Operational Marketing 3: Distribution Policy

Objective: Distribution, or sales, policy concerns the channels selected to transfer ownership and transport a product from its producer to its consumer. In financial services, distribution policy concerns the points of sale selected for collecting deposits, granting loans and distributing other financial services. This lesson looks at the factors to consider when selecting distribution channels and distribution intensity.

1 INTRODUCTION

Distribution policy includes all aspects of delivering a product or service to a client. Because financial services are based on monetary transactions, security issues are of utmost importance. The trustworthiness of an MFI is a key factor in a depositor’s decision regarding where to deposit their money.

Distribution channels are differentiated by:

- Who is responsible for distribution: MFI employees or agents;
- Partners: agents, other financial institutions, post offices, etc.;
- Points of sale: branches, mobile units, door-step services; and
- The medium used: direct or indirect sales (through an advertisement with a response option.)

Distribution policy should be designed within the context of the entire marketing mix, by going through the following steps:

a. Reviewing the overall marketing objectives;
   b. Determining product, price and promotion policies;
   c. Deciding whether distribution will be designed in a defensive or pro-active manner.

An MFI using defensive distribution strives for distribution that is as good as, but not necessarily better than, that of their competitors. An MFI using pro-active distribution strives for distribution that gives them an advantage over their competitors. Several MFIs that have wide geographic coverage utilize pro-active distribution.

- BRI in Indonesia enjoys wide geographic coverage, with 3698 sales points throughout the country and over 24 million savings accounts; by far the most extensive outreach of all Indonesian banks. BRI’s distribution is pro-active; units are located in the center of economic activity, making them easily accessible to their clientele. In addition, loan officers and unit managers sometimes have the responsibility of selling savings products by going directly to customers in their place of residence. BRI unit staff has set selling targets for all of their savings and loan products. Staff remuneration is based on meeting these selling targets.
ASA in Bangladesh, with 800 sales points and over 1.5 million savings accounts, also has pro-active distribution carried out by their employees. ASA offers doorstep services to customers. Most transactions take place in collection centers, located in close proximity to clients' homes, or directly from the clients at home. Field workers are often out visiting clients every day, which results in very quick and convenient service. Unlike the majority of MFIs in Bangladesh, ASA does not require clients to be members of sub-groups. ASA procedures are highly standardized, which results in fast and convenient distribution. Their organizational structure is also very streamlined, which results in even faster distribution.

2 DISTRIBUTION CHANNELS

Once an MFI has determined their basic distribution policy, they need to select the best distribution channels for their products. Some MFIs use several distribution channels to achieve broad market coverage or avoid dependence on a single channel. Financial institutions use multiple channels, sometimes called dual distribution, for several distinct reasons. Multiple channels are used to reach different types of markets when selling:

- The same product, such as savings accounts, to both private and business customers; or
- Unrelated products such as non-financial products or postal services.

Multiple channels are also used to reach different markets when:

- Client size varies considerably. An MFI may sell savings accounts directly to individuals, but use sales agents to reach small businesses and craftsmen.
- Clients are geographically dispersed. MFIs may use their own sales force to sell directly to customers in urban areas, but employ sales agents to sell to clients in sparsely populated areas.

Sonapost of Burkina Faso sells their savings products through all normal post offices throughout the country, which are located in the administrative towns of every region. In addition, Sonapost employees sell their products directly during marketing campaigns in urban centers at businesses, production facilities and government agencies. Utilizing multiple distribution channels enables Sonapost to have a wide geographic outreach, with 70 outlets throughout the country. In comparison, competing banks and insurance companies are located only in large urban centers.

If an MFI is customer-oriented, the buying patterns and nature of their target markets should be the key factors affecting their choice of distribution channels. Other considerations include the product, the agents and the company itself.

Target market

An MFI's target markets affect their choice of distribution channels by their needs, structure and buying behavior:

- **Type of Market.** Is it a business or consumer market? If consumer, in which stage of the life cycle do most of the clients currently find themselves?
- **Market Size.** If the target market is small, MFIs normally use their own sales force to sell directly to clients. If the target market is large, the MFI may also use sales agents.
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- **Geographic Concentration.** If most of an MFI's prospective customers are concentrated in a few geographic areas, using their own sales force is practical. If customers are geographically dispersed, using their own sales force could prove impractical due to high travel costs. Some MFIs establish branches in densely populated areas and employ sales agents in sparsely populated areas.

- **Sales Volume.** When sales volume is high, MFIs often utilize their own sales force. When sales volume is low, agents may be employed to reduce costs.

- **BAAC** in Thailand utilizes their own staff for all sales. In order to serve their geographically dispersed clientele, BAAC branches are located in or near the center of district and provincial cities and field units are located at the sub-district level. Despite this, a 1998 assessment concluded that for many rural customers, the inconvenience of traveling to the branch office inhibited them from depositing small amounts of money in their savings accounts. BAAC therefore decided to test a new type of distribution channel: mobile units that collect savings at village markets, temples and other highly traveled places.

Testing for the mobile units began at two branches in 1999. Six months of testing revealed that the average balance on deposit of a mobile unit savings account was four times higher than the average balance on deposit of a branch-office savings account. Clients reported very high satisfaction with the mobile services. In addition, close client contact enabled the mobile units to be used to promote BAAC products to new customers. Initial results suggest that implementation of mobile units on a wide scale could significantly increase the savings mobilized by BAAC.

**Product Considerations**

Product characteristics have a significant impact on distribution policy decisions. For example:

- **Transaction Value.** The value of the financial transaction for a given product affects the amount of funds an MFI can spend for its distribution. For example, a bank can afford to send an employee to trade $100,000 in the inter-bank market. A bank cannot afford to send an employee to collect a few deposit balances of $.25 each from dispersed households.

- **Product Nature.** If a product is highly technical, customers will need detailed information about product usage, which implies highly trained staff for presale and after-sale service provision.

**Company Considerations**

Before choosing a distribution channel for a product, MFIs need to consider their own situation:

- **Desire for Control.** Some MFIs use only their own employees for distribution because they want to control the process, even though an internal channel may be more costly for them than an external channel. Through direct control, an MFI can promote their products more aggressively and monitor the acceptance of their products more effectively.

- **Management Capacity.** The marketing experience and managerial capabilities of an MFI normally influence their decisions regarding distribution channels. MFIs that lack marketing know-how sometimes delegate such tasks to agents.
• **Financial Resources.** The capacity of an MFI to expand may be considerably limited by their financial resources. Personnel training and development costs must be considered if an MFI wants to distribute their products using their own sales force.

- **Banco Solidario** in Ecuador employs sales agents to market and distribute their products to corporations and other large groups. In addition, they employ sales agents in locations where they do not have branches. Agents earn commissions based on the number and volume of accounts opened. Banco Solidario has several selling points for savings products in semi-urban areas that have a high concentration of informal trade and microenterprises.

**Agent Considerations**

In order to increase outreach to customers and ensure a high degree of proximity, many MFIs consider employing agents. Various aspects should be considered from the agents' as well as the MFIs' point of view when deciding whether agents will be utilized for distribution. MFIs must ensure the following before selecting a sales agent:

- **Services Provided.** MFIs should only select agents that offer marketing services they are not able to provide themselves or cannot provide economically.

- **Availability.** The agent preferred by an MFI may not be available. Alternatively, the agent may distribute competing products and, as a result, not desire to distribute the MFI's product line. Availability often differs across regions.

- **Trustworthiness.** In order to avoid fraud, MFIs must be careful to select well-known and trustworthy agents. Mechanisms need to be in place that ensure adequate incentives for agents to remain in compliance with the goals of the MFI.

- **Costs.** Agents need to receive financial and non-financial incentives to cooperate effectively. However, the costs implied must not become prohibitive for the MFI. MFIs must make comprehensive cost calculations to evaluate the full costs of utilizing agents.

- **Agent Attitudes toward Company Policies.** Employing agents may run the risk of insufficient adhesion to corporate policies. Agents may disagree with company policies. Promotion can also be more difficult to implement if agents are used for direct sales.

**3 DISTRIBUTION INTENSITY**

Once an MFI has selected their distribution channels, they must determine their desired intensity of distribution. Intensity refers to the quantity of channels that will be used at the wholesale and retail levels in each location.

MFIs normally select a single distribution channel or a limited number of them. This is referred to as selective distribution. Ithala in South Africa sells all of their products through their own employee sales force. In order to ensure strong ties to their target markets, Ithala recruits all branch staff from the local client community. The front-line staff of Ithala is 60% female and 40% male, reflecting the gender ratio of their clientele.

When entering a new financial market, or in order to serve numerous target markets, an MFI may decide on the option of **intensive distribution**, by using several, or all possible distribution channels. KPOSB in Kenya engages the services of various agencies to collect
savings on the Bank's behalf. The principal agent is the Postal Corporation of Kenya, but KPOSB also employs independent agents. Remuneration is based on business load and number of transactions. KPOSB has a widespread network located in all regions of Kenya with 494 sales points, 416 of which are post offices. In addition, marketing officers collect deposits directly from customers during recruitment drives and directly from almost 200 organizations whose employees take part in their contractual savings plans.

Under exclusive distribution, an MFI agrees to sell its products through a single middleman or agent in a given market. For example, an MFI may decide to distribute their products exclusively through post offices. Union Bank in Jamaica has done just this. By using the postal service as their exclusive agent, Union Bank has been able to offer financial services to most community members of the country through 247 post offices. The post office network in Jamaica offers an excellent infrastructure to penetrate rural markets. Post offices can be found in every community and play an important role in social interaction.

4 DISTRIBUTION EXAMPLES FROM THE FIELD

People's Bank, Sri Lanka

With 522 sales points, the network of People's Bank in Sri Lanka virtually covers the entire country. At the end of March 2000, total clientele reached 9.4 million; Sri Lanka has a total population of approximately 18.5 million people, meaning that over half of the population use People's Bank. People's bank has organized savings programs for schoolchildren in schools nationwide. Each school has its own savings committee with student and teacher members who collect savings directly from the children at school on a volunteer basis. An employee of the bank then visits the schools each week to collect the savings deposits.

People's Bank also offers a savings collection program to golf course caddies so that they can save a portion of their earnings for the future. Each caddie has a Growing Fortune for Schoolchildren savings account in his name. The passbooks are kept at the golf course. A field officer from the bank visits the golf course each week. Caddies either deposit their money directly with the field officer or via the caddie chief who deposits the money in the name of the children. Though the caddies can deposit any amount, they reportedly all save on a regular basis.

RBT Philippines

The Rural Bank of Talisayan (RBT) uses their own employee sales force for all of their sales. In order to meet customer needs, RBT previously offered clients daily and weekly pick-up services for their deposits. The transaction costs for the bank, however, were prohibitively high. In response, RBT began to offer clients a profit box or piggy bank, which the clients could keep at home and use to deposit daily savings. Piggy banks are equipped with a small lock. The key is kept by RBT's field officer. Piggy banks have proven successful. Field officers arrange to open client piggy banks bi-weekly or monthly. The number of transactions per client dropped dramatically from 22 to 2 per month, while the total amount saved increased. Several other rural banks have now copied this innovative idea.

Account Officers of RBT receive commissions based on their deposit volume, bonuses for new accounts and collection incentives based on their collection rate and loan portfolio. A contest is also held among account officers for the highest sales volumes achieved.

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1 See Meidan (1996: 212-240) for an introduction on distribution policies for financial services.