The Bank Marketing Handbook Andrew

The bank marketing handbook

Kenneth Andrew MPhil, MSc
Director of Consumer Marketing – Europe
Chase Manhattan Bank NA

Woodhead-Faulkner
Cambridge

Published by Woodhead-Faulkner Limited,
Fitzwilliam House, 32 Trumpington Street,
Cambridge CB2 1QY, England
and
27 South Main Street,
Wolfeboro, New Hampshire 03894-2069, USA

First published 1986

British Library Cataloguing in Publication Data
Andrew, Kenneth
The bank marketing handbook
1. Bank marketing
I. Title
332.1'068'8 HG1616.M3

ISBN 0-85941-333-0

Library of Congress Cataloging in Publication Data
Andrew, Kenneth.
The bank marketing handbook

Includes index.
1. Bank marketing. I. Title.
HG1616.M3A53 1986 332.1'2'0688 86-13200
ISBN 0-85941-333-0

Design by Geoff Green
Typeset by Wyvern Typesetting Ltd, Bristol
Printed in Great Britain by St Edmundsbury Press Ltd
Bury St Edmunds, Suffolk

Preface

The banking and finance industry is experiencing a period of dramatic change. This has been brought about both by Government-led deregulation and also through competitive pressures in the industry. The battle for deposits and loans has never been greater and the signs are that this will further intensify in the future.

Competition abounds and increasingly it is necessary for banks, building societies, insurance companies, card companies, unit trust companies and many others to turn to marketing as a way of maintaining and growing a profitable business. The purpose of this book is to help management seize the marketing challenge and to equip people with the essential skills and methodologies of how to both manage and undertake the marketing function.

The book covers all aspects of marketing as it is applied to banking and financial services. Whilst the marketing tools available are the same as those used in other industries their specific application in the financial services industry has to be adapted to meet the special characteristics of the business. The book has therefore been written in such a way as to introduce each element of the marketing activity as it is generally used and then to describe its specific use in the banking and finance sector. A number of working examples are included and show how each element is applied in banking including loans, deposits, transactions and so on.

The book is so structured that the reader can go through the marketing process step by step from defining a marketing strategy, through the development of a plan leading to the design and implementation of a marketing campaign, ending with the question of how best to measure and monitor success. The four Ps of marketing – product, place, promotion and price – as well as people are considered as they relate to banking. Alternatively, the reader may, if he prefers, turn to the individual sections of particular interest to him whether it's direct marketing, marketing training, organisation or whatever. Each chapter contains a summary check-list which attempts to summarise the key points in that chapter.

I would like to record my sincere thanks to Gina, Lucy and Catharine for their marvellous help in getting this book into print. Also my gratitude to my family, Elizabeth, Darius and Giles for their support and encouragement throughout. Finally my thanks to The Chase Manhattan Bank NA and National Westminster Bank PLC for enabling me to test and apply the principles set out in this work.

May 1986 Kenneth Andrew

Contents

	Preface	v
1	The changing face of banking	1
2	The process of marketing	12
3	The customer	25
4	Marketing strategy – planning for success	42
5	Market research	58
6	Product development	79
7	Product management	94
8	The promotional mix	106
9	What and why do customers buy	120
10	Overcoming the customer's objections	136
11	Closing the sale	146
12	Setting the right price	160
13	The delivery of banking products	171
14	Monitoring for success	181
15	Introducing marketing training	187
16	Organisation of marketing	195
17	The future of banking	203
	Glossary of terms	211
	Index	221

1 *The changing face of banking*

1.1 Marketing arrives

Over the last decade banks throughout Europe have found it necessary to introduce marketing functions as a response to an increasingly competitive market place. The quality, integration and effectiveness of these functions naturally vary somewhat between banks.

The extent to which these new-found skills have been deployed to great effect is well demonstrated by a major British bank concentrating its attack in one geographical area of the country on the small commercial customer but only against one other major bank at a time. Not only did this approach reflect skilled deployment of limited resources but also concentrated in a catchment area in which the local management was particularly weak. Hence they used their resources to exploit the other banks' major weakness, thereby taking maximum advantage of the fact that in the final analysis a bank is only as good as its local manager. They were therefore able to meet customers' real needs with clear and identifiable benefits – a key to successful selling.

Another good example is the development of the various children's savings schemes that have been launched in the United Kingdom over recent years. One of the most interesting in terms of using many of the elements of marketing was that of the NatWest Piggy Bank which, coming last to the market in late 1983, quickly achieved a strong market share and had every capability of becoming brand leader in the short term.

1.2 Segmentation

Barclays' 'Getting Married Scheme' was a clear case of a bank identifying a specific segment and attempting to match product benefits to consumer needs. The product that was finally developed was perhaps not sufficiently innovative to succeed but clearly demonstrated a segmented approach to the market. Also, the decision by Barclays to effectively withdraw from the factoring business also reflects what will be an increasing development in the industry. Each bank will identify where their strengths lie in relation to the various segments and then attack them vigorously. In those markets where strengths are less apparent the use of third parties/intermediaries may well become more common.

1.3 An increasingly discriminating public

Arising out of improved product offerings, which are both more relevant and attractive to the consumer, has emerged a more discriminating public. There is nothing unusual about such a response from the consumer – such a development can and has been seen on many occasions in a variety of markets when the competitors sharpen their marketing approach. It is particularly relevant in banking since many people in the industry have talked in terms of consumer loyalty as evidenced by the lack of customer traffic between banks. Indeed, it is now clear that once products are offered with particular and distinctive consumer appeal the consumer is prepared to buy the product. This can lead to the whole of the customer's banking moving, but more likely it will only relate to the one area of banking business concerned.

1.4 Forceful competition emerging

As recently as 1982 Lloyds were the first bank and indeed, only supplier in the market to introduce 100% mortgages. This was not only quickly seen by the segment it was aimed at but also by a much wider part of the market who recognised convenience and a positive commitment to assist the mortgage customer. Lloyds quickly increased their dominance of the new mortgage market and also took other banking business previously with the other clearers. A clear demonstration of the customer's willingness to use other banks when considered relevant and to hold a portfolio of banking services and ultimately a willingness to switch in total.

As the barriers break down and more competitive players come on the scene so this process of multiple banking for the ordinary customer is likely to gather pace. Indeed, it is a necessary ingredient for some of the large international banks who have little desire to take all of the banking business but will search to be another source of banking products, particularly in the more profitable sectors.

The disappearance of barriers, the obvious rich pickings available, the willingness of consumers to try and switch to other brands will inevitably create much more forceful competition. In fact, this is already being seen and has been in evidence over the past twenty years. In the late 1950s in the United Kingdom market research studies revealed that banks were seen as the place to save. This is no longer the case – building societies are the clear choice of the consumer. Not only does current market research prove this to be so, but more importantly, over the past decade and more, as the banks withdrew from major competition in savings, so the building societies have moved in and exploited the banks' weaknesses, nearly doubling market share in just twelve years. This has been achieved through increasing numbers of outlets, spending large sums on advertising, most of which is aimed at savers, convenience in hours of opening and a higher rate of interest paid which had been helped by the mortgage monopoly.

Indeed, it was partly for this reason that the banks responded in the early part of this decade by moving into the mortgage market. In 1982, at the height of the banks' lending which reached about 40% of all new mortgage money lent, the building societies had been forced to introduce a mortgage rate which in turn reduced their savings rates more in line with other competitors which for a short time left the building societies several £100 million per month short in funding. This led them to look at, amongst other things, ways of gaining entry into banking operations. This included tie-ups with credit card companies, US banks and, ironically, towards the end of this period, with some of the clearing banks. The building societies decided to get into the money transmission business – the backbone of the clearing banks' operations over the centuries. One of the more imaginative developments seen was the introduction by the Nottingham Building Society of their electronic home banking. Other competitive developments are foreshadowed by the Government green paper which will enable building societies to be involved in a much wider range of products. Also overseas banks' application for Committee of London Clearing Bankers (CLCB) membership is a clear case of an aggressive competitive force about to disturb the previous relative stability of the banking world.

Another interesting area in which competition is developing in a way that will not only change the competitive forces in the market but will also impact on the structure of the market itself is in the housing transfer market and the emerging financial services being offered by the multiple retail stores group. The personal sector can be characterised very clearly by the consumer's search for convenience and simplicity. This is particularly true in the housing market – which at a total of about £120 billion outstanding is the largest of the personal credit markets in the United Kingdom and accounts for nearly 80% of all personal credit taken by the consumer. Clearly, this is not only an important market but a vital one for the banks to be in as a major force. Market research has shown that the consumer entering this market is seeking an opportunity to minimise his stress and to reduce the number of different people he has to see in order to undertake a housing transaction – which, incidentally, is likely to be the biggest and most important financial transaction in his life. At present in the United Kingdom he is more than likely to see an estate agent(s), vendors, solicitors, banks, building societies. In recognising the need to simplify and build business opportunities Lloyds Bank entered the estate agency market by acquiring a number of agencies and is now one of the largest estate agencies in the country. At another level, some banks are known to be seriously considering the conveyancing market (which makes up 70% of solicitors' business and is clearly their bread and butter), and some solicitors in London have responded to this and other competitive pressures by setting up an estate agency. Estate agencies themselves are improving the technology by using the computer to provide a useful service to customers wishing to move from one part of the country to another. Finally, Debenhams have in some stores set up notice boards with houses for sale, thereby bringing themselves into direct competition with the estate agencies – a very natural and sensible development that has great prospects in terms of producing a national network in the housing transaction market.

At the same time as this last development some of the major retail groups such as Burtons, Marks and Spencer, British Home Stores and others are entering the credit card business as an entry to the financial services market. Linking the Debenhams development with the other store movements and the evolving technology, it is not too hard to see that there is the potential for a major dislocation and reorientation in these markets. In fact, the banks and building societies have the best opportunities of all in rationalising the market and taking advantage of a clear consumer need and moving into the position of providing one-stop convenience in housing transaction. Should this develop, the building societies will need to reassess their current savings strategy, particularly with regard to the use of third parties since they currently use a wide network of estate agents to gather funds.

Against the unstoppable tide of competition coming along this new force is being assisted by the breaking down of barriers to entry. This can be seen with the collapse of the cartel in transmission business that has previously been protected through the CLCB. This process is being encouraged by the Government and the Office of Fair Trading. As mentioned above, the more aggressive players have already knocked on the door of the CLCB and, following the Child report, it would now seem likely that new CLCB members will appear in the not-too-distant future.

1.5 Technological developments

Another more explosive factor in breaking down the barriers, however, is the impact of technology on banking systems. The advent of the micro-chip and the way this has driven down costs has provided the opportunity for relatively low-cost technology solutions to areas of money transmissions which provide a much higher quality of service and convenience to the consumer.

The advent of the automatic teller machine (ATM) took place over a decade ago and the consumers' positive response took the banks by surprise. The ATM is a fast, generally reliable, convenient mechanism for one sector of the money transmission market and a route which has been identified as worthwhile by the larger building societies. At a second level of technological change, a number of banks are already experimenting with money transmission at the point of sale, typically at petrol stations linked into a banking network but also at other points in the consumer purchasing routine. In this connection the CLCB commitment to deliver on Electronic Funds Transfer at the Point of Sale (EFTPOS) will take direct payment systems into the major retailers and take away the need for writing large numbers of cheques. These retailers themselves may ultimately decide to become more directly involved in these transmission systems, thereby disintermediating the banks. Parallel developments have, of course, been seen for a number of years now in the corporate sector and on an international stage with the Clearing House Automated Payment System (CHAPS), the Clearing House Interbank Payment System (CHIPS) and other systems.

At the same time as these improved services come on stream, there are wider consumer changes taking place which when linked to technological changes could provide a very different structure to banking markets. As already mentioned, consumers generally look for convenience in their transactions and within the next decade the technology will provide for highly sophisticated consumer purchase systems in the home through television/telephone/computer networks. Banking will be one part of this – indeed, the first entrant into this market, the Nottingham Building Society with Homelink, has made the necessary links with some retail outlets for this to take place. Homelink is probably a little ahead of its time and is undoubtedly not as easy to access and use as will be the case in the future. The micro-chip, therefore, has enabled barriers to come down and the cost of entry to be sharply reduced.

1.6 The impact of Government

An important factor in the spiralling surge towards competition is the encouragement and action of the Government. In part, the philosophical and political orientation of the Thatcher Government lends itself naturally towards encouragement of competition. However, they have not stopped at mere exhortation and have introduced policies to even out discrepancies in the way different parts of the financial services industry are treated and have further plans to deregulate, particularly with regard to building societies.

Furthermore, Government has become a major factor in the financial services market and has materially affected the pattern of activity between competing institutions both through fiscal policy and directly as a competitor. The banks experienced a swingeing attack on their capital base a few years ago which effectively wiped out five years' profit retentions. More recently they introduced fresh fiscal changes which changed the rules of tax allowances on leasing operations and has led to the banks seeking fresh capital. Even today the Government is talking of introducing a special financial services tax, probably motivated by a continuing need to fund the deficit in the easiest way possible. All of these actions stem from a government committed to the profit motive, keen to see effort rewarded and encouraged and an administration supportive of the capitalist system. If these are the actions of such a government, what will be the actions of other governments?

Not only are the banks under continuing attack from Government through their economic and fiscal policy but also the enormous appetite for funds means that Government is a major competitor for savings. It is an interesting feature of the post-war savings market that whereas the building societies have grown their market share at formidable growth rates, they have done so at a time when consistently the Government savings schemes through National Savings have had the more attractive rates. It is in fact only in very recent times that when the Government really tries it can have major discontinuities in the market. The 28th Savings Certificate in just six weeks in 1984 took substantial funds and quickly achieved its objectives, so much so that it had to close the offer and replace the 28th Issue with the 29th at a less attractive rate.

A final area in which Government is playing a major role in creating dynamic change is through the abolition of barriers and the push towards deregulation. These moves can be seen worldwide, not just within most of Europe. In the United Kingdom there is another dimension to this movement through the encouragement towards wider private share ownership best reflected by and stimulated through the Government's privatisation programme. In November 1984 shock waves went through the savings market, mostly felt by the building societies, when British Telecom was floated on the Stock Exchange at a figure of £4 billion. Whilst some of these stimuli for change are particular to the Conservative Government, the role of vigorous competitors and change agents is likely to be seen reflected through any government of whatever political persuasion.

1.7 Margins are reducing

The process of change and increasing competition has inevitably led to an attack on margins. This can be seen in many sectors, particularly where large margins hitherto existed. In fact, the first sign of this occurred in the early 1970s when the US banks took a large part of the 'blue chip' corporate lending market when they introduced more sophisticated and knowledgeable lending officers and provided money at considerably lower margins than the then standard minimum 'blue chip' rate of 1% over base rate. Indeed, this development started a highly competitive environment on the 'blue chip' business with margins being driven down to extremely small levels, forcing some banks to reassess their positioning with the 'blue chips' either by putting more emphasis on the small/medium-size business market and/or introducing added value fee-based services such as cash management systems.

Again in the commercial sector but in more recent times, one of the clearing banks with small market shares in the agricultural sector and amongst solicitors/professions attacked market leaders with improved products at lower margins. In the case of the agricultural market their approach was to attack one region at a time and offer similar facilities as the existing bankers but at a rate of 1 to 1½% over base rate. In the case of the solicitors' market, the attacking bank again used price as a weapon. In both cases significant business moved to the bank concerned and as a result brought amongst other factors a pricing response which reduced margins overall.

Interest on current accounts and high interest savings accounts have been in operation for the past few years, once again reducing margins. Wherever effective competition is seen to take place and look-alike products exist, the effect has been to reduce margins. A response to this which has proved to be successful is to provide value-added products which maintain a reasonable margin. Three good cases of this are Leicestercard which Leicester Building Society introduced to protect and build savings account volume by offering value-added sales promotion without increasing interest rates. Secondly, the NatWest children's products were launched last into the market at simple deposit rate, and charged an entry fee. One reason for the success of these schemes is the clear added value inherent in the schemes and the strong incentive built into them to encourage the growth of savings. Finally, Nottingham Building

Society's Homelink enabled them to pick up useful transaction fees whilst losing balances at the time of the British Telecom £4 billion flotation.

1.8 Credit is easier to obtain

With rising competition from increasingly aggressive competitors, a number of attitudinal changes are taking place. Notably, this is being seen in the lending market. The ease of credit made available by financial institutions is only matched by the desire of the consumer for ease and convenience in obtaining credit. As mentioned previously, the advent of the US banks in the London market in the early 1970s and the pursuit of the agricultural market more recently are both examples of the ease with which credit can now be obtained and this leaves aside the attractive Government schemes to support small business and start-ups. Furthermore, in the personal sector it is now possible to obtain credit without seeing the credit provider. For example, finance can be raised through credit cards, finance houses and others. This is a very different story to fifteen years ago when the customer would have to plead his case with the bank manager, who incidentally is often seen as the man who writes 'tough' letters to customers who overdraw, albeit temporarily, without agreement. The mood of opinion and availability of the credit market has dramatically shifted, thereby reducing the special role of the branch manager and his assessing the individual. This has reduced the importance and standing (almost positioning) of the banks relative to the more 'sexy' organisations such as credit cards and the like.

1.9 Staff changing

Finally, but by no means least of all, is the changing nature of the largest asset of all in the clearing banks, namely staff. Management seem to be caught in a difficult dilemma of how to contain their most costly yet important resource of staff.

Numbers of people employed have now just about stabilised but the banks generally have yet to find the answer to how best to mobilise and encourage the better staff whilst creating a climate of excellence by positive action against the less-effective performer. Banks have an excellent employment record and are recognised as being good employers. However, there is a tendency to operate personnel policies which work to the average performer and rewards success at some stage in the future typically towards the end of the person's career.

Another aspect of staff management which will change in the future is the position of the banking unions. Until now in the United Kingdom the staff have been represented by two staff bodies in most banks which in turn has weakened their bargaining power overall. With reducing margins and the impact of competition, so the strains are likely to show up in management/staff relations. Increasingly the annual pay award is creating tensions as is the move to the use of more technology and redundancies appearing in some of the banks. These tensions will bring more incentives to rationalise differences between staff bodies and create conditions for a merger in due course which in turn will make the unions' side much tougher.

The industry is therefore beset with a multiplicity of change, challenging and threatening in many ways, bringing with it a whole new raft of problems. Set against this background marketing is seen as one way of responding to some of the issues and yet this discipline in itself has problems in truly functioning in the banking culture.

1.10 Summary checklist

1. Marketing functions are now being introduced in banking and financial services companies with varying degrees of effectiveness.
2. Banks are beginning to attempt to segment the market.
3. The consumer is becoming increasingly discriminating towards banks and their products.
4. Competition is becoming more aggressive from new and established competitors.
5. Technological developments are breaking down barriers to competition and creating increased opportunities for everyone.
6. Government is creating important change through deregulation, economic policy and its own role as a competitor.
7. Profit margins are declining in all sectors of the business due to increased competition in established markets.

8. Credit is much easier to obtain today in both personal and corporate sectors.
9. Staff issues are changing with the move to one union in the industry and the need to introduce new skills, particularly marketing skills.