



MARKETING PLANNING FOR FINANCIAL SERVICES

ROY STEPHENSON



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Financial
Services*

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GOWER

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Preface

The financial services industry is one of the most rapidly growing in the world economy: 50 years ago, financial services accounted for less than 3 per cent of GDP in developed Europe and the US; today, that number is approaching 10 per cent (*Independent/Merrill Lynch*, 23 January 2004). But despite its size and the national and even global reach of its biggest members, the marketing function surprisingly often is not handled by specialists: too frequently, managers' career progressions include a couple of years in marketing sandwiched in between other assignments. Large banks are particularly guilty in this regard. The result is that not enough executives have the time or motivation ever to become really familiar with the tools of the trade, let alone to build up the experience which can help decision-making when, as often, there is insufficient data to point to a clear choice of action.

Accordingly, my aim has been to help managers who have been newly appointed to marketing positions in the financial services industry by presenting the basic marketing planning concepts. I have not tried to describe them in detail: there are any number of excellent text books dealing with the ideas which are only outlined here. Rather, my objective has been to show what these methods are capable of and, by setting them specifically in the context of the industry, the hope is that this book will provide a highly relevant introduction to them. It also aims to be practical: it draws on a lifetime's experience, both as a practising manager and as an independent consultant to the industry. By reflecting experience gained around the world, it also hopes to be as useful to managers in developing economies as it is to their colleagues who can rely on efficient postal services, sophisticated credit bureaux and industrial-strength data management capabilities.

The examples given are very often taken from the payments card sector. Partly, this reflects my own background; much more important is that this is almost certainly the most advanced part of the financial services industry in its use of marketing techniques. What card marketers are doing today, investment product marketers will probably be doing tomorrow.

Any book has to have some kind of formal organisation. This one is structured around the steps which would be involved in launching and subsequently managing a new product, simply because this approach seemed to provide a logical framework and to include most of the techniques and ways of thinking that I wanted to describe. The individual chapters are intended broadly to reflect the individual phases of that process. It is only fair to warn, however, that this is an attempt to impose order on reality, and the real world is a good deal less compartmentalised than the chapter headings would suggest: pricing cannot be thought of in isolation from positioning or

distribution, for example. Also, although the phased approach I propose is one which has worked well in practice, I make no claim that it is the only solution.

Readers may wonder why a book dealing with marketing planning lays so much emphasis on issues other than marketing. There are two practical reasons: firstly, responsibility for implementing the entire launch project is quite often placed with the marketing group. In this case, the product champion will need to co-ordinate the activities of all the other units which will be involved. Secondly, I believe that marketers should be able to see the business in the round: the organisation's progress and their personal development will both benefit if they understand at least the basics of finance and operations.

For those who are already hard-bitten practitioners, most of the material covered will already be familiar. However, the book may perhaps be helpful as a bringing together of everything they know and do successfully every day; at best, I hope that they may find one or two new insights.

Acknowledgements

I have had the great good fortune to work with outstanding teachers and colleagues: a hopelessly incomplete list would include G. H. Northing, Professor Gilbert Walker, Aubrey Morris, Sid Silver, Julian Waterman, Andy Sawicki, Peter Finch, Alan Kennedy, Nigel Ellis, Lenny Koven, Tommaso Zanzotto, Roger Ballou, Roger Hymas, Alex Bennigsen, Martin Leggett, Frank Kelly, Alan Deller, Keith Mills, Liam Cowdrey, Philip Beard, Ron Mazursky, Tony Clarke and the outstanding people at MasterCard Advisors. It gives me real pleasure to acknowledge my debt to all of them.

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Getting Started

STRUCTURE AND ASSUMPTIONS

There is no obviously best way of organising the material which this book covers. In the event, I have chosen to use a new product launch as the structure. The reasons for this approach are:

- It best illustrates the whole range of marketing techniques to be used.
- It emphasises that there is a logical process of thought and execution (this helps ensure a comprehensive and orderly approach, rather than the 'Ready Fire Aim' method).
- Effectively the same techniques are also used in relaunch, although the sequence of actions and the underlying thinking are likely to be a little different.

To provide a complete overview of marketing activity, the final chapter examines the issues involved in product management once the product has been brought to market.

Product launch, or any other marketing task, tends to present itself as a series of questions to be answered: 'What is the product?', 'Who is going to buy it?', 'What price should we sell it at?' and so on. To the first-timer, the number of questions seems to be matched only by their interdependence: to answer any one, it can seem that all the others need to be resolved.

But there is a sequential way of thinking about the questions, and therefore of organising the task. The structure of the text suggests a systematic approach to the project, by breaking it up into sections, such as 'product definition', 'market definition', and so on. Within each of these, the text suggests what questions the manager needs to answer, and then proposes ways of answering them.

One final point: throughout, the book assumes that the business context is that of a commercial organisation, and that the main success criterion will usually therefore be whether the product makes a profit generating an adequate return on resources invested. This will not always be the case: a mutually owned organisation, for example, may not seek to maximise profit. Equally, on the loss-leader principle, a business may continue to market a product which at best breaks even because providing it is a prerequisite for selling other, more profitable, services: an example would be a stockbroker's securities research department.

Nevertheless, the book's approach will still generally be valid: it will simply be

necessary to substitute for profit whatever other measure the organisation uses to allocate resource and measure success.

GETTING ORGANISED

Virtually all product launches begin from one of three positions:

- We have developed a new product.
- There appears to be a gap in the market.
- There is a gap in our product range.

Reasons to Launch a New Product

We have developed a new product

In response to UK Government regulations requiring the introduction of low cost so-called 'stakeholder' pensions/ISAs.

There appears to be a gap in the market

For an annuity product which has a residual value for the beneficiaries of holders who die before an agreed term of years.

There is a gap in our product range

For a payment card designed to meet the needs of small businesses.

Whichever of these applies in our case (and there may be more than one), we will be faced with answering the same questions:

- What is the product?
- How will it be produced and distributed?
- What will it cost to produce and bring to market?
- Who is likely to buy it?
- What is the competition?
- Are there any laws or other regulations which affect it?
- Do we have enough resources internally to produce, distribute, market and manage it?
- If not, where will we find them, and on what terms?
- Will it be profitable?

- How will we get internal approval to develop the product?
- How should we plan development and launch?
- How will we communicate the product to the market?
- How do we manage the product to maximise profitability once it has been launched?

Each question does not necessarily have to be answered in precisely this order: for example, it would be just as reasonable to ask 'Who is likely to buy it?' immediately after 'What is the product?' But overall the flow reflects the sequence in which the plan's components usually come together.

There is a further issue which needs to be considered when mapping out the project plan: who needs to know the answers, and why? In other words, to whom am I going to present the results of my work, and what do I expect to happen as a result?

New products have to compete with a huge variety of other projects jostling for scarce funds – scarce, that is, in the economist's sense, that there are fewer funds than claims upon them. In many organisations, these investment planning decisions are seen as one of senior management's most important tasks, and a formal process has been built to deal with them.

The process will vary from business to business but one frequently found approach is to set the project up in a series of phases, perhaps along the lines set out in Figure 1.1. The advantage of this method is that it quickly filters out those projects which fail the criteria for that phase, and therefore avoids wasting time and money. It may be thought of building a sequential series of hypotheses, each of which has to be tested, the data becoming successively more complete and the criteria more rigorous at each stage.

SUMMING UP

The first task to face anyone starting a complex project is to organise it in some way which makes it approachable and manageable. One possibility is to adopt a structure which follows an orderly sequence. This book uses the challenge of a new product launch as a way of organising the material to be covered.

With this in mind, it then becomes possible to arrange the very many questions which need answering into a sequence which makes sense. For instance, tempting though it may be to start considering the creative aspects of the launch campaign straight away, it will almost certainly be necessary first to define the product, the target market, production strategy, distribution channels, delivery systems, pricing and many other issues.

It is also possible to use this sequential approach to set up the assignment in a series of phases which will facilitate the decision-making process without wasting time or money on projects which do not meet pre-established criteria.

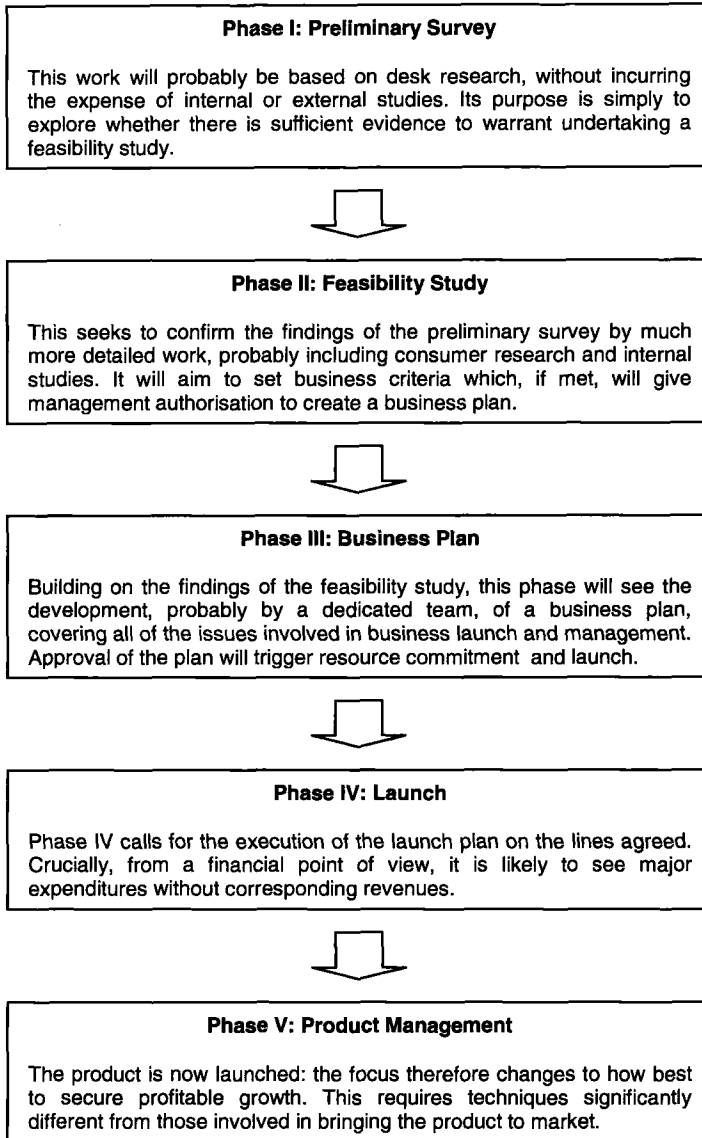


Figure 1.1 A phased approach to product marketing

Hypothesis Testing

Launching a loyalty programme in the Netherlands

Building on the success of the Air Miles programme in the UK, LMI, the company which had developed the concept, identified the Netherlands as a potential market in which to launch a similar programme. Working with partners in banking, the airline industry, supermarkets and retail, LMI took on the responsibility of examining the commercial viability of such a scheme. To do this, it established a working group with representatives from each of the major partners. The group was tasked with answering a series of questions:

Phase I: Preliminary survey

Are there sufficient market similarities between the Netherlands and the UK for there to be a prima facie case for launching a programme?

Most of the material was readily available from desk research – population size, age profile, retail infrastructure, travel habits, use of banking products, buying habits, experience with brand promotional activity.

Answer:

Yes, the market is smaller, but in all other ways there are considerable similarities. Furthermore, Dutch consumers have long been enthusiastic savers in a promotional scheme run by a leading coffee brand.

Phase II: Feasibility study

How big would the market be? Would the scheme be legal? How would members be enrolled? What would be the tax implications for savers and issuers of points? How would points be awarded and credited to savers' accounts? Would it be possible to set up a call centre to answer requests for information and award redemptions? What would be the systems requirements? How would the scheme be structured so as to be attractive to collectors while affordably creating the changes in buying preferences sought by the partners?

Answer:

In general terms, the responses to all these questions are positive. With some outsourcing, it could be done.

Phase III: Business plan

What would it take to launch the business, and would these requirements, and the consequent outcomes, meet agreed criteria?

Answer:

The requirement here was for the group to develop specific and detailed plans with goals and timings under the headings of:

- Marketing
- Business operations
- Systems
- Finance
- Human resources
- Legal

In practice, it was found easiest for specialist working groups to be set up to handle each of these themes; continuity was achieved by the overall working group which provided a permanent secretariat and was responsible for co-ordinating each specialist group's contributions into an integrated plan.

On the basis of this plan, it was possible to generate sales forecasts, systems requirements, staffing levels, a profit and loss account, cash flow statement, balance sheet and impact statements for each of the partners' businesses. These met the business requirements which had previously been established and the management committee was therefore able to give the project the go-ahead to plan for launch.

Defining the Product

INTRODUCTION

To move a product from being what appears to be an interesting idea to one which is capable of commanding substantial investment resources and generating large sales revenues, rigorous thinking is required. First, it will be necessary to ask some very fundamental questions about what the product does. More broadly, we will also need to consider the product in its commercial context – how it is to be priced, produced, serviced and marketed. Accordingly, this process will also require a preliminary consideration of topics which subsequently will be explored in much more detail. Though the questions posed are simple enough to express, responding to them will require careful thought.

WHAT ARE THE ISSUES?

The first steps in launching a new product are deciding precisely what the product is to be, who might buy it, how we are to communicate it to potential customers, how it will be produced and put into customers' hands, and what price it could be sold at. Above all, we need to ask ourselves what our brainchild will do better than products which are already on offer in the market place.

Spelling out these issues in rather more detail, we arrive at the following series of questions:

Product content

- What does it do (sometimes known as the consumer proposition, or value proposition)?
- How does it do it?
- Is it the same across all market segments? (Better-off, home-owners, young family, retired, students, sub-prime, savers, ethnic minorities, small companies, farmers...)
- If not, what segmentation structure is proposed? (For example, tiering, menu of choices, risk-based pricing, niche marketing...)

Product positioning

- What will be the product's most important characteristic from the user's point of view: convenience, price, lifestyle...?

- Will it be a stand-alone product, or will it fit into an existing range of products?

Product sourcing and delivery

- Will we be able to produce it using only our own internal resources?
- If not, who will be our partners in production?

Product distribution

- Will we be able to distribute it using only our own internal resources?
- If not, who will be our partners in distribution?

Price

- How much will it cost to produce and get to market?
- How does this compare with similar products already in the market place, if any?

Competitive advantage

- What does this product do better than the competition?

In the case of EasyLoan, it seems likely that the most important customer benefit is the speed with which the application can be processed. (In this context, note that according to a report from the New York based Information Policy Institute, prior to automated underwriting, approving a mortgage loan in the US took nearly three weeks on average. In 2002, more than 75 per cent of all loan applications received approval in two to three minutes (*CardFlash* 18 June 2003).) The other key benefit is the competitive interest rate.

The question then arises, which consumer group is most likely to react favourably to this combination of features? The answer to this will in its turn help define the communication media and distribution channels to be used. Clearly, response times measured in minutes are most effective when delivered electronically, so on the face of it, EasyLoan is likely to do best among customers who are connected to the Internet and/or have bought goods or services by phone in the past. Apart from any internal records which we may have of existing customers who meet these criteria, it is possible to buy lists of both these groups.

It may be evident from this more complex example that one of the benefits of this approach is that it compels us to think more clearly and precisely about the product to be marketed. Already, for instance, we have had to think about who the user will be, and it seems that in this case there will be two sets of users: the traveller, and a financial manager. Not only will there be two sets of users, each set will be looking for quite distinct benefits. In fact, in this particular case, to some extent the benefits are in conflict: the traveller out on the road will want the flexibility of being able to use the