

**DP10**

# **Marketing of Financial Services**

**12 OCTOBER 2001**

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions
3. Number of questions to be answered : Four (4) questions [25 marks each]
4. Begin each answer to a new question on a fresh page.
5. Answer **all** questions in **English**.
6. A blank page is provided at the end of the question paper for rough work.

## ANSWER FOUR (4) QUESTIONS ONLY

1. (a) Describe the marketing mix for financial institutions. [10]  
(b) What are the differences between a sales-driven and a market-driven financial institution? [15]  
(Total:25 marks)
2. (a) Explain how product development cycle can be applied to your financial institution. [15]  
(b) Explain some barriers to innovations in financial institutions. [10]  
(Total:25 marks)
3. (a) **One** of the popular strategies used by marketers is market segmentation. Elaborate on your understanding of market segmentation. [15]  
(b) What are the characteristics required for successful market segmentation? [10]  
(Total:25 marks)
4. (a) Describe the 4Cs of pricing. [10]  
(b) Explain in detail, the “direct” and “indirect” competitors in financial services industry. [15]  
(Total:25 marks)
5. Selling is becoming a tool as well as battleground for financial institutions in the 21st century. Critically identify and elaborate on the key functions of a professional sales force. (Total:25 marks)

- END OF QUESTION PAPER -

# OUTLINE ANSWERS

## Question 1

This question on marketing mix for financial institutions was well attempted and a favourite choice by most candidates.

1. (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. The thrust of a financial industry is more difficult than that of 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.

It is important to identify and develop a differential advantage. 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 service 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 comprises **six** sectors of influence that 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 in 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-training 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 competes for the customers' limited financial resources.

### Categories of Marketing Mix:

#### Product

Financial services products include mortgages, savings account, fixed deposits, 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.

#### 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 institutions become 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. 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. The next line of development will be towards homebanking in line with the Multimedia Super Corridor developments.

## **Promotion**

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. For example, 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. Financial services are now aggressively promoted 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, Citibank's Mortgage Power.)

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

## **Price**

The bottomline is what counts in most business. For financial institutions, the pricing of products are reflected in the interest rates and services fees. The interest rates are usually reflected in the percentage on top of the bank's base lending rates. Due to regulations, pricing for some banks' products are undifferentiated and the prime example is the fixed interest rate for priority lending or mortgage for houses below RM100,000 in the purchase value. For such mortgage products, pricing in interest rate is not a 'player in the marketing mix'.

For example, the marketing of gold credit cards 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.

## **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 product. The delivery mechanism is through branch staff and the way they deal with customers is an integral part of the product itself. Hence, personal selling and courtesy in communication and commitment to serve must be instilled in the personnel.

- (b) Services marketing differ from industrial or consumer marketing in at least four ways. First, services are intangible. They cannot be touched, felt, or seen. Second, services are perishable. They cannot be stored. Third, service suffered 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:* 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 card, punching in the personal identification number, providing other information, collecting the cash, receipt and card, etc.)

*People as Part of the Product:* 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 customer waiting to be served, and also by that of the bank's personnel.

*Quality Control Problem:* Due to the heterogeneity problem, the quality of service 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.

*Service for Customers to Evaluate:* The intangibility of service makes it difficult for customers to evaluate the quality of the service beforehand. 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 teller 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, service use non-traditional channel. 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.

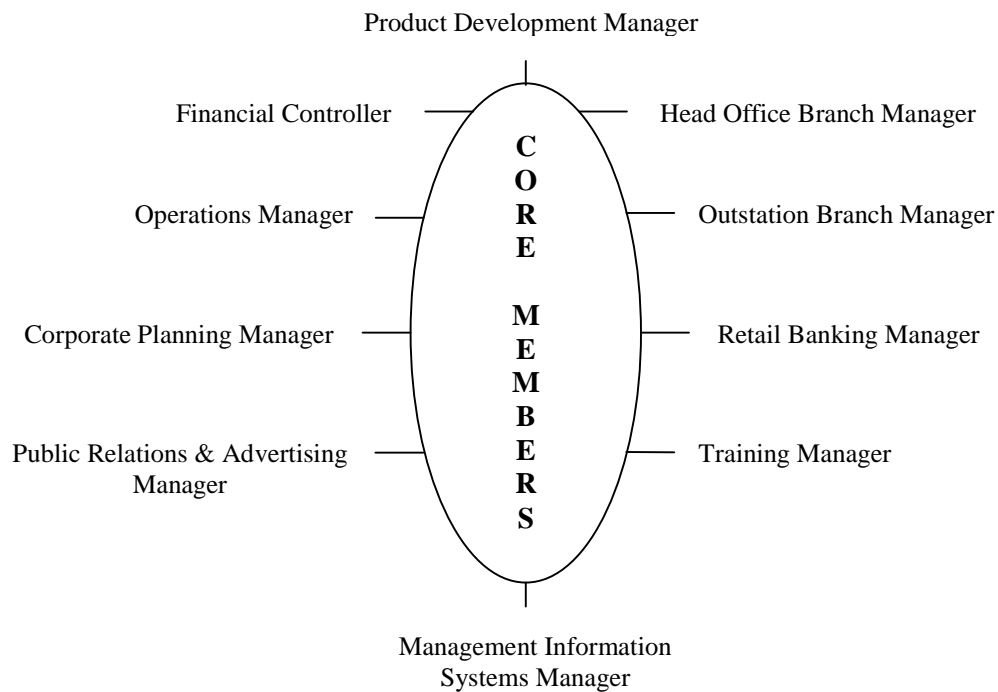
**Question 2**

Some candidates confused this question on product development cycle with product life cycle, but the others were generally able to answer well.

2. (a) One of the core tasks of retail banking is to develop new products and to revamp existing ones. Banks should endeavour to position themselves in the forefront of the Malaysian banking arena in terms of quality, innovative and profitable products that appeal to their target customers. As such, every bank must select a special team of dedicated and professional personnel who will be a part of steering committee (see Figure 1). The committee can meet either fortnightly or monthly, either as a brainstorming session or constructive discussion, lasting one to two hours.

The objective of the committee is to screen all new products of the bank before recommending or implementation.

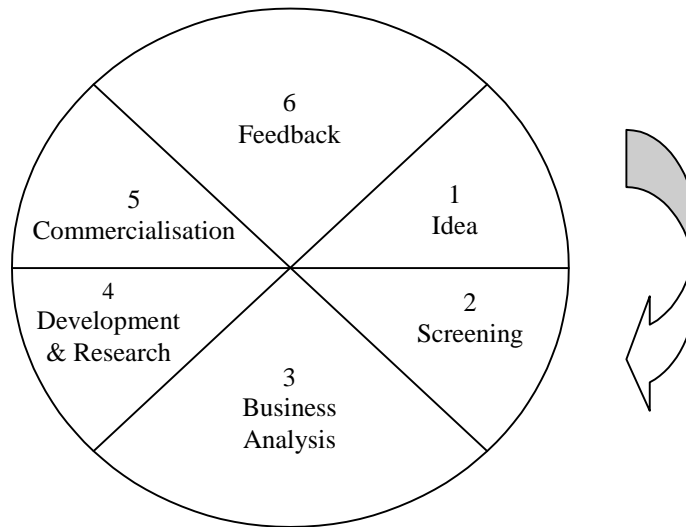
**Figure 1 Product Development Committee**



## **Product Development Overview**

There are six stages in bank product development as depicted in Figure 2.

**Figure 2 Wheel of Bank Product Development**



### **Stage 1 – Idea Generation**

The outset of new product development is a highly creative activity stage where brainstorming sessions can produce numerous ideas. New product ideas can come from various sources, such as management, customers, bank officers and clerks, new technology, competitors and even government regulations.

During this stage, it is extremely important for bankers to encourage and energise the process. Dynamic leadership is needed to deal with the uncertain and sometimes personal nature of ideas. On the other hand, if the authoritarian approach is used, most initiative of ideas will dry up, especially when subjected to faint criticism, or when one must to fight very hard to get his ideas accepted. The correct approach in tapping new product ideas is to conduct a brainstorming session where no suggestion is turned down, no matter how absurd it is (see Table 1).

**Table 1 Sources of new product ideas**

(Re: “So you want your new product planning to be productive”, *Business Horizons*, 1980)

<b>Sources</b>	<b>%</b>
Research & Development	20.8
Internal	34.6
User’s suggestions and complaints	14.7
Formal research on users’ needs	13.0
Analysis of competitors’ products	30.7
Analysis of published information	9.1
Suggestions from suppliers	9.5

### **Stage 2 – Screening**

This is a critical stage where the proposed idea is screened to determine whether it justifies management’s commitment (in terms of time, money and resources). There are two methods involved:

- Establishing a list of evaluation criteria which enables the comparison of an idea generated to determined whether it is compatible with the bank’s resources and then using the weighing, ranking, or rating of the idea against the criteria used (see Table 2); and

- A simple checklist of all bank and market features. The new idea is checked against these to see how it stands out when compared with some vital factors (e.g. market size, growth, level of service required, competition and trends).

However, it is important to stress that there are no single set criteria that are appropriate across the board. The final score should not exclude a large element if collective as well as intuitive judgement of the steering committee, i.e. ‘vision of the future’.

**Table 2**

Screen Test/Values Rating Sheet for Bank Product ...														
Sphere of Performance	Base Weight (A)	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	Total Ratings (AxB)	Remarks
1. Goodwill of Bank														
2. International strength														
3. Location														
4. Regulations/ Environment														
5. Product Innovation														
6. Appeal														
7. Marketing														
8. Delivery system														
9. Manpower														
10. Automation														
11. Finance														
	1.0													

### Stage 3 – Business Analysis

In conducting business analysis of a proposed product, we are trying to undertake a qualitative analysis of the product and its likely chances of success or failure. Therefore, we should also take into account the costing and profitability analysis of the proposed product. Other elements that should be taken into account include the implications of:

- Human resources;
- Business forecast;
- Competitor’s reaction;
- Bank Negara Malaysia and the Association of Banks in Malaysia (ABM) regulations, provisions under the Banking and Financial Institutions Act, 1989 (BAFIA), ethics and social rules and pressures;
- Target market segment;
- Delivery system to accomplish the marketing goals;
- Pricing policy;
- Service objective to measure how well a customer should be supplied with what he considers of value;
- Marketing goals; and
- Training.

This stage continues throughout product development and should be continually re-appraised and modified as and when necessary before the final implementation of the product by the bank.

### Stage 4 – Research and Development

This stage requires the translation of the proposed idea into actual tangible service product. During this stage, the steering committee agrees to the idea and adopts a pre-defined business development plan. The product specifications are laid down and customer testing may be required. Total “tangible elements” including product name, packaging (brochures and

application form), advertising and publicity cum promotion materials are to be incorporated to give birth to new banking products. Special attention shall be accorded to the product's 'service delivery system' (manual or automated) to ensure a level of professional and satisfactory service.

Market testing of new service product may not always be possible, but some bank products would necessitate extensive market survey and research conducted either internally or through the assistance of a market survey consultancy firm such as Performance Training and Consultancy Sdn Bhd.

In the course of undertaking the development of a bank product, a network analysis or a time frame schedule is drawn up. It involves listing down all streams of main or subactivities, which must be undertaken to get the product to the market. The relationship of all activities can be mapped and the sequence of getting the job done is depicted clearly. During the development stage, many departments of a bank may be involved in one way or the other and this calls for close collaboration of the various units.

### **Stage 5 – Commercialisation**

During this stage of activity, the bank is targeting for a full-scale launch of newly-developed product or revamped product. It may be a modest launch or one with great pomp and fanfare to penetrate or recapture the market. There are 10 pointers that would contribute to the successful commercialisation of a banking product:

- When to introduce it?
- Where to launch it – local, regional, nationwide or internationally?
- How to launch it?
- Who to target it at?
- Is the service product delivery system (manpower and equipment resources) trained or prepared to support the product effectively?
- What is the turnover to be achieved over a period of time?
- Can the exact costing and profitability of the product be determined?
- Are there effective above-the-line or below-the-line promotional budgets and strategies to support the product?
- Does the product possess unique differential qualities or newness to stand out from its competitors?
- Are there any contingency plans to counteract competitors from catching on with a similar “me too product”?

### **Stage 6 – Feedback**

It is imperative for every new bank product to incorporate the mechanism of feedback. Feedback is usually determined by the acceptability and performance of the bank product against standard benchmark. A bank can also continue to monitor feedback from “front-line” staff and through market surveys and competitor's reaction to its product.

One must be fully aware that regular product improvement from time to time is necessary to ensure the success and competitiveness of a bank. Proper and timely elimination of bank products is equally important because of the continuous growth of bank products and services and the ever changing scenario of global bank automation in the retail banking marketplace.

### **Summary**

Recently, Booz Allen & Hamilton suggested a new way to view product development. According to the new study, products can be categorised as 'new' to the world product (e.g. home banking terminals), addition to existing lines (e.g. shared ATM network cards), improvement of existing products (e.g. a repackage housing loan with complimentary Mortgage Reducing Term Assurance) and new products brought on by cost reduction measures (e.g. two credit cards for the price of one) or by repositioning existing products (new children savings accounts with free periodicals, toys, etc.) *Table 3* shows the various

categories of products, and their ‘newness’ to the market and the percentage represented by each category.

**Table 3 New categories of products**

High			<u>New to world products - 10%</u>
Newness to mark	<u>Improvement of existing products – 26%</u>	<u>Addition to existing products - 26%</u>	
	<u>Cost reduction – 11%</u>	<u>Repositioning – 7%</u>	
Low			

However careful a bank is in carrying out its product development, there is no fail-proof methodology and management must realise that despite all odds, some products may still fail. According to a recent study, most organisations are now able to turn one of seven new products into successful ones, compared with one in 58 in 1968. The failure rate is 20% for industrial products, 15% - 20% for services and 40% for consumer products. Some of the main reasons are given in *Table 4*.

**Table 4 Reasons for product failure**

<b>Failure reasons</b>	<b>% of failure</b>
Inadequate market analysis, e.g. failure to define market, overestimating	45
Product defects	29
Lack of marketing effort, e.g ineffective positioning, poor pricing, weak promotion	25
Higher cost than anticipated	19
Competitor’s strength or reaction	17

Despite all the precautions one has to take, new product development is the key to survival for banks in the 21<sup>st</sup> century. A rich continuous source of new products is important for a diversity of reasons such as projecting a new aggressive or market-oriented image for a bank, achieving the bottomline sales and profit objective, matching the competition, outflanking a strong competitor and utilising excess capacity. Banks that are committed to new ball game of product development usually organise this function in one or more ways, i.e. products development department and product steering committee working in close collaboration with the automation departments as well as user ‘front-line’ banking offices. Effective product development is extremely important as statistic show that only 2% of new concepts ever reach the commercialisation stage and about 65% of new products ever return a profit.

- (b) There have been numerous studies of the success rates of new products. All of them suggest that most new products fail to achieve a reasonable return for the business. The failure rate is particularly high for consumer products. Typical studies suggest failure rates of 80% for consumer products, 30% for industrial products and 20% for new services.

Most researchers believe that failure rates are likely to continue to increase. Factors causing this include the following:

- Shortening product life cycles;
- Rising costs of developing new products;
- Increasing environmental and consumer legislation;

- More new products;
- Increasingly segmented markets; and
- Declining profitability of brand followers.

This high and rising failure rate has three implications for management. First, new product development needs to be carefully planned. Second, since many, or most, new product ideas will be weeded out before the commercialisation stage, management needs to stimulate a large pool of potential new products from which a few winners may emerge. Finally, as risk taking, and consequently the acceptance of new product failures, is fundamental to the innovation process, management must look for ways to reduce the cost of these failures. Fast response, minimising overheads and controlling investment are the means of limiting these downside risks.

Considerable evidence exists on the causes of new product failure. None of the reasons is surprising and most of the problems can be avoided, or at least substantially reduced for a financial institution.

### **Barriers to innovation**

Successful innovators introduce many new products and achieve higher success rates. Both tasks are related and neither is easy but many financial institutions have experienced barriers to innovation which are identified below.

(i) **Development too slow**

Managers greatly underestimate the penalty for slow development. Today, with computing technologies widely available and short product life cycles, speed to market is crucial. Banks that are slow to innovate usually end up with a high product development cost and achieve lower prices. Later entrants rarely obtain a significant market share or achieve scale economies in marketing.

Speed to market is generally more important than fine-tuning cost and quality. Recently, Mazda of Japan decided to re-invest and re-engineer to develop new models from 3 years to a 1-year cycle. A study by McKinsey suggests launching a product six months behind schedule will reduce lifetime profits by one-third. In contrast, spending 30 percent over budget on development will trim profits by only 2 percent (*Table 5*).

**Table 5 Impact of development problems on profitability**

	<b>Decrease in lifetime profit (%)</b>
Introduced 6 months late	31.5
Quality problems reducing prices by 10%	14.9
Product costs exceeded by 10%	3.8
Development programme cost overrun by 10%	2.3

(ii) **Lack of differential advantage**

Products fail when customers do not perceive them as better value than those they are currently using. This may be due to inadequate functional performance. Alternatively, it may be due to poor competitive positioning – customers do not perceive the real values possessed by the product. Such problems can be reduced by consumer research and testing.

(iii) **Poor planning**

New product development is so complex, fast moving and competitive that mistakes will inevitably occur if management does not put in appropriate systems. Poor planning results in markets not being researched and segmented, targets and budgets not being set and monitored, positioning strategies not being tested, product launches being inadequately implemented. Without proper planning, the result is invariably failure.

(iv) **No management enthusiasm**

Lack of management enthusiasm is another product killer. Management is often oriented to past winners and see new projects as taking resources away from the core business. Some traditional banks have been marketing the too generic products and fear to take risk of introducing new products into unfamiliar grounds. A good example is, Phileo Allied Bank, who spearhead into the market of stockbroking services and traditional banking to produce PAL-DIRECT, an unknown territory for Malaysian bankers until late '90s. Many of today's established banks are reluctant to adopt the Internet because they know its development as a banking medium may cannibalise their existing branches. Short-term is another factor handicapping may financial institutions. Where management incentives and focus are on current profit performance, new product development efforts are often sacrificed to boost short-term profits.

**Question 3**

Some candidates have weak understanding of market segmentation.

3. (a) **Market Segmentation** is the analysis of the 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 marketing 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.

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

Market segmentation may maximise 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 the 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 market – there are many specific segmentation, 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 need 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; and
- (iii) It has the critical volume in terms of potential benefits.

Five different variables can be utilised by bank for market segmentation. They are outline 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, lifestyles 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 partner of gold and normal credit card consumers; to access which ones gives the bank the best returns.

Knowledge about the consumer behaviour, attitudes and needs will allow banks to develop strategies 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 4**

This was the best-attempted question in this paper. However, some candidates were not able to list or explain accurately the 4Cs of pricing in this question on pricing and competitors in the financial services industry.

4. (a) Price in financial services industry goes under different names, e.g. interest rate, fees, commissions. Pricing of financial services, like other products, is subject same basic influence. First, the cost of producing and delivering the service determines the price floor. Second, the value perceived by customers set the pricing ceiling. Third, the actions of the competitors will influence the exact price level chosen by the organisation between the floor and the 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 policies can limit the freedom available to financial service providers in deciding prices. These factors could be collectively called the 4Cs of Pricing. Each of these issues is discussed below.

#### **Cost**

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 services organisation, the risk associated with lending money or writing an insurance policy could also be included as part of the costs. The higher the risk, the higher the "price" needed to cover the "costs".

#### **Customers**

The value of the service as perceived by customers 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 the 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 price. 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 bank set the interest rates and the individual banks may not have 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 favoured 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, service 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 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 one 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 24million 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 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 loan 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 source of income. They are more aggressive in competing in related financial services 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 5**

This was the least-attempted question in the paper. Some candidates elaborated on the sales cycle rather than the key functions of a professional sales force.

5. As financial institutions in Malaysia experienced the economic meltdown in Asia, the Central Bank directed financial institutions to merge to stay competitive in view of the forthcoming liberalisation of the financial services marketplace.

American banks like Citibank began to develop market orientation in the 80s and many banks followed suit. In HSBC for example, they are developing a sales orientation culture with executives solely focusing on sales, who also work through the weekends cross-selling their financial products. Local banks have been forced to follow suit.

Personal selling is indispensable for both corporate and retail banking sectors in view of hyper-competition. Professional selling can also help to raise customer awareness, product acceptance, develop goodwill and improve a bank's bottom line. Even in the new Internet economy, cross- and up-selling is the way for success.

The key function of a professional sales force is to focus on selling their products and services. Some of the important functions are as follows:

- Prospecting;
- Presenting the product series;
- Overcoming objections;
- Close the sale; and
- Cross-sell

This is a typical sales cycle scenario. Other activities that complement the professional selling include:

- Ability to segment and target the market;
- Conduct competitive intelligence;
- Field selling; and
- Tele-selling and marketing.

One area that many banks tend to neglect is the value-chain of the after-sales support. Professor Michael Porter emphasised that the competitive advantage, especially for the service industry lies in the prime activities, i.e. customer service. It is very easy for banks to emulate one another in terms of technology, products, advertisement, and promotion media as well as pricing strategy (e.g. when one bank offers an attractive rates on housing loans, may others will follow). A customer will require sales support and advice. Customer service is very difficult to copy and this forms the basis for success for professional selling of financial services.