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Nowadays, the competition in the banking industry become more rigorous because banks do not only compete among themselves but also compete with the companies from other industries – the non banking institution. Seems that after re-capitalization program in 1998, the competition in the banking industry focused on improving the service quality and the trustworthiness to their customers.

Most big banks reallocated their resources and capabilities to shoot the retail segment especially small and medium segment. They offered intensively many products to attract the customers in that segment. Furthermore, the condition sharpened by the cooperation established between them, either with rural banks or with non-banks institution. The phenomena occurred in all level even the smallest unit. Those conducted through their regional and branch offices all over the country, including in Special Province of Yogyakarta as one of the centre of small and medium enterprises. Consequently, the domination of Bank Rakyat Indonesia in the micro, small and medium segment get threatened.

In order to achieve the objectives of Bank Rakyat Indonesia as whole and to avoid of the unpleasing outcomes of the Bank Rakyat Indonesia Yogyakarta Region for 2003, this thesis is prepared to review and re-analyse the external business environment of Yogyakarta province and the internal condition of Bank Rakyat Indonesia Yogyakarta Region and build the mix of consideration that determines the strategy making that fits with the overall condition of Special Province of Yogyakarta .

In Special Province of Yogyakarta, the rivalry among the banks in banking industry is very intense. The competitive pressure in the market from threat of potential new entrants is relatively low. Buyers or customers have a strong bargaining power in banking industry but for the substitute products is quit in modest pressure. The government regulation still significantly influenced the industry. Thereby banks must extend their distribution channels; improve their marketing efforts and organizational capabilities if they want to succeed. The organizational, human resources, operational and financial aspect of Bank Rakyat Indonesia Yogyakarta Region Office and its branch offices present a conducive condition to achieve better performance. The external environment in the banking industry must mix with the internal condition of the company

Based on both condition of Bank Rakyat Indonesia Yogyakarta Region, the fittest strategy to compete in the market is focus strategy.

Keywords: Strategy, External and Internal Environment Analysis, Competitive Strategy

