

DP10

Marketing Of Financial Services

14 MAY 1999

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions on 1 page
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**.

ANSWER FOUR (4) QUESTIONS ONLY

1. (a) Abraham Maslow developed a theory on the “Hierarchy of Needs”. Explain this theory. [10]
(b) Using **any one** financial services product offered by any financial institution which you are familiar, explain how you think the product was developed and marketed to customers to meet their needs according to Abraham Maslow’s “Hierarchy of Needs” theory. [15]
(Total:25 marks)
2. (a) Describe **four** macroenvironment factors that affect a financial institution’s marketing strategy. [10]
(b) Describe **five** microenvironment factors to consider when implementing a marketing strategy. [15]
(Total:25 marks)
3. (a) Explain the new product development cycle which can be applied to your financial institution. [15]
(b) What are the barriers to innovations in a financial institution? [10]
(Total:25 marks)
4. (a) What are the main purposes of conducting a market research? [15]
(b) Describe **three** research contact methods available for usage by a financial institution. [10]
(Total:25 marks)
5. (a) What are the elements of a good promotion mix strategy for a financial institution? [15]
(b) Identify **two** key objectives for undertaking a promotion campaign. [10]
(Total:25 marks)

OUTLINE ANSWERS

Question 1

Most candidates did well on the question of consumer behaviour based on Abraham Maslow's Hierarchy of Needs theory.

- (a) The marketer must understand the needs or wants that inspire individual motivation, and give rise to particular forms of purchase behaviour. There are a number of ways in which this can be done, and they include:

A.H. Maslow's *Hierarchy of Needs* is illustrated in *Figure 1*:

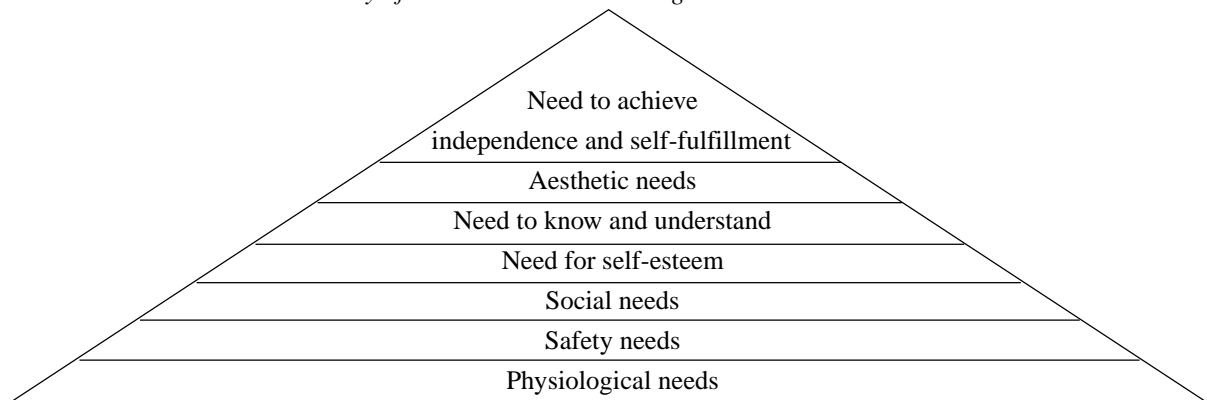


Figure 1 A.H. Maslow's Hierarchy of needs

In this theory, wants and needs are 'pre-potent', that is, potential higher level needs emerge and influence purchase behaviour only after there has been an opportunity for the satisfaction of lower level needs.

Purchase behaviour is motivated by a series of different levels of needs or wants. The most basic motivations stem from needs to eat, rest, have a home, feel secure and wanted, and to have the company of one's fellow men. For these reasons, people buy food and drink, pay rent or buy a house, purchase insurance, and meet up with their friends in social and religious places, professional institutions and so on.

Once these kinds of needs are satisfied, the theory suggests that individual motivations will be shaped by behaviour that is associated with:

- The need to gain self-esteem in the eyes of other people, for instance through the possession of prestigious objects such as branded merchandise and quality sporty cars, taking exotic holidays, making donations to charity, etc.
- The need to know and understand what is going on around them. This perhaps accounts for the expenditure on news media such as newspapers, teletext, etc. and the worldwide radio and television news programmes operated by the CNN, Mega, Astro TV, etc.
- The need to have an aesthetically pleasing environment, and to get rid of ugliness, pollution etc. This need has considerable implications for those activities which affect our environment, for instance by polluting or creating visual eyesores. And product *design* has become a major factor in bank product management (e.g.: attractive brochures).
- The need to achieve independence and self-fulfillment. The purchase of the motorcar is a prime example, for its ownership offers freedom and escape from the 'hassles' of taking public transport. Similarly, home ownership offers freedom from interference by others, since the home owner

does not have a landlord to worry about. Self-fulfillment may be obtained in many ways. It may come from a beautiful home, leisure activities or sport, hobbies or continuing education, etc.

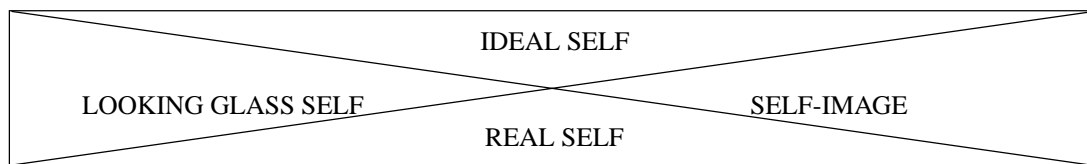
- (b) Maslow's hierarchy isolates needs for self-esteem as a separate motivating category. Self-esteem is important for two reasons. Firstly, our culture places a high value on material acquisition and its display, because this reflects hard work and success. Hard work, rewards, and the enjoyment of income earned are the hallmarks of success.

Secondly, the achievement of self-esteem involves earning the respect of others. It is characteristic of our society that a high value is placed upon achieving self-respect and prestige. Whilst there are many ways in which personal prestige and respect can be obtained, the possession or use of certain types of goods and services are likely to increase individual status. Such goods or services might include expensive homes and cars, private education or higher degrees, overseas holidays, objects d'art, eating out at quality restaurants or membership of golf-clubs.

The 'self' is an individual person's image of himself or herself. Within this self are various drives and motivations, the most important of which serve to maintain and enhance this image. Goods and services may be purchased because they 'fit' these particular motivations. For instance, many products are promoted as being the 'in thing', whose consumption will make you 'one of the crowd'. Others are purchased because the buyer feels that ownership will confer separateness and status and these are reflected in priority banking services, gold credit cards, etc. for high net worth individuals, offered by Standard Chartered Bank Malaysia, Citibank, HSBC Bank Malaysia Berhad, Maybank, etc. A customer places X amount for deposits, pays Y for monthly fees and obtains special privileges.

Thus, purchasers' behaviour and shopping patterns are seen under this motivation theory to support and enhance personal self-identity. The banker will need to design, promote and finance products in such a way that images produced are consistent with those sought by prospective customers.

The components of the self-image are illustrated in *Figure 2*:



| | | |
|--------------------|---|----------------------------------|
| Real Self | - | you as you actually are |
| Looking Glass Self | - | you as you think others see you |
| Ideal Self | - | you the way you would like to be |
| Self-Image | - | you the way you see yourself |

Figure 2 The Self Image

Question 2

Most candidates understood the uncontrollable environment which affects a financial institution's strategy, i.e. PEST, but the majority failed to appreciate and apply the controllable environment, i.e. the 5Ps of the marketing mix, which are *price, place, promotion, product and people*.

- 2 (a) Macroenvironment factors:

- (i) **Political and regulatory**

The political and regulatory environment in which a bank operates in have a profound impact on its marketing decision, among others. A stable political environment exudes confidence to the public. In particular, it facilitates the bank management to continue operations and possible expansion of their banking network without fear of being nationalised. Legislation is aimed at protecting companies from hostile take-overs, consumers from unfair business practices and the

interest of society against unbridled business behaviour. The banking industry is one of the most regulated because of the banks' fiduciary responsibility. This is to curb excessive risk-taking by banks which may undermine the stability of the economy in the event of bank runs caused by less than prudent lending policies.

(ii) **Economic**

The economic environment consists of factors that affect consumers' spending patterns and their purchasing power. Purchasing power is measured by the people's income, prices of goods and services, savings and credit which can be augmented through borrowing. It is also influenced by government fiscal and monetary policies. Banks would be well-equipped to meet the needs of their target market by noting the changes in these major economic variables that drive the consumer loans market. This would also affect their pricing policies aimed at making it affordable for the average consumer to service their borrowings.

(iii) **Technological**

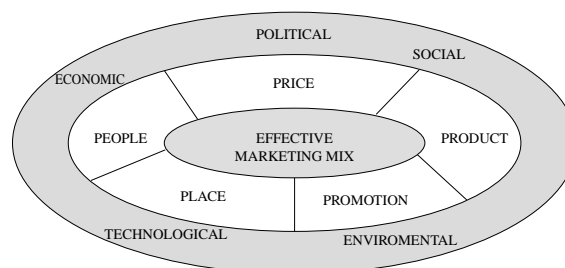
One of the most dramatic forces shaping people's lives is technology, which also affects other macroenvironment forces, and creates spin-off changes. For example, the enforcement of intellectual property rights is a variable of the regulatory environment. The emergence and proliferation of information technology in today's business environment present both opportunities and threats to organisations, including banks. There is a shift in consumption patterns and marketing systems have to be adapted to meet this shift. For example, people need not visit a bank for routine transactions as they could link up with their banks through home-banking facilities. Citibank's telebanking service, Citiphone, for example allows its customers to perform various banking transactions from practically anywhere through the phone. This displaces the traditional need to perform various transactions at branches. Customers can check their account balances, request for account statements, make fixed deposit placements and even request for a new cheque book without having to leave home. Banks that invest in the technology will have a head-start against their competitors and capture a larger share of the market segment whose consumers' lifestyle have changed with the convenience, delineated by technological changes that they are in a position to service.

(iv) **Social and cultural**

Social and cultural determinant, in its simplest form, can be defined as a way of life. It can be distinguished in terms of people's ideas and values, beliefs and norms. A culture is learned through people's interaction with their environment, shaping their attitudes and behaviours and how the target market would respond to marketing mix elements. However, it changes as the society faces new problems and opportunities. Some people unconsciously define their relationship with their environment, other people, nature and organisations. A marketing implication that flows from people's attitude towards organisations is that banks need to find new ways to win consumer confidence as more people are transacting with non-bank institutions.

The macroenvironment is the uncontrollable forces that an organisation has to monitor and adapt to, by manipulating the marketing mix to best capitalise on the opportunities and minimise the negative effects that the environment has on the organisation.

MARKETING MIX



- (b) The Institute of Marketing Malaysia defines marketing means as business. One of the most potent tools available for an organisation is called the marketing mix. The marketing mix is attributed to Neil H. Borden of the Harvard Business School and refers to a set of marketing ingredients used to achieve its objectives. A financial services manager picks and chooses from an extensive set of ingredients in order to find the right recipe of success. The thrust of the financial industry is more difficult than that for the

consumer of industrial goods because it is a service industry. Services are intangible and are more difficult to package, sell or demonstrated to the consumers.

(i) **Product**

Financial service products include mortgages, savings accounts, fixed deposits, hire purchases, business loans, overdrafts, export finance, foreign exchange, credit cards, insurance, stock brokering, trustee services and mutual funds. These are intangible, difficult to visualise, touch or smell and are usually a means to an end. For example, a loan to a business could be used to support business expansion and life insurance policy is to provide coverage for the family's dependants in the event of an untimely death or disablement for the breadwinner.

(ii) **Place**

Most financial services are sold through the 'place' or the branch. As such, financial institutions need to invest heavily in bricks and mortar. One inherent advantage of branch outlets is that the financial institution becomes part of the community, from the social-economic perspective.

Nonetheless, there appears to be a shift from the traditional branches to other new accessible retail outlets. In the USA, Sears & Roebuck entered the financial services industry with a new breakthrough – special centres in their retail supermarket outlets. Citibank is experimenting with mobile 'petrol kiosks-like outlets' known as Citistations in the USA. Standard Chartered Bank has pioneered drive-in banks in Malaysia, which is popular with its customers in Kuala Lumpur.

Another well-known technological development is the introduction of automated teller machines (ATMs) as well as shared-ATM networks. Some ATMs are found in non-financial institution buildings such as factories, petrol-kiosks, shopping complexes and public transportation areas. In shared-ATM networks, consumers can access an ATM at a competitor's branch as a result of the tie-up amongst the banks and finance companies on ATM reciprocity. Some financial institutions have further enhanced their services by offering the corporate electronic services.

In line with the Multimedia Super Corridor developments, the focus is now on homebanking. This will become more acceptable if the concept of home financial services is expanded to include vidoetext and teleshopping, and if home computers become as affordable as televisions. The idea of homebanking would certainly be accepted by the 21st century when consumers are acclimatised to technology.

(iii) **Promotion**

As with consumer goods, financial services need to be promoted in order that the products are made known to the consumers. The methodology of promotion varies with the target audience, the design of the product and the business volume expected. Traditional practice includes the use of advertising, branch displays utilising posters, desktop flyers, brochures, promotions at local trade exhibitions and seminars, and public relations activities. The traditional manner for promotion has changed considerably in the last five years where financial services are now being promoted aggressively through television, radio and billboard advertising.

Also, emphasis has shifted from conservative image advertising to focusing on new products and features or unique selling points (Hong Leong's Teleloan & Citibank's Mortgage Power).

Other new directions for financial services are direct mail campaigns at targeted audiences and the introduction of full-time sales personnel specialising in marketing of financial services.

(iv) **Price**

In business the bottomline is what counts most. For financial institutions, the pricing of products are reflected in the interest rates and service fees. The interest rate is usually reflected in the percentage marked up on the bank's base lending rate. Due to regulation, pricing for some banks' products are undifferentiated and a good example is the fixed interest rate for priority lending on mortgages for houses below RM100,000 in purchase value. For such mortgage products, pricing in interest rates is not an element in the marketing mix. Corporate treasurers are constantly seeking finer rates on foreign exchange for their treasury management and pricing for such products are of vital importance.

Pricing of financial products is further complicated by the other '7 Ps' which determine the level of pricing. For example, the marketing of gold credit card differs from the normal credit card of the same heritage. Consumers are willing to pay a higher premium on entrance and subscription fees in return for the prestige, better service, greater flexibility and higher credit limit for a gold card. As such, the perceived better value products for upmarket service is a function of the other "Ps" of the marketing mix and consumer behaviour and attitudes prevailing in the society. In general, well-developed pricing policies can provide a good yield to financial institutions.

Sometimes, financial institutions who are more than its budgeted deposits or liabilities booked into its books, may price itself out of the market by offering lower rates than others (e.g. fixed deposits).

(v) **People**

Marketing of financial services takes both a personal and impersonal form. Due to their intangible nature, financial services lack the form and touch of consumer products. The delivery mechanism is through the branch staff and the way the staff deal with customers is an integral part of the product itself. Hence, personal selling and courtesy is important as the service may be the most important feature of the product being sold.

This is particularly true of financial products which are complex and need personal clarification and selling. It is of relevance to many corporate sector businesses, loans transactions, and marketing of life insurance policies.

Financial institutions should therefore place equal emphasis on training their people. Training in product knowledge, selling, and the advisory role must be conducted in the most professional manner. Personal attention to appearance, courtesy in communication and commitment to serve must be emphasised.

Standard of service is another important aspect. A company may have advertised a message that spells "counter service within 30 seconds and served with warm, friendly smile". If the front line support staff are not informed nor trained to provide this level of service, the whole promotional campaign will be a disaster, as the advertising message is not congruent nor synergistic to support the other Ps in the mix.

The quest for science in marketing mix is a dilemma. With the availability of modern computers, databases and sophisticated market research-cum-surveys, marketers are now in a better position to design the marketing mix. Marketers have learned to subject their mix to empirical check and measurement. The marketing mix, however, does not guarantee business success. Any productive answer for this year may well be challenged in the next. Product or services will be introduced, improved or made obsolete. Prices may be undercut or margin undermined.

Promotions can be upstaged or drowned out. As alternatives or opportunities emerge, the place of distribution can become unproductive or less satisfactory.

Fortunately, the task is not as daunting as it sounds. Most financial institutions have established customers and competitive information. They know what customers will want in the immediate future. Major macro upheavals, such as the current economic crisis faced by Malaysian banks, has caused economists and statisticians to take risks and look into their "crystal-balls" to postulate a future outlook for the business instead of being over pessimistic and just keep on raising the base lending rate and balance the asset and liability management.

Question 3

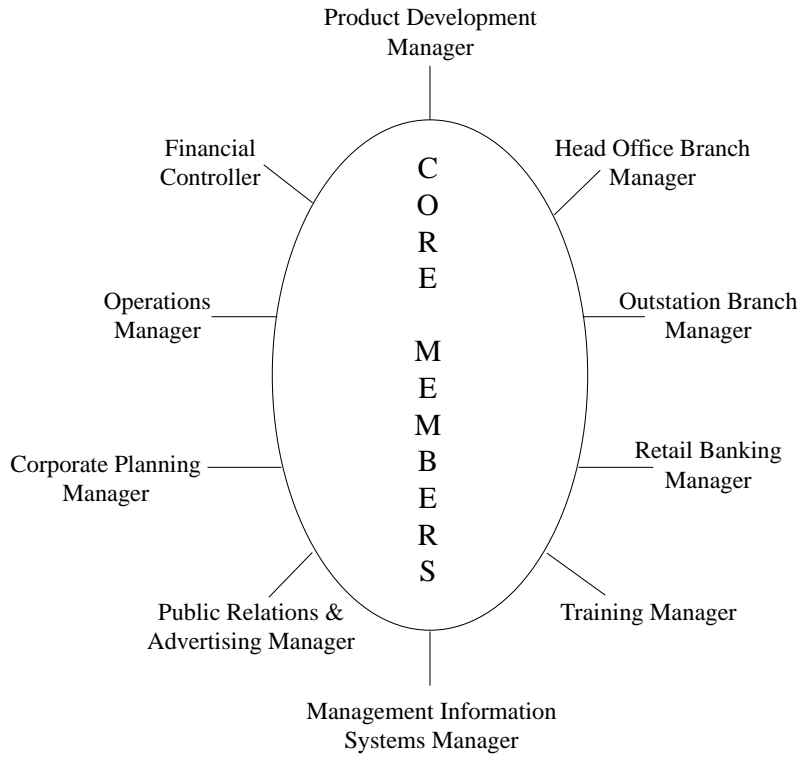
Candidates did well in part (a) of this question. However, many candidates had difficulties tackling the barriers of innovation and why products fail e.g. shortening product life cycle, costs, intensity of competition, segmented markets, legislation etc. Many candidates were confused with the Porter's theory of Five Forces which focuses on competitive analysis.

- (a) One of the core tasks of retail banking is to develop new products and to revamp existing ones. Banks should endeavour to position themselves in the forefront of the Malaysian banking arena in terms of quality, innovative and profitable products that appeal to their target customers. As such, every bank

must select a special team of dedicated and professional personnel who will be part of a steering committee (see *Figure 3*). The committee can meet either fortnightly or monthly, either as a brainstorming session or constructive discussion, lasting one to two hours.

The objective of the committee is to screen all new products of the bank before recommending for implementation.

Figure 3 Product Development Committee



Note: *An ideal committee for product development should have 10 members led by the product manager of the bank.*

Product Development Overview

There are six stages in bank product development as depicted in *Figure 4*.

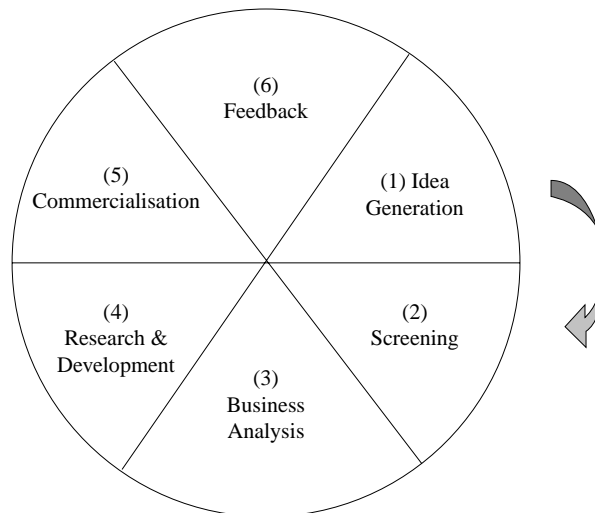


Figure 4 Wheel of Bank Product Development

Stage 1 – Idea Generation

The outset of new product development is a highly creative activity stage where brainstorming sessions can produce numerous ideas. New product ideas can come from various sources such as management, customers, bank officers and clerks, new technology, competitors and even government regulations.

During this stage, it is extremely important for bankers to encourage and energise the process. Dynamic leadership is needed to deal with the uncertain and sometimes personal nature of ideas. On the other hand, if the authoritarian approach is used, most initiative or ideas will dry up, especially when subjected to faint criticism or when one must fight very hard to get his ideas accepted. The correct approach in tapping new product ideas is to conduct a brainstorming session where no suggestion is turned down, no matter how absurd it is (see *Table 1*).

Table 1 Sources of new product ideas (Ref: “So you want your new product planning to be productive” Business Horizons, December 1980)

| SOURCES | % |
|-----------------------------------|------|
| Research & development | 20.8 |
| Internal | 34.6 |
| User’s suggestions and complaints | 14.7 |
| Formal research on users’ needs | 13.0 |
| Analysis of competitors’ products | 30.7 |
| Analysis of published information | 9.1 |
| Suggestions from suppliers | 9.5 |

Stage 2 – Screening

This is a critical stage where the proposed idea is screened to determine whether it justifies management’s commitment (in terms of time, money and resources). There are two methods involved:

- (a) Establishing a list of evaluation criteria which enables the comparison of an idea generated to determine whether it is compatible with the bank’s resources and then using the weighing, ranking or rating of the idea against the criteria used (see *Table 2*); and
- (b) A simple checklist of all the bank and market features. The new idea is checked against these to see how it stands out when compared with some vital factors (e.g. market size, growth, level of service required, competition and trends).

However, it is important to stress that there is no single set criteria that is appropriate across the board. The final score should not exclude a large element of collective as well as intuitive judgment of the steering committee, i.e. ‘vision of the future’.

| Screen Test/Values Rating Sheet For Bank Product... | | | | | | | | | | | | | | Total Ratings (AxB) | Remarks | |
|---|-------------------------|--------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------------------------|---------|--|
| No. | Sphere of Performance | Base Weight (A) | 0.0 | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 | | | |
| 1 | Goodwill of bank | | | | | | | | | | | | | | | |
| 2 | International strength | | | | | | | | | | | | | | | |
| 3 | Location | | | | | | | | | | | | | | | |
| 4 | Regulations/Environment | | | | | | | | | | | | | | | |
| 5 | Product innovation | | | | | | | | | | | | | | | |
| 6 | Appeal | | | | | | | | | | | | | | | |
| 7 | Marketing | | | | | | | | | | | | | | | |
| 8 | Delivery system | | | | | | | | | | | | | | | |
| 9 | Manpower | | | | | | | | | | | | | | | |
| 10 | Automation | | | | | | | | | | | | | | | |
| 11 | Finance | | | | | | | | | | | | | | | |
| | | 1.0 | | | | | | | | | | | | | | |

Table 2

Stage 3 – Business Analysis

In conducting business analysis of a proposed product, we are trying to undertake a qualitative analysis of the product and its likely chances of success or failure. Therefore, we should also take into account the costing and profitability analysis of the proposed product. Other elements that should be taken into account include the implications of:

- Human resources;
- Business forecast;
- Competitor's reaction;
- Bank Negara Malaysia and the Association of Banks in Malaysia (ABM) regulations, provisions under the Banking and Financial Institutions Act, 1989 (BAFIA), ethics and social rules and pressures;
- Target market segment;
- Delivery system to accomplish the marketing goals;
- Pricing policy;
- Service objective to measure how well a customer should be supplied with what he considers of value;
- Marketing goals; and
- Training

This stage continues throughout product development and should be continually re-appraised and modified as and when necessary before the final implementation of the product by the bank.

Stage 4 – Research and Development

This stage requires the translation of the proposed idea into actual tangible service product. During this stage, the steering committee agrees to the idea and adopts a pre-defined business development plan. The product specifications are laid down and customer testing may be required. Total “tangible elements” including product name, packaging (brochures and application forms), advertising and publicity cum promotion materials are to be incorporated to give birth to new banking products. Special attention shall be accorded to the product's ‘service delivery system’ (manual or automated) to ensure a level of professional or satisfactory service.

Market testing of the new service product may not be always possible, but some bank products would necessitate extensive market survey and research conducted either internally or through the assistance of a market survey consultancy firm such as Performance Training and Consultancy Sdn Bhd.

In the course of undertaking the development of a bank product, a network analysis or a timeframe schedule is drawn up. It involves listing down all streams of main or subactivities which must be undertaken to get the product to the market. The relationship of all the activities can be mapped and the sequence of getting the job done is depicted clearly. During the development stage, many departments of a bank may be involved in one way or the other and this calls for close collaboration of the various units.

Stage 5 – Commercialisation

During this stage of activity, the bank is targeting for a full-scale launch of newly developed product or revamped product. It may be a modest launch or one with great pomp and fanfare to penetrate or recapture the market. There are 10 pointers that would contribute to the successful commercialisation of a banking product:

- (i) When to introduce it?
- (ii) Where to launch it – local, regional, nationwide or internationally?
- (iii) How to launch it?
- (iv) Who to target it at?
- (v) Is the service product delivery system (manpower and equipment resources) trained or prepared to support the product effectively?
- (vi) What is the turnover to be achieved over a period of time?
- (vii) Can the exact costing and profitability of the product be determined?
- (viii) Are there effective above-the-line or below-the-line promotional budgets and strategies to support the product?
- (ix) Does the product possess unique differential qualities or newness to stand out from its competitors?
- (x) Are there any contingency plans to counteract competitors from catching on with a similar “me-too product”?

Stage 6 – Feedback

It is imperative for every new bank product to incorporate the mechanism of feedback. Feedback is usually determined by the acceptability and performance of the bank product against standard benchmark. A bank can also continue to monitor feedback from “front-line” staff and through market surveys and competitor’s reactions to its product.

One must be fully aware that regular product improvement from time to time is necessary to ensure the success and competitiveness of a bank. Proper and timely elimination of bank products is equally important because of the continuous growth of bank products and services and the ever changing scenario of global bank automation in the retail banking marketplace.

Summary

Recently, Booz Allen & Hamilton suggested a new way to view product development. According to the new study, products can be categorised as ‘new’ to the world product (e.g. home banking terminals), addition to existing lines (e.g. shared ATM network cards), improvement of existing products (e.g. a repackaging housing loan with complimentary Mortgage Reducing Term Assurance) and new products brought on by cost reduction measures (e.g. two credit cards for the price of one) or by repositioning existing products (new children savings accounts with free periodicals, toys, etc.). *Table 3* shows the various categories of products, and their relative ‘newness’ to the market and the percentage represented by each category.

Table 3 New categories of products

| | | | |
|-----------------|---|--|---------------------------|
| High | | | New to world products 10% |
| Newness to mark | Improvement of etexisting products – 26% | Addition to existing products – 26% | |
| | Cost reduction – 11% | Repositioning – 7% | |
| Low | | | |

However careful a bank is in carrying out its product development, there is no fail-proof methodology and management must realise that despite all odds, some products may still fail. According to a recent study, most organisations are now able to turn one of seven new products into successful ones, compared with one in 58 in 1968. The failure rate is 20% for industrial products, 15%-20% for services and 40% for consumer products. Some of the main reasons are given in *Table 4*.

Table 4 Reasons for product failure

| Failure reasons | % of failure |
|--|--------------|
| Inadequate market analysis, e.g. failure to define market, overestimating | 45 |
| Product defects | 29 |
| Lack of marketing effort, e.g. ineffective positioning, poor pricing, weak promotion | 25 |
| Higher cost than anticipated | 19 |
| Competitors’ strength or reaction | 17 |

Despite all the precautions one has to take, new product development is the key to survival for banks in the 21st century. A rich continuous source of new products is important for a diversity of reasons such as projecting a new aggressive or market-oriented image for a bank, achieving the bottomline sales and profit objective, matching the competition, outflanking a strong competitor and utilising excess capacity. Banks that are committed to new ball game of product development usually organise this function in one or more ways, i.e. product development department and product steering committee working in close collaboration with the automation departments as well as user 'front-line' banking offices. Effective product development is extremely important as statistics show that only 2% of new concepts ever reach the commercialisation stage and about 65% of new products ever return a profit.

- (b) There have been numerous studies of the success rates of new products. All of them suggest that most new products fail to achieve a reasonable return for the business. The failure rate is particularly high for consumer products. Typical studies suggest failure rates of 80 percent for consumer products, 30 percent for industrial products and 20 percent for new services.

Most researchers believe that failure rates are likely to continue to increase. Factors causing this include the following:

- Shortening product life cycles
- Rising costs of developing new products
- Increasing environmental and consumer legislation
- More new products
- Increasingly segmented markets
- Declining profitability of brand followers

This high and rising failure rate has three implications for management. First, new product development needs to be carefully planned. Second, since many, or most, new product ideas will be weeded out before the commercialisation stage, management needs to stimulate a large pool of potential new products from which a few winners may emerge. Finally, as risk taking, and consequently the acceptance of new product failures, is fundamental to the innovation process, management must look for ways to reduce the cost of these failures. Fast response, minimising overheads and controlling investment are the means of limiting these downside risks.

Considerable evidence exists on the causes of new product failure. None of the reasons is surprising and most of the problems can be avoided, or at least substantially reduced for a financial institution.

Barriers to innovation

Successful innovators introduce many new products and achieve higher success rates. Both tasks are related and neither is easy but many financial institutions have experienced barriers to innovation which are identified below.

(i) **Development too slow**

Managers greatly underestimate the penalty for slow development. Today, with computing technologies widely available and short product life cycles, speed to market is crucial. Banks that are slow to innovate usually end up with a high product development cost and achieve lower prices. Late entrants rarely obtain a significant market share or achieve scale economies in marketing.

Speed to market is generally more important than fine-tuning cost and quality. Recently, Mazda of Japan decided to re-invest and re-engineer to develop new models from 3 years to a 1 year cycle. A study by McKinsey suggests launching a product six months behind schedule will reduce lifetime profits by one-third. In contrast, spending 30 percent over budget on development will trim profits by only 2 percent (*Table 5*).

Table 5 Impact of development problems on profitability

| | Decrease in lifetime profit (%) |
|---|---------------------------------|
| Introduced 6 months late | 31.5 |
| Quality problems reducing prices by 10% | 14.9 |
| Product costs exceeded by 10% | 3.8 |
| Development programme cost overrun by 10% | 2.3 |

- (ii) **Lack of differential advantage**
Products fail when customers do not perceive them as better value than those they are currently using. This may be due to inadequate functional performance. Alternatively, it may be due to poor competitive positioning – customers do not perceive the real values possessed by the product. Such problems can be reduced by consumer research and testing.
- (iii) **Poor Planning**
New product development is so complex, fast moving and competitive that mistakes will inevitably occur if management does not put in appropriate systems. Poor planning results in markets not being researched and segmented, targets and budgets not being set and monitored, positioning strategies not being tested, product launches being inadequately implemented. Without proper planning, the result is invariably failure.
- (iv) **No management enthusiasm**
Lack of management enthusiasm is another product killer. Management is often oriented to past winners and see new projects as taking resources away from the core business. Some traditional banks have been marketing the too generic products and fear to take to risk of introducing new products into unfamiliar grounds. A good example is, Phileo Allied Bank, who spearheaded into the market of stockbroking services and traditional banking to produce PAL-DIRECT, an unknown territory for Malaysian bankers until late '90s. Many of today's established banks are reluctant to adopt the Internet because they know its development as a banking medium may cannibalise their existing branches. Short-term is another factor handicapping many financial institutions. Where management incentives and focus are on current profit performance, new product development efforts are often sacrificed to boost short-term profits.

Question 4

The majority of candidates did well in this question.

- (a) **Market research**
Market research is the function which links the customer and public to the marketer through information. Market research serves the information needs of both operations and strategy development. At its most basic level, market research monitors current bank activities such as sales and market shares and provides data for evaluation operations in their usefulness and effectiveness. The advanced market research attempts to assess future markets in terms of customer references and competitive actions. Decisions are then made with the help of these data and applied in the market by adequate advertising, sales promotions, personal selling and public awareness campaigns so that these activities are profitably directed.
- The marketing manager should know enough about marketing research to help in the forming and the interpretation of research results. If they do know about marketing research, they may obtain the wrong information, accept the wrong conclusions and ultimately make the wrong decisions.
- Defining the problem and the research objectives is the first step. Unless the marketing manager knows what is being looked for, he or she will not be able to find it. For example, the marketing manager may want to know why the average balances of saving accounts is falling or why the queue at the counters are getting longer despite increasing the number of ATM machines at the banking hall.

After the problem has been identified, the manager needs to set the research objectives. A marketing research will have one of three types of objectives. The objective of exploratory research is to gather preliminary information that will help define the problem and suggest hypotheses. The objective of descriptive research is to describe things such as the market potential for a product or the demographics and attitudes of consumers who buy the product. The objective of causal research is to test hypothesis about the cause-and-effect relationships. For example, a 10 percent increase in commissions charged for outward telegraphic transfer (TT) resulting in a 20 percent fall in the number of TT transactions. Marketing managers may start with exploratory research and later follow with descriptive or causal research.

The second step of the marketing research process calls for determining the information needed and developing a plan for gathering data efficiently. The plan outlines sources of existing data, advises the specific research approaches, contact methods, sampling plans and instruments that will be used to gather new data. For example, the research might call for customer attitudes towards a new housing loan scheme or customer perceptions of service quality with an increased number of counter staff. The data to be gathered can use two research approaches, face to face interviews with customers or just by observing the customers and their actions at the queue and when they exit the queue.

The third step calls for the research plan to be implemented. This involves collecting, processing and analysing the data gathered. Data collected will have to be processed to reveal important facts and information. Several statistical methods can be used to tabulate and interpret the data.

Finally, the information must be interpreted and conclusion drawn. The findings will be reported to management who will take the appropriate action based on the information presented.

Purpose of Market Research

The main functions of market research should aid management in the following areas:

- (i) Market segmentation;
- (ii) Evaluation of marketing programmes;
- (iii) Measurement of results; and
- (iv) Decision making

The first function describes each market the bank is trying to serve. The common denominators that are prevalent in marketing today are demographics, identifying customer's wants, needs and desires in terms of banking services, market segmentation and niche potential.

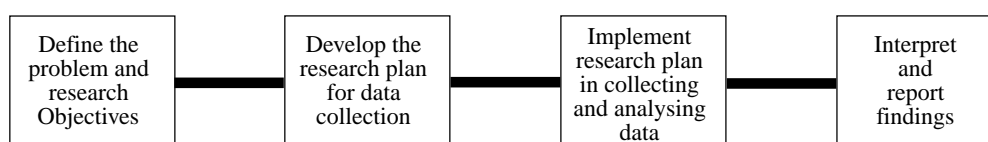


Figure 5 Marketing Research Process

The second function is to ascertain that the marketing programme satisfies customers' needs. It is achieved by testing products, concepts and advertising campaigns, prior to their introduction to the market. This will aid in facilitating the management cycle of controlling performance against plans already in place, solving problems that arise and in planning.

The third function is the measurement of the marketing results of the marketing efforts in quantifiable terms through specialised studies that look at the past, present (customer satisfaction, brand image and product introduction measurement) and future (new product, new market, or new business-opportunity studies). Marketing managers at banks must then conduct the necessary research (primary and secondary) as well as develop a competitive intelligence databank. These will help to effectively analyse the needs of customers, market trends and competitors' position. The correct analysis of the pertinent market information available is made and reported for management decision making.

Information or market research must be comprehensive, accurate and timely as the saying goes "Analysis by paralysis". It will be redundant to develop an excellent on-line market research database if a bank does not act on it but is bogged down by over-analysis and bureaucracy. In the economic meltdown

situation as is being experienced by Malaysia, market research plays an ever increasing role to assist banks to manage their businesses efficiently.

(b) There are many research contact methods available and some of these which can be explored by a financial institution are identified as:

(i) **Direct mailing**

The mail questionnaires can be used to collect a large amount of data at a very low cost. Respondents may give more honest answers to more personal questions on a mail questionnaire than to an unknown interviewer in person or over the phone. However, mail questionnaires are not flexible. All respondents answer questions in a fixed order and the interviewer cannot adapt the questionnaire based on earlier answers. Mail questionnaires take longer to complete and the response rate (i.e. number of people returning the completed questionnaire) is usually low. It is also difficult to determine who fills out the questionnaire.

(ii) **Telephone survey**

Telephone interviewing is more costly per respondent than mail questionnaire. It suffers from the same problem as mail questionnaire in that people may not want to divulge a lot of information to the interviewer. There is also a bias in that the interviewer's manner of speech may affect the respondent. Under time pressure and if the sample is large the telephone interviewer may cheat by recording answers without an interview.

(iii) **Personal and Group Interview**

Personal interviewing is flexible and involves talking to people in shopping centres, offices or in the streets. Trained interviewers can hold a respondent's attention for a long time. The interviewers can guide the interview, explore issues and probe the situation's demands. They can show the respondents the actual products, advertisements and brochures and observe the reactions and responses.

Group interviews consist of inviting six to 10 people to gather for a discussion on a product, packaging or a service with a trained facilitator who will guide the interview to the more pertinent issues, i.e. through the focus group methodology.

The choice of sample (i.e. the segment of the population selected for research) design requires three known factors:

- Who is to be surveyed?
- How many people to survey?
- How should the people in the sample be chosen?

Question 5

Some candidates mixed up the promotional mix with the marketing mix. However, for part (b), the objectives of a promotional mix, i.e. stimulating demand and enhancing a financial institution's corporate image was well-answered.

(a) **The promotional mix**

This promotional mix (also called the communications mix) is made up of four major elements:

- (i) Advertising;
- (ii) Sales promotion;
- (iii) Publicity; and
- (iv) Personal selling

In most financial institutions, all four can contribute to turnover, but a decision has to be made as to where to place the emphasis. This decision is made at the planning stage. In addition, it is important that the elements of the promotional mix work together to achieve the bank's objectives, and an important planning task of management is the co-ordination of promotional activities.

Several factors influence the planning decision as to where to place the emphasis within the promotional mix. In some financial institutions, the emphasis is placed on the sales force with most, if not all, of the promotional budget being devoted to this element of the mix. In others, advertising or sales promotions are seen as being much more efficient and productive than personal selling. Perhaps the most striking aspect of the various promotional tools is the extent to which they can be substituted, one for another. Financial institutions within the same industry differ in where they place the promotional emphasis. This makes it dangerous to be specific about developing the promotional mix within an industry. As a guide, however, some of the more important factors influencing this decision are outlined below.

(i) **Type of market**

In general, advertising and sales promotion play a more important role in the marketing of retail banking whereas personal selling plays an important part for corporate banking services. The reasons for this stem from the differences between corporate and consumer marketing. Despite this, it is a mistake to conclude, as is often done, that advertising does not have a role to play in the marketing of corporate banking products. Indeed, the potential contribution of advertising is often mistakenly undervalued by the senior management and discounted as a waste of valuable company resources.

(ii) **Stages in the buying process**

It was suggested that for both corporate banking and retail banking, it is useful to consider the stages which the prospective purchaser passes through en route to making a purchase decision. Although there are a number of ways in which this process may be conceptualised, essentially it consists of the potential purchaser moving from a position of being unaware of a company and/or its products, through to being convinced that the products or services of this company are the most appropriate to the buyer's needs. The sequential nature of this process is shown in *Figure 6*.

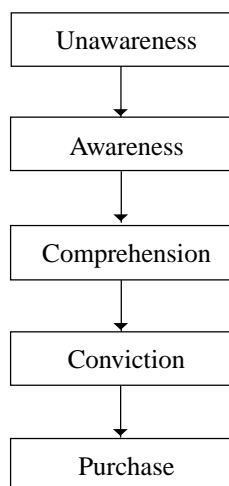


Figure 6 Stages in the buying process for banking services

Evidence suggests that, for a given outlay, advertising and publicity are more effective in the earlier stages of moving potential purchasers through from unawareness to comprehension. Personal selling, on the other hand, is more cost effective than other forms of promotional activity at the conviction and purchase stages. This is not to suggest that 'cold-calling' is not an important area of activity, however, as we shall see later, such 'cold-calling' is rendered much more effective if the customer is already aware of your company and its products through advertisement, promotions, press publicity, or even through 'word of mouth' recommendations.

(iii) **Push versus pull strategies**

One of the most important determinants in the choice of promotional mix is the extent to which a financial institution decides to concentrate its efforts in terms of its channels of distribution. This can perhaps be best illustrated if we contrast a push strategy with that of a pull strategy.

- A **push strategy** is where the focus of marketing effort is aimed at pushing the product through the channel of distribution. In general, a push strategy entails a much greater emphasis on personal selling and trade promotion within the promotional mix.

- A **pull strategy** relies much more heavily on advertising to promote the product to the final consumer. The essence of this approach is based on the notion that if sufficient consumer demands can be generated for a product, this will result in consumers asking banks for the product. In this way the product is 'pulled' through the channel by creating consumer demand via aggressive advertising.

(iv) **Stages in the product life-cycle**

Again, there are some evidence to suggest that the different promotional tools vary in their relative effectiveness over the various stages of this cycle. In general, advertising and sales promotions are most effective in the introduction and growth stages of the life-cycle, whereas it is suggested that the emphasis on personal selling needs to increase as the market matures and eventually declines. Needless to say, although there is no doubt that the stage of the product life-cycle does influence the choice of marketing strategy, great care should be taken in evaluating the consequences of this influence for sales strategies as these promotional mix consumes much of a bank's resources both financially as well as in terms of manpower.

(b) **Promotional planning**

Planning the promotional efforts calls for much more than simply developing advertising campaigns. As the financial services sector becomes increasingly competitive, and expenditure on promotions, particularly advertising, increases, effective communications will require a systematic and planned approach to promotional activity. The stages of promotional planning are outlined in *Figure 7*.

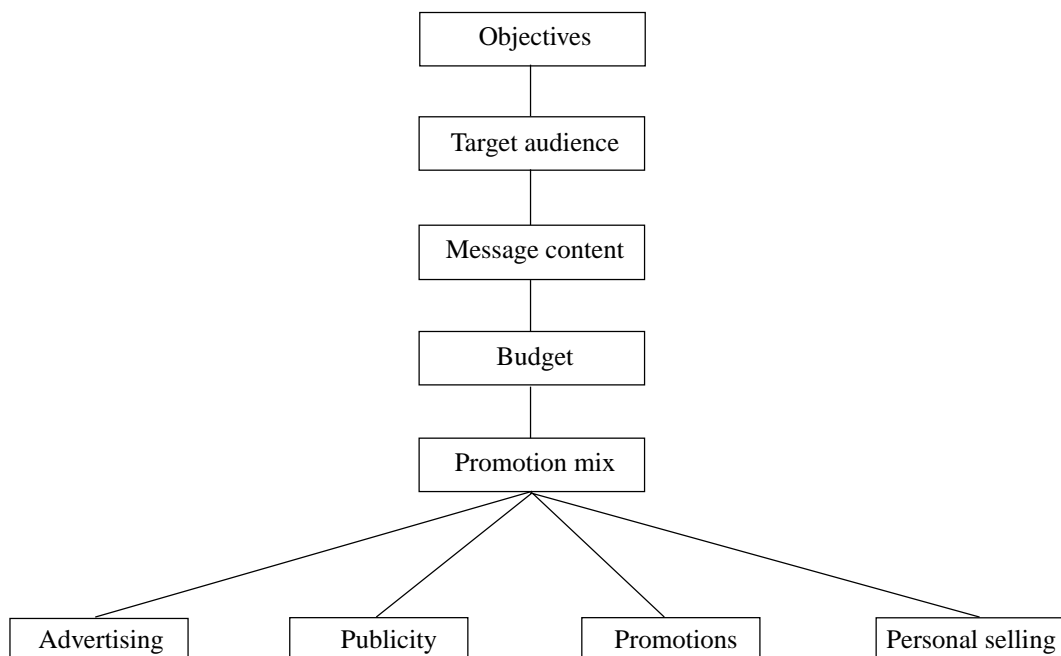


Figure 7 Promotions planning

In most instances, the desired outcome of any promotional strategy is to increase sales of a product, however, as mentioned earlier, an increasing number of promotional campaigns are targeted at creating, reinforcing or changing an organisation's image in relation to specific groups.

The two key objectives for undertaking a promotion campaign:

(i) **Stimulating demand**

Promotional campaigns aimed at stimulating demand from final consumers will have, as their ultimate objective, an increase in sales. However, given the complexity of the consumer's decision process, it is not sufficient simply to identify and increase in sales as an objective. In developing promotions, it is important to be aware of the stage in the buying process which characterises consumers.

(ii) **Corporate image**

Promotional campaigns in the financial services sector are increasingly being directed at corporate image. Recognising the problems of product intangibility has led many organisations to view the development of a positive image with society in general as being important in establishing brand loyalty and developing some intangible representation of the intangible product. The importance of image demonstrated in Standard Chartered Bank corporate image of “BIG, STRONG AND FRIENDLY” in the 80’s, OCBC’s “Solid as a Rock” and Arab Malaysia Finance Berhad using the mascot of the “Camel” image in its corporate advertisement. For the financial services sector in general, Ennew *et al* (1989) found that most organisations placed greater emphasis on image, an orientated promotion. An additional advantage of this approach in relation to financial services is that it eases the burden imposed by the BAFIA in relation to information requirements of advertisements.