DP10

Marketing of Financial Services

10 OCTOBER 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) Describe the new product development process. [13]

   (b) Describe **three** factors that should be taken into account to develop a competitive position. [12]
   (Total:25 marks)

2. (a) What are specialist call centres and why are banks keen to develop these call centres as part of their financial services distribution channel? [8]

   (b) Explain **four** advantages of online banking to customers. [8]

   (c) Explain **three** disadvantages of an online distribution system to the bank. [9]
   (Total:25 marks)

3. (a) Describe the SWOT analysis for bank marketing planning. [15]

   (b) Outline the steps to develop a strategic marketing plan for financial institutions. [10]
   (Total:25 marks)

4. (a) Describe the main features of a product life cycle. [12]

   (b) For each stage in the product life cycle, give an example of a product offered by your financial institution. Relate the marketing mix that is applicable to each of these products in its respective stage. [13]
   (Total:25 marks)

5. (a) Service quality is one way to achieve customer retention.

   Briefly explain the benefits of customer retention. [10]

   (b) One widely used approach to relational selling is SPIN® selling which is based on the work of Neil Rackham.

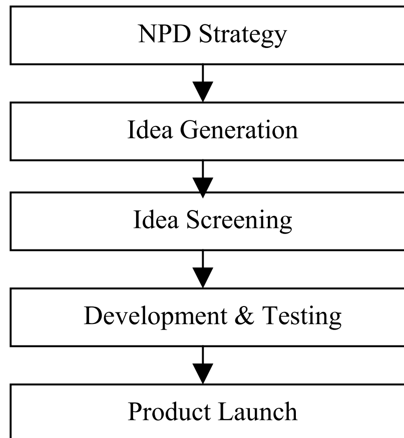
   Explain the **four** types of questions to be raised in a selling situation based on the above approach. [15]
   (Total:25 marks)

OUTLINE ANSWERS

Question 1

Many candidates were not able to describe the new product development process or the factors that should be taken into account when developing a competitive position.

1. (a) The new product development (NPD) process:



- **NPD strategy**. It's important to ensure that all involved understand the importance of NPD and what the organisation wishes to achieve. The ideas to consider are likely to vary according to the purpose of the NPD programme.
- **Idea generation**. Ideas may be generated from both inside (specialised NPD teams and employees' feedback/suggestions) and outside the organisation (customer feedback, market research, etc.). It is important to focus on what the market wants, rather than what is possible.
- **Idea screening**. The ideas produced at the idea generation stage must be screened to check their suitability. This usually means deciding in advance on a set of criteria for idea evaluation. Often, the screening process passes through several stages: initially, all ideas are screened using simple criteria to eliminate any obviously unattractive suggestions. The remaining ideas are subjected to a more thorough screening. This may involve examining their operational and financial viability in greater detail, and often some product specific market research.
- **Development and testing**. Ideas that survive the screening process are then worked up into specific service concepts – that is to say the basic idea for the new product must be translated into a set of specific features and attributes which the product will display. At this stage, it is common to test this newly defined product to identify consumer and market reactions in order to make the necessary product modifications before it is launched. The problem with test marketing in the financial sector is that it gives competitors advance warning for an organisation's latest ideas and offers competitors the opportunity for imitation. Therefore, test marketing in the financial services is unusual.
- **Product launch**. This is the final stage and the true test of any newly developed product. It is the point at which the organisation makes a full-scale business commitment to the product. At this stage, the major decisions are essentially of an operational nature – decisions regarding the timing of the launch and the specific marketing tactics to be used in the support of that launch.

(b) **Three** factors to be taken into account when developing a competitive position:

- **Uniqueness**. The factor identified must be able to create an actual or perceived uniqueness in the consumer's mind, if the customer perceives an organisation to be offering something that is unique, then they have a very clear reason to make a purchase. Without any perceived uniqueness, the organisation may have to rely on competing simply on price. This can be a very risky strategy because competitors can easily match price changes. Perceived uniqueness may come from product but equally it may come from other aspects of the service, for example, the personal treatment American Express

provides its customers. Increasingly, reputation and brand are seen as ways of creating uniqueness in the customer's mind. For example, both Citibank and HSBC Bank have built a differential advantage though the strength of their respective brands' association with global coverage, innovation and high quality.

- **Importance**. While there are many ways in which an organisation can create perceived uniqueness, these will only help create a competitive advantage if there are attributes that consumers value highly. The bank that tries to emphasise its global branch network when positioning itself in retail markets may find this approach not particularly effective because retail customers do not attach much importance to this factor.
- **Sustainability**. For a differential advantage to be effective, it must be sustainable. It must be something that the organisation can continue to offer and not easily duplicated by competitors. For example, trying to create a competitive advantage based on low interest rates for loans/mortgages may be ineffective as competitors can easily match this offer. Consequently, the organisation's competitive edge will disappear.

Question 2

Many candidates could not give satisfactory answers to the questions relating to specialist call centres. Quite a number were also not able to state the advantages of online banking and the disadvantages of online distribution system.

2. (a) Both telemarketing and telephone banking are increasingly organised through specialist call centres. There are large centralised locations supported by state-of-the-art telephony, staffed by large numbers of customer service staff who specialise in either telemarketing (outbound calls to customers) or providing banking services (inbound calls from customers). This means a single base that engages in telemarketing (rather than having a large number of sales people scattered throughout the country). Similarly, all incoming requests for account transactions are handled in one location rather than by staff scattered across various range of different bank branches.

From the bank's perspective, the development of call centres is an attractive proposition because it offers high levels of efficiency and improve productivity. With all calls handled at a single location, staffs are used more efficiently. In addition, call centres can in theory offer customers a better service support. An individual bank branch would find it too expensive to offer a 24-hour telephone banking service but a centralised call centre can provide this service because a relatively small number of operators can deal with calls from throughout the country. Thus, the call centre has the potential to offer better service to customers with higher levels of convenience and to allow banks to operate more efficiently and at a lower cost.

(b) Online banking offers a number of advantages to customers:

- **Convenience and Flexibility**. Online banking offers a high level of convenience and flexibility. As is the case with phone banking, customers can manage their financial affairs whenever it is convenient to do so – they are not restricted to bank opening hours. Moreover, as they can undertake their banking from their own home, there is no longer a need to visit the bank branch. This can mean significant customer savings in travel and waiting time.
- **Customisation**. Customers are also able to customise their banking site to provide information in their preferred format, and build in their own particular preferences. Some sites will provide regular updates on share prices and other financial data that can be tailored to provide the exact information the customer wants.
- **Control**. Many customers value the sense of control that they get from online banking – they undertake transactions themselves without having to rely on the bank's staff.
- **Cost**. The lower costs associated with online distribution mean that in many cases customers can obtain products are lower costs. For example, brokerage charges for online shares dealing are significantly lower than for transactions conducted face-to-face.

(c) The disadvantages associated with online distribution systems.

- **No opportunities for face-to-face interaction over the Internet**. This form of distribution is less suitable for dealing with complex products such as corporate and

private banking. Products such as pensions and certain types of investment require careful explanation and discussion, which is very difficult to achieve over the Internet at present. There have been instances of organisations considering using chat rooms to allow this sort of interaction. However, security concerns regarding confidentiality limit the value of these facilities.

- Good online systems can be **costly and difficult to develop**. Thus, a very substantial initial investment is required and it can take some years for this investment to be repaid.
- **Passive online distribution**. The organisation has to rely on the customer visiting the website. The organisation has no opportunity to make sale if the customer does not visit the site. There are a number of advertising and promotional techniques that can be used to attract customers to visit a site, and other techniques (e.g. providing useful information, up-to-date news, etc.) that can encourage customers to stay on a site. However, given that most customers tend to be relatively uninterested in financial services, these are often of limited effectiveness.

Question 3

Candidates did not answer well in their SWOT analysis as they focused on a specific product of a financial institution instead of taking the holistic perspective of the whole bank.

3. (a) SWOT analysis is one of the most commonly used techniques for organising the information collected in relation to the bank's marketing environment. The process of SWOT analysis is one that is widely used by banks for organising information relating to the marketing environment and providing guidance on strategy development. The basic principle of SWOT analysis is that any statement about the bank (derived from a marketing audit, for example) or about the environment (derived from marketing research) can be classified as a Strength, Weakness, Opportunity or Threat.

An opportunity is defined as any feature of the external environment, which creates conditions, which are advantageous to the bank in relation to a particular objective or set of objectives. By contrast, a threat is any environmental development, which will hinder the achievement of specific objectives. What constitutes an opportunity to some banks will almost invariably constitute a threat to others. The recent disclosures about widespread mis-selling of personal pensions and the consequent consumer backlash in relation to the commission-based sales agent would be considered as a threat by many of the traditional life offices; the banks and some building societies may regard these events as an opportunity to expand their role in the sales of savings and investment products by building on an image of trust and reliability.

A strength is considered to be any particular skill or distinctive competence within the bank that will assist the organisation in achieving its stated objectives. These may relate to experience in specific types of markets or specific skills possessed by employees either in relation to production, research and development, (R&D) or marketing. It may, equally, include aspects of corporate culture/image – for example, a bank's reputation for quality and customer service may be regarded as a significant strength, as might the existence of a particularly comprehensive customer database. A weakness is simply any aspect of the bank, which may hinder the achievement of specific objectives and may include limited experience of certain markets/technologies, nature of reputation or extends of financial resources available. The lack of experience within building societies of money transmission facilities could be regarded as a weakness when considering the development of current accounts, while banks may consider their experience in wholesale money markets to be a strength in relation to the development of mortgage services.

These data are commonly presented as a matrix of strengths, weaknesses, opportunities and threats. There are several points to note about the presentation and the interpretation. First, it should be recalled that effective SWOT analysis does not simply require a categorisation of information, it also requires some evaluation of the relative importance of the various factors under consideration. Listing corporate features that internal personnel regard as strengths/weaknesses is of little relevance if they are not perceived as such by the bank's consumers. Equally, threats and opportunities are conditions presented by the external environment and they should be independent of the bank. Thus, it is inappropriate to identify

the potential for price-cutting as an opportunity – it is not, it is a strategy, which may be implemented by the bank if the opportunity exists. Thus, if the opportunity is highly price-sensitive consumers, the strategic response could then be price-cutting.

A table is constructed to show a matrix of strengths, weaknesses, opportunities and threats for a hypothetical Malaysian-based local bank.

• Large captive account base • Extensive branch network • Adequate capital for expansion • Considered trustworthy	• Staff lack selling skills • High overhead costs • Outdated technologies – account-driven rather than customer-based • Bureaucratic banking culture
• Growing demand for personal financial services • Rising personal wealth • Growth in demand from younger sections of population • Easier access to rural market.	• Competition from other suppliers of personal financial services • Consumers becoming more critical • Consumers have higher expectations of service • Possible competition from foreign banks after 2005

The ordering of the items within the matrix reflects their relative importance. The SWOT matrix in this format can be used to provide some guidance with respect to strategy. In particular, two basic strategic options can be identified:

Matching: Initially, the SWOT matrix should be examined to determine the extent to which it is possible to match the particular strengths of the bank to the opportunities presented by the market environment. Strengths, which do not match any available opportunity, are of limited use, while opportunities, which do not have any matching strengths cannot be exploited unless the bank makes fundamental internal changes. In our example, the bank may consider building on its large captive account base to cross-sell a range of financial products (to respond to growing demand) making particular use of its trustworthy image.

Conversion: Where there are no obvious or substantial matching opportunities, the alternative is to concentrate on converting weaknesses into strengths in order to take advantage of some particular opportunity or converting threats into opportunities which can then be matched by existing strengths. For example, the threat posed by increasingly high customer expectations could be turned into an opportunity to gain a real competitive edge through enhanced service quality. Alternatively, the recognition that staff lack selling skills could be turned into a strength in the light of growing public distrust of commission-based selling.

This process should not exclude the development of completely new strategies, which may not occur simply as a result of SWOT analysis, encouraging a systematic approach to the analysis of the marketing environment.

(b) A marketing strategy is essentially a statement of how an organisation plans to compete for business in its particular market. Most marketing strategies will be presented in the form of an overall marketing plan.

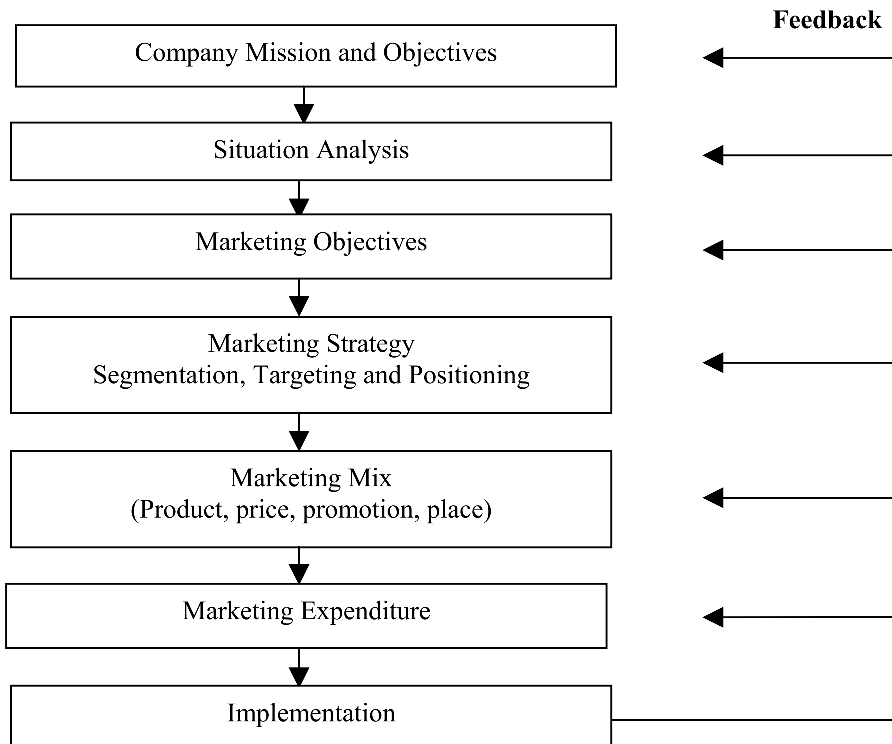
Every organisation has its own approach to preparing marketing plans and there is no single correct approach. However, good plans do have a number of important features:

- The plan should have a logical structure;
- It should contain explicit objectives;
- It should analyse the environment and the organisation's current position;
- Based on this analysis, the plan should identify the product and market combination the organisation will serve and how it will compete (segmentation, targeting and positioning);
- It should contain specific decisions relating to product, price and promotion place while also including information on marketing; and

- It should conclude with an outline of the appropriate methods for implementing the identified strategy.

Although the plan needs to provide clear guidelines on how to manage marketing activities, it should have some flexibility to allow the organisation to adapt and respond to unexpected changes.

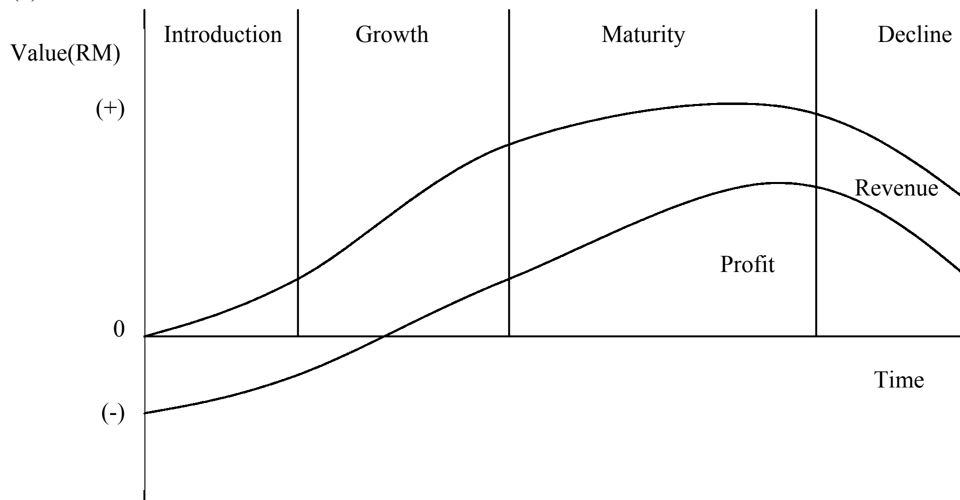
While we have said that there is no single format for a plan, the diagram below outlines one possible approach. It presents the key elements of a marketing plan and also highlights the importance of feedback, which may lead to adjustments to the plan once it has been implemented.



Question 4

While many candidates were able to describe the main features of a product life cycle, they were unable to relate the marketing mix that was applicable to the different products in each of the stages in the life cycle.

4. (a)

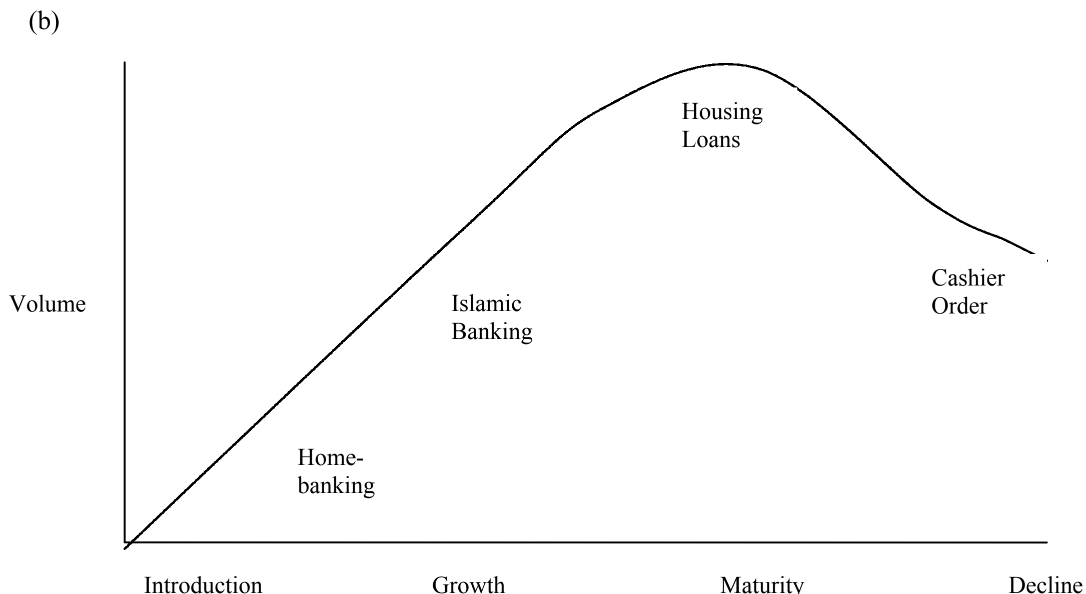


Assessing the existing financial product range according to life-cycle position can give some indication of the balance of the existing product portfolio. Furthermore, according to stages in the life-cycle, a financial institution can obtain some guidance as to the appropriate marketing strategy, as follows:

- ***Introduction.*** A period of slow growth and possible negative profit as efforts are made to obtain widespread acceptance for the financial service. Cash flows are typically negative and the priority is to raise awareness and appreciation of the product, with the result that the marketing mix will place a high degree of emphasis on promotion. In the financial services sector, it is of considerable importance that new products are introduced quickly and that this phase of the life cycle is shortened, because of the ease with which new intangible products can be copied. Electronic home banking might be regarded as products which are at present in the introductory stage of their life-cycle in Malaysia.
- ***Growth.*** Sales volumes increase steadily and the product begins to make a significant contribution to profitability. Increase in sales can be maintained by improvements in the features, targeting at more segments or increased price-competitiveness. It is at this stage that the new service product will begin to attract significant competition. Growth services include unit trust financing and credit cards, etc.
- ***Maturity.*** Sales begin to stabilise, with replacement purchases becoming more common than new purchases. The market itself is mature and the marketing campaign and products are well established. It may be necessary to consider modification and rejuvenation of the service to arrest future decline. Bank current accounts and mortgages are products which can be seen as having reached maturity and in many cases are being modified in attempts to prolong their life-cycles.
- ***Decline.*** Sales begin to drop away noticeably, leaving management with the option withdrawing the product entirely, although often with long-term investment these products may not be feasible; in this case the alternative is a withdrawal of support and maintenance of the product. Alternatively, if the product is seen as one with a potential long-term future, then the appropriate strategy may be one of rejuvenation. In the financial services sector, it should be noted that barriers to product withdrawal are often high; some products such as life insurance cannot simply be withdrawn from the market, because some customers will still be paying premiums. Consequently, the more appropriate strategy may be to minimise the marketing effort rather than formally withdraw the product.

The use of the product life-cycle in marketing planning can provide some guidelines for the allocation of resources among service products, enabling the organisation to attach high priority to growth products and medium priority to mature products, and consider possible withdrawal of declining products.

(b)



Products According to Its Product Life-cycle

As outlined in diagram above, a typical bank has mapped out four different products according to its life cycle as described below.

Introduction Stage
At this stage, our bank has introduced the trend for electronic home-banking by phone. Over a million dollars have been invested in hardware and development of this product. Our bank has conducted intensive training to introduce this product not only for our customers but also for the staff to understand, use and promote.

At the introductory stage, the home-banking launch incurred a lot of expenses and its expenditure was greater than its revenue. We hope to recoup our expenditure in the later stage when home-banking takes off. Such expenditure can be defined as investment for the future. Stimulating awareness can be achieved by a high level of publicity via the mass media advertising. We have to market in order to reach our customers. Despite the high cost of advertising on television and radio, this medium is selected as it offers audio-visual impact to reach a very large section of the community.

Pricing decision must be made with care as a price set too low will affect long-term payback and also our home-banking product has to match competitors; depending on the market segment we are focusing on. We should monitor the development of this product through market research and usage patterns so that modifications or improvements can be incorporated over time to enhance this innovative product.

As for its distribution, perhaps initially, home-banking being a new technological-based product, is more suited to urban towns and would later be introduced at our branches elsewhere. Literacy is an important consideration as home-banking is more suited to the busy users than the rural folks.

Growth Stage
An example of the growth stage for our bank is the Islamic banking products. After three years of promotion, this product should have created awareness in a market consisting of existing and potential users. Among the strategies of our promotional effort is to aim to create distinctive preference for our products via competitors and we have to monitor the marketing mix, i.e. pricing, promotion, product and place of distribution to maximise our efforts to capture market share.

Competitors are also promoting similar SPTF products and, therefore, we have to promote it more aggressively as well as 'fine tune' the products to make subtle improvements to ensure our products are more desirable than others.

Distribution will naturally be carried out on a wider scale as accounts grow over time. Strong branding efforts can be undertaken in order to differentiate our products from others and create customer loyalty.

Maturity
One of the products which is in maturity stage is our "Super Housing Loan!" This normally would be the longest stage of our Bank's product life cycle. Some banks faced with intense competition with limited growth may drop out! At this stage, actual new market growth may be slow or perhaps cease and our bank must focus on retaining existing housing loan customers; if not try to "steal" from our competitors to improve market share. Maturity is not a stage where the Bank can relax in its marketing efforts but must critically assess to channel more time, expenses and creativity to package and extend its product life cycle. A repackaged housing loan with innovative bundled features could attract new users.

In general, prices are at its lowest profitability and competitive activity at the highest. Some price reduction in terms of interest rates, administrative fee, free legal fees, etc. may be introduced at the expense of reduced profits and revenue for the Bank.

The role of the branches is to defend market share and one of the best weapons especially for financial products where prices and features are quite similar. The Bank with the best delivery

would succeed in improving market share. Intangible products like our financial services need to focus on delivery and as such constant training and process improvement on delivery can help the Bank to maintain its competitive advantage (example cutting down turnaround time for processing or loan drawndown, etc.)

Decline
An example of a product in decline is the cashier order. When industry sales fall and change in fashion, ideas and new products replace the needs of customers. Such products can fall into oblivion.

At this critical stage, deciding on what to do is an important decision. Very often, a bank experiences the greatest difficulty in abandoning a product, especially if it has enjoyed substantial success in the past. Analysis should be undertaken to assess whether the ailing product is using up more resources which could instead be employed elsewhere. Therefore, it is a strategic decision "when" to withdraw this product as its long-term implications and all other factors must be taken into due consideration.

Pricing policy will depend on whether our competitors are leaving the market but generally speaking, we should maximise returns for a product in decline.

No radical change or modification would be undertaken on the product at this critical stage, unless the Bank can discover new ways of cost reduction. As for banking products, the best way is to ensure we do not loose any loyal customers. If we intend to withdraw it, perhaps the Bank should educate its customer first and find new ways of meeting the customer's needs.

Question 5
Candidates were not able to properly describe the SPIN® selling methodology.

5. (a) Benefits of customer retention:
- **Better knowledge of customer needs**
  The organisation is better able to meet customer needs and at lower costs (because there is no need to gather new information).
- **Positive word of mouth**
  Satisfied and loyal customers are likely to say positive things about the organisation. This can be an important form of marketing – particularly in financial services.
- **Spread costs of acquisition**
  Financial services organisations spend a lot of money (marketing expenses) to acquire customers. When a customer is retained, this cost can be spread out over a much longer relationship and more transactions.
- **Less price sensitive**
  Loyal and retained customers are more likely to purchase additional products from a particular organisation.
- **Cross selling**
  Loyal and retained customers are more likely to purchase additional products from a particular organisation.

Overall, customer retention can mean reduced costs and possible higher revenues. Hence, it can have a positive effect on profitability; researches have found evidence to suggest that these relationships do exist – that where banks have more satisfied and loyal customers, they can gain from higher profit and revenue. Such research also highlights the importance of service quality in creating loyalty and satisfaction.

(b) In the SPIN® selling approach, sales staff are advised to raise four types of questions in a selling situation:
- **Situation**. These questions are designed to find out more about the prospective consumer's existing financial situation (assets and liabilities) and what funds may be available for investment. At this stage, there may also be questions about the consumer's existing financial commitments.

- **Problem**. These questions would be concerned with trying to understand what aspects of the buyers' current situation give them cause for concern. For example, the financial planner would try to find out whether the consumer is unhappy with any aspects of the current pattern of savings and investment. For example, are they anxious about income during retirement, paying for a child's education, or are they anxious about the impact of retrenchment?
- **Implications**. At this stage, the sales person is trying to understand what the customers' problems mean in terms of their ability to achieve what they wish to achieve. In our example, the financial planner would ask about how the buyer's current concerns affect their future objectives. For example, customers' concern about their current savings may indicate that they are unsure about their ability to enjoy a good lifestyle during retirement.
- **Needs payoff**. By the time the sales person reaches the needs payoff stage, they will have identified possible solutions and would seek to discuss these with the customer and explore how they could provide benefits or payoffs. A financial planner, for example, may have identified a product that will provide capital growth over the period leading to retirement and would seek to explore with customer whether his projected level of capital growth would satisfy the customer's retirement needs.