MARKETING OF FINANCIAL SERVICES

Lecture Eight

Communication and Promotion of Financial Services

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WEEK EIGHT

8.1 Introduction

Welcome to week eight lecture! The lecture focuses on promotion of financial services. Promotion is the most outstanding element of marketing mix. Many people think of marketing as similar to promotion and are also aware of commonly used promotion tools. In this lecture we will focus on the ways in which financial services marketers promote their financial products and services. We will examine adverting, sales promotion, personal selling, and public relations as some of the tools used among others

8.2 Intended Learning Outcomes

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

a) Describe marketing communication process
b) Discuss factors that influence promotion of financial services
c) Examine key tools used in promotion of financial services
d) Discuss use of fear in promotion of financial services

8.3 Meaning of Communication

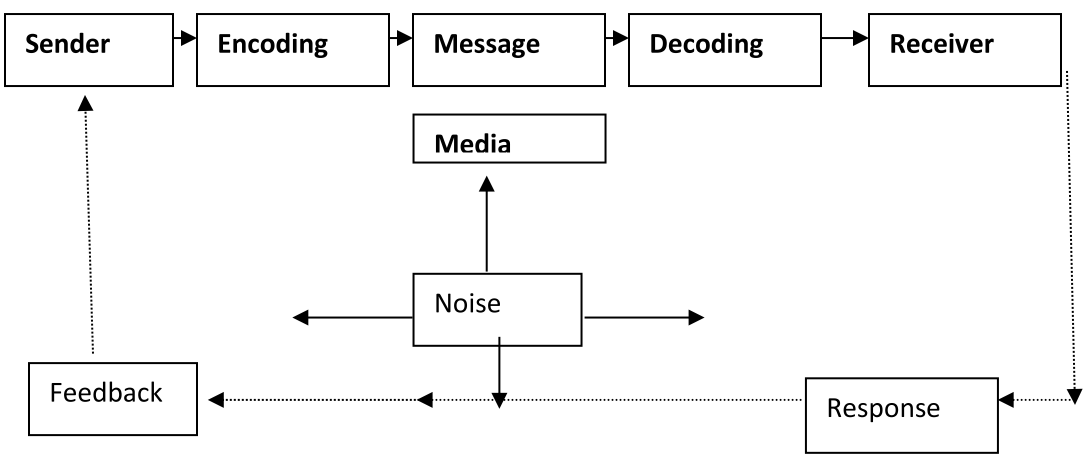
We begin this lecture by looking at the meaning of communication. The term communication and promotion will be used interchangeably in this lecture. Belch (2001) defines communication as a process of passing information and understanding from one person to another which may be done orally, in written form or through gestures and facial expression. As for promotion, it is communicating information between a seller and a potential buyer to influence attitudes and behavior. For us to understood marketing communication and promotion we need to review the communication process diagram presented in the next page as figure 8.1.

From the diagram, the sender is the financial institution sending the message to its current or potential clients. This could be done through marketing communication tools such as advertising, sales promotion or even through publicity. For effective communication the financial institution communicating to its customers and public must be trustworthy and the message must be attractive and persuasive enough to the customers and must also seem to offer a real reward. The financial institution must make effort in encoding which involves combination of symbols, pictures, and words to be able to package idea in a way it can be transferred to potential audience. This leads to formation of message which can now be transferred through communication channel to the potential clients. It may take the form of advertisement especially in marketing of financial services.

Once the message has been packaged it must be transferred through a medium which is a means of carrying the message from the source to the receiver also referred to as media channel such as TV, radio, newspaper s, trade journals, face to face, billboard among others. The choice of appropriate medium is paramount for effective marketing communication. Once the message is sent to the audience, it must be able to make meaning out of it through interpretating symbols, pictures and words, a process referred to as decoding. The marketer must ensure that the symbols used are well understood by the financial client.

The receiver in this context are customers and potential customers who receive the message from the financial institution. They will have the initial reaction which is the response to the message. This response could be liking or disliking either the message or the brand being promoted. The customer or potential customer will then send feedback to the financial institution which could either be appreciation or criticism to the financial institution offering. The marketer must consider all feedback whether positive or negative. The process of communication is often affected by noise which distortion in the communication process, that results in the receiver getting a different message than the one the sender sends. The marketer must work to reduce the noise.

Figure 8.1 Simple communication model



Source: adopted from Belch G.E; Belch G.E & Belch M.A (2001), Advertising and Promotion: An Integrated Marketing Communications

8.4 Roles of Communication in Marketing of Financial Services

The roles of marketing communication may be summarized in three different ways. First to the customers: marketing communication is meant to assist the financial institution in informing, acquisition, and retention of customers in the financial institution. The commination informs customers of new products, new services and reminds them of old products that are still in existence in financial institution. The message must be persuasive and well targeted to accomplish this role. The medium used will depend on the target audience, but television, radio and billboards are commonly used by financial institutions.

Second to staff of financial institution: these will include employees who are expected not only to be aware of the new products or services being marketed but also pass the message to potential customers. The staff must be trained on new financial services features, characteristics, and benefits. They must be educated on how customers can subscribe to them and terms and conditions of usage. This process is often referred to as internal marketing and must be done with an aim of ensuring that employees buy into the new products.

The final marketing communication role is to build stability of financial institution through brand building. The firm communicates to the public and all its stakeholders through corporate communication, public relations, and publicity. This ensures the firms position on certain matters are clarified and the true image or the brand of the firm is protected. Financial institutions are known to use publicity to promote new products and inform the public on new development.

8.5 Factors Influencing Promotion of Financial Services

Promotion of financial services is influenced by a variety of factors. These may include characteristics of services**,** perceived risk**,** credibility of information sources**,** minority of consumers in the market**,** similarities of products and regulations as discussed in this section.

Characteristics of services such as intangibility, perishability and variability present a great challenge to marketing of financial services. The marketer must find ways of addressing these challenges to convince customers to purchase his products. Mittal and Baker (2002) are of the opinion that in order for a marketer to overcome the challenges paused by these characteristics the financial service marketers can use various advertising techniques such as showing physical components of service and service environment, presenting service delivery process, displaying benefits gained from the service, presenting customer testimonials, using metaphors tangible in nature, citing independent sources, documenting and citing statistics regarding service performance, and presenting company's achievements among others.

Promotion of financial services is also affected by perceived risks such as financial risk, time risk performance risk, social risk, and psychological risk. The financial service provider must endeavor to reduce these risks by offering guarantees, making the service more tangible, offering a free or reduced-cost trial period for a service, employee training so that they can provide standard services and through employee compensation.

Credibility of source information is another factor that influences promotion of financial services. Financial services are considered a very sensitive area and every customer want to deal with someone they can trust. The institutions mainly use their chief executive officers, and other trusted opinion leaders in society to speak about their brands. Minority of consumers in the market are also a major consideration in promotion. The institution must show inclusivity in the process or will be deemed insensitive to the target audience. Similarities of the product also affects consumers perception of financial products being promoted. The marketer must endeavor to show distinctions between the various product features through appropriate marketing communication since the products are intangible.

Regulations of the industry and of the country affects the promotion of various financial products. In some countries promotion of services is not allowed at all while in others comparative advertising or use of children in promotion is the one not allowed. The marketer must be aware of these issues revolving around advertising in developing his communication message. Other factors that influence marketing communication decision include the type of the product market, stage of consumer readiness and characteristics, product life cycle and company position in the target market.

8.6 Steps Followed in Developing a Financial Services Marketing Communication Strategy

Developing of a promotional strategy follows known steps. These include defining the target audience, determining the objectives, designing the communications, selecting channels, establishing the budget, deciding on the communications mix, measuring the results, and managing integrated marketing communications (Kotler 2006). These steps are discussed below.

1. **Defining the target audience.** A clear definition of target audience is the first step in effective marketing communication. The potential audience may include potential buyers, current users, employees, influential groups, and the public. The choice of tool to be used will mainly depend on the target audience. For instance, to communicate to the public, public relations or publicity will be more appropriate.
2. **Determine communication objective:** This step involves decision on what the company want to achieve. This could be creating awareness of the new product offering and the brand. The objective could also be to remind customers of the product benefits, build customers brand preference and enhance company image. It could also be aimed at encouraging repeat purchase or reinforce previous promotion activities. The financial services marketer must work towards a clear objective which informs the type of communication to be used.
3. **Designing the communications:** the marketer must decide on the kind of appeal to use in communicating to his target audience. The appeal could be rational, emotional, or moral. Rational appeals are where the marketer stresses facts about the brands or services being promoted. He gives more information on services features and benefits and expects the customer to decide based on these facts. These may include problem-solution ads, service process demonstration ads, comparison ads, and testimonials among others. The marketer can also use emotional appeals where he may use humor, fear and even chock advertising. Moral appeals present messages inform of values that the society may uphold dearly.
4. **Selecting the channels**. This decision involves determining channels of communication to be used in communicating the message to the target audience. The channel could be personal where there is person-to-person and person-to-audience contact with immediate feedback. They could use tools like personal selling or communication through telephone, social media, and emails. Non-personal communications channels would involve non personal means such as broadcast media (television, radio), print media (newspapers,

magazines), display media (billboards, posters, signs), electronic media (web page, CD-ROM, videotape), sales promotion, events, and publicity.

5. **Establishing communication budget.** This involves a decision on appropriate spending on promotion. Promotion expenditures must be seen as an investment and therefore the need to track returns on investment. There are generally four methods of setting advertising budget (Kotler 2006).

a) Affordable method. Marketers set the promotion budget based on what a company can afford. It is not a very good method since the company may not treat this spending as an investment.

b) Percentage-of-sales method. The budget is set as a certain percentage of current or anticipated sales. This method is simple to use and links sales to promotion though it is accused of treating sales as the cause of promotion rather than as the result.

c) Competitive-parity method. This is where the financial institution will estimate what the competitor is spending and spend almost similar amounts. The method is appropriate for it puts the firm within the industry range and may help avoid over or under spending.

d) The final method is objective-and-task method. The budget is first set to determine objectives and tasks needed to achieve these objectives and estimate costs of performing specified tasks. The sum of these costs constitutes the budget. The method is hailed for treating promotion as an investment, being logical and rational also and promotion to results.

6. **Determine the communication mix.** This involves combination of marketing communication tools in such a way that the firm reaps maximum benefit. The firm can combine both personal and non-personal communication.

8.7 Promotion Mix for Financial Services

The promotion mix for financial services refers to a combination of marketing tools used to communicate the marketer's message to achieve the company's communications objectives. There are a variety of tools to choose from and come up with the most appealing combination. These tools are briefly discussed below.

a) **Personal Selling:** this is the use of salespeople to communicate the financial institution message to both current and potential customers. The customers may be met within or without the service facility. Personal selling is significant to a financial services marketer as it allows for personal interactions between sales staff and customers. This way, customers get a relatively high degree of personal attention, the message is highly customized, sales force gets feedback quickly from their customers and is also useful in building and maintaining the relationship with customers. The greatest undoing of salesforce is high cost involved in getting right salespeople and maintaining them.

b) **Advertising:** this is tool for non-personal communication aimed at the mass. Financial service provider use advertising a lot as it enables the firm to reach mass within the shortest time possible. The marketer may use broadcasting, outdoor, print and even virtual advertising through websites and social media to deliver the message. Advertising is especially useful in building a brand and reaching the mass. It is however costly and present a challenge in selection of appropriate medium to use. Grove Pickett and Laband (1995) notes that ads for services contain more information on price, warranties, documentation of performance, and availability than ads for goods.

c) **Direct Marketing:** This is use of tool such as direct mail, catalogs, telemarketing, e-mail, and mobile telecommunications. The strengths of this methods are ability to send targeted message to specific customers, uses modern technology, relatively cheap and marketer can measure the effectiveness of their marketing campaign. It is also known to improve customer satisfaction though the marketing must maintain an up-to-date data base for all his clients.

d) **Sales Promotion:** This is use of free samples, coupons, discounts, gifts, and competitions with prices. It is not very popular in marketing of financial services but still in use. Sales promotion is designed to increase sales within a short period usually two weeks. Sales promotion is regarded due to the fact that it adds value to the market offering, encourage customers to make buying decisions, and increase sales during periods when demand is likely to be low. It is however cumbersome to administer.

e) **Public Relations:** this is popularly known as PR and is a technique aimed at communicating to all financial institution stakeholders about the company and its products. PR is carried out through activities such as press releases, press conferences, obtaining testimonials form public figures, community involvement, fundraising, and sponsorship of sporting events among others. The PR team present information about a company, organizes special events, influence key decision makers to promote favorable legislation and regulation, educate and train important target markets, advise management about public issues, and sponsor activities to publicize specific products all of which build company image, reputation, and credibility.

f) **Digital platforms:** this is use of e-marketing strategies to communicate to customers and other stakeholders. This may involve company's own websites and online advertising such as email and chat rooms banner advertising, pop-ups and click through, and search engines. Online advertising is known for providing information about a company and its products, building company's image, building, and maintaining relationships with customers, placing orders and making payments as well as gathering information about customers.

g) **Social media:** the use of social media has gained a lot of interest in the recent past. This is use of social media platforms such as twitter, Facebook, Instagram, Telegram, WhatsApp among others to communicate about the financial institutions. The use of mobile text messages has also become important especially in the developing countries where internet connectivity may not be as high.

h) **Word of mouth:** this is the most effective way of communicating to customers about financial services and products. It occurs when satisfied customers choose to pass the information to other potential customers. Financial institutions can stimulate word of mouth by presenting testimonials and references from satisfied customers, offer incentives to existing customers for persuading new customers to buy a service, and create exciting promotions to make people talk to each other about the services provided by a company as well as through viral marketing.

i) **Corporate design.** This is use of company's features as logo, uniforms, corporate colors, stationary, equipment, and building interior to pass a message to customers. Corporate design helps in providing a firm with visibility, expresses its values, and contributes to the brand image. Corporate design, corporate communication corporate behavior makes up corporate identity which is a key to promoting a company and distinguishing it from its competitors.

The way a financial institution will combine these tools will determine the degree of success in marketing communication. The financial institution must strive to achieve integrated marketing communication which is communication process that entails the planning, creation, integration, and implementation of diverse forms of marketing communications (ads, sales promotions, publicity releases, events etc.) delivered over time to a brands targeted customers and prospects. Integrated marketing communication aim is to ultimately influence or directly affect the behavior of the target audience.

8.8 Review questions

1. Describe the meaning of marketing communication in financial services context

2. Citing relevant examples, discuss the roles of promotion in financial services marketing

3. Of all factors that influence marketing communication discussed in this lecture which one is the most significant and why?

4. With the aid of a diagram, discuss steps followed in developing a marketing communication strategy

5. Which is the most used tool of promotion for financial services and why?

6. Discuss application of integrated marketing communication in marketing of financial services

References

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