

DP10

Marketing of Financial Services

13 APRIL 2007

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) Using a diagram, explain Abraham Maslow's Hierarchy of Needs Theory. [13]
(b) Describe **six** differences between marketing and selling. [12]
(Total:25 marks)
2. (a) Explain **six** functions of a sales force. [15]
(b) Explain the following Islamic financial services:
(i) Al-Murabahah [2]
(ii) Al-Mudharabah [2]
(iii) Al-Musyarakah [2]
(iv) Al-Ijarah [2]
(v) Takaful [2]
(Total:25 marks)
3. (a) Using the SWOT analysis, describe a bank's position in the personal financial services market. [16]
(b) (i) Describe the role of personal selling in the marketing of financial services. [4]
(ii) State **five** benefits of personal selling in financial services. [5]
(Total:25 marks)
4. (a) Explain **three** benefits of customer retention in financial services. [9]
(b) Describe **four** advantages and **four** disadvantages of distributing financial services through a branch network. [16]
(Total:25 marks)
5. Using a diagram, describe **six** stages in planning a promotional campaign. (Total:25 marks)

- END OF QUESTION PAPER -

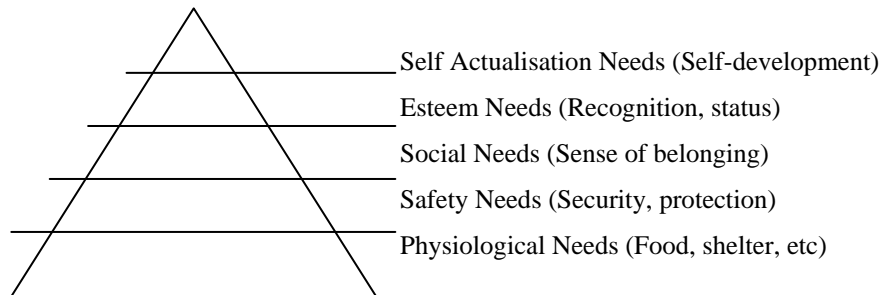
OUTLINE ANSWERS

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 could explain the Abraham Maslow's Hierarchy of Needs Theory well.

1. (a) Abraham Maslow's Hierarchy of Needs Theory:



The importance of the Hierarchy of Needs and Wants will influence an individual's behaviour.

The basic requirements are the need to eat, rest, having a house, feel secure and to have the company of friends. As a result, people basically need to buy goods, drinks, pay rent, pay insurance and meet up with friends at functions, religious places and so on.

Once the above needs are met, Maslow's theory commented that the individual's behaviour will change and it will be associated with the following:

- Need to gain self-esteem, e.g. through the possession of prestigious products or branded goods, etc;
- Need to know and understand what is going on around them, e.g. through newspaper, ASTRO, international magazines, etc; and
- Need to achieve independence and self-fulfillment, e.g. purchasing cars and houses, hobbies, etc.

- (b) Six differences between marketing and selling:

Marketing

- Emphasis is on customers' wants
- Company first determines what the customers want, and then figures out how to make and deliver a product to satisfy those wants
- Management is profit oriented
- Planning is long-run oriented, in terms of new products, tomorrow's markets, and future growth
- Long term relationship
- Multiple transaction

Selling

- Emphasis is on the product
- Company first makes the product and then figures out how to sell it
- Management is sales-volume oriented
- Planning is short-run oriented, in terms of today's products and markets
- Short term in nature
- Mostly one time transaction

Question 2

Candidates did not explain well on the Al-Musyarakah and Al-Ijarah.

2. (a) Functions of a sales force:

Prospecting

- Searching for prospective customers or new leads and making contact.
- Leads may be direct from sales force itself or from other parts of the organisation.
- Development of Bancassurance in banks have dedicated sales forces that sell insurance and investment products.
- Leads may be generated from non-specialist sales staff.

Targeting

- Decisions about how time is allocated between groups of customers.
- Sales force to identify different groups/market segments.
- Must be able to evaluate the attractiveness of each segment.
- The sales force will decide on time spent in selling and supporting customers.

Providing information

- Communicating with customers face-to-face.
- Providing information about products and services and responding to questions.
- Customers need a considerable amount of information prior to making a decision to purchase.

Selling

- The heart of the sales staff function.
- Contact with customers with the potential of closing a sale.

Market intelligence

- Gathering information about what they see to be happening in the market place.
- Sales force to provide early warnings of market changes in demand or new competitive activity.

Support

- Once sales are conducted, customers need continuing support and advice e.g. a good financial planner will be able to provide not only various investment products, the planner will also follow up and maintain contact with regards to investment performance. He/she should also be capable of identifying the customers' future needs.

(b) Islamic financial services:

(i) Al-Murabahah

Al-Murabahah is sometimes referred to as cost plus financing. Under Al-Murabahah, the bank purchases goods that the customer requires from a third party. The bank then sells the goods to the customer at a pre-agreed (higher) price with deferred payments. Customers wishing to deposit money with a bank may make deposits into a Al-Murabahah fund and will then share the returns from such transactions. In Malaysia, Al-Bai Bithaman Ajil (BBA) is the most common form of Al-Murabahah with payments being made in instalments some time after the delivery of the specified goods.

(ii) Al-Mudharabah

This is a contract between a provider of capital and an entrepreneur. The provider (referred to as the *rabb al-mal*) entrusts money to the entrepreneur (referred to as the *mudharib*) for an agreed project. When the project is completed, the *mudharib* 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*. Al-Mudharabah provides the basis for making loans when

the bank is provider of capital. When the depositor is the provider of capital and the bank the entrepreneur, then the Al-Mudharabah serves as a basis for taking deposits.

- (iii) **Al-Musarakah**
A form of equity funding (partnership finance) in which both business and bank would invest in a particular venture. Both parties would then share profits and/or bear losses. This is probably the purest form of Islamic financing with returns being uncertain and both parties sharing profits and bearing losses.
- (iv) **Al-Ijarah**
This is 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.
- (v) **Takaful**
A form of Islamic insurance based on the Quranic principle of *Ta'awun* 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. 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 surpluses from which are subsequently distributed equitably between the participants and the insurer according to the principles of Al-Mudharabah.

Question 3

- Candidates had good knowledge in personal selling in financial services.
- Candidates could not apply the SWOT analysis to describe the personal financial services market.
- Candidates need to ensure that they understand the SWOT analysis.

3. (a) SWOT analysis on a bank's position in the personal financial services market:

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
- Consumers becoming more critical
- Consumers have higher expectations of service
- Potential for increased competition from elsewhere in Asia

- (b) (i) The role of personal selling:
- channel of distribution
 - method of communication
 - most common in corporate markets
 - also widely used in personal markets for complex services
- (ii) Benefits of personal selling:
(Choose any **five** of the following):
- Allows immediate consumer feedback
 - Two way communication, i.e. customers raise queries with the salesperson which can be dealt with immediately face to face
 - Information communicated is accurate and tailored to the needs of customers
 - Effective in the AIDA process
 - Results in potential sales/purchases
 - Valuable and effective form of promotion
 - Used heavily for relatively high value products
 - More effective when customers are close to making a purchase

Question 4

- Candidates' answers generally lacked depth.
- Candidates need to elaborate further in order to get higher marks.

4. (a) Benefits of customer retention in financial services :
(Choose any **three** of the following):
- Better Knowledge of Customer Needs
The organisation is better able to meet customer needs at a lower cost. All information is available and 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 customers recommending potential clients.
 - Spread Costs of Acquisition
Financial services organisations spend a lot of money (marketing expenses) to acquire customers. When a customer is retained, this cost can be spread 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.
 - Source of Competitive Advantage
All the customers' future financial needs will be in the existing organisation. Customer retention will reduce cost and thereby increase the organisation's profitability. When a bank has more satisfied and loyal customers, it tends to gain from higher profit and revenue.

- (b) Advantages and disadvantages of distributing financial services through a branch network.

Advantages

(Choose any **four** of the following):

- High level of convenience for customers in strategic locations.
- Using technology to automate basic transactions – costs can be controlled.
- Small number of staff can carry out larger volume of business
- Customers can do their banking while physically visiting the branch – sense of security and assurance.

- Protect and expand market share.
- Branch network is a very effective barrier to entry.
- Very effective method of providing basic banking services to a large target market.

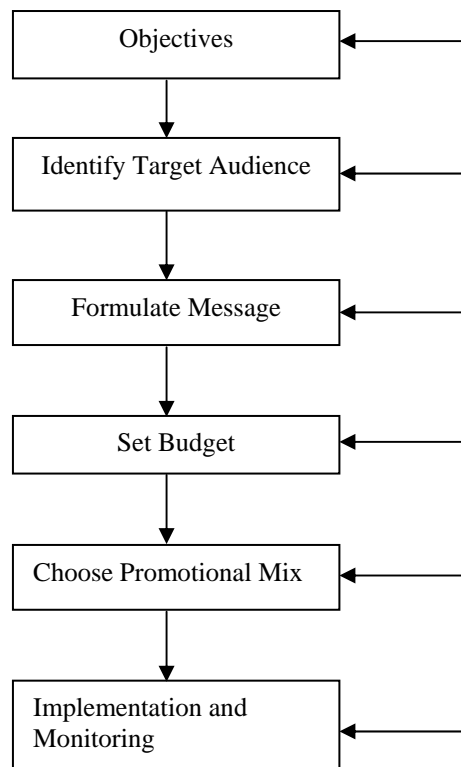
Disadvantages

- High maintenance cost
 - City centre locations are expensive and need a large number in a range of different locations.
- Long queues and waiting time during peak periods may result in frustrated customers.
- Customers find it difficult to visit the branch during normal working hours to conduct basic banking activities.
- Traditional branch designs present an unwelcoming environment.

Question 5

- Candidates failed to include a diagram as required by the question.
- Candidates were unable to elaborate on the six stages in planning a promotional campaign.
- The diagram will help candidates to elaborate on the six stages in planning a promotional campaign.

5. The process of planning and managing a promotional campaign:



Objectives

Know what needs to be achieved. Have to be specific in terms of an increase in sales. Other objectives may concern raising awareness, creating image, pattern of demand, etc.

Two broad types of objectives:

- Influencing Demand

Promotions may be directed towards influencing the level of demand for service or range of services. Increasing the level of demand by attracting new customers away from competitors, increasing usage from existing customers and encouraging non-users to use the product.

- **Corporate Image**
Directed towards creating and maintaining corporate image. It requires organisations, especially those in the financial services sector, to pay particular attention to their brand and reputation.

Identify Target Audience

Identify the target groups for promotional activity i.e. the groups to receive the message. It involves defining the target market for specific services or the “general public” (if promotion is concerned with corporate image)

Consumers pass through four different stages when considering a purchase according to their knowledge and awareness of an organisation’s image and range of services – the AIDA (Awareness-Interest-Desire-Action).

Formulate Message

Establish what form the message will take. Message content relates to the basic ideas and information that the sender wishes to convey to the receiver. Must be clear why the product is different, what benefits it offers and why consumers should buy the product rather than any of the available alternatives.

Next, consider the form the message should take. Creative input from external organisations such as advertising agencies plays an important role. It is a process that involves finding the most appropriate combination of verbal, audio and visual signals to present the content of the message in the form most suited to the target audience with maximum results.

Information must be presented in a form that will attract attention and maintain sufficient interest in an advertisement or a leaflet to enable potential customers to absorb the information.

Set Budget

Needs to be established for the promotional exercise and for the individual components of the promotional mix. Approaches in formulating promotional budgets:

- **The affordable method**
Determine the expenditure available on the promotional budget.
- **Sales revenue method**
Sets the promotional budget as some percentage of sales
- **The incremental method**
Sets as an increment on the previous year’s expenditure
- **The competitive parity approach**
Focuses on the importance of promotion expenditure as a competitive tool
- **The objective/task method**
Specify objectives and then calculate the precise costs of the activities to achieve the objectives

Choose Promotional Mix

The promotional expenditure must be allocated between the various promotional tools available in the organisation, i.e. advertising, publicity, sales promotions and personal selling. The promotion mix varies between organisations, products and markets.

In general, retail markets will make use of mass communication such as advertising, sales promotions and public relations. Personal selling will be more important to corporate customers.

Implementation and Monitoring

The final stage in the promotional campaign is the process of implementation and monitoring. Implementation concerns itself with task allocation and specifying the time scale. Monitoring focuses on regular evaluation of the promotional campaign’s progress and identifying areas where changes may be required.

The effectiveness of the promotional campaigns can be increased by:

- Pre-testing
 - Involves demonstrating the promotional campaign to selected consumers
- Ex-post commercial market research
 - Widely used to determine levels of recall and comprehension once a campaign has started
- Statistical analysis
 - Often used to assess the impact of advertising on the level of sales. Usually involves a comparison of sales before with sales after the campaign.