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New Competition in Financial Services

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This article examines the effects of competition facing financial services institutions, from the strategic management and from organizational management viewpoint. Through analysis of a survey, the nature of the problems facing managers are highlighted. The article is intended as a case study of an industry under change, and the conclusions identify lessons to be learned from the experience.

The personal financial services sector in the U.K. has recently been experiencing the effects of changes in its regulatory framework and the consequent impact upon the competitive environment. These changes have mainly stemmed from the introduction of the Financial Services Act and the Building Societies Act, although other legislative changes have also been influential. The increase in competition is also related to other factors beyond regulatory developments, particularly the internationalization of financial markets and the development of information technology.[1]

In an article published in this Journal at a time when the process of change affecting financial services institutions was just beginning, the senior corporate planner for the Trustees Savings Bank identified key strategic issues which would need to be dealt with in the coming decade.[2] Particular importance was assigned to the need to examine carefully the boundaries of institutions' business and to clearly define the 'knitting' which they were to stick to. Moreover, ensuring that the style of management adapted to changing circumstances was seen as a necessary accompaniment to strategic developments.

In this article we examine the effects of the 'new' competition facing financial services institutions in both strategic and organizational terms. The traditional nature of the sector has exacerbated the trauma normally associated with imposed changes in the competitive process. Most of the changes affect the supply side of the industry with little evidence of significant pro-active shifts in the pattern of demand. Through the use of survey evidence, which seeks to quantify the changes taking place, we hope to highlight the nature of the strategic and organizational problems facing managers in personal financial services institutions and to indicate potential solutions. An important theme is the need for flexibility of response and experimentation. The approach draws on various strands in the relevant literature and new evidence from a recent survey undertaken by the Nottingham Institute of Financial Studies of 265 firms who provide personal financial services.

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The Industry Background

Financial institutions providing personal financial services were well defined by the products they offered up until the 1980s with relatively little competition between types of institutions. There were well established boundaries between areas of operation albeit with some overlap.

In the early 1980s, the pricing cartel of the building societies broke down and the banks made a determined push into the mortgage market. These changes led to a move into money transmission services by the largest building societies. In addition, attention in the sector focused on the retailing of insurance products and the considerable commission earnings which this activity could generate. Thus all the major types of financial institutions moved into direct competition across the sector. Instead of the traditional 'institutions' view of the market, a customer view became a more useful way of approaching corporate strategy as illustrated in Figure 1. Table 1 shows the market penetration of various personal financial services broken down by customer characteristics. Recently, competition

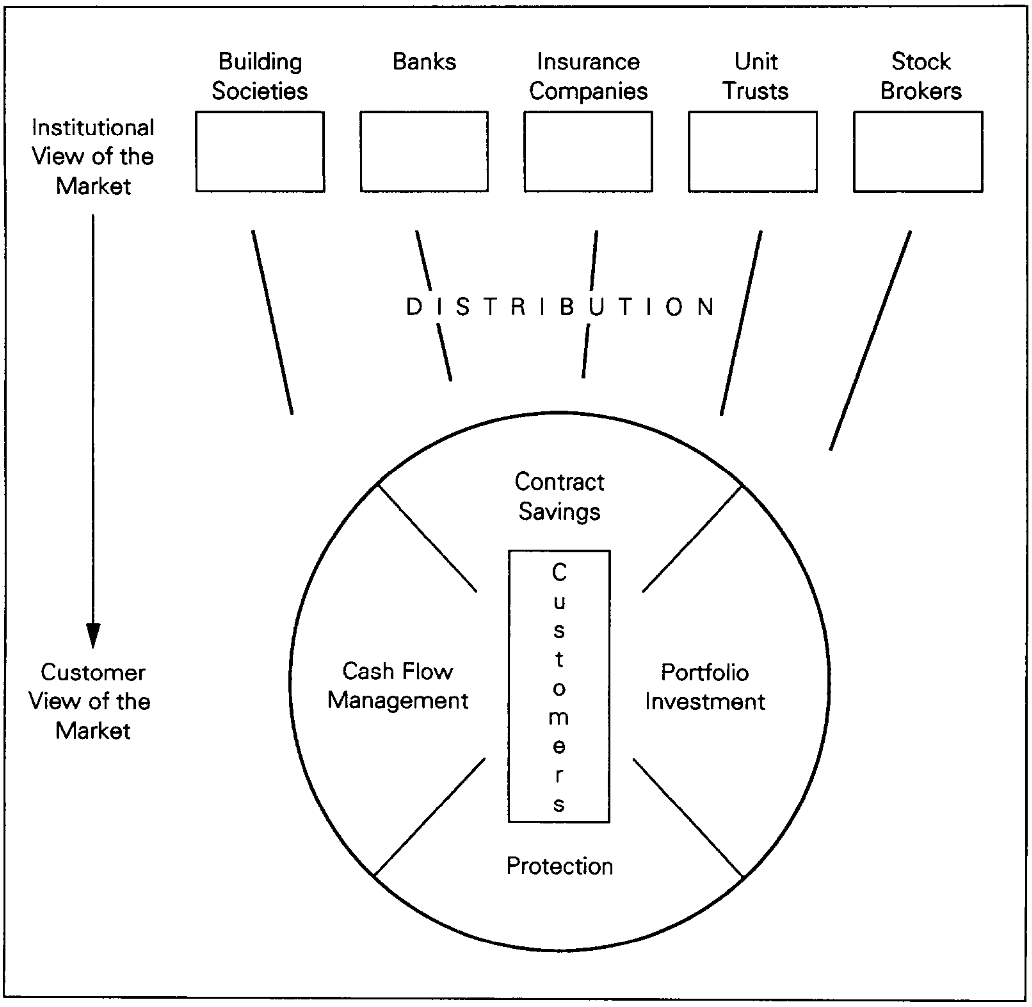

Figure 1. The switch from supply to demand orientation

Table 1. Bank accounts, building society accounts and credit card holders

	Total %	Male %	Female %	A %	AB %	C1 %	C2 %	DE %	16–20 %	21–24 %	25–34 %	35–44 %	45–54 %	55–64 %	65+ %
	100	48	52	3	17	22	31	30	10	8	18	16	14	14	19
Bank current account	67	71	63	92	90	82	67	43	45	65	77	79	74	68	54
Bank deposit account	31	32	30	39	34	32	32	28	28	26	27	33	34	32	33
Building society— ordinary share account	48	47	48	48	54	54	50	36	46	55	57	53	45	44	37
Building society— higher interest account	17	18	16	36	34	23	14	7	6	12	15	19	20	27	18
National savings certificates	5	5	5	18	11	6	3	3	1	1	2	2	4	8	11
Stocks and shares	9	10	7	35	22	11	5	3	2	3	8	9	12	12	9
Bank credit card	32	37	28	64	60	43	27	13	14	26	40	44	39	33	18[1]
Bank loan	8	10	5	6	9	9	9	5	5	11	13	12	9	4	1[1]
Retail store account	12	12	13	25	23	15	10	6	8	13	18	17	15	8	5[1]
Life assurance	55	63	47	50	53	55	59	52	25	42	59	66	65	62	45[1]

[1]Less than 0·5%.
Base: 31,885 adults aged 16+ in Great Britain.
[2]*Base:* 30,787 adults aged 18+ in Great Britain.
Source: NOP Financial Research Survey October 1985–March 1986.

across types of institutions has focused particularly on:

☆ mortgage provision (banks, building societies, insurance companies and specialist suppliers)

☆ attraction of young investors (banks and building societies)

☆ money transmission services (banks and building societies)

☆ longer term investments (insurance companies, unit trusts, stock brokers)

☆ higher interest accounts (banks and building societies).

The next two sections examine the corporate strategy and organizational implications of these changes and the advent of new competition.

Corporate Strategy Responses

In order to maintain previously profitable positions in the wake of the changes just noted, suppliers of personal financial services are being forced to develop coherent corporate and marketing strategies.[3] The precise form of these developments is only now becoming clear, primarily because the changes mentioned above have not yet fully worked through their impact on the market.

The key issues in respect of corporate strategy concern the extent of movement by institutions into the various types of strategy that are available. From these moves, two further aspects of developments become important—the prospects of success of all new entrants and the extent to which a given spread of activities can be sustained.

Strategies can be classified according to competitive scope, broad or narrow, and competitive advantage, in cost or differentiation.[4] The nature of these strategies is outlined in Figure 2. A broad competitive scope is represented by the firm's coverage of a large number of market segments while narrow competitive scope is represented by dealing with only a few market segments. A cost competitive advantage is represented by a decision to offer a narrow range of standard products while a differentiation competitive advantage was reflected in a wide range of products. Thus, for example, the Abbey National Building Society could be seen as a differentiation leader, offering banking, insurance and house purchase facilities to most segments of the personal financial services sector while, by contrast, the Northern Rock Building Society, offering basic housing finance and other limited lending facilities to a regional segment of the market, might be seen as a cost focuser.

The relative extent of expected moves by personal financial services institutions into these areas is indicated in the recent survey. The survey focused attention on how firms expected their strategies to evolve over the period up to 1992. The results of the strategy survey are presented in Tables 2 and 3. Comparing current and future strategies the survey results show that 64 per cent of firms currently rely on cost-based strategies with a narrow product range and the bulk of these are focus strategies in a limited number of market segments. However, over the next 5 years, we observe a significant shift in favour of differentiation strategies with 54 per cent of respondents planning to pursue this route, thus taking advantage of the removal of restrictions on product ranges. It is interesting to note that the biggest increase appears to occur in the category representing differentiation leadership. It is unlikely that the current market will support this number of leaders and these responses may reflect some over optimism on the part of a number of participants.

There is little evidence of firms opting for major strategic shifts over the next 5 years (e.g. cost focus to differentiation leadership). The number of cost focusers declines; 44·8 per cent seek to retain their existing strategy, 23·8 per cent opt for cost leadership and 21 per cent for differentiation focus. Among cost leaders the most common change in

Table 2. Current corporate strategy

	All firms	Insurance companies	Insurance brokers	Banks	Unit/ investment trusts	Building societies	Stock brokers
Cost focus							
Narrow product Range	111	27	11	6	18	20	17
Small number of sectors	(42·0)	(42·2)	(23·9)	(27·3)	(42·9)	(43·5)	(63·0)
Cost lead							
Narrow product Range	59	18	7	3	12	14	4
Large number of sectors	(22·3)	(28·1)	(15·2)	(13·6)	(28·6)	(30·4)	(14·8)
Differential focus							
Broad product Range	52	11	14	5	9	8	2
Few sectors	(19·7)	(17·2)	(30·4)	(22·7)	(21·4)	(17·4)	(7·4)
Differential lead							
Broad product Range	42	8	14	8	3	4	4
Broad sectors	(16·0)	(12·5)	(30·4)	(36·4)	(7·1)	(8·7)	(14·8)
Total respondents	264	64	46	22	42	46	27

(*Note:* Figures in Brackets are percentages.)

BASIS FOR COMPETITIVE ADVANTAGE		COVERAGE OF MARKET: BROAD (Many Market Segments)	COVERAGE OF MARKET: NARROW (Few Market Segments)
	DIFFERENTIATED PRODUCTS	DIFFERENTIATION LEADERSHIP Marketing a Variety of Products to Many Market Segments — e.g. Clearing Banks and Large Building Societies	DIFFERENTIATION FOCUS Marketing a Variety of Products to Few Market Segments — e.g. Regional Insurance Brokers
	STANDARDIZED (LOWER COST) PRODUCTS	COST LEADERSHIP Marketing a Limited Range of Products to Many Market Segments — e.g. Life Insurance Companies	COST FOCUS Marketing a Limited Range of Products to Few Market Segments — e.g. Small Regional Building Societies

Source: Porter M. E. (1985), *Competitive Advantage: Creating and Sustaining Superior Performance,* Free Press, New York.

Figure 2. Different types of strategies

Table 3. Future corporate strategy

	All firms	Insurance companies	Insurance brokers	Banks	Unit/ investment trusts	Building societies	Stock brokers
Cost focus							
Narrow product Range	56	10	7	3	10	9	11
Small number of sectors	(22·0)	(16·4)	(16·7)	(14·3)	(25·0)	(19·6)	(44·0)
Cost lead							
Narrow product Range	61	22	7	2	13	9	5
Large number of sectors	(24·0)	(36·0)	(16·7)	(9·5)	(32·5)	(19·6)	(20·0)
Differential focus							
Broad product Range	57	12	11	5	8	11	5
Few sectors	(22·5)	(19·7)	(26·2)	(23·8)	(20·0)	(23·9)	(20·0)
Differential lead							
Broad product Range	80	17	17	11	9	17	4
Broad sectors	(31·5)	(27·9)	(40·4)	(52·4)	(22·5)	(37·0)	(16·0)
Total respondents	254	61	42	21	40	46	25

(*Note:* Figures in Brackets are percentages.)

strategy is made in order to take advantage of deregulation to broaden product ranges; 51·6 per cent of cost leaders retain that strategy but 31·6 per cent anticipate moving to differentiation leadership. Among those firms currently pursuing a differentiation based strategy there is no evidence of any significant move away from this source of competitive advantage; 55·3 per cent of differentiation focusers and 75 per cent of differentiation leaders envisage retaining their existing strategy with the only obvious move being differentiation focus to differentiation leadership, 42·6 per cent of differentiation focusers.

Interesting differences arise in patterns of strategy across different types of financial institution. Insurance brokers and banks are already strongly reliant on differentiation strategies; brokers indicated the likelihood of a slight shift from differentiation focus to differentiation leadership but the change is rather small. The banks by contrast envisage a more significant shift in favour of differentiation, perhaps in response to greater competition in their traditional areas of business.

By contrast, though not unsurprisingly, stockbrokers see their strategy as primarily a cost focus strategy; only 22 per cent identify themselves as pursuing a differentiation based strategy. However, as a group, the stockbrokers seem to envisage some developments in their traditional business which will encourage differentiation, and by 1992, some 36 per cent expect to be pursuing a differentiation based strategy. The Insurance Companies, Unit/Investment Trusts and the Building Societies correspond much more to the sample norm. Until now, they have perceived their role as primarily specialists in particular types of product; for these types of organization, de-regulation has clearly had a major impact, making it possible for them to diversify within the market for personal financial service and move quite strongly in the direction of differentiation strategies.

Clearly, with a large number of firms moving in the direction of greater differentiation and away from cost based strategy, the extent of competition within personal financial services is bound to increase. In particular, with many firms pursuing similar strategies it is unlikely that all will succeed. Indeed, this extensive move towards differentiation may well create gaps in certain market segments, providing opportunities for the alert firm to develop such segments on the basis of a cost focus strategy. On the other hand, one may expect to see adjustments in corporate strategic direction with some firms either moving away from differentiation or reducing the extent of it.

Organizational Issues

Corporate strategic shifts resulting from increases in competition and other changes in the environment place pressure upon the traditional skills required of management and the ways in which those skills are exercised. An important aspect of these developments is the effect upon the traditional head–office–branch relationship and the differing skills required of managers in both parts of the organization. Thus we find that the London Clearing Banks have recently started to reduce the number of branches and to differentiate the functions of those branches. The Midland, for example, has established a commercial division with specialized regional branches working alongside remaining traditional branches. This has been accompanied by a switch away from general management functions within the banks towards more specific, sectoral management functions and a greater emphasis on central control of management activities.[5]

Evidence from the recent study sheds light on the extent of organizational changes taking place to deal with new product introductions and the managerial problems involved. Respondents were asked to state which changes had occurred for products introduced in the last year, and what was expected in the coming 5 years (Table 4). Most notable in both respects is the recruitment of specialist management, a need which is expected to increase substantially in the next 5 years. A similar increase is expected in changes in the highest level of managers. Part of this change, of course, may be due to retirement, but the magnitude of the increase may indicate a perceived need to introduce senior management with a more strategic perspective. The actual and perceived need for a more flexible organizational structure also figures very strongly, and keys–in with expected changes. Changes in head–office–branch relations, however, figure relatively lowly. These differences may reflect an emphasis upon strategic thinking, but a key issue is the extent to which branch networks fully respond to the new directions expected of them. For example, it is not clear to what extent branch managers market and sell new products as effectively as head offices might wish or make effective use of/make effective inputs into, new marketing information systems which may be introduced. There may be perceived managerial problems in introducing new products. The survey distinguishes between products introduced by acquisition and those developed internally (Table 5).

For those institutions having introduced new products by acquisition, difficulties in combining different management styles and in combining different computer systems are both seen to be important, as might be expected. One of the public reasons for the failed merger between the Nationwide and Woolwich Building Societies was related

Table 4. New products and organizational changes

Type of change	For products introduced in last year %	Expected in next 5 years %
Changes in highest level managers	16·9	30·2
More flexible organizational structure	18·0	22·7
New tier of management	9·7	15·8
Introduction of divisionalization	12·2	13·7
Removal of a tier of management	1·4	1·4
Recruitment of specialist management	19·8	35·3
Change in head office-branch relations	5·0	10·1

Bases for percentages 265.

Table 5. Managerial problems in introducing new products

	Important %	Quite important %	Not important %	Not answered
(a) Products introduced by acquisition				
difficulties in combining different management styles	23·4	21·2	8·6	46·8
difficulties in combining different computer systems	26·6	19·4	9·0	45·0
(b) Products introduced by internal product development				
difficulties in recruiting specialist staff	35·6	32·4	11·9	20·1
difficulties in dealing with change in the organization	20·5	38·1	19·1	22·3
difficulties in reacting quickly to competition	30·6	27·0	19·8	22·6

Bases for percentages 265.

to incompatibilities in computer systems. For those institutions introducing products by internal development, difficulties in recruiting staff is noticeably the most important problem, followed by difficulties in reacting quickly to competition. However, whilst the issue of dealing with change in an organization is seen as quite important, relatively few respondents saw it as an important problem. This last point is perhaps a little surprising.

The manner in which change is introduced into an organization has long been recognized as having an important bearing on whether or not change succeeds. Moreover, there is a need to match the process of change to the particular organizational context. In some cases this may involve changing strategy to match a given organizational culture. In others the company culture may be changed to match a given strategy.

The concept of an organization's culture has an important role in analysing how change is to take place and at what speed. Organizations tend to have well developed codes by which they function and established ways in which they adapt.[6] Changing those codes and learning systems, and hence the organization's culture, may be difficult. Successful product innovation, in commercial banks, has been found to be dependent upon the existence of a flexible management structure which stimulates and progresses efficient product innovation, good internal integration of all activities involved in innovation and a corporate culture receptive to innovation.[7] Further difficulties may be raised with new products introduced by acquisition rather than internal development, as our survey evidence shows. Question marks over the realization of gains from merger are well known.[8] Key problems are caused in the integration of different cultures and management styles. There may be a need to introduce a monitoring system for a newly acquired subsidiary which is consistent with other parts of the organization.[9] However, different management styles and organization structures may be appropriate for different circumstances.[10] Moreover, managers and employees operating in different market sectors may need to be remunerated differently to give them the incentive to perform.[11] For example, estate agency activities may require a more flexible mode of operation and a more entrepreneurial remuneration package than traditional bank or building society branch functions. Failure to take account of these factors may provoke resistance to change and difficulties in meeting competition in the market.

Boundaries between Suppliers

The provision of new products is not, however, simply concerned with whether they should be generated internally or acquired. Rather, the important strategic question is whether an activity or product should be provided within the firm itself or through an arrangement with another firm. If the latter approach is preferred, further examination of the appropriate nature of the relationship is needed. In some cases, a pure market relationship will be appropriate.[12] In others, some kind of collaboration may be necessary, through such mechanisms as joint ventures, minority shareholdings, franchising, etc.

The relevant issues are well illustrated by several aspects of recent developments affecting firms providing personal financial services. The first aspect concerns the motives and means by which some firms have entered the estate agency market. The second aspect relates to the polarization decision as to how investment, and particularly insurance products will be distributed. The third element relates to the degree to which experimentation in respect of transactional forms is occuring.

Estate Agency

Entry into estate agency provision has been made in several ways—acquisitions, franchising, cold start, minority shareholdings and joint ventures (see Table 6). Some individual institutions have pursued more than one strategy for entry. One route is to emphasize acquisitions, which allow for the rapid building-up of a significant presence, whilst opening new premises or converting excess branch capacity helps to fill-in gaps in networks. Alternatively, institutions may seek a more arms-length relationship through the use of franchising, partial acquisition and links with existing estate agency networks (including those developed by other types of institution—for example a building society may link with a chain of estate agents formed by an insurance company). The manner in which institutions have signalled their presence to the market has also varied—from replacing original agents' names with their own, to making little or no outward change to for sale boards and shop-fronts, via a mixture of in-between styles.[13] Whilst estate agents occupy an important position in the house-buying process and provide opportunities for selling mortgages and insurance, serious issues need to be dealt with in using them as a distribution route.

Estate agents have traditionally had a poor reputation in the eyes of the public, as surveys by the Price Commission in 1979 and regular surveys published in 'Which?' magazine continue to show. Hence, societies and other institutions face an important task in changing the image of estate agents in order that their own reputations are not damaged. A second major problem arises in integrating a large number of acquisitions made in a short period of time, particularly as the managerial skills required in estate agency are very different from those involved in running financial institutions. These problems may be overcome by recruiting estate agency people whose skills may now be at a premium because of the increased demand for them to undertake the task. However, there remains

Table 6. Forms of entry into estate agency

Acquisition	Cold start	Franchising	Partial acquisition	Links	Branch conversion
Building Societies					
Halifax	Abbey National	Abbey National	Northern Rock	Newcastle	Nationwide-Anglia
Abbey National	Nationwide-Anglia			Northern Rock	Woolwich-Gateway
Nationwide-Anglia	Woolwich-Gateway				Town and Country
	Yorkshire				
Leeds Permanent	Peterborough				
Principality	Frome				
Bristol and West	Ilkeston				
Cheltenham & Gloucester					
Insurance Companies					
General Accident					
Prudential PS			Royal		
Royal					
Pioneer					
Banks					
Lloyds (Black Horse)	Hambro				
Hambro					
TSB					
Financial Services					
Abaco Inv	Hogg Robinson PS	Provident Financial (Whitegates)			
Hogg Robinson PS	Provident Financial (Whitegates)				
Provident Financial (Whitegates)					

a problem in motivating managers of estate agents who have just become very wealthy as a result of being bought-out and whose entrepreneurial style is at variance with traditional financial institutions' approaches to business. The franchise route avoids the high premia being paid on acquisitions (and hence implications for profitability) and the internal managerial issues just noted. However, there are major issues involved in establishing a brand image, in ensuring adequate quality of management performance (especially given the recent wave of acquisitions in which a large proportion of the better estate agents have been incorporated into groups) and in ensuring adequate control so that the institution's quality reputation is not harmed.

As yet, it is a little early to form a reliable judgement on the outcome of institutions' decisions to enter estate agency. Many are still in a transitional phase and the house-price boom of 1987 and 1988 may have cushioned some of the adverse aspects. However, the problems involved in integration, particularly if exacerbated by adverse market conditions, may provoke subsequent divestment.[14] It will also be of interest to see the relative success of the different modes chosen for offering estate agency services.

Polarization

The polarization decision involves distributors of investment products opting either to be tied representatives or to offer independent advice or as an introducer to someone who will provide advice.[15] Institutions have now made their polarization decisions. Building societies' decisions in respect of the distribution of insurance are shown in Table 7.

Table 7. Building societies decisions on polarization (Aug. 1990)

	No	%
Independent	12	12
Tied	79	79
Introducer	9	9
Total	100	100·0

Source: BSA.

The majority have now opted for tied status, not least because of the training costs that would otherwise be involved. Amongst the large building societies, only the second largest, the Abbey National, initially opted for tied status (with Friends' Provident). Most of the other larger societies, which originally chose independence changed their minds and became tied. National Westminster has chosen to offer independent advice through its branches. The other clearing banks have opted for tied status for their branches, with the main Scottish clearers changing their initial decisions. Suppliers of insurance and other investment products may use both tied and independent intermediaries to distribute their products to the final consumer. The Insurance Companies who formed the Campaign for Independent Financial Advice (CAMIFA), however, originally took the stance that they should rely only upon independent advisers. It is by no means clear how successful or permanent these arrangements will be. Evidence from other sectors indicates changing forms of relationships over time. Those insurance companies with more mediocre performance still relying on referrals by independent agents may, in time, need to further revise their distribution decisions. Those with tied arrangements may need to question how effective their agents have been and what effects there are on company reputations. Agents themselves may come to compare remuneration levels between suppliers. The Norwich Union insurance company, one of the founder members of CAMIFA, decided to effect a switch in late 1988 when it announced its intention to use tied agents as well as independent intermediaries. This move adds to the increasing use of multiple distribution channels (including branches, direct mail, direct response advertising, etc.) by insurance companies.[16]

Experimentation

The various forms of entry into estate agency and the decision whether to adopt tied or independent status are two aspects of the experimentation currently taking place in the personal financial services sector. Experimentation in the face of uncertainty is evident in joint ventures taking place in several areas.

The Building Societies Act 1986 enables societies to offer unsecured loans for the first time. The vast majority of societies choosing to offer unsecured loans are doing so through links either with one of the Scottish clearing banks or the Co-op Bank or (more common) with a Finance Company. For example, Chartered Trust has arrangements with over 30 societies. These links may provide benefits to both societies and finance houses. They enable smaller societies, in particular, to enter the market, and provide ready access to the necessary expertise. For finance houses, the advantages relate to access to a wider branch network and reduction in vulnerability to losing customers if societies supplied the product on their own.

In the area of Information Technology, experimentation is occuring on a variety of fronts, from the use of Automatic Teller Machine (ATM) networks, to home/telephone banking (EFTPOL) and automated payment at the point of sale (EFTPOS). ATM networks developed initially with some institutions entering into joint ventures and others attempting to pursue separate strategies.

Amongst the clearing banks, four ATM networks exist—Clydesdale/Midland/Natwest, TSB Speedbank, Yorkshire Bank and Barclays/Lloyds/Bank of

Scotland/Royal Bank of Scotland. A link between the first two has been much discussed but is not yet implemented at the time of writing. Interestingly, there is little evidence that banks have tried to make it known to their customer bases that reciprocal facilities are available. In respect of building societies, two shared networks exist, Link and Matrix, with the Halifax (the largest society) being the major independent network. Some banks have also become members of the Link network or have entered into reciprocal agreements. Nationwide-Anglia building society is a member of both Link and Matrix. In the Spring of 1989, the Link and Matrix networks planned to pool their ATM facilities. Two large building society mergers, that between the Nationwide and the Anglia and that between the Woolwich and the Gateway, where the two parties in each case were members of different ATM networks, has provided encouragement to combine Link and Matrix.

ATMs represent one form of experimentation with Information Technology in and around branches. Banks and building societies continue to develop other Information Technology driven back-offices, e.g. Marketing Information systems based on the branch, accounting systems customer details, and front-office systems, e.g. the Co-op Bank's automated mini-branches providing a basic service in a shopping centre location, with more detailed transactions being handled by parent branches. A key issue in the development of Marketing Information systems is the ability to aggregate account-based information to obtain customer-oriented analyses. In respect of 'front-office' developments, the importance of the boundary between what services can be provided automatically and which require a personal service is becoming clearer.

EFTPOL type experiments are gradually developing, enabling customers to use telephone links in order to undertake transactions outside the normally restricted opening hours of financial institutions.

The first main EFTPOS experiment was the Paypoint system introduced with about 200 terminals in 110 retail outlets in Northampton, the running of which has now been taken on by Barclaycard. The spread of EFTPOS has so far been limited for various reasons, including awareness and acceptance of the system by both customers and retailers. For such a system to be attractive beyond the experimental stage, links with other institutions may be required in order to extend the card-base. Economies of scale may be best achieved through having one network and competition enhanced by the negotiation of contracts between individual financial institutions and retailers. The combination of the problems in establishing an EFTPOS network, together with the innovation of individual bank debit cards, meant that by mid-1990 the EFTPOS network experiment was shelved.

Conclusions

The discussion in this article suggests a number of lessons for the providers of personal financial services:

☆ an evaluation of the organizational problems in introducing new products by acquisition vs internal generation and how those problems might be resolved. Care is required in selecting compatible acquisition targets. Major communications exercises may be required to achieve acceptance of new developments. But judgements may have to be made in individual firms as to what the limits of acceptable change are, which may limit the extent, rate and means by which diversification occurs.

☆ analysis of whether internal provision, either through acquisition or internal generation, is the most appropriate means of establishing a presence in all segments of a market. The problems of access to expertise and control of different types of organizational culture may suggest that links without ownership may be more appropriate. There is, though, a need to balance these benefits against the potential problems of adverse effects on the institution's reputation and ensuring that a partner acts in the interests of the supplier.

☆ given the uncertainty about developments in the market, such as whether the markets can sustain all the new entrants and how well placed an individual institution will prove to be, it may be prudent to view developments as experimental. If institutions are thus essentially engaged in a process of search for the best spread of activities for them, exit from some markets may be necessary. Links without ownership may be a means by which experimentation can take place at lowest cost, particularly if exit is subsequently required.

☆ given the variety of market segments into which many firms are moving, and the uncertainty as to which will succeed, financial firms need to make use of a greater variety of methods for distributing their products, and to keep the balance of these methods under review.

☆ where ownership is necessary, joint ventures may have an important role to play in spreading the costs and risks of market entry and in enabling access to a wider customer-base. This point may be particularly true in respect of developments in information technology in the distribution of financial products. Here, a great deal of costly experimentation may be involved, both in respect of the technology itself and in awareness and acceptance of the products involved by both final customers and intermediate distributors.

☆ whilst some large institutions have the resources to sustain entry and market-leadership in a wide variety of market segments, the limitations of this spread of activities needs to be monitored. This point is perhaps even more true of smaller institutions, particularly if the demand size of markets is slow to catch-up with what are for the most part supply-side led developments.

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