CASES IN MARKETING FINANCIAL SERVICES

CHRISTINE ENNEW, TREVOR WATKINS & MIKE WRIGHT


**Cases in Marketing Financial Services**

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Cases in Marketing Financial Services

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Preface

Reflecting developments in the competitive environment facing financial institutions, the marketing of financial services has become increasingly important in recent years. Until recently, the only courses in this subject area were in connection with professional examinations such as the Chartered Institute of Bankers. Now there is an increasing variety of such courses in further and higher education, especially at MBA level, and the subject now appears as an option in the Chartered Institute of Marketing’s Diploma Course. From our own experience of teaching in this area, one of the greatest frustrations has been the limited range of case study material available. Most case study books have one or two cases relating to the financial services sector, but there is no obvious single source of cases covering the financial services sector in general.

This book aims to fill this gap by presenting a range of cases relating to the marketing of financial services. The book includes both cases relating to the UK market and cases with an international dimension. Our aim is to embrace a range of marketing issues, both strategic and tactical, and to cover a range of institutions and markets. This volume is an obvious companion to our text on Marketing Financial Services, but equally it can be used in the context of more general service marketing courses. Teaching notes for all the cases in this volume are available from the editors.

Many people have assisted in the preparation of this book. We would like to thank first, our MBA students, who have (often unknowingly) acted as a testing ground for many of the cases which appear in this volume. Second, we must thank our contributors for the effort they have put in to prepare these cases. Helen Leverton and Sandra Mienczakowski provided invaluable help in the preparation of the manuscript and finally, thanks to Jim Devlin for his helpful comments and criticisms on the final draft.

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PART 1

Marketing Financial Services: An Overview

Introduction
Marketing, in the true sense of the word, is relatively new to the financial services sector. Until recently, marketing in most financial service organizations was largely synonymous with advertising and public relations and it was not until the 1970s that marketing departments were formed on any scale (Newman, 1984). Even then, the role of marketing tended to be more tactical than strategic; marketing was seen as a relatively low status activity with senior management being dominated by executives with a background in finance (Hooley and Mann, 1988). In the last decade, marketing has developed as a more integrated function within financial services organizations, largely as a result of rapid changes in the operating environment. Nevertheless, Morgan and Piercy (1990) suggest that marketing remains a relatively young management function in the financial services sector.

As marketing increased in importance as a management function in financial services, a growing literature appeared on the application of marketing techniques, both at a strategic and at a tactical level. Initially, much of the literature focused attention on the banking sector (Donnelly et al., 1985; Marsh, 1988; McIver and Naylor, 1987), in part at least because of the requirements of professional examinations. Other sectors were not neglected. A highly practical approach to the application of marketing techniques in insurance, for example, was provided by Dyer and Watkins (1988), and a variety of academic articles have dealt with the marketing issues relevant to specific institutions. The companion text to the present volume of case studies (Ennew, Watkins and Wright, 1990) attempted to present a more comprehensive view of financial services marketing by focusing on both marketing practice and institution-specific requirements. Since then, the volume of published material on the marketing of financial services has continued to increase as testimony to the growing importance of this sector among students of marketing.

In this introductory section we present an overview of some of the key issues relating to the marketing of financial services. First we examine the characteristics of services and the ways in which they differ from physical goods. Then some of the key issues for marketing strategy are addressed followed by a review of the issues concerning the formulation of the marketing
mix for financial services organizations. A brief summary concludes the section.

**Why services are different**

The justification for a separate literature on services marketing is based on the notion that ideas and principles that have been developed in the context of product marketing are inappropriate. This situation in turn arises from the belief that substantive structural differences exist between services and goods. This does not necessarily imply that marketing techniques and skills developed in relation to physical goods are not transferable, rather, it suggests that these techniques are altered in the process of transfer and that these alterations are sufficient to produce a body of ideas which are distinctively associated with the marketing of services. There is a variety of factors that give rise to structural differences between goods and services, the most commonly cited being:

- Intangibility
- Inseparability
- Heterogeneity

In many respects, the core distinction arises because services are considered to be intangible. A service cannot be seen, touched or displayed. A customer may purchase a particular service but typically has nothing physical to display as a result of the purchase. This intangibility arises because a service is essentially a process or an experience rather than a physical object which the consumer can possess (Bateson, 1977; Bowen and Schneider, 1988; Shostack, 1982). Clearly, this should not be taken to imply that products and services are polar extremes. On the contrary, there are degrees of tangibility and intangibility and service marketing deals with the 'intangible dominant' set of products (Shostack, 1977). Furthermore, it is important to remember that intangibility has essentially two meanings. At one level it is concerned with the fact that services are impalpable in the sense that they have no physical form, but it also recognizes that many services are intangible from a conceptual point of view in that they are not easily defined and may be difficult to understand (Bateson, 1977). Many services will display both aspects of intangibility and the problem is particularly acute with many professional and financial services (Donnelly *et al.*, 1985).

The fact that services are essentially acts or experiences leads to the second factor which distinguishes services from goods, namely inseparability. In general, services must be produced and consumed simultaneously. As a consequence, services are perishable, they must be produced on demand and cannot be inventoried. The presence of inseparability tends to imply the consumers themselves play a significant role in the production of services. Indeed, some commentators view customers as quasi- or partial-employees (Bowen and Schneider, 1988). For a service to be provided typically requires either the physical presence of the consumer or some contact with the
consumer to provide the information required for the service to be performed. The consumer making a loan application does not have to be in the physical presence of the loan assessor, but must supply that assessor with information to evaluate the application. This interaction between consumers and employees in the provision of services leads to a third distinctive characteristic of services, namely heterogeneity. The quality of the service product is typically highly dependent on personal interactions and as a consequence, the potential for variability is high. To a large extent, the qualities of inseparability and heterogeneity arise because of the intangible nature of services. The characterization of services as an act rather than as an object leads to an emphasis on the individuals providing the service and their interactions with the organization’s customers.

In addition to these service characteristics, financial services display an additional feature which affects the marketing process. This is the issue of fiduciary responsibility which refers to the implicit responsibility which financial services organizations have in relation to the management of funds and the financial advice they supply to their customers. Although any business has a responsibility to its consumers in terms of the quality, reliability and safety of the products it supplies, this responsibility is perhaps much greater in the case of the financial service organization (Marsh, 1988). Such a situation may be explained partly by the fact that consumers of such services often find the precise details of the services difficult to comprehend and are therefore placing their trust in the organization they deal with. Equally important of course is the fact that the ‘raw materials’ used to produce many financial products are consumers’ deposits; thus in producing and selling a loan product, the bank has a responsibility to the person taking out a loan but at the same time, it also has a responsibility to the individuals whose deposits have made that loan possible. The importance of fiduciary responsibility has been incorporated into notions of ‘best advice’ as a component of the recent regulatory changes (Wright, 1990). Despite these formal requirements, any organization involved in the provision of financial services should retain an awareness of the magnitude of the impact which their marketing and selling activities can have on the lifestyle of an individual or the property of a company.

The features described above present a number of problems for the marketing of services. This does not imply that services marketing is more difficult than the marketing of physical goods, simply that it is different. The implications of intangibility, inseparability and heterogeneity are manifested at both strategic and tactical levels. The need for a different approach to strategy is emphasized by Thomas (1977) in the general service context. For example, he stresses the importance of a clear understanding of the nature of the business and the establishment of a distinctive basis on which to compete. The latter is perhaps of particular significance given the difficulties of competing on the basis of offering a service with distinctive attributes or features. The ease of copying and the lack of patent protection mean that competition is more commonly based on service levels rather than service attributes and this in turn will tend to increase the emphasis on efficiency and cost effectiveness in service provision.
While there is some suggestion that services marketing is distinctive at the strategic level, the differences between marketing goods and marketing services become more noticeable at the tactical level. This occurs primarily because as marketing moves towards tactical issues then it also moves closer to and must be more tailored to, the distinguishing features of specific products and markets. In the context of the marketing mix, this suggests that in the case of services, the composition of that mix and the management of its elements can be quite distinctive. Whether this implies that services requires a marketing mix with different elements or whether it is simply the case that the specification and emphasis of the existing elements should be different is debatable.

Strategic marketing in financial services

Strategic marketing is not only concerned with providing direction for an organization in terms of products and markets; it also entails the development of a consistent approach to operating in those markets in the form of an integrated marketing mix. In Figure 1 we outline the key elements of marketing strategy. Our intention is not to outline the processes by which strategy is formulated but rather to place it in the context of overall corporate strategy and to emphasize the need to integrate both strategic and tactical aspects of marketing.

The nature of any marketing strategy will be dependent on overall corporate strategy and decisions regarding the composition of the product portfolio and the growth vectors of the organization. This is not a simple ‘top-down’ process. Product portfolio decisions and the chosen pattern of growth will be made through interactions between marketing planners and corporate planners. Furthermore, the entire process will be conditioned by the nature of the operating environment. The environment facing suppliers of financial services is described in greater detail by Wright (1990) and Watkins (1990a). The essence of marketing strategy is to provide the organization with a sustainable competitive advantage in the markets in which it operates. This requires that the organization both understands consumer needs and identifies how those consumers can be grouped into different market segments. By identifying these segments and selecting target markets, the organization can determine where and against whom it intends to compete. The basis on which the organization will compete is the overall product offering and this should be formulated by matching internal skills and capabilities to customer needs.

Having determined where to compete, whom to compete against and the basis of competition, the organization will have effectively determined its product/market scope. However, it must also establish an appropriate position for its products in the target markets. The whole purpose of positioning products in markets is to establish a competitive edge for the product. For example, the position of American Express cards may be seen as a high prestige charge card with a level of service (and a price) which reflects the prestige of the holder. Through creating this image for its product, American Express seeks to build a sustainable competitive advantage. The position
Figure 1  Elements of marketing strategy
chosen for the product must reflect attributes which are valued by the target markets and must be deliverable by the supplier. In selecting a position, the marketing strategy is essentially defining the image which the organization wishes to create for its product.

Once a position has been established, that position will guide the formulation of the marketing mix. Product attributes, pricing decisions, methods of distribution and communication should all seek to reflect the chosen position. In effect, the marketing mix represents the tactics employed to implement the chosen strategy. However, the strategy process does not end there, since the decisions made with respect to the marketing mix must be operationalized and the outcomes monitored to check that actual outcomes match what was intended. Should the outcomes begin to deviate from what was intended, then there is scope for corrective action in the form of further modifications to the marketing mix, or even modifications to the overall strategy.

As was suggested in the introduction, the notion that marketing has a strategic dimension is comparatively new in the financial services sector. The development of this strategic perspective has occurred primarily as a consequence of a period of rapid environmental change in the 1970s and 1980s (Clarke et al., 1988; Thwaites, 1989). The financial marketplace has become increasingly global, technology has developed to improve the speed and variety of service provision and a trend towards deregulation has widened the potential product range for the majority of suppliers (Wright, 1990).

Initially deregulation and globalization probably had their greatest impact in the corporate sector (Lewis, 1984), but more recently the personal sector has been subject to extensive (and largely supply-driven) environmental change (Ennew, Wright and Watkins, 1990). As a consequence of deregulation and technical change, the traditional institutional divisions which had characterized financial markets began to disappear as organizations sought to take advantage of the opportunities to offer their consumers a more integrated range of financial services (Wright, 1990). These changes were reinforced by developments on the demand side, including rising incomes, and a higher degree of consumer sophistication and financial awareness in many segments of the market (Watkins, 1990a).

The process of deregulation and environmental change is continuing with the further liberalization of financial markets as part of the EC’s 1992 programme. This presents the financial services sector with a number of new opportunities and threats (Wright and Ennew, 1990). In principle, the single market programme will affect all financial services, both personal and corporate, but in practice, it seems likely that the impact will initially be greatest in the corporate sector. In particular, given the existing international nature of financial services supplied to larger corporates, it has been argued that market opportunities may be greatest in relation to small and medium-sized businesses (Binks et al, 1990). Inevitably, opportunities for the providers of corporate financial services will be counterbalanced by the threat of increased competition. While this is widely recognized by firms in the industry, a recent survey conducted by the Bank of England suggests that in the UK at least, the opportunities are perceived to be much greater than the threats