DP10

Marketing of Financial Services

7 APRIL 2006

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 **five** methods of rewarding a sales force via monetary means. [15]

   (b) Describe **four** distinct sets of skills that individuals in a sales force should possess to perform their primary job activities. [10]

   (Total:25 marks)

2. (a) Explain Abraham Maslow's Hierarchy of Needs theory. [13]

   (b) What are the differences between marketing and selling? [12]

   (Total:25 marks)

3. The distribution channels in financial services are necessary to ensure that the organisation reaches a wide variety of consumers.

   Explain **five** main types of distribution channels.

   (Total:25 marks)

4. (a) US marketers Parasuraman, Zeithaml and Berry strongly favour the idea that service quality is based on an individual's comparison of expectations with actual services received. Such comparisons would be made in five main areas.

   Briefly describe these **five** areas of comparison for service quality. [10]

   (b) Customer retention and loyalty are important as they are thought to increase profit. Service quality is one way to encourage customer loyalty and retention.

   Explain **five** benefits of customer retention through service quality. [15]

   (Total:25 marks)

5. (a) Segmentation is the process of identifying different groups of customers in the marketplace who have similar needs and an extension to further understand consumers' buying behaviour.

   Identify and explain **five** different consumer groups in the Malaysian retail financial services market. [10]

   (b) (i) Explain **four** types of sales force structure using the financial services market as an example. [8]

   (ii) How does your organisation structure its sales staff? Why do you think your organisation has chosen that approach? [7]

   (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 describe the required methods and skills.
- Candidates need to study the manual in order to answer this question as it is a direct question.

1. (a) Five methods of monetary rewards for a sales force:

Commission

- The salesperson receives payment based on the value of the sales made – gives the salesperson almost unlimited potential to earn.
- Advantage for employer: Payment is made on the basis of results.
- Sales staff may earn very little when sales are low. If the drop in sales is due to changes in the economic climate, it can be de-motivating for sales staff who put in a lot of effort but are unable to sell.
- Staff turnover may be high due to the uncertainty and stress-associated with working on commission only.
- Potential problem: When sales staff reach a level of income that they are happy with, they may put in less effort and sales performance may begin to deteriorate.

Small basic salary and high commission

- A small basic salary provides some degree of financial security and a high commission creates significant earnings potential.
- Advantage: For the organisation, it limits fixed costs.
- Disadvantages: Similar with the commission approach.

High basic salary with low commission

- Higher fixed costs for the company but more security for sales staff.
- Important to pay particular attention to getting the level of commission right – if the commission rate is too low, it will not motivate the sales force and if it is too high, it will erode the organisation's profit margins.
- Organisation must take greater care in selecting the right people due to the higher fixed cost.

Quota systems

- Quota-based systems combine a target level of sales and additional rewards for performance above target.
- The sales staff may receive one level of rewards for reaching their quota and then additional incentives for selling over quota.
- A flexible system – can be used to differentiate rewards according to the product being sold – thus, the organisation can offer better rewards for selling products important to the company's overall strategy.
- Sales staff would be motivated by being given an achievable target, with additional rewards for performing above target.

Salary

- A salary-only approach is attractive as it provides a high degree of security but is less popular with organisations as it does little to motivate staff to perform.

(b) Main skills required of sales staff:

Communication skills

- The ability to communicate is key to any selling situation.
- An effective salesperson must be able to explain complex concepts clearly, able to gather information from customers and respond well to queries.
- Also need to think about how the salesperson communicates – to be customer-oriented and understand the customers' needs.

Interpersonal skills

- Need to be able to build trust and confidence, especially in retail financial services where customers may perceive considerable risks when making a purchase.
- Friendly, flexible and empathic are important qualities in a sales staff.
- Selling can be quite a lonely job and so a salesperson needs to be confident, self-motivated and able to work independently.

Understanding of products and organisation

- Given the complexity of many financial services, it is essential that sales staff have a thorough understanding of the organisation, its products and services.
- Recruiting staff internally or from within the financial services sector will tend to result in a high level of understanding.
- However, financial institutions prefer other selling related skills and general intelligence because product and organisation knowledge is more easily taught than communication and interpersonal skills.

Selling skills

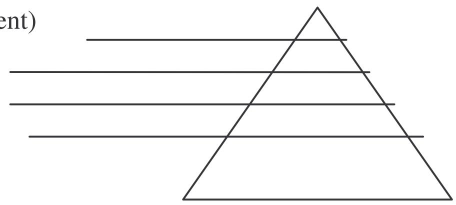
- It is helpful if staff has experience in selling or has developed some selling skills.
- Individuals must have good presentation skills, the ability to overcome objections and the ability to plan and organise their time.

<u>Question 2</u>

Candidates need to be aware that the Maslow's Hierarchy of Needs theory is important.

2. (a) Abraham Maslow's Hierarchy of Needs theory.

Self-actualisation needs (Self-development)
Esteem needs (Recognition, status)
Social needs (Sense of belonging)
Safety needs (Security, protection)
Physiological needs (Food, shelter, etc.)



An individual's basic requirements are the need to eat, rest, have a shelter, feel secure and to have the company of friends. Therefore, people buy goods, pay rent, pay insurance and meet up with friends in functions, religious places, institutions and so on. In this hierarchy, consumers' most important need is simply cash availability.

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

- Need to gain self-esteem, e.g. through possession of prestigious products or branded goods, overseas holidays, donation in public, etc.
- Need to know and understand what is going on around them, e.g. by reading newspaper, subscribing to ASTRO and international magazines, etc.
- Need a pleasant living environment free of pollution, etc.
- Need to achieve independence and self-fulfilment. Examples are purchase of home, cars, holidays, hobbies, etc.

(b) Differences between marketing and selling:

Marketing	Selling
- Emphasis is on customers' needs.	- Emphasis is on the product.
- Organisation focuses attention in trying to develop products and services that meet customer needs which will result in customer satisfaction.	- Company first makes the product and then figures out how to sell it.
- Management is profit-oriented.	- Management is sales-volume oriented.
- Planning is long-term, focusing on new products, tomorrow's markets, and future growth.	- Planning is short-term, focusing on today's products and markets.
- Long-term relationship.	- Short-term in nature.
- Multiple transactions.	- Mostly one time transaction.

Question 3

A practical question and the types of distribution channel is straight forward.

3. Types of distribution channels (choose any **five**):

- Branch networks
- Bancassurance
- ATMs
- EFTPOS
- Direct mail
- Telemarketing
- Online distribution

1. Branch networks

- Branches are barriers to entry – new competitors have to invest heavily to match the market coverage of an established bank.
- Provide basic banking services to a large target market.
- Location usually convenient for customers.
- Using technology to automate basic transaction controls costs as a smaller number of staff can carry out a larger volume of business.
- Disadvantage: Costly to maintain. Difficult to manage customers' demand during peak periods.
- Recent developments in branch design have placed greater emphasis on ensuring a customer friendly environment, increasing the amount of space available for them.
- Many banks have also introduced "zoning" – floor area is divided into distinct areas for particular types of banking transactions, e.g. separate self-service area for basic transactions using ATMs, and an area for standard products such as account opening, credit card application and basic loans.

2. Bancassurance

- An integrated banking and insurance business where insurance-based and other related products are distributed through a retail branch network.
- Distribution costs reduced through using an existing branch network and sales increase through existing customer base who are more likely to buy from the bank because they already know and trust the bank. Bank can identify the types of customers most likely to buy certain types of services.

- Disadvantages: Frontline staff feels uncomfortable being asked to involve in selling. Customers have distrust of life insurance based on previous experience or hearsay. Many bancassurance products are complex – contributing towards customer resistance.

3. ATMs

- ATMs help to improve the efficiency and reduce the costs of branch networks by automating certain routine customer transactions.
- The basic ATM provides cash dispensing services and balance enquiries, but increasingly, machines are able to offer cheque book request services, deposit collection facilities, bill payments, loan repayments and in some cases even unit trust purchases and share issue applications.
- Currently, ATMs have been adapted to offer additional value through an enhanced range of banking services available 24 hours a day.
- Also used to display marketing messages, although the effectiveness is relatively low.
- Disadvantages: Some customers are uncertain about the safety of ATMs and are resistant to using ATM cards to withdraw money due to fear of fraud.

4. EFTPOS

- Debit cards are often referred to as EFTPOS (Electronic Funds Transfer at Point of Sale) or EPOS (Electronic Point of Sale).
- Allows customers to use their ATM cards to make a purchase in a shop or other outlet with payment being made directly from the customers' bank accounts like an electronic cheque.
- EFTPOS reduces the amount of cash in circulation and reduces customer dependence on both the traditional branch network and ATMs.
- An alternative to existing distribution channels. EFTPOS system (since 2002) is a start of a more general trend towards the "cashless" society.

5. Direct Mail

- Provides customers with information and also the opportunity to make a purchase by completing a form and returning it to the provider.
- Allows customers to make a purchase without involving an intermediary.
- Sending information to customers by mail allows the customer time to consider the product without being pushed into a quick decision. It also ensures that only the most likely purchasers will be contacted because of the ability to select customers for mail-out.
- Involves an initial communication to customers asking them to request further information. Customers are then provided with the details necessary to make a purchase through a follow-up direct mailing.

6. Telemarketing

- Used to describe the promotion and distribution of financial services via the telephone. Sales staff uses the telephone to call customers directly to make sales.
- Advantage: Convenient and relatively low cost and provides an opportunity for interaction between the customer and the salesperson.
- Banks now offer telephone banking services to their customers. Customers can make transfers, bill payments, etc. by telephone anytime.
- Telemarketing and telephone banking are increasingly organised through specialist call centres. All incoming requests for account transactions are handled in one location – convenient for customers.
- Banks set up call centres to offer a higher level of efficiency.
- Tele-marketers can target prospective customers more accurately for cross selling. Similarly, with incoming calls, the ability of the telephone system to recognise the caller's number will allow calls to be routed on the basis of customer value so that high value customers will receive the highest level of service.

7. **Online Distribution**

- Customers interact with the financial service provider through an active website, using the site to conduct banking transactions, to make purchases of new products and to request information.
- Allows banks to target customers who do not have easy access to a bank branch.
- Potential for cross-selling opportunities to particular customers.
- Disadvantages: Costly and difficult to develop. No opportunities for face-to-face interaction – not suitable for dealing with complex products. Passive.
- Advantages to customers: High-level of convenience and flexibility, customers may customise their banking site to provide information in their preferred format, have more control without relying on bank staff and can obtain products at lower costs.

Question 4

- Candidates could not provide a good description of the areas of comparison.
- Candidates were unable to explain the benefits although they were able to list them.
- Candidates need to have good knowledge on service quality or study the manual thoroughly before attempting this question.
- Candidates must be able to understand the importance of service quality in banking.

4. (a) Five main areas of comparisons for service quality:

Tangibles – These include the appearance of physical facilities such as the branch interior, staff appearance and the quality and appearance of communication materials.

Reliability – This considers the extent to which customers can depend on the organisation to perform the promised service accurately, getting it right the first time.

Responsiveness – This considers how the staff of the organisation responds to customers. Important issues include the extent to which they are helpful, prompt and able to solve problem.

Assurance – This considers how competent, courteous, credible and trustworthy the organisation and its staff is. Is also considers the extent to which the customer feels secure.

Empathy – This considers factors such as accessibility, good communications, and understanding of customers' needs approachability and friendliness.

(b) The benefits of customer retention through service quality:

Better Knowledge of Customer Needs
The organisation is better able to meet customer needs and at lower costs (because there is no need to gather new information).

Positive Word of Mouth
Satisfied and loyal customers are likely to say positive things about the organisation.

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 out over a much longer relationship and more transactions.

Less Price Sensitive
Retained customers are thought to be less price sensitive.

Opportunities for Cross Selling
Loyal and retained customers are more likely to purchase additional products from a particular organisation.

Question 5

- Candidates merely listed the consumer groups and sales force structure without much elaboration.
- Candidates need to study the manual as it is a straight forward question

5. (a) Segmentation of the retail financial services:

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 dealings 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.

Leveraged 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.

(b) (i) The four types of sales staff structure in financial services:

Product
A sales force may be organised such that individuals specialise in selling particular products. This product specialisation is often highly desirable in cases in which the product itself requires specialist knowledge. A simple example of this may be the decision by many mortgage providers to have specialist mortgage sales staff. Equally in corporate banking, merger and acquisition advisers are effectively organised on a product basis.

Market
A market structured sales force involves sales staff being assigned to particular customer group. Market specialisation may be particularly attractive in situations in which customer knowledge becomes more important than product knowledge. Many banks would use separate staff to deal with small and medium sized enterprises and other groups to deal with large corporations because the needs of those two customer groups differ quite substantially.

Territorial
A territorial-based organisation involves assigning a given territory to each member of the sales force. This is, in effect, a form of geographic organisation with sales staff dealing with a range of products to a range of customers in their particular region or geographic area.

Complex
Large organisations with many customers and a wide range of products may operate with more complex sales force structures in which sales staff is assigned to specific product and market combinations.

(ii) *Subjective answer and depending on individual bank. No right or wrong answer – the candidates' personal opinions.*