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**Chapter 2: The financial services consumer**

1. Financial services characteristics:

a) Intangibility

Services provide no physical dimension

b) Inseparability

Services are processes or experiences. Services are sold, then produced and consumed simultaneously

c) Heterogeneity

The characteristic of inseparability in production and consumption leads to services being more prone to variation in quality.

d) Perishability

This is the real-time nature of the product which occurs as a result simultaneous production and consumption. It presents an inability to build and maintain stock.

e) Fiduciary Responsibility

Implicit responsibility of financial service organizations for the management of their customers’ funds and the nature of financial advice supplied to their customers.

2. Needs of financial consumers

a) Cash accessibility

b) Asset security

c) Deferred Payment

d) Financial Advice

**Chapter 3: Identifying and Targeting Financial Prospects**

Market segmentation:

Viewing a heterogeneous market as a number of smaller, more homogeneous, markets.

1. Benefits of market segmentation

a) Reduce costs

b) Enhance customer satisfaction

c) Anticipate new customer requirements

d) Improve customer retention

2. Bases for segmenting financial services consumers

a) Geographic bases

Segmentation based on national, regional and local needs.

b) Demographic Bases

i) Gender

ii) Age

iii) Life Cycle

Youth, independent, Family, empty nester and retired segments

c) Socio-economic Bases

i) Social class

Upper middle class, middle class, lower middle class, skilled working class, working class and lowest level of subsistence

ii) Income

d) Geodemographic bases

Multivariate system combining geographic with demographic information and more recently also including consumption patterns of a wide range of products and services and lifestyles.

e) Psychographic bases

b) Attitude segmentation

c) Awareness, knowledge and understanding

3)Target Market:

The target market to which a particular product is marketed.

4) Marketing Mix:

Use and specification of 4Ps describing the strategic position of a product in the market place

5) Micromarketing:

Tailoring promotion to local needs and conditions, customizing prices to the store level according to local demand and competitive conditions

6) Direct marketing:

Interactive system of marketing which uses one or more media, such as mail, telephone, fax, email, world wide web, and other non-personal contact tools to communicate directly with or solicit a direct response from specific customers and prospects.

7) Database marketing:

Process of building, maintaining and using customer databases and other databases for the purposes of contracting and transacting

**Chapter 4: Development and Management of Financial Products**

1. The product concept:

a) The core benefit

b) The actual product

c) The expected product

d) The augmented product

2. Factors affecting product strategy

a) Customers

b) Competitors

c) Technology

d) Government and legislation

3. New Product Development Process

a) Idea Generation

Ideas for new products are influenced by competitors, technical and customer concerns.

b) Idea Screening

Ideas must be evaluated and screened. Screening serves several functions but basically involves checking out the ideas which will justify the time, expense and management commitment of further investigation.

c) Concept Development and Testing

The approved ideas from the screening process are translated into service concepts for further development and testing.

d) Marketing Strategy Development

Having tested the concept, a preliminary strategy plan needs to be developed for the purpose of introducing the new product to the market.

e) Business Analysis

Having identified the appropriate strategy, the idea needs to be translation into a firm business proposal which details the attractiveness of the idea and its likelihood of success or failure.

f) Product Development

Translating the idea into an actual product or service

g) Market Testing

This is where the full product/service competes with brand name, packaging and other peripheral and augmented aspects of the product are offered to the market.

h) Commercialisation/product launch

Market testing will normally provide enough information to decide whether to move to the full launch of the product, or whether changes need to be made. In moving to commercialization of the product, w key decision is the timing of market entry.

4. The Product Life Cycle (PLC)

a) Introduction

During the initial introduction of the product to the market costs usually outweigh the income derived from the product. Growth during this stage is slow. A primary task is to raise awareness of the new product and to stimulate an interest in it. Prices in the introductory stage may be set high to skim the market or low to penetrate the market.

b) Growth

Competitors, attracted by the customer interest, quickly produce their own versions of the product and start to compete. Competition forces each company to re-evaluate its own offerings. Additional features and services begin to be offered. It is the most profitable stage of the product’s life and a key objective is to build market share.

c) Maturity

As more customers acquire the product and more financial institution supply it, the market begins to reach saturation. Competition becomes very intense. There is a strong emphasis on retaining the existing customer base, new customers are won by encouraging switching from competitors, heavy use of advertising and sales promotion and increase use of branding

d) Decline

The decline of products can occur for a number of reasons. The product may lose its appeal to customers whose needs may have changed, it could be made obsolete by the introduction of new technology, or it could be displayed by changes to legislation.

Branding:

This is a name, symbol, design or some combination which identifies the product of a particular organization as having a sustainable differential advantage.

**Chapter 5: Traditional Channels of Distribution**

Types of Distribution Channels

Marketing channel; describes the groups of individuals and companies which are involved in directing the flow and sale of products and services from the provider to the eventual customer.

Direct channels involve the movement and sale of products directly between the provider and the customer whereas indirect channels products flow via intermediaries or middlemen.

Examples of direct distribution channels are direct mail, direct response advertising, branch network.

Examples of indirect distribution channels are broker, insurance company and independent financial advisory service.

1. Branch Networks

a) Development of branch networks

i) Branch closures

ii) Branch relocations

iii) Changes to the role and function of branches

b) Retail Branch Environments

i) Increase in customer-to-staff space ratio

ii) Redesign of customer space

iii) Security and bandit screens

iv) Centralized design control

c) Branch personnel

2. Direct Sales Force

There has been a growth in the number of direct sales forces. This was partly as a result of increased competition and the increase in the number of complexity of products on the market.

3. Independent Financial Advisors (IFA)

IFAs provide advice and information on a range of financial products from a variety of financial service providers.

**Chapters 6: Technology-driven delivery channels**

1) Self-service Technology

a) Automatic Teller Machines (ATM)

ATMs were introduced as cash dispensing terminals to reduce queues in branches at peak times, cut down the amount of paperwork and cash handling and free up staff time in branches.

Disadvantages:

They are more likely malfunction and contribute to longer queues as a result of the number of services offered to customers. Because of this financial institutions have introduced both single-function machines aimed at quick cash withdrawals and multi-function machines to serve a wider variety of needs.

There is a little incentive for the vast majority of customers to enter a branch any more. This has serious implications for the ability of branch staff to interact with customers face-to-face and to identify sales leads.

Branches have installed ATMs inside the branch in order to get customers back in and expose them to the variety of products and services available.

b) EFTPOS (Electronic Funds Transfer at point of sale)

Customers pay funds from their account to the merchants ‘accounts electronically while still in the shop. To use EFTPOS you must have a special plastic card that is the key to your account and will let you access your money from merchants’ shops. Example: debit cards.

c) Telebanking

Telephone operations are being conducted from call centers which route away from busy branch staff. The cost of servicing retail bank customers by phone can be as little as 10% of the cost of similar transactions via a branch teller.

i) Person-to-person

Person-to-person telephone operations allow the call operator to pitch their communication to the level of the individual customer. The less financially adept can receive more time and more detailed explanations. It reduces costs to the provider and increases convenience to the customer. One of the concerns is that each time the customer telephoned they would not necessarily speak to the same telephone operator.

ii) Tone/speech based

These services are based on communication via tone generation and can be operated by one of two main telephone-based methods. The first of these operates via b push-button telephone. The second method is automated voice response. In this method communication occurs via speech or voice recognition followed by automated voice response.

2) Prepayment Cards

e-cash: cash in electronic form usually stored on a smart and/or in a software called digital wallet.

Smart cards: offer a variety of possible applications including prepayment functions, identification of cardholders, road-pricing schemes and retailer loyalty cards as well as electronic cash. The card uses a microchip.

3) On-line Banking

**Chapter 7: Pricing for Financial Services**

Price versus on-price competition:

Price Competition: Emphasis is on price as a competitive tool. It is used if the firm is a low-cost producer and if firms offer standard or commodity-type products. The firm attempts to match or beat competitors’ prices. It can encourage customers to become price-sensitive, leading to switching behavior.

Non-price competition: An emphasis is not on price but on some other distinctive features of the product or service. It is used If the firm can distinguish its products or brands from competitors’ and obtain a unique image which is of value to the customer and if the customer is less price-sensitive. The firm charges a price which represents the value customers place on the product. It enables the firm to build customer loyalty.

Overt versus covert pricing methods

Covert pricing:

The hidden pricing of products or “free” banking. The cost to the customer may not be purely monetary.

Examples: No or low interest on deposits, the requirement to give notice for the withdrawal of savings, the requirement to maintain a minimum balance in the account.

Overt pricing:

The explicit charging of services and products. The cost to the customer is obvious and mostly financial, Examples: Flat fees (such as an annual or quarterly charge for the use of an account, irrespective of use) transactional charges (customers are charged according to the amount used-charge per ATM visit or withdrawal from savings) or some combination of the two.

**Chapter 8: Communication and Promotion**

The most basic role of promotion is communication.

1. Promotion enables the following to be achieved

a) Customer Acquisition:

A business cannot hope to survive indefinitely with the same customers. Promotion has a key role to play in building awareness of the company and its products to new customers and in the case of switching customer, outlining the key benefits offered in comparison to competitors.

b) Customer Retention:

Promotion has an important role to play in building and maintaining customer loyalty and cross-selling additional products to customers.

c) Staff Morale:

Promotion and communication can provide support for staff and serve to boost the image of the company and its products and services.

d) Corporate Stability:

Promotion creates and projects corporate stability to customers, employees and wider audience such as stakeholders, intermediaries and other investors.

e) Public Image and Awareness

Promotion can inform the public of socially responsible activities and dispel any negative misconceptions of the institutions.

2. The communication Process

The process involves a sender, who sends a message via a transmission medium to the recipient or audience. In this case, the sender is the financial institution. The receiver typically represents the target customer audience but may also consist of employees, shareholders, intermediaries and the general public. The financial institution typically has an intended meaning which it wants to send to an audience. In order to transform the meaning into a message it needs to be converted into a series of signs and symbols which represent ideas and concepts. Thus, the meaning is encoded. For the encoded message to be received and accessed by the target audience, it must be transmitted via a medium. The transmission medium merely represents the communication tool used to carry the message. This could be television or print advertising or personal selling via a salesperson. Once the receiver or audience is exposed to the message it will be decoded in order that the full meaning can be understood. The communication process results in feedback or response.

3. Communication objectives

a) Awareness

b) Interest

c) Preference

d) Trial

e) Adoption

4. Communication Message

In order to be effective, the message needs to have a theme, appeal or unique selling proposition.

a) Rational Appeals

Rational themes appeal to logical reasoning. In the context of advertising financial services, rational appeals might focus on the actual product or service, its services, quality, value, performance, etc.

b) Emotional Appeals

Emotional appeals attempt to rouse negative or positive feelings in an attempt to motivate individuals. Positive appeals may focus on the use of humor, love or pride.

c) Moral Appeals

Moral appeals work on an audience’s sense of what is right and wrong. Consumers are increasingly bringing their personal values and morals to purchasing situations as evidenced by the increasing demand for “green” products and socially responsible businesses.

5. Comparison of promotional tools:

a) Advertising:

i) Characteristics: A paid form of non-personal communication through a mass medium.

ii) Examples: Television, radio, cinema, newspapers, magazines, outdoor, public transport and direct mail.

iii) Uses: Promotes products and organizations. Stimulates demand and off-sets competitors ‘advertising. Makes sales personnel more effective and increases use of product. Reminds and reinforces customers. Reduces sales fluctuation.

iv) Advantages: Cost-effective- reaches a large audience at low cost per head. Allows repetition of message. Can add value to the product. Enhances company’s image.

v) Disadvantages: Overall cost can be high. Rapid feedback is not usual. Measuring effect on sales

b) Personal Selling:

Characteristics: Informs and persuades customers to purchase products through personal communication

Examples: Sales representatives’ visits, in-store/branch sales assistants, visits and consultations with financial advisors

Uses: Generates sales, and cross selling. Enables product strength and weaknesses to be assessed. Reassures customers in high-risk purchase situations. Enables a dialogue with the customer.

Advantages: It is a specific communication aimed at select target. Greater impact on customers. Immediate feedback. Flexible and allows message to be adjusted accordingly. Useful in complex buying situations and when buyers are close to purchasing.

Disadvantages: Greater cost per head. Cannot reach large audiences effectively.

c) Publicity and public relations:

Characteristics: Non-personal communication in news-story from about an organization and/or its products and services, transmitted at no charge.

Examples: Magazine, newspaper, radio, television news story

Uses: Creates awareness of the company’s products, brands and activities. Helps to maintain positive public visibility. Enhances company’s image. Helps negative images to be overcome.

Advantages: Free but needs to be managed carefully to make sure the right message gets out. Informative as opposed to persuasive. Credible and impartial.

Disadvantages:

Lack of control over what is communicated. Can be good or bad publicity. Impact on sales is not immediate. Generally not subject to repetition.

d) Sales promotion:

Characteristics: Offers an inducement or incentive to customers, channel members, salespeople in order to encourage purchase.

Examples: Gifts, tokens, bonuses, contests, loyalty cards, free samples, money refunds, contests, sweepstakes. Monetary and non-monetary incentives

Uses: Stimulates product trial, encourages switching. Shifts end-of-product lines. Reminds customers. Controls sales fluctuations.

Advantages: Stimulates short-term demand. Shifts end-of-product lines. Reminds customers of old product. Encourages trail of new customers. Can devalue the brand if not supported by other forms of promotion. Increases price sensitivity and reduces loyalty of customers. Encourages customers to bargain-hunt.

e) Direct Marketing:

i) Characteristics: Direct mail, telemarketing and direct response advertising.

ii) Examples: Direct leafleting, letters and contracts through mail, telephone and internet.

iii) Uses: Creates brand awareness. Stimulates product adoption. Pre-sell technique. Generates product orders. Qualifies prospects for a sales call. Follows up a sale. Announces special sales.

iv) Advantages: Provides database of information. Offers variety of styles and formats. Can be personalized and customized. Can lead to accurate targeting. Effectiveness can be measured. Can be tied with sales promotion.

v) Disadvantages: Perception as junk mail if not used properly. Can be expensive.

f) Sponsorship:

i) Characteristics: Financial or material support of an event, activity, person, organization or product

ii) Examples: Events or competitions, equipment, buildings, ideas, research, learning, animals or people, commercial or charitable causes television programs or services.

iii) Uses: Promotes company image. Identifies with a specific target. Creates positive relationships with the community.

iv) Advantages: Benefits enhanced company. Philanthropic benefits. Identifies with specific targets. Improved morale and employee relations. Can lack specificity. Effectiveness difficult to measure. Can miss out significant groups.