OUNDATIONS OF INANCE AND INANCIAL MANAGEMENT

CHAPTER 9

MARKETING OF BANKS SERVICES

Okereke, J. E.

INTRODUCTION

It may sound a misnomer to see a banking-related topic identifying and discussing the marketing concept, even in its broad perspective. For the layman it makes no meaning because, as a bank, 'customers' must come to enjoy their services. But for a professional, it is rather inevitable. This is because of the vigorous competitive environment occasioned by changes across the globe.

The world is in a perpetual state of change. Every segment is affected by this wind of change. Banks like any other company change; products and services change; channels of distribution of these products and services change; problems change and most importantly, people change as their needs change. All these changes culminate in a major competitive force. The survival of any institution like the bank lies on their recognition and positive reaction to these changes. It should be able to take advantage of these changes by constantly asking the following questions: What are my basic hypotheses on the market concerning products, competition and channels of distribution? What needs to happen for my hypotheses to be confirmed? Under what conditions are my hypotheses no longer valid. These

questions are best answered when one is always alert and responsive to changes as they occur. It is dangerous to resist change. The associated problems are enormous and most times lead to perpetual death of banks and companies alike. Change should be seen as an ally and not an enemy. It is important to state here that identifying a change is not just enough. It must be seriously backed up by an objective action. This requires the application of marketing concept in the banking sector, which apparently differs from its treatment in other sectors with tangible products.

This chapter is, therefore, focused on the background of marketing in banks with special treatment of functions and characteristics of banks and bank services respectively; need for marketing of bank services and bank marketing objectives. The chapter also gives an in-depth discussion of marketing concept with the treatment of marketing process in banks and marketing mix as applied in banks that cover the major part of this work. The chapter concludes with a call for the integration of the characteristics of market-oriented bank.

BANKS AND THIER SERVICES: FUNCTIONS AND CHARACTERISTICS

A bank is an institution involved in the business of banking. Traditionally, banks make the transmission mechanism possible. They transform short-maturity liabilities into long-maturity assets. Again, they provide the mechanism for channelling the savings of households into the investments of firms.

Accordingly, banks, as financial intermediary, move resources of households and business (Cecchetti Stephen G. 1999:1). These are the intermediation role of banks.

Essentially, the business of banking involves the receiving of money from customers either on current or deposit account, coupled with the payment of cheques drawn by current account holders and other demand and time deposits. A bank also discounts bills and promissory notes, and makes advances either by way of loans or overdrafts. It undertakes the agency of other local and foreign banks; effects purchases and sales of securities; collects cheques, dividends, coupons and foreign bills; makes periodic and other payments; pays customers' acceptances; issues drafts, circular notes and letters of credit; conducts foreign exchange business; and remits funds to almost any part of the world. Again, a bank accepts, and takes charge of securities and other valuables for customers (Wadiri, 1981; 161-162). It is also involved in loan syndication business, and sometimes acts as a treasure for a local authority. From all these, it is obvious that banks make access to the payments systems possible and easy, provide any access to liquidity, offer information that facilitates the intermediation process, provide a conduct for government guarantees, provide credit, render status enquiry and advisory services.

The functions of banks highlighted above depict that bank services are almost similar consisting of the same

characteristics. Meidan (1983: 11-12) identified the characteristics of bank services to include;

a) Intangibility: Bank services cannot be touched or felt like the physical product. It does not appeal to the buyers' senses (taste, hearings, smell, etc). The intangibility of banks services makes it mandatory for bank marketers to be pre-occupied with what the service will do rather than what it is. It is difficult to demonstrate, illustrate or display bank services and this makes the use of direct channels of distribution inevitable.
b) Inseparability: This feature results from the simultaneous performance of the production and consumption of bank services. This relationship implies that production and marketing are highly integrated process. Thus, the bank marketer is always striving to make the services available at the right place and at the right time. Only direct distribution channel facilitates this effort. The storage and transportation services are out of the way for a bank marketer.
c) Highly Individualized Marketing System: This emanates from the fact that a close and professional client relationship exists between the banker and his customer. This makes direct channel the only feasible choice. The bank marketer is always arranging for the channel to suit his prospective customer anywhere he is located.

d) Lack of Special Identity: For the public, the services of one bank are similar to the other. The choice of where to bank is, most times, a matter of convenience. The bank marketer can only control greater share of the market. He is able to implant in the minds of the public an identity that is peculiar to his bank. This is not done through the competing product that is similar in the eyes of the public but through 'packaging' which consists of branch location, staff, services, reputation, advertising and from time to time new services.

Other features of bank services are:

e) Heterogeneity: It is rather difficult if not impossible to render the same service the same way to different customers. In other words, bank services lack consistency. This is unlike product that guarantees uniformity.

f) Perishability: Bank marketers are always battling with time and place utility. This implies that bank services fade away over time. It cannot be mass-produced or stored in advance to meet future demand like the physical products. According to Kurtz and Boone (1981) 'the utility of services (bank) is short-lived, therefore they cannot be produced ahead of time and stored for periods of peak demand. Vacant seats on an airplane, idle dance instructors, and unused electrical generating capacity (including unused loanable funds, untapped investment opportunity,etc) represent economic losses that can never be recovered.

g) Variability: This characteristic explains the fact that bank services are variable. Their qualities depend on who provides the services, when and where they are provided. From this characteristic, one can define bank services as intangible and unidentical activities, or action provided for the satisfaction of want in return for profit and for the attainment of wealthholders objectives. According to Stanton (1978) services are those separately identifiable, essentially intangible activities that provide want satisfaction, and that are not necessarily tied to the sale of a product of another service. Lazo (1977) defined service as any activity or satisfaction that is offered for sale. The nature and scope of bank services make it a complex subject. This makes the need for the application of marketing concept very necessary.

NEED FOR MARKETING OF BANKS SERVICES

The characteristics of bank services make it more stressful to convince a customer of the availability and quality of a bank product. This is compounded by the problems of banks which according to Wadiri (1980:162) include poor counter services arising from low degree of efficiency of bank officials (this is very common among first generation banks).

- Inability of Nigerian banks to adopt innovations, which have eased bank services elsewhere in the world. This is as a result of lack of capital funds.

- Indifferent and discourteous attitude of bank staff.
- The slow procedure for granting bank faculties.
- Cumbersome process associated with ~~the~~ opening of accounts.
- The irregular issue of statement of accounts.
- Frequent regulations.
- Technological innovation.
- Changes in customers' needs occasioned by rapid economic and other changes.

With these problems, the adaptation of banks to the rapid global economic changes becomes difficult. Consequently, a number of forces have been generated;

- Reduced profit margin;
- Increased competition;
- Bank acquisition and merger movement;
- National and international expansion to meet the current changes;
- Quest for new customer markets;
- Increased social responsibility.

These forces only suggest that survival of banks is no more based on the common slogan 'survival of the fittest', but 'survival of the strongest among the fittest.; it is only banks that are responsive to global economic dynamism and customers'

needs that can stand the test of time. It demands scientific approach. This is where marketing comes in.

BANKS MARKETING OBJECTIVES

The customer is always regarded as king. The success of a bank depends on the extent to which the needs of this customer are satisfied. Marketing makes this needs-satisfaction possible in any banking environment. Marketing is highly recognized in the operations of any bank especially commercial banks. To this extent, marketers have been accorded their proper place in bank's management team. Essentially, banks must attract customers in order to sell deposit to them (banks) and at the same time attract them (customers) to buy loans and advances from them (banks). The efforts or activities or actions geared at selling and buying at reasonable profit constitute bank's marketing objective. Meidan (1983:13) identified two types of bank marketing objectives as flexible and fixed objectives. This is summarized in the table below:

Table 1: Bank Marketing Objectives

Bank Marketing Objectives

	Flexible (Short-run)		Fixed (Long-run)
1	Increase / decrease deposit certain types.	1	Profitability
2	Increase / decrease of loan certain types.	2	Increase market share
3	Direct customers to certain ty of services / products.	3	Developing bank image
4	Return on bank's investment.	4	Minimise risk
		5	Spread customer type
		6	Increase range of service stabilize revenue.

From the table one can conclude that the bank-marketing objective is in line with the broad objective of the bank, which is to maximize the present wealth of the banks equity shareholders and consequent maximization of the market value of equity shares. No wonder, banks are always striving to attract the most booming and profitable customers among the various segments of the society and sectors of the economy. This has been made possible through the application of the ever neglected philosophy of the marketing concept.

THE MARKETING CONCEPT IN BANKS

Marketing is older than marketing concept in banks. Although marketing was considered important in some big banks in the early development of banking, it was merely regarded as advertising and public relations exercise. But the application of marketing concept philosophy brings actual marketing into proper focus in Nigerian banks.

Marketing is defined by Nwankwo (1985) in Okereke et al (1998:186), as a management process, which identifies, anticipates and satisfies consumer requirements profitably. Kalu (1998) defined marketing as the process of researching into and identifying customers needs for the purpose of creating goods and services and/or facilitating their transfer into the hands of consumers through the specialized functions of pricing, promotion and distribution. These are broad definitions involving both goods and services. Marketing in banks is defined to reflect services only. Hence marketing in banks is defined by Hodges and Tilman (1968:2) as the creation and delivery of customer – satisfying services at a profit to the bank. Handscombe (1982) defined marketing in banking as the activity associated with:

a) Identification of current and potential, national and international, local and specific customer need, in those priority market sectors defined by the strategy of the bank.
b) The development and promotion of products and services that meet these needs in a manner acceptable to the

customer, at a price that is realistic and will produce profit for the bank when provided through cost-effective consistent and reliable methods of sale and services devised and supported by marketing department.

From these definitions we can decipher and define marketing in banks as an embodiment of activities, actions, methods and attitudes that assures the search and identification of customers' need and the timely satisfaction of these needs at a profit to the banks. This definition shows that bank marketing is both an art and science as well as a process. Again, it contains the concept and techniques of marketing bank services. The concept places the consumer first in the corporate thinking of the institution while the technique permits the concept to be implemented successfully and profitably.

Therefore, marketing concept in bank can be said to be a bank's philosophy that emphasizes on finding customer's want and fulfilling them rather than producing services/products and selling them. According to Evans and Barmari (1988:10), marketing concept is a consumer-oriented, integrated goal-oriented philosophy for a firm, institution or person. A bank whose activities focus on the identification and satisfaction of customers' needs is a marketing oriented bank. This is unlike sales oriented banks that focus only on improving services without regard to the needs of her customers. For a marketing oriented bank also, the importance of profit is critical rather than residual as in sales oriented bank. Generally, marketing oriented

bank does not focus on services features but on marketing mix, which is a component of the entire marketing process. Essentially, the marketing concept requires and insists that all bank activities that have anything to do with the customer should be entirely co-ordinated by the marketing process. In order words, marketing thinking should permeate all nooks and crannies of banks and be embraced by every member of staff. This will facilitate and install a marketing oriented operation in the bank.

Accordingly, marketing concept is based on three fundamental beliefs:

1) All planning and operation should be customer oriented.
2) All marketing activities in an organization should be co-ordinated to achieve definite goal.
3) Customers-oriented, co-ordinated marketing is essential to achieve the organization performance objectives (Stanton, et al 1991).

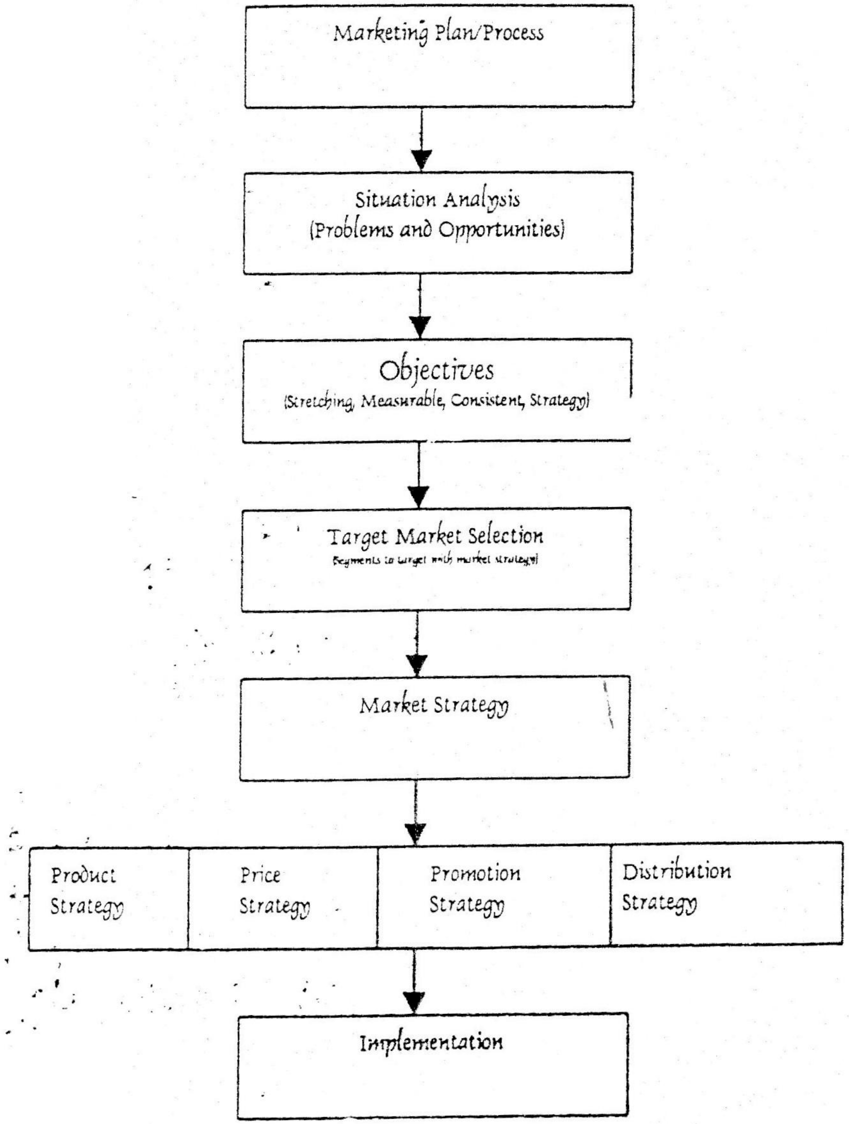
THE MARKETING PROCESS IN BANKS

Sales-oriented minds regard profit, as the central purpose of business but marketing oriented minds see customers' needs identification and satisfaction as the central purpose of business. It is a known fact that one can run a business for some days without profit but no business can survive even for a day without customers. The dominant place of the customer in the survival of a bank makes the marketing process to start and conclude with customers' needs identification and satisfaction. Basically, the objective of the marketing process is profitable sales of services that satisfy customer's needs and wants. Customers are not interested in your name or how much you know of a product/services but how far you are able to meet their wants and needs. According to Maister (1984) in Ibi (1999:26), "People don't care how much you know until they know how much you care."

Effective marketing process according to Okereke, et al (1998:187) consists of:

1) Identifying and anticipating customers' needs.
2) Analysis of customers' profit as no two customers is alike.
3) Providing the right services at the right time, at the right place, to the right customer in the right place.

Mary Ann Pezzulo (1988) in Ibi, L. (1999:19) outlined a model for the marketing process that closely parallel the strategic planning process. This is shown below:



Meidan (1983:17) identified the marketing process to bank service as follows:

1) Identify the customers' financial needs and wants.
2) Develop appropriate banking products and services to meet customers' needs.
3) Determine the prices for products/services.
4) Advertise and promote the products to existent and potential customers of financial services.
5) Set up suitable distribution channels and bank branches.
6) Forecasting and researching future financial market needs.

The process highlighted above shows that marketing process starts with customers' needs identification and concludes with needs satisfaction. In-between these two ends are the techniques (elements) used in ensuring the satisfaction of customers' identified needs. They are called marketing mix and are of great importance in any marketing programme. The success of any bank activities depends significantly on the packaging or combination of these techniques. Therefore, the remaining part of this chapter will deal with marketing mix in bank.

MARKETING MIX IN BANKING

Marketing mix in banking is the deliberate planned mixture of the techniques of marketing in a marketing plan. It describes the specific combination of the elements of marketing used to

achieve stated objectives and satisfy the target market. Marketing mix requires a number of decisions, which must be blended to achieve desired results. These decisions about the product/service, place, promotion and price act on each other for optimum result. In other words, these decisions are mixed together to achieve marketing objectives. Hence the name marketing mix. For example, a decision on place affects decision on promotion and decision on product/service affects decision on price, etc.

The aim of marketing mix is to combine the elements of marketing mix (product/service, price, place and promotion) in such a way as to achieve maximum result at a minimum cost coupled with the highest customers' satisfaction. This combination must be appropriate enough to form a good 'mixture.' It involves the recognition of the target market, which implies market segmentation.

A proper understanding of marketing mix in banks will be made clearer when one looks at the elements of marketing mix – product, price, place, and promotion on its individual merit.

Product

A product represents the totality of benefits that a bank customer enjoys or receives for using or making a purchase. Example is the convenience transaction that a current account holder enjoys from a bank. Kotler (1980) defined a product as anything that can be offered to a market for attention, acquisition, use or consumption. It includes physical objects, services, personalities, place, organization and ideas. By this definition, we can say that a bank product consists of tangible and intangible aspects of bank's services acceptable to her customers for want satisfying. Example of this is the attractive bank building, credit, etc. Thus, it is sets of needs satisfied.

Product is the most important element among the elements of marketing mix. This is because management's decision on other three elements lies on the outcome of this element (product). Its development must therefore, be handled with precision. Essentially, product development involves the identification of needs. Hence, planning and developing the product/service and then launch the product/service. Timing is a critical factor in product development. It is a wasted effort to introduce a product in a saturated market. According to Okereke et al (1998:188-189) new bank products fail because of the following:

1) Inadequate market analysis and over-reliance of researchers on their past experience while ignoring the actual needs of the bank users.
2) Planning bank's products on their needs rather than the needs of the customers. The emphasis should be on what the customers think about the product and not what the product should actually be.
3) Failure of banks to realize the cultural implication of the new services to the customers.

4) Poor communication between the banks and their customers.
5) Poor bank location.
6) Managerial incapability.
7) Poor capital base, etc.

Offering better products/services is the key to profitable banking. The following ways, among others can afford banks the opportunity of offering better services or products:

a) Improve efficiency by ensuring that customers spend less time in the banking halls.
b) Innovation in the services provided.
c) Critically assessing the needs of customers particularly the latent needs with a view to satisfying them.
d) Rendering services with a smile and utmost courtesy, which of course, is a direct function of the calibre of staff, quality of training, type of management and the level of remuneration.
e) Granting loans with less difficulty although subject to CBN credit guidelines and internal policies of the bank.
f) Dispensing archaic methods and procedures which most times frustrate the customers.
g) Providing customers with necessary information that will facilitate their bank transactions.
h) Maintaining good public and industrial relations.
i) Monitor from time to time customer's opinion on the satisfaction derived from the product or services rendered.

Price

Price is a very strong element in the marketing mix, as it influences the quantity demanded of product/service and relative profitability to the bank. It is the cost of rendering a service. The price attached to a bank's product/service determines the success of the entire marketing plan in particular and the profit objective of the bank in general. Its importance cannot, therefore, be over-emphasized. According to Okafor (1995: 110-111), "knowing the importance of price in the total marketing mix, marketing managers should then develop a set of pricing objectives and policies that will work towards the achievement of the overall marketing objectives as spelt out under the organizational objectives."

Pricing or banks services/products should be strategically planned in relation to factors such as customers' needs and wants, product/service features, competitive environment and above all government regulations and in such a way as to ensure the realization of banks' profit objective. Government regulation dominates the pricing of banks' services/product. For instance, the Central Bank through its credit guidelines circulars, determines the minimum discount rate, which affects the interest rate. Central Bank of Nigeria also determines service charges. Three other unique products introduced by banks are not highly regulated like the conventional bank charges. This is where price differentials among banks are outstanding. But good

distributional channels and saturated publicity or promotion accompanies it.

Place

Place and distribution are interchangeably used in this context. It involves the location and process or means by which a bank delivers a product or services to the customer. It requires the timely delivery of banks' products/services at the least cost and at the highest profit. Example includes the use of credit card like UBACARD; Automated Teller Machine (ATM); Home video system; etc.

Place, as one of the elements of marketing mix, is related to the provision of banking product/services at the nearest possible time through CBN guidelines and in pursuance of social responsibilities. According to Okereke et al (1998:192) the basic objective of designing an effective channel for distributing bank services is to maximize profit and minimize cost. This suggests that care must be taken in creating branch image, choosing branch location and channels of distribution. It requires careful and diligent examination of the following factors; location of the target market, return on investment, cost benefit analysis, social needs, risks and problems involved, political considerations, yield periods, etc.

Promotion

Promotion refers to actions or activities employed by a bank to effectively communicate with customers about the existence and use of their services/products. It is sometimes called special offers since they give direct propositions, which, upon acceptance, forms a deal. It provides information about the availability of a bank's product/services; persuades the customer on the available information and also influences his (customer's) decision on the information he received.

Promotion objectives are derived from the basic marketing communication objectives, which include, among others

1) Encouraging more patronage of a given product/services.
2) Building trials among non-users.
3) Stimulating customers demand for the service/product over a longer time.
4) Encouraging off-season customer patronage.
5) Creating good image of the bank among employers and the public.
6) Offsetting competitive promotion.
7) Gaining entry into new markets.

Promotion is embracing, consisting of such marketing tools as personal selling and advertising.

Personal Selling

Personal selling in bank is a marketing activity involving face-to-face contact between the banker (seller) and his

prospective customer (buyer) with the aim of bringing the right service/products to the right customer for their mutual benefits. Burnett (1984) in Anyanwu (1993:107) defined personal selling as "the interaction of a seller and buyer for the purpose of facilitating exchange to the mutual satisfaction of both parties."

Personal selling is mostly required

- When a bank is new with a relatively new product/service
- When sufficient funds are not available to engage in other promotional mix (advertising, public relations, etc)
- When services/products are provided for specific customers
- When a personal contact is needed to change the saving or investment decision of a (prospective) customer.

Advertising

Advertising is a direct effort at creating and/or increasing customers' patronage. The effort comes in form of messages, which influence the emotional, physiological, psychological and need states of the customer. This automatically changes the consumer's buying behaviour by developing preference for the product /service being advertised. Given two identical products, advertising makes one preferred to the other. According to Alvin Toffler in Awoyemi (1999: 16), 'Even when two products are identical, there are often marked psychological differences between them. Advertisers strive to give each product a distinctive image. These images are functional. Nevertheless, need is more psychological than utilitarian in the current sense of the word...' The point to note here is that the utility inherent in the product /service does not play much role in the choice of a product / service but the psychological or physical differences created by advertising dominates the customers preference for the product.

Service advertising is used in creating awareness of the existence of a new product and stimulating customers for a sustained demand over a long period of time. Nigerian banks' service advertising is very sensational and motivational. Example, union bank plc advertises that their service is "... Big, Strong and Reliable." First Bank plc expects customers to "Change for the best."

Institutional advertising is used to attract more customers and build better image and goodwill for the bank. It involves public relations, public service activities outside banking operations e.g. financing education programme, conference, etc.

CONCLUSION

The banking environment is changing rapidly, customers' tastes and preferences are also changing in more geometric trend. The banks need to respond to these changes in order to meet the new state-of-the-art banking strategies. It demands a renewed thinking and re-organization towards effective marketing of their products/services. The period of guaranteed bank patronage with its associated armchair banking is all over.

Banks should be market-oriented. It requires identification of market characteristics as well as its segmentation. In fact, the marketing concept in general and marketing mix in particular must be instituted at its entirety. The thoughts of the customer and factors that affect these thoughts must be understood by the banker and incorporated in their product/service development.

Specifically, banks that have achieved excellence in their services are usually identified with some unique characteristics.

1) They have strong will for the identification of the desired customer tastes and needs.
2) They have a strong vision, based upon a strategy for service/product that is effectively communicated.
3) They have customer-oriented and friendly service systems.
4) They have very short service time and are very courteous.
5) They practise visible management.
6) They measure service quality and give feedback to the service staff.
7) They apply, as much as possible, the marketing concept in marketing their services to their customers and internally to their employees.

The integration of these characteristics in the Nigeria banking system will not only improve the profit ability of banks but will also enhance the growth and development of banking theory and practice.

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