CHAPTER 12

Marketing Strategies for Financial Services

Introduction

The literal meaning of the word strategy is 'the general's art', deriving from the ancient Greek word for general – *stratègos*. In fact use of the word dates back to at least 400 BC, but it did not appear in writings until the late eighteenth century. 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. Although deriving from an ancient heritage, the term strategy has found its way into financial services management literature in the past decade or so. To banking people, for example, the term strategy has come to mean the type of decision made by top executives and members of the board of directors concerning the relationship between the organisation as a whole and its environment. In other words, strategy describes those critical boundary-spanning decisions that define the framework and direction for overall financial services marketing organisation, providing answers to questions such as:

- In what specific business should the financial services firm be, in terms of mix of services/products offered and customers served?
- What course of action should the organisation pursue, in terms of emphasis, timing, priorities?
- How should resources be acquired and how should these resources be deployed for more efficient marketing operations?
- What major market opportunities are most compatible with the top management's definition of marketing goals, objectives, missions and so on?

The marketing strategy of a financial firm must fit in with its overall objectives. Therefore marketing strategy should be an integral part of the corporate or strategic plan (discussed in Chapter 11).

Formulating a Marketing Strategy

Planning calls for the establishment of objectives and the formulation of strategies. While the objectives indicate what the financial services organisation

A. Meidan, *Marketing Financial Services*
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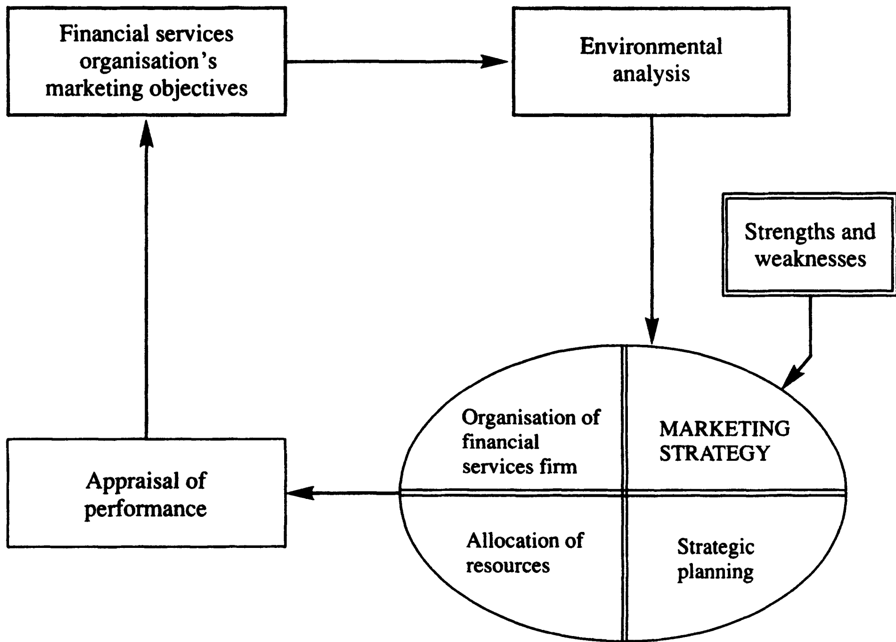

Figure 12.1 The role of marketing strategy in financial services

hopes to accomplish, strategies suggest how the firm will reach its objectives (Figure 12.1).

In other words, strategy is the 'connecting link' between planning and action.

There are several definitions of what a marketing strategy is. Perhaps the most popular one is that of Kotler, which suggests that marketing strategy is 'a set of alternatives, policies and rules that guides over time the firm's marketing effort – its level, mix and allocation – partly independently and partly in response to changing environmental and competitive conditions'.[1]

There are three main stages in formulating a marketing strategy, as shown in Table 12.1. The first stage is to select the target market and identify the firm's marketing objectives. Selection of the target market is based on a number of factors: the services being offered, the accessibility of the market segment and the substantiality of the various (alternative) market(s). Target market needs should be identified and then a marketing plan – part of the financial services firm plan discussed in the previous section – has to be developed.

Table 12.1 Stages in formulating a financial services strategy

Stages in marketing strategy	*Examples/elaboration*
1. Identify target market and formulate marketing objectives	Possible target markets: private, industrial commercial, governmental/public and international customers. Objectives: profit, growth, market share, spreading risk, diversification of services.
2. Defining constraints	(a) Economic, political, social (b) Governmental; legal and technological developments (c) Competitive situation from other banks and/or financial services (e.g. building societies, insurance companies, financial institutions, etc.)
3. Allocation of marketing resources	Via marketing mix: (a) Services (products/services development and differentiation) (b) Price (price policies for the various services the financial services firm offers) (c) Promotion (advertising, publicity and public relations) (d) Place (distribution, coverage, location).

Source: Meidan, 1983.[2]

Objectives are necessary to provide a precise and clear view of the financial organisation's aims and goals, and to provide operational managers with a firm policy guide. The objectives of, say, a bank usually consist of the following:

- *Profit.* A bank's operations are financed mainly by deposits from the public and only a small portion from shareholders. Sufficient profits have to be made to protect the capital and interest of depositors and enhance the capital and dividends of shareholders.
- *Growth and size.* Growth may be an objective because size often gives competitive advantages and may be an indicator of vitality. Yet size does not always bring economies of scale, nor does it necessarily maintain profit at the required level.
- *Market share.* An increase in market share often brings competitive advantages; however, usually the objective is a larger share of selected customer groups, and not of the total market.

In addition to profits, growth and market share, many banks might be interested in risk spread and diversification. While some of the objectives may appear important in the short term, in the long term they ultimately contribute to the maximisation of profitability.

In order to identify target markets, the first step is to examine the major environmental trends, opportunities and threats facing the bank, as indicated in Table 12.1. Each potential market should be examined in detail in order to define its major characteristics.

Some part of each market may be more attractive to the bank, either because customers' special needs have been overlooked, or merely because the bank is more suited to that type of need. Market segmentation should be on the basis of differing customer needs, but it is often necessary to use less market-oriented variables such as demography, geography or behaviour.

Having determined market segmentation, a target must be decided for each market. The choice of target market depends on resources, product homogeneity, product stage in the life cycle, market homogeneity and competitors' strategies in the various segments.

Having selected the target market, the next stage is to develop a general idea of what kind of offer to make to the target market in relation to competitors' offers; that is, to allocate the marketing resources. This is done via a marketing mix (place, promotion, products and services, and price policies).

Marketing resources are allocated in the light of an environmental analysis and appraisal of the financial service organisation's resources. Environmental analysis aids the formulation of a preliminary set of objectives. Management should first try to identify future opportunities and threats within the organisation's existing services and customers. Attention should be paid to signs of a change in customer needs and desires, especially as related to legal matters, technological progress and development. The main aims of analysing the environment are to find (1) new opportunities for existing financial services (with new customers or geographical expansion), (2) new opportunities to serve existing customers with new financial services or in new geographical locations, and (3) the major future threats to market position and profit margins.

Appraisal of the financial organisation's resources refer to and include assets (resources), personnel, market position, management and technical competence, and susceptibility to external pressures. The purpose of this appraisal is to examine not only the strengths and weaknesses of the existing resources, but also what resources might be available in the future and possible ways by which future resources might be generated. This provides the basis for the planning of future marketing strategy, as previously explained (Exhibit 12.1).

Most financial firms nowadays offer similar services at similar charges and tend to go in for image building in an attempt to make customers familiar with a particular aspect of their organisation. The Midland Bank, for example, has attempted to promote itself as 'the listening bank' via an intensive television advertising campaign. Furthermore, because of this campaign, potential

Exhibit 12.1 How insurance companies decide on possible marketing strategies

In order to decide on a possible marketing strategy, insurance companies often require information and decision making on questions such as the following:

- From what sources does the insurance company expect to acquire the additional volume growth? Usually, the answer lies in a market research study that investigates potential customers' behaviour, territories, buying preferences and so on.
- What is the anticipated rate of growth (that is, what is, or will be, the company's future market share by sales area(s) and principal lines of coverage)? This again can be obtained through a forecasting study based on information provided by the marketing research department.
- What changes in the sales force (agents and company personnel) will be necessary? This information can be supplied by the planning department in conjunction with the training and sales force management section.
- What role will automation play in the future in dealing with issues such as rate making, insurance policy issue, accounting and statistical operations, claims settlement and so on, and what influence will automation have on future costs and profitability?

customers have become familiar with the Midland's symbol, a griffin, which is helping to build an image.

Image building is only part of market positioning that could assist in strategy. Developing the above example, the customer may perceive all banks as being willing to listen and differing only in their symbols. Positioning aims to help customers to know the differences between competing financial firms so that they can match themselves to the firm that can be of most value to them.

The timing and method of entry into a new opportunity are also crucial. To some extent these considerations may be governed by economic factors or the behaviour of competitors.

Allocation of marketing resources also requires the development of a marketing organisation, information system, planning system and control system that promise to accomplish the financial service's objectives in its target market.

When the target market(s) and the customers' needs have been identified and the marketing objectives have been defined in the light of the environmental and competitive constraints, then – in order to meet the target market needs – allocation of marketing resources should be carried out. This is implemented

via a combination of four sets of variables (called the 'marketing mix') as presented in Table 12.1.

We are now in a position to summarise what a financial services firm marketing strategy is: it is a plan for action that determines how a financial firm can best achieve its goals and objectives in the light of existing pressures exerted by competition and other non-controllable variables on the one hand, and its limited resources on the other.

Of the three stages mentioned in Table 12.1, two are mainly the responsibility of the firm's top management. Only the second stage – defining local (or branch) constraints, particularly in relation to competition – is, to a certain extent, among the strategic functions and responsibilities of the individual branch manager.

■ Types of Marketing Strategy for Financial Services

There are three broad categories of bank marketing strategy: defensive, offensive and rationalisation strategies. Offensive strategies attempt to penetrate new areas, expand geographically, seize market opportunities and adopt innovations in order to make the financial service organisation a leader in its market. The goal of defensive marketing strategies is to protect existing customers and maintain the present market share, either by following the leading financial firm (that is, being a market follower) or by concentrating on a specific customer niche. The rationalisation strategy focuses on cost reduction, either by discontinuing certain expensive financial services (those with too high a cost–profit ratio), by closing branches that are too expensive to operate, or by diversification.

■ Offensive Strategies

There are five main offensive strategies: geographical expansion, market penetration, new market, market leader and market challenger.

□ *Geographical Expansion*

Geographical expansion is conducted by increasing the number of branches and/or acquiring or merging with other banks, insurance companies or building societies. Agencies or satellite branches could also be used. Geographical expansion is a bold strategy because of the heavy costs involved in building or obtaining leases for new branches. Mergers with other financial services are also high-risk decisions. Environmental forces are important factors affecting a geographical expansion strategy. This strategy is also often called a strategy of 'fortification'. Geographical expansion strategy could often be confused with rationalisation strategy (see Exhibit 12.2).

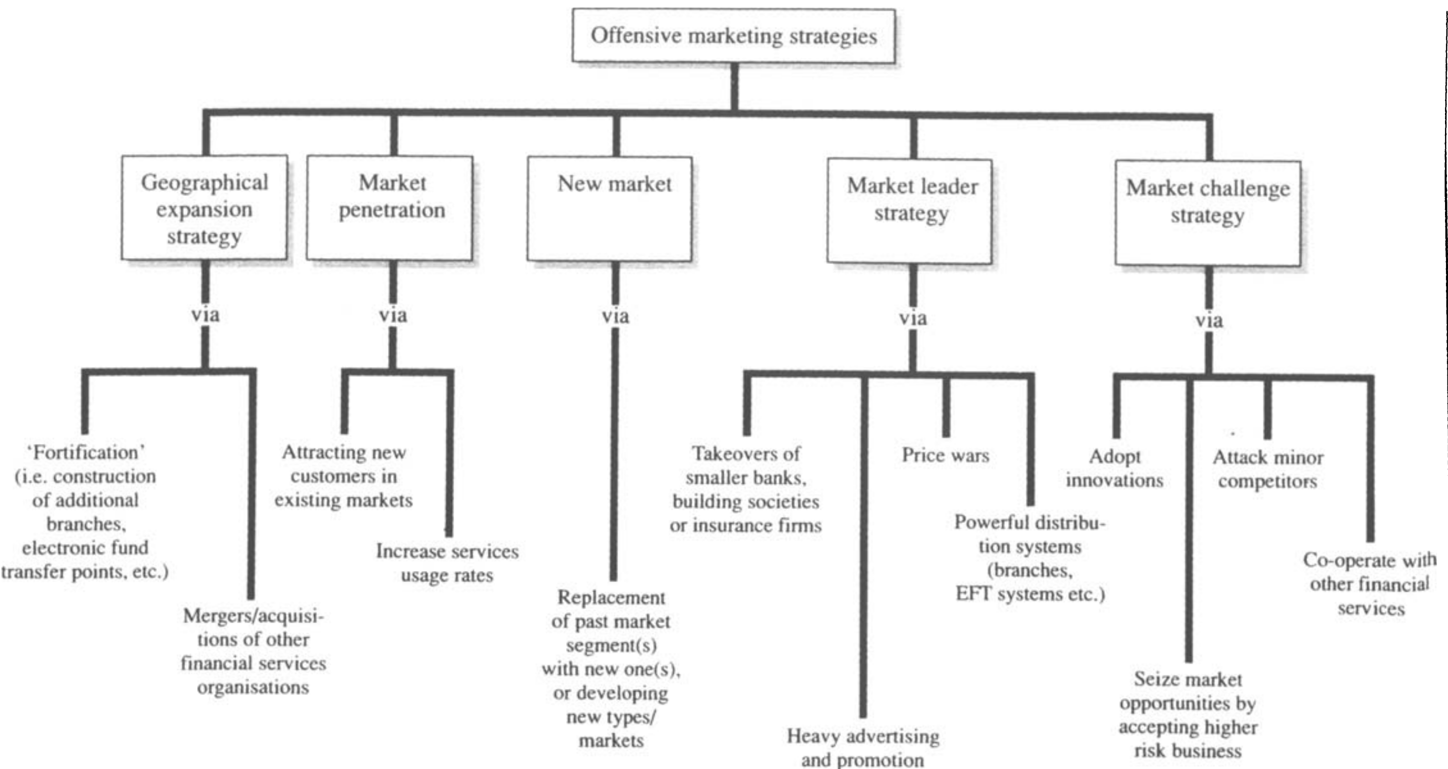

Figure 12.2 Alternative offensive strategies

Exhibit 12.2 Are mergers and acquisitions in financial services geographical expansions or rationalisation strategies?

A number of well-known banks have merged in the last few years: New York's Chemical Bank and Manufacturers Hanover joined forces to form a financial institution with assets of about £80 billion ($125 billion); Bank of America and Security Pacific have recently merged (total assets almost $200 billion); the projected merger of the Midland Bank with the Hong Kong and Shanghai Bank is now being implemented. In the insurance sector Diacon[3] lists some 40 mergers, acquisitions and joint ventures in 1988/89 alone. As a result of some of these mergers a large number of overlapping bank branches will close, leading to a significant reduction in the numbers of staff.

The overall tendency is for an increasing number of bank mergers; it is estimated that this trend will result in the elimination of 9000 of the existing 12000 banks in the USA.

Whilst most mergers and acquisitions – particularly of small financial institutions – have geographical expansion as their main objective, they often lead to rationalisation in the number of bank branches, particularly when the two merged institutions have branches in the same geographical area.

□ *Market Penetration*

This strategy aims at attracting new customers from the market that the firm is already in. It is undoubtedly the most popular strategy among financial services. A bank that has identified its market and the market's needs, and has set formal marketing objectives, is able to plan the marketing mix in the best possible way. A well-planned market penetration strategy will also win new customers through its better understanding of their needs, a situation that allows management to work on important matters such as image, to emphasise the right segments and services, and to make better sales contacts. Market penetration strategy also refers to the increase of the 'usage rate' of its branches and services by new or existing customers in existing markets. The Bradford and Bingley Building Society employed this strategy for over 15 years (Exhibit 12.3).

□ *New Market Strategy*

This strategy is aimed at widening a firm's appeal in order to attract customers from market segments that the financial organisation has not concentrated on in the past. Such a strategy may either attempt to attract new types of customer

Exhibit 12.3 Market penetration strategy at the Bradford and Bingley Building Society

The Bradford and Bingley Building Society pursued a market penetration strategy, becoming the fastest growing society in Britain during the period 1975–80. It achieved this by redirecting its resources away from branch openings towards advertising and selling. In order to expand consumer awareness, Bradford and Bingley launched the successful Mr Bradford and Mr Bingley, but this theme was difficult to use in conveying the benefits of saving within the society. Therefore a marketing objective was set to change certain image perceptions through advertising on television, in the press and on local radio. This was accompanied by an increase in the range and type of investment schemes offered by the society. One of the most successful schemes was the introduction in 1980 of the extra interest account, the idea of which has since been adopted by a large number of societies. Other promotional activities included personal appearances at branches by television stars, stands at consumer exhibitions and mobile branches set up in large shopping centres. Bradford and Bingley's strategy was very successful; in the 1980s the society achieved a growth rate of over 24 per cent in 1981.

Exhibit 12.4 Strategic alliances in the financial services market

As a result of deregulation in the financial services, many banks are currently entering into strategic alliances with other financial service organisations.

Deutsche Bank, the second largest bank in Germany, has recently entered into a joint venture with one of Germany's biggest industrial risk insurers to sell life and employee benefit policies, targeting small and medium-sized companies.

Dresdner Bank – another large German bank – has formed ties with a number of smaller financial firms in insurance and banking.

Allianz Leben – the largest life insurer in Germany – has come to a number of sales agreements with banks, to sell – via its sales force – various banking products, whilst the banks are selling Allianz's insurance products. Such bank-insurance synergies have been spectacularly beneficial to both insurance and banking organisations. The problem in the future is likely to be controlling the funds generated by these strategic alliances and synergies.

in addition to its 'traditional' ones, or it may resolve to replace its past market segment. In order to achieve this end, financial services firms often form strategic alliances (see Exhibit 12.4).

☐ *Market-Leader Strategy*

This strategy can only be employed by very large, dominant financial services firms. In addition to having a strong distribution network, being large the firms enjoy the benefits accruable from economies of scale. These in turn allow the organisations to protect their market shares, or indeed to expand and become even more dominant.

Dominant financial services firms, for example Halifax Building Society, have an influential role in the industry by virtue of their size. Their promotional activities, based on a well-established reputation, put them in the position of 'guardians' of the industry, particularly with respect to prices and promotional intensity.

The market leader's objective is to remain in that position. This objective can be broken down into three sub-objectives: to increase the total market share; to protect current market share; to increase current market share. In order to achieve a high market share, banks often enter into confrontation, that is, conduct promotional and price wars. Alternatively they may form strategic alliances.

☐ *Market-Challenger Strategies*

Market challengers may challenge the market leader by using a 'direct attack' strategy, a 'back-door' strategy or a 'guppy' strategy. The direct attack strategy is usually carried out by major competitors in the same segments, who employ challenging price policies and service innovations. The 'back-door' strategy refers to the utilisation of various market segments, channels of distribution and so on. 'Guppy' strategy means challenging minor competitors in the industry, for example by accepting banking or insurance business associated with the higher levels of risk and harassment (legal or other) of smaller financial firms and so on. Cooperation with other financial advisers or service organisations is another possibility.

The major objective of a financial services organisation pursuing this strategy is to capture the major market share. This can obviously be done by challenging the market leader, other runners-up, or smaller firms. The decision as to which financial services firms to challenge is based on the discovered weaknesses of these competitors. Overall, this strategy is characterised by aggressiveness of marketing tactics. Typically, banks or building societies that follow this strategy are those that are ambitiously trying to grow as fast as they can. They tend to be innovative and opportunistic in their marketing approach and are sensitive to changes and developments in their market and in the trade.

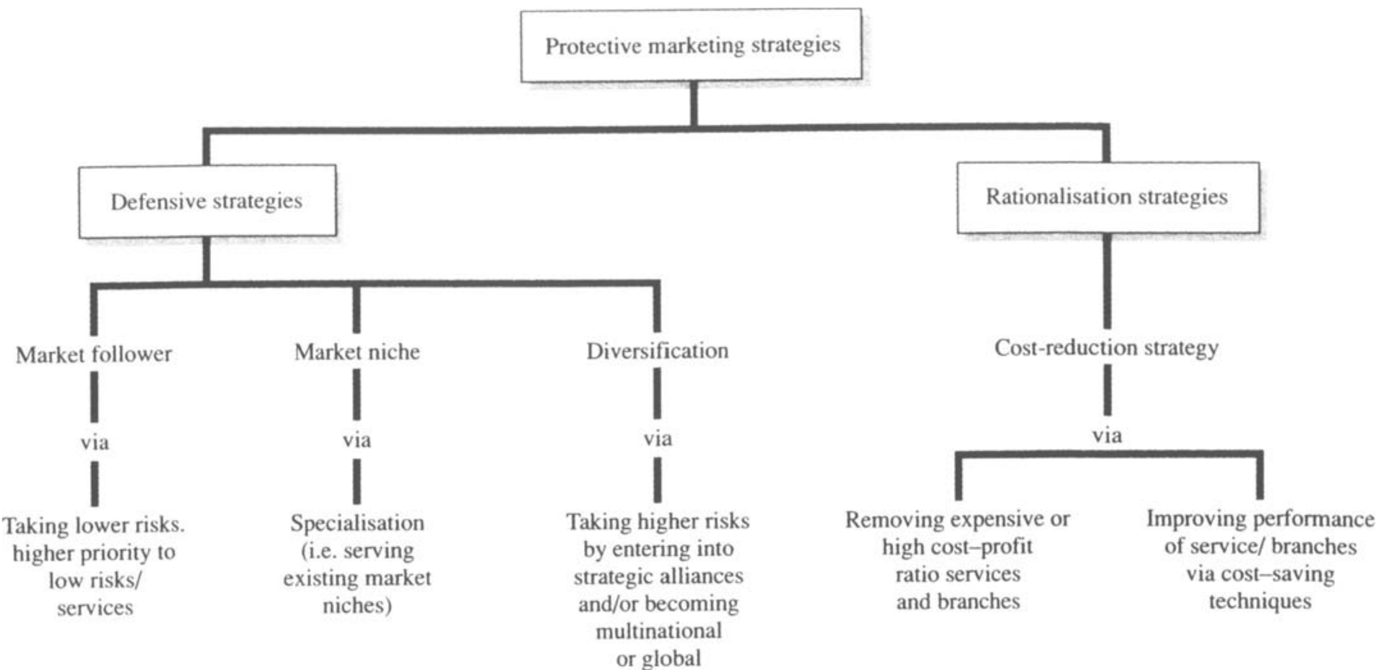

Figure 12.3 Defensive and rationalisation market strategies

Defensive and Rationalisation Strategies

There are three defensive strategies: market follower, market niche and diversification (Figure 12.3).

Market-Follower Strategy

Adopting a market-follower strategy means acceptance of the *status quo*. The financial services firm does not challenge the market leader(s), but attempts to maintain its market share by a strategy aimed at retaining customers and winning a share of new ones. This strategy must be carried out by exploiting a set of target markets to which the firm can bring a distinct advantage, perhaps in terms of location or the specialist services offered. In general, market followers possess strong management who give priority to profitability rather than market share.

Market-Niche Strategy

As the name suggests, such a strategy aims to take advantage of various niches that exist in the market. This is done through specialisation. The markets here are relatively small and tend to be beyond the interests of large financial service firms. To smaller firms, however, such niches can be both safe and profitable. Smaller banks, for example, may adopt market-niche strategies to avoid clashing with the major banks. These banks attempt to find and occupy market niches that have been either overlooked or ignored by the bigger banks.

Financial services selecting a niche strategy specialise either in a smaller market segment (for example the Coutts Bank in the UK focuses on the nobility, the Royal family and other very rich customers), or in a narrow line of products so as to offer greater efficiency to the market. For example there are banks that specialise in providing corporate services, international financial services and so on. If, for example, a small insurance company depends heavily on part-time agents for its selling efforts and does not possess sufficient resources, personnel, distribution systems and so on, for expansion, it is very likely that the company will embark on a niche strategy.

Diversification Strategy

During the late 1980s many financial services organisations adopted a diversification strategy that had two main forms:

- A number of financial organisations, for example the Prudential Insurance Company, spent hundreds of millions of pounds building up a nationwide chain of estate agents; other firms acquired significant shares in other sectors of the financial services industry, facilitating cooperation and/or strategic alliances in selected markets and/or product categories.

- Others diversified from retail domestic activities to become multinational or even global institutions at either the retail, corporate or investment banking level of activity. The internationalisation of financial services has encouraged the proliferation of offshore banking financial centres (for example Bahamas, Bahrain, Hong Kong, Jersey, Luxembourg, Singapore and so on).

In the increasingly competitive world of international banking, financial service organisations are paying more attention to profitability and less to asset and capital growth. Management of a bank by assets has been replaced by management based on capital, and capital adequacy has become the key element in forming banking strategy.

It appears that the more open the regulatory environment, the more likely banks are to make profitability a greater priority. The emphasis on profitability is forcing banks to look for more effective ways of enhancing earnings. Rationalisation strategy is therefore regarded as one of the most effective ways of increasing profitability. Staffing levels in particular have come under closer scrutiny. Disposing of unprofitable business is another route to greater profitability. Banks are less willing to suffer losses or poor earnings just to establish or maintain a presence in new markets of products. Foreign lending is being cut back by most international banks; the debt crisis of the early 1980s has led to a sharp decline in overseas exposure.

The process of diversification will also be affected by the drive for profitability. Banks will look to specialise in businesses in which they can expect to enjoy the best returns. Assets such as mortgages, credit cards, and corporate and sovereign loans will be increasingly traded by banks on secondary markets in the search for a better return on assets.

With the increase in competition among financial services sectors and financial institutions, coupled with the world-wide recession and inflation, the industry is more eager to improve performance and to rationalise its operations. This has led to growing interest in the employment of the cost-reduction (or cost-cutting) strategy, which, because of its potential importance to the financial services industry, can be considered as a separate category – the rationalisation strategy. One of the questions that, say, any building society must continually ask itself is: how can cost-efficient operations be achieved so that profitability can be increased? Manufacturing companies can improve operations by leverage, for example by purchasing faster and more reliable machinery. Most services, including financial services, are able to obtain operating leverage by substituting capital for labour. Banks can use capital to buy machinery (for example electronic fund transfer systems, computers and so on) that enables them to provide a cheaper, faster and more consistent service (Exhibit 12.5).

K. N. Thomas, a US consultant, has researched the branching strategies adopted by US banks.[4] He suggests that in the USA banks employ mainly offensive and defensive strategies. In other countries, including the UK, the

Exhibit 12.5 Rationalisation strategies in building societies

In the last few years, as a result of the recession a number of UK building societies have emphasised a strategy of rationalisation.

This took the form of cutting back on certain services in an attempt to 'rationalise' the costs incurred and minimise total operational costs. Services affected (during 1991 and 1992) were foreign exchange business, travellers cheques and travel insurance. Societies employing this strategy during 1991/92 included Bradford and Bingley, Nationwide (the second largest), Cheltenham and Gloucester, Woolwich and the Leeds Permanent Building Society.

The strategy of mergering is not new in the building society movement. In 1910, at the 'peak' of the movement, there were over 1700 building societies. In 1980 there were about 300 and now (1994) just 89 remain.

rationalisation strategy is also widely used. Opinion in the UK at first appears to be against 'defensive banking'. However the general tenor of banking articles assumes the need for a visible presence throughout the country to maintain the 'correct' image, and this can reinforce any tendency towards 'defensive banking', despite the increasing costs in branch development.

■ Selecting a Marketing Strategy

Having formulated a marketing plan (Chapter 11) the next step is to select a marketing strategy that will enable the long-term goals and objectives to be achieved. Ordinarily, a number of alternative strategies are formulated, as described in the previous sections of this chapter. The target group of customers, at whom the financial services are aimed, is about the same for all financial services firms. The question then arises of how to promote a service if it is virtually identical to that offered by competitors. Marketing efforts emphasise the distinctiveness of a service and financial firms try to emphasise the individuality of their services by adopting two separate marketing tactics – service differentiation and market segmentation.

Service differentiation emphasises the promotion of differences between, say, a particular bank and its services and those of its competitors. It is easier to differentiate between services if there is some real difference between them. But if there is little or no difference, then with this approach the customer should be made to feel there is a difference. This may be achieved by advertising and stressing brand image or features of the service. In the case where the services of financial firms are fairly identical, then advertising may be the only controllable marketing activity left.

Market segmentation recognises that the diversity of demand for financial services is very wide. Under this approach, a bank would adopt a service to satisfy the distinct needs of selected groups of customers and prospects. The objective is to identify and exploit a niche in the market with a new or modified service. As with differentiation, segmentation involves the use of advertising and promotion, but these tools are used to inform the segments of the availability of services that have been tailored to their needs.

The difference between the two approaches is that differentiation emphasises the characteristics of the service, whereas segmentation is aimed at emphasising the characteristics of the customer. Financial services firms tend to use both approaches in tandem. There is some discussion in the literature about which is preferable when attempting to stimulate demand for a particular service.[5]

The choice of a financial service marketing strategy has been shown to be dependent on a number of factors. First of all, the position of the financial firm in relation to its competitors must be taken into account – whether it is the market leader or not. Second, the objectives of the firm in both the short and the long term will have a great influence on choice. Third, the marketing opportunities that are open to the firm and its potential target market may be a constraint; for example the budget made available to an insurance company for marketing functions.

Selection of an appropriate strategy is based on a careful marketing strategy plan (Figure 12.4). Appraisal of alternative strategies is based on the internal conditions and external forces facing the financial services firm. These alternative strategies should then be evaluated by the board of directors and an 'optimum' marketing strategy recommended. If accepted, this recommendation should be carried forward and an adequate plan (mainly involving the determination of means, that is, allocation of resources) to achieve the objectives should be drafted. It is the responsibility of the board to implement the plan and monitor its results. Overall, the strategy selected will depend on: (1) organisational competitive size and position in the market segment; (2) company resources, objectives and policies; (3) competitors' marketing strategies; (4) the target markets' buying behaviour; (5) the stage of the product life cycle; and (6) the state of the economy.

Until recently, the building society sector employed more traditional strategies (Exhibit 12.6). As building societies are more open to competition – mainly as a result of the 1986 Financial Services Act, it is very likely that in future these financial organisations will employ strategies that are more similar to those of banks and insurance companies, as elaborated above.

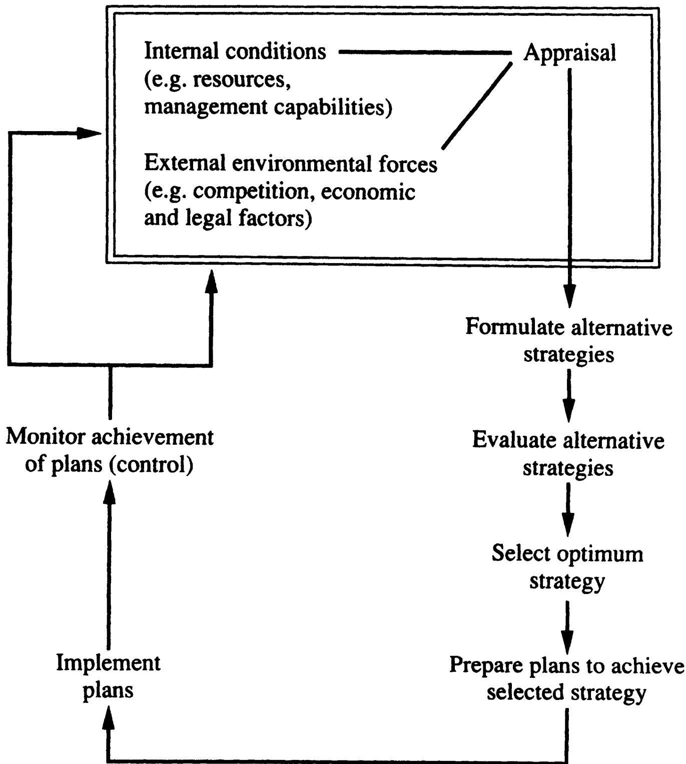

Figure 12.4 Financial services marketing strategy plan

Exhibit 12.6 Some marketing strategies in the building society sector

The three main corporate strategies highlighted by Porter[6] in the early 1980s (focus, differentiation and cost leadership) are often employed by UK building societies to further their marketing performance.

As is known, the *focus* strategy is targeted at one particular market segment. This strategy involves offering a product/service that meets the needs of a specific group of customers. An organisation that adopts the focus strategy will seek to serve the chosen segment particularly well, and so doing it is likely to achieve lower costs in that particular segment compared with competitors who do not focus on that segment. Similar to the differentiation strategy (below), the focus strategy always leads to some limitations in the overall achievable market share. It frequently involves a trade-off between profitability and sales volume. For example the Clay Cross Building Society, which is a small local building society that

concentrates on the local catchment areas in the small town of Clay Cross near Chesterfield in northern England, employs a focus strategy.

On the other hand the *differentiation* strategy is based on offering a product or service that is unique to the market. Approaches to differentiation strategy can take many forms: design or brand image, technology, customer service features and so on. This strategy increases the uniqueness of the product/service – as perceived by the customer – and hence reduces the price sensitivity of demand. It also reduces the risk of substitution. It should be stressed that the differentiation strategy does not allow the building society to ignore costs because it requires a high level of skill and creativity among staff and co-operation throughout the organisation. This can include extensive research, product design and intensive customer support. The uniqueness of the product/service might, however, limit the market share gained by the company.

The Skipton Building Society pursues a differentiation strategy. In its Financial Statement Summary for 1991 it stated that it would continue its policy of innovation and giving members a competitive product. The Leeds Permanent Building Society, on the other hand, differentiated itself from its competitors by introducing a free 'home arranger service', which guides home buyers through the process of house buying from start to finish.

Finally, cost leadership is based on having the lowest costs, and hence the greatest profit margins. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions, tight cost control and leanness of organisation. This strategy also requires heavy capital investment and aggressive pricing to build a high market share. High market share may in turn allow exploitation of economies of scale and experience, which lower costs even further. Examples of building societies that employ this strategy are the Halifax and the Nationwide.

■ Assessing Strategy Effectiveness

Having analysed market segment opportunities, the financial service firm can select the segments it will serve on the basis of meeting its selected objectives. It is now in a position to develop strategies and allocate its resources via marketing mixes that will serve the selected segments. The marketing mix in a segment is determined by the financial firm's strategy in that segment, and is that set of controllable marketing variables (services/products, price policies, promotions and distribution channels) that the financial firm can use to influence customers effectively and efficiently.

In evaluating or assessing strategy effectiveness, an important factor for consideration is *synergy*. Synergy is the competitive advantage that a financial

firm has if, by skilful organisation of its resources, it can achieve a 2 + 2 = 5 effect. Synergy can be measured or seen when there is an increase in the volume of revenue to the firm from its operations and/or a decrease in the operating costs, or a decrease in the equipment/investment costs required.

Other criteria in evaluating a marketing strategy are as follows:

- Whether the strategy has an identifiable time horizon.
- Whether it exploits national or environmental market opportunities.
- The selected strategy should be consistent with the findings of an analysis of the financial service firm's strengths and weaknesses.
- The level of risk involved in operating the strategy should be commensurate with the level of profits and/or other achievable goals.
- An assessment of what the selected strategy will or might contribute to people and society as a whole.

Future Trends in Marketing Strategies for Financial Organisations

The following trends affecting the future marketing strategies of financial organisations have been recently identified:[7]

- *Greater industry consolidation,* that is, a smaller number of financial services firms will hold a larger share of the market. This trend will affect not just developed countries such as the USA, but also industrialising countries, since financial services sectors are international in character and tend to operate worldwide.
- *Better market segmentation,* that is, the segmentation process will continue, and all the major subsectors (banking, insurance and securities firms) will focus on top-income customers and/or middle-market corporate business.
- *Expanded product offerings,* that is, offering packages of financial products to strengthen financial institution–customer relationships.
- *Changed distribution systems.* All sectors will depend to a larger extent on technology, although insurance and securities will still depend on agents for about 20 per cent of their turnover.

In general, the financial services environment is changing throughout the world along the following lines:[8]

First, from the current changes in the financial services scene it can be postulated that in the coming years the developing trend will be more in line with an increase in computerisation and information technology. Some of the current financial services, whether fully developed or not, are indicative of the changes in this direction. The products that will become particularly 'popular' are likely to be Eftpos (electronic fund transfer at point of sale), plastic cards and financial supermarkets.

Second, the cost of employing qualified and competent staff is getting higher all the time. This, together with the need for convenient hours of service, will increase the use of plastic cards and electronic machines for financial services

distribution and the offering of non-personalised services. Fully automated branches (FAB) are no longer a fantasy and this new dimension in retail banking will improve productivity and cut costs further. The most advanced FAB system is in Japan, where such units provide a range of machines within the branch. The FAB system enables the customer to undertake most basic bank transactions. However it could take quite some time for FABs to be adopted on a large scale in Britain.

Third, the pattern of increased competition between banks and other financial services institutions will continue. New entrants, both local and foreign, will continue to penetrate and compete in local markets. For example, Australia's two leading life insurance companies have set up banks, whilst three major banks in Australia have entered the life insurance sector.

Fourth, foreign financial institutions are attempting to increase their operations in the industrialising countries by employing 'market leader strategies', acquiring or merging with local financial organisations, and/or establishing subsidiaries. Subsidiaries could be particularly suitable because of the local laws and regulations in many developing economies.

Finally, deregulation and competition are leading to the addition of new financial and related services. Examples are travel services, estate agency services, real estate, brokerage business and so on.

One of the problems facing financial services firms in the 1990s is which entry strategy to adopt with regard to the European Union. In principle there are three alternatives: opening new branches, acquisitions or joint ventures.[9] Strategic alliances and/or joint ventures are the most likely entry strategies in commercial banking in Europe. However, marketing research and assessment of individual markets (countries) is still necessary because of the diversity in the European financial services industry.

As for the twenty-first century, it is quite clear that the trend towards further liberalisation and deregulation will lead to tremendous growth in the volume of financial services business.[10] This is likely to lead to a restructuring of the financial services industry, with more strategic emphasis on the commercial sector of banking, which is expected to experience most of the abovementioned growth. In that situation, financial service strategies will have to change in order to enable institutions to benefit from the expected growth, for example by strengthening the marketing function (including development of problem solving skills at branch level), improving information systems, increasing strategic alliances (including, as suggested by Hitachi researchers, joint ventures between banks and medical institutions) and simplifying the decision-making mechanism, particularly at the retail level.

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