

MARKETING OF FINANCIAL SERVICES

Lecture Two

Financial Services Marketing Environment

Dr John N Kamau

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WEEK TWO

2.1 Introduction

Welcome to week two lecture! It is my joy to have you in this second lecture. Last week we introduced marketing of financial services by looking at its definition, characteristic of services and the marketing mix of a service. This week we move a step further and examine the environment in which services are marketed. We will examine both internal and external environment and the implication for financial services marketing.

2.2 Intended Learning Outcomes

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

- a) Define the financial marketing environment
- b) Examine internal environment and its implication to marketers
- c) Discuss external environment and its implication to marketers
- d) Develop appropriate strategies for responding to environmental forces

2.3 Financial Services Marketing Environment Defined

Financial services marketers do not operate in a vacuum. They are surrounded by conditions that have profound impact on the decisions they make regarding their marketing strategies. The term marketing environment implies the combination of internal and external factors that influence a company's operating situation, including employees, customers, management, supply and demand and business regulations (Hans, 2018). It is the sum of all external and internal factors that influence or affect a business decisions and operations. On his side Shaikh, (2010) views environment as the surrounding external objects, influences of circumstances under which someone or something exists. Similar views were held by Selznick (1948) who held the view that environment "constitute flows of information relevant to goal setting and decision-making through managerial perceptions." Duncan (1972) was of opinion that environment constitute "the totality of physical and social factors taken into consideration by a firm for making decisions. Having examined these definitions, Chattopadhyay (2015) argued that the environment of any organization is the aggregate of all conditions, events and influences that surround and affect it." From these definitions we can deduce what a marketing or business environment is

- a) Surrounding conditions to a business organization
- b) Constitutes both internal and external forces
- c) From these forces information flows to the organization
- d) These events must be viewed holistically
- e) These condition or event have profound effect on a business

The financial services marketing environment can therefore be defined as all forces both internal and external that have a bearing on development of financial services marketing strategy. The financial services marketer must be aware of these conditions for her to make significant

decisions that will ultimately result in success or failure of the strategy. In this lesson we will go on to classify these forces and how they affect financial services marketing.

2.4 Understanding Financial Services Marketing Environment

To understand the financial services marketing environment, we must do environmental scanning. This is the process that involves monitoring and evaluating changes and trends in the environment and looking deeper into the implication on the business. This process is essential in determining what to emphasize in marketing strategies, services to add or eliminate, the most viable markets to target, threats to avoid and opportunities to exploit and technologies to harness for success. The process of environmental scanning may involve

- a) Determination of the relevant information, where and how to acquire it.
- b) Recognition of the information as relevant
- c) Analyzing the information to determine its implication.
- d) Responding appropriately

Environmental scanning is significant to a financial institution in several ways (Hans, 2015). First, careful scanning shows sensitivity to environmental conditions and therefore the financial institution can build its reputation. Secondly, the firm can assess competitors' activities and strategies and therefore respond accordingly. The process also enables firms to identify their strengths and weaknesses and therefore capitalize on strengths and work on their weaknesses to remain competitive.

The goals of any firm that engage in environmental scanning as identified by Hans (2015) will include:

- Identifying changes and trends in the environment that are likely to have significant impact in their organizations
- Determine potential threats that are likely to have adverse effect in a business and therefore develop counter strategy on the same
- Enhance scenario planning among managers and staff of the organization
- Create awareness among management on converging/diverging trends etc.

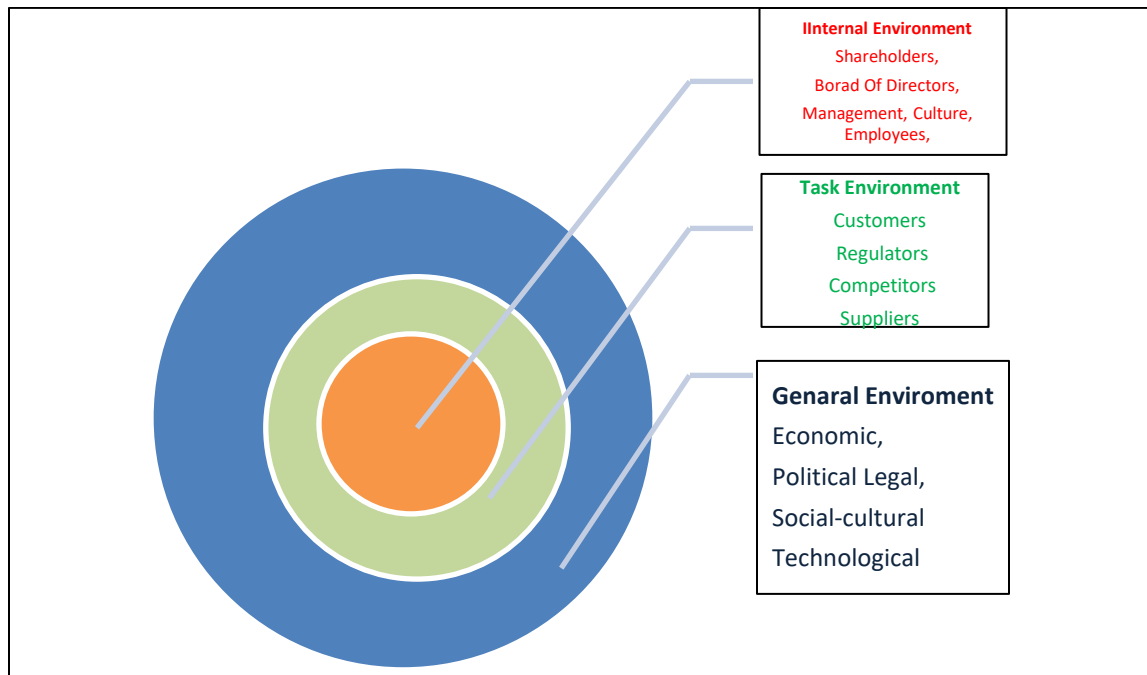
There are several models that may be used for environmental scanning:

- a) SWOT (Strength, Weakness, Opportunity, Threat) Analysis
- b) QUEST (Quick Environmental Scanning Technique) Analysis
- c) PESTLE (Political, Economic, Socio-Cultural, Technological, Legal, Environmental) Analysis
- d) Industry Analysis
- e) Competitor Analysis

2.5 Classification of Business Environment

In this section we examine the main components of business environment in the context of financial services marketing and their implications to a marketer. These components are classified into internal environment, task environment and general environment (Perera 2014). Figure 2.1 is a representation of these components in a graphic form.

Figure 2.1 Component of Business Environment



Adapted from: Dilshan Perera 2014

2.5.1 The Internal environment

This constitutes shareholders, board of directors, management team, employees, and organizational culture. The shareholders are technically the owners of the financial institution through their shareholding. They influence the direction the business will take through voting in annual general meetings and special general meetings. They also vote in or out the firm directors who are responsible for making major decisions of the business. The financial services marketer must be keen to understand the tastes and preferences of the shareholders as this will affect the direction of the business.

The board of directors and management are responsible for overseeing the general management of the firm. They appoint the Chief Executive Officer and make strategic decisions of the firm. The board is responsible for developing the firm's mission, vision, and strategic goals. This implies that the financial services marketer must be aware of these and how they inform

development and execution of the marketing plan. Marketing plan must contribute to achievement of the organizations overall plan.

The employees of a service business play a critical role in its delivery. They must be highly knowledgeable of the financial services offering, be professional and friendly to the clients. The front-line staff are often viewed as equivalent to the service because of the concept of inseparability. They must therefore be well trained and empowered to deliver the service. In a financial institution, the cashiers, tellers, personal bankers, and customer service personnel are especially critical in-service delivery. The marketer must ensure that they are well motivated.

The physical environment in which financial services are delivered is also significant and affects quality of service. The financial service marketer must consider the state and quality of facilities design and outlook, colors used, the appearance of staff and the working machines such as computers, scanners, printers, photocopiers, and any other tangible evidence of a service. The physical evidence must deliver the evidence that indeed quality service is being delivered by the financial institution.

The other component of internal environment significant to a marketer is the organization culture. Organizational culture refers to shared values, principles, traditions, and ways of doing things that influence the way organizational members act (Robinson & Coulter 2012). The culture established in financial institutions will go a long way in determining the marketing strategy that can be applied.

2.5.2 Task Environment

The task environment is not generally within managers control like the internal environment but has profound effect on how the firm runs its marketing campaigns. This environment constitutes industry regulators, competitors, customers, and suppliers. The financial service provider must consider the effect of these players in developing his marketing strategy.

Regulators are the legal organization mandated by the government to ensure that the players in particular industry conduct their business in accordance to the law of the land. In Kenya the Central Bank is responsible for regulating the banking sector while Insurance Regulatory Authority oversees the work of the insurance firms. The savings and cooperative movement is regulated by a body referred to as Sacco Societies Regulatory Authority (SASRA). The financial services marketer must familiarize with laws governing their sector and ensure he operates within the law. He must contribute to policy development to ensure they favor his marketing strategy. Self- regulation as well as the regulation by professional bodies are also significant in financial institutions.

Customers are by the most significant player in any business. They are the reasons for business existence. The financial services marketer must seek to understand their ever-changing tastes and preferences and seek to meet them to remain relevant in his business. He must seek to know the buying behavior of service consumers and also how they evaluate quality of services. He must present his message of appeal to customer in a way they can understand and make right decisions in his favor. The financial marketer must seek to retain and satisfy customers as his main goals. He must also target new customers with new products or even old customers. Understanding customers through market research becomes extremely important for a financial services marketer.

Competitors is another task environment player that we have to deal with. These are business competing for the same clients either with similar or different products. In Kenya traditional financial services providers are encountering stiff competition from telecom companies that are now offering e-money services through their networks. There is a proliferation of apps offering financial especially credit making competition extremely high. The banks, insurance firms and other players must be aware of new entrants into this industry and seek ways of outdoing or cooperating with them for success of their businesses.

Suppliers are firms that supply goods and services to financial service organizations. These may include stationary firms, ICT firms, call centers among others. The financial services marketer must seek to maintain good relationship with suppliers to avoid services disruptions.

2.5.3 General Environment

This will constitute environmental forces usually considered to be beyond marketer control and usually analyzed through PESTEL model. They will constitute the political, economic, social-cultural, technological, environmental, and legal forces. These are comprising the external environment and must be monitored to ensure our financial firms are aligned to their changing demands. Each of the forces is described briefly

Political factors will constitute the political conditions and government activities that affect the business. The government will put in place legislations that affect running of financial institution as well as set regulators in place. Political conditions like elections and civil unrest will affect performance of financial institutions. The marketer needs to be aware of effect of any legislation to avoid getting on the wrong side of the law. In general, the government will influence the business environment through regulation, subsidization, taxation, competition, and economic policies. On the other hand, financial services marketer can respond influences the government through lobbying, direct political action, and legal / illegal actions

Economic factors are the indicators of overall health and vitality of the economic system in

which the organization operates (Perera, 2014). It constitutes factors affecting the entire economy such as exchange rates levels of inflation, unemployment, and interest rates. The economic cycles that include decline, recession boom and even recovery also a major determinant of what happens in an economy. Tina (2000) notes that changes to the socio-economic environment have an impact on the general demand for financial services. This will have consequences on individual disposable income, personal wealth, and credit facilities available to them. The financial service marketer must be aware of these for him to develop appropriate marketing strategies.

In recent times technology is perhaps the strongest factor affecting financial services marketing. Technology will consider increase of computers and new software's, mobile technology, the Internet, and all communication devices that have taken stage in twenty first century. Technology has increased access to financials, services, empowered both consumers and services providers, increased convenience thereby enabling institution to offer high quality customer care which results in increased satisfaction. The financial services market must be aware product technological changes that new products, new features, or new capabilities and the process technological change that changes how products are made. The financial services provider has one choice of adopting to technology and make maximum use of it to study, meet and exceed customer expectations.

Social-cultural environment will constitute demographics of a society, the people's lifestyles, and society values. Average age, literacy levels, religion, gender diversity, societal customs and population size are major considerations in marketing of financial services. The believes or values also determine what can be consumed. In some societies only men can open bank accounts while in others everyone includes the teens have access to financial services independently. These cultural dynamics will affect marketing of financial services and the marketer must be aware. Other important factors to consider is the legal factors, the general environment, and the international environment all of which affects business operations.

2.6 Review Questions

1. Discuss the process of environmental scanning and its significance to a financial services marketer.
2. Technological environment is the most dynamic in marketing of financial services. Discuss ways of adopting to this environment
3. Critically analyze strategies of marketing of financial services in a highly competitive environment
4. Discuss element of international marketing environment that a financial services marketer must be aware of

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