

DP10

Marketing of Financial Services

11 APRIL 2003

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. (a) Explain the meaning and implications of “marketing” in the banking environment. [10]
(b) Explain how “marketing” can be distinguished from the popular notion of “selling” at banks. [15]
(Total:25 marks)
2. (a) Define market segmentation and explain the importance of market segmentation for financial institutions. [4]
(b) Briefly explain **three** important criteria that a financial institution could use to effectively segment a market. [6]
(c) Choose **two** markets (one from retail banking and one from corporate banking) and briefly show how these markets may be segmented. [15]
(Total:25 marks)
3. (a) Explain the **three** layers of a product strategy. [10]
(b) Outline factors that influence your bank’s product strategy. [15]
(Total:25 marks)
4. (a) Sponsorship is gaining importance as a tool for bank marketing.
How can sponsorship by a bank add value to a bank’s promotional strategy? [10]
(b) Why would a bank want to target sponsorship for an international sports event such as the Thomas Cup or the Formula One Grand Prix? [15]
(Total:25 marks)
5. (a) Describe the Ansoff product/market matrix growth strategy. [10]
(b) How can the Ansoff product/market matrix growth strategy be applied to your financial institution? [15]
(Total:25 marks)

OUTLINE ANSWERS

Question 1

Candidates were not able to draw a clear distinction between selling and marketing in a financial institution.

1. (a) Numerous definitions exist which attempt succinctly to describe the scope and meaning of marketing at financial institutions. Marketing has been as described a business activity directed at satisfying needs and wants through exchange processes. In reality marketing as a management process is in essence a simple concept, which holds that the orientation of a bank should be towards the customer's point of view, which in the past may have been neglected by many banks in Malaysia.

The understanding of marketing is considerably aided once it is appreciated that the term implies both a business philosophy and frame of mind and a specialised functional area of management. The former implication is often referred to as the "Marketing concept".

The Marketing concept identifies the strategic nature of marketing at banks, strategic plans are realised by the specialised functions of marketing management, i.e. the management of customer demand. These functions have been categorised as being elements of the "Marketing Mix" often referred to as the "4Ps". The major components of the four Ps are listed below:

- | | | |
|-----------|---|--|
| Product | - | Branding
Quality of performance
Labelling
Packaging
Attributes |
| Price | - | Level
Discounts
Credits
Discrimination |
| Promotion | - | Advertising
Sales promotion
Publicity
External public relations
Personal selling |
| Place | - | Physical distribution / logistics, e.g. ATMs, e-banking. |
| People | - | Retail and Corporate Banking
Pre and after sales support |

These are the tools which marketing management uses in order to translate plans into action. It is important to understand that while they are mutually interdependent, management affords varying levels of emphasis to each of these elements. In this way, a bank's marketing mix can be tailored to its long-term strategy and then fine-tuned according to developing market conditions.

(b) **Marketing vs. Selling**

It is apparent that marketing has far greater ramifications than a bank approach, which focuses merely on "Selling". Some banks still retain an approach, which is centred on sales. A direct comparison between "selling" and "marketing" attitudes illustrates how radically the two approaches can differ.

A "selling" orientation assumes that:

- The bank's main task is to get sales for its products
- Customers will not, without sales pressure, buy enough of the company's products
- Additional sales can be induced by a substantial selling and promotional effort
- Customers can probably be manipulated to buy again; if they do not, other customers will take their place.

This approach to business is essentially short-term because it implies that customers have to be coerced into buying from the bank whether or not their interests are in the process best served. It can be seen that this is a narrow view.

A “marketing” orientation assumes that:

- The bank’s main task is to satisfy the defined set of wants of a defined set of customers.
- A carefully planned approach to the market, in the form of marketing research and systematic analysis and control is necessary to learn about the customer’s wants and to ensure that they are being satisfied.
- The bank must be integrated in its business approach to the market.
- The process of satisfying customer wants, if carried out efficiently, will bring about favourable customer attitudes to the company whilst encouraging repeat business over the long haul.

From this comparison it is evident that the starting points, the means and the objectives of “marketing” as opposed to “selling” taken in isolation, are in contrast. What is needed is an integration of these ideas (since nobody doubts that a firm, to remain solvent, must effectively dispose of its output of goods and services). Levitt says that selling takes account of the needs of the seller, while marketing itself concerns itself with the needs of the buyer.

In the 21st century, Banks in view of increasing competition need to change its strategy to reposition itself to be market oriented to ensure long-term survivability.

Question 2

Many candidates were not able to give satisfactory answers to this question on market segmentation.

2. (a) (i) All customers have different wants and needs and will react differently to the way in which an organisation markets its product. Although each consumer is unique, it is often possible to identify groups of consumers with attitudes and behaviour, and wants and needs that are quite similar. The process of identifying these groups is called market segmentation.

Market segmentation analyses groups of customers in terms of their needs and wants. It is a derivative of product differentiation, which distinguishes product features that can enhance the image of the products and so command a premium in terms of price.

Markets can be segmented into groups of potential customers who possess one or more common characteristics. These are useful for explaining or predicting responses to various marketing stimuli.

(ii) **Requirements for evaluating market segments**

Before attempting to segment a market, a bank needs to be able to measure its potential success. There are three generally accepted requirements for this evaluation:

- The segment must be measurable and distinct, including information available that can highlight the effect of the particular buyer characteristic that makes it difficult.
- The segment must be accessible in that the bank should be able to focus attention upon it.
- Its size should be substantial in terms of costs and potential benefits. Cultivating a separate market segment is expensive, and this expense can only be justified if the profit return is likely to outweigh it.

(b) **An example of bank market segmentation**

The example chosen is a bank. Markets are generally segmented on the basis of several different variables, the most frequent being as follows:

- Geographical – by region, city or town
- Demographical – by age, sex, family size/structure, education, etc.
- Socio-economic – by social class, occupation, etc.
- Psychographic – by lifestyle, personality type, religion, etc.
- Purchasing Behaviour – by number of purchasing occasions, usage rate and benefits sought.

Each of the above is examined in more detail.

A clear leading indicator of the usage of a bank is the population distribution throughout the country. That does not just mean the population distribution throughout the country. That does not mean the population density as such. What we really need to know is the population that can be reached by various targeting measures and also the population that the product can be profitably distributed over its bank branches.

Demographic segmentation follows on from the above, and here we need to look at the population in terms of its size and make-up. The number of families of childbearing age will be a positive indication of the growing market for mortgage and car financing. The number of older people's presence if more means product formulation needs will tend to differ from those of younger people, e.g. pension funds, monthly withdrawal of interests, insurance, hospitalisation schemes, etc.

The socio-economic pattern varies from one part of the country to another and in this case it is possible to segment according to the "benefits" required of say of a credit card. Some classes will require a credit card for functional reasons, e.g. convenience, whereas others will require a credit card for what it will do for them, e.g. make them look better, e.g. gold or platinum exclusive credit cards.

Following on from the above, lifestyles and personalities of consumers can be used to predict what image they most closely identify with, and to this extent shampoos are often given a "brand" image.

Purchasing behaviour is manifest in how often consumers buy and how much they buy. They can also be segmented by the degree of their brand-loyalty and the degree to which they are prepared to switch brands, e.g. Standard Chartered Bank has encouraged consumers to shift their credit cards to them by allowing them lower interest rates for repayments of outstanding amounts.

An example of corporate banking market segmentation

The example of chosen here is for a corporate banking. The most recognised bases for segmentation are:

- macro
- micro

These are now looked at separately.

Macro bases for segmentation centre on the buying situation, including the organisation, its type, its size and the application to which it is likely to put the products it purchases.

The corporate banker will thus look at potential customers from the following viewpoints.

- Geographical – by region, county or city
- By size – in terms of factories owned or being built by the customer
- By type of purchasing influence – e.g. financial controllers, factory-owners, etc.
- Usage rate – frequent or infrequent usage of bank credit and off-balance sheet facilities
- Previous purchases – established customer or new business
- Size – small, medium (SMIs) public listed companies or multinationals.

Micro bases are more concerned with the characteristics of the decision-making units (DMUs). The strategy of the corporate customers is important in terms of whether they are satisficers or optimisers. The relative importance of the usage of banking facilities to the organisation is also significant, as are the personalities of the decision-makers. The businesses will thus look at purchasers from the following viewpoints:

- Reason for purchase – e.g. new plant, replacement plant, new buildings and other movable assets.
- Previous banks used – i.e. who these are, their structure, offerings
- Satisfaction with previous bankers – i.e. low, medium or high
- Perceived risk of situation – i.e. low, medium or high
- Attitude to risk of deciders or key influencers – i.e. risk-takers or risk-averters.

Conclusion

Both of the above examples demonstrate the fact that banks face tight budgets from marketing their products. “Market-niching” policies, especially in the B2B sector, enable scarce resources to be used to the best effect. Target marketing aims at the areas that offer the best short-term prospects. One important point for retail bank marketers in particular is the use of below the line forms of promotion. These can be used to break down consumers’ existing brand-loyalties.

Question 3

Candidates were not able to explain in detail the three layers of product strategy, i.e. core (generic), tangible, and augmented.

3. (a) Product Strategy is arguably the central component of any marketing mix; however competitively promoted and effectively distributed that product may be, if it does not offer the key features that consumers expect, if it does not satisfy the needs of the target market then the bank lacks an effective basis for long-term success in a competitive market.

Like products, consumers purchase a service not for itself but for the benefits it offers to the user – that is to say a service is purchased because it fulfils certain needs. The intangibility of services makes the definition of what constitutes the service product a potentially complex exercise (Cowell, 1984). The marketing literature presents a variety of frameworks for the analysis of the components of a product and these provide a useful framework for examining and defining the service product in general and the financial service product in particular. Kotler (1994) for example distinguishes between the core benefit supplied the generic product while Levitt (1980) focuses on the generic, expected and augmented components of a product.

In the case of services, we can consider the core or generic element as being composed of those features, which provide for certain broad consumer needs. Thus, the core or generic element of a unit trust is the facility to manage and augment an individual’s financial resources which fulfils customer needs for a return on financial resources and the associated ability to defer consumption. The tangible or expected elements give a service a more specific identity by adding shape and features to the core or generic product. In the case of a unit trust, this would include an association with a specific supplier (branding) choice of investment realisation method (income vs. capital growth), projected returns, accessibility, etc. The augmented element would then incorporate additional features, which go beyond those that would be expected by the consumer. In the case of a unit trust, this might include the option to invest only in companies.

Service strategy in the marketing mix concentrates on identifying the core features required in any basic service and on developing the most appropriate peripheral features to augment that service. This focus suggests the requirement for particular emphasis on physical evidence and people. The development of the product component of this services marketing mix is influenced by certain distinctive features of services:

Services are intangible:

A service cannot be seen, touched or displayed. A customer may purchase a particular service but typically has nothing physical to display as a result of the purchase. Money transmission is a service which customers pay for and is performed by banks, but the customer does not obviously have anything to show as a result. The same can be said of many insurance, savings and investment services which may only yield a benefit at some point in the future (ten years, twenty-five years or longer).

Services are inseparable:

In general, it is impossible to separate the production and the consumption of a service. Most goods are produced and subsequently sold to customers by contrast, the service product is typically sold and then produced. As a result, services are perishable – they cannot be stored, they must be produced on demand and often can only be produced in the presence of the customer.

Services are heterogeneous:

The quality of the service product is typically highly dependent on the quality of the personnel conducting the transaction. As a result of this, the potential for variability is high. The quality of service a customer receives from a bank when making a loan application will be dependent on the performance of the loan assessor; the bank will be judged on that rather than the quality of the resulting loan. The reduction of quality variability requires standardisation in service delivery such as the use of ATMs.

These features are present to varying degrees in financial service products. A key aspect of product strategy for any financial service organisation is to confront these issues and attempt to resolve them. A common strategy is to develop a tangible representation of a product in the form of either peripheral evidence (that which can be possessed by the consumer but has little intrinsic value) or essential evidence (that which cannot be possessed by the consumer but which has value) or both. Examples of the latter include the branch environment in which the service is delivered. Credit cards and cheque cards are examples of peripheral evidence, which provide tangible representations of money transmission and credit facilities, e.g. Southern Bank has just launched a new credit card with a rounded edge.

Indeed, the credit card goes one stage further and provides a facility, which effectively enables the consumer to store credit. When the process or direct association is not feasible, an alternative is to rely on developing associations between the service and other tangible items, which represent stability. The concept of Access as a “flexible friend” is one particularly successful example of this approach. Another variant of this approach is to focus on the organisation and the nature of the relationship between the buyer and the seller (hence the attempt of Hong Kong Bank to portray itself as a relationship bank). The advantage of such a tangible representation is additionally that it can assist in the process of differentiation and encourage brand loyalty.

Question 4

Many gave stereotyped answers and did not go beyond to cover areas such as bonding, retention, goodwill, etc. of sponsorship strategies.

4. (a) The highly versatile and adaptable nature of sponsorship has created difficulties in the development of an enduring definition. There is however, general agreement that sponsorship has a commercial dimension and is not patronage and has gained enormous popularity in the past five years. A bank seeks to exploit the commercial potential associated with an event or activity in return for an investment of cash or kind. Nevertheless, the increase in, for example, environmental and community sponsorship may have limited the degree of material benefit required by the sponsor.

The complex nature of sponsorship has also presented difficulties in relation to functional control. Initially, banks tend to locate sponsorship within their advertising and sales promotion functions, but with greater experience they treat sponsorship as an extension to traditional marketing functions rather than a component of them. It is found that where organisations had

both marketing and public relations (PR) department, sponsorship was more likely to fall within PR. In the cases where marketing took control, the sponsorship was invariably of a sporting nature.

While it is sometimes suggested that sponsorship is merely another form of advertising, this is strongly refuted in the literature. Sponsorship works differently from advertising in that the sponsorship fee generally represents the cost of buying an association.

This investment must then be leveraged through the use of additional advertising and promotional material. The form and the extent of the leverage will depend on the specific objectives of the programme but additional investments are required.

While sponsorship can be used independently, it is more effective when integrated with other advertising and promotion media, thereby generating communication synergy.

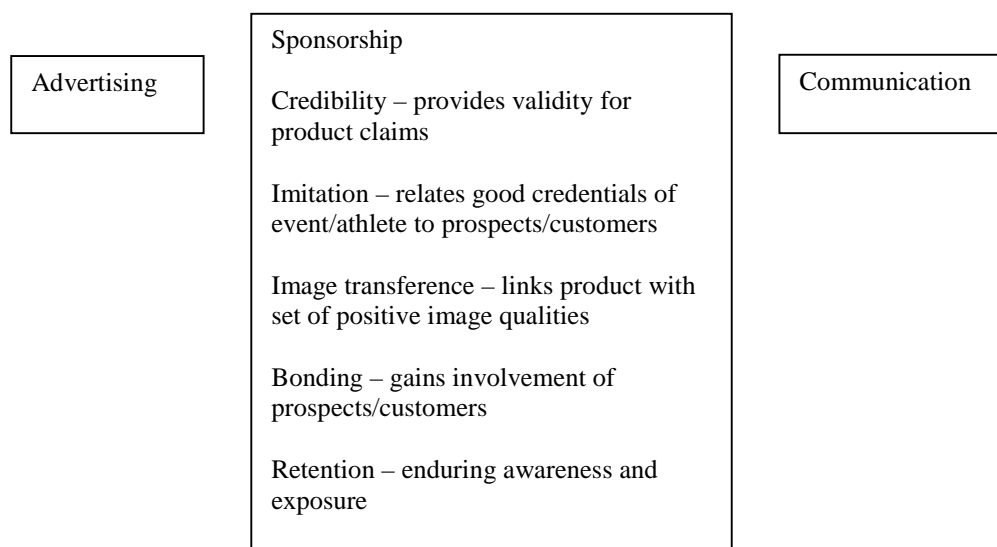
Marshall (1993) suggests that sponsorship can endow the sponsor's communication with elements of value are unlikely to be available through mainstream advertising. Added value is based on credibility, imitation, image transference, bonding and retention as shown in figure Y.

Sponsorship can also contribute to a wide range of objectives at both corporate and brand level. The following list is indicative although not exhaustive:

- increased corporate or brand awareness
- increased media attention
- community involvement
- corporate hospitality and goodwill
- increased new product awareness
- counter adverse publicity
- aid staff recruitment or relations
- lead generation of sales

Furthermore, a wide range of constituencies can be targeted through sponsorship, for example:

- shareholders
- suppliers
- workforce
- media
- customers/potential customers
- general public
- politicians



- (b) While various activities form the basis for sponsorship programmes, sport has proved the most popular among financial services institutions, for example, like Thomas Cup and even an international event like Formula One.

The main benefits are:

- to create a favourable association with a popular event
- to win the goodwill of the bank customers that their bank have sponsored this programme
- to appeal to certain segments of the market it has targeted to win their “hearts and minds” in their current and future associations with the bank concerned

Sleight (1989) suggests sport offers a number of advantages such as high levels of visibility and the ability to capture a full range of demographic segments.

It can be used to target mass markets or specific niches and is capable of transcending national boundaries and breaking down cultural barriers. Television coverage is also encouraged through the provision of all-round entertainment and low production costs. Many of these features were instrumental in Barclays’ decision to sponsor the formula one.

- appeal to youth – a key recruitment area
- international coverage
- interests all ages and sociological groups – specific target groups can be isolated
- television coverage [over a million for Formula One (F1)]
- scope for corporate entertainment – complementary tickets
- availability of other communication media – programme advertising, perimeter boards, logos on F1 cars material, etc.
- links with community

While sports remain a popular focus for sponsorship activity, it does not fulfil the needs of all institutions. Some banks may opt for community projects like visiting old folk’s homes or other charitable organisations, holding charity balls, and even raising funds for AIDS victims, to reach a wider audience base.

A key concern was to ensure that future sponsored activities had relevance to the business. This can be achieved at various levels, for example:

- product linkage – the product is related to the sponsored activity
- product image linkage – the image created by the product relates to the sponsored activity
- corporate image linkage – the image created by the organisation is related to the sponsored activity.

While the study revealed evidence of a professional approach to the management of sponsorship programmes by some institutions, particularly banks, this pattern was by no means universal. The general picture suggested that sponsorship was used on an ad hoc basis and appeared unhinged from broader strategic considerations. In particular, there was often no clear rationale for sponsorship with elements of a wider communication mix. A lack of appreciation of the workings of sponsorship was highlighted in a failure to leverage the sponsorship through additional expenditure. The selection of sponsorship projects was often reactive and there was evidence of a lack of clarity in the development of focused objectives capable of subsequent measurement, particularly by building societies.

Question 5

Most candidates were able to describe the Ansoff product/market growth strategy.

5. (a) A common framework for the analysis and the determination of growth strategies is Ansoff’s product/market opportunity matrix (Ansoff, 1965). In developing a strategy for growth, a financial institution must determine whether to concentrate on existing or new products and existing or new markets. This suggests four possible options – market penetration, market development, product development and diversification; the first three of which are regarded as intensive growth strategies, while diversification is regarded as a form of extensive growth.

- (i) **Market Penetration**
 With a market penetration strategy, the organisation aims to sell more in its current markets by persuading existing users to use more, persuading non-users to use or attracting consumers from competitors. Increasing usage among existing customers may entail encouraging an increase in the extent of life coverage, or offering higher rates of return for increased levels of savings. As a strategy for growth, market penetration will only be viable where the market is not saturated. In mature markets such as the market for current accounts, significant market penetration can be difficult because an increased share entails attracting customers directly from competitors.
- (ii) **Market Development**
 Market development requires that the organisation looks to sell its existing products in new markets. There may be new markets geographically, new market segments or new uses for products. As a strategy, it requires effective and imaginative promotion, but it can be profitable if markets are changing rapidly. The various marketing strategies used by clearing banks to attract senior citizen accounts, including a variety of “special offers” provide a simple example of an exercise in market development.
- (iii) **Product Development**
 Product development entails both developing related products and modifying existing products to appeal to current markets. The key features of a product development strategy are typically restyling service products, the addition of new features and quality changes. A strategy of this nature relies on good service design. Packaging and promotion often plays an important part on a bank’s reputation to attach consumers to the new products. The benefits are, that by tailoring the products more specifically to the needs of some existing consumers and some new consumers, a bank can strengthen its competitive position.
- (iv) **Diversification**
 The advantage of intensive growth strategies is that they tend to be lower risk. Diversification tends to be more risky strategy, with the risk increasing as the organisation moves into areas where it has limited experience. However, it may be the only suitable strategy if existing products and markets offer a few growth opportunities. Perhaps the most common form of diversification among providers of financial services has been concentric diversification, which involves developing new products, which are related to existing products in terms of both markets and technology, such as the movement by the banks into electronic banking. Conglomerate diversification, which involves both new markets and new technology, is a comparatively rare phenomenon in the financial services sector because of the limited opportunities for synergy and the greater risks involved.
- (b) The Ansoff Matrix can be termed as a classic model for marketing theory. What it provides is a framework for a bank to strategically analyse its overall marketing objectives since it is concerned with what is sold (the service product) and who it is sold to (the market). It provides a dual strategic approach, i.e. the correct strategy and where organisational strengths need to be developed as outlined below, with reference to Figure 1.

		Products	
		Existing	New
	Existing	1	2
	New	3	4

Figure 1
 Ansoff Matrix

In Box 1, the bank is developing a strategy around existing service products, which can grow its business by improving productivity or market penetration. An example is the on-going strategy to expand its savings, fixed deposits and current accounts, etc.

In Box 2, the bank is discovering it cannot achieve its goals in Box 1. It can initiate new product development to introduce to its existing customers. For example, the current push for a new re-packaged housing loan, liability saving products, etc.

In Box 3, the Bank chooses to introduce its existing range of products to new markets. Implicit is the requirement for marketing expertise and careful selection on branch expansion. This is the common strategy of most Malaysian's banks.

In Box 4, the Bank wishes to diversify by introducing new products to new markets. An example is the popular expansion strategy of banks opening Labuan branches dealing in competitive off shore banking instruments.

When utilising the Ansoff Matrix, it is prudent to move from Box 1 to Box 4. Box 1 and 2 strategies are much easier than Box 3 or 4, as Box 1 and 2 focus on relationship marketing whilst Box 3 and 4 are more risky as the bank is moving into uncharted territories.