

# **MARKETING OF FINANCIAL SERVICES**

## **Lecture Twelve**

### **Corporate Financial Services Marketing**

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## WEEK TWELVE

### 12.1 Introduction

Welcome to week twelve lecture! It is my joy to have you in this second last class of our lecture in marketing of financial services. In all the other lectures, we have focused on how financial institutions market their products to individual customers. In this lecture however, we want to focus on corporate customers. Its important to note that corporate customers are often far much profitable and so financial institutions often dedicate certain highly qualified staff to deal with them.

### 12.2 Intended Learning Outcomes

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

- a) Differentiate corporate and personal markets for financial services
- b) Discuss corporate financial services buying behavior
- c) Evaluate corporate banking relationships

Corporate financial services marketing entails the procedure followed in selling of financial products to corporate clients. The process follows under industrial marketing or business to business marketing. Corporate financial markets possess some distinct characteristics which make it different from the personal market. It is necessary to view corporate customers differently to be able to serve them efficiently and effectively. Marketers must understand how companies and other corporate clients select their financial service providers, the criteria used and the factors that influence this process.

### 12.3 Difference between Corporate and Personal Markets

Kagira, and Kimani (2010) have outlined the major differences between a corporate customers and personal customers. Similarly, Reeder (1991) had made a clear distinction between a corporate and individual customer. These distinctions inform the basis for this discussion.

- Greater sales volume: this implies that corporate clients make far much greater purchase of financial products compared with individual customers and therefore need to serve them well and effectively.
- Few buyers: the corporate clients are not as many as individual clients. This implies that the financial institutions would want to attract and ensure they keep the ones they have acquired because they are not easy to get.
- Close supplier consumer relationship: This implies that corporate financial customers maintain closer relationship with their financial services providers which means greater attention and detailing is required in dealing with them.

- More direct channels of distribution: corporate customers hardly work with agents but prefer working with the financial services provider directly so as to be able to negotiate terms and conditions of relationship.
- Professional buying: the purchase of financial products is mainly done by professional, who constitute a group referred to as a buying center. Similarly, the financial institution must engage well trained personnel in dealing with corporate clients.
- Multiple buying influences: the decision to get financial service from a certain financial institution is influenced by many players in the organization. This might include the chief executive, finance director and human resource director. This understanding equips the financial service provider with understanding of whom they are dealing with and how to win them to their institution.
- Complex negotiations: the negotiations involved in buying financial products are normally very complex. This is because of large sums of money involved and varying terms and conditions of service. To give a loan to a corporate client is very complex and requires proper understanding of the procedures involved.
- Reciprocity is another feature of this engagement. The financial services provider may want to sell products to a stationary or ICT company which on the other hand will place a demand that the financial institution also buys stationary or ICT services from them. Though this may not be a legal requirement, it informs what happens in marketing of financial services to corporate clients.
- Emphasis on personal selling: to win corporate clients the financial services marketer does not mainly work with advertising or direct marketing but with personal selling. This is because of the need for close relationship with his clients.
- Other distinguishing characteristics include balance of power where oligopolistic customers have more bargaining power than financial institution, mutual interdependence where problem solving approach is mainly used and network relationships.

#### **12.4 Types of Corporate Customers**

Financial service corporate customers have many financial need requirements and expectations. Their needs may differ according to the type of organization, the type of business and the size of business among other things. Their main needs include cash accessibility, deferred payment and money transmission among others. These corporate customers may include the following:

- a) Producers: producers or manufacturers buy products or services for use in the production of other products or services or for use in the daily operations of the firm. The financial services provider is often called upon to give credit to producers as they purchase and process the raw materials into finished products. Cash requirement is especially important if they are dealing with fast moving goods.
- b) Resellers: these are companies that buy products and sell them to willing buyers. They include wholesalers, retailer, supermarkets, industrial distributors among others. These

have high requirement for cash on daily basis and the financial institution have to market to them fast moving financial services such as overdrafts as they require liquid cash more than individual customers.

- c) **Government:** this is one of the largest financial services customers. Both the national and local governments have accounts within financial institutions and deposit and withdrawal large amount of cash. The main challenge with this customer is delayed payments but it is guaranteed that they will honor their financial obligations in the long run. Government is the largest employer and financial institutions process salaries for these employees, earning large commissions on the same.
- d) **Other institutions** include non-governmental organizations, political parties, educational institutions, community-based organizations, international organizations and many others all of which require financial services.

## **12.5 Corporates Financial Services Buying Behavior**

In this section we examine the buying behavior displayed by corporate clients and how the financial services marketer may facilitate these processes. We will examine two aspects of this process: the roles played by various player in the buying center and the steps followed.

### **a) Buying center**

Purchase or selection of financial services provider to a corporate is normally done by a buying center. The buying center constitutes an organization committee usually set to help in this decision process and the financial services marketer needs to know the composition of this group for him to market his products effectively. Decision on who will be the bankers of the corporate customers, who will offer insurance services and perhaps run the pension schemes for the corporate are crucial and the marketer needs insight into this decision-making process as well as who are to be involved. The buying center normally constitutes the following players who would play different roles (Reeder, 1991):

- **Initiators-** These are people who begin the purchase process when they realize that the organization has a financing need. For example, the human resource director of a firm may want to have employees trained on a new development in the industry which might necessitate acquiring a credit from a financial institution for the same. The marketer should seek information on the financial need for the organization so that he can prescribe the best solution.
- **Influencers-** These are individuals in the buying organization that may influence the buying decision and have a say in the ultimate decision. In the above example, this might be the chief executive or the finance director who will influence the direction taken in the matter. Their influence may be based on the knowledge they have or position they occupy.
- **Deciders-**These are the people who decide whether to carry on with the decision or not. They are the ones who make the main consideration and have the power to approve or not to. In most corporate, this decision is left to chief executive officer or finance director.

- Purchaser- This is the person who places the purchase order or the person who goes to financial institution to negotiate on the same. For instant, if the corporate want to buy group insurance, the human resource director and the financé director might be the ones charged with this responsibility.
- Users-These are the people who will be using the purchased product or service. These could be employees who will be benefitting from the insurance services and their concerns and interest must be taken into consideration by financial services provider.
- Gatekeepers-These are people who knowingly or unknowingly control the flow of information. They could be secretaries who take minutes or personal assistants who have access to deliberations made by the buying center. The financial services marketer must maintain a good network of people working with their corporate clients so that he can always get to know the financial needs of these corporate clients and how he can prescribe better solutions in comparison with competitors.

#### **b) Steps in corporate buying behavior**

After understanding the people involved in the corporate buying center, the next step is to examine steps followed in corporate buying. These steps are outlined below.

- Problem recognition: the corporate customers buying process begins with problem or need recognition. This could be triggered by things within the firm like an insurance service provider does not meet the corporate expectation. The need could also be triggered externally by marketing activities such as promotions or opening of new branches by a financial service provider.
- General need description: this is where the need is described keenly, and proposed solution options are identified. This follows discussions within the corporate and with all concerned parties. Potential suppliers of the needed financial services might also be involved. The buying criteria might also be identified.
- Product specification: the corporate customers narrow down the financial product needed to a specific one by considering the best option in the circumstances they are in.
- Supplier search: once the specific financial product needed by the corporate is clearly identified the next step is to identify potential suppliers of the product. The search may be done from past encounters with financial institutions, online search or even examining directories. Once various financial services suppliers have been identified, then, they must be qualified. This is done by examining the purchase criteria set for this particular purchase leading to selection of potential suppliers.
- Proposal solicitation/acquisitions and analysis of proposal: this is the stage in which the corporate requests for specific proposals on supply of financial services needed. The financial institution needs to send a marketing proposal that will win them the contract. The person charged with presenting the proposal must ensure that the paper meets the specified criteria to increase chances of winning the contract.

- Supplier selection: this is done by members of buying center who review the proposal against the set criteria. Among the main considerations include quality of products and services, time delivery, ethical corporate behavior, honest communication, competitive prices, performance history and reputation of the supplier.
- Order routine specification: in this stage the selected supplier is furnished with information quantity needed, expected time of delivery and other specifics. The financial supplier might also be given a long-term contract if he proves himself.
- Performance review/evaluation: this is where the service provider is evaluated to determine whether they are meeting expectation or there is need to review the terms and conditions of services.

The financial services provider must make all the effort to ensure that he does not only satisfy the client but also exceed his expectation. The marketer must never disappoint a corporate client since loosing one may be such a loss to a financial institution.

## **12.6 Corporate Banking Relationships**

Corporate financial service marketing requires both buyers and sellers to become interactive participants in the relationship (Tina, 2000). The relationship is frequently long term, close and involving a complex pattern of interactions both between companies and within each company. The interaction between the bank and the client mainly involves personal bankers and finance director or treasurer of the company. This relationship is often influenced by several factors as outlined below:

- Competition: If the client has access to multiple banks/ financial institutions, the financial service provider must make all effort to build and establish a harmonious working relationship with this client. He must be aware of what competitors are offering and strive to beat them to be on the upper side of the game.
- Need for complex financial products: If there is a need for other complex products, the relationship potential is likely to be greater because the ability of a wide range of institutions to offer complex products may be reduced, leaving the company facing fewer supply alternatives.
- Need for flexibility: Unconventional or complex businesses may force companies to place greater value on the banking relationship due to their need for customized skills and services.
- Financial health: If the company is less strongly capitalized, has poor earnings, or may be involved in risk ventures, this will place greater emphasis on the banking relationship.
- Attitude towards management of the financial function: This relates to decisions over whether to make or buy services. If services are bought from financial institution, the company will be likely to place greater emphasis on the relationship.

## 12.7 Small Business-bank Relationships

In developing countries like Kenya, the growth of economy is fueled by activities of small businesses usually referred to as small enterprises. These are generally small clients but have become very significant to financial institutions. They work with banks and also alternative financial services providers such as savings and credit cooperatives (SACCOs) and microfinance institutions.

In the past banks were the main sources of funding, making small businesses very dependent on them. However, the relationship was not often perceived as mutually dependent, as banks were quick to call in loans and drop small businesses in times of trouble. This position has been challenged by the role small enterprises play in economic developments and advance in technology. Butler and Durkin (1995) noted that poor small business-bank relationships may be explained by the differences in structure and organizational culture between large commercial banks and small firms as well as their perceptions of each other. These problems are however reducing as each of these players see the need for each other.

## 12.8 Review questions

- a) Clearly differentiate between corporate and individual financial customer
- b) Examine the roles played by various individuals in the buying center
- c) Critically evaluate the steps followed in selecting bankers for a corporate customer

## References

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