

CHAPTER - 1

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Significance of marketing to an economy:- Irrespective of the degree of economic development of a country, marketing is the lifeblood of an economy for several reasons - it helps to raise the living standards by increasing the flow of goods and services; it brings new varieties, quality and beneficial products and services; it provides gainful employment opportunities to a sizeable number of working population; it stabilizes the price level; it corrects the imbalances in supply by making available the surpluses in certain areas in the deficit regions; and it increases value of goods by transferring their ownership and by changing their time and place of consumption. While marketing is recognized as the key economic activity for industrial development and expansion in matured economies, it is generally a neglected area of economic thinking in less developed or developing countries as a group. The reasons for not attaching due importance to marketing by less developed or developing economies may be summarized as follows:-

- i) In a less developed or developing economy, owing to over population, excessive reliance on the primary or agricultural sector, primitive methods of

production, low productivity, lower income and standard of living and absence of developed industrial sector, large markets within the country are not available.

ii) The economy of a less developed or developing country is characterised by shortages. In other words, the demand for many products and services is much more than their supply. Practically any product or service, as long as there is a demand for it, can be sold with no or very little effort. Hence, business enterprises in these countries do not feel the necessity for improving the prevailing methods and practices of marketing. and

iii) Many less developed or developing countries are in the process of industrialization and their managements are yet to gain the necessary expertise in scientific management. Therefore, they are not favourably inclined either to enter into new ventures or try new methods. Further, their business, by and large, still continues with the trading community whose policies are not always considered to be conducive to the society. The public image about the traders and middlemen engaged in the marketing of goods and services is very low.

Marketing has a vital role to play in bringing about a socio-economic change in less developed or developing countries. It is now well recognized that the process of economic growth is closely tied up with enhancing the market size. Smallness of market which is a common feature of a less developed or developing economy is in fact considered to be a serious bottleneck to economic development. Mass production requires big markets and the advantages of such markets need no elaboration. Large markets not only help in minimizing costs and avoiding wastages but also encourage the development of communication, transport and other infrastructure facilities.

The changing scene of the Indian banking industry:-

Domestic savings is one of the key determinants of the economic development of a country. Hence, among the many developmental functions of banks, strategies adopted by them for propagating the saving habit among the people and mobilizing such savings for purposes of capital formation are crucially important to economic development, apart from being their role as promoters of entrepreneurial skills and talents. In a less developed economy, a major part of the surplus rural income is still held in the form of agricultural commodities and does not come into the

fold of modern financial sectors as readily as it arises. Even if the farm output is sold and money realised such income continues to be held or invested in non-monetised assets like land, building, precious metals, etc. From the development point of view of an economy what is, therefore, needed is not the existence of savings in tangible forms, but the transformation of these savings into financial forms so as to make them available to the financial markets for rechanneling the same for productive endeavours. In view of the fact that a substantial part of the rural economy of a developing country, particularly that of India is still on the barter system, there is a necessity to devise appropriate ways and means to tap rural savings before they can be converted into sophisticated financial assets.

The recent worldwide recognition of banking industry as an effective instrument of social and economic development has cast new tasks and responsibilities on it. The traditional functions of banks of accepting deposits and granting loans gave way to a more dynamic one. Banks are now required to mobilize the savings from all sections of the community and channelise the same for productive

endeavours so as to bring about a rapid increase in national income and standard of living of the people. The concept of lending money has been more broadbased. While deploying credit, banks now attach more importance to the purpose and its viability than to the borrower and the security offered by him for the loan. Banking which was originally carried on for the purpose of profit has gradually come to be regarded as a public utility service. [These changes coupled with acute competition from within and outside the industry have compelled the banks to shift to mass banking from class banking.]

[Modern banking in India, which was started to serve the needs of a colonial economy, by and large, confined itself to the urban and industrial centres. Despite the fact that India is a country of villages and agriculture continues to be the main avocation of an overwhelming majority of the population, the banking industry has not paid any attention to meet the banking requirements of this crucial sector of the economy. As a consequence of this, even after a century of commercial banking existence in the country, hardly two per cent of the population could be brought into the banking fold. This percentage would be still less if allowance is made for duplication of accounts arising on account of the customers

having more than one account either in one or in different banks. Till recently, bank account in India is a status symbol.

The imposition of social control over banks in 1967 and the subsequent nationalization of 20 banks - 14 in 1969 and 6 in 1980 - has imparted a new ethos to the banking system in the country. There is a fundamental change in the role and responsibilities of banks. (Under the new set up, banks have been called upon to shoulder social responsibilities of bridging the huge credit gaps that exist in the economy and stimulate growth in the rural economy.) (This basic goal was sought to be achieved by extension of the branch net work into the rural and semi-urban areas, mobilization of savings and enlargement of money markets, inculcation of the habit of thrift and banking among the people and exploration of new avenues for credit deployment, especially for the benefit of the neglected sections and sectors of the economy.)

Banking industry and the marketing concept: Banking is essentially a service-oriented business organization. It buys the raw materials or stock-in-trade in the form of

deposits and sells the same by way of loans and advances. Its functions are, therefore, primarily aimed at meeting the saving-credit requirements of a society.

Traditionally, banking industry throughout the world focussed its attention on serving the needs of big business and industrial clients. Operating in a sellers' market, they never felt the need to develop such kinds of products (services) that satisfy the needs of the common man as a result of which their savings were used either for consumption or some other unproductive purposes and their credit needs were met by moneylenders and other unorganized institutions. The universal realization in recent years that banks have to play a crucial role in the development process of a country has brought about a complete reorientation in their operational policies. Banks are now required to enter into such areas and sectors which were hitherto treated as non-bankable activities according to traditional banking practice. In this changed context, marketing assists the banks in knowing the right types of products (services) they should devise, the right markets to sell these products (services), the right

price at which they should be sold and the right strategy they should follow to bring them to the notice of potential customers.

Chief hypothesis (Theme) of the study:- The most popular belief till a few years ago was that the concept of marketing is relevant only to firms manufacturing tangible products and not to a service industry like banking where there is no scope for technological innovations or improvements. However, it has been realized in recent years that the marketing techniques can be successfully employed in banks also for the reason that in addition to special problems peculiar to commercial banking, they encounter all the problems of a business enterprise producing tangible goods. Hence the main hypothesis of the thesis is that the concept of marketing and marketing techniques are as much relevant to the banking industry in the successful conduct of its business, as to an industry dealing in tangible goods.

Objective and scope of the study:- This study is an attempt to examine the use of the marketing concept in the banking industry. The objective here, therefore, is not to enter into any argument or controversy as

to the applicability of the marketing concept to the banking industry but only to find out how best the marketing concept can be made use of by banks with special reference to rural areas in India. In a sense, the study may be treated as a preliminary effort to explain as to how each of the marketing techniques can fruitfully be adopted by banks in their operations. Further, the scope of the study is very broadbased in the sense that it attempts to cover the whole gamut of marketing without concentrating on any particular aspect of marketing. This, the thesis attempts to do by making a case study, preceeded by a theoretical discussion, of the marketing techniques adopted by Syndicate Bank, now a public sector bank, during the years of its growth and expansion.

The role to be played by banks in a country has a direct relation to the degree of its economic development. For instance, in India the bulk of the population lives in villages and depends upon agriculture for its livelihood. It is, therefore, necessary for India to develop a banking system which is capable of discovering and devising such products (services) that best meet the requirements of the rural people. The marketing tools

are expected to help an organization to find out the business potential and exploit the same to the maximum extent in the face of competition from within and outside the industry for the purpose of achieving the organizational goals which may also include the socio-economic objectives of the country in which the organization functions. The scope of the study is to examine the extent to which marketing techniques help the Indian commercial banking industry in this regard.

Chapter outline:- After a brief introduction in the first chapter, the second chapter makes a descriptive study of the Indian economy with particular reference to rural areas. The third chapter provides a theoretical background of the role of commercial banks in economic development. The efforts made in India from time to time to involve the banking industry in the process of rural development are also discussed by furnishing the relevant data.

The fourth chapter examines the use of the various marketing techniques by banks in their business operations with particular reference to rural areas in India. An attempt has been made to estimate the market penetration by banks

in India at a particular point of time and the market potential still available for them. The fifth chapter studies the marketing strategy adopted by Syndicate Bank in the early stages of its growth. The effectiveness of the marketing strategy adopted by the bank in four areas of its operation - Rural Banking, Small Deposits Mobilization, Financing Agriculture and Small Advances - is analysed with data.

A summary of the study and its main findings are presented in the sixth and the concluding chapter of the thesis.

Source material:- The study draws heavily on the available literature on the subject developed in the advanced economies of the West like the United Kingdom, the United States of America, etc; where the modern commercial banking industry has reached a stage of maturity. The required data for the Indian conditions are taken from the various publications and reports of the Reserve Bank of India, of the different Commercial Banks and of the Government of India and from books and articles published on the subject in India. These

secondary data are being supplemented wherever found necessary by primary data gathered from different sources. Extensive use of published and unpublished materials and reports of Syndicate Bank is made use of for the case study.

Relevance and importance:- The banks in India are directed by the policies of the State to play an increasingly important role in the process of economic growth of the country. The nature and the position of the industry is such that banks have to function in an environment of intense competition not only from other banks but also several other financial and non-financial institutions engaged in the financial intermediation activity. The competitors to banks also include money-lenders, landlords, traders, merchants and a host of other unorganized agencies.

In the coming years, banks in India have to carry on their operations in such a manner as to accelerate the pace of development in general and of the rural and backward areas in particular. Such an accelerated process of development is possible only when the banks

are in a position to identify the existing and future business potential in rural and other areas in a scientific and systematic way and devise and implement appropriate strategies to exploit the same. It is in this context, that marketing techniques have useful role to play in the operation of banks in India and the study highlights the use of such marketing techniques in the banking industry. Since the study is of a general nature, it is applicable to all the developing countries though it is developed with particular reference to India.

While it is left to the readers to judge the relevance, importance and practical utility of this study, it is the fond hope of the researcher that this study will enkindle and stimulate further thinking leading to more research and investigation on this important but nascent field of marketing in banks. It will be a matter of great satisfaction to the researcher if his study helps in this direction.