

MARKETING OF FINANCIAL SERVICES

Lecture Six

Managing Channels of Distribution for Financial Services

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WEEK SIX

6.1 Introduction

Welcome to week six lecture. We are now half-way the course and it is for me to congratulate you for the effort so far! Last week we began examining marketing mix elements of financial services by looking at how to develop and manage financial products. This week we discuss the second element which is the distribution channel. These are the means of reaching financial services customers.

6.2 Intended Learning Outcomes

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

- a) Describe what a distribution channel is
- b) Discuss the various types of distribution channels for financial products
- c) Discuss effect of technology on distribution of financial services.

6.3 Definition of a distribution channel

A distribution channel has been defined differently by various authors. For instance, El-Ansary Era, (2001) defined it as a set of interdependent organizations involved in the process of making a product or service available for use or consumption. Rosenbloom (2004) views a marketing channel as the external contactual organization that management operates to achieve its distribution objectives. Borrowing from these definitions we can define a distribution channel for financial product as a system of reaching out to financial customers directly or through intermediaries. Tina (2000) notes that the system enables the financial institutions to make their products available to customers creating time, place and possession utilities. Rosenbloom (2004) alludes to the fact that distribution system has the highest potential of giving a firm competitive advantage compared to other marketing mix elements due to its long-term nature and the fact that it requires a structure consisting of organizations and people to implement and the realization that it is built on relationships with various players.

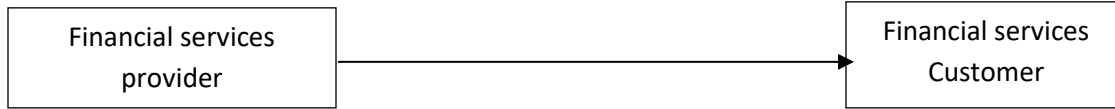
6.4 Types of distribution channels for financial services

There are generally two types of distribution systems namely direct and indirect.

a) Direct channel of distribution

This type of distribution involves movement and sale of products directly from service provider to the customer, for example, traditional branch network. This is far the most popular and has been used by financial services providers over the years.

Figure 6.1 Direct channel of distribution



There are several advantages of using direct channels of distribution. First, it enables the financial services marketer to interact and build relationship with the customer. The customers feel a sense of belonging to the organization because of the direct interaction. Second, it enables the marketer correct data directly from the customers and therefore develop products that meet his expectation. Third, the marketer does not share his profits with anyone and therefore his income is increased.

There are also disadvantages of using this kind of channels. First, it may be costly and time consuming for a financial institution to establish distribution places everywhere the organization deem to have customers. Secondly, the organization may fail to capitalize on opportunities arising from interacting with distributors since they don't interact with them. We also note that this kind of channel raises internal workload for the staff of the organization as well as limiting after sales services that can be offered to customer.

b) Indirect channel of distribution

Indirect channel of distribution involves use of intermediaries or middlemen. These, go-between the service providers and their clients. In Kenya the introduction of agency banking provides an excellent example of the use of middlemen. The philosophy behind use of middlemen is based on specialization and division of labor as well as contactual efficiency.

Fig 6.2 Indirect channel of Distribution



There are several advantages associated with indirect channels of distribution. First, they increase market coverage at a lower cost. Secondly, the structures are already established and therefore the marketer will just need to agree to terms and conditions before engaging them. Bank agents in Kenya are spread across the country making it very convenient for both financial services provider and the customers. This system is said to be more functional and enables the marketer to expand his services faster. The start-up in financial services can also benefit a lot from already established systems of distribution and therefore reduce their costs of operation.

6.5 Functions of intermediaries in distribution of financial services

Where financial institution accepts to use intermediaries, they perform many functions. According to Rosenbloom (2004) the intermediaries ensure market coverage for their mother companies. They bring the presence of the financial institution to different places where it may be difficult or uneconomical for the financial institution to run a branch. The intermediaries also make sales contact. The agents help customers open accounts, access their funds, and obtain credit facilities from financial institutions. They also gather market information which informs their mother organizations in the changing tastes and preferences of customers which informs financial institution on product to develop and ways of reaching the customers.

Rosenbloom (2004) further alludes that intermediary assure customers of services availability when they need it. They offer customer services and create confidence to customers that the service indeed works. This reduces perceived risk and increases quality of financial service being delivered. Sometimes customers are not sure of what they need and its availability. The agents offer technical support and advice on various products available at the financial institutions. This ensures that the customers subscribe to the right services ensuring their needs are well met.

Agents further offer the necessary manpower and physical facilities to deliver service to financial customers which may be too costly for a financial institution to employ. The agent further offer platform for personal selling, advertising, and display to aid in promoting of financial products.

6.6 The branch networks

This is the most popular way of delivering financial products to customers. Banks Saccos, insurance firms and other financial institutions have traditionally built branch network in countries where they operate. The branches form points of contacts with customers. Modern financial institutions branch offices have been redesigned to accommodate more customers more conveniently. Table 6.1 shows the changes that have taken place in the recent past.

Table 6.1 Comparison Between Traditional and Modern Branches of Financial Institutions

Traditional branches	Modern branches
1. Low customer area to staff-area ratio	1. High customer area to staff-area ratio
2. Extensive use of bandit screens	2. Fewer intrusive measures

3. Lack of privacy	3. More private interview areas
4. Primarily banking concepts	4. Adoption of retail concepts such as merchandising
5. Fore-bonding environment, customer not encouraged to stay	5. Customers encouraged to spend more time in the branch and browse
6. Long queues and waiting time	6. Better control of customer movement

Source: adapted from Tina Harrison 2000

6.7 Electronic Channels for Financial Services

Apart from branch network, financial institutions are using electronic channels to deliver services to their customers. We define electronic channels as the use of internet and other enabling technologies to make financial services available to the target market. The financial services marketer will offer services through mobile technology such as the mobile banking and internet banking. This system of distribution has become very popular in Kenya because nearly all adult population has access to the mobile phones and majority of them can transact online. The financial institution has crafted products and services to be delivered online making it a very popular way of accessing banking and other financial services. Kenyans can make their medical insurance premiums contributions to their respective insurers from the convenient of their homes as well as pensions payment. The electronic channels enable people to remit funds to their home country easily thro services like World Remit, Western Union, and Money Gram among others.

What are the advantages of these channels? Rosenbloom (2004) argues that electronic channels enable marketers and consumers to have a global reach for products and services. Even small financial institutions can target customers from anywhere in the globe and get clients. Electronic channels for financial services offer the potential for global commerce at a level of convenience and timelessness making it very significant for financial services provider and consumers in general. The other advantage is the convenience and the speed at which transaction are carried out. At the click of a button, one can access credit facilities, send money, and make payments for products and services anywhere. This saves time and resources. The electronic channels for distribution of financial services also allows greater efficiency and flexibility. Customers can visit several financial service providers websites, compare offerings, and make decision regarding financial services uptake. It is also important to note that this channel lowers distribution cost to a large extent making financial services generally cheap for customers and easy to administer on the side of the marketer.

Nevertheless, there are also shortcomings from this channel of distribution. First, we find that there is what Rosenbloom (2004) refers to as web clutter, confusion, and cumbersomeness. There are so many websites with various products and services globally and identifying one that will serve the current needs is often an uphill task for the consumer. We also note that there is high level of ignorance among potential consumers of financial products and the marketer has to work hard to inform them of the current trend of distributing services electronically. The channels also deny consumers social motives of socializing and interaction that they could have gained in the traditional channels of distribution. The greatest shortcoming for this system is the security

concerns for the financial customers. They fear whether hackers would get into their accounts and withdrawal money or do them other harm. The financial services provider must assure consumers of security of their services and build confidence that indeed the system works well.

Other impacts of technology driven channels as identified by Tina (2000) would include heightened competition as many financial institutions and financial service product have been developed. This has increased competition among service providers, all wanting to capture a wider market. Further, the technology driven channels have increased employment opportunity like agent banking and mobile money tranafers which have created thousands o f jobs in a country like Kenya. We also note that technology driven channels works well in a population that is literate. Where illiteracy is a challenge or where different languages are used, this channel may not be very effective.

6.8 Forms of Self-Service Technology and their Application to Financial Services

Automated Teller Machine (ATM) : They have become very popular in the recent past and are used by all financial institution but mainly the banks. Thy are computerised machines, usually mounted on walls where customers can withdrawal or deposit cash or cheques. They also assist customers in checking their account balances, staetements and use of accounts as platforms for adversting of various fiancial products. They usally serve 24/7 making them very conveneient for customers. The main challenge with ATM is insecurity and the breakdown of the systems which normally frustrate customers to a great extent.

Electronic Funds Transfer at Point of Sale: the technology has become very popular in supermarkets and fuel filling stations as it provides easier methods of payment for consumers. This technology applies a card system to enable consumers make payment at the place of shopping. The fianncial services providers provides a link to customers account so that they can access their money and conduct transactions without having to deal directly with cash.

Telebanking: this is the use of banking services over the telephone. It is not a very popular technology of conducting transactions in my country. This is because of challenges of voice verification. However, it is still in use but to a limited clientele.

Smart card: They are in geat use in fiancial instituions. They may include both credit and debit cards. The cards are used in making payments in supermarkets, hospitals, hotels and many other places. Smart cards are relatively recent innovation and consumers are more cofortable with cards than with other forms of electronic channels of fiancial services delivery.

Online banking: this is becoming more popular in the recent past as many people embrace working online. The consumers making payment through their cards that are subscribed to major players such as Visa and Mastercard. The system is gaining popularity due to globalization and global movement of people to work in different parts of the world. Like any other electronic channel, the challenge of insecurity remains a great hindrance to embracing of this channel of distribution.

Mobile financial services Apps: these are on great increase in Kenyan market. They are regulated by central bank and mainly majors on giving credit to customers. Apps such as Tala Branch, Zenka,

ipesa, Saida etc. are downloaded from google playstore and have become a major player in delivering financial services to customers.

Review questions

1. What is an electronic channel of financial services distribution?
2. Critically examine pros and cons of electronic channel of distribution for financial products
3. Discuss security concerns for internet banking faced by financial services consumers
4. Evaluate popular electronic channels for financial products distribution

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