

DP10

Marketing of Financial Services

15 APRIL 2005

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) A financial institution that is seeking growth and expansion can look into different products or markets, as represented in Ansoff's product/market matrix.
Using examples, describe Ansoff's product/market matrix. [8]
- (b) The Boston Consulting Group (BCG) matrix and the concept of product life cycle are two common approaches that are used by marketing managers to plan their product portfolios.
Briefly describe how these **two** approaches are used in evaluating and deciding the next steps for an existing range of products. [8]
- (c) Identifying the organisation's competitive advantage is an essential part of any marketing strategy.
(i) Briefly describe the **two** areas Michael Porter suggested an organisation to focus on to gain competitive advantage. [3]
(ii) Based on the two areas above, briefly explain the **three** strategic options identified by Michael Porter that are available to an organisation in planning their marketing strategy to gain competitive advantage. [6]
(Total:25 marks)
2. (a) Describe the **five** stages of James Engel, Michael Kollat and Roger Blackwell's model of buying behaviour. [12]
- (b) Explain the following types of Islamic financial services:
(i) Murabahah [3]
(ii) Mudharabah [4]
- (c) Due to the distinctive nature of financial services, there are many challenges that must be considered when making decisions on pricing.
Using examples, describe **two** internal issues that financial institutions have to deal with when making decisions on pricing. [6]
(Total:25 marks)
3. Using a diagram, explain in detail how a strategic marketing plan is developed. (Total:25 marks)
4. (a) Service quality involves a comparison between the expectations of the customers and the performance of the service providers.
Using a diagram, describe in detail the gap model of service quality. [15]
- (b) Briefly explain **five** benefits of customer loyalty retention for the banking business. [5]
- (c) (i) Why is it important to have a well-thought-out approach to service recovery? [3]
(ii) Identify **four** features of an effective service recovery. [2]
(Total:25 marks)
5. (a) (i) Briefly explain the terminology "marketing". [1]
(ii) Identify **six** major differences between marketing and selling. [12]
- (b) Describe **three** types of selling in financial services. [12]
(Total:25 marks)

OUTLINE ANSWERS

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

Question 1

Candidates were unable to describe the theories although the answers can be found directly from the study manual.

1. (a) Ansoff's product/market matrix suggests **four** options:

		Markets	
		Existing	New
Products	Existing	Market penetration	Market development
	New	Product development	Diversification

Market penetration means trying to sell more of the existing product in the existing market. To achieve it, an organisation may try to persuade existing users to use more of the product, persuade non-users to become users or attract users over from competitors.

An example of market penetration strategy is credit cards offering cardholders the opportunity to win prizes and exchange gifts/vouchers. This is basically to encourage growth by increasing card use by existing cardholders.

Market penetration strategy is encouraged if the market still has room to expand. In a mature market where buyers have already bought the product, market penetration is more difficult because the organisation will have to attract customers directly from its competitors.

Market development involves an organisation identifying new markets for its existing products – includes new geographical markets and new market segments.

A special children's savings account is an example of market development through new segments.

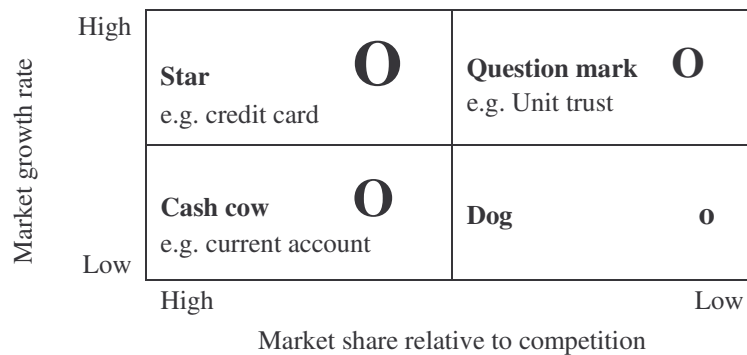
The bank is expanding into new overseas markets via geographical expansion. The branch networks' expansion as a form of market development is slowing down but continues to be an important basis for growth.

Product development means developing related products and modifying existing products to appeal to current demand and needs. A common example is the new modified mortgage products offered by banks to make them attractive to the current market. The strategy relies on good service design, packaging and promotions.

Diversification is a more risky strategy and it involves moving into new products and markets.

The development of bancassurance business in banks represents a form of diversification into providing insurance-related products. Another type of diversification is the decisions by traditional banks to offer Islamic banking products.

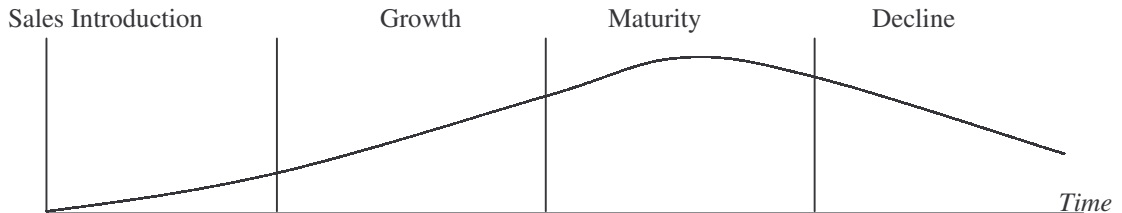
- (b) The **BCG Matrix** requires classifying products/business according to the attractiveness of a market and the strengths of the company in the market. BCG based its classification purely on market share and market growth.



Products are positioned in the matrix as circles with a diameter proportional to their sales revenue.

The BCG matrix relies on the assumption that a larger market share results in lower costs and thus, higher margins. The strategy for a product will depend on its position in the matrix. For example, if future market growth is anticipated and the products are viable, then organisations should consider increasing marketing expenditure on this product. If not, it should consider the possibility of withdrawing the product.

The **product life cycle** is widely used for market planning and as a guide in determining the balance of products and in developing strategy for marketing these products.



All products or services pass through four basic stages from introduction through growth to maturity and eventually into decline.

Marketing's role is considered to be one of prolonging the growth and maturity phases, often using strategies of product modification or improvement that are regarded as less risky than developing completely new products.

- (c) (i) To be able to compete effectively, the bank must focus on either low costs or on differentiation.

A low cost strategy relies on a relatively standardised product with the organisation value via low costs and thus, low prices.

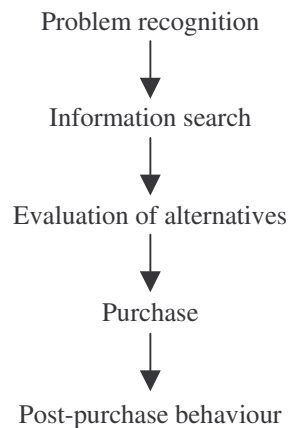
The differentiation-based approach offers a product that is distinctive and with its value being in the range of feature it possesses. For differentiation to be successful, the higher price must outweigh the costs of supplying the differentiated product. The customer must feel that is worth paying extra for the distinctive image of the products and the additional feature offered.

- (ii) Michael Porter's **three** strategies to competitive advantage:
- Cost leadership – involves trying to be the lowest cost producer by concentrating on providing relatively standardised products – low cost allows the bank to attract customers by offering low prices – a traditional strategy that is getting more difficult to gain significant cost advantage over their competitors.
 - Differentiation leadership – involves trying to offer something that is seen as unique and distinct – customer's perceived uniqueness and hence, loyalty protects the firm from its competitors in the form of new entries and substitute products.
 - Focus/niche – uses the above two strategies but concentrates on specific market segment – aims to identify part of the market with distinctive needs that are not adequately supplied by larger organisations.

Question 2

Candidates could not explain the basic Islamic banking principles, i.e. Murabahah and Mudharabah nor identify the internal issues that financial institutions have to deal with when making decisions on pricing.

2. (a) Engel-Kollat and Blackwell's Model of Buying Behaviour



Problem recognition

This concerns understanding the needs and wants and the extent to which consumers are motivated to satisfy those needs and wants. Needs and wants for personal customers will vary according to personal circumstances, whereas the needs of business customers will depend on the stage of development and the situation of the business.

Common approach to customer needs is the use of the concept of a hierarchy of needs – Maslow's Hierarchy of Needs Theory.

Information search

The nature of financial services encourages consumers to be rather passive, thereby information search is limited. Financial services are difficult to evaluate prior to purchase because they are low in search qualities. Information gathering tends to rely on others' experience through word of mouth and the organisation's reputation.

Quality of information also presents problem due to partial and misleading advice from other people and customers' own inadequacy in interpreting information at hand. Although information search is problematic, there has been considerable increase in consumer understanding and knowledge.

Evaluation of alternatives

A customer will attempt to evaluate alternative by comparing how different products could help meet their needs. There are a variety of different products that may satisfy a particular need. The risk-return and prices of services vary considerably and it is difficult to make direct comparisons across different service types.

The performance of many long-term investment products is determined partly by fund managers' skills and economic factors beyond control. Therefore, consumers expose themselves to certain risks when they buy these products. It is difficult for consumers to determine whether poor performance was due to problems with the product itself or other factors beyond control.

Purchase

If the product evaluation is good, then the customer is expected to make a purchase. However, most customers' needs are only created when they are about to buy. Actual process of purchase will often be the result of an active selling effort by marketers. Despite development in the Internet, ATM, telephone sales, face-to-face interaction is likely to continue.

As a result, customer interaction with sales staff is likely to play a significant role in the purchase process. Sympathetic and low pressure selling may be highly effective.

Post-purchase behaviour

The post-purchase evaluation of financial services is difficult because it places more emphasis on functional aspects of the service rather than the technical. The post-purchase evaluation suggests that consumers experience significant doubt after making their purchases (a form of cognitive dissonance). If the customers continue to experience these doubts, they may be less loyal and more likely to purchase from others in future.

Some of the key issues in marketing financial services include importance of trust and confidence, concern about consumer passivity, relative functional aspects of the service product and the importance of interaction and contact with people.

- (b) (i) **Murabahah**
Murabahah is sometimes referred to as cost plus financing. Under Murabahah, the bank purchases goods from a third party. The bank then sells the goods to the customer at a pre-agreed (higher) price with deferred payments. Customers wishing to deposit money with a bank may make deposits into a Murabahah fund and will then share in the returns from such transactions. In Malaysia, Bai' Bithaman Ajil is the most common form of Murabahah, with payments made in instalments sometime after the delivery of the specified goods.
 - (ii) **Mudharabah**
This is a contract between a provider of capital and an entrepreneur. The provider (referred to as the *rabb al-mal* or the sleeping partner) entrusts money to the entrepreneur (referred to as the *mudarib* or the working partner) for an agreed project. When the project is completed, the *mudarib* returns the principal and a pre-agreed share of the profit to the *rabb al-mal*. Any losses are borne by the *rabb al-mal*. Mudharabah provides the basis for making loans when the bank is provider of capital. When the depositor is the provider of capital and the bank the entrepreneur, then the Mudharabah serves as a basis for taking deposit.
- (c) Cost
Financial services are complex products and many are, in fact, bundles of services, e.g. a bank account may provide a means for making payments through standing orders, direct debits, chequebooks and providing a return on balances retained with the bank. Financial institutions may, thus, face difficulties in allocating costs across their products because any service they provide to a customer may be a combination of individual services.

The relatively high level of fixed costs and the relatively low level of variable costs often complicate cost allocation. Deciding how fixed costs should be divided across products and

consumers can be complex, e.g. one major fixed cost is the branch network. and it's difficult to divide the costs of a branch between current accounts, credit cards, savings accounts, etc.

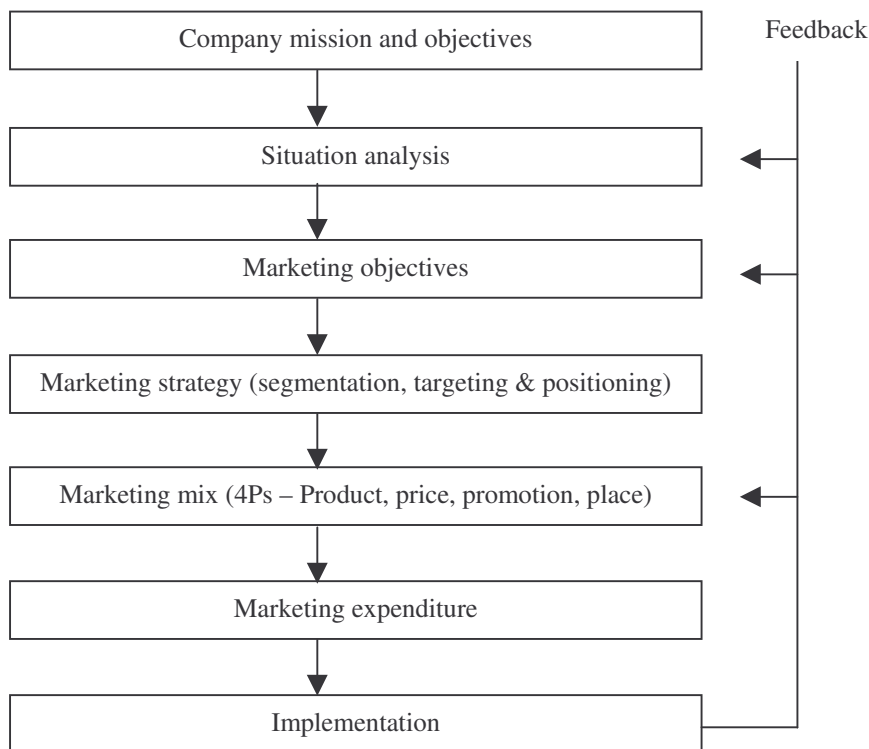
Risk

When a bank provides a loan or issues a credit card, there is a risk that the consumer will not be able to make repayment. Pricing decisions will need to take into account the potential risks associated with such products. Pricing decisions will need to build in costs and include some element to allow for risk. Past information on defaults and claims is widely used as an input to the pricing decision since the extent of risk can only be known in the future.

Question 3

- There are no examiner's comments for this question.

3. **Developing a strategic marketing plan**



A marketing strategy is essentially on 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.

Good plans do have a number of important features:

- Have a logical structure.
- Contain explicit objectives.
- Analyse the environment and the organisation's current position.
- Identify the product and market combination the organisation will serve and how it will compete (segmentation, targeting and positioning).
- Contain specific decisions relating to product, price, promotion and place while also including information on marketing.
- Conclude with an outline of the appropriate methods for implementing the identified strategy.

1. **Company Mission and Objectives**

The mission statement essentially requires the organisation to define the area of business in which it operates in way that will give it focus and direction. The purpose of the mission statement is to outline the organisation's goals and identify, in broad terms, the ways in which it will achieve those goals.

The corporate mission will be defined in terms of the types of customers (e.g. Muslims and the whole population); the needs being satisfied (banking facilities) and the technology used (Islamic principles).

It can help the organisation avoid 'marketing myopia' – a problem that arises when organisations focus too much attention on their products and insufficient attention on their customer's needs.

2. **Situation Analysis**

Marketing strategies and plans are concerned with obtaining a "fit" or "match" between an organisation and its environment. To be effective, an organisation needs to be able to use its resources and skills in an environment in which they will have most value. Any marketing plan will require a thorough analysis of both the external and internal environment. This analysis will help it to meet customers needs more effectively than the competition while making the most of its available resources.

3. **Marketing Objectives**

Marketing plans must be guided by a coherent set of objectives, based on the overall corporate strategy and the stated corporate mission.

The overall corporate objectives are very general and the marketing plan must translate them into specific marketing objectives. These marketing objectives must relate specifically to the amount and type of business that the bank wishes to do. They may be based on specific targets such as increasing the total value of deposits, expanding market share or raising customer awareness.

4. **Marketing Strategy**

The market plan must move on to consider the choice of marketing strategy. While the overall corporate strategy will affect the marketing strategy chosen, the latter will focus specifically on the choice of markets and how the organisation plans to compete in those markets.

The three main components of a marketing strategy – often described as STP (Segmentation, Targeting and Positioning) – involve:

- **Segmentation** – Identifying the different groups (segments) of consumers that exist in the market and understanding their wants and needs.
- **Targeting** – Evaluating the attractiveness of different segments choosing targets for the organisation's products and services.
- **Positioning** – Identifying the organisation's competitive advantage and how to present its products to customers.

5. **Market Specific Strategy**

The market specific strategies outline specific decisions on how to market particular products and services to particular groups of consumers. This includes indicating the necessary level of marketing expenditure as well details on the product itself: how it will be promoted, priced and distributed (the marketing mix). The choice of market position must guide these decisions. Thus, one example would be an organisation that has chosen to position itself as serving wealthy consumers with a high value, personalised product. The market-specific strategy will need to look for an appropriately (relatively high) priced product, decide on the product features to customise and choose ways to promote and distribute the product that will appeal to the chosen consumer groups.

6. **Implementation**

Implementation is concerned how to put the marketing plan into practice. The implementation procedure should include a statement of what needs to be done, who will be responsible and the proposed time scale. It may also include some elements of contingency planning. However well thought out the marketing plan might be, the market is always changing. Consequently, certain planned activities may turn out to be inappropriate or ineffective; it is important to be aware of these and be in a position to respond – i.e. to modify the strategy as new information becomes available.

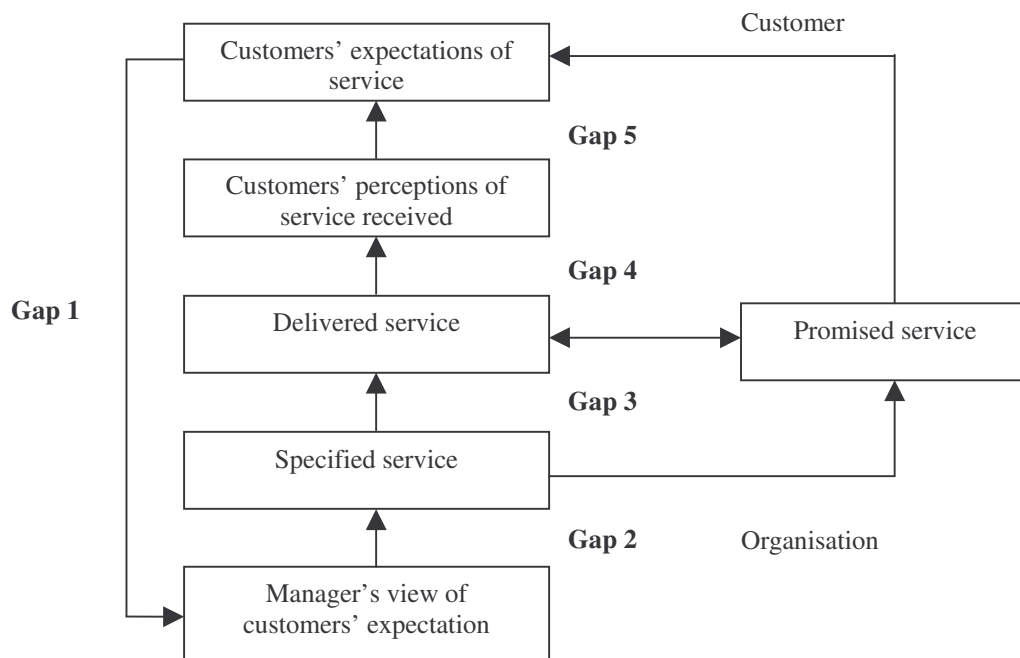
One increasingly important dimension of implementation is internal marketing. Internal marketing deals with the way in which an organisation manages the relationship between itself and its employees at all levels. Internal marketing helps to ensure that staff understand the product itself and believe in what the organisation is trying to do. If an organisation's own employees are not market-oriented, that is, if they do not support the overall corporate and marketing strategies, then the chances of successful implementation are minimal.

Question 4

Candidates did not use examples to support the facts in the answers and could not state the importance of having a well-thought-out approach to service recovery.

4. (a) If the delivered service does not meet customer expectations (Gap 5), it can be explained by any of the **four** other gaps in the service delivery process.

The Gap Model of Service Quality



Gap 1: Misunderstanding Expectations

How it arises: When senior management do not understand what consumers actually expect from the service.

Why:

Failure to undertake market research may lead to a poor understanding of what customers actually want.

Poor upward communication – front line employees are in regular contact with customers and probably understand their needs and expectations well. If management is unwilling to listen to frontline staff then this knowledge and understanding will be wasted.

How to close the gap: Gap 1 is less likely to occur when organisations have good relationships with their customers because they would have built up a high level of knowledge about customer needs and expectations. Organisations can increase understanding of consumers through additional market research and encouraging upward flow of information from frontline staff.

Gap 2: Wrong Specification

How it arises: If service specifications are inconsistent with the expected service. The feature of a particular service a company specifies and designs are not what customers expect.

Why:

Some services may be very difficult to standardise; managers may think that customer expectations are unreasonable and cannot be met. The commitment to service quality may be missing and consequently, there will be little interest in setting sensible services specifications.

How to close the gap: Ensuring that the specified service matches consumers' expectations, that top management is committed to providing service quality, that customer service expectations are part of the design process (built into service development). Services should be standardised wherever possible, as this allows the use of a single rather than multiple sets of standards.

Senior managers play a key role with respect to Gap 2. Demonstrating a firm commitment to setting and using customer-defined performance standard can have a major impact on closing Service Quality Gap 2.

Gap 3: Failure to Deliver

How it arises: When the actual service that is delivered does not match up with the service that was specified. May be due to human resource policies, customer participation, intermediaries and managing supply and demand.

Why: If employees are not committed, willing and able to do their job well, then problems with respect to service delivery will arise. If customers do not understand what they are meant to do, there will also be problems with the service that is delivered. If a service provider relies on an intermediary to distribute the service, there may be difficulties in controlling the quality of what the intermediary does. Finally, if the organisation cannot manage supply and demand, then it may be difficult to deliver the appropriate quality when demand levels are high and staff are pressured.

How to close the gap: Give staff considerable attention. Recruiting the right people, ensuring there is a sensible reward system for delivering high quality service, ensuring there is a good fit between technology and people, encouraging empowerment and teamwork – staff can then adjust and adapt to differences in customer needs.

Gap 4: Over promising

How it arises: When the organisation promises a better service than what it actually delivers. This raises customer expectations and when the delivered service does not match those expectations, quality will be assessed as poor. A failure to deliver what was promised may arise from a number of reasons.

Why: Poor information flows between marketing and the rest of the organisation and pressure to over promise in order to outperform competitors.

How to close the gap: Pay attention to ensuring good, accurate communications between marketing and those involved in the service delivery process. This communication should be integrated into all marketing communications and provide clear, accurate information to ensure that customers receive a consistent and honest message about what they can expect.

(b) The benefits of customer retention are:

- **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** – Retained customers are thought to be less price sensitive.
 - **Cross selling** – Loyal and retained customers are more likely to purchase additional products from a particular organisation.
- (c) (i) Although attention is paid to ensure a high quality of service, something may go wrong: a mistake may be made and customers may complain. So financial organisations may attempt to get everything right the first time but there will inevitably be some service failures. The key challenge is to recover from the problem or mistake and get it right next time. If done well, this service recovery can help turn unhappy customers into satisfied and loyal ones.

To do this, it requires a well thought out approach to “service recovery”. It is important to be able to identify service failures quickly – this means the organisation should make it easy for customer to complain – perhaps by providing free phone numbers and/or complaint hotlines. Active research can be undertaken to check that service delivery has gone well – this again provides the consumer with an opportunity to give feedback if necessary.

- (ii) An effective service recovery will have the following features:
- The organisation should initially believe the customer’s version of events.
 - It should be prepared to acknowledge the problem and take responsibility.
 - It should be prepared to apologise.
 - The cause of the problem should be resolved and customer compensated appropriately.

Question 5

- Candidates listed the characteristics of marketing and selling, but no comparison was made to point out the differences.
- Candidates could not identify the types of selling in financial services and did not use examples to support the answers.

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

(ii)

Selling	Marketing
Emphasis is on the product.	Emphasis is on consumer’s wants.
Company first makes the product and will then look at how to sell it (a sales push approach to the business).	Company determines the customers’ want, then look at how to make and deliver a product to satisfy those wants.
Management is sales-volume oriented.	Management is profit oriented.
Planning is short-run, i.e. today’s products and markets.	Planning is long-run, i.e. new products for tomorrow’s market and future growths.
Mostly one time transaction.	Multiple transactions.
Short-term in nature.	Long-term relationship.

- (b) **Over-the-counter Selling**
Over the counter selling refers to a situation in which the sales person has a fixed base and the customer makes an initial approach. This is the type of selling that most people encounter when they go shopping. Staff in bank branches will often find themselves in this role. These

staff are non-specialist sales staff but will have an involvement in selling because they will receive queries from customers who may wish to open a new savings account or request a credit card. This type of selling has traditionally been thought of as very passive (staff are simply order-takers). However, increasingly, financial institutions recognise the need to encourage these staff to be more proactive and make suggestions to customers about products that may interest them. In a bancassurance operation, for example, a customer who enquires about opening a new savings account may be asked if they have considered a life insurance based savings product and then referred to the bank's field sales force. Indeed these opportunities to cross-sell are seen as one of the great advantages of bancassurance.

Field Selling

Field selling is probably the form of selling that most people are familiar with. In field selling, the sales force comprises active order-getters. They will make approaches to prospective customers, make presentations and actively seek to convince the customer to make a purchase.

Telemarketing

Telemarketing is a relatively new form of selling in which the interaction between sales person and customer takes place at a distance. This is via the telephone but increasingly it may be through other media such as the Internet or digital television. Most telemarketing is used for personal customers, as it is a much more cost-effective way of contacting a large and relatively diverse audience.

There are two basic types of telemarketing. In-bound telemarketing refers to a situation in which the sales force is in place and waiting to take calls from members of the public – usually in response to some form of direct mailing or advertising. With out-bound telemarketing, the sales force takes a more active role and calls prospective customers direct. In-bound telemarketing is similar to over the counter selling in the sense that it relies on the customer making an initial approach. In contrast, out-bound telemarketing is more like field selling as staff working in this area will need to actively approach and sell to prospective customers. Staff working in telemarketing thus requires many of the same skills as the field sales force and face the challenge of interacting with a customer without actually being able to see them.