

MARKETING OF FINANCIAL SERVICES

Lecture One

Introduction to Financial Services Marketing

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1.0 Introduction

Welcome to marketing of financial services class! It is my joy to have you in this class. I would like to begin by congratulating you for choosing to be a part of my class and hope you will reap maximum benefit as we learn together. In this class I will take you through the definition of financial services, the significance of financial service sector as well as service characteristics.

1.1 Intended Learning Outcomes

At the end of this lesson, you will be able to:

- a) Define financial services
- b) Discuss the significance of financial service sector to an economy
- c) Examine characteristics of financial services and their marketing implications

1.2 Definition of a Service

Financial service sector is one of the areas in the broad sector of economy. To understand the financial service, we need to understand the service in general and then pay specific attention to this aspect. Different writers define a service differently. For instance, Lovelock and Wirtz (2011) stated that “services are economic activities offered by one party to another while Payne (1993) defined “a service as an activity which has some element of intangibility associated with it, which involves some interaction with customers or with property in their possession, and does not result in a transfer of ownership.” On his side Kotler, (1991) defines a service as “any activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything.”

From these definitions we can identify key components of a service

- a) Deed. A service is an activity or something somebody does to another. It is a performance done by one person to another
- b) Economic. A service is something of monetary value or otherwise that one offers to another.
- c) There must be at least two parties in a service transaction
- d) Intangible: one cannot touch or taste or feel a service.

What then is a financial service? It is an economic activity or benefit offered by financial institutions to their customers. It represents financial products and experiences that customers get from financial institutions. Marketing on the other hand is “the management process responsible for identifying, anticipating, and satisfying customer requirements profitably (CIM, 2015)”. Marketing of financial services therefore implies strategies and plans developed by financial institutions to satisfy the needs of their customers and ensure that they generate their own revenue from these engagements. Financial institutions will offer their customers services such as loans, money transfer services, cash accounts, savings accounts, credit and debit cards

services, safe deposit boxes, Foreign Currency Exchange among others. Different countries will have different types of services and products to offer to their customers and the way they do it is the subject of this course.

1.3 Growth of Financial Service Sector

The financial service sector is one of the fastest growing in Kenya and also the rest of the world. Heyer and King (2015) noted that $\frac{3}{4}$ of Kenyan adults have access to formal financial system which is in line with the world bank goal of ensuring that all adults worldwide have “access to a transaction account or an electronic instrument to store money, send and receive payments as well as recognize financial access as a basic building block to managing an individual’s financial life. What factors have brought about this evolution given that Kenya is a developing country?

One of the greatest contributors to this growth is digital revolution that has enabled low- and middle-income earners to access financial services through their mobile phones. With a penetration rate of over 90% (CAK) of mobile phones to all Kenyans, it has become easier to transact given the many mobile application in this sector. Mpesa app which is money transfer service owned by the giant telecom Safaricom is the leading brand in Kenyan market. In Kenya, there are hundreds of mobile loan application apps that lend money to their customers. This has truly revolutionized the financial sector and therefore contributes to the need for strategic marketing of financial services.

A study by Karuthi (2010) revealed that good management practices; offering customer convenience; well articulate financial policies and procedures; favorable government policies; economic growth; stiff competition in the banking industry; well-trained employees were some of the factors contributing to growth of financial sector. This further indicates the need to market services strategically. Similar views were upheld by Yigo and Odunga (2014) who stressed that culture, application of technology and competition have contributed greatly to the growth of financial sector in developing countries. On his side Diar (2017) found out that financial literacy also increased the pace of growth of financial sector.

The findings from these researchers helps us to identify key factors that have led to the growth of financial sector and hence the need for appropriate strategies to market them. These factors could be summarized as:

- a) Technological advancement
- b) Favorable government policies
- c) Competition in financial sector
- d) Increase in financial literacy among low- and middle-income earners
- e) Development of banking culture
- f) Well trained labor force in the financial sector
- g) Clear policies and procedures in the financial institution

- h) Lower transaction costs
- i) Perceived reduction in financial risk
- j) Perceived ease of access to financial services

1.4 Growth of Marketing of Financial Services Course

The growth of financial services marketing may be attributed to several factors such as growth of service-based economies, deregulation of certain sectors of economies by the government, professional services needs and the new insight into what it takes to market a service.

Growth of service-based economies is a significant factor leading to development of services marketing. As earlier stated, the service sector is one of the fastest growing sectors worldwide. In Kenya, finance and tourism sectors are the leading service sectors. This has led employers and foreign exchange earners to start viewing services differently and to develop marketing strategies. . Another indicator of the economic importance of services is that trade in services is growing worldwide. World class providers of services in hotel, airline, banking, logistics and many other sectors are marketing their services throughout the world. This has necessitated marketers to think of ways of tapping into this sector hence increasing the growth of services marketing.

The onset of free market economies has seen governments deregulate industries and the need for professional service increased and consequently the need for services marketing. The government has created room for private players to offer services and therefore the need for professionals in service marketing. Marketing decisions that used to be tightly controlled by the government are now partially and, in some cases, totally within the control of individual firms.

Nature of a service: this implies that marketing of a service requires different strategy because of its nature. This will be discussed further in the next section on characteristics of services.

1.5 Contribution of Service Sector to the Economy

Nayyar et al (2021) observes that the service sector contributes 45% of global GDP and continues to grow far much faster than the manufacturing sector. Specifically, the service sector roles in the economy will include the following among others:

Creation and expansion of employment opportunities: Various components of financial service sector such as banking, insurance, mortgages, etc. have created and or increased employment opportunities. Mobile money services in Kenya have employed over a million people indirectly making it one of the largest employers.

Optimal utilization of resources: developing countries like Kenya are endowed with well-trained human resource. The growth of financial sector has ensured that these talents and resources are well utilized to bring about economic growth and development.

Contribution to GDP: the growth of financial sector has also significantly contributed to our country's Gross Domestic Product. In the 2020 the sector contributed 22.05% of our gross domestic product making it one of the most important sectors. This has also increased favorable investment opportunities especially in financial service sector.

Improved standards of living: the financial sector further contributes to economy by improving living standards. This is by creating opportunities for people to save money, invest and even get credit facilities.

Enhancing international trade: the financial sector development has gone along way in ensuring growth in international trade. Payment platforms such as SWIFT global, Pay Pal, Western Union and many others have made it easier for people to trade and therefore enhance growth.

1.6 Service Characteristics and Marketing Implications

Effective marketing of financial services requires one to understand unique characteristics of services that make them different from goods. This helps one to craft appropriate strategies and win customers confidence. Palmer (1994) has identified intangibility, inseparability, variability and perishability as distinct service characteristics that anyone marketing them should understand. Each of these characteristics is discussed here briefly:

Service intangibility: This indicates that services cannot be seen, tasted, felt, heard or smelled before they are bought. For financial services one cannot measure quality of interaction with bank teller until the time of transaction. It also implies that the customer perceives higher risk and uncertainty in the buying of a service. To reduce this perceived risk and uncertainty the banker or any other financial service provider should increase the evidence of service by creating an impressive service provision place, well dressed employees, and anything that is tangible in that place.

Service inseparability: This implies that services are produced and consumed at the same time and cannot be separated from their providers, whether the providers are people or machines. For financial service providers or their employees, their interaction with customers is extremely important because they are perceived as the service. Customers themselves also become part of service and therefore the marketer must be very knowledgeable on what they are offering and listen carefully to the customer for him to deliver quality service and meet customer expectation.

Service variability: This means that the quality of services depends on who provides them as well as when, where, and how they are provided. The service providers are mainly humans who have emotions which keeps on varying. Variability also results because no two customers are alike. The marketing implication here is that financial services marketers should be well trained, motivated, and given a conducive environment in which they can offer services. This will ensure reduction in service variability. It is also important to automate as many aspects of a service as possible as machines are likely to give a standard service. Use of ATMs in the banking sector has greatly reduced variability in banking transactions services.

Service perishability: This means that services cannot be stored for later sale or use. When a banking hall is opened and there are no clients, the service is being offered but not consumed. This service goes to waste and cannot be recovered. The marketing implication for these characteristics is that the firm must manage supply and demand through price charges among other factors.

Other characteristics worthy considerations in marketing of financial services include the fact that other people receiving the service often form part of the customer experience. This implies that if these other customers misbehave the financial service provider will be deemed to offer low quality service. Another consideration is the realization that the time factor assumes great importance in service provision as most services must be delivered when the customer is present. Customers are often looking for faster services and financial institutions must find ways of doing this. Some have resulted in offering 24-hour services while others are employing technology more and more to ensure fast service to their customers. Services distribution channels often take many different forms. In today's financial service sector, distribution may be through customers visiting services centers or through electronic means. The marketer must invest in appropriate technologies to ensure customers are served well and when they need a service. In Kenya for instance, any financial service provider must invest in mobile money transfer for his business to remain afloat.

1.7 Marketing Mix for Financial Services

Marketing mix refers to “the elements within an organization control which can be used to satisfy or communicate with customers (Zeithaml and Bitner 2000). The traditional marketing mix for goods considers product, price distribution (place) and promotion as key strategic components that can be manipulated to satisfy customer needs and wants. However, these are not sufficient to develop an appropriate strategy for financial services marketing hence the additional of people, processes, and physical evidence. Each of these will be discussed briefly.

Product: a product consists of any offering to the market for attention, acquisition, use or consumption that might satisfy a need/want (Kotler, 1991). A product consists of core benefit, which is what the customer is looking for and supplementary service elements surrounding it.

For a financial product a customer might be looking for means of saving money as core benefit. The banks packages this benefit into a savings account which could have supplementary benefits such as ability to be advanced credit, great customer experience and convenience to cash through mobile apps among others. The marketer must ensure that the service offering creates value and does better than competitors in satisfying customer need.

Distribution (Place): this consist of ways of delivering the services as well as channels being used. The decisions must be made on physical location where services are delivered, the type of intermediary to use and methods of delivery -physical or online). For instance, In Kenya banks are delivering financial services through their branch retail outlets, through thousands of independent bank agents and through mobile banking services as well as through internet banking.

Promotion: This refers to different methods and techniques used to deliver information about financial services to the actual and potential customers. It is also referred to as marketing communication and consist of both personal and non-personal means. Personal means constitute personal selling and direct marketing while non personal means considers advertising, sales promotion, publicity, and public relations. Financial institutions use promotional messages a lot to add “tangibility” to a service and to educate customers on what they are offering. Promotion messages are delivered through salespeople and front-line staff, the TV, radio, newspapers, magazines, posters, brochures, and web sites. Promotional activities often influence product and brand choices and acts as incentives in attracting customers.

Price: this is one of the most significant components of marketing mix as consumers are known to attach value to a service or product. Pricing decision must consider monetary value and other costs such as travel expenses to financial institution physical location, the time spent, mental and physical energy required among other expense. Price charged is often used by customers in determining quality of financial service delivered. Marketers of financial services also use prices to smoothen demand and supply of their services.

Physical Evidence: this constitutes the environment in which a service is delivered. It is the physical place where the financial institution employees and the customer meet for delivery of the service. The financial service provider must consider the appearance of buildings, landscaping, interior design and furnishing, equipment used, staff members appearance and even state of firm’s vehicles. Financial Services provider must also be careful in handling any physical evidence of a service as this will have profound impact on customers’ impressions and perception of service quality.

Processes: These are the actual procedures mechanism and flow of activities by which the service is delivered. They are the methods and sequence of actions involved in service delivery to customers. In a financial institution the procedures of opening accounts, receiving cash,

making payments, and issuing of financial statements among others must be designed appropriately for effective service delivery from a customer's point of view. Service delivery processes must be designed in a way that front line staff are clear of procedures and requirements and must act as a motivator to them also.

People: These are all human actors who play apart in service delivery. The quality of staff employed in financial institution is a major determinant of effectiveness and efficiency in service delivery. These people must be well trained and empowered to deliver services to customers expectations. The employees' attitude, physical appearance, knowledge, and skills contribute significantly to customers perception of service. The financial service provider must not just recruit and train employees but must also motivate them for quality service delivery.

1.8 Review Questions

1. Review the various definitions of services by Kotler (1991), Payne (1993) and Lovelock and Wirtz (2011) and then develop your own
2. Citing relevant factors in your country, discuss factors that have led to the growth of financial services sector in the recent past
3. Why has services marketing become such an important field in businesses today?
4. Critically examine roles and contribution of financial sector to your country's economy
5. A marketer of financial services must have clear understanding of service characteristics and their implications. Discuss
6. The traditional 4Ps of marketing mix cannot suffice the marketing of financial services hence additional 3Ps. Discuss with examples.

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