ROLE OF MARKETING IN BANKS
3.1. INTRODUCTION

"The future is not ahead of us. It has already happened. Unfortunately, it is unequally distributed among companies, industries, and nations"—Kotler (2003). Today, it is fashionable to talk about marketing in a globalised era. The last decade of the 20th century has seen four distinct faces of change in the banking and financial sector in India—globalisation, deregulation, technological change, and innovation. In a rapidly changing and expanding competitive environment, banks are no longer confined to their traditional activities but are venturing into unknown territories like bank assurance, value-added services, etc. Moreover, due to the rise in literacy levels and increasing awareness, the customers of today have become more informed about the risks, returns, and costs associated with various financial services and have gained the power of choosing their banker. As a result, banks faced an intense competition both from their counterparts and upcoming specialised financial institutions. Therefore, to combat the volatility and risks associated with the financial market; a specialised marketing function has emerged in the banking sector focusing on the customer. The new generation private banks and foreign banks have already realised that they cannot compete with the public sector banks for their natural advantages of reach and customer base. They have adopted non-price strategies to create new markets. At this backdrop, this chapter provides a theoretical perspective concerning marketing and its application to banking based on a review of relevant literatures and marketing research studies both from India and abroad.

Banking sector is probably the most important financial sector not just in terms of turnover, profit, and employment, but also in its paramount impact on all spheres of the economy. The five-year plans in India, always call for tremendous efforts for resource mobilisation by all concerned. Since the banks are the major repositories of public savings and purveyors of credit, they have been increasingly called upon to mobilise and channel their resources for meeting plan objectives. In order to meet the ever-increasing expectations of the society from the banking system, it is utmost important that the banking industry should keep pace with changing needs of the society. During the last two decades, more particularly after liberalisation of the Indian economy, Indian banks have undergone unprecedented qualitative and quantitative changes. After nationalisation of
commercial banks in India (1969 and 1980), the emphasis of the banks have changed from 'class-baking' to 'mass-banking'. Now the question before the Indian public sector banks to face the competition and survive between the twin contrasting objectives of profit making and social-banking.

The recent years have witnessed significant developments in international banking. Competition, disintermediation, new services and unique promotion schemes are some of the emerging features of changing international banking scenario. The globalisation of financial markets has been facilitated by the progressive removal of controls and barriers to movement capital across the borders (unification of currency and trade pacts among the European economy). This process has been further accelerated by the development of technology particularly in the field of telecommunication, information technology and electronic banking system. India is not far behind in this regard. It has made its laws flexible and liberal, allowed foreign banks to operate and progressively loosen the hackles in the path of smooth functioning of the banking sector. Now commercial banks in India are provided operational freedom and will be held accountable for their own results. The major problem before the commercial banks, more particularly the public sector banks in India, is their long-run survival by retaining their valued customers.

The Banking in a modern age has reached in a significant phase where it needs more care, consideration and deep study. As it is one of the major financial service sectors of the economy, having a very tight hold, it has its own standing in the money market. The recent regulations in the direction of liberalisation and globalisation have dragged all the banks into an era of cut-throat competitions. Ultimately the banks were forced to adopt effective marketing management practices to keep pace with the requirement of the need of the hour.

3.2 NECESSITY OF BANK MARKETING

Marketing is becoming increasingly necessary in today's bank's competitive environment. Intensified rivalry from other institutions has caused the banks to think seriously about how they can compete effectively. This has led them to pay increasing attention to marketing techniques. Obviously owing to the very nature of, it cannot be treated exactly the same way as, for example, a manufacturing firm. It is important to recognise the two fundamentally different functions that bank marketing must perform. It
must attract deposits on the one hand, and attracts borrowers and users of services on the other.

3.2.1 Bank Marketing-Defined- Bank Marketing has been defined as 'that part of management activity which seems to direct the flow of banking services profitably to selected customers'. The need for bank marketing arises from intense competition, not just from other banks, but also financial corporations, insurance companies, building societies, etc. The banks provide services to mainly two groups of customers such as Industrial and retail customers. These two markets can be subdivided into five main types, namely: the Government / Public sector, the private sector, the commercial sector, industries and lastly the international markets.

3.2.2 Characteristics of Bank Services-The services provided by the banks possess the following characteristics:

(1) Intangibility- Banking services, meet a general rather than a specific need. Particular benefits are not readily apparent and therefore banks are dependent on getting their message across to the public effectively and ensuring that their image and service are attractive. A bank generally sells intangible products rather than physical products such as 'Bank Credits' which can't appeal to the sense of touch, taste, smell, sight or hearing. Therefore, the Bank marketer has to face a number of problems because of his boundaries imposed due to intangibility of the bank's services.

(2) Inseparability- Because of the simultaneous production and distribution of bank services, the main concern of the marketer is usually the creation of time and place utility, that is, have the service available at the right place and the right time. This implies that direct sale is the almost the only feasible channel of distribution. But the introduction of Bank Credit cards makes the services transferable.

(3) Highly Individualised Marketing System-When selecting channels of distribution, in general marketing system a marketer has the option of availing the services of a number of established salesman. Unfortunately, the banker has no such options in his marketing. He must have to go through the direct selling approach which is based on mutual trust, personal and professional client relationship.

(4) Lack of special identity- The products offered by different banks are almost equal in all respects. However the banks must find the way of establishing its identity and implanting this in the minds of the public. The emphasis should be on the 'package'
rather than the product. The package consists of branch location, staff, services, reputation, and advertising and, from time to time, new services.

(5) **Wide range of products & services**- Banks have to offer a very wide range of products and services to meet a variety of financial & related needs from different customers in different areas. It has to satisfy both the corporate customer and retail customer by providing them their required products and services.

(6) **Geographical dispersion**- The Branch network should be established in both urban and rural areas depending upon the requirement of the region. Therefore all services or promotions must have an appeal and wide applications.

(7) **Growth must be balanced with risk**- When selling the service of providing loans, the bank is buying risks. There has to be a well controlled balance between expansion and prudence.

### 3.3 **BANK MARKETING FUNCTIONS**

The bank marketing functions includes a number of activities such as market segmentation, branch management, locations and distribution of banking services, introduction and development of product and services, pricing of bank's services, adopting appropriate marketing strategies and finally conducting marketing research to collect, investigate, analyse and interpret market developments to keep pace with the modern banking world.

#### 3.3.1 **Factors affecting market segmentation**: Market segmentation involves the study of customer behaviour and attitudes as its preliminary stage. The initial studies of bank customer behaviour started with the banks' interest in the services they offered, and the customers' attitudes, beliefs and perceptions about those services. Market segmentation divides the customers into various groups on the basis of different needs, buying styles and responses to promotions.

**Factors having influences over Bank Customers**- The major factors influencing the bank customers are divided into external, internal and the consumer process, as follows:

- **External Factors**- These factors are divided into cultural & social factors. The major cultural factors are the social class and the influence of the culture as discussed below.
  
  (1) **Culture**- The banks generally adopt practices which will suit to the needs of the local people. It may not cater to the needs of the expatriates or immigrant population.
course it is not unreasonable to expect that a foreigner in India would feel more comfortable in requesting a loan in any bank of this country.

(2) Social class influence- Consumer behaviour towards banking is very much a function of social class. The demand for bank services by the different classes differs more in the intensity of usage by the various classes than in the classes themselves, since banking nowadays is no more a privilege of upper classes. For example while upper class people borrow for purchase of a costly car, the lower class people go for loans to construct a house or for consumption. All these aspects are significant for the segmentation of Bank's savings markets.

The social factors are those factors which influence the customer's needs and to be more meaningful discussed as follows:

(1) Reference groups- The reference group plays an important role in deciding which path the customer will follow. The customer is expected to believe the reference group than the information provided by the bank. Therefore, the bank marketing staff should (i) know the consumers' reference groups for every segment, (ii) incorporate this to enhance advertising appeal, and (iii) know that different reference groups exist for different segments and consequently one single bank message cannot appeal to all customers.

(2) Family- The second factor that affects bank customer behaviour is family influence. For some, in addition to behaving according to the norm of their reference groups, their purchasing decisions are to some extent dependent on family and friends. The advices of friends are sometimes act as stimulating factor for buying banking products and services.

(3) Roles and status- The last component among the external factors is the role and status of the consumer. In this instance role and status is more useful when related to the age and life-cycle concepts. For example, when the consumer is a child his major source of influence is Parental. When independent and unmarried his decision is partly based on socio-economic factors and partly on psychological factors. On finding a partner his role changes and so does his purchase decision, perhaps switching banks for easier future planning or some other reason. On marriage the usual practice is for husband and wife to patronise the same bank, usually with the decision resting with the husband. Husband selects principal bank for the family in two-third of the cases, but for convenient oriented customers there are more joint consultation. Wives dominate the decision in the case of service-oriented customers.
Later in life, the parents in turn exercise their influence over their dependents. On the basis of changing roles, consumer behaviour changes through the life cycle and the purchase decision alters.

**Internal Factors** - This refers to the thought process within the consumer, that is, the psychological influences on the one hand, and the personal characteristics of each consumer — such as life style, personality, occupation, etc. — on the other. Between the two sets of influence there is no doubt that the psychological set exerts more force and for this reason it needs more discussion as follows.

**Psychological influences** - Motivation and perception, and attitudes and beliefs are the main components of the psychological of influences.

(1) **Motivation and perception** - First of all there is a need to make a study what the consumer thinks in his mind about the bank. Consumers know banks as public organisations, necessary institutions to the economy, but are not well aware of their other functions except those that directly involve the consumer. The consumers gather that banks are profit-making institutions, not always holding the consumer’s interest at heart, and sometimes are even mistrustful of banks. Therefore the banks have to take necessary steps to remove all the misconceptions of the customer by taking intense advertisement and other measures such as attractive physical arrangements like interior decoration, counter positions, booths and lighting etc.

(2) **Attitudes and beliefs** - Attitudes and beliefs of customers play an important role in the segmentation of the consumers. Some of the variables found significant were: (i) drive-in facilities, (ii) satisfaction with loan policies, (iii) hours of opening, (iv) convenience of location, (v) efficiency and accuracy of statements, (v) appearance, friendliness and professionalism.

**Personal factors** - These include life-cycle position, age, employment status, lifestyle and personality. Apart from those socio-economic variables like occupation, education and income are also factors used for segmenting the customers.

3.3.2 **Types of market segmentation** - Segmentation involves identifying customer groups that are fairly homogeneous in themselves, but which are different from other customer groups. Market segmentation is the subdividing of a market into distinct subsets of customers, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix. A bank market can be broadly segmented into two categories, Social class and Behaviouristic segmentation.
**Social class segmentation**-Segmenting the bank market considering the factors such as age, sex, education, income, family size and religion come under this category. Terms like housewives, consumers, men, women, buyers, investors and savers were used casually. There are basically two approaches to the so called segmentation by social class as follows:-

1. **Geographic segmentation**- It divides the consumers on the basis of the location of their homes, factories and offices. The banks could obtain differential advantage by offering more benefits to the customers living in the centre of the city, as compared to those living in the suburbs.

2. **Demographic segmentation**-It occurs when the marketer determines that customer respond differently to marketing offerings on the basis of their age, sex, size of immediate family, income level, occupation, formal education, religion, race, or stage in the family life cycle.

According to some researchers the various social classes can be segmented according to their perceptual attitudes towards their financial outlook as follows-

(a) The ‘Sophisticated Investor’ Segment- Upper class, Upper-middle

(b) The ‘Time Consuming’ Segment-Upper-middle class, Middle class;

(c) The ‘Caution-First’ Segment-Lower-middle class, Lower class;

(d) The ‘Rainy Day’ Segment-Lower-middle class, Lower class.

**Psychographic & Behaviouristic Segmentation**- This system of segmentation can be better understood if they are separately discussed as follows:

**Psychographic segmentation**- It utilises consumer life style and personality differences to determine variance in buyer demands. For example, the banks market differently to swingers, (young, unmarried, active, fun-loving, party-going people, seeking up-to-date goods fast-paced hedonistic living), than to ‘plain Joes’ (older, married, home-centred, family-centred people seeking ordinary, unfrilled goods that do their job).

**Behaviouristic Segmentation**- It can best be understood in terms of volume and benefit segmentation:

(1) **Volume segmentation**:-The segmentation made on the basis of geographic, demographic and psychographic variables is known as volume segmentation. Banks distinguish between heavy, medium, light and non-users of its services. Then they attempt to determine the demographic, geographic, or psychographic differences between these groups.
(2) **Benefit segmentation:** Here the segmentation is made on the basis of benefits sought by customers. There are a number of factors such as ego-enhancement, locational advantage; low pricing, integrity, expertise & time convenience etc. which serve as the basis of segmentation.

### 3.4 PRODUCT DEVELOPMENT AND PRICING

Product development and pricing are the complex problems for the banking industry in the era of globalisation and liberalisation. Banks offer a wide range of services that consumers use to different extents, in effect creating a product that is customised to the individual customer. Hence banks offer a highly non-standard product at a highly non-uniform price. This non-standard nature of product and price creates communication problems that tend to reduce the extent to which either can be used creatively as a marketing tool. Therefore there is a need to develop both products and pricing systems that are readily intelligible to the bank customers and can be compared with the products and prices of the competing banks.

**Product** has been defined by Kotler as 'anything that can be offered to a market for attention, acquisition, use or consumption'. The banks are essentially offering a range of services; these services are generally regarded as intangible and thus a cash loan to a customer might be regarded as a different kind of service than advice on financial investments to a customer. Initially the service offered by banks to their customers was a safe place to store their money for which the might pay to customers an interest on their deposits, and a service whereby customers could borrow money at a particular interest rate and on certain conditions. Essentially all banks offered the same service so that the product differentiation in terms of these services becomes difficult.

**The Banking Product** refers to a banking service. Any satisfaction the customer gets from the performance of the service rather than from the ownership of a good. Banks are in the business of marketing cash security; cash accessibility; monetary transfers; and time; to enable customer’s wants to be satisfied today without waiting until tomorrow when their own savings are higher. A banking product can be seen from two angles:-

(i) Each individual service constitutes a separate product. In this view banks are in the business of marketing some 250 separate products.

(ii) The entire banking service constitutes a single product.
Clearly the first definition is over simplistic, in that the consumer tends to perceive and purchase banking services in packages. He would very rarely, use one bank for clearing cheques, and another for standing orders, overdraft facilities, or financial advice. As the services are purchased as a package, it is realistic to view the product as the entire package, rather than as the individual services.

The second definition is also too broad. According to this definition, a consumer's savings account and ancillary services would constitute a single product, as a consumer would not normally purchase different aspects of this package from different banks. A corporate current account and a credit card scheme may be treated as separate products which go beyond the boundary of this definition.

**Stages in the product development:** The process of product development may be divided into the following five categories:

1. **Idea generation:** First of all, one has to think the number of possibilities / opportunities open before him. Of course the sources of new ideas for bank products and services can be gathered from either internal sources or from external sources.

   The internal sources include bank's own research & development department, the marketing department, experienced company executives and finally the employees. The external sources include customers, distributors, requirements of the Government, competitors, academic research and other technical developments.

2. **Screening of ideas:** Ideas collected randomly cannot be put into use immediately without experimenting its effectiveness. Taking into consideration different positive and negative aspects and testing the ideas in the midst of some practical situations, they are to be short listed. New service ideas should be judged in the light of strategic market objectives, and of the ways product development can serve these objectives.

3. **Business analysis:** Many banking services have no material aspect and require no special hardware. However, there is a need to make a deep study of any idea that put into use. Of course full formal market research is frequently not undertaken, because a new service can be added with little investment of time and money. Each idea should be evaluated in the light of its expected profitability, the capacity of penetration and staying ahead.

4. **Technical Development:** The product to be launched should be technically able to cope with the need for the purpose for which it has been developed. Normally most of the bank products need not require any technological development.
5. **Commercialisation:** The last stage in the process of development is the commercialisation in which the banker has to see how it will put the product in the market along with its product-line. It is a stage at which the banker has to see how its product runs in the market along with the competitors.

3.4.1 **Product Development Strategies:** - The banker is to adopt some measures to develop new products which are otherwise known as strategies as follows:

1. **The Expansion Strategy:** - This consists of expansion of services offered within the core banking service, with the aim of increased cross-selling and creation of a one-stop-shop for a customer.

2. **The Differentiation Strategy:** - This involves dividing the core banking service range into packages of services aimed at chosen market segments, with the aim of increasing market share in these segments at the expense of the competitors. A move towards differential marketing will require the development of distinct products aimed at chosen market segments. For promotional purposes the core of such a product would consist of a group of products selected as being of particular relevance to the segment.

3. **The Satellite Product Strategy:** - The essence of the satellite product strategy is creation of stand-alone products that are independent of the core banking service, with the aim of increasing sales to non-account-holders without the need to overcome the inertia inherent in consumer account-switching decisions. Examples of such practices are provision of loans to non-account holders, consumer credit cards, retailer based credit cards centred on departmental stores, hotel chains, or airlines, and other retail based schemes.

To sum up, in planning services / product strategies, there are four alternatives open to the bank as follows:

1. **Offering more of existing services to existing customers, that is, market penetration.**
2. **Offering more of existing services to new customers, that is, market development.**
3. **Developing new services / products for existing customers, that is, service / product development.**
4. **Developing new services for new customers, that is, diversification.**

3.4.2 **Pricing Systems:** - It is the most important factor for a banker to adopt a right pricing system because it constitutes the main source of revenue. The most important prices in the banking system relate to interest rates and basic interest rates are
controlled by Reserve Bank of India. There is another variation since customers are not necessarily regarded as homogeneous, particularly with regard to the pricing of loans (interest rates).

Generally pricing a banking product is not viewed as a marketing tool because it is frequently subject to Government regulation. Also the banking products are by nature non-standard, which leads the prices to be non-standard.

**Criteria for a system of bank pricing** — A pricing system for a banking product should have the following characteristics:

1. Within a system of differential marketing, market segments should be charged differently according to the elasticity of demand and competitive situation within each segment, with the aim of maximising profit from each segment and hence overall.

2. If a single product with a single pricing system is to be aimed at a wide range of market segments, the pricing system should not unduly subsidise some segments at the expense of the others. If this occurs, penalised segments will inevitably be lost to competitors.

3. Price must be communicable if it is to be used as a marketing tool. Hence it should be simple and readily intelligible. Otherwise, price comparisons are possible, and price ceases to be a genuine element of the marketing mix.

**Pricing systems** may take any of the following forms:

**Cost based Pricing**— It does not take into consideration the competitors' price and also the consumer's capacity to pay. It only considers the cost involves in the process of presenting the service to the buyer. The important benefit of this system goes to the buyer in one respect that nobody suffers from this system of pricing.

**Simplified pricing system**— Under this system of pricing, there will be a single price for all or a single price for all under given conditions. However, a single price may not be appropriate for all market segments, as inevitably certain services will be charged for at an excessive rate while others will be provided free.

**Demand-oriented Pricing**— A bank can adopt demand-oriented pricing for the homogeneous groups and where there is a consistent demand. Of course it involves the following steps—

1. Segmentation of the market into groups that are relatively homogeneous with regards to price sensitivity on the one hand, and service requirements on the other.

2. Development of simple pricing formulae appropriate for each segment.
3.5 MARKETING RESEARCH IN BANKING

The word 'marketing research' is used to describe a variety of quite different activities. The complete research function is to provide, analyse and interpret a flow of relevant information about the bank markets, so that management and marketing decisions are made with real knowledge and understanding of all the facts. Marketing research is the search and utilisation of information from available sources and its adaptation to bank's marketing needs.

The concept of marketing research in the field of banking is new. It was not until the early 1960s that the first few banks realised the importance of market research for both their future planning and current activities. By 1973, all the major UK clearing banks had organised and staffed a marketing department and most had a formal market research function. Still the organisation was manned mainly by non-professionals like some banking experts or statisticians. However owing to intense competition bank's changing environment, a number of questions crops up as the marketing research objectives.

3.5.1 The role of marketing research: - To understand the roles of marketing research, we should perhaps first examine what marketing research can do for banks. To begin with, banks are dealing with customers everyday. This means that banks have to attain a certain level of services so as to keep the customers happy and satisfied. To maintain a high level of service means incurring heavy costs and to maintain a low level of service means losing business. The bank marketing research starts from the point where the bank wants to know which level of service to maintain. Marketing research can be used to gather more knowledge about the market. With the information, services can be developed and existing ones can be improved. Better and more effective advertising and sales promotions programmes can be designed, in a manner that will be accepted by the public.

3.5.2 Functions of market research: - The bank marketing research has basically been divided into four categories as follows-

(a) Market segmentation:- It describes the market in terms of the more common denominators that are prevalent in marketing today that is demographics (for example- age, income, family size, etc.), and to identify these customers' wants, needs and desires in terms of banking services.
(b) **Evaluation of marketing programmes:** The second function aims at justifying whether the marketing programmes developed are able to satisfy customers' needs. This function is achieved by testing products, concepts, and advertising campaigns, prior to their introduction or launching into the market. As a result, the risk associated with introducing these new services by the bank will be reduced significantly.

(c) **Measurement of results:** This function simply refers to the measurement of effectiveness of various marketing programmes adopted / implemented in quantitative terms. This function is divided into three sections:

1. **Verifying all types of accounts:** All the accounts should be verified with regard to their opening and closing balances. With this information, one can determine how well a bank product has performed.
2. **Tracking external factors:** All the external factors such as bank awareness, advertising penetration, account switching, bank preference etc. should be thoroughly checked. This information will be helpful in determining how well the marketing mix elements are doing, relative to the market as a whole or, relatively, in specific segments.
3. **Regular study of segments:** There should be periodical studies of the image and segmentation. This effort is necessary to make sure that the structure of the market has not changed, market shares have been maintained, and the bank is on track with regard to its long term goals and objectives.

(d) **Recommendation:** The fourth function aims at providing recommendations and directions for the solution of the problems traced.

3.5.3 **The research methodology:** There are five main stages of any bank market study and a failure in any one of these may render the research useless, if not misleading.

The first stage refers to a clear definition of the problem and the objectives of the study, while the second stage is the design of the research including the size and the type of the sample to be used, the framing of the questions and the shaping of the questionnaire.

The third stage is the field work in which a team of interviewers contact and interview the sample of respondents. The process of field work can also be carried out using telephone interviews or sending the questionnaires through the mail.

Most desk research for banks falls into one of the following three categories, as follows:
Retail banking research: It is based on surveys to study banking habits, knowledge, attitudes, expectations and preferences.

Corporate banking research: It is related to surveys of financial executives and attempts to study ways in which companies choose between banks, and to identify opportunities for banks to get more business.

General research: It refers to conducting a general survey on banks, other financial institutions, local authorities, professional firms and other non-corporate organisations that make many forms, but is always designed to provide both facts and measures of human attitudes in these various markets.

Primary data need to be collected and analysed from raw information to throw light on a specific field of enquiry by any of the following three categories:

Observational data is the data which is obtained from observing and recording behaviour. The observations are recorded according to the format that is determined beforehand. No attempt is made to modify, change or guide the behaviour of those under observation. The observation process may be done mechanically by a closed-circuit television or by researchers or by a combination of both. The observation process has the inherent advantage of gathering information on the spot.

Like observational data, experimental data are obtained largely by observation. But unlike the former, the situation under observation is being controlled. Thus, by altering the day in which the bank is open after regular working hours, the researchers are able to observe customers' reactions. The data obtained can then be compared with those before the change. Experimental research may be conducted in a natural setting such as the bank counter area, or under controlled conditions, like the testing of a new package of bank services in certain preselected bank branches. The reactions of the customers are then closely monitored.

Apart from that the most commonly used method is the market survey which involves direct or indirect communication contact with the bank customers, and/or the public. It takes into consideration both the features of the observational and experimental study. Hence it is basically a hybrid type of study, and has the advantages of both methods. Surveys involve the collection of information on an individual basis, from a number of respondents. The essence of good survey is good interviewing.
3.6 EVALUATING MARKETING RESEARCH PROGRAMMES

Evaluation of market research programmes needs an explanatory distinction between strategic and tactical studies as its preliminary step. Strategic marketing research is designed to measure and evaluate long term shifts in markets and/or consumer behaviour and attitudes that will affect bank’s management decision making in the medium and long terms. Tactical marketing research is to help design short-term projects such as ‘an attempt to know the number of customers aware of a current campaign’.

**Strategic research:** The bank management is very much interested in knowing about the whole banking sector, that is, whether it is expanding, contracting, changing its structure and also the factors that influence these changes. Strategic marketing research projects fall into three categories: continuous, periodic and ad hoc.

1. **Continuous**- Recently, banks have begun researching changes in accounts structure and on consumer’s behaviour. However, this cannot provide brand share data and with a product such as a current account for which ‘repeat purchase’ is almost unknown, it is surely important to know not only who is demanding your product, but also who is buying your competitors’ and, more importantly, why.

2. **Periodic**- Generally two types of surveys are conducted under this system-corporate image survey and omnibus surveys. The corporate image survey is used to measure the shifts in public opinion towards the banking sector and the financial organisations in general. It is used to determine certain characteristics such as reputation for service, price, financial stability, customer relations, and so on, for the individual banks. The omnibus surveys are rather related to the periodic review of various aspects of the bank’s products. Like the continuous study, the periodic survey monitors trends in the market.

3. **Ad hoc surveys**- Ad hoc surveys are done as and when they are required, that is, they are basically of a tactical in nature. Under this system public opinion about a new venture is sought. The new venture may be an issue like nationalisation or simply customer satisfaction.

**Tactical research:** Tactical research covers a wide range of topics—from product research, to advertising, packaging and employees’ attitudes studies—and includes extended investigations among corporate, rather than personal, customers.
In undertaking product research, the following questions can be answered:

- Which types of customers use which services, and why?
- What is the level of awareness of the various services and how are these in comparison to those offered by competitors?
- What is the potential for new services?
- Should certain services aim at specific segments of the market, or to the general retail market?
- What other services would the customer like to have, and what other services might draw additional non-customers to the branch?

### 3.6.1 Applications of marketing research in banking

There are five major areas in banking where marketing research techniques have been successfully applied. These are (i) market segmentation, (ii) customer behaviour and bank selection criteria, (iii) customer loyalty, (iv) bank product/services studies, and (v) bank branch research.

**Market Segmentation:**

Market segmentation is one of the uses of the marketing research in banking. It investigates the individual's behaviour on different banking activities. It assesses the principal decision factors used and their relative importance in bank selection decisions. It also examines the usefulness of these factors as a criterion for market segmentation and design of patronage appeals. Some analysts divide various variables set as (i) the predictor set, and (ii) the usage criterion set. The predictor set consists of three broad types of variables: demographic (including age, sex, marital status and so on), socio-economic (including occupation, education, income, residence length, and general bank account variables), and attitudinal (including attitudes towards various bank characteristics). The variables can also be divided into seven main attributes as follows: friendliness, quality of service, community spirit, modernness of facilities, convenience, range of services and ownership.

**Customer behaviour and bank selection criteria:** It is important for a bank to know how a customer selects his/her bank. Of course, different customers may have different behaviours and preferences. The preference for a particular bank may be made after considering the range of services offered by the bank. There are two other factors that can affect a consumer choice of a bank. The first is the distance of the bank from the home, office and shopping centre, and the second, the kind of relations that the consumer may have towards the bank. Hence we can group the customer bank
choosing process into three main factors: distance from the bank, relation with the bank and preference with particular bank services. Apart from that there are several other factors which also decide why a particular customer chooses a particular bank.

**Customer loyalty:** Customer loyalty can be thought of as a continuous patronage at a particular bank by a particular customer, over time. Every customer has a certain degree of loyalty to a bank. The degree of loyalty can be gauged by tracking customers' accounts over a defined period of time and noting the degree of continuity in patronage. The importance of loyalty lies in the fact that it has a significant implication for the bank market strategy.

**Bank product/service studies:** This type of market research is adopted by the bank in order to assess the existing products/services by their usefulness and customers' utilisation rate. The bank is mainly interested to know which product needs improvement and what new products it should introduce. In addition, a comparison is done to rate these products against those of the competitors'. There is also research into the specific segments of the market using the products. Due to poor awareness among the potential users, or a wrong choice of the marketing mix some products might have shown low utilisation rate. This study helps to answer such questions as: which type of customers use which services and why; what is the level of awareness of the various services and what is the potential for new types of service (cash machines, credit cards etc.); are certain services better aimed at specific segment of the market; what other services would customers like to have; what services might entice non-customers into the branch.

**Bank branch research:** - In order to attract the unbanked community, to increase the profitability of existing services by dragging customers from the competitors and to introduce more products in the market, there is a need to expand the sphere of activity either by expanding the existing branches or by opening new branches in unbanked areas. Perhaps this thinking attracts the attention of market research for branch development.

**3.6.2 Recent trends in bank marketing research:** - The development in the computer technology offers opportunities for cross-evaluating bank marketing services. The research in this field has recently reached quite an advanced stage both in quantity and in quality terms, attempting to supply quantitative answers to some of the most pressing marketing problems facing the banking industry. The major areas in which quantitative tools were very recently employed are as follows:-
(1) **The analysis of customer profitability** - The computer based banking system is capable of preparing consolidated profit and loss statements for each of the banks' customers. The advantages of applying these systems are obvious: they enable the bank management not just to assess accurately the absolute and relative profitability contribution of each major customer, but also provide the necessary information in order to price bank services realistically, generate profitability and performance reports for administrative groups, and generate service lines and product managers' reports, and enable control of profit and targets against plans at a high level reliability and consistency.

(2) **Optimal location of bank branches** - Normally people choose a bank which is nearer to their home. The aim of this type of research is to find out its 'trade area'. Relevant advanced statistical techniques may be applied to select the proper bank branch locations.

(3) **Forecasting turnover, profitability and return on investment** - The analysis and projections of expected deposits are necessary to check the level of achievement of new as well as older branches, decide on additional required investments, staff development, etc. Relevant statistical methods are available and are currently being applied successfully in the industry.

(4) **The use of psychographic factors to predict credit use** - This methodology is useful in order to segment and to reach new market segments. So many studies have been conducted by many banks and financial institutions to predict factors related to savings inflow, especially for new branches. Recent studies have shown that these psychometric factors are more reliable than the static measures such as: population, average income and savings penetration.

(5) **Forecasting the 'share of the market'** - It is already in common usage among most of the medium-sized banks in the USA and Europe. The popular technique used in the survey is the regression analysis which is one of the important statistical techniques.

(6) **Determining optimal levels of advertising expenditure in bank management** - Some of these models have been applied at operational level by some banks in USA. Usually the optimal level of bank advertising depends upon bank's goal, planning horizon and marketing strategy. Suitable equations that relate these three variables with the other marketing variables and the environment of the bank can be developed.
Analysing the effectiveness of banks' advertising campaigns - The major bank marketing expenditure is on advertising. But still relatively little is being done on trying to assess the effectiveness of advertising and promotional campaigns by banks, although a variety of quite established techniques exist that are successfully employed in industrial and consumer goods marketing.

3.6.3 Performance appraisal: - If a bank is to prosper, it is to adopt various formal and informal systems of appraising the performances of their branches, managers or indeed the whole organisation. Measuring performances provides the bank with information necessary for the success of bank branch's administration in the short-run its business policy in the long run. This information can reveal both the strength and weaknesses of a bank and indicate areas where reorganisation, planning, training or recruitment are needed.

The goals of bank performance appraisal in a wider context are:

- To evaluate branches and bank executives, performers, etc. in order to make promotional or dismissal decisions, salary reviews and identify training needs.
- Allocation of financial, technical, personnel and marketing and resources.
- Planning and strategy evaluation.
- Possible changes in organisation and control systems.

There are three sets of criteria, used for evaluating bank managerial performances:

- Inputs – It means the performance of bank managerial activities.
- Outputs – It refers to the results achieved.
- Personal qualities – It is the personality traits of bank managers being assessed.

Performance appraisal of bank branches: - when one thinks of performance appraisal of bank branches perhaps one's fingers are pointed to the fact of profitability first. Each branch has a profit & loss account in which operating costs, interest on various loans, deposits, costs and profits of various services, etc. are entered. One of the most appropriate technique for evaluating bank branch performance is probably ABLES (Automatic Branch Location Evaluation System) used by M.H.T.Company in New York City. This model was used with the help of a computer to perform calculations of the estimated performances of possible branch locations in order to rank a number of the best possible alternatives. The method worked as follows: -
(1) Area potential was computed for census tracts using the potentials computed from a local survey of banking habits.

(2) ABLES then allocates share of market and potential to each competing institution and to a hypothetical new institution placed sequentially at each of the intersections of half-mile grid network. The model is heuristic in nature and it is not possible to test many of the assumptions used to construct it. According to this model the market share for savings can be calculated by the following formula:

\[ S = \frac{1}{B_e + 2B_t + 1} \]

Where:  
- \( S \) = market share of the new branch,  
- \( B_e \) = existing commercial banks in the market area under question,  
- \( B_t \) = thrift institutions in the market area under question.

The major weakness of this model is that it does not take into consideration the consumer behaviour.

3.6.4 Types of marketing strategies for Banks: - There are three broad categories of bank marketing strategies: defensive, offensive and rationalisation strategies. Offensive strategies attempt to penetrate new areas, expand geographically, seize market opportunities adopt innovations in order to make the bank organisation a leader in its market. Defensive marketing strategies' goal is to protect existing customers and maintain the present market shares either by following the leading bank or by concentrating in a specific customer place. The realisation strategy focuses on cost reduction, either by deleting certain expensive financial services, or by closing bank branches that are too expensive to operate.

Offensive Strategies: - There are five main offensive strategies as follows:-

(i) Geographical expansion:- This strategy seeks to expand sales by extending the physical frontiers of banks' activities. In pursuing this course of action, a bank would no doubt have seriously looked into the commercial viability of establishing new branches or EFT (Electronic Fund Transfer) points in new additional locations. This strategy is also often called a strategy of fortification.
(ii) **Market Penetration**:- This strategy aims at attracting new customers from the market that the bank is already in. It is undoubtedly the most popular strategy prevalent among banks. A bank that had identified its market and the market needs, and has set formal marketing objectives, is then able to plan the marketing mix in the best possible way. A well planned market penetration strategy would also win new customers through its better understanding of their needs, a situation that allows management to work on important matters such as image, to emphasize the right segments and services, and to make better sales contacts.

(iii) **New Market Strategy**:- This strategy seeks to widen its appeal to attract customers from segments of the market in which the bank in the past has not concentrated upon. Such a strategy may either attempt to receive the new type of customers in addition to its traditional ones, it may resolve to replace its past market segment appeal.

(iv) **Market leadership strategy**:-This strategy can only be employed by very large, dominant banks. In addition to having a strong distribution system, a large bank enjoys the benefit of large scale operation and this fact really helps it to protect its market share and to expand and to become even more dominant. Thus the ultimate result is that these banks become the market leaders who always try to remain in that position. The objective can be broken down into three sub-sections: (i) to increase the total market (ii) to protect current market share (iii) to increase current market share. In order to achieve a high market share, the banks often enter into confrontation, that is, in promotional and pricing wars.

(v) **Market challenger strategy**:- Market challenger may challenge the market leader by using a direct attack strategy, a back door strategy or a guppy strategy. The direct attack strategy is usually carried out on the major competitors in the same segments, by employing challenging price policies and service innovations. The Backdoor strategy refers to utilising various market segments, channels of distribution, etc. Guppy strategy refers to challenging minor competitors in the industry, for example by accepting banking business associated with higher levels of risk, harassment of smaller banks, etc.

**Defensive and Rationalisation Strategies**:- There are two defensive strategies

1. **Market follower**:- This strategy simply means that the bank will not challenge any one rather it will have to maintain its own market share. For the purpose it will have to
adopt a technique to retain its own customers and also to win new ones. This strategy may be carried out by exploiting a set of target customers to which it can bring a distinct advantage, in terms of location or specialised services. Generally this strategy emphasizes profitability rather than market share.

2. Market nicher strategy: - The strategy aims at taking advantages of the niches that exist in the market. This is done through specialisation. The markets here are relatively small tend to be beyond the interest of the large banks. To the smaller banks, however the niche is safe and profitable. The smaller banks may adopt marketnicer strategies to avoid clashing with the major banks. These banks will attempt to find and occupy market niches that may be either overlooked or ignored by the bigger banks.

With the increase in competition among banks themselves as well as other financial institutions, coupled with the world-wide recession and inflation the banking industry is more eager to improve performance and to rationalise its operations. This has led to growing interest in the employment of cost reduction strategy that, because of its paramount potential importance to the banking industry today it is known as rationalisation strategy.

3.7 INDIAN BANK MARKETING SCENE

In India, the banks began to realise the importance of marketing concepts in as early as 1970s. The first major step in the field of marketing was initiated by the State Bank of India in 1972, when it reorganised itself on the basis of major market segments. It has created four major segments, such as; small industries & business, agricultural, commercial & institutional, and personal services banking (Saxena 1988). The organisational structure of the bank has been redesigned to best accommodate the market segmentation approach. In early 1980s, banks in India started thinking in terms of product development, market penetration, and market development. With nationalisation of major commercial banks in India (1969 & 1980), there was a steady increase in the number of branches of different banks and a wide coverage to provide banking services at every doorstep. Banks also accelerated the process of equipping their staff with marketing capabilities in terms of both skills and attitudes through different training programmes (Saxena 1988). At present, banks in India provide more than 50 different types of services to various customers ranging from deposit and credit accounts to various ancillary and consultancy services in addition to international trade facilities. If
we will compare these services with services rendered by banks in developed countries, we are far lagging behind them (Singh 1996). Even foreign banks operating in India offer many innovative financial services.

In mid-1990s, the newly created private banks and the foreign banks expanded their banking operations in India in a big way because of the liberalisation policies of the Government. But the public sector banks lagged behind due to the rigid regulatory framework imposed upon the banking system. The regulatory measures of Reserve Bank of India and the Government reduce the lendable resources for innovative and creative banking (Bhattacharya 1989). There is also dearth for appropriate incentives for successful marketing activities.

3.8 MARKETING RESEARCH IN INDIAN BANKS

Marketing research (MR) is the process by which a bank attempts to obtain information about its present and potential customers and competitors, which forms an integral part of the decision making process. Information about MR activities undertaken by Indian banks is hardly available. Some banks, particularly by the larger ones, have been making a limited number of studies in the areas of scanning the economic environment and long-range planning. Some banks also have undertaken exercises to forecasting and also collecting information relating to their market share vis-à-vis those of their main competitors, on on-going basis (Madhukar 1990). Prof. Bhatt (1991) in his study found that most of the market research studies by Indian banks were conducted for internal use and no formal reports were prepared. The most important subject for market research in terms of number of studies conducted is the customer service / customer profile / opinion studies. He also found that only Canara Bank has conducted a research in the area of new services development and that also in the early 1990. During that period hardly any studies was conducted to know the needs of the customers. Most of the banks did not have full fledged 'Research and Development Cell' and it was suggested to have one in their respective head-offices (Datta 1991). The period after 1995 was much different from the earlier ones, due to the entry of new private banks and foreign banks in a big way.
3.9 CONCLUSION

Marketing is concerned with identifying customers' needs and determining ways to meet these needs in a profitable manner. There was a general misconception that marketing is more relevant in product marketing, but not valid for services industries like banking. In today's competitive world, bank marketing is becoming increasingly necessary. Banking sector is probably the most important financial sector not just in terms of turnover, profit and employment, but also in its paramount impact on other spheres of economy. For these reasons, in the last few years, there has been growing interest in applying marketing techniques and tools in the field of banking.

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