**INTRODUCTION**

The financial industry touches the lives of all individuals and the management of all organizations. This case not only illustrates the dynamics of competing in the banking segment, but how factors in the general environment shape those dynamics. It also provides a corporate model where a successful business is impacted by a struggling parent company.

The case introduces Ally Bank’s emergence from the banking division of GMAC as the 2008 financial crises unfolded. It continues to discuss uncertainty and other conditions in the banking industry, including the strategies and status of specific competitors. The case then turns its focus inward to explain the business structure, relationship, and roles of parent company Ally Financial and subsidiary Ally Bank. The case describes the bank’s product offerings, brand strategy, and leaders and caps the internal discussion with a presentation of financial statements for both groups.

Despite recent impressive results for Ally Bank, the business is not without significant challenges. At the top of the list is the need to devise a corporate strategy for Ally Financial that enables Ally Bank to shape its actions appropriately. The following analysis should provide a strong foundation to facilitate in the strategic decision making facing the organization’s leaders.

* Conduct an internal analysis to identify resources and capabilities within both the parent company and subsidiary banking group. What are the linkages between the two organizations?
* What can be learned from an analysis and comparison of recent Ally Financial and Ally Bank financial records?
* Conduct an external analysis of general environment, industry, and competitive conditions to identify Ally’s marketplace advantages and disadvantages. What competitor intelligence has the greatest strategic implications for the company?
* Review Ally Bank’s business strategy and Ally Financial’s corporate strategy. How do they fit with internal strengths and market conditions?
* Define the pressing issues requiring immediate attention from corporate leaders. What corporate structure makes the best sense in the current situation? What are the reasons behind your position?

**ANALYSIS**

* ***Conduct an internal analysis to identify resources and capabilities within both the parent company and subsidiary banking group. What are the linkages between the two organizations?***

Ally Bank is a division of Ally Financial. Exclusively an online alternative to conventional banking, the company offers checking account, savings account, and other deposit investment products (CD’s, IRA’s, and money markets). The parent company consists of a portfolio of financial units segmented into automotive purchase servicing, mortgage financing, and other banking operations. The following diagram presents the internal strengths of both the bank division and the parent corporation. Organizational weaknesses are included in the highlighted boxes.

**Ally Bank**

**Ally Financial**

**Weaknesses**

* Troubled mortgage group
* Undercapitalized
* U.S. government is a preferred shareholder with a $16 billion outstanding TARP loan - can interfere with management decisions
* Association with subprime mortgage crisis

**Weaknesses**

* Relatively small number of product types
* Lost leader behind rebranding efforts
* Association with bailout
* Vulnerable to rate limitations set by U.S. Treasury

The bank management team and corporate management team work closely together to align organizational goals. In addition to shared leadership resources, the two groups are linked in several ways. The image below designates their existing interdependencies.

* ***What can be learned from an analysis and comparison of recent Ally Financial and Ally Bank financial records?***

Ally Bank is succeeding under difficult conditions. Financial performance is strong. Assets, net income, and total deposits are all on the rise. Ally Bank’s profit margins are healthy; and the majority of bank revenues are used corporately to fund automobile loans and mortgages. On the other hand, Ally Financial is struggling. Despite having substantially higher revenues, the parent company had a net loss in 2011. ResCap’s exposure to the subprime market continues to weigh down the corporation. Ally Financial’s debt-to-equity leverage ratio is particularly alarming. The table below compares key financial measures for each group.

|  |  |  |
| --- | --- | --- |
| *(in billions)* | Ally Bank | Ally Financial |
| Cash\* | $3.65 | $13.04 |
| Total Assets | $85.33 | $184.06 |
| Total Liabilities | $72.27 | $164.69 |
| Total Equity | $13.06 | $19.37 |
| Debt-to-Assets Ratio | .85 | .89 |
| Debt-to-Equity Ratio | 5.53 | 8.50 |
| Total Revenue | $2.78 | $13.33 |
| Net Income | 1.22 | ($.16) |
| Net Profit Margin | 44% | -1.18% |

*\*includes Due from Depositories (Bank) and Equivalents (Financial)*

The purpose of understanding these figures is to determine the real risk of default or recovery on the $16 billion government loan. Is Ally Bank strong enough to carry the parent company, or does it have the scale to retire the debt to the U.S. Treasury? Based on this analysis, neither group has the cash or sufficient returns to pay back the loan in the near-term. To make matters worse, it is estimated that the company needs an additional $11.5 billion to properly capitalize and reduce the threat of insolvency.

* ***Conduct an external analysis of general environment, industry, and competitive conditions to identify Ally’s marketplace advantages and disadvantages. What competitor intelligence has the greatest strategic implications for the company?***

Banking organizations are in the business of buying and selling money. Ally Bank has achieved enormous success with its rebranding effort, and its emerging reputation is backed by customer-friendly products and services. With this success has come a growing level of customer trust, satisfaction, and loyalty. The following diagram presents the market advantages of both the bank division and the parent corporation; and disadvantages are included in the highlighted boxes. [Only advantages and disadvantages relative to competitors are included here. Conditions that comparably impact the entire industry, such as low annual revenue growth, the low cost of money, collective or individual customer power, the difficulty of earning money on deposits, or the uncertainty of government regulations and tax policies, are excluded from this analysis.]

**Ally Financial**

**Ally Bank**

Due to the success of online banks and rapid growth in this segment, the potential for new entrants is high. Existing rivals are intent to retain and expand beyond their niche customer bases, will heavily advertise to increase brand value, and have the resources to aggressively compete for an increased share of the market. As far as competitors go, Bank of Internet is a sleeping giant, poised to grab market share from large firms by raising awareness of its full range of financial service offerings for online consumers.

**STRATEGY**

* ***Review Ally Bank’s business strategy and Ally Financial’s corporate strategy. How do they fit with internal strengths and market conditions?***

Given the tough economic and business conditions in the general environment, times are especially hard on firms in the financial industry, where earnings potential is elusive. This accentuates the importance of organizational leaders selecting the best strategies for their firms to implement. The diagram below defines current strategies for Ally Bank and Ally Financial and assesses their situational fit.

**Ally Bank**

**Ally Financial**

* ***Define the pressing issues requiring immediate attention from corporate leaders. What corporate structure makes the best sense in the current situation? What are the reasons behind your position?***

The business environment dictates how leaders make decisions and run their firms. Ally Bank’s business environment can best be characterized as uncertain, particularly in relation to its parent and sibling companies. Strategic planning in uncertain situations begins with defining the most critical issues facing the organizations in order to establish appropriate business and corporate strategies. For the bank, these key issues include:

* + Motivating consumers to switch to Ally Bank
  + Attracting new customers during difficult financial times
  + Creating loyalty without the presence of physical banks
  + Furnishing superior customer service to build trust, satisfaction, and loyalty
  + Overcoming negative images associated with government debt
  + Retaining strong and adaptable leaders to instill customer confidence
  + Anticipating actions of competitors to preserve and capture market advantages

The strategic importance of eliminating the TARP debt and raising substantial new capital is paramount. And the need for a clear plan to achieve these objectives is immediate. While it will not eliminate all of the uncertainty for the parent company, it does remove major obstacles to success. The company has a critical need to raise capital to meet standard reserve requirements and to honor potential withdrawals. The ability to earn the coveted loyalty of its customers, to draw new customers from competitors, to set the best rates in the industry, to shed the public image associated with the government bailout, and to reduce government interference will all be hampered until the outstanding loan is repaid.

The preceding analysis reveals insufficient firm resources to address these high finance needs. And finding alternative solutions will be difficult. It is unlikely that Ally Financial would be able to acquire another bank or business division so long as the TARP funds have not been repaid. It would be unable to spin off the core automotive services business without damaging the entire portfolio. The bank, which funds the other divisions’ loans, cannot be spun off. It is unlikely that buyers for the failing mortgage division could be found. How can Ally Financial dramatically increase performance in its troubled segments? How can corporate returns be substantially increased? How can funds be raised from other sources? It does not look promising. However, the firm is not without options.

The corporation could seek alliance partnerships to create value, pursue international banking opportunities (particularly in the online segment), or restructure and sell assets (and adopt extremely lean practices) to generate the funds required to pay down the debt without further delay. Attractive partnership possibilities exist to create services for credit card companies, to expand into personal investments or financial planning, or to offer banking services to businesses rather than just individuals. Recall that the cash reserves and unspent retained earnings of U.S. firms have been sidelined while the uncertain business environment continues to discourage investing. Capital is available for the right business plan or investment opportunity. In addition, technological innovations continue to fuel rapid change; and new devices, mobility, and digital transactions continue to change the way personal and business finances are managed. Ally Bank is strongly positioned to become a leader in mobile banking. Also, the automotive division offers insurance services which might be expanded into other divisions.

Ally Financial has indicated a preference to generate income from diverse sources. It is the role of its leaders to decide on a portfolio mix that can restore the corporation’s fiscal health and maximize value for shareholders.

Based on the strategies and analysis described in the previous sections, a cooperative form of the multidivisional structure is best suited to implement Ally Financial’s related constrained diversification strategy. This corporate structure facilitates horizontal integration to enable interdivisional cooperation. It calls for extensive integrative mechanisms, subjective criteria in division assessment, and incentives linked to corporate performance to maximize the potential of shared activities and core competencies. It is, in fact, the intangible benefits from its interdivisional linkages that give Ally Financial an edge. They cannot be replicated by competitors and can be the foundation of long-term success. If the intent is to turn around the corporation’s unsuccessful business units, this corporate structure is the best fit.

An alternative strategy is to isolate Ally Bank, protecting the division from the underperforming mortgage division with an unrelated diversification strategy. This is tempting and a difficult decision to make. However, the analysis shows sufficient value from sharing Ally Bank’s core competencies to instead elect to aggressively improve the cost structure and performance of the other divisions. Implementing some of the bank’s innovative, personalized services and online tools may even give the other divisions a competitive edge in their markets. Operationally separating the bank from the corporation reduces the value of both organizations if the existing links and benefits of shared resources and capabilities are lost.