

Service Marketing in Banking Sector: A Conceptual Framework

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ABSTRACT

The banks are the trusted places of customers, and have come across many changes in their functioning. There is a high degree of competition among the banks. This competition became so fierce that banks began to seek means of survival. Banks now have a firm belief that adoption of marketing strategies on a continuous basis alone can assure the future of banking business. Growing diversity of customer needs have contributed to the increase the scope of bank services, and to the elevation of the marketing department to the top levels of the organisational structure of the banking. Of late, banks have realised the importance of marketing concepts as the future success of banks largely depends upon identifying new segments by recognising new seeds and designing new schemes to meet such needs at a profit for the banks. Marketing scope prevailing in banking sector is being considered under the service marketing framework in this new business approach. This paper develops the conceptual framework and significance of service marketing followed by banking sectors in their day to day working for their survival and growth.

Key words: Banking Sector, Marketing Strategy, Service Marketing, Marketing Approaches, Bank Management.

INTRODUCTION

Banking in India has remained an important instrument of socio-economic transformation since independence. Social control was followed by nationalisation in two phases in order to provide growth momentum to the banking sector. The dawn of the financial sector reforms in the early 1990s witnessed significant improvement in the performance of the banking sector in India by creating a competitive environment. During the last couple of years, banks have been able to improve performance through good housekeeping in the form of reducing NPA and bad loans, and investing in technology up-gradation, and restructuring their operations. Against all such remarkable achievements, one of the major weaknesses of the banking sector in India has been the quality of services. In fact, despite phenomenal expansion in the number of branches and range of services, poor quality of services has emerged as one of the major areas of concern for the policy makers, bank management, employees and customers alike since customer service is the hallmark of banking industry. It is in this context, a study of the marketing efforts by commercial banks and marketing effectiveness of banking services, which is essentially earmarked towards customers, and customers becomes all the most essential. The rising importance of marketing in the banking sector is underlined by four major developments that Indian banking has witnessed in recent years: namely;

- i) Increasing competition to attract as well as sustain customers
- ii) Increasing sophistication, awareness and expectation of customers
- iii) Increasing technology
- iv) Increasing cost of meeting customer needs.

All these developments in recent times have contributed to rising expectations of customer services in the banking sector. The quality of customer services in banking is of crucial significance, particularly in the context of sustaining business growth. Unlike other industries engaged in the production of tangible goods, banks are unique in the sense that they produce and deliver service at the delivery point; the branches. This has an overwhelming impact on the customers' psyche and makes them supersensitive towards the quality of service. Given that the competition in the banking industry is gaining momentum day by day, it is imperative that the banks are well equipped with the range and variety of transactions, accuracy and efficiency of operations, speed and quality of services to meet the rising customer expectations.

Service Marketing

Based on the fundamental concepts of marketing, services' marketing is a form of marketing which focuses on selling services. In case of services offered by an organization, the time, knowledge, skill or resources in a true sense are offered for sale. The development of service marketing concepts over the years has evolved in accordance with the philosophy of customer orientation. The perception of service marketing focuses on selling the services in the best interest of users/customers. It is concerned with a scientific and planned management of services which makes possible a fair synchronization of the interests of providers as well as the users.

Service marketing has gained prominence very recently with emergence of a number of services generating organization in almost all the areas. Given the growth of the service sector in economies throughout the world, and the universal belief that services' marketing is different from goods marketing, there is a felt need of research in service marketing to enter a new phase of empirical work that integrates various disciplines and various service industries.

SERVICE MARKETING IN BANKING SECTOR

In today's highly competitive business environment, service has increasingly played a critical role in operation of banks (Payne, 1993). Developing business through marketing of banking services is one of the crucial areas which need attention of the bankers to ensure profitable survival and growth. Growing competition, emergence of a new range of services, need for innovative products to keep pace with the level of economic development, compulsions in the area of profitability, coverage of new spatial areas, ensuring optimum use of the infrastructure already built up, need for ensuring customer satisfaction, improving the extent of professionalisation and better appreciation of the long-term perspective are some of the important reasons contributing for the marketing orientation of Indian banks. Basically marketing approaches to the banking services are as follows:

- Identifying the customer's financial needs and wants of the customers.
- Develop appropriate banking products and services to meet customer needs.
- Determine the prices for the products/services developed.
- Advertise and promote the product to existing and potential customer of financial services.
- Set up suitable distribution channels and bank branches.
- Identify and forecast future market needs.

Marketing is always considered with the identifying the customers' needs and determining ways to meet such needs in a profitable manner. As customers continuously evolve in terms of their want, need, desires, expectation and problem, banks need to evaluate their offerings in customer terms, i.e., satisfying customer needs at a profit to the bank. The dictum "as the bank exists because of its customers" has become more pronounced and relevant in the banking parlance. Thus, marketing constitutes the key strategy for banks to retain as well as garner customers in the evolving financial environment.

REVIEW OF LITERATURE

Marketing of financial services by banks is under active and extensive discussion among policymakers, academicians, bank personnel, and financial experts. Survey and research have been conducted by academic researchers as well as practitioners on the various aspects of services marketing in general and financial services marketing by banks in particular both in India as well as abroad. Few of the studies are reviewed hereunder in the subsequent paragraphs as they would facilitate a background for carrying out the present study

Drucker, P.F. (1973) has explained that marketing is an organizational philosophy. This philosophy demands the satisfaction of the consumer's needs as the prerequisite for the existence and survival of the bank. Marketing is so basic that it cannot be considered as a separate function. It is the whole business seen from the point of view of its final result that is the customer's point of view.

Levitt, T. (1974) pointed out that all the techniques and strategies of marketing are used so that ultimately they induce the people to do business with a particular bank. To create and keep a customer means doing all those things so that people would like to do business and continue to do it with a particular bank rather than with the competitors. A business is not a business if it cannot stay in business. It cannot stay in business if it does not attract and hold enough customers, no matter how efficiently it operates.

Geiger, H. (1975) has conducted a study to establish the needs of customers. Social structure of the bank customers and the image that the customers had of the banks were studied along with customers judgment of the range of services that the banks had to offer, the effectiveness of various advertising and other sales promoting measures, and the customers' will to save and other habit. Findings indicate that satisfied customers are more positively minded than those who are critical of what their banks have to offer them.

Talwar, R.K. (1975), Chairman of 'Working Group on Customer Service in Banks' noted that there was considerable ignorance about the facilities and services offered by banks and most bank customers are unaware of various schemes and services offered by banks. The Group recommended educational campaigns to be carried out by banks illustratively and every customer of bank should be provided a booklet containing the range of services offered by banks. The survey conducted by the working group pointed out that by and large less educated people and females are far away from the banks. The study observed that developing banking habits is not only a strategy for social uplift only but is equally important a strategy for bank marketing in the long run.

PEP Committee (1977) surveyed that the rationale behind the need for a business plan or performance budget is that banking operations should be re-oriented to better service and to obtain the maximum business growth by adopting a market approach. Banks world over have been making increasing use of marketing approach for business growth. It is recognized that market segmentation leads to better quality customer services.

Kammath, K.M. (1979) has conducted a study on the marketing of bank service and customer service with special reference to the customers of the branches of Syndicate Bank in Bombay City. He found that majority of customers of suburban and small branches were satisfied with the bank service whereas large and medium size branch customers reported delay in counter service and collection of cheques. Eighty percent of the customers do not know the branch manager and 72 percent were of the opinion that it is not necessary to know someone in the branch to expedite their transactions. In credit related matters, majority of the respondents complained on unnecessary information asked by the bankers and some of them reported that officers discouraged renewal/enhancement of loan proposals. The study strongly recommended for the adoption of marketing approach in these branches.

Laurent C.R. (1979) has studied in his article, "*Image and Segmentation in Bank Marketing*", that banking has swiftly moved from the concept of being a place to hold money to that of a place that provides financial services. This increased consumer orientation can be attributed to the increased competitiveness of the overall financial market. The Study warned that if diversity of market is ignored, it is possible that market opportunities represented by unfulfilled customer needs might be ignored and lost.

Berry, L.L., Kehoe, W.J., and Lindgreen, J.H. (1980) has conducted a study among the members of the Bank Marketing Association (London) regarding satisfaction of their bank marketing job. It was observed that the most satisfying part of marketing was the establishment of goals or objective that are to be accomplished over-time. It is most satisfying because it requires a coordinated internal and external marketing approach that normally includes nearly all aspects of bank marketing. The study pointed out that the most frustrating aspect in bank marketing was a perceived lack of top management support for the marketing function. Even in marketing oriented banks (declared so by management), marketing was often separated apart as something done in addition to or not vital to the central process and functioning of banking.

IMPORTANCE OF SERVICE MARKETING IN BANKING SECTOR

The ongoing of economic reforms has completely changed the operational environment for the banking industry in the country as a whole. Banks are now required to cope with stiff competition in business and also the complex regulatory norms regarding capital adequacy and provisioning. Banks therefore are compelled to adopt various marketing techniques and approaches. Marketing in banking circles is comparatively a new phenomenon and taking firm roots in India in recent years. Competition and deregulation that followed the reforms has changed the environment for banks, where marketing occupied the centre stage for the business of banks. Present day bank marketing is characterized by many innovations in products and services, use of advanced technology in product design, up-gradation of delivery system, advertising and sales promotion activities, across public as well as private sector. Market oriented policies also gave birth to new number of players like foreign and private sector banks and subsidiaries offering a number of high tech and cost effective services. Various factors which have led to the increasing importance of marketing in the banking industry are as follows:

- **Government Initiatives**

The Indian economy embarked on the process of economic reforms and the Narasimham Committee Report on Financial Reforms recommended for deregulation of the banking sector so as to encourage efficiency through competition. Various policy measures initiated by the government resulted in the increasing competition in the banking industry, thereby highlighting the importance of effective marketing.

- **Deregulation of Interest Rates**

Banks at present have the option of reducing their minimum lending rates so as to attract customers (individual and corporate). Such decrease in lending rates reduce the spread between the deposit rates and lending rates, i.e. the banks margins would decline and they would have to increase their volumes or provide attractive services so as to maintain profits. This calls for bank marketing.

- **Increasing Urbanisation, Education and Awareness**

Higher literacy level, migration of population to urban areas and higher awareness due to financial literacy has important implications for the retail bankers. Because of increasing awareness, customer expectation about quality and variety of services from banks have gone up. Marketing has an important role to play in this regard.

- **Emphasis on Bank Profitability**

Under financial sector reforms, banks have been directed to improve their efficiency, productivity and profitability. Banks are required to be self sufficient. Such an objective entails aggressive marketing from the side of the banks.

- **Foreign Banks**

The entry of foreign banks has created competitive conditions for the Indian banks. The superior services and technology offers foreign banks a competitive advantage. To counter such competition, other operating Indian banks have to effectively apply marketing strategies to attract customers.

- **Entry of New Private Banks**

The early '90s witnessed the emergence of a set of competitors in the form of new private banks, who brought along with them a high technology-based banking matching with international standards and have made a significant dent in the banking business by capturing substantial market share as well as profits of the banking industry.

- **Technology Development**

Technology has facilitated the introduction of new banking services on a continuous basis and has become an instrument to expand the customer base. Of late, the need of financial services of the customers have grown multifold into various forms like quick cash accessibility, money transfer, asset security, increased return on surplus funds, financial advice, deferred payments, etc. With a wide network of branches, even in a dissimilar banking scenario, customers expect the banks to improve services to match their demands and this has compelled banks to take up marketing in right earnest.

- **Growing Importance of Non-Banking Financial Institutions**

Fixed deposits being offered by the non-banking financial institutions are able to attract the general public because of high interest rates. Besides, they offer a variety of specialized services to their customers so as to attract and retain them.

- **Disintermediation**

The increasing role of capital markets in mobilizing funds is reducing the importance of banks as intermediaries. Companies are directly approaching the investors through the capital markets. Mutual funds help in attracting the small investors who do not want to take much risk.

- **Quality as a Key Factor**

With the opening up of the economy, fast change has been experienced in almost every sphere of economic activity. Banking is no exception. Quality is the watchword in the competitive world and all economic activities are market driven too. Obviously banks have had to face up this emerging scenario. Quality, in future will, be the sole determinant of successful banking ventures and marketing has to play a key role in this regard.

- **Growing Competition**

Indian banking industry is facing increased competition from within the system as well as other agencies both, local and foreign, offering value added services. Competition is no more confined to resource mobilization but also to lending and other areas of banking activity. The foreign commercial banks with their superior technology, speed in operations and imaginative positioning of their services have been instrumental in providing the necessary impetus to the Indian banks to innovate and compete in the market place.

CONCLUSION

Present day bankers are now operating in buyers market, where the customer is the 'king'. In the fierce world of competition, customer oriented banking practice is taking the centre-stage. Today's bank has moved from the 'desk – to – door-step' to find out new customers and retain existing customers. In this regards, the future success of bank depends upon identifying new segment by recognizing new needs and designing schemes to meet the same at a profit. By adopting the marketing approach, banks are able to increase the numbers of customers and the size of the business. A successful banker need to anticipate customers needs and provide services accordingly. In the changing scenario, the banks have to identify as well as provide world class services. . Because marketing in banks has become synonymous with customers and banks are found engaged in several activities of discovering, creating and satisfaction of customer needs. Thus, marketing of banking necessarily mean application of marketing principles in the banking services or conceptualization of marketing in the decision making process of banking organization.

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