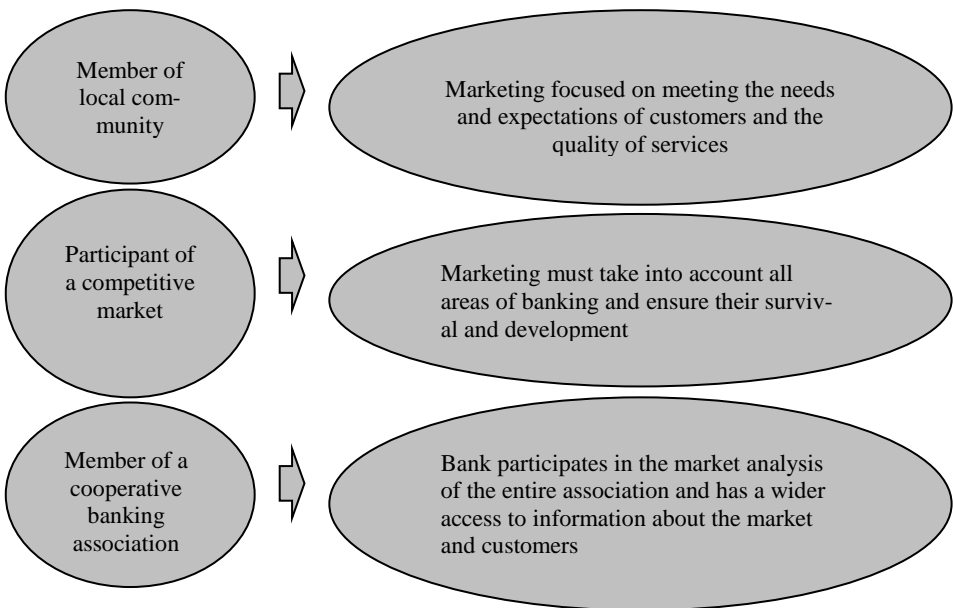


Figure 2. Prospective marketing strategies for cooperative banks

Source: [Iwankiewicz, 2014, p. 17].

Marketing activities of cooperative banks should take into account the specific nature of the banks themselves and the target market for their products. Unfortunately, marketing activities of cooperative banking is significantly limited due to the financial resources a bank may use for them and the lack of experience in implementing a marketing approach in relation to the potential customer compared to the rest of the financial sector.

If they are to have an advantage over commercial banks, cooperative banks should build it on their specific nature resulting from the cooperative character of ownership and strong links with the local community.

A relatively bigger marketing activity is visible among banks associating cooperative banks, which rely on marketing strategies, marketing campaigns and branding addressed to new groups of customers.

Table 3 shows the factors of gaining a competitive advantage by a cooperative bank on the local financial market and real strengths of banks according to bankers.

Table 3. Crucial factors for competitive advantage of a bank on its local financial market

Description	Advantages of banks		
	Percentage of indications		Difference between cooperative and commercial banks
	Cooperative bank	Commercial bank	
Trust with local community	84.2	50.0	+34.2
Knowledge of local market	44.7	16.7	+28.0
Low fees and commissions	55,3	41.7	+13.6
Competitive credit-deposit service portfolio	15.8	45.8	-30.0
Broad access to bank services	28.9	20.8	+8.1
Scope and quality of services	18.4	45.8	-27.4
Effective organisation and management	15.8	12.5	+3.3
Flexible service portfolio, possibility of negotiating contract terms	26.3	37.5	-11.2
Staff qualifications	7.9	29.2	-21.3
Technical progress and innovativeness	0.0	2.6	-2.6

Source: [Alińska, Pietrzak, 2012, p. 199].

The key advantages of cooperative banks competing with commercial banks on the local financial market include:

- Customer trust and commitment to the bank, a positive bank image and a long tradition
- Knowledge of the customers and their needs, familiarity with the specific local environment, close relationships between bank owners and the local environment

Advantages of cooperative banks with regard to competitors also result from such factors as the availability of banking facilities, commitment to the bank, simplified loan procedures [Kołodziej, 2008, p. 97].

Owing to their individual character, cooperative banks provide customers with products tailored to their needs, taking into account the local economic conditions.

CONCLUSION

For many years, cooperative banks have been a permanent feature of the Polish banking sector thanks to certain characteristics which enable them to operate in different socio-economic conditions.

Co-operative banks should develop their innovative activities so that they can gain a better position in the banking services market. In the years to come, cooperative banks should also focus on expanding their credit-deposit services portfolio, monitoring customer satisfaction and improving service quality.

If properly used, the vast potential of cooperative banking may contribute to an increase in its importance in the banking service market in the near future. What may be of utmost importance in subsequent years is the consistent implementation of bank activities and the marketing strategy, as well as a suitable and customer-oriented policy.

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Summary

The paper presents the situation of cooperative banks in the light of the banking sector and the marketing strategy implemented by cooperative banks in order to strengthen their competitive position. The major advantages of cooperative banks over the competition of commercial banks include: customer trust in the bank, a good image of the bank, awareness of the local environment, Polish capital exclusively, lower propensity to risk compared to commercial entities. In their activities, cooperative banks follow the fundamental principles and values of the cooperative such as honesty, responsibility, and also less pressure to maximise profits, which result from the cooperative forms of activity – this gives cooperatives greater financial stability. The results achieved by cooperative banks in recent years seem to imply their good position in an increasingly competitive market. Cooperative banks still face a number of challenges which they must cope with to retain their market positions. These include mainly the promotion and implementation of innovative solutions, electronic banking, which will affect their ability to compete with commercial banks. A properly prepared and implemented marketing strategy of the bank is a firm foundation of the development of cooperative banking, especially on the local level. The implementation of cutting-edge services and innovations, desired by the customer, gives cooperative banking entities the opportunity to compete with their commercial counterparts. Gaining advantage in the long run makes it necessary to continuously monitor and identify the needs of customers and shareholders, and to rapidly adjust the service package to their expectations.

Keywords: marketing strategy, cooperative bank, competition.

Strategie marketingowe współczesnych przedsiębiorstw spółdzielczych (na przykładzie banków spółdzielczych)

Streszczenie

W artykule przedstawiono sytuację banków spółdzielczych na tle sektora bankowego oraz strategię marketingową realizowaną przez banki spółdzielcze w celu wzmocnienia własnej pozycji konkurencyjnej. Do atutów banków spółdzielczych w konkurencji z bankami komercyjnymi należy zaliczyć: zaufanie klientów do banku, dobry wizerunek banku, znajomość lokalnego środowiska, wyłącznie polski kapitał, mniejszą skłonność do ryzyka w porównaniu do podmiotów komercyjnych. Banki spółdzielcze w swojej działalności kierują się podstawowymi zasadami i wartościami spółdzielczymi takimi jak uczciwość, odpowiedzialność, a także mniejsza presja na maksymalizację zysku, wynikająca ze spółdzielczej formy działania, co daje spółdzielniom większą stabilność finansową. Wyniki, jakie osiągały banki spółdzielcze w ostatnich latach wskazują, że dobrze radzą sobie na coraz bardziej konkurencyjnym rynku. Banki spółdzielcze borykają się z wieloma problemami, którym muszą podołać, aby utrzymać swoją pozycję na rynku. Chodzi głównie o promocję, wprowadzanie innowacyjnych rozwiązań, bankowości elektronicznej, co wpłynie na ich zdolność do podejmowania rywalizacji z bankowością komercyjną. Właściwie przygotowana i realizowana strategia marketingowa banku stanowi mocne podstawy dla rozwoju bankowości spółdzielczej, zwłaszcza w środowisku lokalnym. Wdrażanie nowszych usług i innowacji pożądanym przez klientów daje możliwość konkurowania bankowości spółdzielczej z bankowością komercyjną.

Uzyskanie przewagi w dłuższej perspektywie powoduje konieczność ciągłego monitorowania i identyfikowania potrzeb klientów i udziałowców oraz szybkiego dostosowywania oferty do ich oczekiwań.

Słowa kluczowe: strategia marketingowa, bank spółdzielczy, konkurencja