

MARKETING OF FINANCIAL SERVICES

Lecture Five

Developing and Managing Financial Service Products

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WEEK FIVE

5.1 Introduction

Welcome to week five! We are making great progress. We are almost halfway the course. Last week we looked at how to identify and segment financial services for the customers, target them with our offerings and also how to position ourselves against competition. We are now ready to start focusing on our offerings to the targeted customers. We begin by looking at products that we present to these markets, how we develop and manage them.

5.2 Intended Learning Outcomes

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

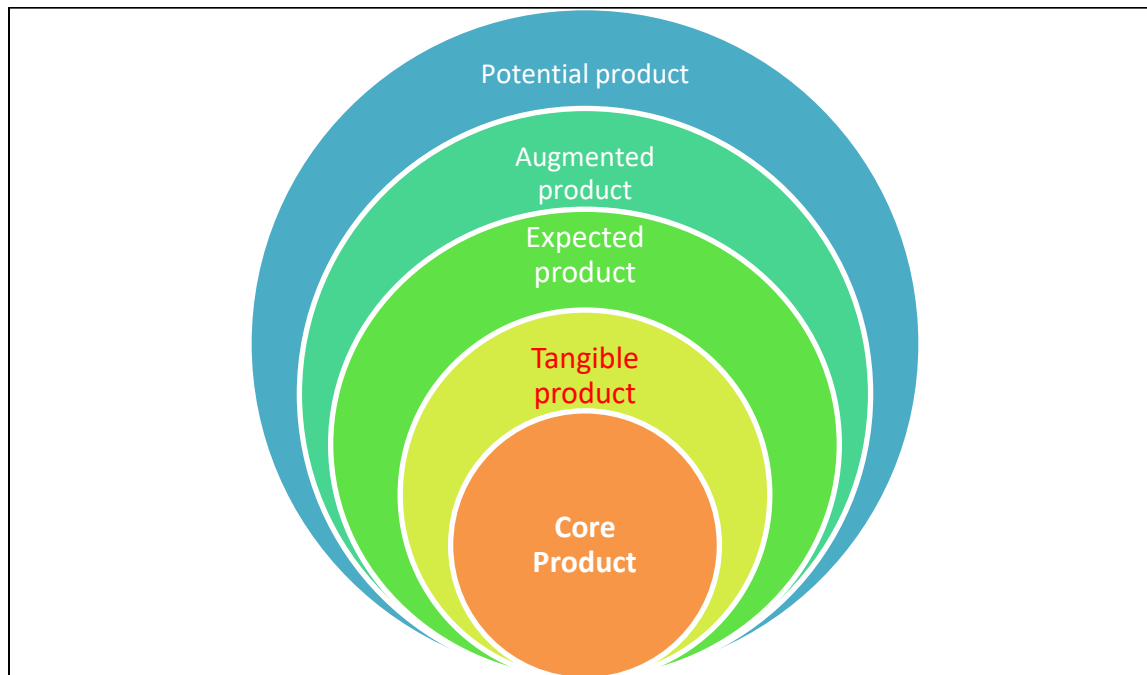
- a) Define a financial service product
- b) Describe factors affecting product strategy
- c) Examine the process of new product development
- d) Analyze factors affecting the adoption of new financial services
- e) Describe ways of eliminating a financial product from the market.

5.3 Definition of a financial service

The terms service and product are often used interchangeably in marketing of a service. A product is anything that can be offered to a market for attention, acquisition, use or consumption, that might satisfy a need (Kotler 1997). Dibb et al (1997) define a product as everything both favorable and unfavorable that one receives in an exchange. It is a complexity of intangible attributes, including functional, social, and psychological utilities or benefits. From this definition we can define a financial product as a bundle of benefits that a financial institution offers to its customers to satisfy their financial needs. This could be a credit facility, a savings account, a current account, credit, or debit card and many more.

Kotler (1997) has identified product levels to include core product which is the main benefit the customer is looking for such as financial security which institution package as insurance. The second level is actual product /the basic product which is the tangible product or the product features such as ATM's, Mobile Banking, Branches, Agency Cash card etc. The third level is the expected product which in our context is the minimum level of service that a customer expects to receive from a financial service provider such as ATMs to being in good working order. The fourth level is the augmented product that constitutes the extra benefit that a product/service provides. For example, addition services by ATMs such as paying bills, deposit cash or cheque, moving money between accounts, buy airtime etc. The final level of a product is potential product which is what customers expect to be there in the market but is currently not available. The financial service provider must be aware of these levels of a product for them to offer an acceptable product to the market.

Figure 5.1 Product Levels



Source: adopted from Kotler 1997

5.4 Factors Influencing Development of Financial Products

Financial service providers must keep on developing new products for their survival in the market. The process of developing new product is generally affected by customers, competitors, technology, government legislation, shifting industry boundaries among others (Tina, 2000).

Customers are the strongest force that influence new product decisions. They could be personal, corporate, or even intermediaries. The financial service marketer must understand customers changing tastes and preferences to develop appropriate product strategies. For example, in Kenya all financial service providers must incorporate mobile services to satisfy financial needs of their customers.

Competition is the other force that a financial service provider must consider in developing his product offering to the market. He must find out what the competitor is offering and present the same or even a better fashion o the same service to remain competitive. In Kenya most financial institutions have been forced to offer insurance services to remain competitive.

Changing technology is the other factor of paramount significance to a financial service provider. The digital revolution has enabled financial service providers to offer a variety of services at customers convenience. For instant, in Kenya, nearly all financial services are now available on mobile phones and any player who want to remain competitive must follow this trend. Mpesa

service which is a money transfer service that nearly all Kenyans with a mobile phone have subscribed to, has been enabled by technology.

Government and legislations keep on changing and demand that financial institutions comply. The Kenya government has enacted laws that demands employers to contribute to pension schemes, medical insurance and even motor vehicle insurance. The financial institutions must develop product to tap into these markets and ensure they comply with these regulations.

Industry blurring is another factor influencing financial product strategy. There is a thin boundary between what some service industries are offering. For example, Safaricom, a giant telecommunication firm in Kenya now offers money transfer services, loans, savings plans among others through its Mpesa brand. Its customer base and market share in the financial sector is far much greater than many banks and financial institutions. The savings and credit cooperatives are now offering insurance services making it difficult to see the boundary between Saccos and insurance firms. The financial services marketer must consider the above factors in developing new product strategy.

There are various types of new products that a financial service provider may develop. These will include 'new to the world products', new product lines (new to institution), addition to existing product lines, improvements to and revision of existing products, repositioning's, and cost reduction products. Some of the new products that have been developed in Kenya are Mpesa products and M-shwari which are based on use of mobile technology. In savings sector we have seen introduction of junior accounts in most financial institutions targeting the teens and even pre-teens which is an additional to existing adults savings accounts. Some of the savings' accounts in Kenya can now enjoy services of cheque books which is an improvement while stock markets which were previously positioned as belonging to elite are now easily accessible to middle- and low-income earners.

5.4 New Financial Services Development

New products as alluded by Kotler (1997) and others, are the lifeblood of a business. The financial marketer must keep track of changing trends, preferences and tastes of consumers and develop products to meet those needs. He must also keep abreast of government regulations so as to develop products that are in conformity to its requirements. He must also watch activities and development from competitors to inform his strategy. The marketer cannot ignore suggestions from middlemen as this might also contribute to developing of viable products. Research and development could also trigger the need to develop new products. All these and many more contribute to developing of new products that a firm may develop to remain relevant.

The process of developing new financial products will include:

- 1) **New product idea generation:** new product ideas constitute the first step in developing a new product. The ideas may be generated from within and without a firm. The design of a

new product requires one to consider not only the core product but also the facilitating and supplementary services (Lovelock 2011). The facilitating services include information, order-taking, billing, and payment while supplementary services comprise consultation, hospitality, safekeeping, and exceptions. Management through participation should encourage new ideas and reward creativity amongst employees.

- 2) **Idea screening:** This is the process of sifting ideas to identify the most viable. The marketer must examine the proposed new product in terms of resources required and its effect on available products. The marketer must ensure he does not commit go error (adopting a bad idea) or drop error (dropping otherwise good ideas).
- 3) **Business analysis:** this is the process of determining feasibility and viability of the proposed product through cost-benefit analysis. An idea should only be carried forward if its cost-effective and has chances of attracting a larger market share in future.
- 4) **Product development:** this is the stage in which the idea is turned into a concrete service to assess its technical and commercial requirement. For financial services, some products might require new software's and personnel to implement it. The stage also allows the marketer to determine some of the risks involved and how to manage them.
- 5) **Test marketing:** the pilot testing stage is critical for product success in the market. The chief concern is the acceptability of the product by customers. The product is likely to be introduced on selected markets and if successful, it is then rolled in the national markets. The marketer is concerned about market reactions to the product. Suggestions from test market are incorporated in the final product before launching into the national markets. It is from these tests that the marketing strategy is developed.
- 6) **Commercialization:** this is the final stage when the product is commercialized and launched nationally. The financial services marketer creates awareness of the new product through promotions. He must keep on tracking the new product demands and make necessary adjustments. He must be ready to clarify to customers the features and costs of the new service to create confidence among the users.

Note:

- New product development is an expensive process and therefore keenness is required for the success of new product
- Some products are developed very quickly while others may take a long time

5.5 New Financial Product National Launch.

Once financial institutions have developed new products, it is paramount that they launch the new products in a way that they create awareness and win customers. For successful launch promotion needs to not only be cost-effective but also well planned. The marketer must do internal marketing to ensure that the staff all staff in all branches are aware of the product, its features as well as its benefits. They must appreciate the product and accept that it is part of their new offerings to the market. The firm must go ahead and prepare its branch network to ensure

that the product is activated and incorporated in its market offering. All staff at branch level needs training to ensure the product is sold.

Some financial products will have to be marketed through intermediaries such as bank agents. They must also be trained to ensure they can answer questions from potential customers on the same. The marketer must be keen to ensure that there is no cannibalization of the old product by the new.

5.6 Financial Products Lifecycle

Product life cycle theory explain the stages through which products go through in their lifetime. The theory was developed by George R Vernon in (1966) and proposes that a product goes through four stages in its lifetime. These include introduction, growth maturity and decline.

In the introductory stage the financial services marketer introduces the product to his potential clients through various promotion tools such as advertising, personal selling and even sales promotion. Some marketers will also use direct marketing and even websites where there is much traffic. The marketer must ensure that the service is also available in all his branch networks and among intermediaries if any. Creating awareness is the main marketing activity in this stage and requires the marketer to track feedback from potential clients.

In the growth stage, the uptake of the new product is in high demand. The marketer must commit more staff to attend to increasing number of clients making enquiries and buying the new service. The marketer must continue to promote the new service to heighten the demand.

In the maturity stage the new product has hit a peak in demand and stabilized. There is also development of similar products by competitors to capture the new market. Competition is very stiff, and this may lead to decline in demand for the new service. The marketer must keep on promoting the product to keep it at the front of the mind of customers.

In the decline stage. The demand for the services has started declining due to stiff competition and may be because of new technologies. The marketer must arrest this by rebranding, adding new features and may also target a different segment with the same product. The marketer may also decide to eliminate the product in favor of others.

5.7 Product Elimination Strategies

If the demand for a service fall to an extent that it becomes unprofitable, the marketer has no choice but to eliminate it from his portfolio and focus on more profitable products. There are several ways of eliminating unprofitable products. Make the product a closed issue and therefore remove it from the market. The marketer might decide to withdraw some of the features or

change the nature and function of the product. The marketer might also merge several services or allow customers to eliminate the product by their failure to pay for it.

5.8 Review questions

1. Financial product is the most important item of marketing mix that a financial service marketer presents to the market. Discuss
2. Developing of a financial product is a very expensive process that requires thoroughness on the side of the marketer. Justify this statement
3. Discuss financial product elimination strategies applied by marketers in your own country
4. Discuss strategies that a financial service provider may apply in arrest decline stage of a product life cycle

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