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Using Marketing Performance Appraisal to Develop Bank Marketing Strategy

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Abstract

The 'strategic posture' of banks depends partly on the competitive environment, partly on its allocation of marketing resources. Strategic posture is determined in the context of the strengths, limitations, and corporate objectives of the bank. This paper presents different marketing strategies for bankers, suggesting that the selection of appropriate strategy should be based on the internal conditions and external forces facing the firm. The selected strategy should then be implemented by a prudent marketing plan. If a bank's marketing strategy is to be effective, due attention should be given to the marketing organizational structure and its department responsibilities. Finally, the study suggests several alternative criteria for evaluating the performance of the selected marketing strategy. Dynamic conditions and strategic objectives should be continually appraised in order that bankers might retain the market advantage.

Key words: Performance appraisal, marketing, marketing strategy, bank, strategic objectives.

Introduction

The literal meaning of the word strategy is "the art of the general" deriving from the ancient Greek word for General, 'strategos'. Prior to Napoleon's time, the word had a military connotation, implying the art and science of directing military forces to defeat an enemy or to mitigate the results of defeat. Despite its ancient heritage, 'strategy' has found its way into the management literature of the past decade or so (Largan, 2000).

For bankers, the term strategy has come to mean the type of decision made by top bank managers concerning the relationship between the banking organization and its environment. Strategy describes the framework and direction for overall marketing organization management. A banking firm strategy is a plan for action that determines how a banker can best achieve his goals and objectives in the light of the existing pressures exerted by competition, within its limited resources.

According to Osuagwu (2002) (Table 1), the four major stages in the formulation of a bank service marketing strategy are as follows:

1. Identification of target market and customers' needs.
2. Formulating marketing objectives.
3. Defining constraints on achieving objectives (particularly competitive and environment constraints).
4. Allocation of marketing resources.

Table 1: Major stages in formulating marketing strategies for bankers

Stages	Examples / Elaboration
1. Identification of target market(s)	Segmentation by customers' occupations, social class, geographical position, etc.
2. Formulating marketing objective(s)	Satisfaction of customers' needs; sales volume; profit; risk spreading; depart mental perfomance
3. Defining constraints (largely non-controllable by the individual banker)	Macro environment: Economic, political, social and cultural conditions, government, legal and technological forces, competitive situation.
4. Allocation of resources (via a. product b. place (distribution) c. promotion (advertising) d. price	a. product. Eg. types and standards marketing mix) of service variety of products b. place (distribution). Eg. Direct or indirect channels of distribution, sales peo ple etc. c. promotion (advertising). Eg advertising in appropriate media, promotional litera ture, banker imaged. price. Eg., package deals, special discounts, group discounts etc.

The objective of this paper is to examine how banks can utilize performance criteria to assist marketing officers in the development of competitive marketing strategies. The paper begins with a brief introduction, and then a review of literature on various aspects of bank marketing strategies (including factors affecting the marketing of bank services; competitive marketing strategy; marketing strategy and organizational planning; and performance appraisal). Finally, a conclusion is given.

Factors Affecting the Marketing of Bankers Services

Managers in virtually all industries understand that providing quality customer service is a key strategic component for firm profitability (Rose, 2003). The importance of service and delivery, and its impact on improving customer satisfaction and retention, sales and markets share, and corporate image cannot be overstated. Increasingly, one of the principal methods for improving levels of service individual firms provide their customers include increased capital expenditures on service delivery technology. As with most other service providers, banks have moved quickly to invest in technology as a way of controlling costs, attracting new customers, and meeting the convenience and technical innovation expenditure of their existing customers (Achumba, 2000). The special characteristics that make the marketing of banking services/ products distinctly different from manufactured products are as follows:

Perishability

A large number of bank services/products are direct, i.e. they cannot be inventoried. The perishability of bank services leaves the manager of a bank without the important buffer that is available to manufacturing managers. Therefore pricing (as well as other marketing tools, e.g. distribution, advertising, promotion, etc.), has a paramount importance and role.

Inseparability

A high degree of bank-client interaction exists in the production and offering of bank services, which is a mixed blessing. While the customers are indeed a source of productive capacity, the accommodation of customers' need, the quality of customer service and service delivery systems (Koch and Macdonald, 2003), all drastically affect pricing via the higher costs of providing an effective/ localized banking distribution system and /or substantial spending in advertising and promotion.

Fluctuations in Demand

Fluctuation in the demands for certain bank services is even more important than in manufactured markets. The demand for some bank services is fairly elastic, i.e. a substantial increase/decrease in personal disposable income, leads often to sharp changes in savings/investment, leading to intense competition and the need for using the price tool. Also, accelerated technology, as well as social and competitive changes continually reshape existing bank markets.

Labour Intensive

The banking industry is labour intensive, and therefore generally more difficult to control than other industries. Because it is labour intensive, it is very important to check on performance of salespersons economize the use of personnel.

The Impact of Government Legislation

Legislative requirements and restrictions exert a considerable influence on the size and scope of the market. This influence can take several forms ranging from control of the number of branches operating in a market, the type of contracts funded, and detailed policy conditions. Therefore, banks have a relatively free hand in their operations, as long as all the basic legal requirements have been met.

Size and Distribution of Population and National Income

Generally, population size might be expected to have a direct influence on banking markets and investments. Other elements, however, such as the density and distribution of the population, as well as demographic and socioeconomic factors should be taken into consideration. As real income increases rapidly, personal consumption tends to increase. Personal savings are channelled to financial institutions like the stock market, insurance, while others to bank investment. Consequently, the potential market for bank investment is larger when national income increases. The major problem then is competition with other financial institution and inflation.

Competition

Aggressive competition increasing cost of services and administration, led to the elimination of small, unprofitable commercial banks and, to difficulty in offering personal services. Thus, according to Oluyinka (2003) in order to calculate their costs accurately, achieve lower operational costs, and expand their service capability, banks tended toward amalgamation and invested heavily in computers and other ancillary equipment. In order to combat competition, wider cover for little or no extra interest (pricing policy) was offered. Other channels of distribution for reaching the public (e.g. direct selling or mail orders with more economically packaged contracts) were also used.

Inflation

Most of the countries in the world have, and are still facing, a period of inflation and high taxation, reducing purchasing power (Rose, 2002) of many potential bank customers. Thus, a growing awareness for the need to budget as well as to invest wisely impacts banks and banking market.

Competitive Marketing Strategy

Kotler (2003) states that a company's marketing strategy depends on many factors, one of which is its size and position in the market. From this assertion, he suggests that one method of classifying marketing strategies is to rank the firm against its competitors and establish whether firms are market leaders, challengers, followers, or niches. In effect, these are behavioural strategies ordered in relation to the company's market share.

Market-leader strategy

This strategy can only be employed by very large, dominant banks. In addition to having strong distribution networks, they enjoy the benefits accrued from economies of scale. These benefits, in turn, allow them either to protect their market share or to expand and become even more dominant. By virtue of their size, dominant banks have an influential role in the industry. Promotional activities based on a well-established reputation place them as "guardians" of the industry particularly on prices and promotional campaigns.

Market-challenger strategy

This strategy is characterized by the aggressiveness of the marketing tactics. Typically, banks that follow this strategy seek ambitious growth. They tend to be innovative and opportunistic in their marketing approach, sensitive to changes and development in trade and market.

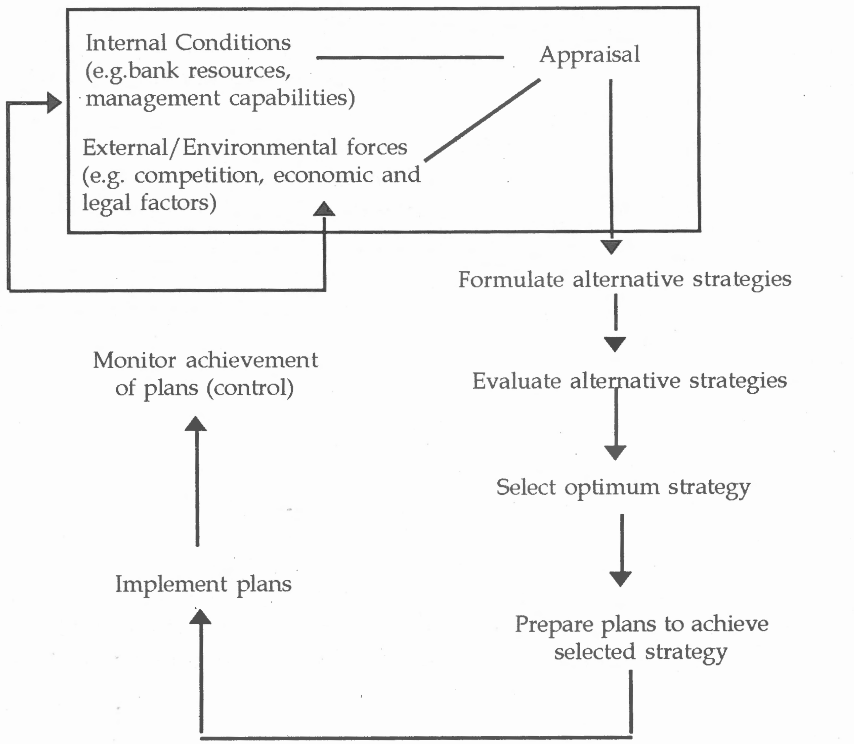
Market-follower strategy

Some banks prefer more cautious tactics, following market leaders. This choice of strategy may arise from the inability of the bank to behave otherwise. Still, others pursue this strategy deliberately in order to achieve long term targets. In general, market followers possess strong management who give priority to profitability, rather than market share.

Market-Niche strategy

Through specialization, this strategy takes advantage of niches in the market. These niches tend to be relatively small and beyond the interests of large firms. For smaller banks however, these niches are both safe and profitable.

Figure 1: Bank Marketing Strategy Plan



Source: Kotler, 2003.

Banks must consider how they can build and protect market positions. This "strategic posture" depends partly on the competitive environment. Service businesses often require different competitive strategies from those of product-oriented commodities. If an enduring bank institution is to be created, some attention must be given to the management of economies of scale, proprietary technology, and reputation of the company (Umoh, 1997). Response to these "barriers" is not defensive; it is necessary for banks trying to achieve its goals.

The selection of an appropriate strategy is based on a careful marketing strategy plan (figure 1). The appraisal of alternatives strategies is based on the internal conditions and external forces facing the firm. These alternative strategies should then be evaluated by board of directors or the banks business policy team and a selected "optimum" marketing strategy is recommended. If accepted, this recommendation should be carried forward and adequate plans (which involve mainly the determination of means, i.e. allocation of resources) to achieve objectives, are undertaken. The board is responsible for implementing the plans and monitoring the achievements.

Marketing Strategy and Organizational Planning

Under current economic conditions, formal banking corporate planning is particularly essential, in order that bank can realistically consider the allocation of resources as a part of its marketing strategy. In addition, an efficient corporate plan is an important tool for decision making throughout the whole organization.

Corporate planning attempts to integrate two organizational approaches - "bottom up" and "top down". If the approach is entirely "bottom up", strategy formulation becomes very difficult. Conversely, if it is simply "top down", employees cannot realistically commit to plans.

Before plans are made, a time horizon, the period in which the firm seeks to optimize its resources-conversion efficiency, has to be fixed (Strickland, 2001). For a bank, the time horizon is usually finite. Planning is done individually by three different departments and then submitted to the general manager and members of the corporate planning boards so that the individual plans can be integrated to form a corporate plan. Banks corporate plans evolve around the main areas on which business effort will be concentrated over the span of the time horizon.

According to Ajayi (1999), planning for a bank involves the following steps:

Environmental Analysis

This analysis aids the formulation of preliminary objectives. Management identifies opportunities and threats within the bank's existing services and customer's needs and desires, especially as related to legal, technological progress and development. The main aims of environmental analysis is to find new opportunities for existing banking services (with new customers or existing geographical expansion); new opportunities to serve existing customers new bank services, and/or new geographical locations; and major future threats to market position and profit margins (Osuagwu, 2002).

Appraisal of Bank Resources

Bank resources include manpower, financial conditions, market position, management competence, and ability to withstand external pressures. This appraisal examines not only strengths and weaknesses of existing resources but inquires into also available future resources and

Several criteria for appraising marketing performance in banks are elaborated in Table 2. While absolute sales and sales analysis correspond to sales plans or quotas, market share analysis compares the performance of sales team individually or against competitors. Cost of analysis has increased in importance lately because of rapidly rising distribution costs. Accordingly, bankers concentrate on sales cost in order to achieve higher profitability.

According to Davies (1997), the types of costs relevant to sales cost analyses are:

1. Natural costs, i.e. those typically found in accounting records, referring to the nature of expenditure, e.g. telephone, car expenses, etc.
2. Functional costs, those costs classified by the purpose of the activity, e.g. costs attributed to contacting particular customers, i.e. travelling costs.
3. Direct cost, e.g. banking sales office expenses.

Certain problems are involved in analyzing and allocating sales costs (Olalusi, 1999). However, despite the cost, investigating a banker's sales performance via a cost analysis approach, can lead to an opportunity to identify areas of corrective action; e.g. unprofitable territories, unprofitable customers, unprofitable banking products, or inefficient sales force.

Conclusions

Service quality is increasingly recognized as being of key strategic value by 'traditional' service oriented industries, such as restaurants, banking, and increasingly, the manufacturing sector. Lewis et al. (1994) indicate the major benefits of strong service which include: customer satisfaction and retention; opportunities for cross-selling; expansion of customer base; development of customer relationships; increased sales and market shares; enhanced corporate image; reduced costs and increased profit margin and business performance.

Any meaningful analysis of bank marketing should be based on the marketing strategies employed by the banker, marketing organization, and control systems. Detailed examination of marketing strategies suggest that they are successive interrelated, and form part of the continuous process of effective marketing management rather than a collection of independent stages.

Effective selling of bank services depends largely on the marketing strategies selected. As the bank market remains dynamic, accompanied by rapid changes in the environment due to advancements in technology, uncertain economic conditions, and inflation, increased attention must be given in the future to the selection of marketing strategies.

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