

**DP10**

# **Marketing of Financial Services**

**7 SEPTEMBER 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. Using a diagram, describe the **six** stages of planning and managing a promotional campaign. (Total:25 marks)
2. (a) Explain **six** key functions of a sales force. [10]  
(b) Explain the following Islamic financial services:  
(i) Al-Murabahah [2]  
(ii) Al-Mudharabah [2]  
(iii) Al-Musyarakah [2]  
(iv) Al-Ijarah [2]  
(v) Qardhul Hassan [2]  
(vi) Amanah and Al-Wadiah [2]  
(vii) Al-Kafalah [1]  
(viii) Takaful [2]  
(Total:25 marks)
3. (a) Explain **three** benefits of customer retention and loyalty in financial services. [9]  
(b) (i) What are the objective and subjective variables in market segmentation? [4]  
(ii) Identify and briefly explain **six** common approaches to market segmentation. [12]  
(Total:25 marks)
4. (a) Sales staff need to build relationship with customers in order to cross-sell.  
Explain why and how building customer relationship can improve cross-selling. [10]  
(b) Explain **three** types of consumer groups in the retail financial market. [15]  
(Total:25 marks)
5. Using a diagram, explain in detail the market research process. (Total:25 marks)

**- END OF QUESTION PAPER -**

## OUTLINE ANSWERS

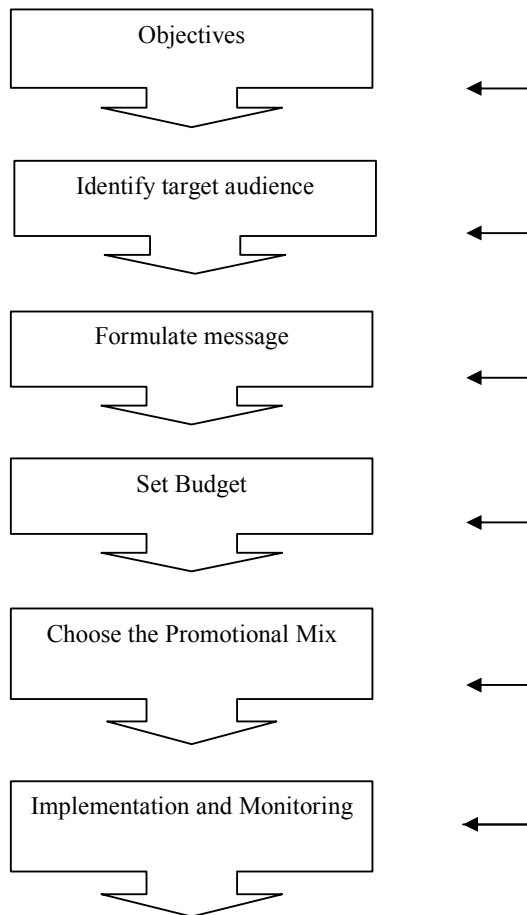
The comments given in the boxes below indicate the areas of weaknesses the examiners have identified and their advice to future candidates.

### Question 1

- Candidates were unable to elaborate on the six stages in planning a promotional campaign.
- Candidates failed to draw a complete diagram of the promotional campaign.
- Candidates need to read and understand the question.
- Candidates would be able to explain better with the help of a diagram.

1. Stages of planning and managing a promotional campaign:

#### Planning a Promotional Campaign



## Objectives

Those involved in a promotional campaign know what they are trying to achieve. Have to be specified in terms of an increase in sales. Other objectives may concern raising awareness, image creation, pattern of demand, etc.

Two broad types of objectives:

- **Influencing Demand**  
  
Promotions may be directed towards influencing the level of demand for a service or range of services. Increasing the level of demand by attracting new customers away from competitors, increasing existing customers' usage and encouraging non-users to use the products.
- **Corporate Image**  
  
Directed towards creating and maintaining the corporate image. Such campaigns are noticeable in the financial services sector. It requires organisations to pay particular attention to their brand and reputation.

## Target Audience

Identify the promotional activity's target groups, i.e., the groups to receive the message. Simply involves defining the target market for a specific service or the "general public" (if promotion concerns the corporate image)

Consumers need to pass through the 4 different stages of the AIDA model, which are Awareness – Interest – Desire – Action, when considering a purchase.

## Formulate Message

Establish what form the message will take. The message content relates to the basic ideas and information the sender wishes to convey to the receiver. It 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. Here, creative inputs from external organisations such as advertising agencies play an important role.

This process involves finding the most appropriate combination of verbal, audio and visual signals to present the message content in the form most suited to the target audience for maximum results.

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

## Budget

The Budget for the promotional exercise and individual components of the promotional mix needs to be set.

Approaches in formulating promotional budgets:

- **The affordable method**  
Determine the expenditure available for the promotional budget.
- **Sales revenue method**  
Sets the promotional budget as some percentage of sales.
- **The incremental method**  
Sets as promotional budget an increment on the previous year's expenditure.

- The competitive parity approach  
Focuses on the importance of promotional expenditure as a competitive tool.
- The objective/task method  
Specify quantified objectives and then calculate the precise costs of the activities to achieve the objectives.

#### 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 promotional mix varies between organisations, products and markets.

In general, retail markets will make use of mass communication methods 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 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 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 sales level. Usually involves a comparison of the sales levels before and after the campaign.

#### **Question 2**

- Candidates could explain the functions of a sales force and the Islamic financial services but some failed to explain the functions in detail.
- Candidates need to have a good understanding of Islamic products.

2. (a) Key functions of a sales force:

#### Prospecting

- Searching for and making contact with prospective customers or new leads
- Leads may be direct from the sales force itself or from other parts of the organisation
- Development of Bancassurance in banks means having a dedicated sales force that sells insurance-based savings and investment products
- Leads may be generated from non-specialist sales staff

#### Targeting

- Decisions on how time is allocated between customer groups
- Sales force to identify different groups
- Must be able to evaluate each segment's attractiveness to decide on time to be spent in selling to and supporting the customers

### Providing information

- Communicating with customers face-to-face
- Providing product and service information and responding to questions
- Customers need a considerable amount of information prior to making a decision to purchase

### Selling

- Heart of the sales staff's function
- Contact with customers with a potential for making 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 activities.

### Support

- Once sales have been concluded, customers need continuing support and advice.
- E.g. a good financial planner will be able to provide not only various investment products, but will also follow-up and maintain contact with customers on their investments' performance. He will also be capable of identifying the customers' future needs.

(b) Types of Islamic financial services:

(i) Murabahah

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

(ii) Mudharabah

This is a contract between a capital provider and an entrepreneur. The provider (referred to as the *rabb al-mal* or the sleeping partner) entrusts money to the entrepreneur (referred to as the *mudarib* or the working partner) for an agreed project. When the project is completed the *mudarib* returns the principal and a pre-agreed share of the profit to the *rabb al-mal*. Any losses are borne by the *rabb al-mal*. Mudharabah provides the basis for making loans when the bank is the capital provider. When the depositor is the capital provider and the bank the entrepreneur, then the Mudharabah serves as a basis for taking deposits.

(iii) Musarakah

A form of equity funding (partnership finance) in which both a business and a 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) 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) Qardhul Hassan

This is a beneficial (interest free) loan under which the borrower is obliged to repay the principal to the lender but any additional payment is entirely optional. Often referred to as the Social Services Fund in Malaysia, some Islamic banks use Qardhul Hassan to provide loans to disadvantaged groups. Qardhul Hassan loans are usually funded by some bank capital and also by *zakat* donations.

(vi) Amanah and Al-Wadiah

These approaches are both concerned with guaranteeing and securing a sum of money. In practical terms products based on either Amanah (in trust) or Al-Wadiah (safekeeping) are similar. They all guarantee the return of the principal (whether an individual takes a loan or makes a deposit) but there is no additional payment.

(vii) Kafalah

These are effectively documentary credits but with a non-interest based commission. Most commercial banks in Malaysia will offer these letters of credit for a variety of business activities.

(viii) Takaful

A form of Islamic insurance based on the Koranic 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 Mudharabah principle.

**Question 3**

- Candidates had good knowledge of customer retention and market segmentation.
- Candidates need to understand the importance of customer retention and loyalty.

3. (a) The benefits of customer retention:  
(Give any **three** of the following)

Better Knowledge of Customer Needs

The organisation is better able to meet customer needs and at a lower cost. All information is available and it 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.

### A One-Stop Financial Centre

All the customers' future financial needs will be available in the existing organisation. Customer retention will reduce cost and generate possible higher revenue, thereby increasing the organisation's profitability. When a bank has more satisfied and loyal customers, it tends to gain from higher profit and revenue.

- (b) (i) Objective and subjective variables in market segmentation:

#### Objective Variables

Objective variables are usually directly measurable characteristics such as age, income or social class.

#### Subjective Variables

Subjective variables are not directly measurable and will usually be inferred from customer behaviour and attitudes. Examples of subjective variables include benefits sought, personal values, and attitudes to risk or lifestyle.

Objective variables usually have the advantage of being both easily available and measurable. Subjective variables, which are, by contrast, difficult to measure, are often better at explaining why consumers differ. Many segmentation exercises now involve a combination of objective and subjective variables because the objective variables are particularly valuable in helping identify the chosen segment.

- (ii) Common approaches to market segmentation:

#### Location

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

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

### Socio-Economic Variables

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

### Demographic Variables

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

### Psychographics Segmentation

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

### Lifestyle Segmentation

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

### Religion

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

#### Question 4

- Candidates displayed good understanding of cross-sell and were able to explain the types of consumer groups in the retail financial market.
- Candidates need to elaborate further in order to get higher marks.

4. (a) Why and how building customer relationship can improve cross-selling:

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

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

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

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

(b) Segmentation of the retail financial services according to consumer groups:  
(Give any **three** of the following)

Traditional Savers

- Tend to be price-sensitive and likely to switch services (including adopting internet banking) for slight differences in price or interest rates
- Risk-averse and likely to limit their financial services to traditional savings accounts
- Tend to be wealthy and well educated and actively plan for their financial future, including paying for financial advice

Modern Planners

- The most affluent of the seven segments
- Strongly prefer to consolidate accounts with one financial institution
- Willing to purchase insurance and mutual funds from a bank
- Prefer to leave investment decisions to a financial adviser (although they generally prefer not to pay for advice)
- Among the most willing to utilise internet banking

#### Potential Switchers

- Dissatisfied with local banks and are below the Malaysian average in professed loyalty to existing financial institutions
- Regard dealing with local institutions as less important and are, therefore, a possible target for foreign banks
- Comparatively wealthy, actively plan their financial future and are willing to pay for financial advice

#### Leverage Aspirants

- Willing to take more risks
- Usually highly geared
- See a bright future

#### Simplifiers

- Wish to simplify financial life by consolidating accounts
- Essentially conservative and unsophisticated

#### Family Depositors

- Tend to make family-centric financial decisions
- Demand low-risk products
- Usually least geared

#### Cautious Pre-Retirees

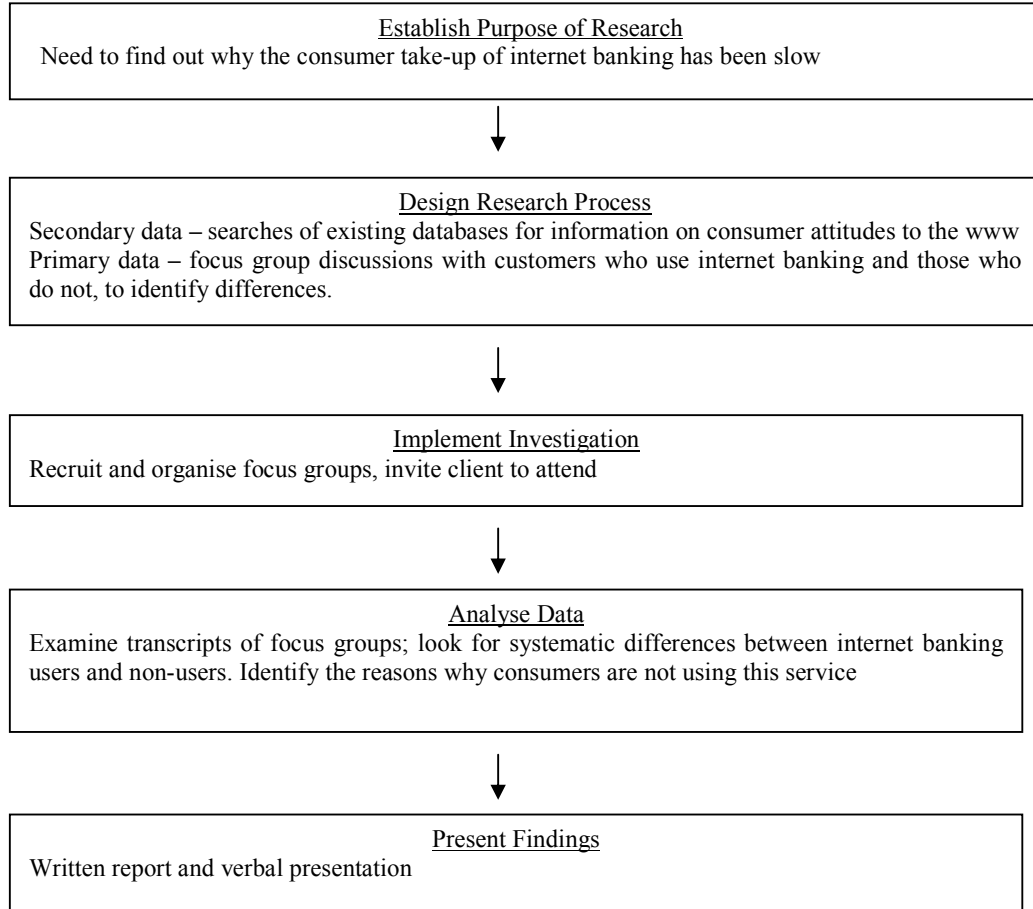
- Concerned about their retirement
- Retirement needs under-served by existing asset allocation
- Price sensitive

**Question 5**

- Candidates failed to include a diagram (as required by the question) to help in explaining the market research process.
- Candidates were unable to elaborate on the six stages in planning a promotional campaign.
- Candidates need to understand the importance of the market research process in the financial services.

5. The market research process:

The Market Research Process



### Establishing the purpose of research

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

### Designing the research process

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

### Implementing investigation

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

### Analysing data

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

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

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

### Presenting findings

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