
Marketing Financial Services

Book 1

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1 The Role of Marketing

Objectives

By the end of this chapter, you should be able to:

- Explain and describe the concept and the practice of marketing.
 - Outline the nature and evolution of marketing in the financial services sector.
 - Differentiate between the marketing of products and the marketing of (financial) services.
 - Explain how an organisation markets its products or services.
 - Outline the major elements of the environments which influence the marketing activities of financial services organisations.
-

Introduction

What is your perception of marketing? Is it a key component of selling? Is it advertising? Is it public relations?



Quick question

Write your own definition of marketing.

Write your answer here before reading on.

While marketing embraces selling, advertising and public relations, its total sphere is much broader, representing an overall business philosophy. Let's examine three definitions:

"Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably."

Constitution of the Chartered Institute of Marketing (2003)

"Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives."

Constitution of the American Marketing Association (2003)

"Getting the right goods, to the right people, in the right place, at the right time, at the right price, with the right level of communication profitability."

Chartered Institute of Marketing (UK)

The first definition provides a concise summary of the aim of marketing. The second more clearly defines the tools through which marketing realises its objectives, while the third covers the key elements of marketing.

The aim of marketing is to identify target markets and develop products and services that will meet the needs of consumers in these markets both now and in the future.

If an organisation is serious about its marketing, then it will strive to understand the needs of its current and future customers, as well as having a sound understanding of what its rival organisations are offering the market. To be successful, the organisation needs to understand how its market operates, and the organisation will integrate its operational activities around the conditions in the market.

The role of marketing

You can now see that marketing is about a lot more than designing press and television advertisements! The marketing function calls for an analysis of present market conditions and the devising of a strategy that will meet the needs of the market as the organisation moves forward.

Marketing is very closely aligned to the success of any business, whether that is an international financial services organisation or a corner shop. To survive and grow (or, in these fast changing times, even to stand still) an organisation has to be able to satisfy the needs and wants of its customers. If this is achieved, these customers will not only come back for more products and services, but will also recommend the products and services to other potential customers.

Quick question

What factors must these products and services have if they are to satisfy the customer's needs?

Write your answer here before reading on.

To satisfy the customer's needs, there must be an acceptable level of quality, reliability and service – both at the time of sale and after the sale. In addition, the offering must be made at the right price and must be available in the right locations. Even if all of these factors are present, the organisation must let the potential customers know about the offerings – in other words, what the business has to offer the market must be communicated to potential customers, both cost effectively and in terms that these likely customers can understand.

If all this is to be delivered to the market, the organisation must know what customers need and want – both now and in the future. The organisation must also be aware of the trends in the market and of developments that are likely to affect the business itself and the needs of the customers. In other words, the business must have a clear understanding of the marketing environment.

Quick question

What factors do you think comprise the marketing environment?

Write your answer here before reading on.

The marketing environment

Included in the factors that make up the marketing environment are:

- social trends
- technological factors
- economic trends
- legal, regulatory and political factors.

Once the organisation has an understanding of the customer and the environment within which it operates, it is then in a position to develop a marketing strategy. Even a large multinational financial services organisation will not necessarily choose to offer products and services to everyone. Instead its strategy will focus on the target areas – or segments – which its analysis will have determined are the most attractive to that organisation. We will look at the concept of segmentation later in Book 1.

However, the organisation is not operating in a vacuum. Unless it is in the unlikely position of operating in a monopoly situation, it will need to compete for business with rival organisations. It may be that the customer can obtain a similar product or service from a rival organisation; for example, a customer may choose to buy a money transmission account from your company or the rival next door. Alternatively, the customer may choose a different solution altogether; for example, instead of commissioning a mural for the nursery in their home, the customer may opt to have a high quality decorating job carried out by a firm of painters and decorators.

Once the organisation has chosen what segments it will make its offerings to, the decision must be made as to how to deliver to the market in a way that gives the organisation an advantage over its rivals. Then, when this strategy has been developed, the business must make marketing mix decisions. If you look on the strategy as the long term marketing goal(s) of the organisation, the marketing mix decisions are the tactical choices that the business must make in order to deliver this strategy.



Quick question

What factors do you think would come into the marketing mix decisions?

Write your answer here before reading on.

Marketing mix decisions

While we will examine the marketing mix in much greater detail in Book 2, the types of decisions we will be looking at revolve around the following areas:

■ Product decisions

What products or services will the organisation offer to the market? Decisions will cover what new or amended products the organisation wants to offer to the market, and how these are tested. Branding decisions are also considered here.

■ Price decisions

What price is to be charged for these products? For example, in a price sensitive market, is the decision on price to attract a lot of customers to the product, or is the organisation going to set a higher price in exchange for a more discerning client who is willing to pay a premium for a more personal service?

■ Place decisions

Where is the company seeking to carry out business? In the past twenty years there has been an explosion of the range of delivery channels that financial services organisations use to reach their customers. In the past the main delivery channel was the high street branch, and whilst this can still remain an important tool for some organisations, other methods now used include the internet and telephone banking, supermarket banking, etc. Decisions on these delivery channels will fall under the “place” heading.

■ Promotion decisions

How is the business going to let potential customers know what they are offering to the market? What are the most suitable media by which potential customers can be informed about the organisation’s products and services?

■ People decisions

Who is the organisation going to employ? How are these people to be trained and developed? How are they to be rewarded?

Whilst these areas – commonly referred to as the “5 Ps” – have traditionally made up what is known as the marketing mix, two other areas have been added more recently:

- physical evidence
- process.

We will look at all of these areas in much more detail later in the course.

As you have already seen, there is not only one definition of marketing. However, a number of common themes run through the most generally accepted definitions.



Quick question

What areas do you think are included in explanations of marketing?

Write your answer here before reading on.

Further features of marketing

The main explanations of marketing will cover:

- satisfying the needs and wants of the customer
- identifying and making the most of the marketing opportunities that are presented to the organisation
- identifying the most suitable customers for the organisation, and targeting promotional activities to ensure that these customers hear about what the organisation can offer in a comprehensive and cost effective way
- building and maintaining a competitive advantage over rival organisations
- making the best use of the resources that are available to the organisation
- increasing profitability (against predetermined measurements) and market share
- satisfying the needs of the key stakeholders in the organisation, for example, shareholders, customers, managers, staff, creditors, the wider community, etc.

To simplify this, what we are looking at is the ways in which the organisation is able to meet its chosen customers' needs and wants in a way that gives an acceptable return to the organisation and its stakeholders.

Drilling down into the definition

Having looked at what marketing is at a high level, we will now look in a little more detail at what the definition of marketing means in practical terms.

As we have already seen, the range of people involved in the organisation's marketing effort can be wide and varied. Indeed, some of the activities may be outsourced to external organisations such as advertising agencies. However, it is difficult to think of a business that has no marketing effort at all – even a one-man plastering business which relies purely on word-of-mouth referrals will still carry out some marketing activity such as designing and printing flyers and business cards to leave with satisfied customers to pass on to family and friends.

As a result of marketing activities, exchange can occur. In other words, one party can provide goods and/or services to another party in exchange for something of value – usually money. This exchange should bring satisfaction to both parties, and if it does not, then it is unlikely that any subsequent exchanges will take place between these parties. The marketing activities should therefore work towards the creation and maintenance of satisfying exchange relationships.

The environment within which the buyers and sellers operate is not static. Technology, the economy, society and legal, regulatory and political forces are dynamic which means that, as each one of these factors change, there will be a consequent effect on marketing activities and how they help to facilitate exchange.

Quick question

Under each of these headings, give an example of changes and their impact on the marketing environment:

Technology

Economy

Society

Legal, regulatory and political forces

Write your answer here before reading on.

The examples that you have chosen will vary, but here are some illustrations:

Examples

- Technology – developments in the internet and telephony systems available to financial services organisations has changed the ways in which many customers now interact with their financial services provider.
- Sustained economic growth and low levels of inflation and unemployment have increased the demand for savings products (as many customers now have more surplus funds to invest) and lending products (as customers have more faith in the stability of their employment, they are therefore more likely to take on longer term borrowing commitments).
- A societal change such as the introduction of more flexible working arrangements has allowed more women to return to the workforce after the birth of children.
- The change in the role of financial services regulation since the late 1990s has seen the increased prominence of the Financial Services Authority and its impact on financial services organisations.

As we have now seen, marketing is about more than the promotion of products (although that is still a key facet of the marketing mix). If we look back to the Chartered Institute of Marketing's definition at the start of this chapter, we will see that it is also about getting the right goods, to the right people, at the right time and at the right price, therefore we are also looking at distribution, pricing decisions and the people involved in these.

By taking this wider view we can see that marketing lies at the core of any organisation. By carrying out marketing activities in a planned and thorough way, the business will have a better understanding of the needs of its customers and will have a better grasp of what the competition is doing and what the future trends of the business are likely to be.

We are all customers in some aspect of our lives. Don't lose sight of this as you work your way through this course. We prefer to buy rather than to be sold products and services. If you are confronted by an ill trained sales person and it becomes transparent that their key driver is to meet their target, this will undoubtedly affect your decision making process. The converse influence is achieved if you are provided with high quality advice and service that is very much directed towards meeting your needs.

The development of marketing

In this section we will start by looking at how marketing has developed from the mass production era and then more specifically at the evolution of marketing in the financial services sector.

It is generally accepted that the marketing era in business is actually the third major era in business history. The first two were the production era, followed by the sales era.

The production era

In the second half of the nineteenth century, the industrial revolution was well established. As a result, goods were produced more efficiently and at a lower cost, due to the improvements in transportation, the development of factories, the division of labour, etc. As technology developed, more and more goods were flooding into the marketplace, and the demand by consumers for manufactured goods was strong. This focus on production continued into the early part of the twentieth century.

The sales era

From the 1920s onwards, the previously strong consumer demand for products began to subside and entrepreneurs began to realise that just supplying goods to the market was no longer enough to obtain sales. It became apparent that these goods would need to be “sold” to potential consumers. From the mid-1920s until the early 1950s, businesses were able to grow their profits by increasing sales which is why this period of time gained the reputation of being sales-focused. The most important marketing activities therefore were advertising and personal selling.

The marketing era

By the 1950s it was becoming apparent to some entrepreneurs that efficient production techniques and effective promotion of products was not going to be enough to guarantee sales. Things were turned on their heads as businesses realised that the first step in gaining sales would be to find out what it was that the customer wanted to buy and manufacturing this, rather than making manufacturing the first activity and then trying to manipulate customers’ tastes to create a demand for the product.

This realisation was the dawn of the marketing era – when customer orientation came to the fore, but this was not the end of the matter. By the 1960s, most organisations were aware of the importance of marketing and invested in their marketing functions, but the predominant view of marketing was still transaction-based. As a result, the focus was to identify customer needs and wants, ascertain the appropriate target markets and become successful through appropriate marketing campaigns. The drawback to this approach is that it tends to focus on isolated, one-off transactions. Recognition was growing that whilst these transactions were important, if the organisation was to continue to prosper, longer term relationships with customers needed to be developed. Thus relationship marketing was born.

Relationship marketing refers to the building of long term relationships with customers, which will benefit both the customer and the organisation, through increasing the quantity and the quality of exchanges. Thus over time the customer builds trust in the organisation and the organisation better understands the customer and so is in a better position to meet their needs.

As the era of relationship marketing has grown, this idea of relationship has widened from simply the organisation and the customer to relationships with suppliers, referral partners, influencers, etc. The idea of relationship has also extended to staff who must be motivated and have a clear idea of the organisation's marketing strategy.

The idea of relationship marketing is vital within the financial services sector and we will refer to this as the course develops.

The evolution of marketing in the financial services sector

In the past, marketing was seen as the concern of manufacturing industry with little or no relevance for a service industry such as banking. A banker was regarded as a professional, offering services to those who sought them rather than as a business person trying to sell products to new and existing customers. Competition was severely limited. There was little or no advertising, prices were fixed through a cartel, hours of opening were uniform and the range of services available varied little from one bank to another.

By the 1970s the position was changing. While the major clearing banks did not compete amongst themselves on price, there was growing competition among their subsidiary companies. Controls on lending, which had held back the clearing banks, diverted business to other financial institutions such as finance houses. Newcomers, such as the US banks which had opened London offices and well established rivals such as building societies, added to the pressure.

In the 1980s, shaped by the forces of deregulation, financial and technological innovation, social change and competition, the market for retail deposits became a market for a plethora of financial services. Competition increased between banks, other financial institutions and non-financial organisations. This continued into the 1990s with:

- a number of building societies converting into banks
- retailers such as Marks and Spencer, Virgin and Tesco offering investment and bank-related products
- assurance and insurance companies offering bank services
- computer software companies developing computer-based financial services

- car manufacturers and utility providers offering credit cards
- motoring organisations and exhaust replacement companies offering insurance.

In response, UK retail banks have adopted marketing strategies that reflect the demands of their customers. Particular concern is being placed on the building of customer loyalty through the development and maintenance of enduring, long term customer relationships.

The impetus for developing relationships has been the growing awareness of the following two economic arguments:

- It is more expensive to win a new customer than to retain an existing customer. Recruiting new customers is a costly business involving advertising costs, selling costs, credit-checking costs and administrative costs. It has long been claimed that it is up to ten times as expensive to obtain business from new customers as additional business from existing customers.
- The longer the association, the more profitable the relationship between the bank and the customer. A customer has a lifetime requirement for financial services and therefore a potential lifetime value to the bank. If we consider a basic money transmission account, in the early years there are likely to be high transaction levels, low balances and low profits for the bank. Profit comes with customer maturity, through higher income, higher balances, lending services, deposit products and insurance commissions.

A transaction-oriented view of the customer would consider the sales value and profitability of each single product or sale. A relationship-oriented view of the customer considers the revenues and contributions earned from a long term relationship with a customer. When customers leave a bank, they not only take profit with them from current transactions but all future profit also.

To develop relationships effectively, banks are having to understand their customers better through the collection and interpretation of information about their customers' circumstances and requirements. Careful planning of both the positioning of the bank and the provision of services is undertaken to meet customer needs. Activity is then monitored and evaluated to compare performance against the plans.

From this commentary on the evolution of marketing both generally and within the financial services sector, you can see the close link between marketing and customer relationship management (CRM). They both embrace every area of the business comprehensively, with the ultimate aims of identifying and meeting customer needs, maximising customer retention and attracting new business.

This chapter opened by asking for your perception of marketing. Marketing is significantly about perception. Most people assume that the ever-present challenge to attract customers is achieved by the financial services organisation providing the best

products and services. Those that succeed are the providers whom customers believe are the best. Obviously the quality of products and services is important but the customer is also influenced by other factors such as their perception of brand, reputation, competitors, status, etc. The real challenge is to win over their minds.

How is this comprehensive marketing approach achieved? Competitive pressures and increasing customer sophistication have caused many in the finance sector to rethink their positions, both broadening their approach and placing greater emphasis on a marketing concept.



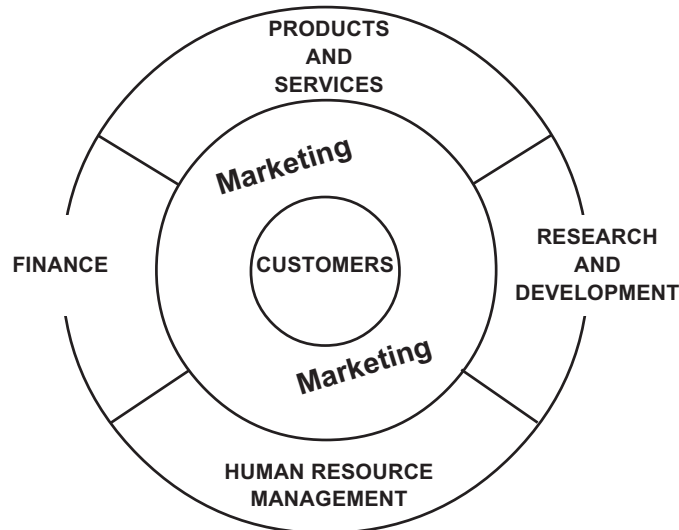
Question time **1**

List some of the reasons why customers may wish to end their relationship with a bank.

You will find some ideas at the back of the book.

The marketing concept

As we discussed earlier, marketing is now seen as a fundamental component in the planning process of any business operating in a competitive environment. The marketing concept embraces the whole organisation as it strives to meet its objectives which are achieved by understanding and responding to ever-changing customer needs.



(Adapted from "Marketing", Geoff Lancaster and Paul Reynolds)

As you can see, the customer is at the centre of the business and is effectively the most important person in the organisation. This customer-centred approach is fundamental to the marketing concept. In other words, the marketing concept starts by defining who the customers or potential customers are, focusing on their particular needs, then coordinating all of the activities required to fulfil these needs. The organisation produces profits through creating customer satisfaction and an overall enhanced customer experience.

Customer satisfaction is critical because:

- an organisation's sales come from two groups – new customers and existing customers. It is estimated that it costs up to ten times as much to secure a sale from a new customer than to sell to an existing client. Customers remain loyal to their financial services provider if they feel satisfied with the service they receive.
- if a customer is satisfied with their provider, there is a strong possibility they will mention it to friends and colleagues and so generate referral business. In some quarters the power of "word of mouth" has become known as "viral marketing", ie it spreads like a virus. This should in no way be underestimated; it is thought that around 50% of all new clients are generated in this manner. Equally, this can of course work against you with dissatisfied customers found to convey their displeasure to eight to ten people – one in five will tell twenty! Obviously, this will have a detrimental impact on both the image of the organisation and its sales.

Loyalty and relationship marketing

All financial organisations are focusing on long term relationships with a view to:

- acquisition
- satisfaction
- retention.

Relationship marketing within financial services has evolved as a means to achieve these objectives and provided a vehicle for the transition from the conventional transaction-based marketing approach to the more interactive activities facilitated by more sophisticated customer databases.

Most financial services organisations realise that markets do not contain an infinite number of new customers. Retaining customers and maximising their lifetime value through relationship marketing is based on the supposition that it is more cost effective to cross-sell to an existing customer than to acquire a new one. Remember the cost, not to mention the effort that it takes to induce satisfied customers to switch away from their current suppliers.

Therefore a customer should not be seen as the purchaser of a series of discrete transactions but rather as someone with whom the organisation has an ongoing relationship. This means that the organisation should be anticipating what each customer is likely to need throughout their life and when they are likely to need it. This is dependent on:

- the organisation being knowledgeable about the characteristics of its customers – most, if not all, financial services organisations have developed customer-based computer systems which hold data on the characteristics of each of their customers and their behaviours. A large amount of this information is collected by front-line staff or contact centre advisers during meetings or discussions with customers. By combining this information with:
 - geodemographic data
 - transaction data
 - family life cycle information
 - details of customer balances
 - details of other products held

a financial services organisation can ensure that customers are only targeted with products and promotions that are appropriate to their circumstances and needs. The organisation's success at doing this is dependent on the accuracy of the data that is held and the frequency with which it is updated.

- the organisation maintaining customer loyalty – in order to increase loyalty, financial services organisations employ a number of marketing tools such as:
 - newsletters to keep customers informed

- cross-selling programmes
- relationship pricing (special reduced prices for customers who consolidate a number of their requirements from one organisation)
- freephone numbers to handle customer enquiries and complaints.

The emphasis of any relationship marketing activity should be on maintaining relationships with profitable customers.

Quick question

How would you define a “profitable customer“?

Write your answer here before reading on.

A profitable customer is a person, household or company that yields a revenue stream over time, exceeding by an acceptable amount the organisation’s cost stream of attracting, selling, and servicing that customer.

Note that the emphasis is on the lifetime stream of revenue and cost; in other words, the lifetime value of the customer rather than the profit from a particular transaction. There is therefore a need to target relationship activity on customers who are likely to have a positive lifetime value to the organisation. Care should also be taken to retain these customers, which involves the following actions:

- The organisation must define and measure its retention rate. How many customers close their accounts and move to another financial services organisation?
- The organisation must distinguish the various causes of customer attrition. Not much can be done about customers who leave the region served by the organisation or who go out of business, but much can be done about customers who leave because of poor service, poor products or better interest rates. The organisation therefore needs to identify why people are leaving.
- The organisation needs to estimate how much profit it loses when it loses customers unnecessarily. What would have been the typical lifetime value of these customers?

Example

An average customer using one or two transactional-type products could be worth around £500 in terms of profit contribution to a financial services business over a ten year period; whereas a customer using a number of products, including a mortgage and insurance, could be worth as much as £5,000 over the same period.

- The organisation needs to determine how it could reduce the defection rate. As long as the cost of the necessary actions is less than the lost profit, the organisation should consider spending that money or changing their interest rate, etc.

If the customers can be retained and satisfied, they should provide major cross-selling opportunities. Taken a stage further, this can lead to a customised approach to individual customers making relationship marketing a key component of customer relationship management.

Customer relationship marketing

The main objective of CRM is to generate long term, mutually beneficial customer relationships. Integrated CRM procedures provide a comprehensive approach to customer service covering acquisition, satisfaction and retention.

Core to the provision of the desired levels of service and customer care is an ongoing understanding of the customer's needs and requirements. Identification and anticipation of these needs is factored into the marketing plan and subsequently into the overall corporate business plan. From this you will appreciate that the marketing plan greatly influences other areas of the business. We shall investigate how this is researched later in the course.

Regardless of their role within the organisation, every member of staff has a responsibility for both customer satisfaction and the marketing concept. Marketing is not simply the domain of the marketing department. The concept must be embraced by everyone in the organisation.

The marketing concept may seem obvious, but as customers, we can often meet attitudes from staff which run counter to this precept.

Marketing mismanagement

To appreciate the value of marketing, it is essential to be able to identify the elements of customer dissatisfaction and marketing mismanagement. Read the following case studies and identify the marketing incompetences.



Case studies

1

You are in a bank branch as a customer. For five or six minutes you stand at the enquiry counter waiting to amend a standing order. When someone does arrive, you express your annoyance at having to wait for service. The member of staff is clearly very indifferent to your concern.

2

You are a 68 year old retired widow living in your own home and you are continually receiving direct mail letters from your financial services provider offering you student banking facilities, mortgages and credit cards. You have contacted your branch manager requesting that this activity be stopped. He states that there is nothing he can do as all of this material is sent out by "the head office computer".

3

You have unexpectedly overdrawn below the free banking limit (by £10) for the first time in eight years with the organisation. You receive a standard letter from your local branch informing you of this and setting out the charges.

4

Every week you receive a cheque for your wages and therefore you enter the branch once a week to pay the money in. You do not enjoy the experience as there is often a long queue. In addition there always seems to be a shopkeeper paying in bags of coins at the front of the queue.



Question time **2**

Having identified the areas of dissatisfaction and marketing incompetences in the case studies, devise a marketing-oriented solution to each of them.

1

Continue your answer on the next page.

2

3

4

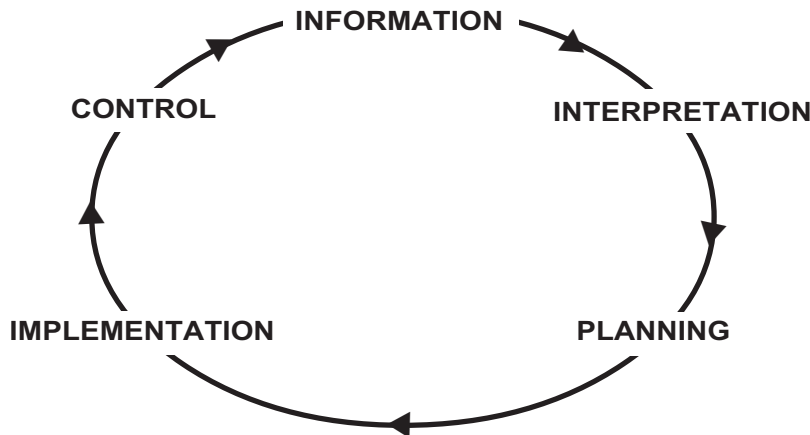
You will find suggested responses at the back of the book.

If an organisation does not fully adopt a marketing orientation, it is generally not as a result of the management failing to realise that the customer is important, but rather that they become more involved in other elements of their organisation and eventually come to consider these to be as important as customers. The bigger the organisation becomes, the easier it is for the managers to see the complex and demanding process of managing the organisation as the central purpose of the enterprise. Financial services firms, like any other organisations, can start to believe that financial management, staff management and technology management is the purpose central to the organisation. Always be mindful of the old adage – “customers pay the wages!”. Without customers, we don’t have a business!

As already stated, marketing has to be an ethos spread throughout the whole organisation and not limited only to those who are in immediate or direct contact with the customer. Everyone in an organisation has a customer, even if it is internal customers in other departments within the organisation, and their job should be to ensure customer satisfaction. The more this customer satisfaction ethos can be spread through an organisation, the better it will produce its end products and services.

What does marketing involve?

In practice, marketing involves the following elements:



In each of these elements there are techniques and tools to be learned, but in addition, it is the logical and, indeed, creative application of these to the situations an organisation is faced with which will make the difference between the good and bad marketer.

We will now look at each of the key elements, as set out in the diagram.

Information

There are three main areas in which information for our professional purposes is required:

■ Customers

The marketing concept can only be realistically implemented and relationships can only be developed when adequate information about customers is available. To find out what satisfies buyers, marketers must identify who their customers are, their characteristics and the main influences on what, where, when and how they buy. By gaining a better understanding of the factors that affect customer behaviour, marketers are in a better position to predict how consumers will respond to the organisation's marketing activity.

■ Competitors

In addition, information has to be gathered on the actions of an organisation's competitors. In order to maintain some form of advantage over competitor organisations, marketers should monitor what competitors are currently doing and assess the changes that are occurring in competitive actions.

Comparison of performance relative to competitors helps marketing managers to recognise strengths and weaknesses in their own marketing strategies.

■ Marketing environment

As already discussed, the environment consists of a large number of variables outwith the control of an organisation which have an influence on the marketing activities of that organisation. These variables, such as government policy, the economy and technology, have to be monitored continuously if an organisation is to keep pace with changing customer and market requirements.

All of the above information types – customers, competitors, marketing environment – have to be collated and their implications for an organisation's marketing activities have to be assessed.

Interpretation

Although uncertainty is inherent to decision making, the gathering and interpretation of information can make the process more objective and systematic.

The use of information represents a transition from intuitive to scientific problem solving. In relying on intuition, managers do not look for any information other than personal knowledge or experience. However, in scientific decision making, managers take an orderly and logical approach to gathering information, they seek facts on a systematic basis and apply methods other than trial and error. It is not suggested that intuition has little or no value. Successful decisions blend both research and intuition. Research and information, however, help to reduce the risk of error.



Quick question

What is the purpose of market planning?

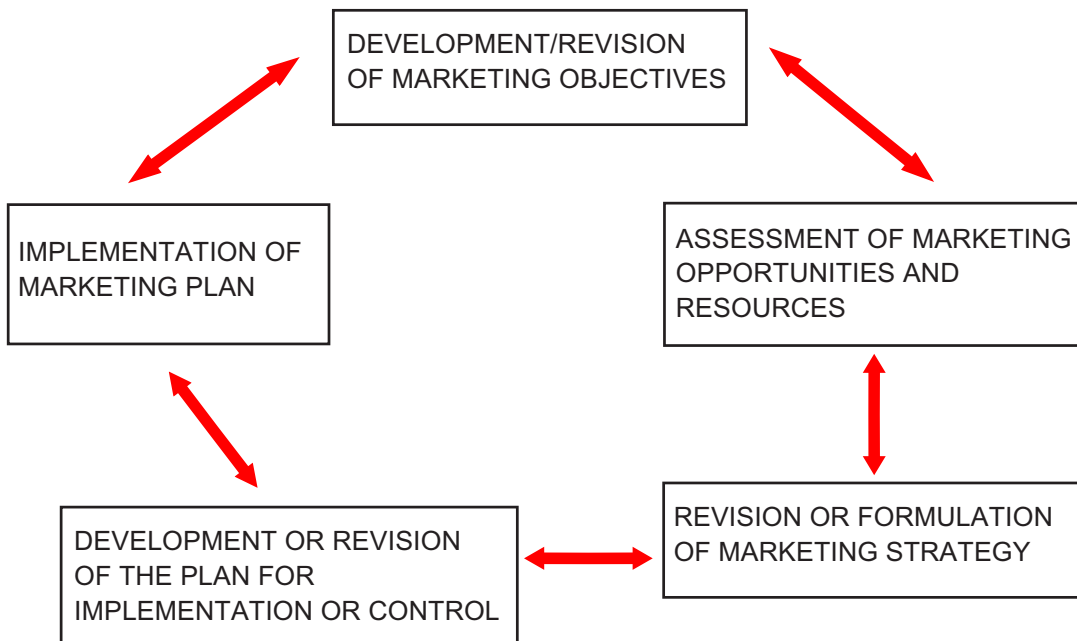
Write your answer here before reading on.

Planning, implementation, control

Marketing planning is a systematic process which assesses the opportunities that are available within the market, looks at the resources available, determines marketing objectives and comes up with a plan. If sufficient resources are allocated to the marketing planning process, this will have a positive impact upon the business. The marketing plan is simply a blueprint which details the organisation's marketing activity.

The marketing planning process involves the analysis of the marketplace, and as a result, modifying or updating the recommended marketing strategy, before moving on to develop the detailed marketing programmes that are necessary to deliver on the proposed strategy.

The following diagram shows the marketing planning cycle:



Although the cycle will, in the main, flow in a clockwise direction, starting with the development/revision of marketing objectives, there will be a degree of feedback at each stage which will help to coordinate the stages of the planning cycle.

As you can see, this model covers the planning, implementation and control sections of marketing.

The expectation is that an organisation will produce a marketing plan on an annual basis, covering a three year period. As a result, the plan for the forthcoming twelve months will be presented in detail, and an overview will be presented for the remainder of the period of the plan. Once the initial plan has been developed, the subsequent plans are less time consuming as the process will then involve revising the previous year's plan by updating the essential marketing analyses and consequently determining the marketing mix action plans.

If the plan relates to a one year period, it is usually described as a "short term plan"; medium term plans are usually within the two to five year range. Any plans beyond five years would be deemed long term plans, but these are relatively rare.

Quick question

List what you think would be the benefits of using marketing plans.

Write your answer here before reading on.

The benefits of marketing plans include:

- By planning on an ongoing basis, the organisation can identify the most beneficial markets and customers, thus concentrating finite resources on the most advantageous areas.
- The organisation will be able to keep abreast of current developments and competitor activity, thus building and maintaining its competitive advantage.
- The business can identify its strengths and weaknesses and plan/act accordingly.
- The marketing activities of the organisation will be coordinated. As we have seen, marketing should permeate the entire organisation, but when this happens there is the danger of uncoordinated effort, with some activities being duplicated and others not carried out at all. By having a marketing plan, this risk will be mitigated.
- Communication throughout the organisation will be improved.
- The profile and significance of marketing is reinforced by the completion of the marketing plan activities.

If the organisation is preparing a marketing plan for a new product – or indeed, if the organisation itself is newly formed – then there is no current performance for it to revise. In these circumstances, the planning will focus on assessing the opportunities that the product offers to the organisation, and analysing the organisation's capabilities. Once this is done, the marketers can focus on the development of the marketing strategy and the marketing objectives.

It is common to find that organisations will include information systems within the plan so that progress and results can be monitored and marketing activities fine-tuned to ensure that the objectives are going to be met. It has been shown that those organisations which increase the resources and commitment that is invested in marketing planning perform better than those organisations which reduce their investment in this area. However, it is often the case that if organisations are in financial difficulty, they look to reduce their marketing spend in an effort to get out of their difficulties!

Marketing plans should seek to deliver on the following areas:

- Describing the marketing programmes and initiatives that will help the organisation to achieve its marketing strategy.
- Specifying what the intended outcomes are, thus enabling the business to visualise where it will be once the strategy has been delivered.
- Identifying the resources that are required to deliver the strategy, to ensure that the investment of resources will yield a return to the organisation and prove to be viable.

- Describing in detail the activities that will take place to achieve the strategy, thus allowing the responsibilities for implementation to be assigned to departments and/or individuals as necessary.
- During implementation, referring to the plan to determine whether or not the organisation is on track to deliver on the strategy and make adjustments accordingly.

The approach to marketing planning is relatively straightforward and covers the following steps:

- 1 Analyse the market, its environment, the expectations of customers, who the competition are (and what they are doing now and in the future) and trends.
- 2 As a result of this first step, the organisation can decide in what target markets it wishes to operate – remember the point made earlier in this chapter, that an organisation will be selective in those areas where it wishes to operate.
- 3 Identify how the business hopes to compete within these target markets and how they will build a competitive advantage.
- 4 A statement of the specific goals and the positioning of the product or service.
- 5 A development of the marketing mix to create the marketing programmes which will deliver on the strategy.
- 6 A calculation of the budgets that are necessary to achieve the strategy.
- 7 A calculation of the timescales for implementation of the plan and the allocation of the tasks associated with the plan.
- 8 A monitoring of the performance of the organisation against the plan, taking into account changing marketing conditions.

It is possible to have a marketing plan for an entire organisation, a business unit within the organisation, a grouping of products, or individual products.

Content of the marketing plan

It is normal for a marketing plan to be organised under the following headings:

- Executive summary
- Statement of the marketing objectives
- Description of the background to the market
- Marketing analysis, examining the marketing opportunities
- Marketing strategies
- Expected results from the plan
- Specific programmes to implement the plan

- Financial implications of the plan and the resources needed to deliver the plan
- Operational considerations
- Appendices

■ Executive summary

This is a concise summary of the content of the plan, including aims and objectives, overall strategies and the most important elements of the marketing mix programmes.

It should be kept in mind that not all users of the marketing plan will read the entire document but will rather concentrate on those areas that are of interest to them; however, it is likely that all users will read the executive summary.



Quick question

How would you define a marketing objective?

Write your answer here before reading on.

■ Marketing objectives

The aims and objectives of the plan should be explained here and, where relevant, linked to the organisation's mission statement and/or corporate objectives.

A marketing objective is a statement of what the organisation is seeking to accomplish through its marketing activities.

If the objective is to be useful, it should state the expected outcomes of the marketing activity, and it should be couched in terms that will be easy for the reader to understand. As with any objective, it is important that a measurement is included within the objective so that both the individuals concerned and the organisation will know how the outcomes of the activity are to be measured and so it can be determined whether or not the efforts were successful.

The objectives should:

- be developed in such a way that they can help to accomplish the organisation's corporate objectives
- specify the results expected from marketing efforts
- be expressed in clear simple terms

- provide a challenge and stretch the organisation whilst being realistically achievable
- be drawn up in such a way as to enable their accomplishment to be measured accurately
- indicate the timeframe for accomplishment.

The acronym SMART – specific, measurable, achievable, relevant and time constrained – is often adopted to test the robustness of new objectives. To be SMART, a marketing objective should read something like this:

To achieve a 15% market share in the Scottish mortgage market, as measured by National Statistics, by December 2009.

This objective is clear and simple, it indicates the timeframe, it specifies the result (15%) and therefore its accomplishment can be measured. It hopefully provides a challenge and meets the organisation's corporate objectives.

■ Product/market background

Not all of the users of the plan will be familiar with the products and their markets. For example, senior management may have a good overview knowledge, but they may not be familiar with specific aspects of the product. This section of the marketing plan will give them this knowledge in the necessary detail.

For those users of the plan who are unfamiliar with this level of detail, this section will help to set the scene for the rest of the plan. For those who have this level of knowledge, they will be able to skim over this section.

Quick question

What areas do you think would be covered in the marketing analysis section?

Write your answer here before reading on.

■ Market analysis

This is at the core of the plan. If the background work for this section has not been completed thoroughly enough, then the decisions that are subsequently made may be flawed.

The market analysis will provide a foundation for the recommendations and the marketing programmes.

The market analysis section should include an analysis of the marketing environment, market trends, information on customers (current and/or potential depending upon the scope of the initiative), competitor information (who they are, what they do, and what they are likely to do in the future), the organisation's current business portfolio, how well current products have been performing (assuming that this is relevant to the scope of the plan) and the market segments that the plan is likely to relate to.

Within this section, it would also be common to find material relating to the marketing environment. You will recall from earlier in this chapter that this will cover legal, political, environmental, societal, economic, political and regulatory aspects. In recent years, it has also become common to find information in this section relating to ethical and "green" factors. At this point in the plan, it would be expected that there would be some form of commentary on the impact of these forces on the implementation of the marketing plan.

The marketing analysis will also include information on competitive forces and trends.

It would also be usual to find a SWOT analysis.



Quick question

What do you understand by a SWOT analysis?

Write your answer here before reading on.

SWOT stands for:

- Strengths
- Weaknesses
- Opportunities
- Threats

Strengths and weaknesses will be concerned with the internal operations of the organisations, while opportunities and threats tend to be external to the organisation.

By its very nature the SWOT analysis allows a balanced view of the organisation and its market to be taken. For example, when looking at the strengths and weaknesses, an analysis can be made of the position of the organisation and its products, examining areas such as customers, competitors, trends in the environment and the resources of the organisation. Once the opportunities and threats have been examined, recommendations can be formulated regarding the marketing plan.

It is quite possible that a potential threat may be transformed into an opportunity if the right action is taken; for example, a decision could be made to develop a new product or enhance an existing product to deal with the threat.

Once the work on the SWOT analysis has been completed, it should be clear where the organisation is within its chosen markets.

We shall now look at an example of a SWOT analysis for a bank. You will see that by examining the strengths and weaknesses of the bank, coupled with analysis of the opportunities open to it and the threats facing it, the results of such an analysis can assist in determining the actions required of the bank to maintain or improve its position, as part of the bank's marketing strategy.



Case study

Nithsdale Bank PLC

Strengths

- 1 A strong balance sheet on which to base expansion and a sound profit record.
- 2 A domestic branch network in Scotland with the majority of outlets well sited in Glasgow and the West but still moderate representation in Edinburgh and the East.
- 3 Subsidiary and associate companies providing a range of ancillary financial services to the retail and corporate sectors.
- 4 A comprehensive product range equivalent to those of peer banks in both price and range.
- 5 A personal account base with 60% of customers in the ABC1 socio-economic group with 60% of customers aged 45 or over.
- 6 Strong customer loyalty.
- 7 A staff well qualified in traditional banking skills.

Weaknesses

- 1 An outdated image created by poor branch premises where little refurbishment has taken place over the last twenty years.
- 2 A computer system which is ten years old and requires to be replaced.
- 3 A static market share with a 15% turnover of accounts.
- 4 A weak market image with little recall of the bank or its products.

- 5 A product range which is now at a “mature” stage within the product life cycles.
- 6 A lack of broad-based management skills and of specialised expertise in marketing.
- 7 Limited appreciation of the need for customer service skills.
- 8 No telephone banking facilities.

Opportunities

- 1 Government policies that encourage competition.
- 2 A domestic market, both personal and business, which is capable of expansion as competitive influences come to be felt.
- 3 An increasing demand for savings products and financial advice from that portion of the population aged over 45.
- 4 Increasing numbers of new and high technology industries in the West of Scotland.
- 5 Major growth in the private housing sector.

Threats

- 1 Competing banks and building societies are now offering telephone banking facilities to current account holders.
- 2 Market research indicates that one competitor bank has a successful advertising campaign which is succeeding in taking that bank “up market”, thus placing the bank’s personal account base at risk.
- 3 English-based banks are seeking actively to increase their market share of the Scottish corporate market.
- 4 One competitor bank is undertaking a programme of redesigning bank branches and undertaking customer service training programmes.
- 5 Margins on the personal side of the business are becoming finer as a result of interest bearing current accounts.
- 6 Computer facilities and ATM networks are becoming the critical decision-forming factors for many personal and business customers.
- 7 Personal customers are tending to hold accounts with more than one institution, therefore loyalty cannot be guaranteed.

■ Marketing strategies

If the marketing analysis section has been completed properly, then the strategies should be obvious.

Quick question

Why would these strategies be obvious?

Write your answer here before reading on.

The strategies should be obvious as the business is now clear what opportunities it should pursue, what markets will be the best for the organisation to operate in, how the business has competitive advantage within these markets, etc.

This part of the plan will give a clear overview of what the plan is for the business to achieve its marketing objectives and thus attain the goals of the organisation. Therefore the strategy will look at the opportunities that will be pursued, what the target market is, and what marketing mix should be followed if the business is to gain competitive advantage.

■ Expected results from the plan

Now that the firm is clear about where it wants to go and what it wants to do, there needs to be a quantifiable statement of what sales levels and other results the plan will yield.

Quick question

Why do you think that it is important to have this section in the plan?

Write your answer here before reading on.

There are two basic reasons for quantifying the expected result:

- This statement will allow the organisation to compare the plan against the actual performance. It may be that the business outperforms the plan, in which case management would want to know what contributed to this so that best practice can be shared throughout the organisation. On the other hand, if the quantifiable expectations do not come to fruition, then we need to understand why.
- If budgets are to be sought to implement the plan, then it is important that the organisation can see what the anticipated return of this investment is likely to be, in order to determine the viability of the proposed course of action.

■ **Specific programmes to implement the plan**

As a result of the analysis and strategies that have been developed thus far in the plan, it can now be stated how much of what is to be done, by when and by whom; in other words, what marketing mixes are needed to achieve the goals. It is normal to see each segment of the market being given its own bespoke marketing mix.

At this stage we are therefore looking at what specific activities are going to occur. For each segment we will look at each component of the marketing mix with recommendations that are specific enough for the managers concerned with implementation to be able to put them into action.

However there is always a danger that, due to the amount of work that has to go into the development of this section, the plans are deemed to be set in “tablets of stone” and cannot be altered. There must be an acceptance within the organisation that, if unexpected events occur which impact upon the plan, then alterations can be made. In today’s fast moving environment, this requirement for flexibility is becoming more and more important. It is often the smaller organisations which are more adept at reacting quickly to this type of change.

Included in the plan should be the measurements that will be used to assess performance. Everyone who is using the plans will then be quite clear what measurement tools are to be used and so will be in agreement about the levels of performance against the plan. An example would be when a business is aiming to increase its sales of products – are these sales to come from additional sales to existing customers, are these sales to be made to new customers, or is it immaterial to the organisation where these sales come from as long as they are made? Were the measurement not to be included in the plan, there could be confusion within the business as to the performance levels attained.

■ **Financial implications of the plan and the resources needed to deliver the plan**

This section will give a picture of what financial (or other) resources will be needed if the plan is to be delivered successfully. It is possible that this section may only be indicative – after all it is a forecast and not a report on what actually happened when the plan was delivered. Nevertheless, it is vital that the business knows what resources it is planning to commit.

■ **Operational considerations**

It may be that the implementation of the plan will have implications for other parts of the organisation. If this is the case, this should be explained.

■ **Appendices**

While the body of the plan should be as concise as possible, it is perfectly possible that there is a requirement for more detailed information to be included at some point, albeit this information will not be of use or interest to all users of the plan. Examples of the type of information that would be included here are tables of statistics or background reports.

The information that is included in the appendices should be cross referenced to the main body of the plan.

Marketing financial services

Having looked at the marketing plan in detail, we will now consider how the marketing of financial services is different from the marketing of consumer or industrial products.

Quick question

What do you think these fundamental differences are?

Write your answer here before reading on.

The differences between marketing a financial service and more tangible products are:

- fiduciary responsibility
- intangibility
- inseparability
- lack of standardisation

Fiduciary responsibility

Fiduciary responsibility is a responsibility for safeguarding customers' funds and for the provision of responsible advice. It is related to the image of those working in this area as being impartial.

In this role there is a special need to ensure that this trust and the customer's expectation of objectivity from his/her banker are not misplaced. This is not to say that the manufacturer of consumer products or a distributor of industrial products is without responsibility. The responsibility in these other cases is limited to the fitness of purpose, quality and value for money of the product or service concerned.

It is inconvenient but seldom catastrophic if the car breaks down or the food is off or the components are substandard, but a financial services practitioner's failure to discharge his/her fiduciary responsibility for safeguarding customers' funds or to provide responsible advice on financial matters can bankrupt an organisation or have a negative impact on an individual's life. Therefore, the financial services practitioner is obliged to pay attention to achieving the right balance between commercial and fiduciary issues.

The commercial considerations – mainly the need for profit – should come first, but if customers feel the organisation has not exercised impartiality when it should do so, dissatisfaction will arise and return business will go elsewhere and long term profits will suffer at the expense of short term profits.

Intangibility

Unlike goods, financial services do not have a physical form and it is often not possible to taste, feel, see, hear or smell services before they are purchased. There may be physical aspects to a financial service such as a cheque book or a cash card, but these are devices for delivering the service and not the service itself.

Opinions may be sought beforehand, previous experience may play a part in decisions taken, but generally the potential purchaser is unable to see or try in advance. This may make it difficult for a customer to both comprehend the particular financial service being offered and appreciate the benefits of one service over another.

Inseparability

Even allowing for new technology, many financial services involve a considerable human element. This may involve the provision of advice, the tailoring of a service to particular circumstances or simply interaction between the teller and the customer.

Perhaps unlike products such as grocery items, the customer's opinion of the financial service is often based on attitudes towards the organisation's staff rather than the service itself. This means that the nature of the relationship between customer and provider is likely to be the key to whether the customer is gaining satisfaction from use of the organisation's services.

The standard of service at a branch or call centre converts the "intangible" into the "tangible". In financial services the delivery of the product is almost as important as the product itself.

Lack of standardisation

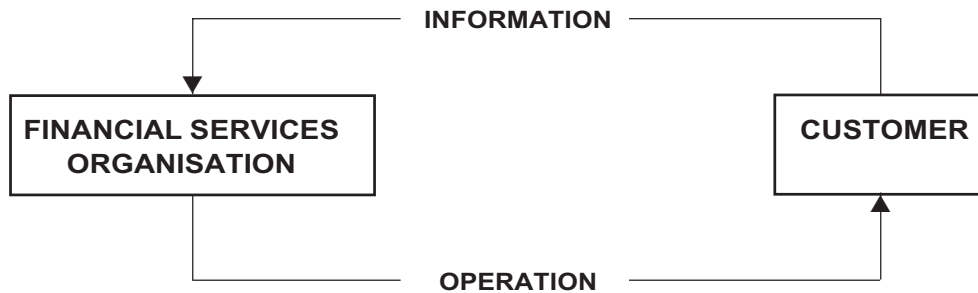
As the provision of financial services involves this human element, it is difficult to provide a service of exactly the same standard from each member of staff, never mind the entire organisation.

Staff training and standardised methods can foster an awareness of this amongst staff while the adoption of a "house style" and prepackaged services can give an impression of standardisation. Even so, much depends on the individual employee who has direct contact with the public.

These are the key differences between financial services and products. As such when responding to customer needs and developing a marketing mix, the impact of these elements has to be borne in mind.

Marketing model

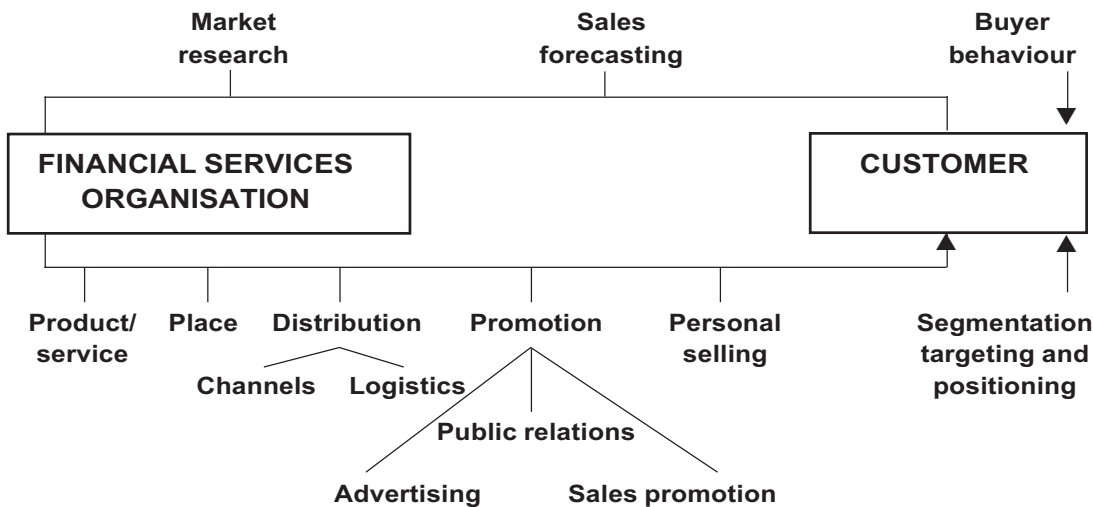
We now know what is involved in marketing but what does this look like in a practical situation?



(Adapted from "Marketing", Geoff Lancaster and Paul Reynolds)

This is a simple diagrammatic representation of marketing. Information is gleaned from the customer with products and services being supplied in line with their needs.

Let's take this a stage further and expand the model to reflect the components of a financial services organisation as well as the elements of the marketing mix.



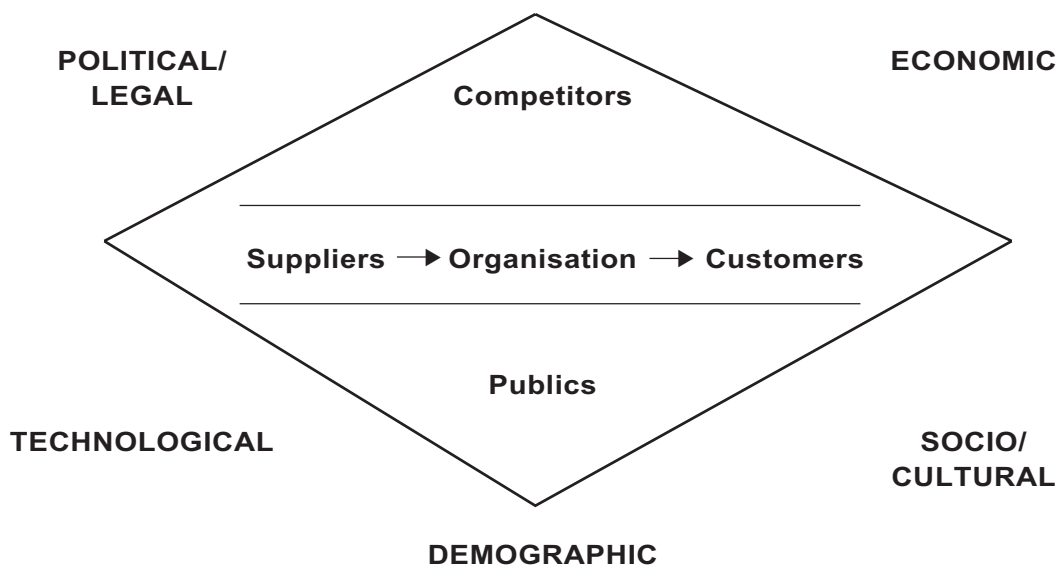
(Adapted from "Marketing", Geoff Lancaster and Paul Reynolds)

The bottom line of this diagram illustrates the elements of the marketing mix over which the organisation has complete control. This is moulded to represent and deliver customer requirements. In addition, customers are segmented in accordance with their various needs, enabling a follow-up of suitably tailored communication. We shall look at segmentation in more detail later in the course.

The top line represents information ingathered from customers, utilising various methodologies under the banner of "market research". Sales forecasting is core to marketing and is based on collated customer data relating to their likely future buying habits. There are various methods of forecasting in this manner and again, we shall cover this later in the course.

What is the marketing environment?

The marketing environment includes all those factors that exert a direct or indirect influence on an organisation's marketing activity; in other words, the rest of the world constitutes the business's marketing environment. Although this is theoretically true, the task of monitoring activities and changes in a company's environment can only be made manageable by taking a more selective and carefully structured view of the environment. The elements which are generally seen as having greatest impact are set out in the following diagram.



This diagram shows two things:

- The organisation's microenvironment consists of the elements in the immediate environment that affect ability to serve its markets: suppliers, customers, publics and competitors. These are elements that the organisation can either control or influence in order to acquire information to assist in marketing activities.
- The organisation's macroenvironment consists of external entities which can influence performance but which are out of direct control, such as demographic, economic, technological, socio/cultural and political/legal forces. These are the wider environmental factors which in the longer term would be likely to have an impact on the organisation's position in the market.

A brief explanation

For an organisation, the changes in the marketing environment either at the micro or macro level create uncertainty, threats and opportunities. Although the environment cannot be predicted with certainty, an organisation must attempt to anticipate how consumer preferences will shift, how competitors will react and the implications of political and technological changes.

We shall examine the role of each of the forces in the micro and macroenvironments. Their importance is illustrated by considering some of the environmental impacts on the basic current account over the last twenty years:

Example

■ Microenvironment

Competitors

Building societies offering interest on current accounts

■ Macroenvironment

Technological

Introduction of direct banking services via telephone and internet

Political/Legal

Building societies can offer current accounts due to the Building Societies Act

Economic

Inflation has caused cheque guarantee limits to be raised over time

Socio/Cultural

Current accounts are the norm in the UK (74% of adults aged 16+)

These five examples are only some of the changes that have occurred over the past twenty years. You are probably very familiar with these and will know of many more.

The microenvironment is specific to the individual organisation as opposed to the macroenvironmental factors, which will affect any organisation which operates in a particular market.

The microenvironment

The core marketing system of the bank consists of the following chain:

SUPPLIERS → ORGANISATION → CUSTOMERS

This core marketing system is also affected by a variety of different publics (media, pressure groups, etc) with interest in the organisation's activities and also the competitors.

Quick question

Who are your organisation's suppliers?

Write your answer here before reading on.

Let us now consider each of the elements in the microenvironment.

Suppliers

Suppliers are organisations and individuals who provide resources needed by the organisation in order to serve their customers. They supply equipment, computers, buildings, etc. Suppliers are often thought of as other companies, but employees and sources of finance must also be recognised as suppliers. In particular, employees can impact on the quality of service offered to customers and their reward can be a significant slice of potential profits.

For all types of supplier, a company should be monitoring:

■ **Costs**

Changes in the price of materials or labour may require the organisation to alter its product range or seek substitutes for certain materials or even labour. On-line banking, automation and ATMs in the financial services sector have come about partially as a result of increasing staff costs.

■ **Supplies**

Supply shortages or strikes may damage customer goodwill. For example, if certain free gifts or a package such as a house buyer's file is promoted, supply shortages can mean that the organisation loses sales in the short run and suffers image damage in the long run.

■ **Alternatives**

The introduction of substitute services such as debit cards rather than cheque books.

From a marketing perspective, we need to be aware that these areas of supply can have an influence on the ability of the business to meet the needs of the customers. This could include innovations carried out by suppliers or interruptions in their level of supply, for example, due to industrial action in their organisation.

Customers

In the marketing context (or any other for that matter), important elements of the environment are the customer and staff, therefore the organisation must be aware of:

- How do customers evaluate its services against those of its competitors?
- What are they looking for in this market and how far is the organisation providing this effectively?
- How are customer tastes changing?
- What are customers buying in the market, from whom and why?

Employees

Whilst not included in the diagram, they should be included together with customers – they may also be customers – as the most important influence in this environment. Employing the correct staff and keeping them motivated is an essential part of the strategic planning process of any organisation. Training and development play an essential role, particularly in service sector marketing in order to gain a competitive edge. Outwith finance, a good example of the importance of staff is the airline industry.

Competitors

Competition consists of those products or services which the consumer regards as viable alternatives. For example, competitors of cinemas are not simply other cinemas but include bars, theatres, television, clubs and all other forms of entertainment.

The identity of a financial services organisation's competition should be reviewed regularly because the situation may change. Originally banks only competed with each other, then competitors included other financial service companies and now retailers and "internet only" banks are established in the market. Analysis of competitive performance and the activities of competitors enables an organisation to determine the most suitable strategies for competitive success.

If the organisation is to be successful, then it must be able to make an offering that can be differentiated from that offered by the competition, and therefore the organisation needs to look at how its marketing mix is different from the others.



Question time 3

Consider how one bank can gain a competitive advantage over another by variations in the features of a savings product.

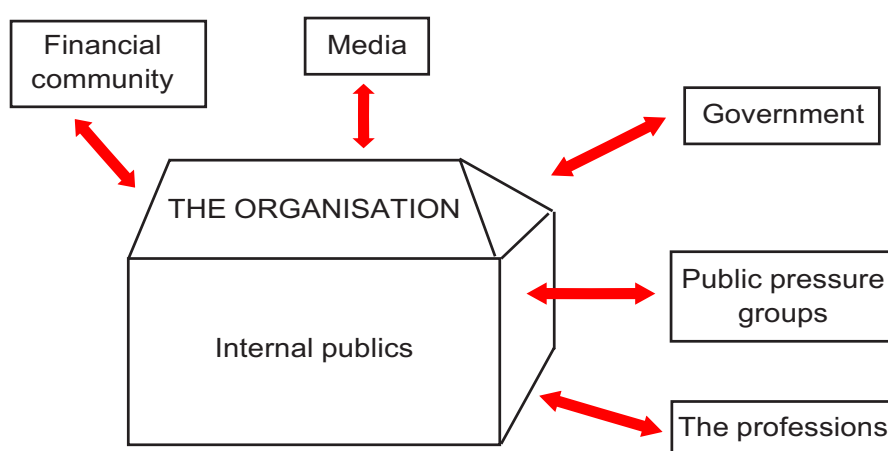
Compare your ideas with those at the back of the book.

Publics

In addition to customers and competitors, a large number of publics take an interest in the organisation's method of doing business. Although possibly not directly involved with the organisation, these publics can facilitate or impede an organisation's ability to achieve its goals. They are groups from which the organisation wants some response, such as goodwill, favourable mentions or the provision of assistance in terms of time, money and influence.

Businesses will often undertake public relations activities to distribute information and communications to build goodwill. When negative publicity about the company occurs, public relations activities will be used to counter this publicity.

A FINANCIAL SERVICES ORGANISATION'S PUBLICS



A financial services organisation is likely to face the following types of public:

■ Financial community publics

Stockbrokers, investment institutions and the City affect the organisation's ability to obtain funds. Banks therefore produce glossy annual reports and will often invite financial analysts and commentators to expensive receptions in order to gain the confidence of these groups.

■ Media publics

In order to ensure that favourable information is disseminated about the organisation or its services, companies will cultivate the goodwill of media organisations such as television, radio, newspapers and magazines. Relationships will be fostered with journalists by keeping them informed of new developments, inviting them to press conferences and arranging lunches. This can happen at local level and national level.

■ Government publics

Financial services organisations will often lobby government ministers and civil servants about legislation which may damage their interests or rulings by bodies such as the Monopolies and Mergers Commission.

■ Public pressure groups

On a national level these can include consumer organisations, environmental groups, minority groups. At the local level this may include community councils and other community organisations.

■ The professions

Lawyers, accountants and independent financial advisers can influence individuals and organisations in their choice of provider. Businesses should maintain good relations with these individuals through regular meetings and by networking, for example, with local organisations such as the Rotary Club and Round Table.

■ Internal publics

These include the organisation's own workforce. The organisation's image and morale can influence the image held by external publics, therefore companies produce newsletters, provide profit-sharing schemes and offer benefits to staff. For example, Marks & Spencer offer discounts on goods to staff as well as other benefits such as free hairdressing and canteen facilities.

Each of these publics and the manner in which they view the organisation can influence the organisation's overall success. Their attitudes and protests or praise can influence the behaviour of customers, therefore businesses need to monitor all their publics and plan their communications with these groups.

Question time 4

Draw a diagram in the space below showing the major publics for your particular branch or department.

You will find an example diagram at the back of the book.



The macroenvironment

The macroenvironment consists of five forces that can shape opportunities and pose threats to the company:

- demographic environment
- economic climate
- political/legal/regulatory environment
- socio/cultural environment
- technological developments

We will now look in detail at the features of the forces of the macroenvironment.



Quick question

What do you think is meant by “demographic factors”?

Write your answer here before reading on.

Demographic environment

Demographic factors are individual characteristics such as age, gender, race, ethnic origin, income, family life cycle and occupation. All of these factors have the ability to impact upon consumers’ buying requirements and behaviours, therefore a clear understanding of these demographic characteristics is important.

Examples of demographics in buying decisions is the influence of children aged 6 - 17 on the buying of breakfast cereals, and the influence of parents on the financial services providers that their children choose – most children will bank with the organisation that their parents use. Therefore, when marketing a product or service, the group that will have the greatest influence on the buying decision need to be targeted, which may not necessarily be the same group who actually buy the product or service.

The impact of demographic changes can be demonstrated by some of the changes which have occurred since the 1980s:

- a continuing decline in children of school age is a threat to producers of teenage magazines, confectionery, soft drinks, etc
- an increasing proportion of older people (over 75) influencing the demand for retirement homes, hearing aids and special holidays

- an increasing proportion of single adult households influencing the demand for smaller accommodation and food packaged in smaller portions
- an increasing proportion of working women and the resultant demand for convenience foods, microwave ovens, child daycare centres
- a decline in the welfare state and an increasing move towards self-provision.

As these clearly illustrate, changes in education, ethnic population, divorce rates and geographical shifts have a major effect on demand for products and customer preferences.



Question time **5**

Set out the demographic factors which could influence the market for bank deposit accounts.

Check your answer at the back of the book.

Economic environment

The state of an economy will have an influence on the decisions made by consumers and also organisations and their marketing activities.

The overall state of the economy in any country will fluctuate. This is affected by the forces of supply and demand within the economy, the buying power of consumers and organisations (along with their willingness to consume) and the levels of competition within the economy.

These changes within the economy tend to be cyclical in nature and are often referred to as the “business cycle”, of which there are four stages:

- prosperity
- recession
- depression
- recovery

While this is not an economics course, it will prove useful to have a short overview of the business cycle.



Quick question

What conditions do you think will prevail during a period of prosperity?

Write your answer here before reading on.

■ Prosperity

During a period of prosperity, unemployment will tend to be low and incomes will be relatively high. If inflation at this time is also low – which is to be expected – buying power within the economy will be high. If consumers feel that these conditions are likely to prevail, then they are willing to buy and as a result, firms will expand their marketing mixes in order to cope with these conditions. An example of this would be an increased willingness of consumers to take on loans and credit as they are confident that they will be able to make the proposed repayments in the months and years to come.

Quick question

What do you think is a common mistake that firms make regarding marketing during a recession?

Write your answer here before reading on.

■ Recession

During a period of recession, unemployment is going to increase and so purchasing power will decline. This negativity is likely to affect both consumers and firms; for example, consumers will shy away from the higher end of the market and become more price and value conscious, therefore they look for more basic goods that offer value for money. An example of this would be a reduction in demand for eating out as consumers tend to economise.

The mistake often made is that, in an effort to save money in the short term, firms cut back on their marketing efforts. What would be a better approach is for firms to alter their marketing to take account of the changing pattern of demand that emerges during this period; for example, promotional activity should emphasise the value for money that the firm's products offer.

■ Depression

During a depression, rates of unemployment can be very high, with wages being low. There is a consequent lack of income available to consumers and confidence in the economic outlook is low.

Government can have a role to play during a depression in controlling the supply of money in the economy and altering its taxation and investment policies in an effort to stimulate demand and thus move the economy into a period of recovery.

■ Recovery

This is where the economy is moving from depression and back into prosperity. Unemployment will start to fall and disposable income will start to increase again. Thus confidence in the economy will begin to rise, and consumers will become more willing to buy.

The period of recovery can pose problems to marketers; for example, how do we gauge the pace of recovery? To overcome this, it is important that we retain an element of flexibility – you will recall that at the end of the discussion on marketing plans the point was made that the plan needs to retain an element of flexibility during its implementation.

The demand for a product is based on needs, attitudes (consumer confidence) and the economic purchasing power of companies or individuals. Purchasing power is a function of prices, current income, savings and credit availability.

■ Prices

Changes in interest rates as a result of government policy or competitive pressure can influence the demand for loans and certain savings products. Financial services organisations must therefore be aware of the potential for such changes by monitoring the factors influencing interest rates and fees and the prices for competitors' products.

■ Incomes

There are two main types of income to be considered:

- disposable income – the amount of money a family has left after taxes are paid and which is available for spending or saving; this is affected by wage levels and taxation levels
- discretionary income – the disposable income which a family has left after purchasing the basic necessities of food, clothing and shelter. Changes in the levels of discretionary income affect the demand for loans to purchase cars, furniture and consumer durables such as dishwashers.

Incomes will tend to be unevenly distributed among the population, making it necessary for marketers to be aware of the characteristics and geographic locations of the different groups.

■ Savings

Savings, or wealth, is the accumulation of past income and financial resources. Like income, it is very unevenly distributed throughout the population and it has an impact on the demand for financial services both in terms of savings and loan products.

■ Credit availability

The ease of access to credit and the levels of interest rates can have a major influence on the level of consumer demand, with expenditure on non-essentials dropping when interest rates on credit rise.

The availability of credit allows consumers to spend a part of their future income now, but credit increases current purchasing power at the expense of future purchasing power.

A number of factors will affect whether consumers decide to use credit or not:

- the credit must be available to them – if there is an individual who cannot obtain credit, then we are looking at an academic argument
- the price of credit must be taken into account, so if interest rates are high, then this may affect the consumer's decision whether or not to take credit, especially if it is credit to finance larger purchases, or credit taken over a long period of time

- the use of credit can be affected by the terms and conditions attached, for example, the amount of contribution that the borrower is expected to make to the total cost of the asset being financed, etc.

As you will be aware, many organisations (both financial services and retailers) offer either interest-free credit or preferential credit terms as part of their marketing.

■ Spending patterns

When examining the economic environment, it is also worthwhile looking at the willingness of consumers to spend and their spending patterns. The willingness of a consumer to spend is, to a degree, influenced by their ability to buy. In other words, we are all more willing to buy if we have the wherewithal to finance the purchase! However, other factors will also come into play, such as the price of the product and whether the consumer feels that it is value for money or not.

Quick question

What other factors do you think influence a consumer's willingness to buy?

Write your answer here before reading on.

Other influencing factors are feelings about future income and employment, or even an expectation that prices may rise in the future may encourage a consumer to buy just now.

It is also common for marketers to study the spending patterns of consumers. These patterns indicate the relative proportion of income that is spent on particular goods and services. When looking at income, it is usual to consider this on the basis of family expenditure.

Consumer spending patterns may be further broken down into:

- comprehensive spending patterns which tend to be produced as part of the national statistics published by government and also by trade associations and market research companies
- product specific spending patterns which indicate the amounts that families spend on specific products, within a specific product class.

These figures can be used by marketers to analyse general trends in the ways that families spend for various types of product.

Political/legal/regulatory environment

Political, legal and regulatory forces are closely interrelated aspects of the marketing environment. Politicians and their views determine the laws and regulatory bodies which are set up. When political officials view particular industries or companies favourably, they are less likely to create or enforce laws that are unfavourable towards these industries. This is why the government publicans are important in the microenvironment.

Legislation and regulation can have a major impact such as with the *Financial Services Act*, or it may have a minor impact such as with advertising standards legislation. The government can also stimulate consumer demand for financial services by introducing a variety of schemes and products such as ISAs and PEPs.

The government's economic policy will also have a significant influence on the regulation of competition, permissible business practices and future economic conditions. In addition, changes in relationships between one country and other countries can seriously affect companies involved in international marketing. A break in diplomatic relations not only affects the possible payment for products received but also the attitudes towards the organisation and its services.

While it may be simpler to think that political forces are outwith the control of the organisation, this is not necessarily always the case, although some organisations will seek to have some influence in this area, for example, through the use of lobbyists.

There is also legislation which has been enacted to promote competition and reduce monopolies.



Quick question

How would you define a monopoly?

Write your answer here before reading on.

UK legislation defines a monopoly as a situation where at least a quarter of a particular kind of good or service is supplied by a single person or a group of connected companies, or by two or more people acting in a way that prevents, restricts or distorts competition.

The President of the Board of Trade and the Director General of the Office of Fair Trading can refer monopolies to the Competition Commission for investigation.

Within the European Union (EU), the objective of the competition policy is to ensure that there is free and fair competition in trade between the member states and that the government trade barriers which were dismantled under the Treaty of Rome are not replaced by private barriers that serve to fragment the common market. The EU has powers to investigate and terminate alleged infringements and consequently impose fines.

The Financial Services Authority (FSA)

The FSA came about as a result of the *Financial Services and Markets Act 2000*. Its role is to make sure that investor protection is achieved and does this through the granting of “authorised person” status.

If firms and corporate bodies are required to have authorisation to carry out investment business, then they need to obtain this through the FSA. Once this authorisation has been achieved, they are known as “authorised persons”. Those who are legally obliged to have authorisation but fail to do so are called “unauthorised persons”, while those who do not need authorisation to carry out investment business are called “exempt persons”.

As the single regulator for the financial services industry in the UK, the FSA is responsible for:

- the regulation of a wide range of providers in the market, for example investment companies, insurance companies, building societies, credit unions and banks
- introducing statutory regulation.

The FSA is a private company, limited by guarantee, and is funded by members of the industry.

The Board of the FSA is appointed by the Treasury, and is responsible for:

- authorising individuals and corporate bodies for carrying out regulated activities
- regulating Recognised Clearing Houses and Investment Exchanges operating in the UK
- setting rules and monitoring their compliance
- supervising the industry
- enforcing compliance with rules
- setting and imposing penalties for non-compliance
- approving companies for listing on the London Stock Exchange
- setting and establishing complaints procedures
- investigating complaints against authorised advisers

- disqualifying advisers where serious breaches occur
- intervening in the activities of persons considered to be unfit
- keeping a register of disqualified persons
- setting up compensation schemes.

Looking at this list, you will agree that the remit of the FSA's task is very wide! Therefore it is not possible for the FSA to effectively supervise every member and every element of the industry at all times. In recognition of this, the FSA has chosen to concentrate on the high risk elements of the market, adopting a themed and concentrated approach to regulation. In order to do this, the FSA concentrates on those institutions and activities that seem to represent the greatest risk to consumers and markets. Thus the FSA requires that consumers of financial services will accept a degree of responsibility for their investment objectives and decisions. Firms are graded on a scale of A to D, with D requiring the greatest degree of supervision and intervention.

The FSA has four general functions:

- making rules
- preparing and issuing codes
- determining general policy and principles
- giving general advice.

In addition to these, the FSA also has four regulatory objectives:

- Market confidence – the FSA is responsible for maintaining confidence in the UK's financial markets and exchanges and for regulated activities.
- Public awareness – the FSA is responsible for promoting awareness of benefits and risks associated with different kinds of investments and other financial dealings and for providing appropriate information and advice.
- Protection of consumers – the FSA is set the objective of securing the appropriate level of protection for consumers, taking account of different degrees of risks for different investors, different experience and expertise of consumers, the need for advice and accurate information.

The FSA can do this by vetting to ensure that only those firms and individuals who meet the necessary criteria – such as honesty, competence and financial soundness – are allowed to engage in regulated activity.

Once firms and individuals are authorised, the FSA expects them to maintain the standards set. Where serious problems arise, the FSA will investigate, and where appropriate, discipline or prosecute those who have acted outside of these rules. The FSA also has the power to restore funds to consumers.

- Reduction of financial crime – this requires the FSA to reduce the possibility of a business being used for a purpose connected with financial crime, taking into account the awareness of regulated persons of the risk of their business being used for financial crime, and subject to the regulated person taking appropriate measures to prevent, detect and monitor financial crime.

The work of the FSA focuses on three areas of financial crime:

- money laundering
- fraud and dishonesty
- criminal market misconduct, such as insider dealing.

Consumers must accept responsibility for the decisions that they make when they are choosing investments. The FSA published a document – “New Millennium” – which identified a number of different risks within the financial services industry:

- prudential risk – the risk that the company could collapse as a result of poor or ineffectual management
- bad faith risk – caused by mis-selling, fraud, misinterpretation, failure to disclose important information, etc
- complexity or unsuitability risk – caused by a lack of understanding on the part of the consumer, leading to the wrong choice of product
- performance risk – caused by investments failing to meet forecast returns.

The FSA argues that whilst it can accept responsibility to regulate the first three risks, it cannot control performance risk.

Quick question

Why is it important for the financial services practitioner to be aware of changes in society?

Write your answer here before reading on.

Socio/cultural environment

The society and culture in which people grow up and are educated shape their views, attitudes and values. These attitudes and values may relate to factors such as:

- debt and savings – attitudes towards loans credit and thrift
- material culture – attitudes towards acquisition of goods and services
- social organisation – role of women, old people, children
- aesthetics – attitudes towards colour, brand names, design, music.

There are also views within society on the role of the marketing function; for example, if marketing is deemed to be doing a good job, then it is unlikely that praise will flow from the society – it is almost as if these positive efforts are invisible. On the other hand, if there is a feeling that marketing has in some way been negative, say through an unethical advertising campaign, then much negative publicity is bound to flow from that.

Within the past decade, there has also been a much higher prominence given to “green” issues. This has posed a challenge for marketers to publicise the efforts that the organisation is making to protect the environment, for example through recycling efforts.

When looking at societal issues, reference should also be made to the role of the consumer movement.



Quick question

How would you define the consumer movement?

Write your answer here before reading on.

The consumer movement is a group of individuals, groups and organisations who seek to protect the rights of consumers. Some consumer advocates will operate independently, whilst others will come together to form consumer organisations. This type of consumer activity can take place at a local level or nationally, for example, the Consumers Association. The purpose of these groups is to inform and advise consumers, raise awareness of current issues, help organisations to develop consumer friendly policies and act as pressure groups on legislators, in an effort to influence them to introduce consumer-friendly legislation.

It is important for the financial services practitioner to be aware of the major changes which are occurring in society, such as the emergence of consumerism, concern for equal opportunities, environmentalism, etc. They are likely to have major effects on consumption patterns and also the suitability of certain elements of the marketing mix.

Technological environment

Technology is the application of knowledge and tools to solve problems and to perform tasks more effectively. The effects of technology are wide ranging and can be seen all around us; for example, consider the way that you communicate now compared to the way you did ten years ago and you will realise how great the changes have been in the volume and methods of communication.

Some of the more recent developments in financial services technology which have occurred in the last twenty to thirty years are:

- Electronic Fund Transfer Systems
 - Automated Teller Machines
 - direct deposit of payroll
 - payment by phone systems
 - preauthorised fund transfers (direct debit/standing orders)
 - CHAPS - Clearing House Automated Payment System
- Electronic Fund Transfer Systems at the Point of Sale
 - debit cards (such as Switch)
 - PDQ, Speedline, Cardpoint, Accept
 - Electronic cash (electronic purse), Smart cards
- Telephone banking
- The Internet
- Videolinks in branches to product specialists/financial advisers
- Electronic cash management (for commercial clients)
- Holograms and chips (on cheque guarantee cards)

These types of new technology pose threats to existing products but also offer new opportunities. Changes in communications technology mean that marketers can now reach large masses of people through a variety of media.

Database technology is also playing an increasingly important role in banks, enabling them to target potential customers for products more accurately. Financial services companies continually strive to keep up to date with the most recent developments, investing in the most relevant software and systems in an attempt to gain an edge on competitors. The enablement of database marketing has removed much of the speculation and provided a focused, targeted approach.



Question time **6**

How does the Internet continue to impact businesses within the financial services industry?

Write your ideas here then check with the answer at the back of the book.

Review

Now consider the main learning points which were introduced in this chapter.

Go through them and tick each one when you are happy that you fully understand each point.

Then check back to the objectives at the beginning of the chapter and match them to the learning points.

Reread any section you are unsure of before moving on to the next chapter.

The marketing concept and its evolution in the financial services sector.

The elements involved in the practice of marketing and the essential differences between the marketing of financial services and the marketing of products.

The emergence of relationship marketing.

The marketing environment within which a financial services organisation operates consists of constantly changing forces that must be monitored if the organisation is to be successful.

The major elements of the environments which influence financial services organisations' marketing activities – competitors, suppliers, customers, publics, political, legal and regulatory factors, economics, socio-cultural, demographic and technological factors.



Key words in this chapter are given below. There is space to write your own revision notes and to add any other words or phrases that you want to remember.

marketing environment

social/technological/economic/legal, regulatory, political

marketing mix

5 Ps

product, price, place, promotion, people + physical evidence, process

exchange relationship

production era

sales era

marketing era

relationship marketing

customer relationship management

information

interpretation

planning

implementation

control

marketing planning cycle

SWOT analysis

fiduciary responsibility

intangibility

inseparability

lack of standardisation

microenvironment

publics

macroenvironment

business cycle

prosperity

recession

depression

recovery

disposable income

discretionary income

Financial Services Authority

prudential risk

bad faith risk

complexity/unsuitability risk

performance risk

2 The Customer

Objectives

By the end of this chapter, you should be able to:

- Explain why an understanding of customer behaviour is essential for effective marketing.
 - Describe the main stages of the consumer buying decision process.
 - Compare and contrast organisational buying behaviour and consumer buying behaviour.
 - Describe the processes involved in market segmentation and target marketing.
-

Introduction

Financial services is a people business with a complete dependency on its customers and staff. As most staff are also customers, it is valid to state that the customer is the most important part of the business. Throughout this course, never forget what it feels like to be a customer.

How much do you actually know about your customers? The average UK household is over twice as well off in real terms as in 1970 and 50% better off than in 1985. Marketing success depends on understanding the way in which customers behave in terms of purchase. If businesses can understand how and why customers buy, they will be in a better position to combine the elements of the marketing mix in a manner which best meets the needs of the customer.

Let us first look at an example of age demographics as an illustration of how markets continually change and the need to ensure that this is reflected in the financial services approach.

Example

Medical advances and general heightened awareness of the benefits of a healthy life style are contributing to the average Scot living 20 to 30 years longer than pensioners did in the 1950s. The number of Scots of working age is expected to fall by 7% from 3.18 million to 2.97 million by 2031, while those of pensionable age will increase by almost 35% from 970,000 to 1.3 million (ie 1 in 4 Scots). When you consider that people over the age of 50 currently control around 80% of the country's wealth and 60% of all savings, you begin to get an idea of the importance of this market sector and the need to keep abreast of the dynamics within this age group to maximise the potential that they represent.

Taking this a stage further, with role models such as Mick Jagger, 62, of the Rolling Stones, this group of citizens, previously considered "over the hill", are becoming the mainstay of consumerism and a major influence in our society. Over 50s represent the fastest growing sector in the UK population and are responsible for 40% of all consumer spending. Around 65% of new car purchases are by people over the age of 50.

Given more people are retiring with large disposable wealth and incomes as well as the time to spend it, the business community is recognising the vast potential of a market sector which they had previously ignored. Companies such as Kellogg's, Norwich Union and Tesco have formulated marketing strategies to target this population group. There are even predictions that Saga Holidays, long mocked for their "geriatric-filled bus tours", will become the dominant player in the travel industry over the next ten years.

This is purely a commentary on one market segment, but it demonstrates the importance of the need to have an ongoing understanding of consumer buying behaviour throughout the market.

Consumer buying behaviour

A financial services organisation may not wish to satisfy all the needs of all potential customers. Choosing which needs and which customers should potentially prove the most profitable for an organisation, calls for extensive knowledge of the customers and significant marketing skill and judgement. This has become even more important with the growth of consumerism.

Quick question

How would you define consumerism?

Write your answer here before reading on.

Consumerism can be defined as a movement by various bodies of people to attempt to defend and exercise their rights as buyers. In particular, consumerism is concerned with:

- ensuring that adequate information is provided to the potential customer about a product or service
- increasing the protection given to consumers against questionable marketing practices
- influencing directly the features of products or services and the way they are sold if these adjustments are likely to benefit society or the environment as a whole.

Consumer protection

Buyers' rights have a major impact on the responsibilities of financial services providers and have been reinforced by statutes such as the *Consumer Credit Act 1974* and the *Financial Services and Markets Act 2000*. The Banking Code is an example of an explanation of the practices of organisations and the rights of consumers.

Quick question

What is the Banking Code?

Write your answer here before reading on.

The Banking Code

The Banking Code is a voluntary code that sets standards of good banking practice for financial services firms to follow, dealing with personal customers in the UK. It is published jointly by the British Bankers Association, the Building Societies Commission and the Association for Payment Clearing Services. The Banking Code was introduced in 1991, and updated in 2003 and 2005. There is a separate code for business banking.

The Banking Code Standards Board (BCSB) was formed in 1999 with the aim of monitoring compliance with the Banking Code. A further role of the BCSB is to interpret and develop these codes. The BCSB has the power to discipline those organisations that are in breach of the codes. It can do this by a range of means, including the “naming and shaming” of these organisations. The BCSB’s ultimate sanction is expulsion. The BCSB also has a role to play in providing consumers with information about which organisations are registered and what their obligations are under the Code.



Quick question

How do you think the BCSB can monitor how member organisations are complying with the Codes?

Write your answer here before reading on.

Compliance with the Codes can be monitored through:

- a self-certification questionnaire, called the “Annual Statement of Compliance”, for the individual organisation to complete
- detailed compliance visits
- monitoring the media, complaints to the BCSB helpdesk, etc.

The Banking Code applies to the following products and services:

- current accounts, including basic bank accounts
- cards and PINs
- overdrafts and loans
- savings and deposit accounts, including TESSAs, ISAs and cash deposit Child Trust Funds
- payment services, including foreign exchange.

The Code does not apply to the following products and services:

- mortgages
- investments
- insurance
- Premium bonds
- currency accounts

Quick question

Why do you think these products are not covered by the Code?

Write your answer here before reading on.

These products are not covered as they are regulated separately, either by the Financial Services Authority or some other Code.

■ The Key Commitments

In providing the agreed level of service, the subscribers to the Code promise that they will act fairly and reasonably in all dealings by meeting the standards and commitments in the Code.

These commitments are:

- Making sure that advertising and promotional materials are clear and not misleading.
- Giving clear information about products and services to customers.
- Sending regular statements and keeping customers informed of changes to interest rates, charges and terms and conditions.
- Acting quickly and sympathetically when things go wrong and considering cases of financial difficulty sympathetically and positively.
- Treating personal information in a private and confidential manner.
- Publicising the Code and training staff in it.



Case studies

Halifax plc

The BCSB found that Halifax were in breach of the Banking Code over its handling of changes that it made in July 2002 in the terms of its Bonus Gold account.

The Halifax had notified its customers correctly about the changes to the account – a reduction in the annual bonus rate, in return for which the customer had greater access to their funds as well as a higher standard interest rate – but Halifax advised their customers that they would lose their accrued bonus unless they switched to one of four other types of Halifax account.

The BCSB held that this amounted to a penalty which is not permitted under the Code. As a result, Halifax reinstated the bonuses of those customers who had previously withdrawn funds at a cost to the company of approximately £0.5m.

Bank of Ireland

The Bank of Ireland was found to be in material breach of the Banking Code following the identification during a routine compliance monitoring visit in September 2000 of one breach and the disclosure of four others in the Annual Statement of Compliance submitted to the BCSB by the Bank of Ireland.

The BCSB subsequently accepted the Bank of Ireland's commitment to full adherence to the Code in the future.

■ Update to the Banking Code

The most recent update to the Code occurred in early 2005. The changes to the Code at that time covered:

- basic accounts
- summary boxes on credit card agreements
- clearing timescales
- branch closures
- dormant accounts

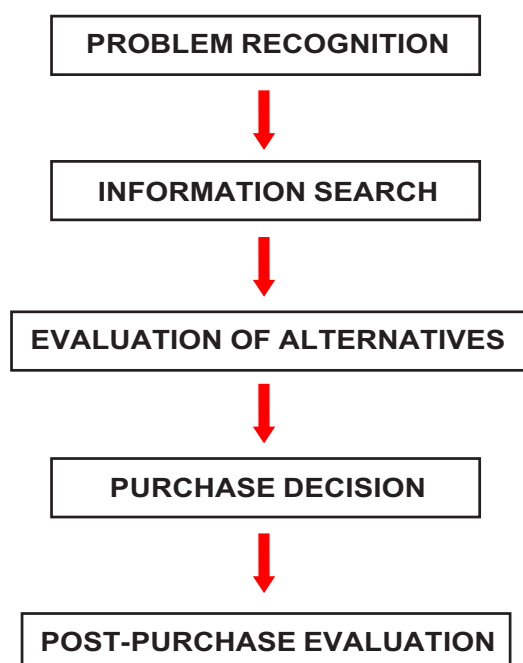
The challenge of consumerism means that organisations must show a far greater responsiveness, not just to individual customers, but also to the wider market and ultimately, to the whole of society. In the latter instance this has seen a rise in corporate social responsibility activity and the establishment of social inclusion programmes. An example of this is the involvement of some banks in the Prince's Trust programme.

There is a need therefore for anticipation of consumerist demands, so that rather than reacting to confrontation and potential legislation, services and their promotion are already matched as closely as possible to the customers' real interests. In order to do this, we must be aware of the processes through which customers go when purchasing financial services and the various influences acting on the customers' behaviour.

The consumer buying decision process

A major part of buying behaviour, whether the purchase is of a loan facility or a new car, is the decision process. The diagram is a simplified model of the consumer buying decision process and shows the five major stages:

Five Stage Model of the Buying Process



As the model shows, the actual purchase decision is only one stage in the process, and the process is initiated several stages prior to actual purchase and has consequences long after the purchase. Not all decision processes lead to a purchase and therefore the consumer may terminate the process during any stage.

Although five stages are shown, which are all appropriate in the finance sector, for purchases of other basic products (such as grocery products) some of the initial stages may be omitted.

We will now consider each of the five major stages in the buying process.

Problem recognition

The buying process starts with the buyers recognising that they have a problem or a need. For example, you may realise that you need a more reliable car to get you to work. If you don't have enough money to buy one, you have identified a potential need for a car loan.

Sometimes a person may have a need but be unaware of it, until the need is aroused by an external stimulus. For example, the need for a credit card could be stimulated by:

- talking to friends
- noticing the speed at which other customers are served in the supermarket
- hearing people booking cinema/theatre tickets over the telephone
- reading a brochure received with a bank statement
- viewing a television commercial for a card.

The marketing-oriented financial services practitioner needs to identify the circumstances that trigger the particular need or interest in consumers. When considering these "hidden needs", part of the role of a professional financial services practitioner is to make the customer aware of them.



Quick question

Imagine that you are discussing a home loan with a customer. What hidden needs may the customer have that you need to make them aware of?

Write your answer here before reading on.

It could be that the customer does not realise that they have a need for protection products such as accident, sickness and unemployment cover or critical illness cover. During this conversation, it would be necessary to make these hidden needs visible in the customer's mind, so that they then have the option of meeting these needs.

Information search

A consumer whose interest has been aroused may or may not continue on the decision process. The consumer may search for information relating to the need or the need may be stored in the consumer's memory until some time in the future.

The search may simply involve the consumer having a heightened level of awareness of either advertisements for credit cards or friends talking about credit cards. On the other hand, the consumer may proactively seek information from sources such as:

- family and friends
- advertising, brochures or staff within the bank branches
- newspapers, television or magazines (such as “Which?” magazine)
- the Internet
- professional advisers such as lawyers, accountants or financial advisers.

The relative need for and influence of these information sources varies with the complexity of the product and the characteristics of the individual buyer. However, advertising, brochures and branch staff will generally play an informing role, whereas the others perform a legitimising function.

You need to be aware of the different information sources used by potential customers and attempt to evaluate their relative importance. This information is critical for developing an effective communication strategy.

Question time 7



Considering the various sources of information outlined, which would you envisage as being used by each of the following types of people?

- 1 a newly widowed mother with £50,000 to invest

- 2 a young couple with £250 to invest per month

- 3 a retired accountant with £20,000 to invest

You will find suggested answers at the back of the book.

Evaluation of alternatives

Based on the information the consumers have gathered, they will evaluate the different offerings in order to select their final choice. Remember, customers buy benefits, not features. They are far more financially aware and astute, and they have easy access to information illustrating what they can get elsewhere. The organisation should focus on meeting their needs.

Depending on the individual consumer's specific needs, certain benefits of the product or service will be more attractive than others. For example, in a savings account, instant access to the money may be the most important factor for some people, whereas others may be more concerned about the level of interest or the flexibility of either annual or monthly interest.

Evaluation may yield nothing that is suitable for the customer's needs, in which case a further search of information is required. If the evaluation yields one or more products that the consumer is willing to buy, the consumer is ready to move on to the next stage of the decision process.

It should be stressed that it is important for the financial services organisation to be aware of the criteria people use when evaluating their products both in terms of developing suitable new products and communicating the benefits to the consumer.

Purchase decision

In the evaluation of alternatives stage, the consumer may form a purchase intention about buying a specific product from a specific organisation. However, two factors can intervene between the purchase intention and the purchase decision:

- Attitudes of others – the attitudes of family members, friends or work colleagues towards a consumer's purchase intention may influence the purchase decision. The likelihood of this will depend on the intensity of the other person's negative attitude toward the consumer's preferred alternative and the importance attached by the consumer to the other person's views. A consumer is likely to ignore certain people's views but take others very seriously.
- Unanticipated events – sudden changes in the consumer's situation such as a change in their financial situation, other requirements becoming more urgent or changes in the provider's offering may mean that the purchase is stopped or re-evaluated. Examples can range from redundancy to expecting a baby.

If nothing happens to change the customer's mind, the actual act of purchase occurs and the customer signs for or accepts the service/product being offered.

Post-purchase evaluation

After purchase, the customers will begin evaluating the service they receive from the organisation. The outcome of this stage is either satisfaction or dissatisfaction, which feeds back to other stages of the decision process and influences subsequent purchases.

Dissatisfaction after purchase is generally called cognitive dissonance. This is dissatisfaction that occurs because the customers begin to question their decision to purchase a certain service or go to a certain provider. The customers may then try to close the account or seek more information to justify their choice.

It is important that the financial services organisation communicates with the purchasers after the purchase to confirm the “correctness” of the choice and to re-emphasise key features, thus ensuring no dissatisfaction with the service received. It is for this reason that many organisations offer a Welcome Pack to new account holders providing information on the company and the range of products it offers.

It is at this stage that we are attempting to overcome “buyers’ remorse”.

Quick question

What do you understand by the term “buyers’ remorse”?

Write your answer here before reading on.

Buyers’ remorse describes the negative feelings that many consumers will have after making a major purchase. You may well have encountered this situation yourself, say after buying a car or a house. Questions crop up in your mind such as:

- Did I really need to buy this?
- Did I get the best price?
- Could I have bought a cheaper model/smaller house?
- Will I be able to afford the loan repayments?

By keeping in contact with the customer and emphasising the positive benefits of the product, we are reassuring the customer that the correct decision was made and ensuring that they do not suffer these negative emotions.

In addition to this model, there are other ways in which consumers come to buying decisions:

■ Routine response behaviour

This covers the situations that we have all experienced when buying frequently purchased, low cost items – the type of purchases that need very little effort and are easy to find. The consumer may well have one preferred supplier in mind, but if they are unable to source this supplier, then suitable alternatives may be easily bought. For example, you will have a preferred brand of shower gel, but if it is out of stock at the supermarket, then no doubt you have a “back-up” brand in mind.

When purchasing using routine response behaviour, little thought is needed – indeed, the buying decision is almost automatic.

■ **Limited decision making**

This covers the situation where consumers buy products occasionally and need to obtain information about an unfamiliar product in a familiar product category. As a result, a moderate amount of time may need to be spent information gathering and coming to a decision. For example, an established computer game manufacturer may launch a new game. Established customers may then decide to spend time finding out about the new game – reading reviews, etc – before deliberating on whether or not to purchase the game.

■ **Impulse buying**

Here there is no process to work through – there is a powerful urge to buy the product immediately and the consumer does so! Self control failure is a factor that can determine whether or not particular consumers indulge in impulse buying, but for some consumers, impulse buying is the dominant buying behaviour.



Quick question

How do supermarket marketers appeal to the impulse buying nature of consumers?

Write your answer here before reading on.

There are a couple of examples which readily spring to mind, both related to checkouts. It is common to find confectionery and magazines at checkouts, where consumers will see them while waiting in line. How often do you see someone browsing a magazine and placing it with the rest of their purchases, when it is very unlikely that they came into the supermarket with the express intention of buying the magazine?

Influences on behaviour

Through the whole of the purchasing process the consumer's choice is influenced by a range of factors based on personal circumstances, experiences and beliefs as well as the culture and social/family groupings to which the individual belongs. These influences are:

- culture
- social and family groupings
- personal circumstances
- personal attitudes and motivations
- the customer experience.

Culture

Culture includes the values and broad range of behaviours that are acceptable within a specific society. Our culture determines what we wear and eat, where we reside and travel. It broadly affects how we buy and use products, and it influences our satisfaction from them. In different cultures in the world, there are different attitudes towards the provision of credit, savings and even banks.

Each culture will also consist of a number of subcultures based on ethnic or religious groupings. Attitudes towards money and banks will vary depending upon whether you come from an Asian, Jewish or Caribbean background. Given our multicultural society, greater cognisance is now being taken of the need to respect these varied views with products now available reflecting Shariah law, etc.

Quick question

Can you think of other elements of culture which influence behaviour?

Write your answer here before reading on.

Even within the United Kingdom people coming from different geographical areas will have different attitudes, beliefs and motivations; for example, the Scots as compared to those from the south east of England, or even within Scotland there may be differences between islanders and those from central Scotland.

Social class is another element of culture with different levels of social class showing distinct product and brand preferences in such areas as clothing, cars and leisure activities. In financial services, different social classes seek different types of account, different credit cards and even different banks (for example Coutts and Co or Adam and Co are positioned in a way to attract the more affluent social classes).

Social and family groupings

A consumer's behaviour is also influenced by other people with whom the individual comes into contact. These other people can be categorised into family groups and reference groups.

■ Family groups

Individuals acquire an orientation towards certain attitudes, ambitions and views on life from their parents. This has a major impact on the purchasing behaviour of children and also students when selecting a bank or building society; but even when the buyer no longer lives with his or her parents, the parents' influence on the unconscious behaviour of the buyer can be significant, particularly in relation to loans and savings. Family loyalty can prove an extremely influential factor.

Research has shown that the greatest influence on a young person, when choosing a financial services provider, is their parents. It is common to find that if their parents are happy with their financial services provider, then it is most likely that the young person will choose the same provider.

A more direct influence on buying behaviour is one's husband/wife/partner and children. Marketers are interested in the roles and relative influence of these parties in the purchase of products and services. The level of involvement varies widely by product category.

We all have roles that relate to our families and we all have a number of positions within a family – you may be a mother, sister and daughter all within your family. Associated with each of these positions is a role and these roles are a set of actions that a person who holds a particular position is expected to perform. The actions are based on the expectations of the individual and the people around the individual. The family roles that an individual has will therefore affect their purchasing decisions.



Quick question

Write down some examples of how the family role can affect purchasing decisions.

Write your answer here before reading on.

It may be that one person in the family takes the lead in a particular set of purchase decisions; for example, it is usually one person (generally the mother or father) who will make most of the purchasing decisions about household items. On the other hand, there can be joint purchasing decisions, such as the mother and father in a family making a joint purchasing decision about the purchase and installation of a new kitchen. Purchasing decisions can also be made jointly by a wider group, when a family as a whole input to the decision of where the annual family holiday will be.

From a marketing perspective, we need to be aware of how roles affect buying behaviour. When developing their marketing mix, the organisation must be able to identify not only who is making the decision, but also who is likely to have an influence on that decision. Therefore, if you think of the example of the influence of parents on a young person's choice of financial services provider, then organisations should also be targeting parents when looking to influence young people to use their services.

■ Reference groups

A person's reference group consists of all the groups that have an influence on the person's attitudes or behaviour. These may be formal groups such as clubs, trade unions, sporting or social organisations or can be more commonly described as the set of individuals a person wants to be associated with. Therefore the circle of friends, work colleagues and acquaintances that a person belongs to or aspires to belong to, will influence all aspects of an individual's behaviour.

Reference groups can prove to be important sources of information for members; for example, a person may switch providers to fit in more with their reference group.

Marketers can use reference groups in their advertising to suggest that people within a certain group will use their products; for example, a charge card targeted at business travellers. Here the advertiser is hoping that potential consumers will accept the group and either feel that they are a member of the group, or that they aspire to become a member of the group, and as a result, buy the product.

In most reference groups, certain individuals will stand out as opinion leaders. These are people who are perceived by others in the group to be well informed on a particular subject, and it is easy to access these opinion leaders.

In purchasing financial services, individuals are likely to follow the group norm which may involve buying shares/unit trusts, owning a number of charge cards, having a certain level of mortgage or having hire purchase or car loans outstanding.

Personal circumstances

A customer's decisions are also influenced by his or her personal circumstances such as age, family situation, occupation and prospects, and income. Test your assessment of these factors in the next question.

Question time 8



Considering the different types of people set out in Question time 7 repeated below, what factors (ie level of risk, regular income, etc) are each likely to take into account when making their purchasing decision and what would you consider as being the relative importance of these factors? For the importance level give a score out of 10, eg young couple – financial security 6.

1 a newly widowed mother with £50,000 to invest

Continue your answer on the next page.

2 a young couple with £250 to invest per month

3 a retired accountant with £20,000 to invest

Check with the answers at the back of the book.

Personal attitudes and motivations

Psychological influences operating within individuals partly determine people's general behaviour and thus influence their behaviour as consumers.

The primary influences on consumer behaviour are perception, motivation and attitude. Many of these "internal" influences are affected and possibly shaped by the "external" influences such as culture, family and personal circumstances.

These psychological influences should be understood if the consumers' buying actions are to be interpreted and predicted.

■ Perception

Success or failure can depend on how you are perceived, regardless of the quality of your products and service. Ultimately it is down to what the customer considers to be the best product or service that will determine whether or not they will buy.

Perception is the process of selecting, organising, and interpreting information inputs to produce meaning.

Consumers receive information through their eyes and ears from a variety of sources such as the media, friends, internet, advertisement hoardings, bank branch staff, etc or even when they walk past a branch. Unconsciously the consumer will select and store some of these inputs; others will be ignored or quickly forgotten.

The input is more likely to be noticed and stored if it relates to a purchase or an event which is anticipated or if the information could satisfy current needs. For example, advertisements about car loans are likely to be noticed if the purchase of a new car is anticipated in the near future; mortgage advertisements will have a greater impact on those thinking about moving house, etc.

The organising and interpreting of information can vary greatly from one individual to another, thus people receiving the same information can establish very different perceptions of a bank, service or situation.



This is aptly demonstrated by this quite famous drawing. Although everybody looking at this figure receives the same black and white information, some people will perceive it as being a drawing of a very old woman, others will perceive it as being of a young woman and others will perceive it as two drawings.

Another example might be: how often do we buy CDs with a sticker stipulating “additional bonus tracks”, for example 10 tracks plus 2 bonus tracks? The perception is that you are getting better value for your money than if the CD had a straight list of 12 tracks with no mention of a bonus.

■ Motivation

A person will have motives or goals in life and some of these may influence buying behaviour.

Motives for purchasing bank products could include cost effectiveness, financial security and status/prestige.

A consumer’s actions at any one time are affected by a set of motives rather than by just one motive. At a single point in time, some motives are stronger than others. Motives will determine the needs that have to be satisfied by the product/service being sold, therefore you must be aware of consumers’ motives if the most suitable benefits and features are to be promoted and sold to them.

■ Attitudes

An individual learns positive and negative attitudes towards things through experience and interaction with other people. Consumer attitudes towards a financial services provider and its products greatly influence the success or failure of the organisation's marketing strategy.

When consumers have strong negative attitudes about one or more aspects of an organisation's practices, they may not simply stop using the provider but may also implore their relatives and friends to do the same. A typical dissatisfied customer will tell eight to ten people about their problem; one in five will tell twenty. It is estimated that only around 4% of dissatisfied customers formally complain; the other 96% will just quietly go away; 91% don't come back!

Many people have the attitude that financial services organisations are unapproachable and uncaring. Negative attitudes are difficult to change, but some providers have tried with slogans such as:

The Bank That Likes To Say Yes

A Friend For Life

The Caring Bank

The Listening Bank

Where People Matter

Research is also carried out on a regular basis by financial services organisations to monitor changes in attitude over time.



Quick question

What do you think is meant by the "customer experience"?

Write your answer here before reading on.

The customer experience

The customer experience is simply what happens to a customer when they interface with the financial services organisation in consideration of buying a product or service. If you can gain an understanding of what they experience, it enables you to review what you are delivering and hopefully align with their needs and expectations. This in turn should lead to increased and sustainable sales growth.

In financial services, a service encounter may take a number of varying forms. For example, a bank customer wishing to make an account enquiry may choose between an interaction with an ATM, or with a branch employee, by telephone or on-line.

Every time the customer comes into contact with any of these delivery mechanisms, there is an opportunity to form an impression of the bank and its service. *How* the bank performs the service is often as important as *what* the bank performs.

Quick question

How do you evaluate the customer experience?

Write your answer here before reading on.

Evaluating the customer experience

Broadly you are aiming to establish:

- What is important to the customer?
- What are their priorities in the decision making process?
- The impact of price – customers do not always seek the cheapest. For example, when you set out to buy a car, the key determinant is not always the lowest priced vehicle you can find. You consider your own priorities and are prepared to pay an acceptable price for a car that matches your requirements. The same can be said of financial products and services with customer relationships being a very influential factor.
- What is their preferred delivery channel? What is their level of awareness? Are they adopting the channel that is most beneficial to them?

From a financial services viewpoint, there is no beginning or end to this process – it is ongoing. Not unsurprisingly, there is a fair degree of overlap between the customer experience and service quality. We shall look at the measurement tools in greater detail in the chapter on service quality. However, to assist in understanding how the customer feels, let's look at one of the means of evaluation.

One of the most common tools in assessing customer experience is a customer satisfaction survey. To be meaningful the survey needs to go a stage further than a strictly yes/no type answer in trying to determine what it actually feels like to be a customer. This can take varying formats but is usually along the lines of a statement followed by a scoring facility.

The visible part is broken into the inanimate environment and the service providers or the individuals who interact with the consumer during the service experience. The inanimate environment consists of the technology and physical design elements with which the customer comes into contact. For a bank current account, that may include the design of the branches, the automated teller machines, the organisation's website, as well as the cheque books and statements.

The model also suggests that customers interact with each other. Their behaviour and characteristics impact on each other's experience. For example, a customer at the front of a queue with large amounts of loose change to deposit will affect the quality of the experience encountered by other customers.

Overall, the customer's behaviour at the time of interaction and also the perceptions that impact on his or her future buying behaviour will be derived from the interaction with the physical environment, the service providers and other customers. Each of these visible elements is also supported and influenced by the invisible components.

Organisational buying behaviour

Until now we have considered the individual as the customer but we also have to consider the individual as a member of an organisation. In a business market, not surprisingly, we are not targeting individuals and households; rather we are looking at other businesses and organisations. The term that is currently used to describe this relationship is "business to business marketing".

Organisational buying behaviour has many similarities with consumer purchasing behaviour; it also has a number of major differences. In order to market products and services to organisations effectively, financial services organisations must be aware of these differences.

Characteristics of organisations and organisational transactions

By organisations, we mean companies or partnerships who manufacture or offer a service, retailers and wholesalers, and governmental, educational and charitable bodies.

Quick question

In what ways do you think organisational transactions differ from consumer transactions?

Write your answer here before reading on.

Organisational transactions can differ from consumer transactions in a number of ways. These differences will not always be present, but in organisational transactions rather than in consumer transactions it is more common for:

- purchasing decisions to be made by a group of people rather than by one individual
- the purchasing organisation to impose policies and requirements – for example, affecting the nationality of financial services supplier – which must be heeded by the individuals making the buying decision
- the buying process to be more complex with items such as requests for quotations, proposals and contracts
- the scale of business arranged with each customer being far greater both in terms of value and number of transactions
- negotiating periods over a purchase to take months and even years
- the knowledge level of the purchasers to be higher.

Although these differences occur, it is important to note that as all organisations consist of collections of individuals, many of the theories of individual consumer behaviour remain applicable. However, whilst an element of the emotional considerations may be preserved, the psychological dimension tends to be overshadowed by commercial considerations when evaluating purchasing decisions.

The decision-making unit

Only a small proportion of organisational purchase decisions are made by just one individual. Typically the decision-making unit consists of a number of individuals who participate in the decision-making process. The specific individuals involved in the purchase-decision will vary from company to company dependent on factors such as:

■ **Company size**

Decisions regarding corporate banking requirements in a large company will tend to involve more people than will be the case in a smaller company.

■ **Degree of centralisation**

An organisation which purchases on a centralised basis for all its subsidiaries may have one bank satisfying all its needs internationally. This may be different from those companies where subsidiaries make decisions on an autonomous basis.

■ **Job titles and the responsibilities of individuals within companies**

These will differ greatly between companies even within the same industry. The individuals involved in the decision-making process will become known to you at the time the original transaction is concluded and it is essential that you keep up to date with any changes to the decision-making personnel.

The area in the organisation that makes the purchasing decisions is the buying centre which is responsible for selecting suppliers and negotiating the terms of the purchase. You may have had some experience of this if you have been asked to supply information as part of a tendering process in which your organisation has participated in an effort to win the banking services of a potential commercial customer.

Quick question

What different roles might individuals play in the buying process?

Write your answer here before reading on.

Individuals will often play different roles in the decision-making process and can be categorised as:

■ **Users**

These are members of the company who will actually use and come into daily contact with the organisation. These individuals will frequently initiate the purchase process, set out the specifications for the service required and evaluate the service once the company is using it. These users may be located in the finance or accounts departments of the company.

■ **Influencers**

Those playing this role may influence the decision, although they may not be directly involved. Influencers may be located within and outside the organisation, for selecting financial services. This role may be played by advisers to the organisation, such as lawyers or accountants.

■ **Deciders**

The deciders select the provider and banking service often based on recommendations from users and influencers. They will most commonly be senior level managers.

■ **Gatekeepers**

They control the flow of information to and among the others. They have the power to prevent sales people or information from reaching the others involved in the decision-making process. Examples include receptionists, secretaries and even members of the accounts department.

One person may perform several of these roles; for example, a senior manager who is a user and a decider.

Types of purchase

The number and structure of an organisation's decision-making unit will vary for different types of bank service and for each of the following different types of purchase.

■ Straight rebuy

This describes a situation where the purchasing organisation requires a service on a routine basis. This may involve additional loans, overdraft facilities or additional leasing arrangements. As these may be relatively straightforward decisions, the size of the decision-making unit will be small and may only consist of one individual from the accounts/finance department.

■ Modified rebuy

This involves the purchaser wanting a similar service with modifications such as with longer term capital loans or money transmission services. This is likely to involve more individuals in the decision-making process.

■ New task

This faces a company buying a product or service for the first time. The greater the risk or expenditure, the larger the number of individuals involved in decision making and the longer the time to decision completion.

These classes of purchase should not be seen as being discrete steps, but rather as a continuum ranging from new task at one extreme to straight rebuy at the other.

Question time 9



Set out the individuals you perceive as playing the roles of user, influencer, decider and gatekeeper in their dealings with your organisation for small, medium and large companies. Remember some individuals may play more than one role. Do these individuals differ depending on the service or matter being discussed?

Continue your answer on the next page.

Check with the answer at the back of the book.

The buying process

In purchasing financial services, industrial buyers move through a purchasing or procurement process. The form this process takes depends upon the company, the specific service being purchased and the level of risk involved.

An eight stage approach that organisations tend to go through when making purchasing decisions is shown below. These will not necessarily be sequential steps but may be activities which occur simultaneously or out of sequence.

EIGHT STAGES OF THE INDUSTRIAL BUYING PROCESS

- 1 PROBLEM RECOGNITION**
- 2 GENERAL NEED DESCRIPTION**
- 3 PRODUCT/SERVICE SPECIFICATION**
- 4 SUPPLIER SEARCH**
- 5 PROPOSAL SOLICITATION**
- 6 SUPPLIER SELECTION**
- 7 ORDER-ROUTINE SPECIFICATION**
- 8 PERFORMANCE REVIEW**

1 Problem recognition

Similar to the consumer market, the buying process begins when an individual within the company identifies a need which has to be met. This need may arise under a variety of circumstances; for instance if problems occur with cash flow, then a need may be recognised for facilities such as factoring or invoice discounting. An expansion programme may require a term loan support or an increased working capital. Equally, surplus cash in the business may present investment opportunities. New ideas raised in meetings with bank staff or promoted in direct mailings may also highlight a need for a specific service.

2 General need description

In order to satisfy the need identified in stage one, the buyer determines the general characteristics of the needed service (ie the size of loan required). This may involve discussion with influencers such as accountants.

3 Product/service specification

This involves the development of specifications setting out conditions such as repayment levels, access to funds and flexibility which the service must be able to provide.

4 Supplier search

The company will search for possible products/services to meet the area of need. This may involve contacting banks for information and/or examining brochures and the financial press. The result of this stage will be a short list of potential suppliers/banks.

5 Proposal solicitation

The company will seek meetings with the short-listed financial organisations to present their proposals, usually supported by a formal business case. At this time they will be looking to secure the lender's agreement in principle together with the terms and conditions that will be attached.

6 Supplier selection

The financial services organisation will be chosen based on its ability to meet the attributes sought by the decision-making unit, in terms of factors such as capabilities, price, flexibility, service quality, protection/security, back-up services, reputation.

Personnel issues very much come to the fore in this type of situation with both parties assessing if these are the type of people with whom they can establish an ongoing productive working relationship. Don't underestimate this factor; if the individuals have a desire to work together but there are shortcomings in the proposer's ability to align with the lender's criteria, a deal-making approach may be adopted in an attempt to establish a mutually acceptable compromise.

7 Order routine specification

The buying organisation now agrees the final contract document with the financial organisation.

8 Performance review

Actual performance after purchase in terms of service quality, reliability, speed and flexibility are compared with the initial specifications and projections. The results of this evaluation in this stage become feedback for the other stages and therefore influence future purchasing decisions.

These eight stages would operate in a new task buying situation. In the modified rebuy or straight rebuy, some of these stages would be compressed or bypassed. For example, if it is a rebuy, companies will be unlikely to undertake steps 1, 2, 4 and 5.

Influences on organisational buying

Four major categories of factors appear to influence organisational buying decisions:

- environmental
- organisational
- interpersonal
- individual

Environmental factors

These are similar to those discussed for consumer behaviour. In particular, the economic environment in terms of level of output, cost of money and economic outlook has a major impact on the types of financial services sought by companies.

As you will recall from earlier, these environmental factors, such as political, legal and regulatory influences, can be uncontrollable by the organisation, and as such, they can present a large degree of uncertainty. However, changes in these environmental factors can generate new purchasing opportunities; for example, developments in technology can give financial services organisations the opportunity to work more closely with business customers as the flow of information between the two businesses is easier to transmit.

Organisational factors

Such factors as the objectives, policies, procedures, organisational structure and systems of the company all have an influence on buying decisions, in terms of who makes the decisions and the evaluation criteria used. For example, the nature of an organisation's computers and procedures may require special money management systems.

The policies and procedures of a business organisation may have an impact on their choice of financial services provider; for example, the internal policies may state that the provider is to belong to a group that is based in a particular country, etc.

Interpersonal factors

We have already highlighted the importance of this factor. The interrelationships between the different participants in the decision-making unit will also influence decisions. This includes how the different individuals in the company interact as a group in terms of different statuses, authority, persuasiveness and empathy. For example, certain persons in the decision-making unit may currently be in favour or may be better communicators than others and thus may be more convincing.

When thinking about interpersonal factors, keep in mind that no matter how good the features of the financial services are, if the personnel from the bank who deal with the customer on a day-to-day basis are not well regarded, then there is little likelihood of there being much customer satisfaction!

Individual factors

The attitudes, knowledge and preferences will be influenced by the age, income, education, position and personality of the individual concerned. Some may be hard bargainers, some may be concerned with detail, whereas others may simply wish to reduce risk to themselves re requests for security, personal liability, etc.

These characteristics of individuals who work in the buying centre are likely to affect their view of the financial service provider. For example, if you are dealing with a person who has worked in the customer's organisation for a long time and has built up a relationship with your organisation over a period of years, then they are likely to have more loyalty to your business than a person who has recently joined the buying centre and has an aggressive negotiating style.

The level of influence these four factors have will be dependent on the buying situation, the type of service being purchased and whether the purchase is new task, modified rebuy or straight rebuy. However, a corporate banker should be continuously aware of the changing nature of the above influences for every corporate customer.

Segmentation and target marketing

If we were to aggregate all the behaviour, expectations and perceptions of all customers in a particular market, we would probably be overwhelmed with the diversity of consumer needs and profiles. At one extreme, service firms treat customers as individuals and develop marketing plans for each type of individual customer; for example, a law firm and an advertising agency will develop service offerings customised for their large corporate clients.

At the other extreme, some service firms offer one service to all potential customers as if their needs and preferences were homogeneous. Providers of gas or electricity, for example, often view the needs of customers as varying only in terms of quantity purchased and offer a standardised approach.

Between these two extremes are options that most marketers choose.

Before starting the discussion on market segmentation, it is useful to explain precisely what is meant by the word “market”, as this word can have a range of meanings. For example, market in its traditional sense, is the geographic space where buyers and sellers come together to trade, but “market” can also mean a large geographical area, or the relationship between buying and selling. This is seen in reports of the Stock Exchange which state that “the market” has made substantial gains or losses this week.

Quick question

Write down your definition of “market” for the purposes of this course.

Write your answer here before reading on.

In this course, think of a market as a group of people, either as individual consumers or as part of organisations, who need and have the ability to purchase particular goods and services.

For a group of people to be part of a market, there are certain requirements that must be fulfilled.

Quick question

What do you think these requirements are?

Write your answer here before reading on.

The requirements for a market are that there must be:

- a need or want for a particular product or service
- the ability to purchase this product or service – in other words, buying power. This buying power is normally money which may either be money that they have right now, or money that they are going to earn in the future but are able to source right now, for example, by obtaining a loan. It is also possible for this buying power to be other goods and services with which the buyer is able to trade
- a willingness to use this buying power
- the authority to buy the specific product or service.

It can be quite possible that an individual has the desire, buying power and willingness to buy particular goods and services, but they do not have the authority; for example, someone under the age of 15 who wishes to buy a ticket for the National Lottery.

There are two types of market – the consumer market and the business market. The consumer market is the market that is made up of households who buy products and services for personal consumption, that is, they do not buy with the express intention of trading with their purchases. The business market is made up of those who buy products with one of the following intentions in mind:

- for resale
- for use in the production of other products
- for use in general daily operation.



Quick question

What should you want to segment your market?

Write your answer here before reading on.

A market segment is composed of a group of current and potential customers who share common characteristics, needs, purchasing behaviour or consumption patterns. Different segments will have different needs.

In the market for personal financial services, these differences may come about as a result of factors such as the age, income, social status, life style and geographical location of the various individuals within a market.

Example

Let's take an example from outside our sector – selecting a car. The age, income, social status, life style and geographical location of the purchaser may influence whether selection is based on:

- speed and power
- style
- capital outlay
- running costs
- carrying capacity
- off-road capabilities
- ease of parking
- comfort

In organisational markets, factors such as size of company, industrial sector and buying practices, may influence needs and the factors taken into account when selecting a service.

Example

A purchasing organisation might take cognisance of the following factors in assimilating its selection criteria for the purchase of a new computer system:

- the importance of technology
- price
- nationality of supplier
- networking capabilities

As needs can differ greatly, it is unlikely that a single version of an account, service or marketing mix will be able to satisfy the needs of everybody in a market. In addition, some organisations may be in a position to serve certain customers better than others because of product range, geographical coverage or even image. Therefore a business, instead of trying to meet all needs and competing everywhere, should identify those parts of the market that are most attractive and which it could serve most effectively.

Two approaches can be adopted:

- market segmentation – the act of subdividing a market into distinct and meaningful subsets of customers who have similar needs and therefore might merit separate marketing effort
- target marketing – the act of selecting and targeting segments on which to concentrate marketing effort and resources.

Quick question

What do you think are the benefits of segmentation for financial services organisations?

Write your answer here before reading on.

Both approaches, effectively implemented, should group buyers into segments in ways that result in as much similarity as possible. The benefits of segmentation for financial services markets are:

- cost reduction through a close matching of company resources with market requirements
- enhanced customer satisfaction through requirements being satisfied
- company can focus its efforts on a clearly defined target segment, thereby gaining a specialist knowledge of that group of customers
- identification of gaps in the market which offer new product opportunities
- customer retention can be improved via increased customer satisfaction
- a more efficient use of marketing resources
- improved customer acquisition as a result of clearer understanding of customer needs.



Case study

Key Corp

Key Corp of the USA use marketing research data for segmentation and targeting. Key Corp is a US bank that has \$66 billion in assets and nearly seven million customers. A few years ago they were spending millions to promote their broad base of services through direct mail, telemarketing and media advertising – with disappointing results. They were unable to focus on the bank’s best customers because they had no means of identifying who they were.

They launched an ambitious CRM project supported by a state-of-the-art data warehouse designed to collate all the information about bank customers in one place to support every sales and marketing decision made throughout the company. They decided that success lay in their ability to become customer-driven.

They first identified key features of their customer profiles: age, current account and savings balances, outstanding loans, repayment dates, number of children and frequency of ATM usage. The data supplied them with a profile of their customers and their buying preferences, the names of the most and least profitable customers, the distribution channels different customers prefer, and the circumstances under which a customer is likely to defect. Their stated goal was to develop fewer and better relationships with customers rather than have more customers who use only single products.

The results have been impressive – Key Corp was rated number 1 in customer satisfaction among top banks included in the annual University of Michigan/ American Society for Quality Control Survey published in “Fortune” magazine.

Market segmentation

As already stated, a market segment is a group of individuals, groups or organisations who share common characteristics that cause them to have relatively similar needs.

At the most detailed level, every buyer's requirements from a financial services organisation are probably unique in some way or other. Being practical, businesses group such unique wants into subgroups or market segments. Such groups may be classified as consisting of retired people, young marrieds, students or the self employed.

The principal rationale for using the segmentation approach is that, in a diverse market, it is more cost effective for an organisation to develop a marketing mix that satisfies specific segments of a total market than it is to attempt to design a marketing mix which satisfies the needs of everyone in a market.

In the unlikely event that an organisation is targeting an entire market, this is called "undifferentiated (or total) marketing", but it is much more common to see the use of market segmentation. In the financial services sector, there has been a move away from the mass marketing approach and organisations provide a more segmented offering. For example, in the past, home loans were offered, either on a capital and interest, or interest-only basis, but now there is a wide range of different house purchase loans available from most financial services providers. This type of market, in which consumers have a variety of needs, is called a "heterogeneous" market.

The role of market segmentation is to identify these discrete groups so that organisations can develop products and services to meet these needs and wants. This is done by developing products and services that will appeal to target segments, and developments will be supported by suitable promotional activities, customer service, pricing and place/distribution strategies.

By segmenting their market, an organisation can identify and take advantage of the opportunities that become available. In order to do this, the organisation must take account of the following:

■ Customer analysis

By segmenting their market, the organisation is better able to see what the needs and wants of its potential customers are – and this information will be vital if the business is to be successful in the development of products and services that will meet these needs.

The smaller the segment, the easier it is to find out this information and the more accurate will be the predictions that the organisation makes about future buying behaviour. However, the downside is that the smaller the segment, the fewer potential buyers the organisation has. For example, if you look at the 20 households that are located beside your house, you will see that they share a number of common

characteristics around size and type of home, whether the home is owner occupied or rented, the type and number of cars owned, the size and layout of garden space (if any), family size, etc. It would therefore be a fairly straightforward job to compute the needs and wants of these households with a high degree of accuracy. The disadvantage though is that as we are only looking at 20 households, no matter how accurate we are, this is a very small number of potential customers that we are considering.

■ **Competitor analysis**

Most markets operate in a very competitive environment, and the financial services market is no different; so, if a company is to be successful in its market, it must understand the competition that they are up against.

■ **Resource allocation**

Every organisation will have limited resources at its disposal – that is one of the reasons why choices have to be made about the most appropriate segments that should be targeted. If an organisation targets particular segments, then it is more likely to be making the best use of the finite resources at its disposal.

■ **Strategic marketing planning**

If an organisation is operating in a number of segments, then it is unlikely that it will have the same strategic plan for all of them. Indeed, one of the purposes of splitting its market into segments is to let the business see clearly the differences between these different areas, and to plan to meet the needs of each segment.

Market segmentation criteria

A number of criteria for effective market segmentation have been identified:

- measurability – there must be some way of measuring the size and purchasing power of the segment(s)
- accessibility – the firm must be able to reach its segments
- substantiality – the segment must be economically viable
- practicality – the degree to which effective marketing programmes can be designed and implemented to attract and serve the segment.

When identifying the firm's segments there are a number of questions that should be addressed:

- What are the needs of the specific segments that we have identified?
- Which of these segments best fits our organisation's mission and our current operational capabilities?
- What do customers in each segment see as our strengths and weaknesses? Can our weaknesses be corrected?

- How should we differentiate our marketing to attract and retain the customers that we want?

There are three distinct phases that a business must address when carrying out market segmentation:

- segmenting the market
- targeting strategy
- positioning the product.

■ **Segmenting the market**

There are a number of ways in which the segment can be defined. When making this decision, it is important that the most suitable bases are used for the products and customers in question. As much information as possible should be acquired about the customers in a segment – after all, the more we know about a customer, the more likely we are to be able to design a product that will meet their needs.

■ **Targeting strategy**

Once the segments have been identified, the decision must be taken as to how many customer groups can be targeted. The following options are available:

- Concentrate on the whole market – in other words, adopt an undifferentiated approach.
- Concentrate on one segment with the one product.
- Look at a number of segments, but only with the one product.
- Target a number of different products to a number of different segments.

■ **Positioning the product**

Once the decision is taken as to what segments and products are to be used, the organisation must decide how to promote its offering to the segments. How a potential customer is informed about the product will be a key factor in determining whether or not they will be interested in taking the product.



Question time **10**

Using three car types that you know, suggest for each one the specific segments of the market at which it is aimed, that is, describe the types of people you would expect to see driving such a car.

You will find a suggested answer at the back of the book.

Bases for market segmentation

The variables used for segmenting consumer markets can be divided into two broad categories:

- consumer characteristics
- consumer responses.

Consumer characteristics

These are independent of the product or service being purchased and include:

- demographic
- geographic
- psychographic elements.

■ Demographic segmentation

This consists of grouping customers on the basis of demographic variables, historically the most popular for distinguishing customer groups as they are easier to identify and measure than most others. Typical variables to be used include:

- age
- gender
- family size
- income level
- occupation of the head of household
- religion
- race
- nationality

Most companies will segment a market by combining two or more demographic variables. In the financial sector, family life cycles which combine age, family size and therefore levels of disposable income, are often used to segment markets for financial products.

FAMILY LIFE CYCLE			
Group	Age	Lifestyle	Finance Requirements
School children	Up to 16	Mainly parental guidance. Limited financial resources.	Simple savings account with occasional access to it.
Youth	16 - 21	Leaving school. Further education. First job; low earnings.	Money transmission services. Travel facilities. Overdrafts or loans. Simple savings account.
Young married	21 - 25	Going steady or getting married. Saving for a home. Joint income.	Joint account. Budget facilities. Savings accounts. Consumer loans. Insurance, wills and travel services.
Householder married with family	25 - 45	Income growth but temporary loss of wife's earnings when children born. Buying home and trading up.	Joint account. Mortgages and home improvement loans. Longer term savings for education funding. Insurance, wills, consumer loans. Savings accounts for children.
Older persons	Over 45 but before retirement	Higher paid with or without inherited wealth. Higher spendable income. Need for financial advice and planning.	Savings and investments. Occasional borrowing. Replacement mortgage or home improvement loans. Financial advisory services.
Retired	Over 60/65	Accumulated capital. Lump sums available. Protection for widowed.	Management of capital/income. Trust services and financial advice.

- **Age**

The age of the consumer is one of the simplest methods of segmenting a market. The underlying assumptions are that individuals of a similar age have similar needs and requirements.

Financial institutions now offer accounts for different age groups. Generally, younger customers have a higher demand for loan facilities than older customers who have a preference for deposit funds. Students have been targeted by a number of banks that are keen to offer loan facilities in the expectation that the student will become profitable after he or she graduates and enters a career.

School children have also become an important segment since they constitute a significant proportion of the population and have considerable discretionary purchasing power through pocket money, gifts and earned income. Many financial institutions have responded to this trend by introducing young savers accounts backed up by gifts to act as incentives and create brand loyalty with that particular organisation.

There is a notable demographic shift with the financial institutions placing an increased level of attention on the older age groups, the so-called “greys” or “third agers” aged between 50 and 65.

**Quick question**

What techniques would you use to identify the older age groups?

What products and services would you offer them and why?

What media would you use to communicate with them and why?

Write your answer here before reading on.

- **Age profile of current account ownership**

According to research data from Mintel, the interest bearing current account is now the standard account offered, evidenced by the low ownership levels of non-interest bearing accounts by the lower age groups. 12.9% of 15 - 19 year olds and 25% of 20 - 24 year olds own a non-interest bearing bank or building society current account compared to 39% of 45 - 54 year olds.

- **Age profile and loyalty**

Older consumers are more likely to have remained with the same current account provider, showing loyalty to their bank or building society. Indeed, nearly 60% of retired customers have never changed their provider. More worrying for banks, however, is the evidence that younger consumers are demonstrating less loyalty to their current account provider. This is particularly apparent among the 15 - 19 age group who appear susceptible to the promotional tactics that involve lucrative offers. It can therefore be concluded that consumers respond to advertising and incentives if they believe the benefits outweigh the costs of transferring.

Quick question

Can you recommend any other strategies that would prevent customers in the 15 - 19 age group from defecting to competitors?

Write your answer here before reading on.

- **Age profile and channel preference**

Not surprisingly, the older population have a greater preference for the high street branch than younger people, with 73% of the over 65 age group preferring this method. They also have the lowest preference of all the age groups for the more remote channels of ATMs and telephone. They share similar preferences to the rest of the age groups for using a supermarket till to manage their current account. This may lie in their preference for face-to-face contact.

The 20 - 24 age group has the lowest preference for using the high street branch (54%), preferring ATMs (72%) or a supermarket till (17%) – both these alternatives being the highest preferred levels of all the age groups. This also demonstrates the growing importance of convenience in financial services. Surprisingly, however, over half of the 20 - 24 age band still prefers the high street branch.

- **Life cycle**

Banks and building societies which offer savings accounts need to be aware of customers' motives for saving and how these may change in the course of their life. Customers will have several savings objectives and these will be affected by a number of factors, including the state of the economy (interest rates and inflation), level of income, perception of risk and stage in the life cycle.

Some people save to be able to spend in the near future. For them, the purpose of saving is to accumulate enough money to buy something (a holiday, household item or a car, for example) although the growing availability of interest-free credit has diminished the need to do this. These customers look for simple deposit accounts with easy access.

Others save for emergencies or the unexpected. These customers also require easy access to their funds. Customers with longer term objectives, such as saving for retirement or for their children's education, will need longer term savings products of a lower liquidity; these could include personal pensions or notice accounts. People who want to accumulate capital, on the other hand, will look for higher risk, equity-based investments.

In practice, customers have both long and short term goals for their savings, depending on their stage in the life cycle. The basic family life cycle has five stages: youth, independent, family, empty nest, retired.

Youth

We have already considered some of the reasons why the youth market is important for financial institutions. In addition, it is worth remembering that the single most important factor influencing a young person's choice of bank or building society is their parents' choice, thus it makes sense to offer parents and grandparents information about young people's savings accounts. The development of internet banking facilities has proved popular with this group.

Independent

Members of this market are less well served, yet potentially they represent a far more profitable market for savings. Independents are at the transitional stage between youth and family and they tend to have short term savings objectives, such as saving for a car or the deposit for a house. They include school leavers who are entering employment or undertaking training.

Research by Mintel reveals that 60% of the population with no children perceive the current account as essential compared to 54% with children aged up to 15. The higher figure for the independent group is probably due to the current account being perceived as supporting the life style for this group.

Family

At this stage most people are unable to put money aside for the future. If they save at all, it will be to pay for short term needs. However, the birth of more

children during the family stage may prompt parents to open children's accounts or save for their education.

Empty nester

At this stage financial institutions have an opportunity to renew their savings activity of customers whose children have recently left home. These empty nesters are more likely to have disposable income that they wish to spend on items such as holidays and entertainment. They are also likely to buy products that will enable them to top up their pensions.

Retirement

In the final stage of the life cycle, customers will use their savings as a source of income and will be keen to attain a secure rate of return for their investments. While the age of a person would seem to offer some guidance in terms of describing financial services requirements, it is important to achieve a balance of age segments, particularly in financial services. For example, if only younger customers are targeted, they may be lost if the company fails to meet their changing requirements as they move into more mature segments.

Quick question

What is the benefit of a life cycle approach for the financial organisation?

Write your answer here before reading on.

Benefits of a life cycle approach

A key benefit of the life cycle approach is that it enables financial institutions to develop a relationship with their customers and retain them by offering the right product at the right time, as and when the customer requires it. The youth market has been targeted with money transmission services, overdraft and loan facilities, simple savings accounts and travel facilities, whereas the family segment require mortgages and home improvement loans, longer term savings for children, insurance, wills, pensions and loans.

One of the major criticisms of the family life cycle has been its inability to keep pace with sociological trends. Over the last few decades the following changes have altered the traditional life cycle:

- a decline in the size of the family
- an increase in the average age of individuals before first marriage

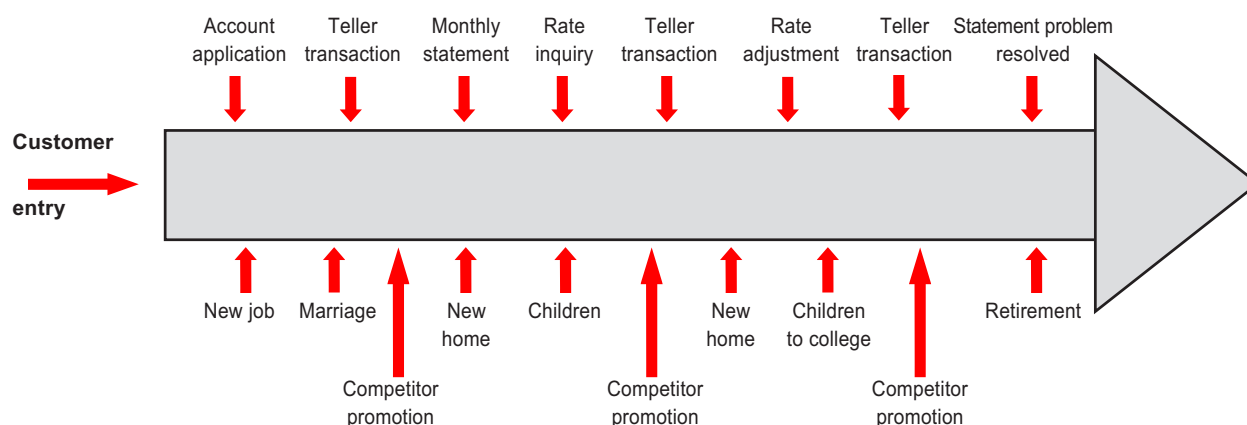
- shorter child-bearing cycles as women choose to have children both later in life and closer together to return to work more quickly
- rising divorce rates
- remarriage
- increasing numbers of lone parents
- greater longevity.

Despite the above criticisms, the life cycle is still used by many financial organisations.

The customer corridor

A useful technique for consumer behaviour and successful relationship management is to map out the whole life cycle of a customer's interactions with a company and its services. The life cycle can be symbolised as a corridor like the one illustrated here for a retail bank. Customers enter the bank at one end and each arrow along the top of the passage represents a doorway or interaction with the bank, beginning with the account application. The model can also show the frequency of those interactions.

The Customer Corridor: Retail Banking



(Source: Reichheld, F "The Loyalty Effect")

In many industries, including banking, insurance and other service industries, the customer corridor has a second set of doorways made up of the major changes in a customer's private life, shown here – along with competitors' efforts to lure the customer away – by the arrows below the corridor.

Career moves, relocations, life style changes and family events such as marriage, birth, divorce or death can be opportunities to deliver additional value to the customer. In fact, if companies fail to tailor services to such events, defections are almost inevitable. Banks which have analysed defection frequencies find that changes of this kind increase defection probabilities by between 100 - 300%. Having discovered that relocation is a prime cause of defection, a number of banks have developed programmes which transfer customers to another branch.

- **Gender**

Gender can be another common demographic variable. In the past, financial organisations would target their offerings at males as it was perceived at that time that the final buying decision for financial services would be made by males.

Socio-economic variables will include factors such as income, occupation, education and social class. Income can be a useful variable as the more income a household has, then the more they are able to consume and this can affect their aspiration for a particular life style. In financial services this has been evidenced in the development of separate departments which seek to meet the needs of “high net worth” individuals and indeed in the existence of organisations which seek to serve particular wealthy segments, for example Adam and Company.

- **Geographic segmentation**

Historically, geography was the first segmentation variable. Small firms which lacked the resources for supplying an entire country limited their supply of goods to local areas where they had gained market knowledge. Many building societies segmented geographically by default until technology enabled them to serve a much wider market. Nevertheless, the branch network is still an important segmentation variable with 64% of the population identifying the branch as the preferred channel for managing their current accounts.

This approach divides the market into different geographical units such as:

- countries
- regions
- city size

In the UK, individual neighbourhoods are commonly used.

Quick question

What do you understand by the phrase “market density”?

Write your answer here before reading on.

Market density refers to the number of potential customers who are located within a specific area. There is normally a correlation between market density and population density, but the correlation is not always precise. For example, two areas of roughly the same size and population may have different levels of demand for loan funds because one area may have a higher proportion of businesses located within it.

Market density can be a useful segmentation variable as a low density market may well need a different approach in the sales, advertising and distribution of products and services than a high density market.



Quick question

What do you understand by the phrase “geodemographic segmentation”?

Write your answer here before reading on.

This is a segmentation technique that groups people according to postcode.

One of the sources of data for this type of segmentation is ACORN (developed by a company called CACI). ACORN stands for “A Classification Of Residential Neighbourhoods” and it is a geodemographic classification, meaning it takes into account geographic location and demographic characteristics.

It is a market segmentation system which allows consumers to be classified according to the type of residential area in which they live. ACORN applies published census statistics and takes into account 40 different variables encompassing demographic, housing and employment characteristics to classify households into 39 different types of neighbourhood.

ACORN	
<p>A Agricultural areas Agricultural villages Areas of farms and smallholdings</p> <p>B Modern family housing, higher incomes Post-war functional private housing Modern private housing, young families Established private family housing New detached houses, young families Military bases</p> <p>C Older housing of intermediate status Mixed owner-occupied & council estates Small town centres & flats above shops Villages with non-farm employment Older private housing, skilled workers</p> <p>D Older terraced housing Unmodernised terraces, older people Older terraces, lower income families Tenement flats lacking amenities</p> <p>E Council estates – category 1 Council estates, well-off older workers Recent council estates Better council estates, young workers Small council estates, often Scottish</p>	<p>F Council estates – category 2 Low rise estates in industrial towns Inter-war council estates, older people Council housing, elderly people</p> <p>G Council estates – category 3 New council estates in inner cities Overspill estates, higher employment Council estates with some overcrowding Council estates with great hardship</p> <p>H Mixed inner metropolitan areas Multi-occupied older housing Cosmopolitan owner-occupied terraces Multi-let housing in cosmopolitan areas Better-off cosmopolitan areas</p> <p>I High status non-family areas High status non-family areas Multi-let big old houses and flats Furnished flats, mostly single people</p> <p>J Affluent suburban housing Inter-war semis, white collar workers Spacious inter-war semis, big gardens Villages with wealthy older commuters Detached houses, exclusive suburbs</p> <p>K Better-off retirement areas Private houses, well-off residents Private flats, older single people</p> <p>U Unclassified Unclassified</p>

(Source: CACI)

ACORN is computerised and linked to postal geography and therefore if the postcodes of individuals are known, they can be classified into their respective categories.

All 1.9 million households in the UK have been described, using over 125 demographic statistics and 287 life style variables. The idea behind ACORN is that customers who live in different residential areas can have different profiles in respect of these variables. The product needs of these customers will therefore also vary. Consumers may then be classified under their postcode and then into one of the groups such as “wealthy executives”, “struggling families”, “burdened singles”, etc.

Where direct mailing methods are used and also in the selection of locations for bank branches, an analysis of the geographic segments and their requirements will often be used.

■ Psychographic/life style segmentation

In psychographic segmentation (or life style segmentation), buyers are divided into different groups on the basis of their social class and life styles. Socio-economic or social class groupings are used extensively by the government and research organisations for tracking trends in the population.

This is becoming far less employed by financial institutions who wish to undertake more selective promotions or targeting. They are clearly far too broad and do not relate particularly accurately to financial needs, but they do provide a starting point for further refinement and using the government statistics which are classified in this manner can give useful leads as to the way further segmentation should go.

SOCIAL GRADE CLASSIFICATIONS		
Social Grade	Social Status	Occupation
A	Upper middle class	Higher managerial, administrative or professional
B	Middle class	Intermediate managerial, administrative or professional
C1	Lower middle class	Supervisory or clerical, and junior managerial, administrative or professional
C2	Skilled working class	Skilled manual workers
D	Working class	Semi and unskilled manual workers
E	Those at the lowest level of subsistence	State pensioners or widows (no other earners), casual or lowest grade workers

(Source: JICNARS National Readership Survey, Jan-Dec 1987)

These are the standard social scale grade classifications and are described in a JICNARS publication “Social Grading on the National Readership Survey”.

Companies making cosmetics, alcoholic beverages and even financial products are increasingly segmenting their markets by consumer life styles.



Quick question

What might be another example of psychographic segmentation?

Write your answer here before reading on.

The final psychographic variables that we will consider are based on the differences between the terms of knowledge of the financial service, level of involvement, attitudes and use of various financial services.

A research study conducted by Tina Harrison revealed the following four categories of consumer:

- the financially confused
- apathetic minimalists
- cautious investors
- capital accumulators

Use of financial services was measured in terms of the product knowledge and the degree of financial maturity exhibited by individuals in terms of their willingness to invest in complex products with a degree of risk.

The characteristics of the segments can be summarised as shown in the diagram on the next page.

The financially confused and the apathetic minimalists are perhaps the most challenging from the point of view of the financial institution since they do not consider themselves to be very knowledgeable about financial services, have very short term planning horizons and are the least financially active, but they represent an opportunity for sales targeting.

The cautious investor and the capital accumulators are the more knowledgeable and sophisticated financial users. Both have longer term financial objectives and maintain a keen interest in financial services.

The major difference between the two segments is that the cautious investors are more risk averse than the capital accumulators, preferring to avoid products which they perceive as being high risk (such as stocks and shares, unit trusts and ISAs) and opting for safer investment items (including pensions and regular savings plans).

FINANCIAL MATURITY

		LOW	HIGH
PERCEIVED KNOWLEDGE	LOW	<p>Financially confused</p> <ul style="list-style-type: none"> • Least financially active • Most likely never to save • Savings of £100 pa or less on average • Least likely to make use of loans and credit cards but most likely to use a retailer storecard • Credit card balances tend to be paid in instalments, not in full 	<p>Apathetic minimalists</p> <ul style="list-style-type: none"> • Exhibit an average use of financial services generally • Moderate saving facility, on average savings of £1000 pa • Less likely to have shares, unit trusts or PEPs • Trusting of financial advisers and are likely to be 'sold' financial products
	HIGH	<p>Cautious investors</p> <ul style="list-style-type: none"> • Generally very active financially • Tendency to opt for 'safer' savings and investment products • Save between £1000 and £3000 pa • Avoid 'riskier' investment in equities • Not very heavy users of credit cards and tend to pay balances in full 	<p>Capital accumulators</p> <ul style="list-style-type: none"> • The most financially active • The most frequent and heaviest savers • Savings of £3000 pa on average • Bias towards equity-based investments • Frequent use of credit cards but mainly to take advantage of the deferred payment period with balances paid in full

(Source: Harrison, T S, Mapping Customer Segments for Personal Financial Services: Replication and Validation, Journal of Financial Services Marketing, Vol 2, No 1)

Quick question

Can you see any problems with the use of life style as a segmentation variable?

Write your answer here before reading on.

The main problem associated with the use of life style as a variable is that the concept of “life style” will be difficult to measure compared with the other variables we have already discussed. Also, the connection between psychographic variables and consumer needs can be difficult to see at times.

Consumer responses

Consumer responses to the financial services provider’s specific offering can be analysed by factors such as usage patterns and benefits sought. This is called behavioural segmentation and buyers are grouped on the basis of their knowledge, attitude, use or response to a product.

Usage patterns

Usage patterns can be determined from occasions or events when buyers develop a need, purchase or use a product, and usage rates when customers can be defined as light, medium or heavy users based on the number of transactions they undertake.

Events can be:

- planned (where the financial organisation can anticipate the need) – term deposit or loan maturity
- operational (where the financial organisation notes a change in the management of an account) – balance limit exceeded or behavioural change in channel usage
- external (where the financial organisation becomes aware of changes in the customer’s circumstances) – notices in newspapers regarding a customer’s application for planning permission.

In terms of usage, the FinPin System (developed by a company called PinPoint) classifies the population into four categories and ten subgroups according to their levels of financial activity. Each group has a predictable behaviour and purchase pattern for the various financial products and services. The FinPin data is geographically referenced and linked to postcodes, making targeting easier.

FinPin SEGMENTATION BASED ON USAGE AND FINANCIAL SOPHISTICATION

A	Financially Active	i) Most Active
		ii) Financially Secure Savers
B	Financially Informed	iii) Multiproduct Savers and Investors
		iv) Traditional Multiproduct Users
		v) Net Savers
C	Financially Conscious	vi) Average Users
		vii) Uncommitted Investors
		viii) Basic Product
D	Financially Passive	ix) Inactive Borrowers
		x) Least Active

Benefits

The belief underlying this segmentation strategy is that the benefits which people are seeking in consuming a given service are the basic reason for the existence of true market segments.

Benefit segmentation is used quite extensively and requires determining the major benefits that people look for in the product class, the kinds of people who look for each benefit and the competitor's services that deliver each benefit. In 1968 Haley undertook a benefit segmentation of the toothpaste market and uncovered four benefit segments.

As the next diagram shows, each benefit seeking group had particular demographic and behavioural characteristics. A toothpaste company can use these findings to clarify which benefit segment it is appealing to, the characteristics of that segment, and the major competitive brands.

BENEFIT SEGMENTATION OF THE TOOTHPASTE MARKET				
Segment	The sensory segment	The sociables	The worriers	The independent segment
Principal benefit sought	Flavour, product appearance	Brightness of teeth	Decay prevention	Price
Demographic strengths	Children	Teens, young people	Large families	Men
Special behaviour characteristics	Users of spearmint flavoured toothpaste	Smokers	Heavy users	Heavy users
Brands disproportionately flavoured	Colgate, Stripe	Macleans, Plus White, Ultra Brite	Crest	Brands on sale

(Source: Haley)

Segmentation for the corporate sector

The corporate sector differs widely from the personal sector in terms of structure and characteristics. These differences have important implications for market segmentation. Corporate customers are generally smaller in number but larger in size.

The needs of businesses and other organisations are often more complex than those of personal customers, yet corporate customers have a more complete understanding of their financial requirements. Thus, in many cases, financial institutions find themselves dealing with sophisticated and complex financial service users.

The corporate sector is also more influenced by the state of the economy and factors outside the buyer's control (such as exchange and interest rates) can take on a significant role in decision making.

As with the personal market, some of the segmentation bases that are chosen for the corporate sector may be easier to measure and apply than others.

The most commonly used segmentation variables for corporate customers are:

- Industry characteristics
Industry type, company size, company location
- Operating variables
Product use status, company technology
- Purchasing approaches
Policies and purchasing criteria
- Situational factors
Urgency, application, order size
- Buyer's characteristics
Age, social class, personality, life stage

Industry characteristics

Those variables that relate to the type of business, where it operates, how old the company is and its size are probably the most commonly used variables in corporate marketing. It may well be that your organisation segments its business markets in this way.



Quick question

What factors does your organisation use to segment its business market?

Write your answer here before reading on.

It is common to find that business managers may be allocated a portfolio based on the size of the customer, say through the use of small business advisers, or on the type of business that the customer carries out; for example, it is usual to find specialist agricultural business managers. It is also very common to find that the business managers are allocated customers based upon the amount that they borrow.

Operating variables

Here we are looking at customer requirements being affected by different operating variables, such as the technology used by the customer, or the products and services that they utilise. In this case, we could be looking at the different types of lending product that the customer uses, or perhaps their need for specialist finance.

Purchasing approach

This is where the buying approach of the customer organisation is used as a segmentation base. An example of this can be seen where segmentation applies based on the buying policies of the organisation.

Situational factors

Here we are concerned with the size of the order or the urgency with which the order must be dealt. The size and frequency of order can be another determining factor – a large corporate customer may be looking for a higher level of personal attention from a financial organisation than that given to a small business which processes routine transactions and rarely has cause to approach the bank.

Buyer's characteristics

Whilst the individual who is carrying out the purchasing on behalf of the organisation may have less of a say in the ultimate decision than if they were making a purchase on their own behalf, their individual characteristics may still have some influence on the purchasing decision. Although in this section we are looking at corporate marketing, there will still be an interface between people and their likes, dislikes, personality, etc can still play a part in the decision-making process.

While we have looked at some of the commonly encountered bases, there are some categories that are used by banks to classify their business customers which we would not necessarily see in other sectors.

These classifications include:

- Account turnover – for example, some banks will only allocate a business manager to a business customer whose turnover is in excess of a specific figure. It is also common to see that there is a turnover level above which the corporate customer may be dealt with by relationship managers who specialise in dealing with larger customers.
- Financial sophistication – for example, the use of an external accountant, the employing of a full time accountant, having an in-house finance department, etc.
- Ownership characteristics – the structure of the customer's organisation, be it sole trader, partnership, private limited company, public limited company, charity, etc.
- Trigger points – new start-ups, expansions, management buyouts, etc.

It is also quite common for banks to have a separate segment for professional customers, such as doctors, lawyers, accountants, etc.

Size of organisation

Group	Examples of Potential Services
Small: Up to £1m turnover	Personal financial services for busy owners. Special "start-up" funding, for example through Small Firms Loan Guarantee Scheme. Hire purchase and leasing Factoring Key person insurance Money transmission services Direct banking Business credit cards
Medium: £1m - £5m turnover	On-line "business support" financial services Business credit cards Hire purchase and leasing Factoring Long term loans Importer/exporter services
Large: £5m+ turnover	Business advisory service Business credit cards Hire purchase and leasing Factoring Importer/exporter services Registration facilities Equity finance Long term loans

(Based on Marsh)

Trigger points

Trigger Points	Potential for
New business start-up	Government funding incentive schemes Small Firms Loan Guarantee Scheme
Expanding network of distribution	Credit card retailer services Leasing of premises, vehicles and other fixed assets
Expanding production	Loans for investment in plant and machinery
Altering product range	Business advisory service Franchising Plant and machinery funding
Entering export trade	Export/financial advice Loans International services
Taking on more staff	Bank accounts for new employees Insurance/pensions
Moving to larger premises/ buying own premises	Business advisory services Property loans Leasing of fixed plant

Acquisition of another business	Business advisory service Equity finance Registration services
Introducing employee enhancements, for example company cars	Leasing Pensions Employee insurance
Death of director of key employee	Key person insurance for specific employees
Redundancy of employees	Investment advice for affected employees Business start-up advice for those wishing to become self employed
Management buyouts	Small Firm Loan Guarantee Scheme Business start-up advice

Banks have often been accused of a lack of understanding of the environment, problems and decision-making processes of their corporate clients. One way to overcome such accusations is to understand the various stages of the client-bank relationship and their associated marketing activities. These are listed below.

Stage	Characteristics	Marketing objectives
Early stage	Uncertainty about what each party hopes to gain from the relationship and unaware of the other's performance and abilities.	<ul style="list-style-type: none"> • Create interest in the bank and its products • Identify target corporate clients • Understand customer requirements and the extent to which they are being met • Identify the strategic fit between the bank's products and customer needs • Emphasise product of most appeal to customer
Development stage	Corporate customer and bank have agreed/identified a product solution. Both parties gather information about each other's norms and values.	<ul style="list-style-type: none"> • Convince customer that product offers the desired benefits • Identify future customer needs more effectively • Identify level of customer satisfaction • Improve ability to communicate with existing and potential customers
Long term stage	Strong, close and interactive relationship has developed, characterised by mutual trust and satisfaction; client loyalty is high.	<ul style="list-style-type: none"> • Maintain service quality and performance • Offer product development • Adapt, innovate and make product attractive to changing needs • Use information to fine-tune client's needs • Offer professional/individualised service
Partnership relationship	Client is confident of the bank's ability to service current and future problems. Mutual interdependence, social bonds and complex psychological relationship. Clients feel valued and are willing to pay a premium for benefits offered.	<ul style="list-style-type: none"> • Seek to solidify institutional bonds • Offer products valuable to clients but not readily available from competitors • Technological innovation to maintain relationships

Target marketing

Which segment?

Once the organisation has identified the bases on which to segment its market, it has to decide which segment it is going to target and what products it is going to offer. Three factors need to be considered:

- the size and growth potential for each segment
- their structural attractiveness
- the organisation's objectives and resources.

Quick question

What is the relationship between the size of the organisation and the size of the market segment?

Write your answer here before reading on.

Size and growth potential

The question of what is a right size for a segment will vary significantly from one organisation to another. As a broad guideline, we can say that large organisations tend to concentrate on large existing or potential sales volumes and quite deliberately overlook or ignore small segments that will fail to deliver sufficient profit margins. Small firms, by contrast, often avoid large segments because of the level of resource needed to operate effectively. In terms of each segment's structural attractiveness, the manager's main aim is profitability. A segment that is both large and growing could be described as unattractive if existing competition will reduce profit potential.

Selection of target markets

A target market is a segment or segments of the market on whom an organisation concentrates marketing effort and creates a marketing mix that specifically fits the needs and preferences of the individuals in that segment.

In selecting target market segments a bank should evaluate:

■ Attractiveness of each segment

- the size of the segment in terms of volume and value
- the growth potential – is the segment growing or declining?

Here we are interested in the projected future of the segment in terms of volume sales and profit. Declining volumes in certain market segments can still be extremely profitable for the organisations which service them.

- the level of segment domination by competitive organisations and their relative strengths and weaknesses
- the resources needed to be active in this segment in terms of computer or administration facilities, promotional effort and distribution channels required
- is the segment changing?

There are three aspects to this question:

- We need to understand how the structure and make-up of the segment is likely to change over time. Is the segment starting to attract new and slightly different members to its centre? What effect will this have on the segment's needs?
- The nature of the products and services that we would expect this segment to be demanding in the future.
- The movements of the segments over time. There are two ways in which this structural change may occur. Segments may merge to create larger segments. Alternatively, larger segments may fragment over time into small, more precise market targets for the firm to approach.



Quick question

Which aspects of the target market segments would you choose to analyse?

Write your answer here before reading on.

■ Level of potential competitive advantage

The extent to which the financial services organisation has some level of potential competitive advantage in each segment can be estimated by analysing:

- the current share of sales within the segment held by the organisation
- the profit margins gained from this segment in comparison to the competition
- the level to which the organisation can satisfy the requirements of the segment in terms of product effectiveness, competitive price, positioning, reputation/image, effectiveness of sales/promotional activity, technical support and available resources.

■ The financial services organisation's objectives

Some attractive segments can be dismissed because they do not meet with the organisation's long term objectives, therefore care must be taken to select target market segments that offer synergy with existing activities and that move the organisation forward towards its long term goals. Consideration must also be given to whether the organisation has the necessary skills, competencies and commitment required for operating effectively.

Once the target market segments have been selected, the organisation should develop a marketing mix which positions it in such a way as to satisfy the requirements of the customers in that segment. The organisation can then develop its marketing strategy.

Quick question

What does a segmentation strategy involve?

Write your answer here before reading on.

Segmentation strategies

Segmentation strategies involve deciding which and how many segments to enter. In order to do this, targeting decisions need to be made so the business must decide in which segments it should prioritise its efforts. Remember that all organisations will have limited resources and so are not in the position of being able to target the entire market. You should also keep in mind that one of the effects of globalisation is that markets are growing all the time, so even large organisations will still not be able to target everything.

Single segment concentration

This occurs when the organisation decides to target one segment to the exclusion of all others. This strategy is used when the firm has limited resources or because the segment represents a match between the firm's offering and the segment's requirements. The risk of this strategy is that the firm has placed "all of its eggs in the one basket".

Quick question

Give an example of selective specialisation.

Write your answer here before reading on.

Selective specialisation

This occurs when a firm chooses a number of segments because it has a variety of products to offer or because it wishes to minimise the effects of competition. Many of the banks have used this approach as it spreads risk. For example, within a bank's small business segment, there may be specialists in the fields of healthcare, franchising and licensing, and agriculture. These relationship managers deal solely with these particular areas, thereby providing a more tailored service.

Product specialisation

This refers to firms which specialise in marketing a particular product to several segments. While product modifications will normally be made to allow for the differences in the segments in terms of buying preferences, there will be no differences in product categories. Credit card companies are one of the few examples where this strategy has been pursued with success. It is not a feasible option for banks or building societies as it would not allow deposits and loans to be offered simultaneously.

Market specialisation

This refers to firms which concentrate on serving the many needs of a particular customer group. Single segment specialisation often develops into market specialisation. Direct Line began by targeting the over 45s with general insurance products. Over time their product range has been developed to meet the wider needs of this group and they have added savings and mortgages to their portfolio.

Market coverage

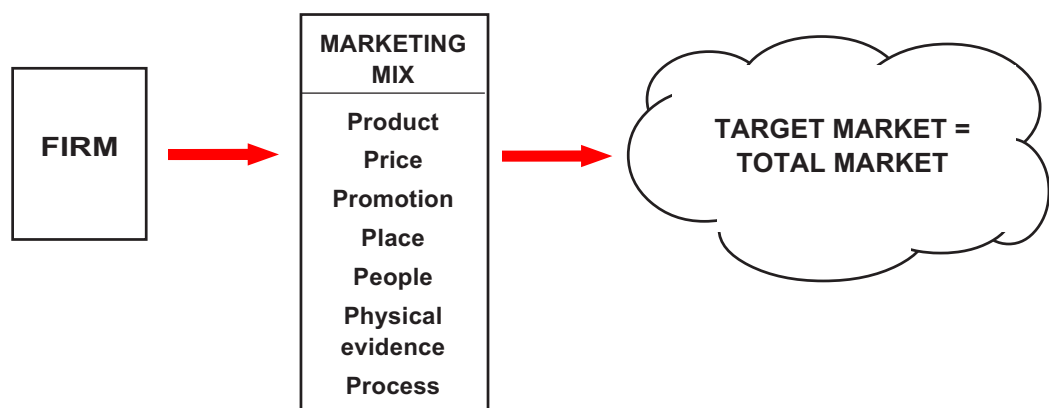
There are four acknowledged strategic options for target marketing:

- undifferentiated marketing
- differentiated marketing
- concentrated marketing
- custom marketing

■ Undifferentiated marketing

This is often called mass marketing. An example of undifferentiated marketing is an organisation which produces one type of current account and tries to satisfy all customer segments. This approach is a total market approach and does not really involve the process of segmentation.

Undifferentiated marketing assumes that individual customers in the target market for a specific kind of product such as a current account have similar needs, and therefore that the organisation can satisfy most customers with a single marketing mix.



Quick question

In what circumstances do you think this undifferentiated strategy would be effective?

Write your answer here before reading on.

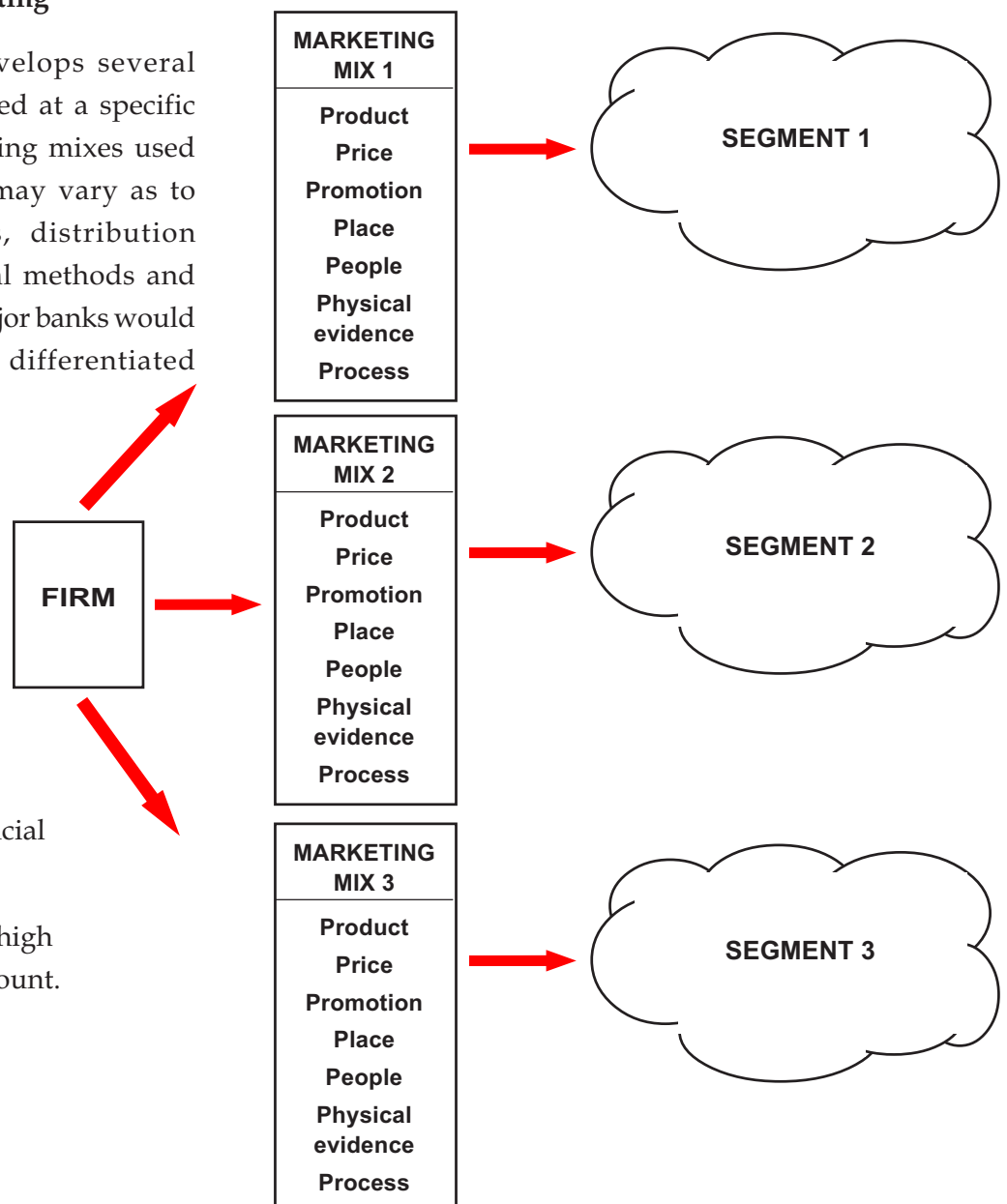
This strategy is effective when a large proportion of customers within the whole market have very similar needs and wants – this is termed a “homogenous market”.

This approach relies on the organisation being able to produce a single marketing mix that will satisfy all of the potential purchasers within the market, therefore the firm must be able to identify accurately the needs that are common to most of the market, and have the resources which will allow it to reach this market.

■ **Differentiated marketing**

An organisation develops several offerings, each targeted at a specific segment. The marketing mixes used for such a strategy may vary as to product differences, distribution methods, promotional methods and prices. Many of the major banks would be seen as having a differentiated marketing approach; for example in addition to the standard current account offering there are:

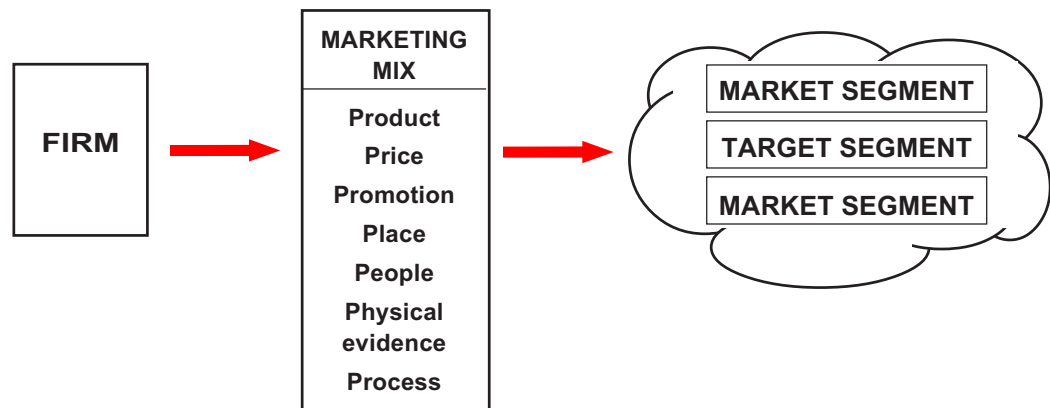
- for the youth market – a card based account
- for students – financial incentives
- for the affluent – a high interest cheque account.



■ Concentrated marketing

An organisation concentrates on one market segment by designing a marketing mix that more precisely matches the needs of individuals in a selected segment.

Concentrating on a single segment can allow an organisation with restricted resources to compete with much larger organisations. For example, Adam and Company or Coutts and Company concentrate their efforts on banking services for the affluent and are therefore better able to compete with the much larger retail banks by concentrating their resources on meeting the requirements of that sector.



The main advantage to this approach is that it allows the organisation to enjoy a degree of specialisation and so it can concentrate its resources and energy on one distinct group of customers and thus satisfy the needs of this group more effectively than if it were operating in a range of segments. However, there is the risk of putting “all of its eggs in the one basket”.

■ Custom marketing

Custom marketing is an attempt to satisfy each individual customer’s requirements with a separate marketing mix.



Question time **12**

Prepare a list of your organisation's products and services and match each of them to a market segment.

What are the defining characteristics of each segment?

Continue your answer on the next page.

Which of your competitors, if any, is targeting this segment?

What are the strengths and weaknesses of your products in relation to your competitors?

You will find suggested responses at the back of the book.

Review

Now consider the main learning points which were introduced in this chapter.

Go through them and tick each one when you are happy that you fully understand each point.

Then check back to the objectives at the beginning of the chapter and match them to the learning points.

Reread any section you are unsure of before moving on to the next chapter.

The buying process and influences on buying behaviour for individuals and organisations.

The main external and internal influences on consumer behaviour.

The stages of the consumer buying decision process.

The similarities and differences in consumer buying behaviour and organisational buying behaviour.

Market segmentation and the variables used for segmenting the consumer market and the corporate market.

Target marketing and the criteria used for selecting and evaluating target markets.



Key words in this chapter are given below. There is space to write your own revision notes and to add any other words or phrases that you want to remember.

consumerism

Consumer Credit Act 1974

Financial Services and Markets Act 2000

Banking Code

Banking Code Standards Board

buying decision process

problem recognition

information search

evaluation of alternatives

purchase decision

post-purchase evaluation

cognitive dissonance

buyers' remorse

routine response behaviour

limited decision making

impulse buying

culture

social and family groupings

reference groups

personal circumstances

personal attitudes and motivations

the customer experience

customer satisfaction survey

focus groups

Servuction model

business to business marketing

decision-making unit

buying centre

users

influencers

deciders

gatekeepers

straight rebuy

modified rebuy

new task

industrial buying process

problem recognition

general need description

product/service specification

supplier search

proposal solicitation

supplier selection

order-routine specification

performance review

market segmentation

undifferentiated/total marketing

customer analysis

competitor analysis

resource allocation

strategic market planning

consumer characteristics and responses

customer corridor

demographic segmentation

geographic segmentation

psychographic/life style segmentation

ACORN

behavioural segmentation

benefit segmentation

corporate sector

industry characteristics

operating variables

purchasing approaches

situational factors

buyer's characteristics

trigger points

target marketing

segmentation strategy

single segment concentration

selective specialisation

product specialisation

market specialisation

undifferentiated marketing/mass marketing

differentiated marketing

concentrated marketing

custom marketing

3 Managing Marketing

Objectives

By the end of this chapter, you should be able to:

- Describe the components of a marketing information system.
 - Explain why and how market research is conducted by organisations.
 - Differentiate between marketing planning and corporate planning.
 - Undertake a situation analysis, using the technique of defining the strengths and weaknesses of, opportunities for and threats to an organisation.
 - Outline the contents of a branch/business centre marketing plan.
-

Introduction

As with many aspects of our lives, marketing capability is governed by budget. In order to gain the maximum benefit from this budget, it is important that the organisation's strategy is clearly defined, detailing specific segments, target markets and the message that is to be communicated. Any financial constraints may thereby require a compromise in the scale of the exercise but should respect the strategic perspective. However, it is commonplace across industry sectors to let the budget be the key driver, that is, start with the budget, decide what this enables and determine what you wish to communicate. This can prove dangerous in that the end result can be somewhat different from that detailed in the strategic plan.

Apart from budget, information and planning are critical to the management of marketing activity. In the highly competitive and complex financial service sector, a financial services organisation can gain an advantage if it can identify and respond to market opportunities before its competitors. Quality information is critical for the identification of such opportunities.

Marketing information

Information is an essential resource in making marketing decisions. The more information an organisation has about areas such as its customers, competitors and target markets, the better it will be able to develop an effective marketing programme.

Although information does not replace management's judgement, it enables an informed decision-making process with a view to minimising the chance of error, but, to be effective, information has to be timely, accurate and easy to use. A marketing information system is needed to manage information and aid marketing decision making.

The marketing information system

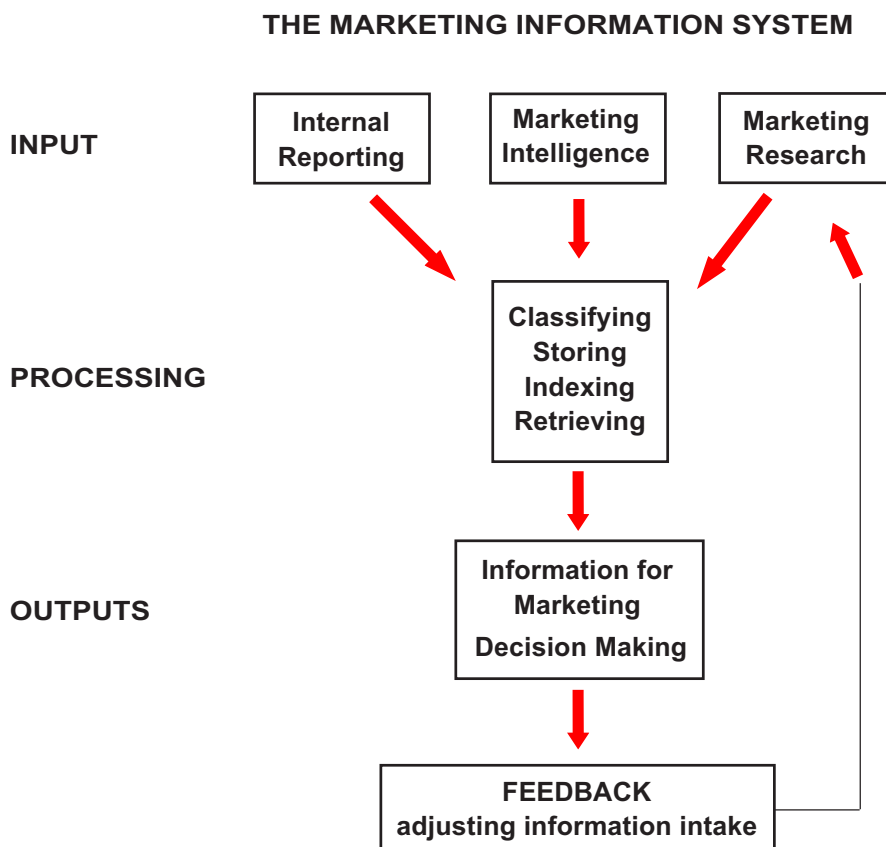
A marketing information system (MIS) is basically a set of procedures to gather, sort, analyse, evaluate and distribute marketing information for use by decision makers to improve marketing planning, implementation and control.

From one company to another, a marketing information system can vary widely. Typical systems for small and larger organisations are set out below:

- Small organisation The MIS may involve someone looking for relevant information and either filing it or circulating it around the key decision makers.
- Large organisation A computer storage and retrieval system is needed to handle the large volume of data.

The start of the process is determining what the objective of the information is; once the organisation is clear what this is, then it can start to collect and process the right kind of material.

As shown in the following diagram, the marketing information system consists of inputs from the internal reporting system, the gathering of market intelligence and marketing research.



These inputs are then processed, which at the most advanced level may involve using statistical or computer modelling, but normally consists of classifying, storing and indexing the data in order that it can be easily retrieved to provide outputs for marketing decision making. Finally, feedback enables those who are responsible for gathering internal and external data systematically to adjust and improve the information intake.

We will now look in detail at the three main information inputs shown in the diagram.

Internal reporting input

The most basic source of marketing information is from internal reports, including reports on areas such as sales (by product, branch, region or type of customer), information on current customer types, levels of customer complaints and expenditure on promotional activities.

For important personal or corporate clients, additional information can be retained – their past history, the relationship they have had with the financial services organisation, the names of other professionals they use, their current plans and objectives. Such information can prove valuable in trying to maintain their loyalty, in designing new services for them, and in developing marketing activities for similar types of customer.

The specific elements of the internal reporting input, as well as the other MIS inputs, must be designed to serve the needs of decision makers in a timely and cost effective way. This is best done by asking decision makers, whether they be operational line management or specialist staff in a centralised function, the following types of question:

- What types of marketing decision are you regularly called upon to make?
- What types of information do you need to make these decisions and what information do you currently receive?
- What additional information would you want daily? weekly? monthly? yearly?
- What magazines and reports would you like to see routed to you on a regular basis?
- What specific topics would you like to be kept informed of?

Based on the answers to these questions, a MIS should be developed which reconciles:

- what decision makers think they need
- what decision makers really need
- what is economically feasible.

Marketing intelligence input

Whereas internal reports provide decision makers with “results-type” data, marketing intelligence supplies them with “happenings-type” data. Marketing intelligence is information about what is currently happening in the marketing environment.



Quick question

How do you think marketing intelligence can be collected?

Write your answer here before reading on.

Many decision makers in the finance sector collect marketing intelligence in an informal way through reading various journals and newspapers and through discussions with other professionals and clients.

An informal approach to intelligence gathering on its own can also lead to important information being missed, such as a new business opportunity with a large client or a pending shift in competitive strategy by a competitor.

A financial services organisation can take steps to improve intelligence by formalising the areas to be monitored. These should relate to the main elements of the macro and microenvironments which we looked at earlier in the book.

Quick question

What are the main elements of the macro and microenvironments?

Write your answer here before reading on.

Macroenvironment	Microenvironment
Demographic environment	Suppliers
Economic climate	Customers
Political/legal/regulatory environment	Competitors
Technological developments	Publics

All staff should be encouraged to gather market intelligence data, particularly about the microenvironment, and pass it on to others in the organisation.

Intelligence gathering can often be improved by setting up a committee/representative group/cross-functional working group, consisting of individuals from appropriate operational and specialised functions to coordinate and manage the activity. In some instances, elements of this information gathering may be bought or outsourced to specialist external companies.

The coordinating role involves:

- scanning relevant national or local publications for news about competitors, clients, planning/development initiatives
- organising a filing system for intelligence that will make the retrieval of past and current information relatively straightforward
- collecting customer and staff comments and complaints about marketing activity.



Question time **13**

What information should you collect on competing organisations?

Check with the answer at the back of the book.

Marketing research input

Frequently, financial services organisations need to commission specific marketing research studies in order to have adequate information to make decisions.

Marketing research is the means used by an organisation to keep in touch with the needs, wants and attitudes of those who purchase or could purchase the organisation's products and services.

Such research can involve:

■ **Product research** to assist in:

- the design, development and testing of new products and services
- the improvement of existing products and services
- the forecasting of trends in customer preferences for specific products and services.

- **Market research** to assist in:
 - the analysis of market segments, market size and the share of the market held by the financial services organisation and its competitors.
- **Customer research** to assist in:
 - the analysis of buying behaviour
 - the analysis of customer perceptions, attitudes, reasons for purchase.
- **Promotion research** to assist in:
 - the testing and evaluation of promotional material.

Any of these types of research can be undertaken as part of a continuous research project where changes in market share, consumer attitudes, etc can be tracked over a period of time. Alternatively, an ad hoc study is undertaken on a one-off basis and provides the organisation with a snapshot of what the situation is at any point in time. The research would normally be undertaken either by the organisation's own marketing/market research department or by an external marketing research agency. There are advantages and disadvantages of using external agencies.

Quick question

Can you think of some advantages of using an external agency?

Write your answer here before reading on.

The advantages relate to the agency having specialist skills, facilities and resources supported by the fact that their analysis of the findings can be undertaken with greater objectivity as they are not concerned with the internal politics of the organisation.

Quick question

What disadvantages can you think of?

Write your answer here before reading on.

The disadvantages relate to risks of information leaks to competitors and the possibility of valuable information being lost in the communication of findings between the agency and the client company.

Research agencies can be categorised into the following types:

Syndicated service agencies

These agencies specialise in gathering continuous consumer and corporate information which they sell in the form of standardised reports to any company wishing to purchase them.

Ad hoc research agencies

These agencies are hired by a client to carry out one-off research projects for the sole use of the client company. They participate with the client in designing the research study and the final report becomes the client's property. They can take one of the following forms:

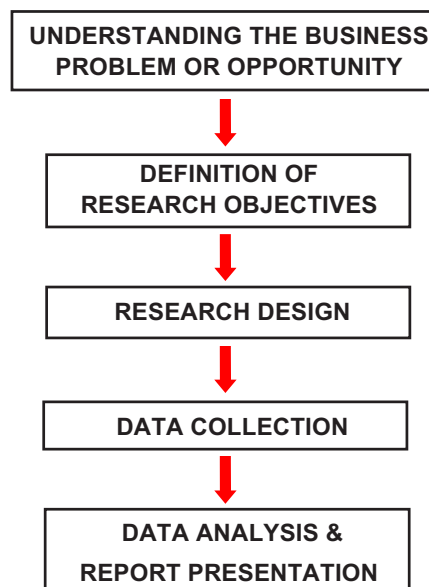
- **Full service agencies** – able to do all types of market research in almost any market
- **Market specialist agencies** – has specialist skills in carrying out research in specific markets (ie the corporate market, the consumer market, amongst children, in the financial sector or in certain geographic regions)
- **Technique specialist agencies** – has specialist skills in carrying out research using specific techniques (ie telephone research, the use of street interviewers, small in-depth studies).

Fieldwork agencies

These agencies provide interviewers either to other research agencies or to client companies. They are only responsible for carrying out the interviewing, with all other design and analysis functions being undertaken by the company which hires them.

The market research process

STAGES IN THE MARKET RESEARCH PROCESS



Understanding the business problem or opportunity

It is important that the reason for undertaking the research is clearly understood, before actually defining the research objectives. It is all too easy to undertake research on areas that would be nice to know; however, if there is not a commercial reason for undertaking the research, it is simply an expensive pastime. Defining the problem will clearly identify if research is needed and what information is required to assist the decision makers in tackling the business problem or opportunity.

The problem itself could be signalled by a number of events, such as a failure on the part of the organisation to attain its operating objectives, a drop in sales, an increase in expenses, or a fall in profits. Whilst these are all negative examples, the stimulus to market research could be something positive which the company wants to get to the bottom of and do more of. Examples of this would include an increase in sales and/or profitability.

Interaction between the marketing department and the market researcher (or organisation) should come up with a clear definition of the problem or situation. It is important to stay in this stage until both the organisation and the researchers are quite clear and agreed upon what they want from the research, and how it will be used.

Definition of research objectives

The next step in any research is to clearly define the objectives of the study. If the objectives are stated too vaguely or wrongly defined, then the research results may be useless or even misleading to the organisation.

Care must be taken in determining exactly what information is needed to assist decision making and setting objectives which ensure that the need is met.

Question time 14



Imagine you have been given the task of redesigning a bank branch in order to make it more attractive to the customer. This should encourage customers to visit the branch more frequently and increase the number of opportunities for staff to cross-sell.

You wish to undertake a programme of market research. Set out a few possible objectives for the research. (For example: "To examine customers' current usage of floor space in the branch" or "To evaluate attitudes towards queuing arrangements in the branch".)

Write your response on the next page.

You will find a suggested response at the back of the book.

Research design

The research has to be designed in order to meet the objectives of the study. This involves decisions about the types of data, the data collection method to be used and the specific people to be interviewed.

We have now defined the problem or issue to be researched, so the next step will be to develop a plan for the collation of the information that we need. It is important to have a clear statement of the research objectives. The “research objective” is a statement of the outcomes that we are looking for from the research project. It may also be that researchers will develop a hypothesis based on past research and the expected outcomes of the planned research.



Quick question

What do you think this hypothesis is?

Write your answer here before reading on.

The hypothesis is a statement – basically an informed guess – about a particular problem or set of circumstances. It is based on what we know about the problem based on past research and any other relevant sources. As the research project develops and information begins to be produced, then it is possible to test the hypothesis based upon this information.

There are three types of research to be considered:

- exploratory research
- descriptive research
- causal research.

Exploratory research

Exploratory research looks at the general nature of a problem and the factors that relate to it. The design of this type of research is very flexible. It may be that the research will be expected to review information from internal company sources or publicly available information, such as a study of information available on the internet regarding industry trends or demographics.

Descriptive research

This type of research will concentrate on providing an accurate description of the variables within a situation. An example of this would be where an organisation is looking to target a particular group within the population, say a bank wanting to target young adults with a new account and carrying out research to determine how often this group would use ATMs, telephone banking and internet banking.

Descriptive research will demand a high level of prior knowledge and will assume that the problem is clearly defined. The main task is then to determine the best methods of collecting and measuring the data.

Quick question

What do you think is involved in causal research?

Write your answer here before reading on.

Causal research

This type of research will need a more complex approach than descriptive research. It is assumed that a particular variable A will cause a variable B. The research must be planned to either prove or disprove that A causes B.

When designing research, we must ensure that the research techniques are both reliable and valid. A technique will be deemed to be reliable if it produces very similar results in a series of repeated trials. However, to be valid, the technique must measure what it is supposed to measure.

There are two types of data:

■ **Secondary data**

This is data that is currently available and which was originally collected for purposes other than the specific research needs at hand. This will include the use of in-company data, published and unpublished sources such as official statistics, newspapers, technical journals, past business dissertations and other information available from libraries. These sources provide a relatively inexpensive supplement to any primary data gathered.

It is quite common for market research projects to commence with the collection of secondary data, with the organisation's own sources of information often being a good starting point; for example, sales reports, previous research activity outcomes, etc.



Quick question

What are the internal sources of secondary data for your organisation?

Write your answer here before reading on.

The sources can vary depending on the nature and size of the organisation; however, here are some examples:

- accounting and financial information, including data on sales, expenses and profits, and may be collated for particular types of customer, geographical area, product type, etc
- customer feedback – most organisations will have a system to capture feedback from customers, both positive and negative; in addition, in the financial services sector, there are the complaints standards laid down by the FSA that must be adhered to
- comparative information on competitors – again, it is common for organisations to collate information on the products and services offered by the competition, along with pricing information.

Quick question

What are the external sources of secondary information that are available to your organisation?

Write your answer here before reading on.

Again, there are a number of potential sources here, such as government statistics, the internet, trade associations (in financial services, the British Bankers Association), journals and periodicals, etc.

■ Primary data

This is new data collected specifically for purposes of the research needs at hand and can take four forms:

- observational research
- interviewing
- surveys
- experimentation

■ Observational research

One way to collect primary data is to carry out personal observations in various situations, such as observing customers' actions in a bank branch. Video cameras are often utilised to collate the information. This can help in the design of new bank branches.

When carrying out observation research, direct contact with the respondents is avoided. Rather the researchers will record the respondents' behaviour, taking account of physical conditions and events, therefore the researchers are taking note of respondents' actions. This type of research may involve the customers being observed using the product, or wider services from the organisation, such as the premises mentioned earlier in this section.

This type of research is not just limited to the consumer.

Quick question

Can you think of an example of observational research used in the financial services sector that does not rely on the observation of customers?

Write your answer here before reading on.

The most common example that comes to mind here is the use of mystery shoppers, who sample the service of organisations and score the service level received.

Data that is collected through observation may be flawed if the respondent is aware of the observation process. If it is thought that the presence of a human observer is likely to skew the behaviour of the consumer, this may be overcome by the use of mechanical observation devices, such as security cameras in branches to monitor queue movements and trends.

Loyalty cards used by supermarkets are another example of observational research, where the organisation is able to gather in data on the consumption patterns of customers.

■ **Interviewing**

This is perhaps the main activity most people associate with marketing research. It often involves the use of a questionnaire, which is administered by an interviewer or by the respondent him/herself. It can be completed on the respondent's doorstep, in the street, by telephone or through the mail.

The format of the questions will vary depending on the objectives of the research, with very open and discussive questions being used to probe deeply into customer motivation and multiple choice/yes-no type questions being used where basic data on customer behaviour is required.

• **Group discussions and extended interviews**

These are used in what is called qualitative research and are concerned with gathering a significant depth of information from a small number of respondents rather than a significant volume of information from a large number of respondents. Extended interviews involve obtaining in-depth information from one individual at a time. As their names suggest, these types of interview will tend to be longer and more discussive in nature.

Group interviewing typically involves having a trained interviewer meet for a lengthy period with eight to ten persons in an informal setting. The interviewer encourages free and easy discussion among participants, hoping that the group dynamic will bring out real feelings and thoughts.

■ **Surveys**

Similar to interview scenarios with questionnaires usually employed to collate the information. Whilst some are completed by interview, many are sent by post for self completion with an increasing number via the internet.

Sampling

When looking at both interviewing and surveys, it is useful to give some thought to the concept of sampling. As we have already discussed, all organisations have to operate with limited resources. As a result, it is not possible for them to consult with every customer or potential customer when they are carrying out market research activity.

The “population” is the number of households or organisations that are of interest to the researchers. Out of this population, the researchers will select a “sample” which they hope will be representative of the views, needs, wants, etc of the larger population. You will be familiar with this concept through your knowledge of political opinion polls, where a smaller group are surveyed in the belief that their views are representative of the larger population.

Therefore the objective of sampling is to select representative units from a total population. Sampling procedures allow marketers to predict buyer behaviour accurately based on the responses from the sample group.

There are two types of sampling – probability sampling and random sampling.

Quick question

What do you think is meant by probability sampling?

Write your answer here before reading on.

Probability sampling is where every element within the population has a known chance of being selected for study, whereas with random sampling all of the units in the population have an equal chance of being selected to appear in the study.

A further type of probability sampling is stratified sampling where a population is divided into groups according to a common characteristic or attribute, and probability sampling is then conducted within each group. This technique may help to reduce some of the error that may occur as a result of using a simple random sample.

Area sampling involves selecting:

- a probable sample of particular geographical areas, for example particular streets, and
- households, individuals, or other units within the selected geographical areas for the sample.

When choosing how to select the units, the researchers may decide to select every nth house, or they may use a random sampling technique.

The final sampling technique we will look at is quota sampling where the population is divided into groups and participants are chosen at random from there. It is normal to have some form of controls – normally two or three variables, such as gender, age, height, occupation, etc. These controls will attempt to ensure that the sample is representative.

■ Experimentation

Not a word or a methodology that features too regularly in financial services, it is more akin to manufacturing industry. The closest it gets is possibly pilot schemes when new products or delivery mechanisms are tested in a limited manner.

Data collection

The data collection or fieldwork phase of the research follows after the research design has been finalised. There may be some testing of the research method and sample before the full primary research phase is undertaken. Interviewers then have to be trained on the particular subject area and in the skills of encouraging accurate and thoughtful answers from respondents.

Data analysis and report presentation

Once the data has been collected, it must be interpreted if any meaning is to be made of it. This interpretation will be easier if there have been clear objectives set at the start of the process.

Normally the first step in analysing the information is to present it in tabular format. After this stage, statistical interpretation will commence. This interpretation will focus on what is typical, and what information deviates from the average which will give an indication of how widely responses vary and how distributed these responses are. However, within interpretation, there is likely to be a degree of judgement used by the researcher.

Once the data has been analysed, this may cause the original hypothesis to be accepted or rejected.

The data coming out of the research will then be interpreted. If the results of the study are deemed to be valid, then the organisation will need to take decisions based upon it. However, the analysis may have shown that one or more of the questions in the research were flawed and the results should be consequently discarded.

Finally the research results must be reported – usually in a formal, written document. It is common to find that in these reports, the summary and recommendations of the researchers are presented at the start of the document because many of the users of this type of report do not have the time or the inclination to plough through the whole document.



Quick question

Why is a marketing planning process necessary in a business?

Write your answer here before reading on.

The marketing planning process

Why plan?

You will recall that early in the course we looked at the marketing plan as part of our study of the elements of marketing. We will look at marketing plans again at this juncture as they are a fundamental part of the marketing management process.

Planning is an activity by which we seek to exercise some degree of control over the future. Without a clearly laid down plan, an organisation's marketing effort will lack direction, coordination, purpose and the ability to measure the success or failure of its efforts.

Planning encourages:

- systematic thinking ahead by management
- better coordination of the organisation's total efforts
- better preparedness for sudden developments
- the monitoring and control of performance.

If we consider some of the reasons that are often given for not undertaking planning, we can assess their justification:

"I haven't got the time to plan"

This response often results from a manager concerned about day-to-day decisions rather than future planning. However, his/her lack of time is often as a result of having no planned direction or strategy, therefore resulting in decisions taking longer and mistakes being made.

"We are doing very well without planning"

Efforts should be made to understand why we are doing well, to ensure that we continue to do well even when the economic or competitive situation changes for the worse.

"I don't want to commit myself to something"

How can other members of the organisation support this manager and work with him/her, if they don't know what he/she is trying to achieve?

"I have a plan in my head"

At least this manager has a plan, but if it isn't formalised on paper, how does he/she know that his/her plan is the same as the plans in the heads of other members of staff? And what happens if this manager gets run over by the proverbial bus?

There is no justification for failing to develop a plan for the organisation and for all pertinent areas including marketing activity.

Corporate plans -v- marketing plans

Before reviewing the content of a marketing plan, we will look at the differences between a corporate plan and a marketing plan.

A corporate plan should provide:

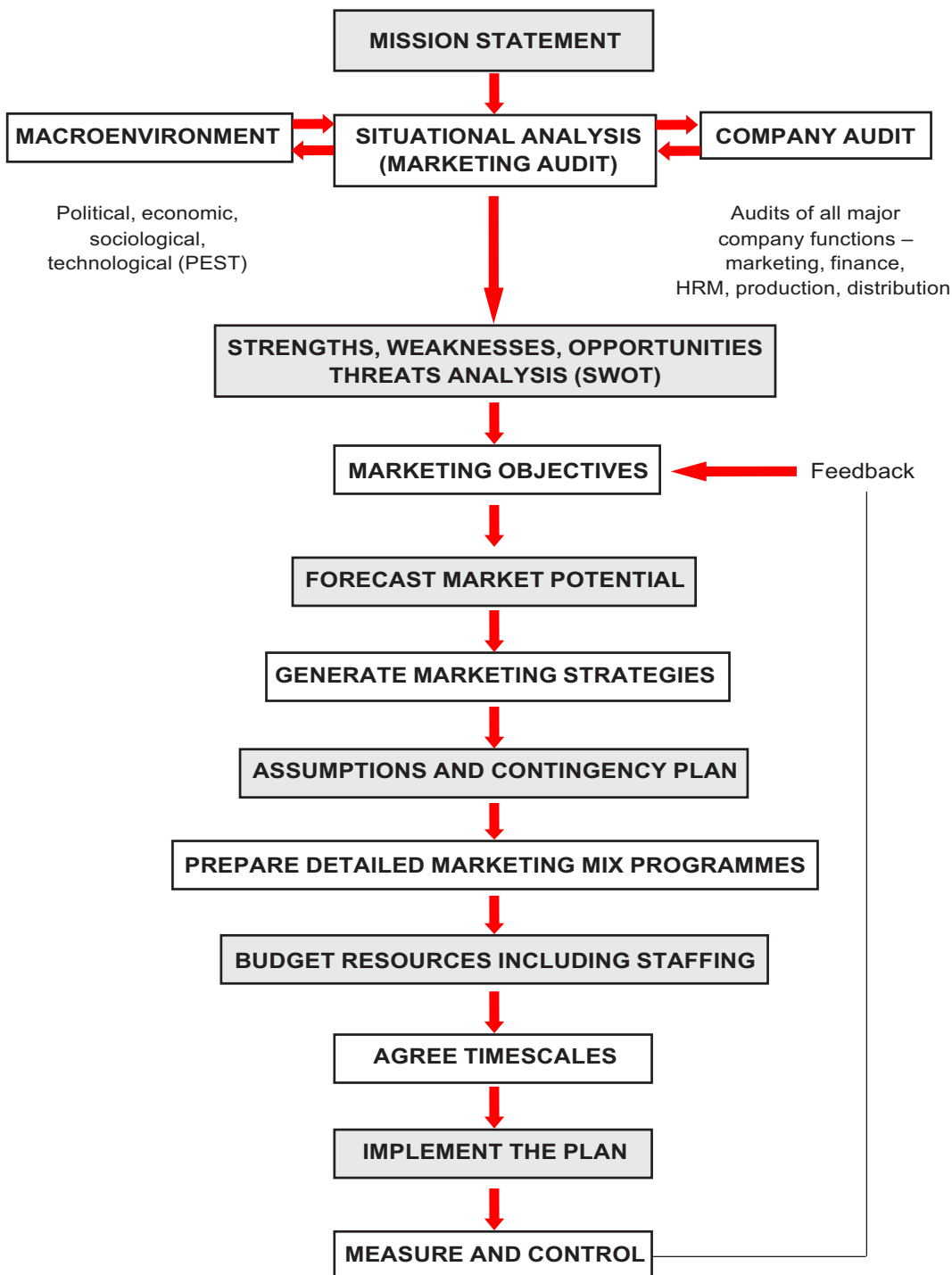
- a clear definition of the purpose of the organisation
- a clear set of goals to be achieved by the organisation as a whole
- a clear set of rules which are to determine how these goals may, and may not, be achieved.

A corporate plan should give a lead to the individual plans of departments and divisions of the organisation. It is the function of the corporate planning process to identify and resolve areas of likely conflict of interest between the various departments of the organisation. To achieve the objectives of the corporate plan will require a team effort from a variety of departments. For example, a corporate objective requiring a 5% improvement in average branch profitability will require efforts from departments such as marketing, HR, premises and regional/branch management.

A marketing plan should:

- set out the marketing function's responsibility in the achievement of the objectives set out in the corporate plan
- provide a clear set of objectives for each of the organisation's major market segments
- identify the extent to which new business will require to be generated, and to identify specific new business ventures to meet these goals
- describe in sufficient detail the marketing activities that are to take place for each product area so that responsibilities for implementation can be assigned
- identify the resources needed to carry out the planned activities so that a budget can be developed.

The following diagram provides a comprehensive model of the strategic and tactical planning process. The top of the model illustrates how marketing planning fits into the corporate framework; it then provides step-by-step activities to develop a practical marketing plan.



(Source: "Marketing", Geoff Lancaster and Paul Reynolds, 2004)

The need for close liaison between marketing and corporate planning is self evident. It would be impossible to set corporate objectives without knowledge of the market and in addition it would be a waste of time setting corporate objectives which are totally unattainable through marketing efforts.

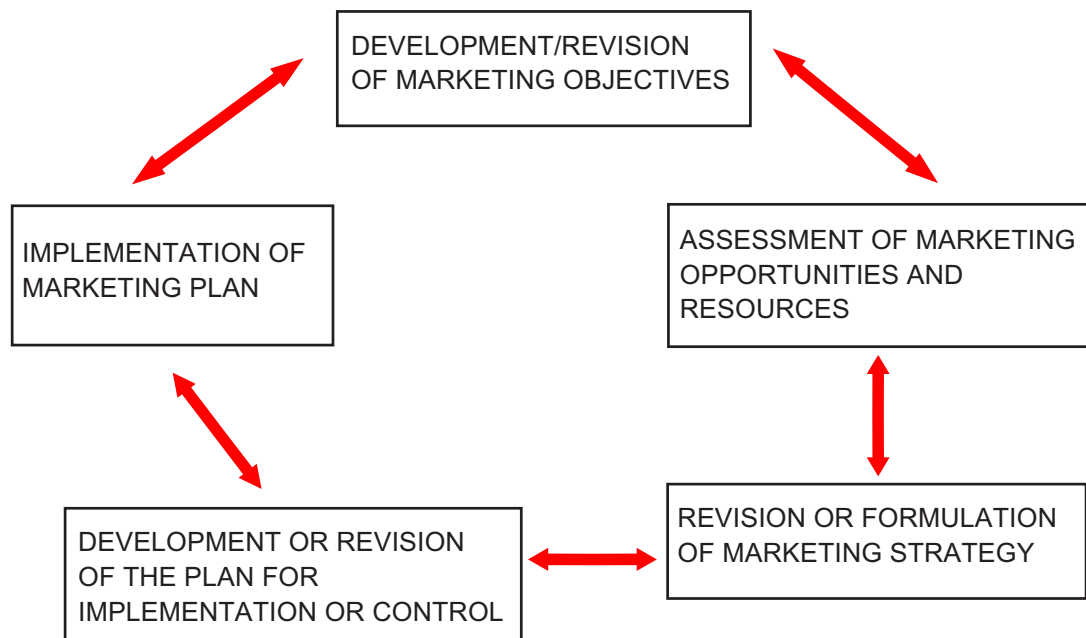
The marketing mix elements of people, process and physical evidence also need to be coordinated with the organisation's plans relating to human resource management and operations.

Plans may be:

- short range (usually one year or less)
- medium range (usually two to five years)
- long range (over five years).

The marketing planning cycle

Marketing planning is a systematic process that involves assessing marketing opportunities and resources, determining marketing objectives, and developing a plan for implementation and control. The main five stages of the marketing planning cycle are shown below.



The marketing plan

Most major financial services organisations coordinate marketing functions centrally. This can involve outsourcing the physical updating of merchandising and support materials in strict accordance with major campaigns and marketing calendar, but there is still scope for localised marketing plans, reflecting circumstances and opportunities within the sphere of operation of a branch or business centre. When the local management team have compiled their proposals, they normally liaise with the marketing specialists who can add value and ensure that the corporate image is both respected and maintained.

Having reintroduced the concept of the marketing plan at organisation level, we will now look at marketing plans at a more local level. The branch/business centre marketing plan is the structure which focuses and coordinates the marketing and business development activities of the local team.

In essence, the local marketing planning process assists branch management in answering the following questions:

- Where is the branch/business centre now and what is its business base?
- In the future, where will the business be if marketing activity is carried on as previously?
- Where should the branch/business centre be developing its business in the future?
- What actions are necessary at branch/business centre level to obtain this business?
- What methods should be adopted to monitor progress and report results?

Similar to the marketing plan for the organisation as a whole, the branch/business centre plan goes through a series of stages which together form the planning process. Although there may be variations in the style of the local plan between the different organisations, the thinking or logic behind the planning process will not differ widely.

Even in organisations where the production of local marketing plans is not formally requested, where objectives are set by a head office function, they are still critically important in helping to verify these objectives and in the planning of how these objectives are to be achieved.

The branch/business centre planning process

The branch planning process is similar to that for the marketing planning cycle, as shown in the previous diagram.

Development/revision of marketing objectives

Branch/business centre objectives are generally short term – usually maximum twelve months – although some consideration should be given to the longer term objectives (stated in qualitative rather than quantitative terms) which stretch beyond the immediate time horizon.

The objectives should be compatible with the corporate and marketing objectives of the organisation and will generally cover areas such as:

- the number of new accounts
- sales targets for key services – measured either in number or penetration terms
- revenue earnings targets
- increases in lending targets

Care must be taken to ensure that the objectives are:

- timed (have a set timescale)
- measurable (have quantitative targets)
- realistic
- achievable (albeit, challenging)
- specific

This involves an analysis of the local environment in terms of trends, developments and changes in:

■ **Local economy**

- new housing developments
- retail, leisure, agricultural and industrial developments
- main employment types
- employment/unemployment prospects
- housing type (private -v- public)

■ **Local population** (if ACORN data is available on the branch's/ business centre's catchment area, this may assist in the collection of this data)

- age profile
- social class
- commuters -v- local employees

■ **Influential groupings/publics**

- Chamber of Commerce
- Rotary Club
- professionals (influential lawyers, etc)

■ **Competitors**

- local standing
- local strengths and weaknesses
- changes in direction or personnel

In addition, an analysis of the branch's/ business centre's current situation relative to competitors is also required. This should consider:

- current and past sales performance for different customer groups and product types
- personal and corporate customer profile
- image/reputation in the local community
- relationships with key professionals
- facilities (car park, ATM, etc) and services offered
- location and design of branch/business centre.

Finally, a SWOT analysis should be undertaken to organise the information which has been gathered. The SWOT analysis should highlight the strengths that can be used effectively to attain the marketing objectives and those weaknesses that can be overcome quickly, as opposed to those that cannot be resolved so easily, if at all. As for opportunities and threats, it may be worthwhile to categorise these into short, medium and long term opportunities and threats.

Revision or formulation of marketing strategy

Similar to the marketing strategy, the branch/business centre's business development strategy should be focused on defining the target markets of the financial services organisation and developing suitable marketing mixes to meet the objectives.

At the branch/business centre level, there may be severe limitations on the nature and extent to which the marketing mix elements can be changed from those which are imposed by the organisation. However, in such a case, branches/business centres should determine the level and type of support with the marketing mix (promotional support) they require from head office, in order to meet their branch/business centre development objectives.

The cost implications of the proposed marketing activity should also be considered. Careful comparison of the profit contribution from meeting the planned objectives with the existing or obtainable resources is the main platform on which the whole branch/business centre planning process is based.

Quick question

Who do you think should be responsible for organising/coordinating the plan at branch/business centre level?

Write your answer here before reading on.

Development or revision of the plan for implementation or control

Who does what, when, where and how?

The implementation plan or action programme allocates responsibility and accountability and provides for a coordination of effort within a branch/business centre, ensuring that individuals responsible can plan in advance.

To assist in implementation, a number of the major financial services organisations have nominated a member of staff to become a branch/business centre marketing organiser or coordinator.

The extent of the role will be partially dependent upon the experience and capabilities of the person chosen. Such a position is principally an organisational, coordinating and preparatory function, and a branch/business centre marketing organiser should not be expected to do all the business development work.

In particular the marketing organiser can:

- help to identify business development opportunities
- monitor the progress of the business development efforts and compare and contrast results with the branch/business centre marketing plan
- involve all of the branch staff by keeping them up to date with activities and progress
- help to coordinate local promotional activity with the organisation's national programme of campaigns and advertising
- look after the quality and content of in-branch displays.

As the organiser's experience grows, his/her function can be broadened to include an advisory, even educational, role so that other staff acquire at least an appreciation of the importance of knowing what the requirements are and how marketing activity can be successfully undertaken.

Implementation of the marketing plan

Creating the branch/business centre marketing plan is only part of the process. Making sure that the predetermined activity achieves the desired results is also critical. If the marketing objectives are not being achieved, then analysis must be undertaken to assess whether the objectives are unrealistic or if the wrong type of action is being taken to achieve the goals.

Early identification is crucial if performance figures vary significantly from those projected. Adoption of suitable remedial actions to set or revise goals at an early stage can minimise the problem.

Full scale reviews and evaluations must be carried out at specified periods to examine performance against target, and to set or revise goals.

Review

Now consider the main learning points which were introduced in this chapter.

Go through them and tick each one when you are happy that you fully understand each point.

Then check back to the objectives at the beginning of the chapter and match them to the learning points.

Reread any section you are unsure of before moving on to the next chapter.

The components of a marketing information system.

The role and main techniques of market research.

The similarities and differences of marketing planning and corporate planning.

The stages of the marketing planning cycle.

The use of a SWOT analysis in the planning process.

The contents of a branch/business centre marketing plan.



Key words in this chapter are given below. There is space to write your own revision notes and to add any other words or phrases that you want to remember.

marketing information system

marketing intelligence

marketing research

product research

market research

customer research

promotion research

syndicated service agencies

ad hoc research agencies

full service agencies

market specialist agencies

technique specialist agencies

fieldwork agencies

exploratory research

descriptive research

causal research

secondary data

primary data

observational research

interviewing

surveys

experimentation

probability sampling

stratified sampling

random sampling

quota sampling

marketing planning process

marketing planning cycle

branch/business centre marketing plan

SWOT analysis

4 Market Research

Objectives

By the end of this chapter, you should be able to:

- Clearly explain the role of market research.
 - Demonstrate a knowledge of the different types of market research.
 - Identify the type of information that is needed.
 - Explain why this information is required.
 - Describe where the information can be sourced.
 - Explain the research methodology.
-

Introduction

We considered the marketing research process in chapter 3, but let us now take a broader look at the importance of this function and its role in marketing financial services.

As you will recall from earlier in the course, if marketing is to be successful and effective, the organisation must have a clear and accurate picture of its customers, competitors and the environment within which it operates. This information should relate to both the current reality and what is likely to happen in the future. If this is to happen, then market research will play a crucial role.

As a result of carrying out research, the organisation will know the needs and wants of both its current customers and its potential future customers. Having this information will allow the organisation to deepen its relationships with existing customers and develop products and services that will meet both their future needs and the needs of future customers.



Quick question

From your studies in the earlier part of this course, how would you define market research?

Write your answer here before reading on.

One of the key objectives of marketing is the identification of customer needs and the satisfaction of these needs in a manner that is superior to your competitors. In order to succeed in achieving this aim, there is an ongoing need to be fully aware of what customers or potential customers value. The subject of customer value is fully covered in the CIOBS course on Customer Relationship Management and it is seen as one of the key competitive differentiation tools.

In essence, customer value is the total package of benefits or added values that enhance the core products and services. It is imperative that your organisation's offering remains relevant and attractive both to sustain competitiveness and the quality of the overall customer experience.

The following extract is drawn from the book "Marketing" by Geoff Lancaster and Paul Reynolds and it effectively defines the role of market research.

“The concept of value is a subjective issue and lies within the mind of the individual customer. In a broad sense marketing management needs to understand the ‘minds’ of its target markets, their attitudes and value systems. It needs a formalised, managerial approach to this task. This is the role of marketing research.

“Without the information that marketing research provides, management cannot apply the marketing concept as an over-riding business philosophy.”

This structured approach enables management to make informed decisions based on the analysis of ingathered information. From this they can determine what customers want and why they want it. These decisions influence the planning, evaluation and control of marketing activities.



Case study

George Gallup

Information is necessary for any marketing firm. George Gallup, of Gallup poll fame, is often regarded as the “father” of the modern marketing research industry because he pioneered the collection and analysis of social science data for use by commercial firms. Gallup understood the sort of information firms required, how to get it, what to do with it and how to turn the findings of his research into commercially valuable recommendations for future marketing plans.

George Gallup was born in Iowa, USA in 1901 and studied journalism at the University of Iowa. He was interested in finding out why people read particular publications and how satisfied they were with the content and presentation of commercial publications such as newspapers and magazines. He began to try to measure these things whilst still a student. His doctoral work was in psychology and was entitled “An Objective Method for Determining Reader Interest in the Content of a Newspaper.”

Gallup used scientific methodology drawn from the universities for social science research. Much of this methodology was developed at such institutions as the London School of Economics and Political Science and at Harvard University in Cambridge, Massachusetts. Gallup used sample surveys with scientifically constructed sampling techniques. His work at the University of Iowa started a career that would last the rest of his life.

Raymond Rubicam, another pioneer working in the advertising field, and who created the advertising firm Young & Rubicam, offered Gallup a job. Gallup employed his newly developed techniques to research advertising effectiveness. This work was extended to other areas of the marketing mix and the Gallup organisation provided a fully developed marketing research service.

George Gallup was very interested in politics and created the Gallup poll to carry out scientific political surveys into voters' intentions. It is for this side of his work that he is perhaps best remembered. George Gallup did a great service to the marketing industry and many of his techniques are still used today in commercial marketing research. He fully deserves the accolade "father of the modern marketing research industry" because he developed much of what is still used today by marketing research companies.

(Adapted extract from "Marketing" by Geoff Lancaster and Paul Reynolds)

Marketing information systems

We discussed marketing information systems (MIS) in chapter 3, and you should refer back to the diagram on page 133. Ingathered information is the lifeblood of any marketing programme. Market research forms a key component of the overall marketing information system. A structured system needs to be established to collate, store, retrieve and analyse information from the varied sources available to an organisation.

As a reminder, the first three categories in the marketing information system – internal reporting, market intelligence and market research – produce the basic data for input into the organisation's modelling tools such as sales forecasting; thereby presenting management with the relevant information, formulated to enable the decision-making process.

Before examining market research, do not underestimate the benefits of internal information that is readily available to any organisation from its own people and which often overlaps into market intelligence.



Quick question

You are holding a customer forum with a view to providing feedback to your marketing team. List at least five questions that would evoke useful information.

Write your answer here before reading on.

The type of questions which you could table would be:

- What do you like about our products and services?
- Do they meet your needs?
- How do you perceive us in relation to our competitors?
- Is there anything that really irritates you about our products and services?
- What changes would you like to see us make? (This needs to be positioned with a degree of realism.)

In formulating these questions, be mindful of the features/benefits trap. Customers normally buy benefits, so avoid asking questions relating to a list of features attaching to a product. You can get round it by adopting questions such as:

- What are you looking for in our products/services?
- What do you buy or product to do?

Question time **15**



From recent discussions with customers and colleagues, list the type of feedback you could currently provide to your own organisation's marketing team.

Check your answer with the suggested response at the back of the book.

Different types of market research

We have already considered why financial organisations use market research to assist in decision making in relation to products/services, markets, customers and promotions. However, there is another dimension to this in that it can also be defined by its general objective as well as its purpose. For example, your organisation may commission research that is purely of an exploratory nature; they may equally seek information that is descriptive, predictive or conclusive. Let's take a closer look at each of these classifications, some of which were introduced in chapter 3.

Exploratory research

Not surprisingly, this is undertaken at an early stage of the research procedure. There is an element of feasibility at this stage as "the water is tested"; in other words consideration is given as to whether there is mileage in taking the research any further. If it is deemed that there are opportunities, the findings at this stage determine what merits further investigation and these findings are utilised to establish the framework for the remainder of the research programme.

Exploratory techniques can be relatively straightforward and unstructured and can involve purely group discussions with the relevant parties (this can include customer forums), a review of the knowledge of historic findings or experiences, or the adoption of customer questionnaires. It is common to utilise secondary data at this stage with primary data only being employed on a selective, qualitative basis.

In marketing, regular reference is made to qualitative and quantitative research.

Qualitative research deals with information that can be difficult to quantify, for example looking at customers' opinions, feelings and value judgements, which often come to light during discussions that form part of the market research process. We are thus dealing with "soft" facts. Factors which could be looked at under the qualitative heading would include:

- How happy are you to deal with a global organisation?
- How happy are you to deal with a regional bank?

Quantitative research, on the other hand, looks at "hard" facts. Here we are looking at information that can be expressed in figures, such as:

- How many accounts do you have at present?
- What is your credit limit?

At this stage you should refer back to the diagram on stages in the market research process on page 138 and the section on understanding the business problem or opportunity on page 139. Completion of the exploratory stage should enable clear identification of further research objectives and information requirements.

Example

What information is needed?

- Motives – values, beliefs, feelings, opinions
- Evaluations – attitudes, intentions
- Knowledge – facts, behaviour, actions
- Demographics – from specific customer groups

Why is the information required?

- For prediction, evaluation or planning

Where does the information come from?

- Secondary data sources, both internal and external to a company
- Primary data sources

(Adapted from “Marketing Made Simple” by Geoff Lancaster and Paul Reynolds)

Descriptive research

Descriptive research tends to be ongoing and relates to what is actually happening now. It is often presented in the form of graphs, pie charts, etc.

In determining the current position relating to competitors, market segments and market size, researchers can then progress on to the predictive and/or conclusive stages.

Predictive research

Various techniques can be employed in predictive research, building on the information that has been gleaned from the earlier stages. The aim of this type of research is to predict matters such as changing customer needs, future pricing issues, competitor activity and generally the potential growth/decline, given projected market conditions.

Conclusive research

The aim of conclusive research is to analyse variables often identified at the exploratory stage. There is a logical progression between the two stages.

The researchers at this stage are endeavouring to establish the most effective route between market variables covering areas such as price, sales, advertising/ packaging, etc.



Case study

A marketing manager might need to establish which set of merchandising materials, price promotion and shelf configurations is most effective in achieving sales within a multiple grocery store chain.

Assuming there are four different versions of each of the marketing variables, such as four merchandising sets, four price promotions and four different shelf configurations that could be used in store, the researcher would be tasked with identifying which permutation of these market variables was most effective.

The researcher might establish an experimental approach with each permutation being randomly allocated to different stores. The experiment should then be allowed to run until sufficient data has been generated. The results would then be analysed to determine the most effective permutation

(Adapted from “Marketing” by Geoff Lancaster and Paul Reynolds)

The importance of market research

It is vital for all organisations that they have an understanding of their customers, the competition and the environment within which they are operating. This information comes from the gathering of market intelligence.



Quick question

Explain what you think is the purpose of market research.

Write your answer here before reading on.

The purpose of market research is to give the business information about the needs and wants of customers, the opportunities that the business has to market its goods and services, and what the trends in its line of business are, thus leading to a possible explanation about what the future may hold.



Quick question

We have mentioned the phrase “market intelligence” but what does this mean?

Write your answer here before reading on.

Market intelligence is the collection of all of the information and ideas that exist within the organisation which helps in the decision-making process.

This will comprise a sizable chunk of the “primary information” which we discussed in the preceding chapter. However, it may be felt that this information is not enough in itself to inform the decisions which the business has to take; thus additional research will be carried out.

Depending upon the size of the organisation, this research may be carried out internally or it may be commissioned to a specialist market research organisation – more than 650,000 people work in the market research industry globally!

The increase in the amount of market research carried out over the years, and the greater reliance put on it in the decision-making process has led to a shift in the decision-making process from intuitive decision making, where managers would come to decisions based on their knowledge and experience – often called “acting on a hunch” – to a more scientific-based approach, where the decisions are made as a result of a logical and orderly decision-gathering process. Thus, information is gathered in by using a logical process, and decision-making processes are followed, rather than relying on trial and error. However, do not read from this that there is no room in the decision-making process for intuition; successful decisions are often a mix of researched information and intuition.

By carrying out market research we are improving the organisation’s ability to make good decisions. However, the results of market research are a resource similar to other resources that are used by the business – it comes at a cost. As we have discussed earlier, no organisation has unlimited resources and a decision will always have to be made, weighing up the costs of obtaining the information with the likely benefits that will accrue to the organisation of having this information; in other words, we are looking at an investment decision.

Quick question

What do you understand by the methodology of observational research?

Write your answer here before reading on.

Research methodology

We have already discussed the use of research agencies who obviously provide an expertise in their various areas of specialism. Some of the more common research tools adopted by these agencies as well as in-house marketers are:

Observational research

We looked at this previously as a method of ingathering primary data by observing relevant customers, actions and situation.

Examples

- A bank evaluates possible new branch locations by checking traffic patterns, neighbourhood conditions and the locations of competing bank branches.
- A food products manufacturer sends researchers into supermarkets to find out the prices of competing brands or how much shelf space and display support retailers give its brands.
- A maker of personal care products pretests its advertisements by showing them to people and measuring eye movements, pulse rates and other physical reactions.
- A department store chain sends observers who pose as customers into its stores to check on store conditions and customer service (similar to the mystery shopper approach adopted by many financial services organisations).
- A museum checks the popularity of various exhibits by noting the amount of floor wear around them.

(Adapted from the "Principles of Marketing" by Kotler, Armstrong, Saunders and Wong)

Observational research materials can also be sourced from other channels known as mechanical observation where information is automatically collated.

Examples

- "People meters" attached to television sets in selected homes, recording who watches which programmes. This provides summaries of the size and demographic make-up of audiences for different television programmes. The television networks use these ratings to judge programme popularity and to set charges for advertising time. Advertisers use these ratings when selecting programmes for their commercials.
- Checkout scanners in retail stores utilise laser scanners to record details of consumer purchases. Retailers use scanner information amongst other aspects (such as stock control) to assess and improve product sales and store performance.

(Adapted from the "Principles of Marketing" by Kotler, Armstrong, Saunders and Wong)

Observational research can prove to be the only way to obtain information that customers are either unable or unprepared to provide.

Surveys (using questionnaires)

This is the most popular method of information gathering and is very well suited to descriptive research. It is the most widely used procedure for primary data collection.

Surveys can be completed by mail, telephone or personal interview; questionnaires can be either self-administered or completed by an interviewer.

The selection of the type of survey to be used will be determined by the nature of the problem, the resources that are available to the organisation, the type of data required to meet the research objectives, etc.

Quick question

It is becoming increasingly difficult to obtain respondents for market research purposes. Why do you think this is so?

Write your answer here before reading on.

One of the reasons for this is the use of “sugging” – when companies try to make sales under the guise of “market research”. There is also a feeling amongst respondents that surveys take too long to complete and they do not have the time. Also the frequency in which some people are approached may make them less than willing to participate in surveys.

Equally, consideration requires to be given to each delivery mechanism in terms of the advantages/disadvantages of each.

■ Mail surveys

This is where a questionnaire is sent to potential respondents and they are asked to complete and return it. This can be a cost effective way of carrying out research, but only if the expected response rate is high.

Quick question

What could a market researcher do to increase the response rate?

Write your answer here before reading on.

There are a number of tactics which could be used to do this. It may be that the organisation offers some form of incentive for the return of the surveys, or there is a follow-up call to the respondent which may motivate them to submit a response.

A further development in the field of mail surveys is the mail panel.



Quick question

What do you think is meant by a “mail panel”?

Write your answer here before reading on.

A mail panel is a group of customers (or potential customers) who are chosen as a representative group of a market or a segment, and who agree to be interviewed regularly by mail. This approach can give useful information regarding the evaluation of products and the consumption patterns of the mail panel.

In a similar vein you may have come across consumer purchase diaries. These have been used by transport companies in an attempt to change timetables for services. Research has shown that the type of customer most likely to engage in this type of research are those of better education and higher income, but this group may not be representative of the market or the segment. However, if the organisation is to include less well educated consumers in the sample group, then they run the risk of a lower level of response and the danger that this will affect the reliability of the results.

If an organisation is considering the use of mail surveys, then it take account of the following:

- Who are the target customers?
- Will they be motivated to respond?
- Are the questions straightforward?
- What is the length of the questionnaire?
- Cost – provision of prepaid reply envelopes
- Response rate and the impact on the cost/value of the survey

■ Telephone surveys

Whilst the traditional view of a market researcher is someone standing on a street corner with a clipboard, interviewing passers-by, the telephone interview has become increasingly popular. The response rate for the telephone survey is higher than for the mail survey as it takes less effort for the respondent to complete this type of questionnaire.

This approach also means that the organisation may obtain the research information more quickly, and it can be used effectively when the organisation is looking for a quick response to a recent event; for example, a change in the mortgage rate.

However, there are a number of disadvantages to this approach, some of which we have already discussed, for example the use of sugging.

Quick question

What other disadvantages can you see to telephone surveys?

Write your answer here before reading on.

Other disadvantages associated with the telephone survey include the fact that communication is only oral, therefore it is not possible to use visual aids and the researcher cannot observe the non-verbal clues that are coming from the respondent. Also some potential respondents will be excluded as their telephone numbers are ex-directory, or they use voicemail or called display to screen callers.

There has also been an increase in the use of computer assisted telephone interviewing. This approach integrates the use of the questionnaire, data collection and tabulation to give information in the shortest time possible. The questionnaire responses are entered on a terminal keyboard, or the interviewer can use a light-pen to record the responses on a light sensitive screen. Open ended responses can be recorded on a keyboard.

This technique can save time as the interim results of the survey are available as soon as the survey is commenced.

It is now also possible to conduct on-line surveys, where the respondent has agreed to be part of the study and has supplied their e-mail address. As this medium is semi-interactive, it is possible for the respondent to ask for clarification on particular questions, or to pose questions of their own.

One advantage is that as the information is received on-line, it is easier for the organisation to commence the collation of the material.

The potential to obtain information this way and through the internet is increasing all of the time, and this, allied to the cost effectiveness of this approach, is likely to make on-line surveying increasingly popular.

If an organisation is considering the use of telephone and on-line surveying, then it should take account of the following:

- Who are the target customers?
- Impact of ex-directory?
- Need for short, straightforward questions
- More difficult for the interviewer to establish a personal approach
- Method provides a fast response and is relatively inexpensive
- On-line accessibility of target customers

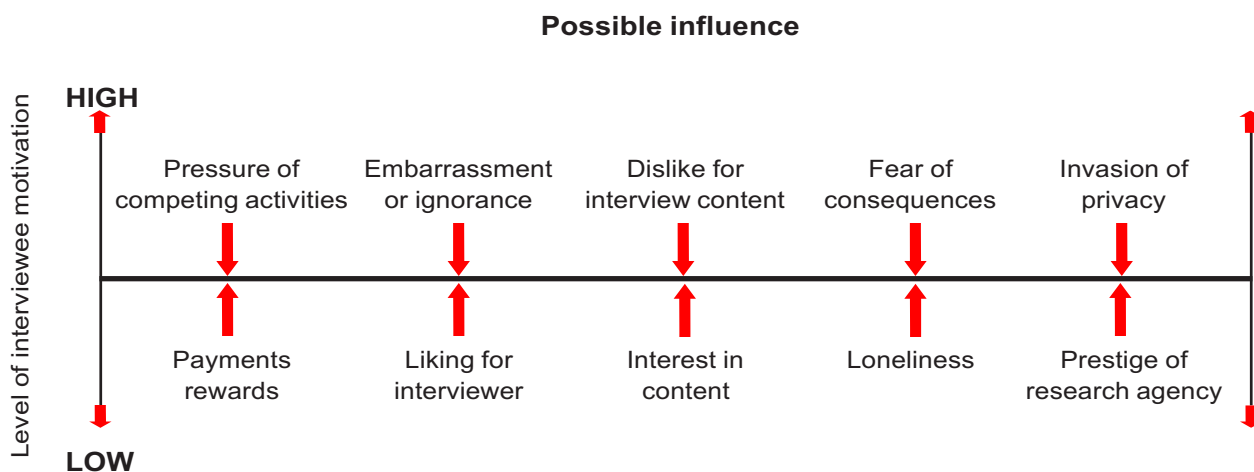
■ Personal interviews

Here the respondents rely on questions when face to face with the researcher. It is possible for the interviewer to use visual aids as part of this process, such as pictures, advertising copy, brochures, etc. Part of the survey may be the researcher recording the respondent's physical reaction to these visual aids.

As rapport can be built up using this technique, it is possible for the interviewer to ask more indepth questions, or to ask follow-up questions, although this latter technique will reduce the consistency of the questioning approach. As the interview will tend to be longer, it is possible to have a more indepth interview. A depth interview is a lengthy one-to-one interview in which the respondent's views about a product are examined in detail.

If an organisation is considering the use of personal interviews, then it should take account of the following:

- Who are the target customers?
- What is the most convenient/effective location, eg office, home, street, etc?
- Contamination of the results by interviewer error, customer bias/untruthful response, etc
- High costs
- Factors affecting customer motivation to participate in the survey, as illustrated in the following diagram.



(Extracted from "Marketing Made Simple" by Lancaster & Reynolds)

Focus groups

These are an extension of personal interviewing involving groups of customers. Open dialogue and interaction should be encouraged around the question framework provided by the chairperson.

The objective behind a focus group interview is to observe the interaction of the group when they are exposed to a new idea or concept. Often a focus group discussion is carried out informally, without a structured format, and the group is around 8 - 12 people.

This approach is useful when looking at consumer attitudes, behaviours, life styles, needs and wants, with it being possible to explore these areas in a flexible and creative manner. As mentioned above, the intention is to create open dialogue and interaction, with this being facilitated through the use of open questions and probing follow-up questions from the facilitator.

The conversation is usually started by a general discussion which is led by the facilitator, who will then narrow down the conversation to home in on a particular product or brand – hence the name “focus group”.

A potential disadvantage of a focus group is that as the commissioning organisation will have gone to the time, trouble and expense of creating a conducive atmosphere, some of the respondents may feel that it is ill mannered to give any negative responses, thus compromising the results. There is also the possibility that one or two strong willed individuals within the group are able to influence the views expressed by the other members of the focus group.

An indepth interview will seek to combine the advantages of the focus group with the speed of the on-street interview. Here, respondents are selected on the street and taken to a café (for example), to be asked more probing and indepth questions than would be possible in the course of an on-street interview.

If self-disclosure of the respondent is important, then an “in-home interview” may be considered appropriate. This type of interview will normally last between 45 and 90 minutes and the respondent can be probed to reveal their true motivations, thoughts, feelings, aspirations, etc.

Most people are familiar with the on-street interview, where the respondents are selected either on the street or within a shopping mall. As with any face-to-face interview, the researcher is able to take cognisance of the non-verbal communication of the respondent, and visual aids may be used. If appropriate, it may be possible to let the respondent sample the product, although this is not relevant in financial services!

The final interviewing technique to consider is on-site computer interviewing where the respondent will complete a self-administered questionnaire on a computer. It is possible to use software that will allow this process to be carried out in malls, etc.

In determining the most advantageous approach, a pilot survey is often adopted to check the methodology.

Questionnaires

Questionnaires require to be clear and concise with no scope for ambiguity. The effort that is expended in the design will be rewarded in the accuracy of the information which it produces.

The questions must be designed in a way that will meet the needs of the research project, therefore the questions must be clear and easy for the respondent to understand. A common mistake when compiling the questions is to include questions that are of interest to the researchers, but do not give information that will allow the acceptance or rejection of the hypothesis. It is also vital that the questions drafted maintain impartiality.

There are various types of questions that can be adopted:

- Open ended questions, such as “what is your opinion of ...?” This can evoke a wide range of information that can sometimes be difficult to analyse accurately and present in a succinct manner. However, this type of question can be beneficial at the pilot stage in determining the potential range of responses.
- Multiple choice questions – providing a range of possible answers.
- Yes/No type questions – straightforward two choices of answer. This can obviously be adapted in various formats apart from yes/no.
- “Thermometer” questions – those being questioned are asked to rate the views on a scale of, say 1 – 10.

The design of the questionnaire is important as it will affect the usefulness of the results. The layout should be such that it does not put the respondents off as questionnaire fatigue may mean that the quality of the responses is not as useful as it might have been.

Motivational research techniques

This approach is utilised in an attempt to identify the motives, desires and emotions of customers which influence their behaviour. Techniques can include:

- depth interviewing – employing interviewing and observational methods; encourages open dialogue and opinions relating to such issues as products, services, brand, etc
- focus groups/group interviews or discussions; encourages freedom of expression as detailed above

- projective techniques – utilised to “dig beneath the surface”. This can include techniques such as verbal projection where questions are phrased in relation to a third party but the answers will actually apply to the customers themselves such as: “what do you think of our latest customer promotion?”

Decision making

So far we have looked at the methodology for ingathering data for input into the marketing information system. As we have previously mentioned, this keeps the financial services organisations up to date with the needs, wants and attitudes of their customers.

The data can now be analysed to enable decisions to be made in relation to products, pricing, distribution, marketing communication and distribution.

Review

Now consider the main learning points which were introduced in this chapter.

Go through them and tick each one when you are happy that you fully understand each point.

Then check back to the objectives at the beginning of the chapter and match them to the learning points.

Reread any section you are unsure of before moving on.

The influence of market research as a component of a marketing information system.

The function of each of the types of market research.

What information is needed, why it is required and how to source it.

Research methodology and the roles of observational research, surveys/questionnaires and motivational research techniques.



Key words in this chapter are given below. There is space to write your own revision notes and to add any other words or phrases that you want to remember.

marketing information systems

customer forum

exploratory research

qualitative research

quantitative research

descriptive research

predictive research

conclusive research

market intelligence

observational research

mechanical observation

sugging

surveys

focus group

questionnaires

motivational research

Answers to Question times

Question time 1

Possible reasons for defection include:

- Price – defections to a supplier with better interest rates
- Product – defections to a superior product
- Service – defections owing to poor service
- Market – customers move to another geographic area
- Convenience – defections to alternative delivery channels

Question time 2

- 1 It is poor management to leave a service point unattended, but of course it occasionally happens. Staff should be trained to offer an apology immediately on such an occasion and to ask what help is needed. If the bank is at fault, nothing should be too much trouble when serving the customer.
- 2 If this happens regularly, it is bad marketing. The bank must demonstrate that it is aware of customer needs. Efforts should be made to exclude certain names from the direct marketing database.
- 3 A bank should consider the long term implications of short term actions. Care should be taken in the selection of the wording and tone of a letter. Computers allow a variety of letters to be prepared and personalised. This is better for the image of the bank than simply using a standard letter for everybody.
- 4 Once again people's needs are not being considered. Some customers require fast service, whilst others require more attention. Depending on the size of the problem, solutions may range from providing separate tills for business and personal customers or a quick service till at busy periods for those who simply want to cash cheques to the installation of an ATM machine.

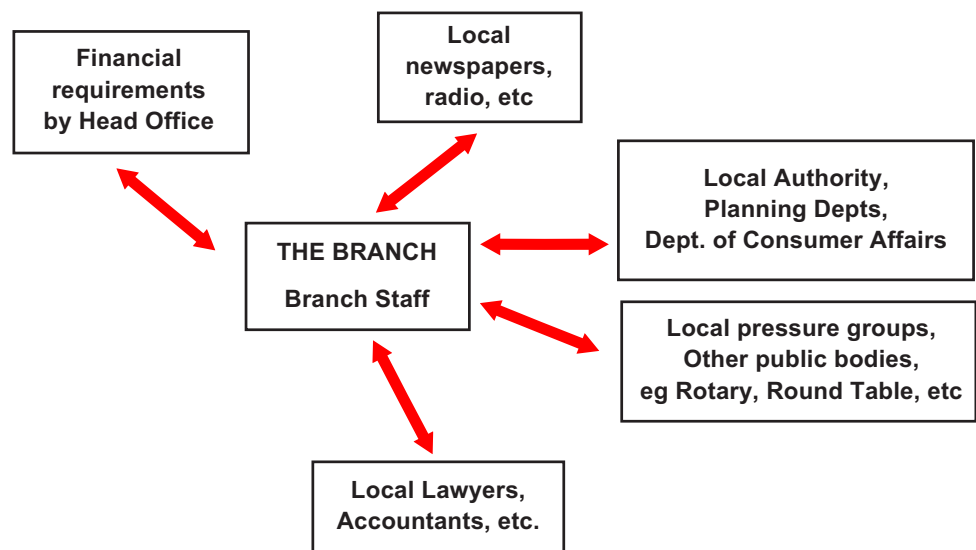
Question time 3

Variations in the offering of a product are:

- levels of interest
- tiered interest rates
- delivery mechanisms (passbook, card based, cheque book)
- ease of withdrawal
- minimum balance

Question time 4

Using a branch as an example:



Question time 5

Example factors are age profiles, divorce rates, retirement ages and birth rates.

Question time 6

The Internet has represented a revolution in marketing in general as well as the delivery mechanism which it represents in the financial services sector. The entire sector has become accessible to a potentially vast customer base.

Customers are becoming increasingly financially sophisticated and are shopping around for the best financial products and interest rates. They may also be able to manage their accounts at any time of the day or night, from anywhere in the world.

From a strategic perspective, it represents significant opportunities to reduce the cost : income ratio, providing an efficient 24 hour delivery channel that is significantly cheaper than the more traditional means. The sector of the population adopting electronic commerce will continue to rise, as will the impact of e-marketing which will increasingly become the mechanism by which marketers will strive to build sales performance and heighten brand awareness.

Question time 7

The widowed mother with a large sum to invest is more likely to rely on personal advice, the young couple with a small sum to invest are more likely to rely on brochures, advertising and the media, whereas the retired accountant is likely to rely on his past experience, old colleagues/ contacts and serious journals such as *Investor's Chronicle*.

Question time 8

Decision-forming factors will depend on each individual's personal circumstances, but you can make some assumptions as to what is more likely. If you simply consider the following three factors, they will vary by customer type:

A financial security/low risk

B easy access to money/immediate withdrawals

C high returns

	Factor	Suggested Score
1 newly widowed mother	A	10
	B	2
	C	6
2 young couple	A	6
	B	10
	C	6
3 retired accountant	A	5
	B	2
	C	8

Question time 9

The positions of the individuals playing each role will vary from company to company, depending on the size of the company, the business it is in and the way it is run. It may also vary by the type of bank service being dealt with, so you may have to focus on just one. Remember one person may perform several or even all of these functions.

Some examples are:

Small	All functions – the owner of the company with perhaps the secretary as gatekeeper
Medium	Decider – Managing Director User and Influencer – Finance Director Gatekeeper – Administration Supervisor
Large	Decider – Finance Director User – Department Manager Gatekeeper – Accounts Supervisor Influencer – The Board of Directors

Question time 10

By analysing the features of the car, the price and the promotional messages used, you should be able to determine the target segments in terms of age, size of family, income levels, lifestyle, even type of occupation.

For example: VW Polo GTI – single person – 25 - 30 – income £30,000
Jaguar – company director – 30 – income £70,000

Question time 11

Services you may have included in your answer are:

- 1 Solicitor
 - Interest bearing current account for clients' money
 - Bridging loans and estate advances
 - Personal pensions
 - CHAPS
- 2 Medium sized company
 - Pay service
 - Leasing facilities
 - Loans for investment
 - Business property loans
- 3 Small retailer
 - Key person insurance
 - Hire purchase
 - Estate planning
 - Money transmission services

Question time 12

Your responses will depend on which of your organisation's products and services you have chosen, but you should follow the guidelines given in the text in relation to segmentation.

Question time 13

Information on competing organisations should include:

- the market segments for which they are most strongly positioned
- any of their major clients that you are aware of
- any new services or areas that they are developing
- any areas where they are particularly weak
- names of their key personnel

Question time 14

You may have listed research objectives such as the following:

- to assess customer attitudes towards bank branch furnishings
- to analyse the transactions customers are using the bank branch for
- to determine customer attitudes towards bandit screens

Question time 15

Your response will depend on which of your organisation's products and services you have chosen to comment upon, together with your own recent dialogue with customers and colleagues.

Glossary

ATM	Automated Teller Machine
Banking Code	A voluntary code that sets standards of good banking practice for financial services firms to follow, dealing with personal customers in the UK.
Buyer's remorse	The negative feelings that many consumers will have after making a major purchase.
Cognitive dissonance	In the context of post-purchase evaluation, this generally means dissatisfaction as the customer begins to question their purchasing decision.
Concentrated marketing	An organisation concentrates on only one market segment by designing a marketing mix that precisely matches the needs of individuals in the selected segment.
Concept of marketing	The whole of the organisation should be driven by a constant concern for its customers, without whose business the organisation simply would not exist.
Consumer movement	A group of individuals, groups and organisations who seek to protect the rights of consumers.
Consumerism	A movement by various bodies of people to defend and exercise their rights as buyers.
Customer experience	This is what happens to a customer when they interact with the organisation either to buy or consider buying a product or service.
Decision-making unit	The decision-making unit consists of a number of individuals who participate in the purchasing process within a company.
Demographic factors	Individual characteristics such as age, gender, race, ethnic origin, income, family life cycle and occupation. All of these factors have the ability to impact upon consumers' buying requirements and behaviours.
Differentiated marketing	Involves an organisation developing several offerings, with each targeted at a specific market segment.
Fiduciary responsibility	A responsibility for safeguarding customers' funds and for the provision of responsible advice is related to the image of financial services practitioners as being impartial. In this role there is a special need to ensure

	that this trust and the customer's expectation of objectivity from his/her financial services provider are not misplaced.
Geodemographic segmentation	A segmentation technique which groups people according to postcode.
Mail panel	A group of customers (or potential customers) who are chosen as a representative group of a market or a segment, and who agree to be interviewed regularly by mail.
Market density	The number of potential customers who are located within a specific area.
Market segment	A group of individuals, groups or organisations who share common characteristics which cause them to have relatively similar needs from an organisation.
Marketing environment	All those factors which exert a direct or indirect influence on an organisation's marketing activity. The micro-environment consists of the elements in the organisation's immediate environment which affect its ability to serve its markets: suppliers, customers, publics and competitors. The macroenvironment consists of elements in the wider environment such as demographic, economic, technological, socio-cultural, and political/legal/regulatory forces.
Marketing information system (MIS)	A set of procedures to gather, sort, analyse, evaluate and distribute marketing information for use by decision makers to improve marketing planning, implementation and control.
Marketing intelligence	Information about what is currently happening in the marketing environment.
Marketing mix	The complete business package created by an organisation for its customers, consisting of product, price, place, promotion, people, physical evidence and process.
Marketing planning process	The analysis of the marketplace, and as a result, modifying or updating the recommended marketing strategy, before moving on to develop the detailed marketing programmes that are necessary to deliver on the proposed strategy.
Marketing research	The means used by an organisation to keep in touch with the needs, wants and attitudes of those who purchase or could purchase the organisation's products and services.

Monopoly	A situation where at least a quarter of a particular kind of good or service is supplied by a single person or a group of connected companies, or by two or more people acting in a way that prevents, restricts or distorts competition.
People	The service personnel who interact with the customer.
Perception	The process of selecting, organising and interpreting information inputs to produce meaning.
Physical evidence	The environment in which an organisation's services are delivered and any tangible components that facilitate performance or communication of the services.
Place	How a service is brought to the customer. Distribution might be a better name since it includes more than mere location. Financial services organisations deliver their products to customers in a variety of ways including bank premises, ATMs, telephone, company visits, post, EFTPOS, internet, etc.
Price	In the context of financial services, price refers to the interest paid to depositors or charged for loans, commissions from various services and other bank charges.
Primary data	New data collected specifically for purposes of the research needs at hand.
Process	The actual procedures, mechanisms and flow of activities by which a service is delivered.
Product	In financial services, the product is the range of services offered to customers.
Promotion	Making customers, both actual and potential, aware of the organisation and its services.
Psychographic segmentation	Buyers are divided into different groups on the basis of their social class and life styles.
Publics	Groups from which the organisation wants some response, such as goodwill, favourable mentions or the provision of assistance in terms of time, money and influence. They may include the media, government, public pressure groups, professions, the financial community and even the organisation's own workforce.
Reference groups	Consist of all the groups that have an influence on an individual's attitudes or behaviour. These may be formal

	groups such as clubs, trade unions, sporting or social organisations, or they can more commonly be described as the set of individuals with whom a person wants to be associated.
Relationship marketing	Retaining customers and maximising their lifetime values to the organisation.
Secondary data	Data that is currently available and which was originally collected for purposes other than the specific research needs at hand. This will include the use of in-company data, published and unpublished sources such as official statistics, newspapers, technical journals and other information available from libraries.
Service encounter	The interaction between the organisation and its customers.
Servuction system	A model which explains the interacting components of the service encounter.
Situation analysis	Involves analysing the current situation in both the organisation's external and internal environments. This analysis may be summarised under the headings: Strengths, Weaknesses, Opportunities and Threats (SWOT analysis).
Sugging	Where companies try to make sales under the guise of market research.
Target market	A segment or segments of the market on which an organisation concentrates marketing effort and creates a marketing mix that specifically fits the needs and preferences of the individuals in that segment.
Undifferentiated marketing	A total market approach which does not really involve the procedure of segmentation; it assumes that all customers have exactly the same needs from a product.

