DP10

Marketing of Financial Services

8 OCTOBER 2004

1.	Time allowed	: Three (3) hours
2.	Total number of questions	: Five (5) questions
3.	Number of questions to be answered	: Four (4) questions [25 marks each]

4. Begin each answer to a new question on a fresh page.
5. Answer **all** questions in **English**.
6. A blank page is provided at the end of the question paper for rough work.

ANSWER FOUR (4) QUESTIONS ONLY

1. Describe in detail the process of planning and managing a promotional campaign.

(Total:25 marks)

2. (a) The competitive nature of the banking business requires its players to, among others, improve their services in order to retain and widen their customer base.

In your opinion, what can the local banks do to improve their services to be more competitive? [13]

(b) Foreign banks are leading in product innovations and developments compared to the local banks.

Do you agree or disagree with the above statement? Explain your answer. [12]

(Total:25 marks)

3. (a) Explain the segmentation of the retail financial services in the Malaysian market by identifying the different consumer groups. [15]

(b) Describe Philip Kotler's selective targeting under the market coverage strategy. [10]

(Total:25 marks)

4. (a) Define and describe the term "marketing", including the key components of the marketing mix. [10]

(b) Explain the key elements of marketing. [15]

(Total:25 marks)

5. (a) Explain the key functions of a sales force. [15]

(b) Although Abraham Maslow's Hierarchy of Needs Theory is well known in general marketing, its relevance to financial institutions is limited due to the nature of their customers' needs.

Explain the limitations of Maslow's theory in relation to individual and corporate customers. [10]

(Total:25 marks)

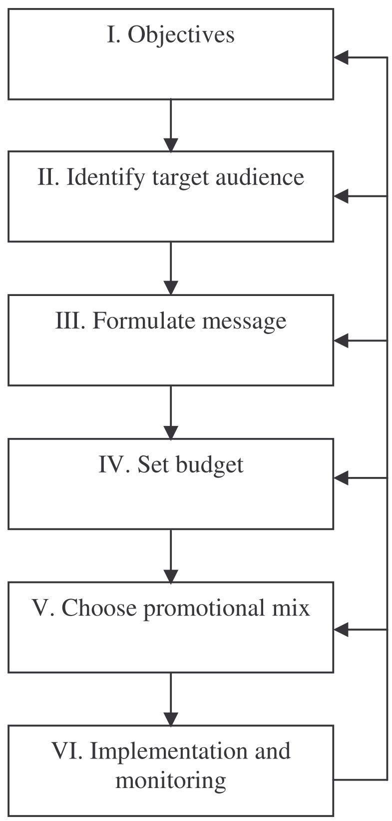
OUTLINE ANSWERS

The comments given in the boxes below indicate the areas of weaknesses the examiners have identified and their advice to future candidates.

Question 1

Candidates were unable to describe the process although the answers could be found directly from the study manual.

1. Planning and managing a promotional campaign



I. **Objectives.** Know what needs to be achieved. Have to be specific in terms of an increase in sales. Other objectives may concern raising awareness, creating image, pattern of demand, etc.

Two broad types of objectives:

- Influencing Demand
  Promotions may be directed towards influencing the level of demand for service or range of services. Increasing the level of demand by attracting new customers away from competitors, increasing usage from existing customers and encouraging non-users to use the product.

- Corporate Image
  Directed towards creating and maintaining corporate image. Such campaigns are noticeable in the financial services sector. It requires organisations to pay particular attention to their brand and reputation.

II. **Target Audience.** Identify the target groups for promotional activity, i.e. the groups to receive the message. It involves defining the target market for specific service or the "general public" (if the promotions concerned with corporate image)

Consumers pass through four different stages when considering a purchase according to their knowledge and awareness of an organisation's image and range of services – the AIDA (Awareness→Interest→Desire→Action) model (to provide brief explanation).

III. **Formulate Message**. Establish what form the message will take. Message content relates to the basic ideas and information that the sender wishes to convey to the receiver. Must be clear why the product is different, what benefits it offers and why consumers should buy the product rather than any of the available alternatives.

Next, consider the form the message should take. Creative input from external organisations such as advertising agencies plays an important role. It is a process that involves finding the most appropriate combination of verbal, audio and visual signals to present the content of the message in the form most suited to the target audience with maximum results.

Information must be presented in a form that will attract attention and maintain sufficient interest in an advertisement or a leaflet to enable potential customer to absorb.

IV. **Budget** needs to be established for the promotional exercise and for the individual components of the promotional mix. Approaches in formulating promotional budgets:

- The affordable method
- Sales revenue method
- The incremental method
- The competitive parity approach
- The objective/task method

Explain briefly

V. **Promotional Mix.** The promotional expenditure must be allocated between the various promotional tools available in the organisation, i.e. advertising, publicity, sales promotions and personal selling. The promotion mix varies between organisations, products and market.

In general, retail markets will make use of mass communication such as advertising, sales promotion and public relations. Personal selling will be more important to corporate customers.

VI. **Implementation and Monitoring.** The final stage in the promotional campaign is the process of implementation and monitoring. Implementation concerns with the task allocation and specifying the time scale. Monitoring focuses on regular evaluation of the promotional campaign's progress and identifying areas where changes may be required.
The effectiveness of the promotional campaigns can be increased by:

- Pre-testing
- Ex post commercial market research
- Statistical Analysis

Explain briefly

Question 2

- Candidates could not present their opinion and arguments well.
- Candidates were unsure of the facts of the arguments and could not determine which side to take, not knowing that there is no right or wrong answer to a question like this.

2. (a) How local banks can improve in terms of service:
   - Place young, motivated and pleasant staff at the front line. The front line should be knowledgeable on the Bank's products.
   - Reduce queue through more ATMs, cash and cheque deposit machines.

- Invite queuing customers to use the auto machine.
- Create a conducive service environment with privacy and convenience.
- Build strong customer relationship by understanding customer's needs, interests and characteristics.
- Provide more automation at strategic locations especially at branches with heavy customer traffic.
- Offer e-banking to allow customers to perform banking anywhere and anytime at their convenience.
- Strengthen strategic alliances with all business parties.
- Emerge as a market leader by offering innovative products.
- Display prominently pamphlets on the banks' products in the banking hall.
- Introduce 24-hour banking at selected locations/kiosks.
- Ensure all staff has good manners in answering telephone calls.
- Improve staff morale by providing rewards/benefits such as ex-gratia and ESOS (employee share option scheme).
- Provide personal service for valued customers such as delivery of cheque books, cheque collection, signing of documents, etc.
- Cultivate strong teamwork, loyalty and a sense of ownership among all staff, as working in synergy produces maximum results
- Get feedback from customers (of both local and foreign banks). Compare and study the SWOT (strengths, weaknesses, opportunities and threats)
- Obtain certification for standards, e.g. ISO and OSHA
- Compete to win awards conferred by prestigious organisations that are banking watchdogs.

(b) Agree

- "Small is beautiful" – specialisation amongst staff in innovation.
- Researched base in identifying products to suit customers' needs
- Supported by their Head Office in overseas where knowledge and learning are emphasised.
- Focus on specific target market and had identify market segment before implementation.
- Have experience and exposure in other countries. Able to evaluate success or failures rates prior to launches in new market place.
- Dynamic approach in market penetration and targeting on good yield.

Disagree

- Success in one country may not translate into success in another country.
- Tendency to be selective of its customers, thereby increasing "market concentration" risk.
- Profit-oriented and lack personal relationship or long term relationship.
- Small customer base restricts "cross-selling" of other products to the same customers.
- Use of technology results in less engagement with people therefore losing the personal touch.
- Small branch network makes it difficult to reach out to all segments of consumers.

<u>Question 3</u>

- Candidates were unable to explain the segmentation of retail financial services in the Malaysian market.
- Candidates were unfamiliar with Philip Kotler's selective targeting under the market coverage strategy.

3. (a) Traditional Savers

- Tend to be price-sensitive and likely to switch services for slight difference in price or interest rate.
- Risk-averse and likely to limit their financial services to savings accounts.
- Tend to be wealthy and well educated.
- Actually plan for their financial future including paying for financial advice.

- No loyalty.
- Willing to purchase financial products from the bank

Modern Planners

- The most affluent of the seven segments.
- Strongly prefer to consolidate accounts with one financial institution.
- Prefer to leave investment decisions to a financial adviser (although they generally prefer no to pay for advice).
- Among the most willing to utilise internet banking.

Potential Switchers

- Dissatisfied with local banks and are below the Malaysian average in professed loyalty to existing financial institutions.
- Regard dealings with local institutions as less important and are therefore, possible targets for foreign banks.
- Comparatively wealthy, actively plan their financial future and are willing to pay for financial advice.

Leveraged Aspirants

- Willing to take more risks.
- Usually highly geared.
- See a bright future.

Simplifiers

- Wish to simplify financial life by consolidating accounts.
- Essentially conservative and unsophisticated.

Family depositors

- Tend to make family-centric financial decisions.
- Demand low-risk products.
- Usually least geared.

Cautious Pre-Retirees

- Concerned about their retirement.
- Retirement needs under-served by existing asset allocation.
- Price sensitive.

(b) Philip Kotler's selective market targeting:

Single Segment Concentration

- Concentrate on a single segment in the market.
- Supplies products tailored to the needs of a specific customer group.
- Niche marketing that focuses on the organisation's strengths.
- Highly profitable due to focus on particular segment with strong differential advantage.
- Higher risk if the segment disappears or new competitors enter the market, e.g. venture capital companies, factoring and leasing companies.

Selective Specialisation

- Another type of niche marketing.
- Operate in several segments.
- Less focus than single segment.
- Less risky.

Product Specialisation

- Comprise different customer groups and different but related products.
- Organisation concentrates on supplying a particular product type to a range of customer groups.

- Advantage for organisations with particular strengths in or knowledge of a technology or product, e.g. Bank Islam/Bank Muamalat by offering Islamic financial services to a range of customer groups.

Market Specialisation

- Opposite of product specialisation
- Specialises in meeting the needs of a particular group
- Most suitable where knowing the customer group's specific needs to establish a competitive advantage
- Private banks adopts this approach for high networth individuals.

Question 4
Candidates could not explain the key elements of marketing.

4. (a) Marketing – an approach to business in which the organisation focuses attention to develop products and services that meet consumer needs and which will result in consumer satisfaction.

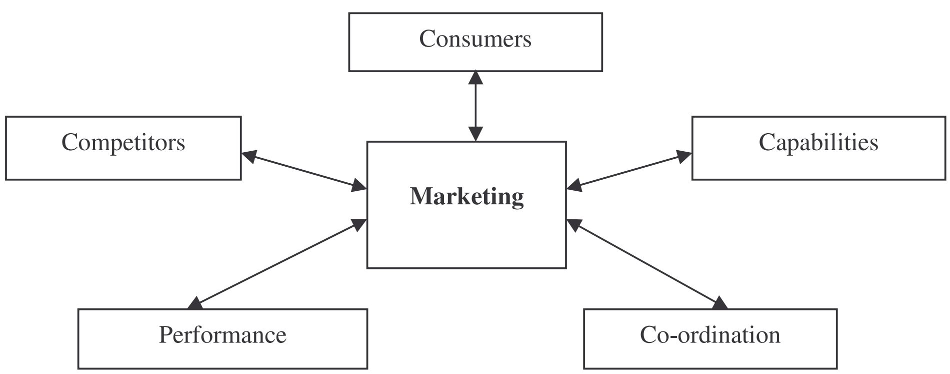
Implication – marketing management

4 main elements of "marketing mix"/4Ps.

- Product – branding
- Price
- Promotion
- Place
- People – optional

Explain in detail

(b) The Elements of Marketing



Consumers

- Central to marketing
- Need to know who the customers are, their expectation and what they want.
- Consumers' needs and wants are distinct and important.
- The market wants should determine what an organisation produces.
- Products must match its 'consumer' needs, e.g. features and benefits availability and price.

Organisational Capabilities

- Impossible for organisation to match consumers' wants and supplies products precisely to match the needs.
- Not possible for organisation to meet everyone's needs.

- Organisation needs to analyse consumer needs, evaluating the company's capacity to meet consumer needs and deciding to proceed or not, given the business environment.
- Objective is to match what its consumers want and the type of products it is capable of supplying.

Competitors
- Good approach to marketing will give organisation a competitive edge.
- Organisation that offers "better" products or services will attract more customers from competitors and retain existing customers.
- Organisation must consider how well their product or services compared to its competitors.

Co-ordination
- To ensure that there are good links between different functions within a business at different levels of management.
- Marketing will be successful if it is recognised by all in the organisation from senior management to front line staff.
- Affects both internal and external staff.
- Internal is ensuring staff at all level is aware of and understands their respective roles in developing and maintaining a market orientation.
- Co-ordination is also concerned with ensuring marketing activities and market awareness in guiding an organisation.
- Organisation must be aware of its customers and competitors and be responsive to changes in the market.

Performance
- Marketing increases cost but if successful, will increase sales and profits.
- Extra costs incurred in understanding consumer demand will result in meeting the demands and thus translate into higher sales.
- Higher revenue normally generated from sales will cover the additional cost incurred in marketing thereby increasing profit.

<u>Question 5</u>

Candidates could not explain the key functions of a sales force and the limitation of Maslow's theory in relation to banking customers.

5. (a) The role of the sales force and their key functions:

Prospecting
- Search for prospective customers or new leads and making contact – leads may be direct from sales force itself or referrals from other parts of the organisation (e.g. non-specialist sales staff from branches).
- Development of bancassurance indicates that banks have dedicated sales forces that sell insurance and investment products.

Targeting
- Decide on how time is allocated between different groups of customers.
- Identify different segment groups to be able to evaluate the attractiveness of each segment.
- Decide on time spent in selling and supporting the customers.

Providing information
- Communicate with customers face-to-face and other communication channels (telephone, email, etc.)

- Provide information about products and services and responding to questions – customers need a considerable amount of information prior to making a decision to purchase.

Selling

- Is the heart of the sales staff function
- Contact with customers with a potential for making sales.

Market Intelligence

- Gather information about what they see to be happening in the market place.
- Provide early warnings of market changes in demand or new competition actively.

Support

- Once sales are concluded, customers need continuing support and advice, e.g. a good financial planner will be able to provide not only various investment products but will also need to follow-up and maintain contact on their investment performance. He also needs to be able to identify future needs of the customers.

(b) Maslow's theory argues that an individual's needs are organised according to their level of importance. Therefore, for individuals who are trying to satisfy their physiological and safety needs, there will be little value in trying to market products that meet their social needs. This implies that until security needs are met, individuals will not be motivated to consider purchases that meet social needs.

For personal consumers, there is a range of needs that the purchase of financial services may satisfy, e.g. making and deferring payments, protection, wealth accumulation, information and advice.

Kamakura (1991) suggested another hierarchy for financial services:

Cash availability → risk management, basic money management and emergency cash → money growth → products with risk and tax protection

The basic principle is that consumers initially focus on high-liquid-low-risk products. Over time, they will move towards less liquid, longer-term products and will be willing to accept higher levels of risk in pursuit of higher returns.

For corporate consumers, the range of basic needs is similar, although many of the products used to satisfy those needs may be more complex, especially in corporations.