DP10

Marketing of Financial Services

14 OCTOBER 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) (i) Explain the main components of a communication process using the promotion of a financial service as an example. Illustrate your answer with a diagram.

   (ii) Briefly explain the importance of communication in a marketing strategy. [3]

   (b) (i) Why do sales staff need to build relationship with their customers? [5]

   (ii) Describe cross selling and explain how building customer relationship can improve cross-selling opportunities. [7]

   (Total:25 marks)

2. Your manager assigns you to conduct a market research to find out why the take-up rate for Internet banking is slow.

   Using your assignment as an example, explain with a diagram the process of conducting a market research. (Total:25 marks)

3. (a) Using the SWOT analysis, illustrate a bank's position in the personal financial services market. [16]

   (b) State **nine** benefits of personal selling in financial services. [9]

   (Total:25 marks)

4. (a) Explain any **three** benefits of customer retention in financial services. [9]

   (b) (i) What are objective and subjective variables in market segmentation? [4]

   (ii) Identify and briefly explain **six** common approaches to market segmentation. [12]

   (Total:25 marks)

5. (a) Describe the **five** components of the new product development process. [15]

   (b) Briefly explain the following approaches used to provide Islamic financial services:

   (i) Ijarah [3]

   (ii) Mudharabah [3]

   (iii) Takaful [4]

   (Total:25 marks)

OUTLINE ANSWERS

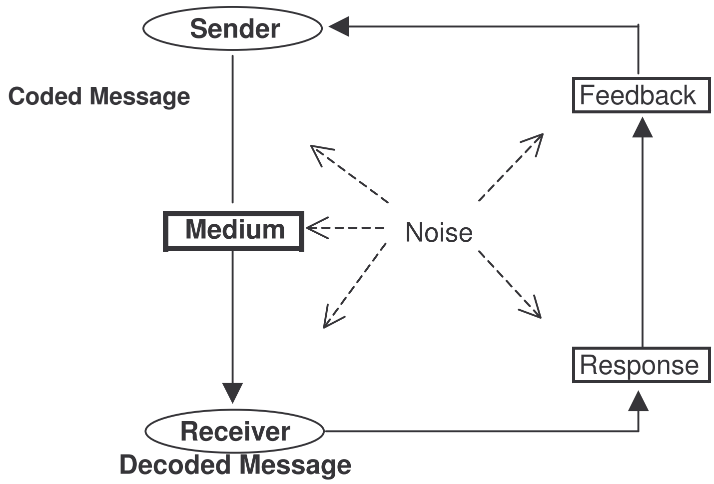
The comments given in the boxes below indicate the areas of weaknesses the examiners have identified and their advice to future candidates.

Question 1

Candidates did not provide a diagram to illustrate the answers, as required by the question and confused the communication process with the marketing process.

1. (a) (i)

The Communication Process



Source/sender
The source is whoever that sends the message, usually the communication or public relation department in the bank. If publicity or public relations is the chosen form of communication, the source may be presented as a quasi-independent body giving "objective" to support a particular product or service.

Coded message
The bank then encodes the idea it wishes to convey, either verbally or using symbols, in a form that the target audience understands.

Medium
It describes the channel through which the message is transmitted, which may be personal (sales staff) or non-personal (advertising, publicity or sales promotion). Selecting the right medium is crucial to ensure the message reaches the target audience. The bank may target the mass market using media like TV, radio and newspapers, or a niche market using more specialist media.

Receiver
The receiver is the target audience in the communication process. It may be a specific market segment, the general public or the bank's employees.

Decoded message
Once the message is received, the receiver interprets and assigns meaning to the words and symbols in the message. The sender would hope to code the message in a way that the customer will interpret it as intended. This may depend on the sender being able to understand how customers are likely to view the world.

<u>Response</u>
It is the way the receiver reacts to the message, based on his or her own interpretation. It refers to the attitude the target audience adopts towards the product.

<u>Feedback</u>
The receiver responds to the sender with feedback. Feedback may be in the forms of enquiries or purchases if the message has been successful, or in complaints if the message has been offensive or failed.

<u>Noise</u>
Noise refers to unplanned interference within the communication process which distorts the message. The presence of a noise in any communication process is unavoidable. Sometimes, messages are partly distorted or the target audience may receive only part of the message being communicated or they may interpret the message according to their own preconceptions or they may just recall parts of the message. Effective communication will aim to minimise distortions by keeping messages brief, distinctive, relevant to the target audience and unambiguous.

(ii) Communication is important to ensure all customers are aware of the organisation's offers and how the offers are positioned in the market place. Any communication can be misinterpreted or distorted. An effective communication strategy requires careful thought and planning to ensure the organisation presents a clear and coherent message – simple, honest and believable. Financial institutions rely on communication and promotional activities to build a positive image and reputation.

(b) (i) Relationship selling (selling that helps to build a relationship with customers) must take a customer focus and attempt to find solutions to the customers' needs. The customer-oriented approach to sales emphasises the importance of listening and understanding. The salesperson must try to understand the nature of the customer's current position and after careful questioning, identify the customer's needs and determine whether the organisation has the product that will meet those needs.

The benefit of a customer-oriented approach is that by spending time in understanding the customer, it would result in better product recommendation that would suit the customer's needs. The customer is more likely to be satisfied and loyal to the salesperson and ultimately to the organisation. The customer would usually keep the purchased products and make new purchases and may recommend prospective customers to the salesperson.

(ii) Cross selling is used to describe a situation in which an organisation aims to sell additional products and services to its existing customers. The ability to cross sell depends upon the creation and development of a good relationship between the customer and the organisation (via the salesperson). Where such a relationship exists, the customer is likely to be more willing to make additional purchases from the same organisation when the need arises. The customer is also likely to be more responsive to approaches from the organisation about products and services that may be appropriate to their needs. In cross selling, the sales force is dealing with warm leads as opposed to cold calling. Cross selling provides the opportunity to gain a "bigger share of the wallet" – i.e. getting a larger share of a customer's expenditure and to be the sole banker.

Financial services are suited to cross selling. Customers have different financial needs and many banks can offer a wide range of products to meet those needs. Financial services are long term in nature – a customer remains one for a long period of time. Therefore, the organisation can accumulate a lot of knowledge about that customer (income, savings, expenditure patterns, lifestyle, etc.) This information helps the bank target products towards certain consumer groups.

The extra knowledge and long-term relationship will provide significant opportunities to sell additional financial services to established customers. If the customers have a positive view of their bank and the salespeople they deal with, they will be much easier to approach with respect to making a sale and much more likely to make a purchase compared to customers gained from cold calling.

Cross selling is an avenue for organisations to look at the profitability from the relationship with the customer rather than the profitability of the individual products. At times, it is sensible to have low-margin products if it they provide good cross selling opportunities for higher margin products.

Question 2

Diagram not provided to illustrate the answers, as required by the question.

2. The market research process:

Establishing the purpose of research

Market research collects information that enables managers to generate solutions for the particular problems. The first step in any research is to identify the precise nature of the problem under consideration and establish the information needed to solve it. Market research can be used to provide information on a variety of marketing issues. Although market research is most commonly associated with understanding consumer behaviour, it is also used to assess advertising effectiveness, monitor competitor's activities, concept-testing products and assess sales promotions. It is necessary to have a clear set of objectives at the start of the research and a clear view of the questions which need to be answered. Otherwise, there is real danger that subsequent research findings may provide little value because they fail to provide the desired answer.

Designing research process

Designing the research process requires that the market researcher first determine the type of data required and the most appropriate sources of that data. Decisions must be made about the best way to collect that data.

Implementing investigation

This is the process of actually carrying out the research. Implementation is easier if the research process has been carefully and sensibly designed. During the implementation phase, it is important to maintain good contact between the people conducting the research and those who will need its findings, to ensure that the finished study meets users' needs.

Analysing data

The implementation phase results in data collection. The data may be primary or secondary, qualitative (words) or quantitative (numbers). The data to be analysed need to be converted into useful information, to be of value to marketing managers. The result of the analysis may not resolve the original problem but would give managers the information they need to find answers to the original questions.

The degree of sophistication in data analysis will vary according to the problem being considered. The data may be subjected to highly complex statistical analysis or in some cases, the analysis could be very simple. Whatever the type of analysis used, interpretation plays a key role at this stage.

When using market research to guide marketing decisions, it is important that managers are comfortable with the quality and reliability of the data and the interpretation drawn from it.

Presenting findings

Once the analysis is complete, the findings must be presented to the client. When market research is undertaken internally, the managers who requested the research would expect a presentation and report. While the presentation aims to provide an overview of the key findings and issues that have emerged, the report will contain very detailed information.

A market research process

Establish purpose of research

To find out why the consumer take-up of Internet has been slow

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Design research process

Primary data - focus group discussions with customers who use internet banking and those who do not to identify differences

Secondary data - searches of existing databases for information on consumer attitudes to the Internet

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Implement investigation

Recruit and organise focus groups, invite client to attend

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Analyse data

Examine transcripts of focus groups; look for systematic differences between users and non-users of internet banking. Identify the reasons why consumers are not using this service.

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Present findings

Written report and verbal presentation.

Question 3

Candidates did not know how to apply the SWOT analysis to illustrate a bank's position in the personal financial services market and the benefits of personal selling in financial service.

3. (a) **Strengths**

- Large captive account base.
- Extensive branch network.
- Adequate capital for expansion.
- Considered trustworthy.

Weaknesses

- Underdeveloped selling skills.
- High cost structures.
- Inflexible technologies.
- Historic banking culture.

Opportunities

- Increased demand for personal financial services.
- Rising personal wealth.
- Growth in demand from younger sections of population.
- Easier future access to other Asian markets.

Threats

- Competition from other suppliers of personal financial services.
- Customers becoming more critical.
- Customers have higher expectations of service.
- Potential for increased competition from elsewhere in Asia.

(b) Benefits of personal selling in financial services:

- Immediate customer feedback.
- 2-way communication, i.e. queries raised by customer to the salesperson can be attended to immediately face-to-face.
- Accurate information communicated and products could be tailored to the customers' needs.
- Effective in the AIDA process.
- Higher probability of sales/purchases.
- Valuable and effective promotion.
- Encourages increasing involvement of branch staff in selling roles.
- Encourages cross selling.
- Develops a sales culture in branch.
- Highly effective because personal selling is interactive.
- Staff gathers information from customers directly about their needs and gets a clear understanding of the customers' circumstances.
- Raise customers' awareness of their own financial needs.

Question 4

Poor understanding of consumers' behaviour especially the benefits of customer retention and the approaches to market segmentation.

4. (a) The benefits of customer retention are:

Better knowledge of customer needs
The organisation is better able to meet customer needs and at lower cost. All information is available and just needs to be updated.

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. It will result in customer recommending potential clients.

Spread costs of acquisition
Financial services organisations spend a lot of money (marketing expenses) to acquire new 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.

Customer retention could result in reduced cost and possible higher revenue, thereby increasing the organisation's profitability. When banks have more satisfied and loyal customers, they tend to gain from higher profit and revenue.

(b) (i) Objective variables are usually directly measurable characteristics such as age, income or social class. Objective variables usually have the advantage or being both easily available and measurable.

Subjective variables are not directly measurable and will usually be inferred from customer behaviour and attitudes. Examples of subjective variables include benefits sought, personal values, attitudes to risk or lifestyle. A subjective variable is difficult to measure but is often better at explaining why customers differ.

(ii) Approaches to segmentation:

Location
Segmentation by different geographic locations. Significant geographic differences between markets persist at international level where cultural and climatic variations lead to important differences in purchasing patterns. There are some significant differences even at a national level, with the banking needs and expectations of customers in Kuala Lumpur being very different from those of customers in Kuching or Kota Bahru. However, geographic location can be a bit misleading as it is often not the real reason for differences in wants and needs.

One increasingly important form of location-based segmentation is called geo-demographics, which aim to identify segments based on personal characteristics and on where the individual lives. The underlying principle of geo-demographics is the belief that households within a particular neighbourhood have similar purchasing behaviour, attitudes, expectations and needs. Individual neighbourhoods can first be classified according to the characteristics of the individuals who live there and can then be grouped together, even though they are widely separated.

Socio-economic variables
Socio-economic variables encompass various measures of income, wealth or social status. Income is often used in market segmentation because it relates directly to individuals' abilities to make a purchase. Wealth is likely to be particularly important variable in financial services markets, particularly so with the development of private banking to target the growing number of HNWIs (high net worth individuals).

Demographic variables
The market is divided on the basis of age, gender, housing, family characteristics or family life cycle stage, or by some combination of these factors. These approaches have been widely used in the financial services sector, as many customers' needs appear to vary according to demographic characteristics such as age and life cycle.

Psychographic segmentation
Psychographics or lifestyle segmentation is a method that seeks to classify people according to their values, opinions, personality characteristics, interest and attitudes. It focuses on a person and aims to identify common types of attitudes or patterns of behaviour that can influence the purchase decision. By its very nature, it is arguably one of the more relevant types of segmentation, but the fact that it is very much a subjective approach means that there are measurement difficulties. Collecting and interpreting the relevant data can be a complex and costly exercise and empirical work to date has been less than successful in identifying links between personality and buying behaviour.

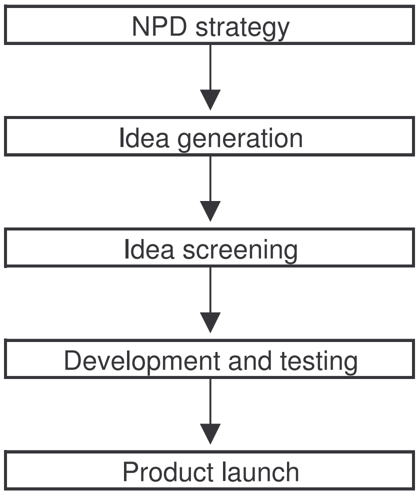
Lifestyle segmentation
Lifestyle refers to the ways in which individuals and groups of individuals choose to live their lives. It includes a variety of factors such as motivation (what the individual wants from life), values, personality and culture. Its effectiveness in segmenting markets depends on how accurately a lifestyle can be described and whether the number of people conforming to that lifestyle can be quantified. If distinctive lifestyle groups can be identified and profiled, then marketers can target products and promotion towards particular lifestyle groups.

Religion
Religion is an important form of segmentation in many countries including Malaysia. One must take into account the requirements of Muslim customers who may not be comfortable with traditional financial services and have a strong preference for products that conform to the principles of Islamic law.

Question 5
Candidates did not know the components of the new product development process.

5. (a)

The New Product Development Process



New product development (NPD) strategy

A clear strategy is important to ensure that all involved understand the importance of NPD and what the organisation wishes to achieve. Everyone should understand the orientation of the NPD process, i.e.:

- To be orientated towards taking advantages of new market segments.
- To be seen as crucial to the continued competitiveness of the organisation.
- To maintain profitability.
- To reduce excess capacity or even out fluctuating demands.

The ideas to consider are likely to vary according to the purpose of the NPD programme.

Idea generation

Ideas may come from both inside and outside an organisation. Internally, ideas may come from specialised NPD teams and employee feedback or suggestions. Externally, ideas may be generated based on customer feedback, market research, and specialist new product development agencies or by improving on the competitors' efforts.

One common failing in idea generation is a tendency to focus on what is possible rather than what the market wants. This has been particularly so with new technology based products where too much attention has been paid to what the technology can do and not enough to what customers want.

Idea screening

The variety of 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. The criteria used may vary but are likely to include the following:

- Does the idea fit the organisation's strategy?
- Does the idea fit the organisation's capabilities?
- Does the idea appeal to the right market segments?
- Is the idea viable in terms of cost and profit?

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 then subjected to a more thorough screening. This may involve examining the company's operational and financial viability in greater detail, and often some product specific market research.

Development and testing
Ideas that survived the screening process are then worked up into specific service concepts: the basic idea for the new product must be translated into a set of specific features and attributes which the product will display.

It is common to test this newly defined product to identify customer and market reactions in order to make the necessary product modifications, if any, before it is launched. The problem with test marketing in the financial service sector is that it gives competitors advance warning of an organisation's latest ideas and offers competitors the opportunity for imitation. As a consequence, test marketing in financial services is comparatively unusual. Many organisations argue that the actual costs of developing a new product are often low but the losses from giving advance warning to competitors may be quite high.

Product launch
The product launch 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. The major decisions are essentially of an operational nature – decisions regarding the timing of the launch, its geographical location and the specific marketing tactics to be used in support of that launch.

(b) (i) Al-Mudharabah
A contract between a provider of capital and an entrepreneur. The provider (rabb al-mal) entrusts money to the entrepreneur (mudarib) 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.

(ii) Al-Ijarah
A form of leasing finance. The bank will first purchase the asset a customer requires and then lease it at a pre-arranged rate to the customer to be used productively and in ways that do not conflict with Syariah law.

(iii) Takaful
A form of Islamic insurance based on the Koranic principle of Ta'awon or mutual assistance. It provides mutual protection of assets and property while offering joint risk sharing in the event of a loss incurred by one of its members. In Takaful donations – the equivalent of insurance premiums – are divided between two funds. A small part of the donation is paid to the mutual fund that is used to make payouts should the insured event happen. The larger part of the donation is paid into an investment fund, the surplus from which are subsequently distributed equally between the participant and the insurer according to the Mudharabah principle.