CHAPTER III

MARKETING OF FINANCIAL SERVICES – THEORETICAL FRAMEWORK
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INTRODUCTION

The forces of deregulation, advancing technology and general trend towards
globalisation have vastly increased the competitive pressures within the financial
services market that has in turn affected both the structure and operation of financial
service providing firms like banks.

Banks are providers of financial services, financial intermediaries and key
participants in a nation’s payment system. As such banks play a major role in the
economy and in the financial well being of a nation. In India since 1992, deregulation,
technology, and aggressive competition fostered more changes in the banking
industry than it has experienced in its entire history. Precisely because of competition,
providing financial services in an able manner requires an excellent marketing
orientation.

Banks now operate in a situation of keen competition in their financial service
activities, whether it is canvassing of deposits, extending credit line or in selling
ancillary services. With the liberalization of the banking sector and entry of more
players, banks need to become market oriented with new and innovative schemes, at
competitive prices available at the place the customer needs them and delivered with
efficiency and quality of service.
In India, banks were traditionally in the 'business of banking', namely borrowing from one market and lending to another. However, since the commencement of banking sector reforms in the early 1990s, their orientation has become the 'business of financial services', with a much wider focus in relation to consumer/ market needs and consequent marketing strategies.

Marketing as a narrow management function, appears to be in decline. Marketing as a management philosophy and orientation, espoused and practiced throughout the corporation, is however seen increasingly as critical to the success of any organization.

This is reflected in a heightened emphasis on being "close to the customer", stressing customer satisfaction and customer relationship building, understanding customer value and the enhanced product offering, and the brand equity represented in a loyal customer base. Increasingly these are the domains and responsibilities of employees throughout the organization, whether it is customer service, sales, manufacturing, R&D or top management, and not just of "the marketing staff". (Jerry Wind)¹

Bank Marketing has been defined as 'that part of management activity which seems to direct the flow of banking services profitably to selected customers.' (Reekie, 1972)²
Marketing of Bank’s services implies the delivery (maintaining existing demand) and creation (creating of new demand) of want satisfying (ie., right) services at right price, at right time, at right place, and to a right customer. (Saxena KK, 1988)

Bank Marketing Strategies and Mixes

The overall marketing programme of a bank may involve a large number of marketing strategies mixes. The marketing strategy includes (a) a very clear definition of target customers, (b) the development of a marketing mix to satisfy the customers at a profit to the bank, (c) planning for each of the ‘source’ markets and each of the ‘use’ markets, and (d) organization and administration. (Jain, Alok Kumar, 1997, )

The Bank Marketing Management System essentially should start with situation appraisal to evaluate the opportunities and threats for evolving a marketing strategy for the organisation.

Situation Appraisal

The situation appraisal must identify strengths and weaknesses and do so in terms of the results established by the situation appraisal. Some major areas to be examined are: 1) Management, 2) Organisation, 3) Product lines, 4) Geographic presence, 5) Pricing Strategy, 6) Human resources and System support. Each area must be examined for efficiency, integration with the organization, and external image created. Data should first be developed on such major categories of assets and liabilities as loans, deposits, total assets and equity. Overall performance, specific effectiveness by geographical sector, and impact on each service or product offered by the bank must be calculated and considered. (Chorafas, Dimtris N., 1982)
Situation appraisal can lead to the forecasting of the marketing environment.

**Forecasting the Marketing Environment**

Bank management must make many assumptions about the future and project the organization into that expected environment. It is at this point that forecasting becomes important. The bank's economist, if the bank has one, will play an important role here. Assumptions must be made about many economic and financial factors that will impact the bank in the coming months.

Answers must be forthcoming to such questions as the future trends of interest rates, bond yields, and the demand for credit. Will the economy be expanding or contracting? What industries will show most progress? What will happen to wage rates taxes and the social and political environments? After an evaluation of the external forces, bank management must turn to the internal qualities of the bank. Answers are required to such questions as do we have sufficient personnel in certain departments to handle adequately the expected level of activity? Should we plan for additional branches or should we emphasise ATMs? Is this the year to add a leasing department or introduce a credit card programme? Overall, the trends in savings of the economy are of utmost importance in forecasting the environment.

**Trends in Savings in Indian Economy**

Gross Domestic Savings as percentage of GDP constituted 23.4 percent in 200-01 as against 20.9 percent in 1999-00. During the year 2000-01, the household savings constituted 20.9 per cent of GDP and the same included Financial Assets and Physical Assets. The financial assets are further classified into currency, deposits,
claims on govt., investment in shares and debentures, contractual savings (LIC, PF, Pension Funds etc.). An analysis of household savings as a percentage of total assets is given in Table 3.1.

Table 3.1

Household Savings in Financial Assets (As % of total financial assets)

<table>
<thead>
<tr>
<th>Financial Assets</th>
<th>98-99</th>
<th>99-00</th>
<th>00-01</th>
<th>01-02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>10.5</td>
<td>8.7</td>
<td>6.9</td>
<td>9.7</td>
</tr>
<tr>
<td>Deposits</td>
<td>38.8</td>
<td>37.5</td>
<td>40.9</td>
<td>38.6</td>
</tr>
<tr>
<td>Claims on Government</td>
<td>13.6</td>
<td>12.2</td>
<td>15.2</td>
<td>17.1</td>
</tr>
<tr>
<td>Investment in Shares &amp; Debentures</td>
<td>3.4</td>
<td>7.1</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Contractual Savings</td>
<td>33.7</td>
<td>34.5</td>
<td>34.6</td>
<td>32.2</td>
</tr>
</tbody>
</table>

Source: Students Economic Forum, South Indian Bank Limited, Trichur, December, 2002

The bank deposits constitute 38.6 per cent in the household savings in the year 2001-02. The same was 45.8 percent in 1980-81 and since then has been gradually declining showing a process of disintermediation.

Financial disintermediation has thrown open a vast challenge to banks and will have to devise various strategies to retain their position. Marketing therefore assumes much significance in banking and necessitates a relook at the entire bank marketing programme starting from the planning stage.

Marketing Planning in Banks

A market plan is a written document containing the guidelines for the business centre’s marketing programmes and allocations over the planning period.
The objective of a marketing plan can be stated concisely, as to:

i) Define the current business situations (and how we got there)

ii) Define problems and opportunities facing the business

iii) Establish objectives

iv) Define the strategies and programs necessary to achieve the objectives

v) Pinpoint responsibility for business center objectives

vi) Establish time tables for achieving objective

vii) Encourage careful and disciplined thinking

viii) Establish a customer/ competitor orientation. (Lehmann, Donald R., Winer, Russell S., 1988)

Figure 3.1 shows the planning arrangement in a commercial bank.

Fig.3.1 Planning arrangement in a Commercial Bank

Bank Resources

Integration

And

Evaluation

Bank Objectives

Strategy

Evaluation

Forecasts

Source: Reed, Cotter, Gill, Smith, Commercial Banking, Prentice Hall Publications, INC, Englewood Cliffs, New Jersey, p76

In India too in the beginning of 1990s most banks in India had established Marketing Departments and the range of marketing activities in these banks have also increased considerably.
Every year Bank managers prepare their performance budgets for deposits, advances, profits etc. These budgets are nothing but marketing plans envisaging the stepping up of deposits by a certain percentage. Similarly the marketing plan for credit includes the different categories and sectors of advances to be stepped up in the ensuing year.(Joshi, Navin Chandra, 1991)

One imperative in market planning is to make sure that profits are properly safeguarded. Emphasis must be placed on market planning as a system. It is the methodology that is important, not a specific marketing plan. Plans can change; methodology, if it is correct, evolves slowly.(Chorafas, Dimtris N.,1982)

The entire planning process in banks should also consider the various elements of the Marketing Mix.

Marketing Mix

One of the most basic concepts in marketing is the marketing mix, defined as the elements an organization controls that can be used to satisfy or communicate with customers. The traditional marketing mix is composed of the four P’s: product, price, place (distribution), and promotion. (E.Jerome McCarthy and William D.Perreault,Jr., 1993)

Money is the classical undifferentiated product and the only way that those dealing in the commodity can secure any competitive advantage is through the range and quality of service.
One of the key requirements of branch locations is that it provides convenient access to customers. The branch must be in a customer catchment area in order to sustain business and profitability levels. In addition, the location must provide premises at a reasonable cost and size to allow the business function.

Product

A vital component of marketing mix, the product or service is the basis on which customer satisfaction is created. A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need. (Kotler, P and Armstrong G (1997)\textsuperscript{10}"

Bank’s products in general are depicted in Figure 3.2.
Price

Price competition involves using low prices as a competitive tool to attract customers. It can result in price war as competitors continually try to beat each other’s prices. While price competition provides an effective means of acquiring new customers, it generally does not support customer loyalty programs: price-cutting encourages customers to become price-sensitive and to switch for better prices.
Non-price competition involves emphasizing unique or distinct features of the product that set the financial institution apart from its competitors. It might involve focusing on customer service or on technology in terms of innovative form of delivery. Non-price competition should provide some value to the customer and works well when customers are less price-sensitive.

Traditionally price was not used as a key competitive weapon in the banking sector in India due to the administered rate system. But liberalization of financial sector has changed the scenario and customers too have become more price sensitive. Since financial institutions have begun to emphasize price and use it as a competitive tool, consumers have become less loyal and have increased their switching behaviour in searching for the best deal.

In order to successfully implement non-price competition banks need to be able to identify unique features or benefits of the product and emphasize a brand image. The lack of branding and product differentiation in financial services makes non-price competition very difficult to employ. Products are very similar and easily copied. Bankers are now focusing on improving the quality of customer service as a means of creating differentiation. Information technology is also a tool that can be used to create distinctiveness through targeting and relationship development.

Place

Place, channel of distribution, or 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. Channels can be
broadly defined as 'direct' or 'indirect. Direct channels involve the movement and sale of products directly between the provider and the customer as in the traditional branch network, whereas in the case of indirect channels products flow via intermediaries or middlemen.

The traditional method of distribution for banks has been via the branch network. Yet new channels are emerging not merely as suitable alternatives, creating a threat to the future role of branch networks and undermining the competitive position of banks in using the branch network as a competitive advantage.

Whichever channel is used, the distribution channel is not a short term tactical issue as the cost of acquiring customers is inextricably linked to long term customer retention policies.

In the personal sector, branch networks traditionally provided a very effective means of processing numerous transactions resulting from large cash based and cheque based society.

**Promotion**

Promotional efforts must be stimulating and motivating enough to generate interest in and promote a positive attitude towards the bank and its products so that they will be considered favourably in comparison with competitors. Promotion achieves this by working in harmony with other elements of the marketing mix, enabling the following to be achieved.
Customer acquisition – Promotion has a key role in building awareness of the company and its products to new customers and, in the case of switching customers, outlining the key benefits offered in comparison to competitors.

Customer Retention – Promotion has an important role to play in building and maintaining customer loyalty and cross selling additional products to customers as the need arises or as they enter the appropriate life stage.

Staff Morale – Promotion and Communication can provide support for staff and serve to boost the image of the company and its products and services.

Corporate Stability – Promotion serves as a statement of confidence and stability to the wider audience. It sends out the message that if the company can afford to advertise it is credible and immutable.

Public image and awareness – Promotion can inform the public of socially responsible activities (such as charitable work) and dispel any negative misconceptions of the institution. (Kirk,Y,1994)

But the traditional marketing mix has been found to be inadequate when it comes to marketing of services.

Services

All industrial and economic activities fall into three main groups: primary, secondary and tertiary. Primary activities include agriculture, fishing and forestry. Secondary activities cover manufacturing and construction, and tertiary activities refer to the services and distribution. In the pre-industrial era, primary activities were the mainstay of the economy. The Industrial Revolution marked the beginning of
increasing importance of the secondary activities and gradually decreasing status of Agriculture and allied activities in countries like USA which became the world’s first ‘service economy’.

There is growing importance of manufacturing and Service sectors even in countries like India where Agriculture still continues to retain its stronghold on the economy. The manufacturing and Service sectors are growing not only in volume but also in sophistication and complexity.

A service is an activity that has some element of intangibility associated with it, which involves some interaction with customers or with property in their possession, and does not result in a transfer of ownership. A change in condition may occur and production of the service may or may not be closely associated with a physical product. (Adrian Payne, 1995)  

A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. (Kotler Philip, 1989)  

Services fulfil certain needs. “Services are those separately identifiable, essentially intangible activities which provide want satisfaction, and are not necessarily tied to the sale of a product or another service. To produce a service may or may not require the use of tangible goods. However, when such use is required, there is no transfer of title (permanent ownership) to these tangible goods. (Stanton W.J., 1981)"
Services are activities, benefits or satisfaction that are offered for sale or are provided in connection with the sale of goods. (American Marketing Association)\textsuperscript{15}

Given the unique characteristic features of service as well as the fact that everybody and every organization irrespective of the sector to which it belongs provide service, Service may be defined as 'Services are the objects of transaction offered by firms and Institutions that generally offer services or that consider themselves service organizations'. (Gronross, Christian, 1983)\textsuperscript{16}

Services marketing require a separate approach from the marketing of physical goods or with identifying specific marketing strategies to deal with problems posed by the unique characteristics of services.

**Characteristics of Services:**

Services have a number of unique characteristics that makes them so different from products. Table 3.2 describes the service characteristics and their implications.
Table 3.2

Service Characteristics and their Implications

<table>
<thead>
<tr>
<th>Service Characteristics</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Intangibility</td>
<td>Sampling difficult. Difficult to judge quality and value in advance. Not possible to patent or have copyright. Relatively difficult to promote.</td>
</tr>
<tr>
<td>3. Heterogeneity</td>
<td>Difficult to standardize quality</td>
</tr>
<tr>
<td>4. Perishability</td>
<td>Cannot be stored. Problem of demand fluctuation.</td>
</tr>
<tr>
<td>5. Ownership</td>
<td>The customer has access to but not ownership of facility or activity.</td>
</tr>
</tbody>
</table>


Services Marketing Mix

Careful management of product, place, promotion, and price are essential to the successful marketing of services. However, the strategies for the four P’s requires some modifications and an expanded marketing mix when applied to services because of its distinct characteristics. Therefore, in addition to the traditional four P’s, the services marketing mix includes people, physical evidence and process.

People include all human actors who play a part in service delivery and thus influence the buyer’s perceptions; namely the firm’s personnel, the customer, and other customers in the service environment. Physical evidence is the environment in which the service is delivered and where the firm and customer interact, and any
tangible components that facilitate performance or communication of the service. Process is the actual procedure, mechanisms, and flow of activities by which the service is delivered—the service delivery and operating systems. The expanded marketing mix is shown in Table 3.3.

Table 3.3
The expanded marketing mix for Services

<table>
<thead>
<tr>
<th>Product</th>
<th>Place</th>
<th>Promotion</th>
<th>Price</th>
<th>People</th>
<th>Physical Evidence</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical good</td>
<td>Channel</td>
<td>Promotion Blend</td>
<td>Flexibility</td>
<td>Employees</td>
<td>Facility design</td>
<td>Flow of activities</td>
</tr>
<tr>
<td>Features</td>
<td>Exposure</td>
<td>Sale People</td>
<td>Price level</td>
<td>Recruiting</td>
<td>Aesthetics</td>
<td>Standardised</td>
</tr>
<tr>
<td>Quality level</td>
<td>Intermediaries</td>
<td>Number</td>
<td>Terms</td>
<td>Training</td>
<td>Functionality</td>
<td>Customised</td>
</tr>
<tr>
<td>Accessories</td>
<td>Outlet locations</td>
<td>Selection</td>
<td>Differentiation</td>
<td>Motivation</td>
<td>Ambience conditions</td>
<td>Number of Steps</td>
</tr>
<tr>
<td>Packaging</td>
<td>Transportation</td>
<td>Training</td>
<td>Discounts</td>
<td>Rewards</td>
<td>Equipment</td>
<td>Simple</td>
</tr>
<tr>
<td>Warranties</td>
<td>Storage</td>
<td>Incentives</td>
<td>Allowances</td>
<td>Teamwork</td>
<td>Signage</td>
<td>Complex</td>
</tr>
<tr>
<td>Product lines</td>
<td>Managing</td>
<td>Advertising</td>
<td>Customers</td>
<td>Employee dress</td>
<td>Level of customer involvement</td>
<td></td>
</tr>
<tr>
<td>Branding</td>
<td>Channels</td>
<td>Targets</td>
<td>Education</td>
<td>Other tangibles</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Training</td>
<td>Reports</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Type of Ads</td>
<td>Communication</td>
<td>Business cards</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Copy thrust</td>
<td>Culture and Values</td>
<td>Statements</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sales promotion</td>
<td>Employee research</td>
<td>Guarantees, Publicity</td>
<td></td>
</tr>
</tbody>
</table>

People

Service marketers need to develop a high level of inter-personal skills and customer - oriented attitude in employees for the simple reason that employees in services are the key to the service experience. “Employee behaviour is often an integral part of the service product. This is not true in a manufacturing operation, where employee behaviour may affect product quality, but is not a part of the product” (Sasser, Earl, Paul Olsen and Daryl Wyckoff, 1978).

Bankers have metamorphosed into retail sales people and have been required to adopt all the skills of selling. All employees in the bank have some influence on the sale of products and, must therefore become more market oriented. This is particularly true of frontline staff who has direct contact with customers: they provide the link between the bank and the market place and they sell and/or perform the service. To the customer they represent the bank and are seen as part of the product itself. Quality of the service provided is inseparable from the quality of the service provider and are ideally situated to take advantage of cross selling opportunities.

Physical evidence

Traditional branches had up to 90 percent of their space devoted to staff and operations (Greenland, 1994).

The allocation of greater amount of space to customers within the branch is likely to have a positive effect on customer-to-customer relationships and increase in the comfort factors as banking halls are now less crowded.
The framework consisting the elements of marketing mix for services were further expanded to include an eight P model of Integrated Service Management which highlights the strategic decision variables facing managers of service organizations. The components of the Integrated Service Management are Product and Elements, Place and Time, Promotion and Education, Price and other user costs, Processes, People, Physical evidence and Productivity and Quality. Productivity and quality should be treated strategically as interrelated. Productivity relates to how inputs are transformed into outputs that are valued by customers, whereas quality refers to the degree to which a service satisfies customers by meeting their needs, wants and expectations. (Christopher Lovelock)\(^\text{19}\)

Service quality as defined by customers, is essential for product differentiation and building customer loyalty.

**Financial Services**

The development of marketing in the financial services sector has been slow and for a long time the industry was seen as primarily product led. But the financial service organization operate in a high contact business where the nature of buyer – seller interactions and the establishment of long term relationships based on confidence and trust have real implications for successful retention of customers and recruitment of prospects. And this necessitates a relook at the entire marketing mix especially when it comes to financial services marketing by banks. Table 3.4 gives an idea as to the seven elements of marketing mix that can be effectively used in bank marketing.
The Seven P's of Bank Marketing

<table>
<thead>
<tr>
<th><strong>Product</strong></th>
<th><strong>Product Development</strong></th>
<th><strong>Product</strong></th>
<th><strong>Price</strong></th>
<th><strong>Price</strong></th>
<th><strong>Place</strong></th>
<th><strong>Place</strong></th>
<th><strong>Promotion</strong></th>
<th><strong>Promotion</strong></th>
<th><strong>People</strong></th>
<th><strong>People</strong></th>
<th><strong>Process</strong></th>
<th><strong>Process</strong></th>
<th><strong>Physical Evidence</strong></th>
<th><strong>Physical Evidence</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development</td>
<td>Theories</td>
<td>Branch</td>
<td>Advertising</td>
<td>Selection</td>
<td>Customer</td>
<td>Orientation</td>
<td>Essential</td>
<td>Evidence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>Practices</td>
<td>Network</td>
<td>Publicity</td>
<td>Incentive</td>
<td>System</td>
<td>Studies</td>
<td>Peripheral</td>
<td>Evidence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variety</td>
<td>Services</td>
<td>Antigamuton</td>
<td>Communication</td>
<td>Training</td>
<td>Management</td>
<td>Audit</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>Costing Charges</td>
<td>Location</td>
<td>Promotional Mix</td>
<td>Attitude &amp; Behavioural Aspects</td>
<td>Creativity</td>
<td>Mechanisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Differentiation</td>
<td>Costing Exercises</td>
<td>Location</td>
<td>Promotion Mix</td>
<td>Attitude &amp; Behavioural Aspects</td>
<td>Creativity</td>
<td>Mechanisation</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Cost</td>
<td>Product Mix</td>
<td>Services</td>
<td>Architecture</td>
<td>Lay Out</td>
<td>Overseas Office</td>
<td>Evaluation</td>
<td>Morale</td>
<td>New Technology</td>
<td></td>
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<tr>
<td>Services of the Future</td>
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</tbody>
</table>


A judicious mix of these marketing elements get reflected in the customer service rendered by financial services institutions like banks.

**Customer Service**

Companies often have different perspectives on customer service. Studies have shown that a range of views exists as to the definition of customer service. These include in a service context:

- All the activities required to accept, process, deliver and fulfill customer orders and to follow up on any activity that has gone wrong.
• Timeliness and reliability of delivering products and services to customers in accordance with their expectations.

• A complex of activities involving all areas of the business which combine to deliver the company’s products and services in a fashion that is perceived as satisfactory by the customer and which advances the company’s objectives.

• Total order entry and all communications with customers, all invoicing and total control of defects.

• Timely and accurate delivery of products and services ordered by customers with accurate follow up and enquiry response including timely delivery of invoice. (B.J.La Londe and P.H.Zinszer1976) 20

Customer service therefore goes a long way in the marketing of financial services as it leads to customer satisfaction

Customer Satisfaction

If the ultimate goal is to maximize customer satisfaction, it is essential to understand what it is that customers want from a bank. This new focus on understanding and meeting the needs of each customer has come to be known as one-to-one marketing. Research has shown that customer expectations for quality service can be categorized into five areas: responsiveness, assurance, empathy, reliability, and tangibles. (Leonard L Berry, David R. Bennet, and Carter W Brown, 1989) 21

Customer satisfaction is not an end itself. Instead it is the means to achieving a number of business goals as given in figure 3.3.
Figure 3.3 Benefits of Customer Satisfaction and Service Quality

- Insulate Customers From competition
- Encourages repeat Patronage and loyalty
- Can create sustainable Enhances/Promotes Advantage
- Positive word of mouth
- Reduces future Failure costs
- Lowers cost of Attracting new customers


Satisfaction of customers’ needs and expectations enable financial service institutions to retain the customer base by preventing customer defection.

Customers Defection

Customer of banks defects for various reasons and the type and description are given in Table 3.5.
Marketing of Financial Services – Theoretical Framework

Table 3.5

Reasons for Customers Defection

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>Defection due to a lower priced alternative</td>
</tr>
<tr>
<td>Product</td>
<td>Defection due to a superior product</td>
</tr>
<tr>
<td>Service</td>
<td>Defection owing to poor service</td>
</tr>
<tr>
<td>Market</td>
<td>Customer who leave the market, but not a competitor</td>
</tr>
<tr>
<td>Technological</td>
<td>Defections to a product from outside the industry</td>
</tr>
<tr>
<td>Organisational</td>
<td>owing to internal or external political considerations</td>
</tr>
</tbody>
</table>


Customer defection can be prevented if service providing firms are able to listen to customers and their complaints and build up a structure for effective management of customer complaints.

Managing Customer Complaints

Customers leave organisations when they are not satisfied with the services rendered. Some of them do complain and these complaints are opportunities to take measures to retain customers so that the market share do not suffer. Figure 3.4 shows the reasons as to why customers leave or why they stay with the service provider and compares the retention and defection motives.
Figure 3.4 Comparison of retention and defection motives

Customer Retention

Why Customer Leave: Why Customers Stay:

Not Loyal \rightarrow Satisfied \rightarrow Loyal

Not Loyal \rightarrow Satisfied \rightarrow Loyal

Perceived Alternative/ Better offer \rightarrow Indifferent \rightarrow Not Perceived Alternative/ Better Offer

Complained \rightarrow Dissatisfied \rightarrow High Switching Costs

Complained \rightarrow Dissatisfied \rightarrow High Switching Costs

Not Recovered \rightarrow Perceived Alternative/ Better offer \rightarrow Not Complained

Not Recovered \rightarrow Perceived Alternative/ Better offer \rightarrow Not Complained

Customers do not defect if they are provided with the services they require and providing the expected service over a period of time will create customer loyalty.

**Customer Loyalty**

The attachment an individual has towards a company and/or its products/services is shaped by two dimensions: degree of preference (the extent of the customer’s conviction about its product or service) and degree of perceived product differentiation (to what extent the individual distinguishes the company and its products/services from alternatives). Figure 3.5 depicts the attachment and behaviour that leads to loyalty segments.

**Figure 3.5 Attachment and behaviour that leads to loyalty segments.**

**BEHAVIOUR**

**Loyalty Segments**

<table>
<thead>
<tr>
<th>Attachment</th>
<th>True Loyalty</th>
<th>Latent Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Attachment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>False Loyalty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Attachment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No Loyalty</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The more relationships a bank has with a customer, the more loyal the customer will be. The more will be the inertia to move to another bank. Customer loyalty essentially rests on building and developing relationship with the customers.

**Relationship Development**

Commitment and trust are 'keys' in developing relationship because they encourage marketers to (i) work at preserving relationship investments by cooperating with exchange partners (customers) (ii) resist attractive short term alternatives in favour of the expected long term benefits of staying with existing partners (customers), and (iii) view potentially high risk actions as being prudent because of the belief that their partners will not act opportunistically.

(Morgan and Hunt, 1994)

**Benefits of Relationship Development**

There are a number of benefits associated with the retention of existing customers, and the development of long-term satisfying relationships

- It takes time to make money from customers- many customers are not immediately profitable.
- Sales, marketing and set-up costs are amortised over a longer customer lifetime.
- Repeat customer often costs less to service.
- It allows cross-selling opportunities, leading to increased customer expenditure over time.
- It stops competitors knowing them.
It allows for inter-generational relationships.

Satisfied customers provide referrals and may be willing to pay a price premium. (Harrison, Tina, 2000)

The Process of Relationship Development

The process of relationship development involves acquiring new customers and attempting to move them up the ladder of loyalty while at the same time managing situations which may lead to the ultimate termination of the relationship with the company. Figure 3.6 shows the ladder of customer loyalty and explains the process of relationship development.
Marketing of Financial Services – Theoretical Framework

Figure 3.6 Ladder of Customer Loyalty

| Emphasis on Developing and enhancing relationships (Customer Retention) | Advocate | Active and vocal advocates for the company |
|---|---|
| Supporter | Supporters of the company and its products |
| Client | Regular re-purchases |

| Emphasis on New customers (Customer acquisition) | Customer | Someone who makes their first purchase or transaction |
|---|---|
| Prospect | Potential buyer/purchaser |


The process of relationship development has been defined as consisting of eight distinct stages.

Fig 3.7 illustrates the stages in the process of development customer relationships.
Figure 3.7  Stages in the Development of Customer Relationships


Relationship Marketing

Relationship Marketing is the ongoing process of engaging in cooperative and collaborative activities and programmes with immediate and end-user customers to create or enhance mutual economic value at reduced cost. (Atul Parvatiyar & Jagdish, 2000)
According to the Nordic school approach, marketing from a relational perspective had been defined as 'the process of identifying and establishing, maintaining, enhancing, and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met, where this is done by a mutual giving and fulfilment of promises. (Gronroos 1997)\(^\text{26}\)

**Relationship Marketing Benefits**

Relationship marketing benefits the customer as well as the firm. For continuously or periodically delivered services that are *personally important, variable in quality, and/or complex* many customers will desire to be ‘relationship customers’. They will desire continuity with the same providers, a proactive service attitude, and customized service delivery (Berry, 1995)\(^\text{27}\).

**Relationship Marketing Strategy:**

The five strategy elements for practicing relationship marketing are: developing a core service around which to build a customer relationship, customizing the relationship to the individual customer, augmenting the core service with extra benefits, pricing services to encourage customer loyalty, and marketing to employees so that they in turn will perform well for customers. (Berry, 1983)\(^\text{28}\).

Depending on the type and number of bonds that a company uses to foster customer loyalty, Relationship marketing can be practiced at one of the three levels. Level one relationship marketing is the level of retention marketing. At level two, the branch bankers go beyond pricing incentives in building relationships. At level three,
branch bankers may attempt to strengthen the relationships with structural bonds in addition to the social and financial bonds. The higher the level, at which relationship marketing is practiced, the higher the potential pay off. (Berry and Parasuraman 1991)  

Relationship marketing strategy in future should also consider the effective use of technology as it enables relationship building by facilitating precision management, by linking everyone and everything together and by staking the thirst for knowledge and learning. Relationships are the key while technology is the tool.

**Relationship Marketing and Information Technology**

Information technology enhances the practical value of relationship marketing through the efficient performance of key tasks:

- Tracking the buying patterns and overall relationships of existing customers
- Customising services, promotions, and pricing to customer’s specific requirements
- Coordinating or integrating the delivery multiple services to the same customer
- Providing two-way communication channels: company to customer, customer to company
- Minimising the probability of service errors and breakdowns
- Augmenting core service offerings with valued extras
- Personalising services encounters as appropriate. (Berry, 1995).
Technology may be used to identify and build a database of current and potential customers, deliver differentiated messages based on consumers' characteristics and preferences, and track each relationship to monitor the cost of acquiring the consumer and the lifetime value of the resulting purchases. (Compulsky and Wolf, 1990)

Technology may be used to minimize or even eliminate contact between customers and employees and also to simplify service delivery, improve productivity, and reduce the threats to service quality.

Service Quality

Quality in service industry entails adequate focus on customer care and customer centric ethos. The success of any business model depends not just on margins but more on ensuring value based service to the customers.

Delivering quality service depends on identifying the gaps between the perceived service quality that customers receive and what they expect. (Zethaml, Parasuraman, and Berry, 1990). Figure 3.8 shows these gaps.
Figure 3.8 The Service Quality gap Model.

The gaps identified are 1) Between Consumer Expectation and Management Perception, 2) Between Management Perception and Service-quality Specification 3) Between Service Quality Specifications and Service Delivery, 4) Between Service Delivery and External Communications 5) Between Perceived Service and Expected service. Gap 5 had been found to be the service quality shortfall as seen by the customers and is a result of other gaps (Gaps 1 to 4) in the organization.

For a bank to be customer oriented, it is essential that the above gaps be minimized by conscious management strategies as there exists relationship between quality, customer service and marketing. The specific linkages between these elements are shown in Fig.3.9.
Figure 3.9  Linkages between quality, customer service and marketing

Customer service levels should be determined by research-based measurement of customer needs and competitor's performance and must recognize needs of different market segments.

Quality must be determined from the perspective of the customer based on regular research and monitoring.

The total quality concept should influence both the process elements (e.g., engineering out failure points) and people elements (e.g., managing moments of truth in the customer encounter).


An integrated approach using relationship, customer service and quality will lead to customer relationship management in marketing.
Customer Relationship Management

Customer Relationship Management (CRM) enables a bank to win in a world in which the customer has unprecedented choices, knowledge and power. Use of CRM is the culmination of bank’s shift away from mass distribution – being all things to all people - to a more focused – profit orientation. (Alex Shashunoff, 1999) \(^{33}\)

CRM requires complete knowledge about the customers and this requires a properly constructed database which will enable identification of individual customers (or groups of customers) and describes what products they buy and how they use them.

In mass markets, the dissemination of individualized information on customers is now possible at low cost due to the rapid development in Information Technology and the availability of scalable data warehouses and data mining products. By using on-line information and databases on individual customer interactions, marketers aim to fulfil the unique needs of each mass-market customer. Information on individual customers is utilized to develop frequency marketing, interactive marketing and after marketing programmes in order to develop relationships with high yielding customers. (File, Mack, and Prince, 1995) \(^{34}\)

Customer Data management

Banks can use technology, for data base management, so as to segment the market, throw up sales opportunities by customer type, help with credit scoring and service management.
Using the database Banks can track patterns of behaviour and can identify opportunities to target products to specific individuals. Database management requires the use of technology.

**The Impact of Technology**

Technology has enabled marketing efforts to be used to greater effect and efficiency through database management. It also enables the setting up of an internal market of its own customers and identifies cross-selling opportunities, and define the profiles of customer segments for bringing in new customers. Long term successes of financial institutions depend upon the effective use of customer database.

The advent of computer technology has provided banks with the ability to automate many of the back-office tasks and essentially become more efficient. This meant that more time could be devoted to selling products in the branches rather than back office processing and transactions. Not only did computerization allow costs to be reduced, but also reduced the degree of human error inherent in the paper-based approach. This has led to an increase in efficiency and effectiveness. Computerisation has also made it possible for banks to offer more products and reach more customers. Customers are rewarded with an increase in the speed of transactions and an increase in the quality and consistency of administration.

Technology as a delivery option has been incorporated along with other facets and a pyramidal model that employs a broadening of traditional external, interactive and internal marketing as shown in Figure 3.10.
Figure: 3.10 The Pyramidal Model

Organization
(Management)

Internal Marketing
(Enabling the promise)

External Marketing
(Setting the Promise)

Technology

Employees
Interactive Marketing
(Delivering the promise)
Customer


Internal Marketing

Internal Marketing views employees as internal customers, and views their jobs as internal products. The financial institution needs to sell its jobs to its employees (internal customers before employees can sell the financial institution’s products and services to its external customers. The objectives of internal marketing are:

- To create an internal environment which supports customer consciousness;
- To foster customer-oriented and customer-caring staff;
- To sell service and marketing efforts to employees via training programmes.
Figure 3.11 shows that by satisfying the needs of internal customers, a financial institution can increase the likelihood of satisfying the needs of external customers and building long-term relationships with them.

**Figure 3.11 The Service Profit Chain**

The most important aspect of internal marketing is to have a team of well-trained work force with adequate job knowledge, marketing skills and positive attitude.

**Training Programs for Internal Marketing**

Training programs of banks should lay special emphasis on customer service and other related issues like importance of courtesy and promptitude, public relations skills, telephonic manners, functionally effective correspondence, management of complaints etc., in addition to imparting job knowledge. (Report of the working group on customer service in banks, Govt.of India) \(^\text{35}\)

Marketing related inputs provided to the employees in banks should include the following:

- corporate and marketing objectives of the bank  
- economic environment and changes in the market segments  
- range of services and facilities, both existing and proposed, and their relative importance  
- schedule of charges and the pricing philosophy  
- pamphlets, brochures and other publicity literature brought out by the bank  
- market related strength of the bank vis-à-vis competitors  
- talking points, customer communication and relevant strategies. (Madhukar, 1990) \(^\text{36}\)
The Future

Service marketing management through managing customer interfaces, providing value for money products; value pricing and product innovation will separate the also-rans from the best. The future technology road map (trajectory) will be full branch automation, networking and expansion of ATMs and the introduction of core banking solutions in branches. The state of art technology which is to be provided has to be backed by a committed working force for its success – a work force committed to quality, single window delivery of service and in developing customer relationship by delivery of high quality personalized professional service.
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