Marketing Financial Services - A Self Study Guide

LESSON ONE

Marketing Challenges for Financial Services

Objective: to introduce the basics of marketing, particularly the concepts of market information and marketing management, and to explain the particular challenges of applying those concepts to financial services. The final section highlights the special challenges of marketing financial services for the poor.

1. MARKETING CONCEPTS

Marketing is the holistic relation of an institution with the various markets it serves or would like to serve. This broad definition includes all aspects of the institution and its approach to offering products to its current and potential clientele. Marketing is not only a means of selling more products more effectively or of developing new and more customer-oriented financial products. Rather, it involves the entire institution, from the accounting department to the training department, from headquarters to branches, from the General Manager to the front-line staff.

Marketing brings together information from internal and external sources to determine the best answers to the following questions:

- Which products and services are needed and will be bought?
- What price is acceptable to clients?
- How can products and services be sold in the most efficient and effective manner?
- Which information channel is best able to reach clients to make the product known, valued and demanded?

i) Marketing Management

Marketing management is the process of planning, organizing and implementing marketing activities, then subsequently evaluating the activities in order to effect necessary changes and adjustments. Why is marketing management important? If financial institutions (FIs) are not oriented toward clients and markets in organizational and technical matters, implementing a clear focus on clients is a difficult and time-consuming process. Clients and markets also change over time. Therefore, even client-oriented FIs need to continuously adjust, improve and innovate in order to offer customer services that are demanded, valued and useful. This is key to the long-term sustainability of the institution.

Marketing management, according to our broad definition, should take place on three levels. First, FIs should define their corporate mission and objectives. Second, they should define and implement corporate and marketing strategies to serve as guiding principles to achieve the corporate mission and objectives. Third, FIs need to define the marketing mix of operational policies necessary to achieve the strategic marketing objectives as part of the overall corporate strategy.
Marketing management goes beyond defining strategies and objectives. It is a continuous process that includes planning, implementing and evaluating performance. The planning stage includes the setting of clear goals and the design of strategies to achieve those goals. The implementation stage includes forming and staffing the marketing team and directing the actual operation of the team according to plan. The evaluation stage includes analyzing performance in relation to the organizational goals.

This third stage indicates the interrelated, continuous nature of the management process. The results of evaluations are used to plan goals and strategies for the future. While, in theory, these three stages are sequential, in reality, they are not. Planning, implementation and evaluation form a continuously revolving and intertwined management process.

**ii) Market Information**

Market information is needed as the basis for the marketing management process. A *marketing information system* provides the framework for the day-to-day management and organization of information gathered on a regular basis from internal and external sources. The process of monitoring an FI's business environment includes the following:

- Gathering information about the external business environment and internal marketing;
- Analyzing the information gathered to assess the current situation and trends; and,
- Forecasting the impact of current trends on the future of the FI.

Organizations operate within an *external environment* that is beyond their control. The external environment includes macro influences, which affect all institutions, and micro influences, which affect individual institutions. Macro influences can be divided into six broad variables:

- Demographic conditions;
- Economic conditions such as the business cycle, inflation and interest rates;
- Competition and the competitive structure;
- Social and cultural factors;
- Political and legal environments;
- Technology.

Micro influences, while external, are closely related to a specific company and are part of its total marketing system.

Another set of environmental factors - suppliers, marketing intermediaries and the market itself, are also external to a company. These elements, however, can be influenced to a certain degree by management decisions.

Non-marketing factors within the firm such as production facilities, personnel, finances, location, research and development, all influence marketing. These variables can also be controlled by management.

Successful marketing depends largely on a company's ability to manage their marketing program within their business environment. To do this, marketing executives must recognize environmental factors and trends, monitor them in a systematic, ongoing fashion, and respond to them with resources under their control.
iii) The Market

Market-orientation lies at the heart of marketing. The market, as represented by current and potential customers, should thus be the focus of all marketing decisions in an organization. But what is a market in concrete terms? A market can be defined as a place where buyers and sellers meet, goods and services are offered for sale, and transfers of ownership occur. For business purposes, a market is people or organizations with desires or needs to satisfy, money to spend, and the willingness to spend it. Accordingly, there are three factors to consider regarding the market demand for any given good or service:

- People or organizations with desires or needs;
- Their purchasing power; and,
- Their buying behavior.

The term “needs” refers to the felt lack of anything required, desired or useful, and is not limited to requirements essential for survival such as food, clothing and shelter. In our context, “needs” includes the need for cash in order to meet expenditures and the need to save money for future purposes.

2 MARKETING CHALLENGES FOR FINANCIAL SERVICES

Financial products and services are a particular type of good that pose special challenges to marketing (developed on the basis of Meidan, 1996). These challenges include the following:

a. Intangibility. Financial services meet a general monetary rather than a specific tangible need. Accordingly, financial service providers must get their message across effectively and ensure an attractive image. A financial service cannot appeal to a depositor’s senses, but rather provides them with an intangible benefit.

b. Inseparability. Financial services are produced and distributed at the same time. The main concern of the marketer is therefore to provide the right service at the right place and time. This requires close proximity to customers. In addition, the packaging of the savings product is very important.

c. Limited Differentiation. Financial services are very much alike. Reasons for choosing one provider over another are often related to convenience. This is especially true for small depositors whose demand for a savings product is often not excessively dependent on interest rates.

d. Trust. Financial service provision involves an intimate relationship between the producer and the consumer. Thus, financial relationships are often built over a long period of time and are very sensitive to changes in mutual trust.

e. Geographic Dispersion. Because proximity is a key factor in financial service provision, large financial institutions must offer a wide branch network, numerous sales points, or doorstep services to ensure the satisfaction of regional and local needs. Except in the case of recent high-tech developments such as internet banking, financial institutions cannot hope to serve a large customer base if they only distribute their products and services centrally.

f. Growth Balanced with Risk. Selling financial products, particularly loan products, involves risk. Accordingly, organizational growth must be well balanced with the capacity of a financial institution to manage risk.
g. **Fiduciary Responsibility.** The primary responsibility of a depository is to guard the interests of the depositors. Systems and procedures, as well as financial services, must be structured accordingly.

h. **Labor Intensity.** Financial service provision is highly labor intensive. While automation, especially computerization, can effectively make transaction management more efficient, financial services, particularly savings services, remain dependent on the personal relationship between customers and the front-line staff of the institution.

3. **MARKETING CHALLENGES FOR MICROFINANCE INSTITUTIONS**

Microfinance institutions (MFIs) around the world face very different market situations. While many MFIs such as those in rural areas of Kenya face relatively little competition, in some countries, such as Bangladesh, or in specific locations within countries, such as La Paz in Bolivia, competition is intense. Increasing competition becomes evident on the supply side when new players enter the market and on the demand side when clients begin choosing between services, demanding increased product sophistication, and requesting tailor-made products. These signs indicate developing or maturing microfinance markets. Depending on the stage of the development of their markets, MFIs face different marketing challenges.

Grant (1999) distinguishes three stages of microfinance market development that impact client characteristics.

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<th>Stage</th>
<th>Client characteristics</th>
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<td><strong>New Market</strong></td>
<td>Customers have rarely had any contact with financial institutions and are not used to accessing formal financial products. Customers are unaware of the range of financial products that could be available.</td>
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<td><strong>Growth Market</strong></td>
<td>Customers are becoming aware of the availability of financial services. Many customers have heard about services even if they are not yet available in their area. Customers are beginning to compare the products offered by different MFIs.</td>
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<tr>
<td><strong>Maturing Market</strong></td>
<td>Customers are increasingly sophisticated. They are aware of different institutions and different products. Individual customers may select financial services from more than one MFI. Customers may become more demanding about the quality and price of services. Customers are more apt to leave one institution for another with better products.</td>
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A major challenge for MFIs is to balance their social goals with their financial goal of profitability. The corporate culture of many MFIs is based on humanitarian goals. Orienting these institutions to concentrate on client satisfaction and understanding the needs of their target markets can therefore pose a challenge. This is especially true for MFIs that began as non-governmental organizations (NGOs).
A few MFIs that operate as NGOs, however, stand out as exceptions to this rule. BURO, Tangail in Bangladesh distinguishes itself from the fierce competition through their strong emphasis on customer service.

Institutional history and legal status also pose challenges to MFIs and marketing. While commercial banks that enter microfinance markets often have substantial marketing experience from their traditional operations, new entrants to formal financial markets may find marketing a new and low-priority task. State-owned organizations and those strongly influenced by the state may find it difficult to implement a customer-oriented approach because political and administrative decisions have dominated past activities. The state-owned Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand provided service culture training to their large staff (over 13,000) in order to improve their customer-orientation. A customer service survey conducted in 1999 revealed that the training was very effective, with 93% of BAAC's customers rating BAAC's service as satisfactory or very satisfactory.

Cooperatives and credit unions have a unique advantage in this context because customers are normally member-owners of the institutions. While this would imply strong incentives for making customer satisfaction the priority, many credit unions and cooperatives focus on member education programs. The Small Farmers Cooperatives Limited (SFCL) of Nepal noted that despite their position within some communities as the most important village-level organization, their legal status as a cooperative creates difficulties for some people to accept them as respectable organizations due to former political abuse of cooperatives.

Characteristics of an MFI’s clientele also significantly impact their marketing approach. The traditional markets of most MFIs include poorer segments of the population, which are often illiterate, live in remote areas, and may be more attached to traditional and religious values. Micro savings products are likely to be geared toward a higher number of customers than traditional savings products because per-client volumes are lower. These aspects require considerable adaptations of traditional bank marketing.

The following lessons focus on marketing for microfinance and provide examples of successful marketing strategies and policies employed by MFIs around the world.