Porter's five-force analysis on the Banking Sector

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1 Introduction

The banking and financial industry plays a significant role in the country's economy. It handles everything finance-related, including money and how it flows, and where it goes in the market. Banks decide how cash flows and the RBI decides how MUCH cash flows. Banks and financial platforms are responsible for all sorts of transactions and trading opportunities and facilities like loans, FDs, savings, etc. Therefore, analysis of how the banking sector works and how it will affect the market and stocks, as well as how this has affected the past, will be an ideal industry to research, in my opinion.

A market research study, if well-organized, can actually help banking financial organizations to understand their customers, their needs, and how their preferences are changing. Not only that, but it also opens potential investment doors for rapidly growing organizations worldwide. So, market research benefits not only organizations but also the industry as a whole. Some of the most common areas researched worldwide in the banking financial industry are insurance, pensions, personal loans, property, credit cards, mortgages, current savings accounts, and business banking.

Here is an analysis of the Banking Sector using Porter's Five Forces:

2 Porter's Analysis

2.1 Bargaining power of buyers

As of now, there are 34 banks in India, out of which 12 are government banks and the rest are private sector banks. This number is huge, and customers have a lot of independence and freedom in terms of which service they can choose. This means that customers have a lot of say in deciding the bar set for various quantities like loans, interest rates etc., as they are becoming more aware thanks to the internet. Within a certain range, thus, customers are the key factors in deciding bank policies. If a bank offers more convenience to the customers, customers will make the switch. For example, ING Direct introduced high yield savings accounts to catch the buyers' attention, then they went a step further and made it very easy for customers to transfer their money from their current bank to ING. ING was successful in their attempt because they managed to make switching costs very low in terms of time and capital.

2.2 Bargaining power of suppliers

The suppliers in the banking industry include the depositors and the labor force, namely the workers and executives. Individual depositors tend to have a very little impact on the policies of an bank. However, bigger players like firms and other large deposit makers tend to be a threat to the independence of banks. For this, banks can focus on getting more clients and not being pivoted to a particular group of them. As in the case of individual employees, employees at the branch level do not pose much threat to the banks, rather those at the executive levels tend to do. This means the bank must offer lucrative salary and better benefits packages to such employees to retain them. Online service providers also play a major role in the banking sector, as more and more services come to be online as well. For this, suppliers such as app and web developers also have an impact on the bank's margins. However, these impacts can't be exaggerated, as the country has no dearth of talent available in terms of soft skills.

2.3 Rivalry among competitors

As we discussed above, there are 34 banks in the country, each with their own sets of offers, merits, demerits etc. This gives the customers a wide array of options to choose from, and thus increases competitiveness between the banks as well. This is because now the banks are pressed to provide better facilities and services to their customers lest they choose others over them. With the advent of online banking, the online facilities of banks also must meet the demands of an ever-growing online and well educated population, and problems such as bank servers down for online payment aren't considered good signs.

2.4 Threat of Substitute Products

Substitute products to banks include platforms like PayTM and PhonePe, as well Slice cards, Uni cards, Apple pay etc. These companies offer a lot of similar products that banks do, and often better, as they are specialized in those fields.

2.5 Threat of new Entrants

Setting up a bank is clearly not a piece of cake, as apart from the capital required to set up a private bank, the interested must also think about setting up the framework, making an online presence and a lot of other hurdles, whose scale happens to be much larger than other industries. Additionally, with the amount of well set up localized banks, there's a lot of pressure of competition to these new entrants, which makes setting up a new bank feasible only with a lot of capital and a robust business model.