

DP10

# Marketing of Financial Services

15 OCTOBER 1999

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions on 1 page
3. Number of questions to be answered : Four (4) questions [25 marks each]
4. Begin each answer to a new question on a fresh page.
5. Answer **all** questions in **English**.

**ANSWER FOUR (4) QUESTIONS ONLY**

1. (a) A key element in any process of strategy formulation is market segmentation. Describe market segmentation and its criteria. [15]  
(b) Elaborate on some examples of market segmentation practiced by your financial institution. [10]  
(Total:25 marks)
  
2. (a) Name and explain the 4Cs of pricing. [10]  
(b) Describe in detail the “direct” and “indirect” competitors in the financial services industry. [15]  
(Total:25 marks)
  
3. A common framework for the analysis and determination of growth strategies is Ansoff’s Product/Market opportunity matrix.  
(a) Describe Ansoff’s Product/Market opportunity matrix. [15]  
(b) How can this model be applied to your organisation? [10]  
(Total:25 marks)
  
4. (a) Describe the marketing mix for financial institutions. [15]  
(b) What are the differences between a “market driven” and a “production driven” concept for banks? [10]  
(Total:25 marks)
  
5. (a) Comment on the **six** generic needs of customers that financial institutions need to satisfy. [15]  
(b) Describe how quality of service is appraised by a customer through the **10** criteria as suggested by Parasuraman, Zeithamel and Berry. [10]  
(Total:25 marks)

**OUTLINE ANSWERS****Question 1**

**Some candidates had difficulty in describing market segmentation and its criteria. However, most candidates managed to perform better when it came to elaborating on some examples of market segmentation.**

- (a) **Market segmentation** is the analysis of a particular total demand into its constituent parts, so that sets of buyers can be identified and differentiated. Detailed market segmentation may differentiate and group customers on the basis of 'sets of attributes' which they possess.

**Market segmentation** utilises the concept of market targeting, the latter enhances and develops the basic market analysis provided by market segmentation. It allows the marketer to build up detailed and accurate market intelligence about target customer groups, for instance in terms of demographic profiles, area analysis, retail catchment areas, e.g. for ATM location planning.

**Market targeting** facilitates the planning and focusing of the most cost-effective promotional activity on specific target customer segments e.g. direct marketing where geo-demographic profile is accurately known on the basis of customer categories (housing, socio-economic group, racial, occupation, etc.)

**Market segmentation** may maximise a bank's sales penetration through its branch distribution channels by which target customers actually gain access to products, and whose geographic position is a crucial determinant of the bank's marketing success.

- (b) A key success factor of bank strategy formulation lies in the proper execution of market segmentation. The most obvious segmentation strategy in a financial institution for example is the different roles played by commercial and retail banking. However, this type of segmentation in general is insufficient, for example, within the retail banking market – there are many specific segments, such as high net worth individuals for priority banking, while the middle to mass market have different banking needs. Therefore, market segmentation is at the heart of a bank's marketing strategy.

Before attempting to segment a market, the bank needs to be able to measure its potential success and the three criteria for success are:

- (i) The market segment must be distinctive and measurable.
- (ii) It must be accessible by the bank.
- (iii) It has the critical volume in terms of potential benefits.

Five different variables can be utilised by bank for market segmentation. They are outlined as:

- (i) Geographical – by region, city or town or country
- (ii) Demographic – by age, sex, family size, education, religion, etc.
- (iii) Socio-economic – by social class, occupation, income, etc.
- (iv) Psycho graphic – by lifestyle, personality, etc.
- (v) Behavioural – by usage rate, purchasing power, etc.

An example is the credit card issued by a bank. A clear indicator of the usage of credit card is the population distribution throughout Malaysia. What the bank needs to know is the population that can be reached by various targeting measures for geographic segmentation.

As for demographic segmentation, we need to study the population in terms of its size and make up. The number of adults that have the purchasing power to spend and propensity to acquire a credit card.

The socio-economic segmentation strategy gives a clear indication of the occupation and income of our potential clients. Are these potentials able to meet the minimum income set by the bank in order to acquire a credit card?

Following on from the above, lifestyle and personalities can be used to predict what image the bank's targeted customers closely identify with and to this extent the bank can position its credit card to match this perceived image.

Purchasing behaviour is manifested in how a bank customer buys and the volume of their transactions. In this respect, we can analyse the purchasing pattern of gold and normal credit card customers, to assess which ones gives the bank the best returns.

Knowledge about the consumer behaviour, attitudes and needs will allow banks to develop, strategise and enhance their relationship banking with existing customers at the same time develop innovative market driven products to some segments which are not yet met by financial institutions. Ultimately, the impact of segmentation is most useful for banks that pursue a market niche strategy and tailor made its financial services to meet the exact needs of a specific group of customers. Given the understanding that services are intangible and perishable, the quality of service can be a formidable weapon in the execution of a market segmentation strategy

## Question 2

**Almost all the candidates attempted the question on 4Cs of pricing and “direct” and “indirect” competitors. Although, some candidates were unfamiliar with the 4Cs of pricing, most of them managed to score on the second part which required them to describe the competitors.**

- (a) Price in financial services industry goes under different names e.g. interest rates, fees, commissions. Pricing of financial services, like other products, is subject to some basic influence. First, the cost of producing and delivering the service determines the price floor. Second, the value perceived by customers set the price ceiling. Third, the actions of the competitors will influence the exact price level chosen by the organisation between the floor and ceiling levels. In a highly competitive market, the price chosen will be closer to the floor, and in less competitive ones, it will be near the ceiling. Finally, the external constraints, such as government restrictions and central bank policies can limit the freedom available to financial service providers in deciding prices. These factors could be collectively called the 4 Cs of Pricing. Each of these issues is discussed below.

### Costs

Cost includes variable and fixed costs associated with producing the service. Variable costs tend to be relatively small compared to fixed cost in most service organisations including financial services. In a financial service organisation, the risks associated with lending money or writing an insurance policy could also be included as part of the costs. Higher the risk, higher the “price” needed to cover the “costs.”

### Customers

The value of the service as perceived by customer determines the maximum price he/she is willing to pay for service, as it is perceived, not actual value that matters. Obviously, the organisation benefits if they are able to convince customers that the value of their service is extremely high. A strong brand name, company reputation, past performance, reliability, etc. are all factors which affects the value associated with the service.

### Competition

Financial service providers often use competitor's price as benchmark. Three options are available. Their price can be higher than their competitors (premium pricing), lower than competitors (penetration pricing), or at par with the competitors (parity pricing). Highly differentiated services tend to be premium priced. In markets where customers are price sensitive, companies with lower cost-structures may become successful with penetration pricing. In others where price competition is injurious (e.g. no company has superior cost advantage), companies are better off maintaining price parity and competing on other factors.

### **Constraints**

Financial service industries in many countries are regulated by government and much of pricing is really beyond the control of the individual firm. Similarly, central banks set the interest rates and the individual banks may not have a lot of freedom in influencing them. The organisation has to take the price as given and work backwards to cut down its operating cost in order to make profits. The final pricing is the product of these four factors and their interactions.

- (b) The nature of financial services had at one point favored specialisation because of constraints such as capital requirements, laws and regulations and technical complexity. The common factor in the provision of financial services is the management of risk. As there became an increased concern about the returns on their current products, banks began to enter other financial markets, services segments, and likewise; other financial intermediaries are also encroaching on the traditional turf of banks.

### **Direct Competitors**

Competition in financial services is greatest among commercial banks, domestic and foreign owned. Direct competition is best measured or evaluated on the basis of products and services offered and market served. Competition in the form of specialised financial institutions is also increasing, delivering a wider range of financial products and services than in the past. For example, major finance companies provide some form of factoring and consumer credit in addition to their portfolio of traditional products; home mortgages, hire purchase and interest bearing deposit accounts.

### **Non-bank Competitors**

The players in this non-bank group can be categorised into four main categories: mass retailers, large industrials, diversified financial and insurance companies. Mass retailers are leaders in the small personal loan business since retail credit is the cornerstone of retailing merchandising. For instance, retail establishments issue over 60% of credit cards in the United States and satisfy the credit requirements of approximately 24 million more customers than banks.

Large industrial companies are another category of major non-bank competitors. These large conglomerates have established subsidiaries that offer an assortment that is directly related to the sale of their parent's products. Subsequently, they became independent finance companies with widely accepted individual corporate identity.

Insurance companies make up the last category of non-bank competitors. These firms compete with banks primarily through the investment portfolios that make them particularly competitive in long-term commercial lending. Other products offered by this group that are competitive against bank products include mutual funds, brokerage, cash managements, mortgage banking and equipment leasing. Life insurance companies also compete in the personal loans markets. They offer interest rate because the cash value of the policies is pledged as collateral.

### **Related banking services**

In recent years, banks are eager to supplement their interest revenue with income from fees and commissions; a move from their traditional sources of income. They are more aggressive in competing in related financial service sectors as insurance broking, investment management, import and export, treasury advisory services, merchant banking, unit trusts, trusteeships and executorships and tax advice. More recently, their interest is focused on direct participation in dealing with stocks and shares, financial futures and other forms of security; and some have even hastened to establish or acquire stock broking subsidiaries for these purposes.

Bank competition presently is not limited to within the banking industry. Other non-bank financial institutions are becoming a threat to banks as they operate in an environment that is not as regulated as banks. In order for banks to stay competitive and profitable, they have to consider the provision of other financial services that till now, have no expertise in them.

**Question 3**

**The question on Ansoff Product/Market opportunity matrix was the least attempted question. Those candidates who attempted this question understood the matrix model and its application.**

- (a) A common framework for the analysis and 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 and 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 encourage 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 look 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 the 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 features of a product development strategy are typically re-styling service products, in addition to new features and quality changes. A strategy of this nature relies on good service design. Packaging and promotion often play 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 a 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 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 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 the figure below.

		Products	
		Existing	New
Market	Existing	1	2
	New	3	4

**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 offshore banking instruments.

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

#### Question 4

**Another popular question among candidates was on the marketing mix. Almost all the candidates were familiar with marketing mix. Candidates however, lost valuable marks when they were unable to explain the differences between “market driven” and “production driven” concepts.**

- (a) The Institute of Marketing Malaysia defines marketing as business. One of the most potent tools available for an organisation is the marketing mix. The marketing mix is attributed to Neil H. Borden of the Harvard Business School and refers to a set of marketing ingredients used to achieve its objectives. A cook selects from a wide range of ingredients and effectively combines them in different amounts to bake a successful cake. Similarly, a financial services manager picks and chooses from an extensive set of ingredients in order to find the right recipe of success. The thrust of a financial industry is more difficult than that for consumer or industrial goods because it is a service industry. Services are intangible and much more difficult to package, sell or be demonstrated to the consumers.

As such, for financial services to discover the right marketing mix, it is important to identify and develop a differential advantage or that something extra which makes the organisation and its services attractive, unique and better than its competitors. The differential advantage is to develop a strategy of favourable positioning for services where perception is so important to decision-making. It is also important to make the services more tangible (e.g. features of an attractive deposit or housing loan).

Such tangible positioning gives the customer a physical association with the service and strengthens the chances of success.

The macro environment, comprising six sectors of influence, needs to be carefully considered when deriving the right marketing mix:

Economy	Influences the ways in which scarce resources, such as personal income and corporate borrowings, are used.
Society	Influences the shift in personal values and preferences.
Law	Laws and regulations govern the conduct of business of banks and financial institutions.
Technology	Refers to high technology equipment used to enhance or replace manpower in the provision of services, e.g. ATMs.
Politics	Dictates the nature and types of financial services to be made available, e.g. the non-trading position for financial services with countries such as Cuba.
Competition	Few organisations are left alone to match their capabilities with customers' wants. Competition comes from similar products or different opportunities, which all compete for the customer's limited financial resources.

Categories of Marketing Mix (7Ps):

### **Product**

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

### **Place**

Most financial services are sold through the 'place' or the branch. As such, financial institutions have invested heavily in bricks and one inherent advantage of branch outlets is that the financial institution becomes part of the living community, from the social-economic perspective.

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

Another well-known technological development which is challenging the nature of the place is the introduction of ATMs as well as shared ATM networks. Some ATMs are found in non-financial institution buildings such as factories, petrol-kiosks, shopping complexes, public transportation areas. In shared ATM networks, consumers can access an ATM at a competitor's branch as a result of the tie-up amongst the banks and finance companies on ATM reciprocity. Financial services are extended one stage further by offering the corporate electronic services.

The next line of development will be towards home-banking in line with the Multimedia Super Corridor developments. This will become more acceptable if the whole concept of home financial services is expanded to include videotext and tele-shopping, and if home computers become as affordable as televisions. The idea of home-banking would certainly be accepted by the 21st century generation of consumers acclimatised to technology.

### **Promotion**

As with consumer goods, financial services need promotion in order that the products are made known to the consumers. The methodology of promotion varies with the target audience, the design of the

product and the business volume expected. Traditional practice consists of the use of advertising, branch displays utilising posters, desktop flyers, brochures, local promotion at trade exhibitions and seminars and public relations with the press and public. The traditional manner for promotion has changed considerably in the last five years where financial services are now being promoted aggressively through television, radio, and billboards advertising.

Also, emphasis has shifted from conservative image advertising to focusing on new products and features or unique selling points (e.g. Stanchart's Depositlink, Hong Leong's Teleloan, Chung Kiaw's Telebanking, Citibank's Mortgage Power).

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

### **Price**

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

Pricing of financial products is further complicated by the other '7Ps', which will determine the level of pricing. For example, the marketing of a gold credit card differs from the normal credit card of the same heritage. Consumers are willing to pay a higher premium on entrance and subscription fees in return for the prestige, better service, greater flexibility and higher credit limits of a gold card. As such, the perceived better value products for up market service is a function of the other 'Ps' of the marketing mix and consumer behaviour and attitudes prevailing in the society. In general, well-developed pricing policies can provide good yield to financial institutions. Sometimes, financial institutions who have more than its budgeted deposits or liabilities booked into its books, may price itself out of the market by offering lower rates than others (e.g. fixed deposits).

### **People**

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

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

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

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

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

alternatives or opportunities emerged, the place of distribution can become unproductive or less satisfactory.

Fortunately, the task is not as daunting as it sounds. Most financial institutions have established customers and competitive information. They know what customers will want in the immediate future. Except for the major macro upheavals, such as the current economic crisis faced by Malaysian banks, economists and statisticians must take the risk and look into their “crystal-balls” to postulate a future outlook for the business instead of being over pessimistic and just keep on raising the Base Lending Rate and balance the asset and liability management.

- (b) The marketing concept can be contrasted with two other business orientations, which are:
- (i) The production concept in the enterprise concentrates on the volume, level of productivity and cost of the production. The customer, it is assumed, is only interested in product availability and price, and it is up to the banker to decide what products or services he thinks the customer will buy, whilst the production department is seen as central to the operation of the enterprise.
  - (ii) The marketing concept assumes that people are not naturally inclined to buy, and will resist making purchase decisions. Purchasing is seen as a non-automatic reaction and consumers have to be pushed into buying by a positive sales effort. The solution is to make, package and price the product or service, and then sell it. The marketing department is seen as central to the business effort, and expenditure on sales and promotion activity figures large in investment decisions. Similarly, the volume of business done is seen in terms of how hard the bank packages its product and services, and so there will be a whole array of incentives, commissions and other forms of motivational technique to push them on to higher results.

Each of these two orientations to business contains necessary activities. But the marketing concept suggests that any one of these other concepts in isolation is not adequate. The marketing concept is an attempt to recognise that all of these three orientations to business have an essential part to play, but that the starting point must be the overall orientation of the banking activity towards understanding, anticipating and fulfilling the needs and wants of the customer and the market place.

Services differ from goods in at least four ways from industrial and consumer marketing. First, services are intangible. They cannot be touched, felt or seen. Second, services are perishable. They cannot be stored. Third, services suffer from heterogeneity. The quality of service depends upon who provides it and when, where and how it is provided. Finally, the consumption and production of services take place simultaneously and are inseparable.

These four fundamental differences lead to the following unique characteristics for services.

#### **Nature of the product**

Whereas goods are objects, services are performances.

#### **Customer involvement in the production process**

Often customers are actively involved in the production of the service. For example, when a customer withdraws money from an ATM, he/she performs several tasks critical to the production of the service (e.g. Sliding the card, punching in the personal identification number, providing other information, collecting the cash, receipt and card, etc.).

#### **People as part of the product**

A significant part of the customer’s service experience is interactions with other customers and the employees. The quality of a customer’s experience in the bank is affected by the behaviour of the other customers waiting to be served, and also by that of the bank’s personnel.

#### **Quality control problems**

Due to the heterogeneity problem, the quality of services is difficult to control. The quality of banking service can vary from teller to teller, or for the same teller, from situation to situation depending upon the teller’s disposition and fatigue. Investment advice can vary widely from broker to broker. This variability is introduced because many financial services are people-intensive.

**Service for customers to evaluate**

The intangibility of services makes it difficult for customers to evaluate the quality of the service before hand. This increases perceived risk. For example, customers find it extremely difficult to evaluate the quality of financial advice, or insurance policies.

**No inventories for services**

Because of the perishability problem, services cannot be inventoried. This leads to excessive demand at some times, and low demand at others. For example, there are long lines of customers in banks during certain times of the day and week; but idle tellers at other times.

**Importance of time factor**

Many services are delivered in real time. The value of many financial services depends upon the customer's ability to get real-time advice and information. Systems must be put in place to deliver such services.

**Different distribution channels**

Compared to goods, services use non-traditional channels. This is primarily because of inseparability of production and consumption. Distribution of services really implies distribution of production facilities. Thus, banking services are distributed by locating branches and ATM machines close to the consumption point. In other cases, technology is being used to physically de-link consumers from producers. For example, many financial services are being offered through mail, telephone and soon even through the Internet, with the advent of the Malaysian Multimedia Super Corridor.

**Question 5**

The worst attempted question by candidates was on the generic needs of customers. Many candidates confused this question with Maslow's Hierarchy of Needs. The question on service quality was also a difficult question for candidates. These two factors led to only a few candidates passing this question.

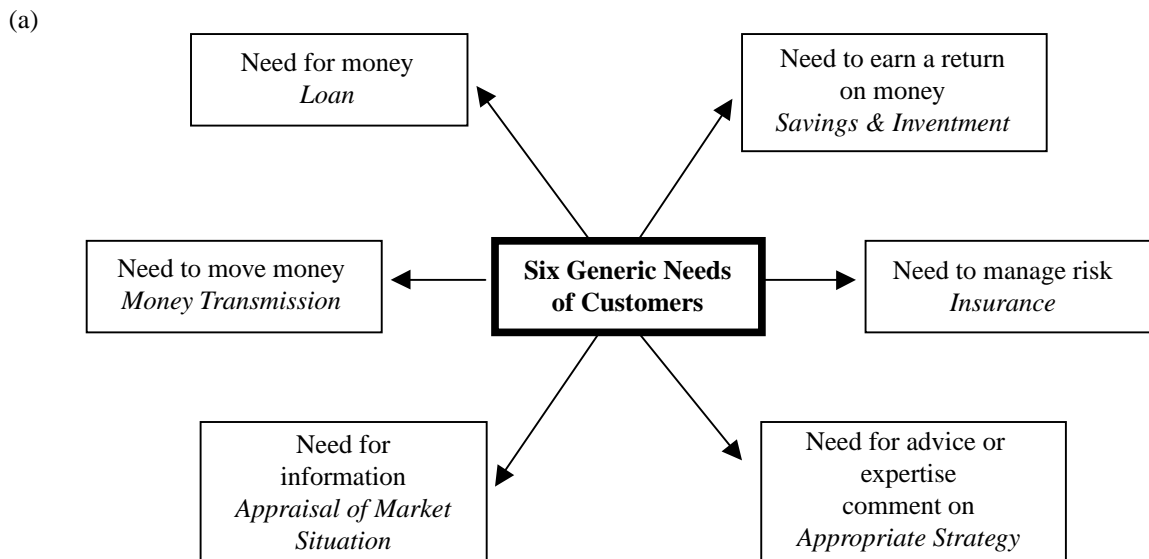


Figure 1 – Financial Services Satisfy Six Generic Needs

**Role of people and physical evidence**

Because of the inseparable nature of services, people become part of the product. In particular, when people buy insurance or invest their money in funds or banks, the interaction they have with customer-contact employees (e.g. tellers, customer service reps, sales reps, etc) has a determining influence on

which firm's service they buy. Particularly in the financial services sector, the trust and confidence factor is very, very important. Physical evidence, in the form of modern and appealing facilities and equipment, the degrees and qualifications of the service professionals, etc. is also important. Customers attempt to evaluate intangible services by examining tangible evidence.

### **Influences on product strategy**

Product strategy is affected by the environment in which the strategy is implemented. The role of management is to adapt the strategy and respond to the environment changes in a way that could ensure the achievement of the company's objectives.

There are three main aspects of the environment that particularly influence product strategy:

#### **Consumers**

Ultimately, the product or service developed has to meet some customer needs. In designing product strategy, *existing* and *future needs* must be identified and anticipated. Midland Bank, for instance, launched a telephone banking service called First Direct in 1989 (new product introduction) to meet consumer demand for greater convenience and flexibility in accessing banking and financial services (environment changes). The highly successful new product strategy proved that Midland had precisely anticipated the environment changes.

#### **Competitors**

Activities of competitors are a good source of information for perceiving trends in the market place. Particularly under watch are introductions of new services. In the banking industry, in particular, banks often develop and introduce services that imitate their competitors' own new product introduction. Few services can be protected through patents and so can be easily copied. Furthermore, imitation reduces the cost and risk of new product development. The fact that most of the major banks followed the same telephone banking service strategy as Midland's after First Direct had been launched proves this point.

#### **Government, legislation and political changes**

Government policy, legislative and political changes can make established products less effective or can create opportunities for the development of new products. Budgetary change for instance has provided tax relief on Personal Equity Plans (PEPs). Thus, it has created an opportunity for organisations to develop PEP mortgages.

- (b) Quality is becoming increasingly important in the financial services sector. It is an effective means in differentiating financial services since it is more difficult to copy than other features. The customer's assessment of service quality is based on the process (functional) and outcome (technical) of that service. The outcome relates to the extent of which a product conforms to specifications expected by a customer. The process relates to the way in which the service is delivered and includes factors such as the way staff behave towards customers, the quality of information provided, speed of response to questions and the extent to which the institution creates trust in the customers.

Parasuraman, Zeithamel and Berry suggested that service quality is appraised by customers through 10 criteria as follows:

- (i) **Tangible** : Physical evidence
- (ii) **Reliability**: Getting it right the first time and honouring promises
- (iii) **Responsiveness**: Willingness and readiness to provide service.
- (iv) **Communication**: Keeping customers informed in a language they can understand
- (v) **Credibility**: Honesty and trustworthiness
- (vi) **Security**: Physical, financial and confidentiality
- (vii) **Competence**: Possession of required skills and knowledge of all employees
- (viii) **Courtesy**: Politeness, respect and friendliness
- (ix) **Understanding**: Knowing the customers needs and requirements
- (x) **Access**: Ease of approach and contact such as opening hours, queues, and phones.