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MARKETING OF BANK SERVICES

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S U M M A R Y

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The objective of the thesis is to examine the reasons why British financial institutions have introduced formal marketing organisations and to trace the effect of these on the style of bank management and the organisation on management in banks. In the thesis comparisons are made between 'retail' banking and 'wholesale' banking and the development of bank marketing in the U.K. with that in foreign countries. A detailed study of the development of the marketing function in British banks has been undertaken both by direct observation and extensive interview with bank managers at different levels of authority.

A key factor inducing British banks to incorporate marketing ideas into their management has been the increase in competition between banks and other financial institutions since the end of the 1960's. Indeed it was the fierce struggle between financial institutions to pursue new business opportunities that has eventually induced many to form embryonic marketing departments. This development has awakened the realisation that formal training in marketing techniques was necessary if the new approach was to be successful. There are, however, big differences between retail and wholesale banks in their attitude towards marketing; the latter have been slower to accept the need for marketing. In all institutions opposition to the introduction of new marketing ideas has been encountered particularly where managers see marketing as incompatible with their traditional relations with customers. Where a serious attempt to introduce marketing has been undertaken a considerable increase in the range of customer service has come about. All the same there is still considerable room for improvement in standards of marketing. In particular the recruitment of professionally competent marketing staff is less common than in American banks, and the size of budget allocated to marketing operations generally falls seriously short of what would be required to provide a fully effective performance. Despite these limitations the introduction of marketing into banking operations in helping to create a metamorphosis in managerial practices and seem likely to play a key role in maintaining the profitability of financial institutions in the U.K.

A C K N O W L E D G E M E N T S

Usually the completion of a doctoral study depends upon the assistance of far more people than it is possible to be mentioned in the acknowledgement section.

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I am quite unable to express in words my gratitude to him for, first, providing me the opportunity to start my doctoral studies and, secondly, the assistance to complete them.

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- CHAPTER I -

I N T R O D U C T I O N

1.1 Background

During recent years service industries have enjoyed a phenomenal growth and according to many people much more growth is to be expected.

It has been said ( 28 ) that few people doubt that technically advanced societies are undergoing a major historical transformation to some sort of postindustrial age which is characterized by diminishing dominance of industrial production as a social function and by increasing prominence of service industries.

This postindustrial age which is now emerging portends a decline in the importance of manufacturing and the rise of service-oriented and knowledge-oriented activities ( 28 ); in that

period the revolution in manufacturing will not take place in the form of new products but in the production of services ( 45 ).

Despite this phenomenal growth of services industries little attention has been given to the various problems associated with them.

A. G. B. Fisher ( 22 ) pointed out in 1946 that "there is one important sector of economic analysis, of far-reaching general interest, which has hitherto been largely neglected and which it is now peculiarly appropriate to press upon the attention of American economists" while, many years later, Fuchs ( 24 ) called the services the stepchild of economic research.

At this point it should be noted that it was J. B. Say ( 60 ) the first economist who did recognize the claims of immaterial wealth alongside of material and did use the term "services" for describing them.

Also Say opposed against Physiocracy in the fact that the production of material objects



does not imply their creation since man can never create and production is simply a creation of utilities.

A. Marshall pointed out, many years later that man cannot create material things and by using the cabinet-maker and furniture dealer example did establish the unity of the productive process.

According to him "it is sometimes said that traders do not produce that while the cabinet-maker produces furniture, the furniture dealer merely sells what is already produced. But there is no scientific foundation for this distinction. They both produce utilities and neither of them can do more: the furniture dealer moves and rearranges matter so as to make it more serviceable than it was before and the carpenter does nothing more" (47).

Perhaps the most well-known work in economics related to services is the "Clark-Fisher hypothesis" which says that the share of expenditures (at the national level) devoted to services would rise as a society gets more industrialized over time (21,17), and the criticisms against that hypothesis by

P. T. Bauer and B.S. Yamey ( 8 )..

C. W. McMahon and G. D. N. Worwick ( 44 ) examined whether the growth of services slow down overall expansion (due to the lower rise of productivity in service rather insustrial sector) and their stabilising influence in an economy.

From a sociological viewpoint N. N. Foote and P. K. Halt ( 23 ) examined services as related to sociological problems while C. Gersuny and W. R. Rosengren in their book "Service Society" (25 ) explore the sociological consequences of a particular dimension of services i.e. the active participation of the consumer in the production of many services. Also they emphasize the fact that services have been neglected by the sociologists.

In the marketing area very little space has been given to the marketing of services; the marketing discipline has a strong goods orientation (54 ). Also in academic courses in marketing tangible goods are considered but rarely services (54 ).

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As the marketing literature concerns a separate chapter on "Marketing of services" appeared in an early marketing textbook ( 18 ) while Stanton ( 63 ) recently included a chapter on services marketing because services by possessing distinctive characteristics (such as intangibility, inseparability, heterogeneity, perishability and fluctuating demand) did deserve different marketing treatment.

Apart from these two chapters on services marketing several articles have been published (see, for example, W. J. Regan ( 56 ), R. C. Judd ( 32 ), J. M. Rathmell ( 54 ), R.C.Judd ( 33 ), N.Branton ( 14 ), E.B.Turner ( 65 ), G.Zaltman ( 69 ), K.J. Blois ( 11 )) while recently the first book on services marketing did appear ( 55 ).

All the above mentioned work deals with the growth of services, the economic implications of this growth, the special (or not special), as compared with goods, nature of marketing services but none of these articles and/or book(s) give any empirical data about the actual marketing of services.

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The first article which deals with actual marketing activities in the service industries appeared only recently ( 26a ) and contrasts (through data collected by postal questionnaire) the marketing activities of various U.S. firms in service sector with those in manufacturing sector.

## 1.2 Purpose of this study

In order to fill the previous discussed gap in the knowledge about the actual marketing activities in the service sector and in order to achieve some other objectives we undertook the present study.

The research objectives which were established for specific study in depth in the present study are:

- 1) To provide a conceptual framework of marketing as applied in banking.
- 2) To explain and describe why and how British financial institutions decided to establish formal marketing organizations.
- 3) To describe the measures taken by the sample financial institutions for the implementation of their formal marketing organizations.



4) To analyze the impact that the establishment of a formal marketing organization has had on the banks organization, operations and policies, and

5) To describe, analyze and contrast the marketing activities of the sample financial institutions belonging to the retail side and these of those belonging to the wholesale side; also a contrast of marketing activities of American banks as opposed to the U.K. sample banks is provided.

The reasons for which the banking industry was selected for examination were:

F i r s t : Because banking is one of the more dynamic groups in the service sector.

S e c o n d : Because British banks have just begun to take a formal approach to the marketing of their services by creating marketing departments or by appointing marketing consultants; the influence of this innovation in the banking industry has just begun to take effect and this affords an opportunity,

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we think, of studying the implementation, particularly the consequences of this implementation, of formal marketing on bank management at its outset.

It is extremely interesting, we think, to find the impact of the recently adopted marketing approach on banks management and changes (organizational-operational - policy) which might have been occurred.

T h i r d : It seems interesting to contrast the marketing approach of the banks which aim at the final consumer, "retail-side", with the marketing approach of the banks which serve the corporate customer, "wholesale side", in order to find differences (if any) and contrast these differences with those appearing in the consumer and industrial side of the industrial sector in order to find similarities or differences (if any).

#### Research\_hypotheses

The hypotheses of this research project are:

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(a) The establishment of a formal marketing approach is changing significantly the traditional management patterns of banking and seems likely to play a key role in maintaining the profitability of banks.

(b) The marketing approach of retail banking should be different from that of wholesale banking. This should be so, because consumers' financial needs and wants tend to be more easily recognize in the case of retail banking services, than in the case of wholesale banking services as the case is in consumer and industrial goods.

Also the proportion of marketing costs as a percentage of the total cost of the product is usually higher on the case of consumer goods than in the case of industrial goods; for this reason marketing should tend to be given a greater emphasis in consumer goods firms.

(c) American banks are more sophisticated in their marketing approach than the U.K. banks and this should be a major factor in determining their relative efficiency.



#### 1.4 The Sample : Scope and Limitations

The numerous categories of institutions which offer banking services in the U.K. (i.e. discount houses, money traders, London clearing banks, other deposit banks, accepting houses, American banks etc.) suggest the need for defining the scope and limitations of this thesis in more specific terms.

Perhaps the ideal research approach would have involved a comprehensive study of the marketing in all institutions which offer banking services. For lack of resources and time, this all-encompassing research plan did not appear feasible for an individual thesis.

Therefore a more appropriate research design was developed which put limitations on the number of institutions studied. By working within the constraints and criteria specified below, it was judged reasonable that a depth study of thirty-four institutions would provide an adequate data base for research.

Three major criteria were used to identify institutions suitable for analysis.

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The most important one was the type of customer served.

Financial institutions provide banking services to two broad categories of customers; first to consumers such as deposits, money transfers etc. and, second to the various firms (industrial, commercial etc.) such as loans, letters of credit, factoring, leasing etc.

The purpose of that distinction was first to find out differences (if any) between retail bank marketing and wholesale bank marketing with respect to their formal marketing organizations and marketing activities performed and, second, to identify similarities (if any) between retail bank marketing and marketing of consumer goods and wholesale bank marketing and industrial (product) marketing.

Two other selection criteria were used.

They were the size of the institution (as measured by its asset size) and its nationality.

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It was planned to select a group of institutions which were small and another group of institutions which were large. This sample composition was intended to provide data for determining and understanding differences (if any) in the formal marketing organization, the marketing activities performed by them and their marketing sophistication.

The other criterion i.e. the nationality of institution was intended to pinpoint differences in marketing area between foreign banks operated in the U.K. and the U.K. banks.

As concerns foreign banks only American banks operated in the U.K. were conducted since marketing and bank marketing were first developed in the States and one might expect the most extensive use of its techniques by firms and banks of that country.

A final point that should be made explicit is that the focus of this research is on what has been done by the management of the U.K. financial institutions in relation to formal marketing. The thesis examines the impact of formal marketing on the U.K.

banking industry by studying how and why banks' management introduced formal marketing organizations as they did.

This research design does not attempt to undertake sample surveys of bank customers (consumers and/or firms) in order to find out their (dis) satisfaction with their banks; there are many interesting questions related to the characteristics and behavior of banks' customers, but research in this area would provide material for other theses.

## 1.5 Research Methodology

(a) Literature search. A search of the literature has been ongoing feature of this thesis since its inception in 1973. Discussion of the available literature might be divided into books and journal publications.

U.K. books available on banking have completely ignored the subject of bank marketing; there are, however, enough American books dealing with the subject of bank marketing.

These books have been published by the American Bankers Association and Bank Marketing Association.



Proceedings of annual conferences of these institutions dealing with various aspects of bank marketing were reviewed as well. Also the two surveys carried out by the American Bankers Association ( 2 , 3 ) on the status of marketing in the American banks were consulted.

A review of American banking and financial journals revealed a growing number of articles on various aspects of bank marketing.

Some of this material has provided useful background information to help define objectives and hypotheses of this thesis. A list of publications found most useful is cited in the bibliography.

As concerns U.K. banking and financial journals it was revealed that they had completely ignored the subject of bank marketing until very recently (1975).

The first articles on bank marketing started to appear in the end of 1974 and since then are growing.

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So, given the nature of research work so far in the U.K. in that particular field, it was judged that there was a potential for, first, providing a conceptual framework of marketing as applied in banking, second, a scholarly appraisal of the why and how formal marketing was introduced in the U.K. financial institutions, third, examining the effects of formal marketing on bank management and, fourth, describing and contrasting the marketing approaches of retail and wholesale banking and U.K. and American marketing approaches in this country.

(b) Research Design. The research design for this thesis was developed and tested over the period from October 1974 to January 1975. Background information on U.K. bank marketing was gathered from field interviews that were conducted with the Birmingham regional headquarters and/or branches of banks in order to gain an appreciation of the status of formal marketing.

Two research approaches were considered. One involved the preparation of a questionnaire for mailing to a large sample of financial institutions. The other was use of field interviews with the appropriate persons



of a small sample of financial institutions. The required depth and the difficulty of obtaining adequate replies rejected the mail questionnaire approach.

Considerable effort was devoted in defining the exact research objectives of the thesis and the strategy for field interviewing. A detailed interview questionnaire was constructed and pilot tested to help assess the feasibility of that research approach.

Officers in nine areas of bank management responsibility were to be approached for information. Marketing departments represented by their director or manager and most of the staff, training department represented by one of its officers, personnel department represented also by one of its officers, advertising departments, public relations departments and corporate planning departments represented by more than one of their officers.

Also senior staff and, in some cases, top management (local directors) of Birmingham regional

headquarters were interviewed. Last a small number of branch managers were interviewed in order to express their views towards marketing.

The interview questionnaire used for the field research is shown in Appendix A. It is included to show the type of questions addressed to each financial institution in the sample.

In addition to that, documentary information (such as management reports, organizational charts, and marketing research projects) was requested to supplement and validate, to a certain extent, interview data.

(c) Conduct of the Field Research. The interviews were conducted during the period January to June 1975. Usually three to seven working days were spent on the premises of the clearing banks and one to two days on merchant banks. Frequently call back interviews were held with ten officers in order to explore specific questions, and verify information. Altogether more than eighty people associated (explicitly or implicitly)

with bank marketing activities were interviewed during the field research. In some institutions several (or all) of the marketing functions were the responsibility of one officer.

During the period of this research two clearing banks introduced the position of regional marketing officer; these officers (another valuable observer on the impact of formal marketing on bank management) were included in the interview schedule.

Different parts of the interview questionnaire were addressed to the special competence of each officer and some overlapping was thought to be necessary to cross-check key points of the source data.

The cooperation of financial institutions officers in providing the requested information was outstanding.

A minor disadvantage of the field research was that few people associated with the introduction of formal marketing were no longer with the bank or in the same position. In these few cases the second-best information source currently available was used.



The availability of written documents to supplement the interview data varied widely between the banks. For example some banks did provide their marketing plans while others did not.

Approximately all of the financial institutions on the retail banking side had carried out at least one marketing research study after the establishment of a formal marketing organization.

At one time it was proposed to use a tape recorder in the interviews but that idea was abandoned in order to avoid the "posing" problem.

(d) Organization and Analysis of the data. The notes were organized for analysis into three major categories.

First was by financial institution so that each formal marketing organization and marketing activity could be studied in depth.

Second was by research objective, so that the data relevant to each hypothesis could be easily located.

Third was a classification of data according to major topics within the subject area.

From this data base and the relevant literature sources an analysis was made of the key points raised by research objectives and established hypotheses and information was selected for inclusion in this thesis.

The findings are presented in such a way that the identity of individual financial institutions is not disclosed.

Particular examples of individual institutions marketing behavior were included when this illuminated the particular point; needless to say, the results of the study have been written up to show the general conclusions relevant to the whole sample.

Last it should be reminded that the findings the thesis apply only to the thirty-four sample institutions. Some of the conclusions may have wider validity but extension of results to other institutions should be made only with that reservation in mind.

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(e) Plan of the thesis. The thesis is divided into six chapters.

Following the introduction, the development of a conceptual framework of marketing as related to banking and the finding of the study are presented in four chapters.

The second chapter offers a conceptual framework of marketing as related to financial institutions.

The third chapter offers an explanation on why and how the sample financial institutions decided to establish a formal marketing organization plus an examination of the implementation strategy used to establish the formal marketing organization.

In the fourth chapter an assessment is made of the way in which formal marketing influences the management policies and practices of the sample financial institutions.

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Chapter fifth considers the marketing activities performed by financial institutions in the retail side as contrasted to those of wholesale side; also the marketing activities of American banks based in the U.K. are presented and contrasted with those of the U.K. sample financial institutions.

Finally, the sixth chapter presents a summary of the major findings an evaluation of their implications for bank management and some proposals for further research.

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-CHAPTER II-

BANKING AND MARKETING : A CONCEPTUAL FRAMEWORK

I n t r o d u c t i o n

The fundamental objective of this chapter is to provide a conceptual framework of marketing as applied in the banking sector.

Although in recent years a number of articles about particular aspects of marketing of bank services have appeared in banking periodicals no attempt has been made for the presentation of an integrated theoretical framework of marketing exclusively related to the banking sector; the purpose of this chapter is to fill this gap.

The format of the chapter includes, first, a brief critical review of the literature related to the marketing and the marketing function; various definitions of marketing, marketing concept, marketing management and socially responsible marketing are critically examined. This is followed by the conceptual framework of marketing as related to banking.

## 2.1 Marketing : an overview

It is difficult to give a definition of marketing that is acceptable to everyone and no attempt will be made in this thesis to do so. Most practitioners have different definitions of marketing and so will most academics. However, it is possible to say, that a consensus has been achieved in most cases as to what marketing is and what it covers. A few examples of the common definitions which should help illustrate this will be cited.

According to the American Marketing Association, marketing consists of "the performance of those business activities that direct the flow of goods and services from producer to consumer or user" ( 4 ). Very similar definitions although more recent has been given by E. J. McCarthy, J. Stanton, Converse, Huegy and Mitchell and others.

According to McCarthy ( 42 ) marketing is "the performance of business activities that direct the flow of goods and services from producer to consumer in order to satisfy customers and accomplish the firm's objectives".

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Stanton ( 63 ) defines marketing as "the total system of interacting business activities designed to plan, price, promote and distribute wantsatisfying products and services to present and potential customers" while Converse et al. ( 18 ) define marketing as "the creation of time, place and possession utilities. Moving goods from place to place, storing them and effecting changes in ownership by buying and selling them. The activities of buying, selling and transporting goods includes those business activities involved in the flow of goods and services between producers and consumers".

Another group of marketing definitions sees marketing as a transaction of some kind. Definitions of that group include and those given by Rodger, Cherrington, Kelley, Bartels and Kotler. Rodgers ( 58 ) defines marketing as "the organisation and performance of those business activities that facilitate the exchange of goods and services between maker and user" and Cherrington ( 16 ) as "the establishment of contact".

Bartels ( 7 ) says that marketing is "the process whereby society, in order to supply its consumption needs, evolves distributive systems composed of participants who, acting under constraints - technical (economic) and ethical (social) - create the transactions of flows



which resolve market separation and result in exchange and consumption" while Kotler ( 38 ) defines marketing as "the set of human activities directed at facilitating and consummating exchanges".

Lastly, the Marketing Staff of Ohio State University ( 46 ) reviewing the given definitions said: "Various definitions of marketing have appeared through time, focusing first upon commodities, later upon the institutions necessary to carry out marketing processes and still later upon functions that were performed in making marketing transactions possible. It has been described by one person or another as a business activity; as a group of related business activities; as a trade phenomenon; as a frame of mine; as a coordinative, integrative function in policy-making; as a sense of business purpose; as an economic process; as a structure of institutions; as the process of exchanging or transferring ownership of products; as a process of concentration, equalisation and dispersion; as the creation of time, place and possession utilities; as a process of demand, and supply adjustment, and as many other things".

This short list of definitions is by no means exhaustive, but serves, we think, as an example that marketing has not a universally accepted definition.

2.1.1 The marketing concept. From these definitions of marketing it becomes easier to infer what the marketing concept is. The marketing concept is, essentially, a philosophy of business. A firm which is geared to the satisfaction of consumers' needs is said to have "adopted the marketing concept" or to "be marketing-oriented". As with marketing, formal definitions of the marketing concept are varied and rather numerous; as J. R. Mckitterick (43) says: "indeed, to be asked to define the marketing concept can almost be accepted in the spirit of a challenge - because it is probably impossible - or if you have already tried and know it is impossible, then such a request can be passed off as spoken in just-or more morbidly, considered as an insult".

LaLonde (39) defined the marketing concept as "a business commitment in a mass production-mass distribution business environment to the planning, organization and integration of the marketing and non-marketing functions of the firm by providing utility to the ultimate consumer or user".

P. Kotler (36) provided us with another definition; according to him it is "a philosophy of long-run profit maximization based on an appreciation that the central problem of contemporary business is the winning of customers; the battle is won by meeting customer needs at a profit".

W. J. Stanton defined the marketing concept as follows:  
"In its fullest sense, the marketing concept is a philosophy of business which states that the customer's want satisfaction is the economic and social justification of a company's existence".( 63 )

It is clear that the definition of the marketing concept is used in some definitions as a philosophy and in others as an actual practice or operating policy.

By philosophy we mean an emphasis on a way of thinking as much or more than a set of particular activities. We can say that the heart of the marketing concept is the thinking about the consumer. As one expert points out ( 59 ) the marketing concept is sometimes referred to as "the market orientation", "the marketing orientation" or "the consumer orientation". A very closely related concept with customer orientation is the concept that "the customer is king".

Published recognition of consumer sovereignty dates back to the 17th century when Daniel Defoe (52 ) wrote the following in the "Complete English Tradesman":  
"The sum of the matter is this, it is necessary for a tradesman to subject himself, by all the ways, possible, to his business; his customers are to be his idols; so far as he may worship idols by allowance, he is to bow down to them, and worship them ....."



It is well-known what Adam Smith ( 6 2 ) wrote in 1776: "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for pronoting that of the consumer. The maxim is so self-evident, that it would be absurd to attempt to prove it".

It should be noted, however, that Adam Smith was not the only economist who emphasized the "marketing concept".

J. A. Schumpeter ( 61 ) states that "under our assumptions, therefore, the means of production process have in general no real leader, or rather the real leader is the consumer. The people who direct business firms only execute what is prescribed for them by wants or demands and by the given means and methods of production... to be sure, we must always start from the satisfaction of wants, since they are the end of all production, and the given economic situation at any time must be understood from this aspect. Yet innovations in the economic system do not as a rule take place in such a way that first new wants arise spontaneously in consumers and then the productive apparatus swings round their pressure. We do not deny the pressure of this nexus. It is, however, the producer who as a rule initiates economic change, and consumers are educated by him if necessary; they are, as it were, taught to want new things, or things



which differ in some respect or other from those which then have been in the habit of using".

Another economist who was aware of the importance of the "marketing concept" was W. C. Mitchell (48); Mitchell states that "the court of last resort in deciding what goods should be made is the whole body of consumers with many incomes to spend".

Also, F. H. Knight realized the importance of the "marketing concept" by stating that "Society as an organized entity must decide the relative importance of different lines of consumption as a basis for the guidance of production". ( 35 ).

Despite these pronouncements, however, the actual practice of marketing concept took place during the 50's.

2.1.2 Socially - Responsible concept marketing. In recent years there has been an increase in further concern  
- for the environment and with societal problems.

L. Dawson ( 19 ) suggests that in these circumstances customer orientation should be replaced by consumer concern. The usual question which marketing men ask i.e. "Can it be sold?" is likely to be replaced by such questions as "should it be sold?" and "it is worth its cost to society?"

P. Kotler ( 37 ) states that "the societal marketing concept calls for a customer orientation backed by integrated marketing aimed at generating customer satisfaction and long-run consumer welfare".

Bell and Emory ( 9 ) proposed that social responsibility calls for the following changes in the three key elements of the marketing concept i.e. the customer orientation, integrated effort and profit direction; first, customer orientation should be replaced by consumer concern i.e. a positive effort by the marketer to make the consumer the focus of all marketing decisions through service that delivers a high level of satisfaction per consumer dollar spent; second, integrated effort becomes integrated operations i.e. a view that the entire business is a total operational system with consumer and social problems taking precedence over operational considerations in all functional areas, and, third, profit direction becomes profit reward which means that profit must be viewed as the residual that results from efficiently supplying consumer satisfaction in the market place.

The above changes aim at greater customer orientation by giving concern not only to consumers' perceived needs, but also their quality of life.

2.1.3 Marketing Management: Marketing management is a means of implementing the marketing concept; Stanton ( 63 ) maintains that "marketing management is the marketing concept in action" whereas M. Zober ( 70 ) states that "marketing management is the use of the interdisciplinary sciences in the coordinative effort of planning, organizing, and controlling business activities that direct the flow of goods and services from producer to consumer so that the consumer is fully satisfied and the objectives of the enterprise are achieved".

Also, Howard ( 30 ) speaks of "the heart of marketing management's task, which is the creative adaptation by the company to its changing environment".

Having done a review of the literature related to the marketing, we are proceeding with a development of a conceptual framework of marketing as related to banking.

## 2.2 Marketing and Banking

Bank marketing is essentially service marketing since banks and other financial institutions sell services and not products.



We could say that in its fullest sense bank marketing is the whole process of gearing bank operations to serve customers' needs at a profit.

Marketing and the marketing concept came to banking, as in other service industries, about two decades later than to other industries.

Needless to say, by marketing we mean formal marketing since an informal marketing has been always practiced by all industries and banks as well.

In the past, however, banks, generally have not been consumer - oriented. As H. Z. Robbins (57 ) writes: "Still, there are many who would subscribe to Mark Twain's characterization of a banker as a fellow who lends you his umbrella when the sun is shining and wants it bank the minute it rains".

Also, it has been stated ( 57 ) that although many bankers have a positive professional and personal image, as a group, they rank low on consumer involvement in coping with community social problems.

Is marketing and marketing concept any different for banks than for any other type of business? Obviously not, at least not, as far as definitions concerns.



Prof. Berry ( 10 ) an American expert in bank marketing, defined the marketing concept in the same terms as in the manufacturing area; according to him "the marketing concept is an emerging philosophy of the business organization that has developed as an increasing number of production, engineering, or sales-oriented firms have evolved into marketing - oriented structures.

This new philosophy is characterized by three ultimate, overall objectives of the firm. First, customer orientation in all aspects of organization and operations; second, the scientific pursuit of profitable volume, and, third, the integration of effort toward common goals or what has come to be called the "system" approach to marketing"

- 2.2.1 Development of a marketing programme for a bank. It has been suggested by Oxenfeldt ( 51 ) that when the devices a firm uses to achieve a large, growing, secure, and profitable market for the firm's products are "tied" to one another, as well as being substitutes for one another, and the parts are unified by a market strategy, the end result set may be described as a marketing programme.

It is obvious that interest for development of a marketing programme of a bank is preceded by concern for the market; C. L. Harris (29) states that "the 'market' is a set of pressures exerted by actual or potential buyers and sellers for a total of related transactions. The transactions are related (1) in time, a few minutes in some cases, but a much longer period in others; (2) in area, from a tiny space to most of the world; and, (3) in type of item".

According to that definition the market for bank services may be viewed as a set of pressures exerted by actual and/or potential users and supplies of them for a total of transactions related in type, area and type of service.

Bank management strikes for funds, profits and satisfactions (economic - psychological - social) plus the attainment of the bank's objectives.

From the consumers' point of view, pressures exist for transactions which provide the use of bank funds, for payment and collection of other business transactions, storage of money, interest income, other various financial services plus satisfactions

(economic, social, psychological).

It is the purpose of bank marketing to reconcile these complex market pressures and to establish desired transactions. The marketing process is unified and directed toward the achievement of bank's objectives and the satisfaction of consumers' needs through the marketing programme.

The use of formal planning and thus the development of a marketing programme results in a number of benefits.

According to M. C. Branch ( 13 ) the use of planning "encourages systematic thinking ahead by management. Leads to the development of performance standards for control. Causes the company to sharpen its guiding objectives and policies. Results in better preparedness for sudden developments. Brings about a more vivid sense in the participating executives of their interacting responsibilities".

Situation analysis. The first step in the development of a marketing programme is the analysis of the present situation.

The question "where are we now?" should be answered in great detail.

By the situation analysis we put the bank's present position into its proper perspective by assessing it, finding the factors which contributed to that position and finally by broadly defining the future problems and opportunities.

A common design for a situation analysis is the following one:

(a) Analysis of the bank's total environment  
i.e. economic, competitive, legal, social and cultural.

(b) Self-analysis of the bank.

(c) Outline of bank opportunities, strengths and weaknesses.

Objectives and Goals. The ultimate or broad objective is the foundation upon which a marketing programme must be constructed.

Objectives are, usually, distinguished in charter objectives and operating objectives (31 );



Charter objectives. (sometimes called long - range or corporate level objectives), basically, describe the "mission" of the bank providing guidelines for the bank's operating personnel. They are set by the bank's board of directors and top management. An example of charter objectives may be that our bank is in the business of satisfying the financial management needs of consumer and commercial customers for a profit; another example may be that our bank should increase its earnings per share in the coming year by fifteen per cent.

The settling and communication of charter objectives to the bank employees is of paramount importance because they establish a commonality of purpose and provide a basis for continuity of decision-making over time.

After the establishment of charter objectives, bank management should develop the operating objectives necessary to fulfill the charter objectives.

Operating objectives are more specific than charter objectives but they should still avoid the specification

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of exact numerical levels of achievement ( 31 ). Examples of operating objectives are such objectives as to become the dominant bank in the community, to increase the use of bank services by present customers etc.

Goals are very specific and are developed in order to accomplish the bank's objectives. Joselyn and Humphries (31 ) cite three important characteristics of goals that must always kept in mind; first, goals must be developed in such a way as to accomplish the bank's objectives, second, every individual should have a goal which is realistic to his job, and, third, goals must be flexible and the bank must have a system for monitoring goal achievement on a nearly continuous basis.

Examples of goals are to increase the average number of current services used by present customers by twenty percent, to achieve a forty per cent recognition level by consumers by July 1, etc.

Strategy and tactics. As in the case of the terms objectives and goals so in the case of strategies and tactics there is some confusion about the exact

meaning of each term.

Kotler ( 38 ) states that "the objectives of a company indicate where it wants to be; the strategy indicates the intended route; the tactics indicate the particular vehicles it will use".

A bank's marketing strategy and tactics should aim at a particular target market.

In recent years there has been a tendency for the enlargement of the market for banking services. When the potential market is of adequate size, it is feasible in economic terms, to promote services for relatively small and sometimes yet unsatisfied segments of the market.

In order to segment the banking market one may consider the essential aspects of various financial services by asking the following questions: For what needs may the bank's services be adapted? How may a service be adapted and marketed in order to match the bank's capabilities to perceived needs and simultaneously to contribute to the attainment of the bank's objectives? For or from whom?



The answer to these questions need careful and systematic examination to determine those markets that are not adequately served, those not served but bank's strengths could attract and those that management prefers to serve.

The most appealing markets are selected as target markets and will be intensively cultivated by the bank. With reference to these markets operating objectives will be translated to goals.

The marketing mix is a term coined by Neil Borden of the Harvard Business School to denote the mixing of each of the means which the marketing manager has at his disposal so that the marketing objectives may be satisfied.

Borden (12) presented the following elements of the Marketing Mix of Manufacturers:

- |                             |                                |
|-----------------------------|--------------------------------|
| 1. Product Planning         | 7. Promotions                  |
| 2. Pricing                  | 8. Packaging                   |
| 3. Branding                 | 9. Display                     |
| 4. Channels of Distribution | 10. Servicing                  |
| 5. Personal Selling         | 11. Physical handling          |
| 6. Advertising              | 12. Fact Finging and analysis. |



In the following listing the elements of a bank marketing mix are grouped in three categories and selected instruments are assigned to them for illustrative purposes.

P R I C E : Interest rate; Service charges; Discount; Other charges; Trust fees; Other fees etc.

P R O D U C T : Banking services - various categories of deposits - loans, other services (travel agency, leasing, factoring etc.), trust services.

P R O M O T I O N : A d v e r t i s i n g (media - advertising, brochures, point-of-sale materials, bulletin boards, time and temperature signs, time and bank, transportation advertising, leaflets, direct mail advertising etc.)

P r o m o t i o n a l a c t i v i t i e s (other than advertising)  
(Economic and other education programmes which do not carry explicitly an advertising message, financial libraries, financial support of social organizations, projects, participation of bank personnel in social organizations, use of advisory committees, premiums, prizes and other give-aways).

Personal selling (Bank officer call programmes on businesses and consumers, sales manuals for call programmes, deliberate selling efforts by members of top management and members of the board of directors, employee efforts to sell services other than those he is performing "cross-selling" and indirect selling performed by bank guards, receptionists, switchboard operators, elevator operators etc.)

D I S T R I B U T I O N (Location of banking offices, design and decor of banking premises, location and convenience of banking facilities and banking business days and hours).

How to compose the marketing mix. The marketing instruments available to the bankmarketer have the same "mix" characteristics as those used by the manufacturer ie. the yield of diminishing returns as one instrument is increased and others remain unchanged, some degree of substitutability, qualitative characteristics, the interdependence problem (for example simultaneous use of newspaper advertising, point-of-purchase display material and premiums should collectively generate more deposits than using each of these elements sequentially - "synergy effect"), and the

infinite permutations problem (i.e. if bank management can use any or all four advertising vehicles and for each vehicle chosen, spend at one of, say, twenty possible levels some 160.000 different media programmes are possible!).

In addition to the above-bank management should take notice of the market forces bearing on the marketing mix as the manufacturers should do.

The market forces mentioned by Borden such as consumers' buying behavior, trade's behavior, competitors' position and behavior and Governmental behavior exert certainly an influence on a bank's marketing mix.

The marketing mix which the bank will present to its target markets requires complicated sets of choices and a conceptual framework for decision - making should be mentioned.

The formal model for composing the marketing mix borrows heavily from the economist's concepts of elasticity and marginalism and assumes a profit-maximization objective.

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According to the normative model bank management would consider all possible combinations of prices, product and promotion and choose that combination which would maximize profits. The maximum profit will lie at that point where a change in any one of the instruments and/or the composition of a different combination will not improve the net profit. The profit maximizing "mix" is obtained, in theory, at the point where the marginal net revenues of each instrument are equal to their marginal costs.

In that case net contributions of all the instruments are pushed to zero and no improvement in net profit is possible.

The above marginal analysis approach to compose the marketing mix requires the use of marginal cost and marginal revenue data - not available at present.

Despite of that every bank consciously or unconsciously presents a combination of marketing instruments to its markets. This means that managerial judgments are made concerning the relative values of the various instruments and their combinations.

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The economic concept of elasticity is used in composing the marketing mix not only in the price element of it but to other elements such as promotion and product. Just as the marketing manager might be interested in the degree of relationship between a change in price and a change in quantity sold, so would he be interested in the degree of relationship between an increase in promotion generally (or in some particular promotool) and an increase in sales; this is, obviously, the concept of promotion elasticity.

The concept of elasticity may be applied to the variable of place; the coefficient of place elasticity would be the ratio of a relative change in sales volume (say deposits) to a relative change in points of possible purchase.

Although there is a paucity of exact data bank management should estimate the various responses of markets to each of the marketing mix elements and to various combinations and calculate their elasticities; the use of marketing instruments should be appraised in terms of increments and alternatives.

It is not relevant to ask whether ten per cent of deposits should be spent on advertising; what is

relevant is what amount of value of market response will be evoked by £ X, £ X+1, £ X+2 etc. of advertising expenditures and/or will £ X evoke more favorable (in terms of bank's objectives), response if they are expended on radio or T.V. advertising.

The essence of composing the marketing mix is the "marginal" concept. Bank management should make gradual adjustments in the selection and combinations of marketing instruments in order to determine the most effective in attaining its objectives.

Experimentation of various marketing instruments, testing their effectiveness and management's ability to perceive market needs and responses is a perceptual requirement of efficient marketing.

Last, but not least, we should note that although an optimal marketing mix is a desired objective, it is sought with little real hope of attainment.

In bank marketing, as in manufacturing marketing, there have not been yet developed clearly defined marketing laws; and as Borden (12) states "until then (i.e. the development of laws) and even then, marketing and

the building of marketing mixes will largely live in the realm of act".

C o n t r o l. In a good marketing programme a control system must exist.

According to Kotler ( 38 ) "Control is the process of taking steps to bring actual results and desired results together".

Banks can use techniques such as budgeting, ratio analysis, marketing audits plus other techniques of management science in order to control the progress of their marketing programme.

#### S U M M A R Y \*\*\*\*\*

The purpose of this chapter was to provide a conceptual framework of marketing as applied to the banking sector.

A brief critical review of the various definitions of marketing, its emergence, and analysis of other concepts as marketing concept, marketing management, socially responsible marketing etc. were presented in the first part of this chapter, while

in the second part a conceptual framework of marketing as applied to banking sector was provided. This was done by developing a bank marketing programme i.e. using the various elements of "marketing mix" in order to achieve specific objectives set by the bank.

Having done this it is now necessary to proceed with an analysis of how and why financial institutions established formal marketing organizations.-



- CHAPTER III -

WHY AND HOW FINANCIAL INSTITUTIONS  
ESTABLISHED FORMAL MARKETING ORGANIZATIONS

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The fundamental objective in this chapter is to study why and how a financial institution adopts a formal marketing organisation i.e. makes somebody (or a whole department) explicitly responsible for its marketing activities.

The format of the chapter includes first, an examination of the question why the U.K. financial institutions developed only recently, and not earlier, formal marketing organizations and, second, an examination of major policy issues raised for bank management by the decision to establish a formal marketing organization and the way they were resolved by the sample financial institutions.

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3.1 Factors influencing adoption of a formal marketing organization

It would be useful to classify the reasons offered by the sample financial institutions for their formal marketing organization adoption decision into external and internal factors.

External factors primarily relate to the influence of environmental factors especially economic ones, either in the general economic environment or in the competitive market areas.

Internal factors refer mainly to reasons within the sample financial institutions which caused them to become aware of a basic need for a formal marketing approach; the sources of the formal marketing organization idea in the sample financial institutions are presented also in this section.

(a) External factors

It is well-known that the external environment influences the structure and strategy of any organization which operates in that particular environment (15,40 ).

According to H. B. Thorelli ( 64 ) every human being and every company depends on its environment, as biological organisms, for survival and the environment is the totality of forces and entities that are external and potentially relevant to the particular agent; an agent could be an animal, a person, a company, a nation ( 64 ).

The particular agent interacts with his environment and responds to it and/or may create a new environment; this interaction is usually viewed through the application of ecology.

Ecology is "the mutual relations among organisms and their environment" which (i.e. organisms and their environment) consist an ecological system or ecosystem. In such a system individual parts and organisms can be replaced to prolong effective functioning of the overall system.

In theory, at least, an organization is capable of adding to healthy subsystems and killing off those outdated parts which cannot keep up with its environment needs ( 64 ).

In practice, however, most organizations initiate change only in a crisis situation and often only when it is a matter of survival. This is so because managers have been accustomed by experience and education to "solutions" and not to "predictions" of problems.

As Greiner's studies ( 27 ) indicate managements and especially top managements have adopted a passive role in the management of change.

According to these studies succesful change does not begin until strong environmental and internal pressures "shake the power structure at its very foundation. Until the ground under the top managers begins to shift, it seems unlikely that they will sufficiently aroused to see the need for change, both in themselves and in the rest of the organization " ( 27 ).

If this is the situation, what happened to the environment of the British financial institutions which "aroused" their management "to see the need for change?"

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In essence what happened was the growth of competition. That growth of competition had a number of underlying causes.

The major cause has been the operation of the Bank of England proposals on "Competition and Credit control" which came into effect on 16 September 1971.

In this 1971 Budget speech the Chancellor of the Exchequer announced that the authorities wished to study the possible development of new techniques of monetary policy aiming at combining an effective measure of control over credit conditions with greater scope for competition and innovation ( 5 ).

Some of the proposals for that purpose were the following ones:

- (i) In recent years the authorities have paid particular attention to certain categories of lending in sterling by banks and finance houses who have been asked and have agreed to observe quantitative limits on that lending. In practice these limits have

been applied individually to most of the banks and finance houses affected and consequently have impeded competition and innovation so that the efficient have been prevented from growing and the less efficient have been helped to maintain the level of their business. Competition in the banking system is at present also limited by the agreement between the Bank of England and the London and Scottish clearing banks which require these groups, but no other banks, to hold certain specified classes of assets to an amount not less than a fixed percentage of their deposit liabilities (the cash and liquidity ratios). In addition, the London and Scottish clearing banks adhere to collective agreements fixing the rates which they pay on deposits and setting minimum rates charged on advances.

- (ii) The authorities, for their part, propose that the impediments to competition arising from the existing liquidity and quantitative lending controls should be replaced by other means of influencing bank and finance house lending in sterling, including the application of a reserve ratio across the whole banking system. It would be part of these proposals that when the changes are introduced, the London and Scottish clearing banks should

abandon their collective agreements on interest rates (subject to the proviso in paragraph 15 below about the terms offered on savings deposits).

Also a proposal was included to restrict the extent of the Bank of England's operations in the gilt-edged market.

This modification was considered appropriate "to accompany changes in credit control intended to allow greater freedom of competition in the banking system with lesser intervention by the authorities in the gilt-edged market so as to leave more freedom for prices to be affected by market conditions and for others to operate if they so wish" ( 5 ).

It is obvious that the new policy introduced by the Bank of England had two purposes, first, to set up for the authorities a system of effective control and, second, to boost competition and innovation in the banking sector; as one banker put it "The changes proposed were fundamental. They go to the root of competition by dealing directly with lending and borrowing".

Another clearing bank economist wrote:  
"The banking sector has changed from being an island of oligopoly and control in a generally competitive



economy, to an island of competition and market forces in an economy subject to official support and direction, including the present regulation of prices, incomes and profits" ( 6a ).

The development of an international money market that came when the major currencies of the world became convertible has resulted in the development of that market at the City of London, and that was one of the major reasons for attracting foreign and especially American banks to establish subsidiaries in this country.

The foreign banks attracted not only foreign currency, but huge amounts of sterling deposits as well and the clearing banks found themselves unable to compete within the restrictions of the cartel.

The National Board for prices and incomes report No. 34 on Bank Charges ( 49 ) proposed the abandonment of the banks' cartel agreement on deposit rates as a necessary step towards the creation of a system in which the banks could play a greater role than they did by developing a more diversified pattern of lending.



Also in that report was pointed out "The conventions of the Banks show, intertwined with elements of competition, elements of constraint which reflect in part the concentrated nature of the banking system, in part the requirements placed on the banks for purposes of monetary control. We think that a widening of the area of competition between the banks is a prerequisite for promoting change, for the banks to regain the place which they have tended to lose in the capital market and for extending the degree of competitiveness in the entire financial system".

Another factor which did sharpen the competitive pressures on the banks and between banks and other institutions was the proposal of the above mentioned report for the disclosure of profits and reserves as soon as was practicable.

In response to that report's proposals the clearing banks established subsidiaries where they were able to pay competitive rates on large deposits and which were not subject to the cash and other obligations of the clearing banks themselves.

These subsidiaries were able to undertake other activities such as dealing in the expanding

Eurodollar market, making sterling loans to the parent bank's customers through the appropriate conversion of dollars into sterling, which might fall outside the clearing banks' direct interest.

Apart from the invasion of foreign banks competition increased in the early sixties by other financial institutions to which deposits can be transferred from a clearing bank; these institutions were first, those belonging to the public sector i.e. the Post Office Savings Bank and the Trustee Savings Banks and, second, financial institutions belonging to the private sector such as hire purchase companies.

Last, but not least, the promotional efforts of building societies and the introduction of Post Office Giro did offer more competition for the banks.

Therefore we could say in conclusion that it was competition which "aroused" the Banks' management to "see the need for change" especially as their marketing approach was concerned.

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(b) Internal factors

The majority of the sample financial institutions mentioned that it was the increased competition and the disclosure of their profits which forced them to "rethink" about their marketing approach.

One of the biggest sample financial institution in the retail side mentioned the merger which took place some years ago as the key factor that influenced them to establish a formal marketing organization; "merger made more apparent the need for marketing; the use of common sense could not be continued".

In another sample financial institution belonging to the wholesale side the idea for a formal marketing approach came from one of their chartered accountants who wrote a paper, in the "suggestion scheme" which that institution was using, with proposals for an advertising campaign and more generally for their marketing approach.

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In a few of the sample financial institutions the idea came from outside consulting organizations and/or consultants.

In these cases the financial institutions had appointed consultants in order to advise them on general organizational matters and the consultants' reports had included proposals for the establishment of a marketing department and/or the need for a different marketing approach.

Therefore we could say that consultants were instrumental in the adoption and development of formal marketing organizations.

A banker was the person who suggested the need for establishing a formal marketing organization in one of the sample financial institutions while in another one, one of its directors did suggest that idea.

In another of the sample financial institutions the development of a formal marketing approach resulted from its top management's decision to expand their business; so in order to achieve that, they did establish a formal marketing organization.



The few financial institutions which had not developed formal marketing organizations, at the time of the field research, they were thinking of doing so in the (near) future; as one merchant banker put it "there is a crying need for change everywhere, especially in our marketing approach".

Last, but not least, the recruitment of new people more responsive to new ideas than the old ones, did help the adoption of a formal marketing approach; many of them were business-schools graduates who had exposed to the marketing philosophy and techniques and that, also, helped the development of a progressive marketing approach by their respective financial institutions.

(c) Why not earlier?

The fact that formal marketing organizations have been developed since 1968 raises an intriguing question regarding the adoption pattern of formal marketing organizations. Why did all financial institutions not adopt a formal marketing organization before 1968?

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The answer which the majority of financial institutions gave was that there was no competition; without competition, they said, marketing was part of the line management functions and the "inspired guess work" and the "common sense" were very enough and no need for marketing existed.

### 3.2      Implementation of the formal marketing organization

After the decision of the sample financial institutions to follow a formal marketing approach, it was decided to look at the implementation of this idea.

The purpose of this section is to identify major policy issues raised for management by the decision to establish a formal marketing organization, examine how they were resolved by the sample financial institutions. The overall purpose is to probe into the management implications of implementing a formal marketing approach and to assess their significance for the banking industry.

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(a) Major policy issues

The fundamental decision confronting a financial institution developing a formal marketing organization is whether to establish an independent department, division or unit and which will be the responsibilities of that department or unit.

Another early decision involves the internal organization of personnel for the marketing department. What skills are needed for the management of a marketing department? What professional background is desirable for that purpose? What functions need to be performed by the marketing department, and how should it be organized? Should a bank marketing department have line or staff responsibility?

In the majority of the sample financial institutions a separate marketing department was established and they initially drew on inside personnel to head up the whole operation.

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In few cases new people were appointed as heads of marketing departments; these people apart from their academic qualifications they had got an extensive experience in marketing in other industries.

A sample financial institution in the retail side offered in-house courses plus senior management courses at Oxford Business school; in addition to that a member of their staff who was going to become the head of marketing spent some time in the United States studying bank marketing.

Another financial institution filled all the positions in their marketing departments with newcomers who were experts in various fields such as marketing, statistics and operational research while another did use in their marketing department bankers only.

The majority of the sample financial institutions, however, followed a "mixed" approach i.e. they used bankers and newcomers who were experts in marketing or related subjects.



At the first stages of the implementation the marketing departments were based at headquarters (London) but later some of the sample financial institutions thought that better coordination between their marketing departments and their branches was needed and thus they did appoint regional marketing officers.

As the responsibility (i.e. staff versus line) assigned to the newly created marketing departments concerns, the majority of the sample financial institutions started them with a staff responsibility.

One financial institution which started their marketing department with line responsibility found, after two years, that it did not work in practice and it was decided that marketing should become a staff function.

There were no particular difficulties in the implementation phase although, in the words of a manager "adding a marketing 'stant' to various aspects of the bank's work called for some amendments to existing methods and attitudes and these take time to work through in any organization".

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It was the opinion of the people who were responsible for the implementation stage that "when you introduce marketing you must not change things rapidly because you will have attacks".

At the implementation stage the impact of marketing on bank management was very small; as one marketing manager put it "the only impact is they know we are here; we do not change their policies".

One of the first tasks (if not the first) of the newly created marketing organizations was collection of information on their customers; questions such as how many our customers are, who are our customers and which are the important economic and social characteristics of them took a long time (in some cases up to two years) in order to be answered.

Another task which had to be done by the majority of the sample financial institutions during the implementation stage was to find out their image among existing and/or potential customers.

Some resentment had appeared among the bankers against the newcomers in the marketing departments (as heads or senior executives of them) because these newcomers "closed" their promotions.

As the marketing training during the implementation stage concerns, most bankers were resistant to it; as one manager put it "some like it, most tolerate it and some do not like it".

The attitude of most bankers was that marketing and marketing techniques could only be applied to consumer goods and not to bank services.

### S\_u\_m\_m\_a\_r\_y

The purpose of this chapter was to study why the U.K. financial institutions have introduced formal marketing organisations and to examine major policy issues raised for their management during the implementation stage.

### Factors influencing the adoption of a formal marketing approach

- The operation of the Bank of England proposals on "Competition and Credit Control" which came into effect on 16 September 1971.



This act introduced more competition among financial institutions and "the banking sector has changed from being an island of oligopoly and control in a generally competitive economy, to an island of competition and market forces in an economy subject to official support and direction, including the present regulation of prices incomes and profits".

- The establishment of foreign and especially American banks in London which increased the competition in the banking sector.

- The growth of Finance Houses and Hire-purchase companies.

- Growth of competition from Building Societies, the Trustee Savings Banks and National Savings Certificate.

- Apart from the above mentioned factors which applied to all sample financial institutions one of them was motivated by its merger with another bank; according to them "merger made more apparent the need for marketing".

- Last, but not least, consultants were instrumental in this evolution.



(c) Implementation of the formal marketing approach

After the decision of sample financial institutions to follow a formal marketing approach, it was decided to look at the implementation of this concept.

-- First they started to offer in-house courses and senior management people attended courses at business schools and/or went to America in order to study the American bank marketing approach.

-- Most banks established a separate marketing department; as the head of that department is concerned some sample financial institutions drew on inside personnel to head up the operation while others brought people from outside.

-- At the beginning the marketing department was based at headquarters (in London) but later the concept of regional marketing officers was developed.

-- Common problems faced by the majority of sample financial institutions in the implementation

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of the formal marketing approach stage were personnel policy problems (recruitment and training problems), problems of coordination and human relations problems.

Having examined the why and how British financial institutions introduced formal marketing organizations it is now necessary to proceed with an examination of the effects of them on bank management.

- CHAPTER IV -

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EFFECTS OF THE MARKETING ON BANK MANAGEMENT

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The purpose of this chapter is first, to analyze the impact that the establishment of a formal marketing organization had on the management policies and practices of the sample banks and, second, to review and illustrate the most important types of problems faced by the sample financial institutions as well as the solutions which in some cases were devised to alleviate these problems.

Five areas of bank management were given particular attention during the field research; they were the bank organization, the marketing personnel, use of marketing techniques, definition and implementation of marketing policies and personnel selection and recruitment policies.

Each area was examined to evaluate if and how it had been affected by the establishment of a formal marketing organization.

The bank organization was examined in order to evaluate the relationship of the formal marketing organization to the rest of the bank.

The major question was to explore how formal marketing organization had been organized and incorporated into the established traditional bank organization.

An evaluation of the different types of formal marketing organizations which the sample financial institutions used has also been attempted.

The personnel needed to staff the newly created formal marketing organizations were investigated in order to find and evaluate the policies used by sample financial institutions in order to staff them.

The use of marketing techniques has been examined in order to find out the extent of their adoption in particular areas of marketing and also the degree of the sophistication of these techniques.

The definition and implementation of formal marketing objectives and policies were examined in

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order to assess whether formal marketing.

Finally the personnel recruitment aspects were studied in relation to the formal marketing organization in order to find possible effects of the latter on the former.

The central focus of the analysis in each section is to present the way in which the formal marketing organizations have influenced the traditional management of banking activities. To what extent has the formal marketing organization operated independently of the rest of the bank? What concrete changes in bank management, if any, have resulted already from the establishment of the formal marketing organization?

In the first section below we consider the effects of the formal marketing organization on the bank organization.

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4.1     Relationship of the marketing organization  
with the bank organization

Structural changes. The majority of the sample financial institutions established new and separate organizations for the administration of the formal marketing organization.

Two principal forms of organization were observed.

The predominant pattern was the formation of a central marketing department under the supervision of a marketing or business development manager. This officer was responsible for marketing policies and his department in conjunction with other existing departments such as public relations and advertising managed the operation of the whole marketing programme of the bank.

Another form of organization which was used by some financial institutions was the establishment, in addition to the marketing department at their head office, of regional formal marketing organizations;

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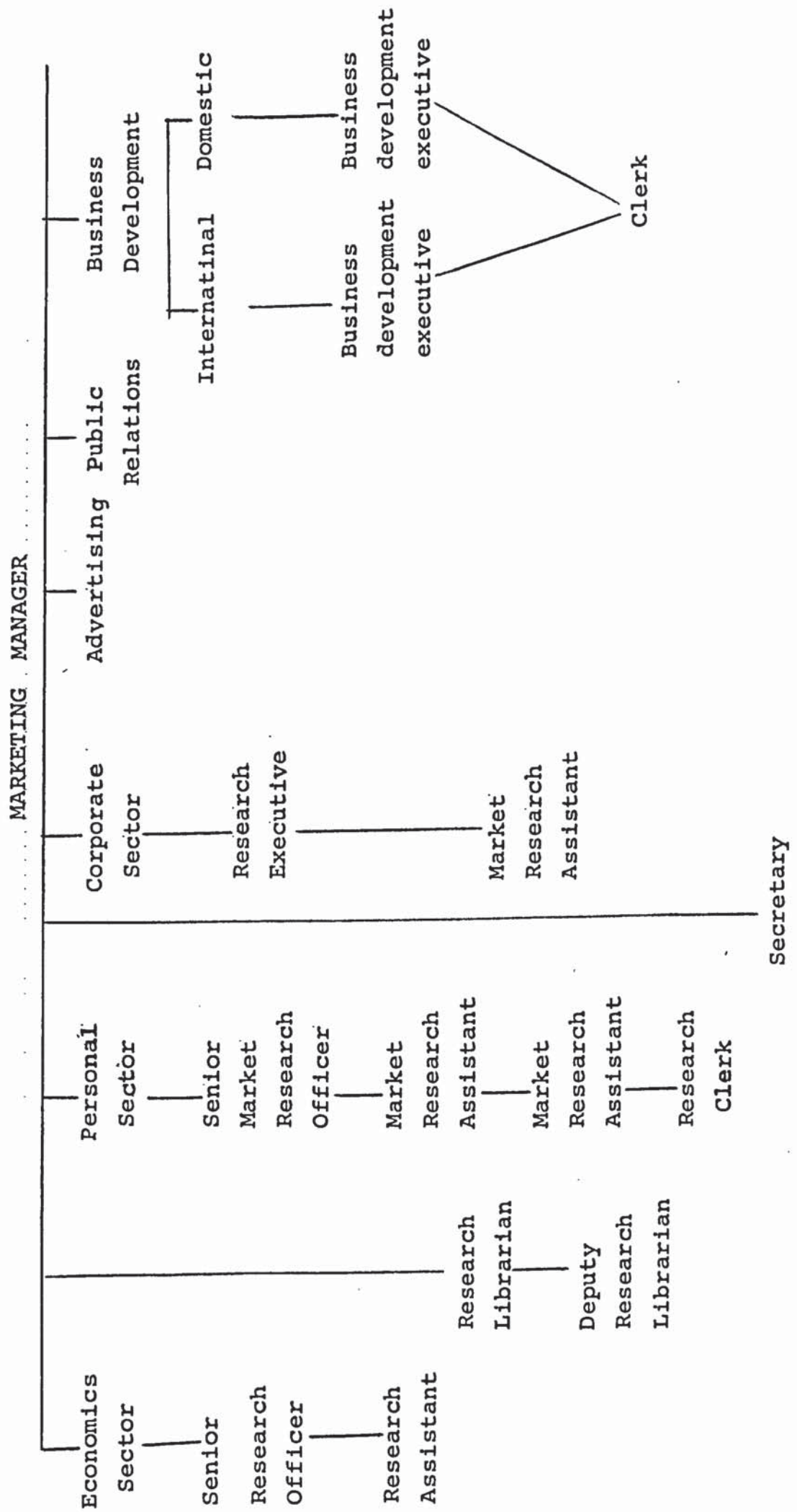
in this case a district marketing manager or Assistant Area Manager in charge of marketing was looking after some aspects of marketing in his area, and, also, acted as a liaison between the headquarters and the branches of his area.

Some representative organization charts of marketing departments of sample financial institutions belonging to the retail or wholesale side are given below:

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A. Organization charts of marketing departments in  
sample financial institutions in the retail side

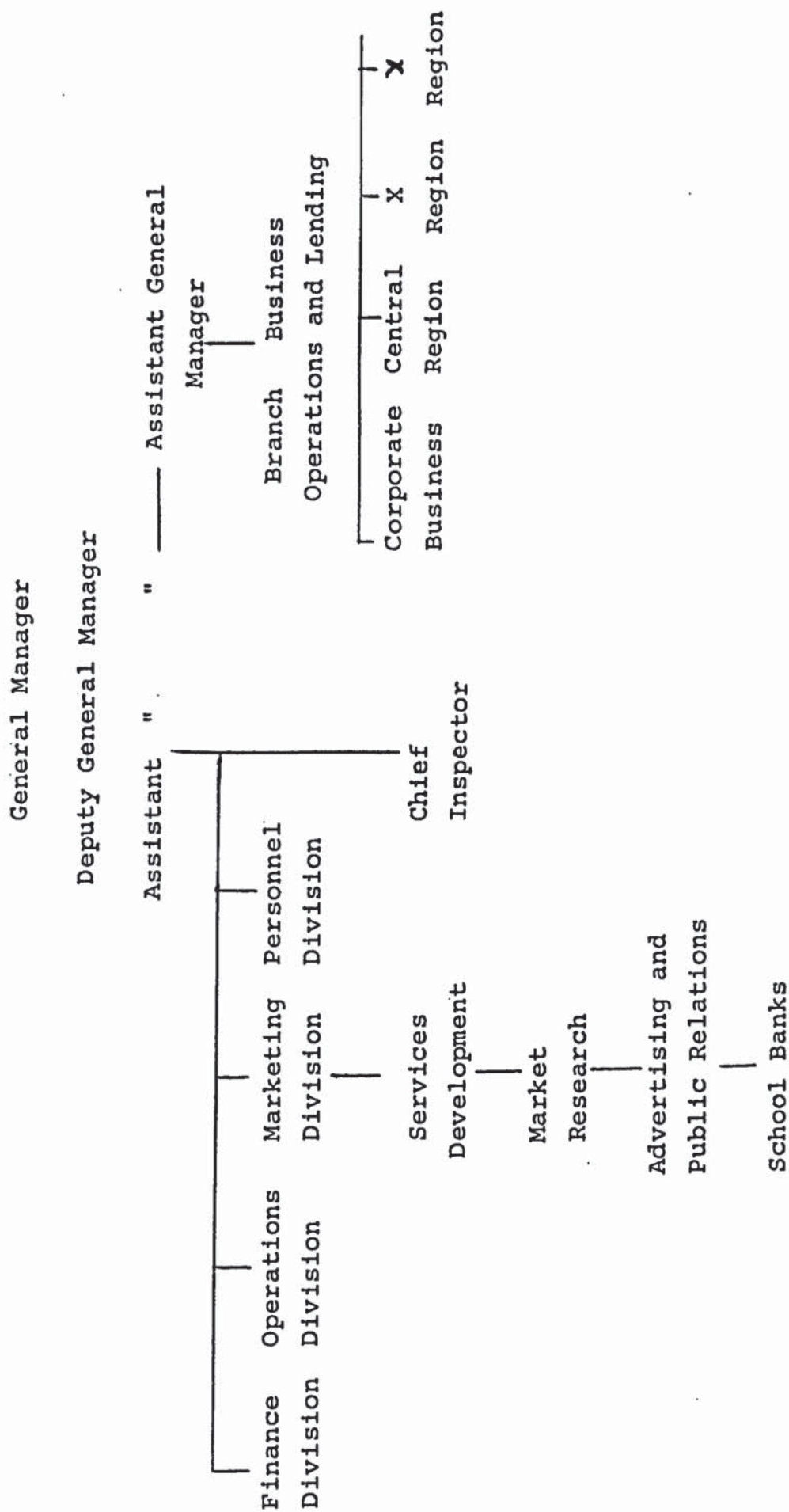
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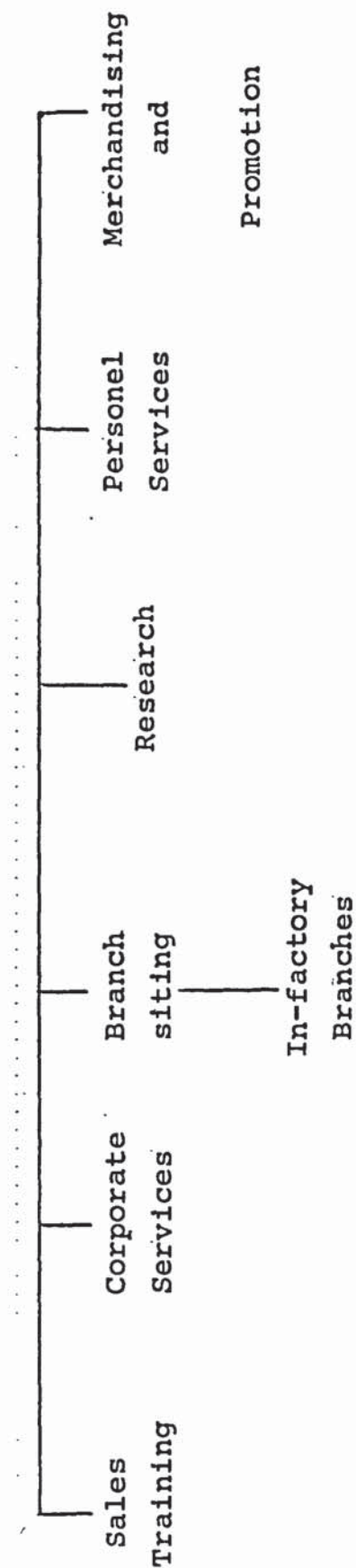
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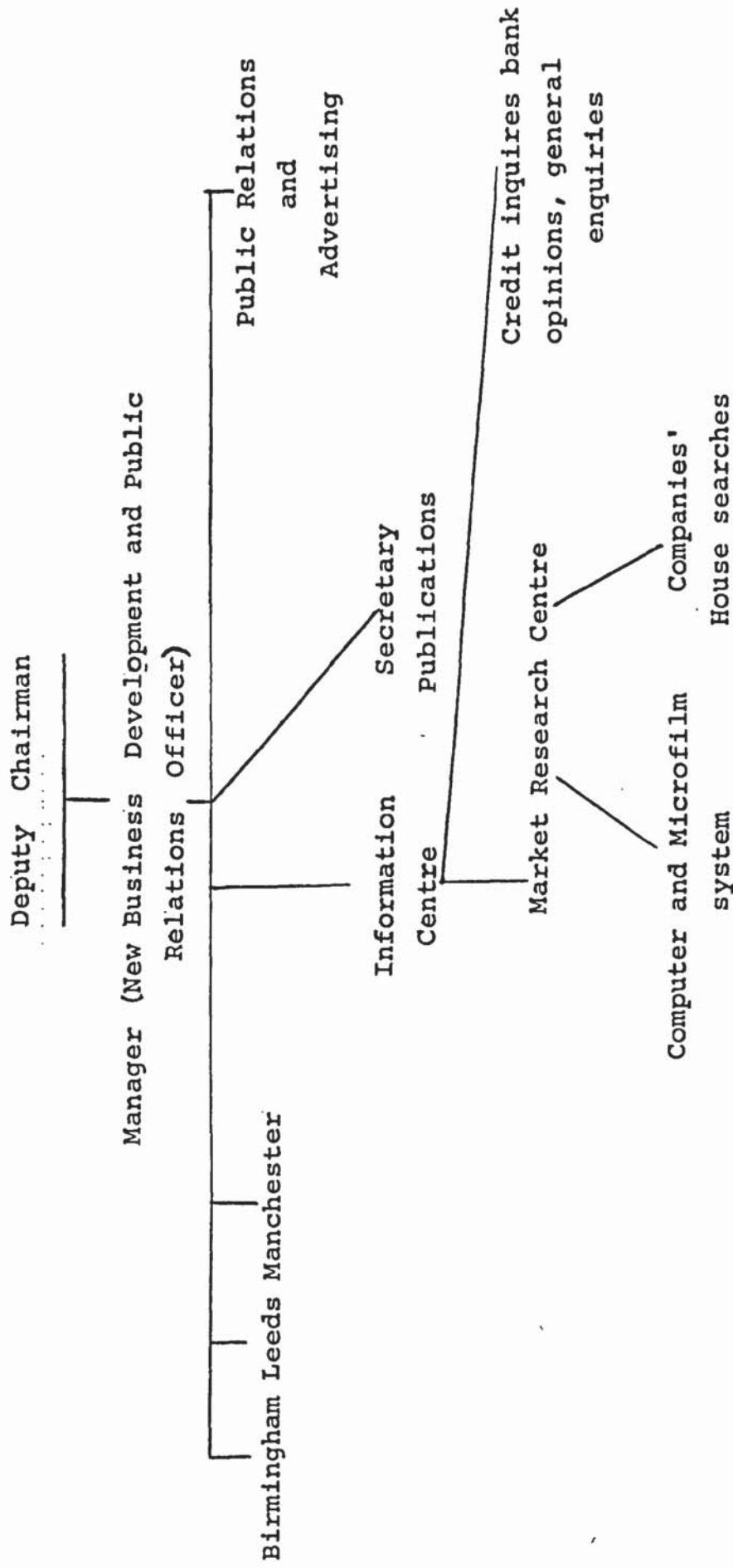


T A B L E   I I I

Marketing Manager



B. Organization chart of marketing department in a sample financial institution in the wholesale side



Some job descriptions of marketing personnel founded in the sample financial institutions were as follows:

Job description of the head of Marketing department in a sample financial institution in the retail side.

The Head of Department is responsible for:

- Formulating and recommending policies on all matters concerning marketing,
- Advising upon the strategy necessary to implement Management decisions relating to business development,
- Market Research - identifying and quantifying markets; assessing the relevance of services to market needs; defining public attitudes to existing and proposed services; assessing existing and proposed outlets for the Group.
- Services Development - devising new services; adopting existing services to meet changing conditions and customer needs, the pricing of services,
- Advertising and Public Relations-planning and implementing advertising policy to complement overall business development strategy; communication policies and activities to the public through public relations policy,

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- Devising and implementing special promotional activities for individual branches in conjunction with regional Control,
- Evaluating Bank and branch revenue and business development performance,
- Design and production of Annual Report.

Also, a market research manager's job description (retail banking side) was as follows:

#### Market Research Manager

#### R e s p o n s i b l e   f o r :

- Conducting a continuous programme of research and studies to identify and define market needs and attitudes concerning existing and potential Bank Services and promotional strategies,
- Measuring the Bank's relative performance in various markets and service areas,
- Undertaking detailed analysis concerning existing and proposed branch locations,
- Special research projects relating to corporate planning decisions and as required by other departments.

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A job description of an advertising and public relations manager was as follows:

Advertising and Public Relations Manager

R e s p o n s i b l e      f o r :

- Planning advertising policy to complement the overall business strategy of the Bank. Implementing advertising policy by employing the most appropriate media and method to achieve the desired results,
- Planning and implementing public relations policy in order to communicate the policies and activities of the Bank and the Finance Company,
- Working in conjunction with the Manager, Personnel Selection to plan and implement staff recruitment advertising and publicity.

It is to be noted that these sample financial institutions which had not established yet marketing departments planned to do that in the near future.

The percentage of sample financial institutions which did have a marketing department was higher among those financial institutions belonging in the retail

side; actually, the first marketing department was established in 1968 in a major bank belonging to the retail side.

As far as the status of the head of marketing departments is concerned, they were, in the majority of cases, on the same hierarchical level with the heads of other departments.

We think that the present marketing structures do need a modification in order, first, to take over (or to coordinate) all the marketing activities (and Public Relations as well) and, second, to set up regional marketing organizations which will act as liaison between them and the branches.

As the future of the marketing departments concerns, they are going to increase in size; as one senior manager of a major retail bank put it "Marketing is a function of line management and the purpose of a separate department is to serve line management, co-ordinate effort and undertake various functions which are best done centrally e.g. research, campaign planning. If expansion is to take place I see it taking place in the field with any expansion

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centrally justified solely on the grounds of providing support to line efforts".

- 4.1.1 New Marketing Personnel. As could be expected, the establishment of formal marketing, organizations and especially the establishment of marketing departments has been accomplished by staffing them with new marketing personnel.

As concerns the top level personnel i.e. the director or manager of the newly established marketing or business development departments, these persons were bankers in the great majority of the sample financial institutions. Only a very small percentage of the sample financial institutions had as heads of their marketing departments non-bankers. One of them was acting as bank's advisor on Public Relations before he became marketing manager while another one was appointed as a marketing manager.

As far as the personnel of the marketing departments is concerned, its number varied tremendously from one financial institution to the other.

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There was an obvious difference between the number of marketing personnel in financial institutions belonging in the retail side and those belonging in the wholesale side. The range goes from few people as one or two, to well over seventy in another case.

In one of the sample financial institutions in the retail side all the marketing personnel were bankers; as a senior executive of that institution said "It is much better to staff the marketing department with bankers with little or no knowledge of marketing rather than to have experts in marketing with no experience in banking".

Another banker put it as follows: "If you have marketers as head of marketing departments there is a danger to have more loyalty in their discipline than to the bank".

In the majority of sample financial institutions, however, a mixed approach had been followed; they had staffed their marketing departments with bankers and new-comers.

The new-comers came from industrial firms, advertising agencies or straight after their graduation from Universities or Polytechnics.

Apart from graduates a very small number of MBA's was present at Marketing Departments.

This mixing-up in the same department of old-timers with new-comers resulted, as could be expected, in some human relations problems which will be discussed in the second part of this chapter.

So it can be seen that shortly after they have started the formal marketing approach, most financial institutions actually find themselves hiring marketing personnel of top and/or middle level positions. This trend, if it is to continue, will have some consequences in England, where the supply of experts in bank marketing is very short. One of these consequences will certainly concern the development of marketing courses and/or seminars in U.K. professional bodies such as the Institute of Marketing and the Institute of Bankers and U.K. academic institutions.

Last, but not least, we think that the U.K. financial institutions do need to recruit more professionally competent marketing people for a fully effective marketing performance.

#### 4.1.2 Training in Marketing

The training provided in marketing by the sample financial institutions can be divided in two broad categories i.e. in-house training and outside - courses.

##### (a) In-house:

The introduction of formal marketing organization had had effects on bank training programmes.

In the receptionists course, for example, of one of the sample financial institutions belonging in the retail side subjects such as introduction to marketing, identification of potential services, cross-selling opportunities and handling complaints were covered.

Also, in the same institution, the subject of marketing was included in their junior management and management courses.

Another sample financial institution in the retail side developed "a programme in Business Development" for their contents of that programme were as follows:

- Marketing and its role in the context of the bank.
- A Branch Business Development Plan.
- Planned Selling.
- Merchandising and Display,
- Leading the Sales team.

In addition to that, marketing seminars were running for branch managers and a three-day marketing seminar for local directors.

Special marketing courses were run, also, for people who were appointed in the newly (1 January 1975) established posts of Regional Marketing Officers in one of sample financial institutions in the retail side.

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Elements of marketing were also included for the first time in the induction courses of the same institution.

The teaching methods used were lectures and case studies by marketing experts and/or banks' staff.

One bank was recruiting "good" teachers and was asking them to learn marketing and after that to teach their employees; the rationale of that approach was that, generally, it was very difficult to find an expert on a subject who could be a "good" teacher of that subject as well.

Another interesting training approach was that used by one sample institution; they were taking branch managers for several days in their Marketing department in order "to brainwash them in marketing techniques".

(b) Outside - courses:

The majority of financial institutions in the retail side sent members of their staff to attend postgraduate courses with a marketing content and/or seminars.

In one of them, in addition to that, members of their marketing department staff were required to study for the Diploma in Marketing, of the Institute of Marketing, qualification.

It should be noted that all the above described approaches were used by the sample financial institutions in the retail side; none of the sample financial institutions in the whole-sale side had had any marketing training programme but some of them did intend to do so in the future.

4.1.3 Definition of Marketing Functions. This effect of the formal marketing organization on the bank management came due to first, the increased complexity of the marketing task, which before the establishment of a formal marketing organization was limited mainly to the performance of the advertising activities, and, second, to the increasing number of personnel in the marketing department.

A need for a delimitation between the newly established formal marketing functions, on the one hand, and between these functions and the advertising and/or public relations functions became obvious.

The recognition of that need, however, had not occurred yet in all of the sample financial institutions. Job descriptions had not been written in all of them although all of them did recognize the usefulness of them.

Those financial institutions which did not have job descriptions planned to develop such descriptions in the future while most of those institutions which already had, were planning to modify them in order to take into account their experiences with marketing.

It should be noted that marketing job descriptions could be proved useful in the diffusion of the marketing philosophy and techniques since they do allow non-marketing people, to whom they are communicated, to have a clear idea of what marketing is about.

- 4.1.4 Increased Use of Marketing Research. The adoption of a formal marketing approach by the sample financial institutions resulted immediately in the (increased) use of marketing research.



Indeed one of the first, if not the first, functions which were introduced in the majority of the sample financial institutions was that of marketing research. The first thing that banks would like to know was to know their customers i.e. economic and demographic characteristics of the people using their services and which particular services these people were using.

Many of the sample financial institutions were at the time of the field research, at that stage i.e. they were trying to learn about their existing customers.

Other marketing research projects which were identified were image studies, studies on advertising copy and effectiveness, location analysis studies and studies on consumers' awareness of their services.

Although most of the sample financial institutions used outside marketing research agencies, ten per cent of them had set up their own marketing research departments.

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The number of people in this department did vary from three to eighteen among the sample financial institutions.

Finally, more use of marketing research in the future was expected by the sample financial institutions.

#### 4.1.5 Development of objectives and marketing policies.

Another effect of the formal marketing organization on the bank management was the introduction for the first time, of marketing objectives and the definition of marketing policies.

As marketing policies is concerned we should mention that in few of the sample financial institutions such policies did exist before and they were redefined after the establishment of the formal marketing organization.

It should be noted, however, that not all of the sample financial institutions had developed specific marketing objectives while in the area of marketing policies there was still considerable

room for improvement.

- 4.1.6 Marketing Budgets. One of the most important consequences of the formal marketing approach by the sample financial institutions had to do with a general increase of the various marketing budgets and, to a certain extent, a more systematic allocation of the general marketing budget into specific elements such as promotion, advertising and marketing research.

In the financial institutions in the retail side their marketing budgets had been noticeably increased, especially as regards advertising, sales promotion and marketing research. In the sample wholesale financial institutions the marketing budgets had not been substantially increased.

The part of the marketing budget allocated to training the marketing personnel, especially in the sample financial institutions, had been noticeably increased as well.

- 4.1.7 Development of Marketing Plans. Thirty per cent of the respondents prepared and used a marketing plan during 1974.

As to the type of market served i.e. retail versus wholesale banking concerns the percentage of financial institutions belonging to the retail side which prepared an annual marketing plan was significantly higher than the percentage of financial institutions serving the whole sale side market.

All the same the development of marketing plans was one of the most important effects on bank management of the formal marketing approach.

Based upon the extremely limited experience with marketing planning to date, the satisfaction derived from this exercise was rather "mixed". This was possible due to the fact that enough changes had to be made during the implementation stage of the plans.

Nevertheless, it would seem that there was enough room for improvement of the planning process in most of the sample financial institutions.

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4.1.8 Personnel selection and recruitment policies. The reason for examining the effects of formal marketing approach on the sample financial institutions, personnel selection and recruitment policies was that, generally, the banking industry had consistently attracted people whose personality traits and attitudes were very divergent with those traits and attitudes associated with effective personnel selling.

Dr. J. H. Donnelly ( 20 ) has provided us with the following table of personality traits of bankers and salesmen:

Some General Personality Traits of  
Bankers and Salesmen

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<u>The Banker's Personality</u>	<u>The "Sales" Personality</u>
1. desire for security	1. self confidence
2. desire for predictability	2. industriousness
3. desire for stability	3. persuasiveness
4. strong dependency needs	4. ambition
5. preference for isolation	5. drive
6. passive	6. self-discipline
7. obedient	7. initiative
8. conservative	8. aggressiveness

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According to the above table bankers do not have sales personalities and it is not surprising that bankers would not be sales oriented and this is perhaps the most important reason why bankers do not like to sell.

We did wonder whether the formal marketing approach resulted in different recruitment policies so that people with "sales" personality would have joined the banks.

The results did show that no substantial change occurred in this particular area although some minor changes were emerging.

For example in a press advertisement for a financial analyst one bank had written that the candidate should have "a marketing flair".

In the majority of the sample financial institutions that subject was under consideration but no concrete actions had been taken place.

This section clearly confirms that the adoption of a formal marketing approach by the

sample financial institutions had had numerous effects on traditional bank management.

These effects and the changes associated with them created various difficulties; the purpose of the following section is to review the most important types of problems encountered by the sample financial institutions, as well as the solutions which were found to alleviate these problems.

#### 4.2. The problems faced by financial institutions adopting a formal marketing approach

##### 4.2.1 Personnel Policy Problems

In the personnel area the following problems appeared at one stage or another of the adoption of a formal marketing approach by the sample financial institutions.

##### (a) Recruitment Problem

In the opinion of many of the senior managers and marketing managers concerned, the recruitment of qualified bank marketing personnel was very difficult.

The most important problem according to them was one of professional proficiency: "It is very difficult" a manager said "to find competent people in the field of bank marketing in this country".

Also, a long delay was needed in order to build up a good bank marketer from the bank's existing staff.

This problem did seem to be common to all the sample financial institutions.

As recruitment policy is concerned, there did not seem to be any definite agreement as to the prevailing criteria. Whereas some financial institutions had a definite policy of recruiting young university graduates and/or MBA's to fill in their marketing positions, others did prefer to recruit experienced marketing executives from the industry irrespective of their university training.

(a) Training problems

Problems of marketing training had arisen for several different categories of members of the sample financial institutions.

Depending upon the institutions, these included the top executives, the older employees, and the branch managers. The attitudes of these people towards marketing had had to be shifted from either complete ignorance or hostility to a level of receptivity to marketing philosophy and techniques.

This was done in different ways in various of the sample financial institutions and they were all the retail financial institutions which did tackle the problem of marketing education to a certain extent.

The experience of the majority of the sample financial institutions was that it was very difficult to contact branch managers and other senior officers because they did not understand marketing.

Generally all the financial institutions which offered marketing courses had difficulties with some of their people; some of them did welcome the courses because they saw them as some-



thing that could help them to sell, while others did argue that "they were not recruited as salesmen but as bankers".

#### 4.2.2 Human Relations Problems

Problems of human relations were also plaguing all the sample financial institutions which followed a "mixed" approach i.e. they had staffed their marketing departments with bankers and newcomers.

The existence of two heterogeneous factions within the marketing department resulted, as could be expected, in some problems of human relations.

Most members (and sometimes the heads) of the marketing departments were newly hired young executives who were given status and responsibilities and had to deal with older executives. In most cases, the old-timers seemed to resent what they considered an intrusion and collaboration became not too easy. This applied not only to the relationships between the members of the marketing department but also to the relationships between the members (new-comers) of the marketing department and the people of other departments.

It was the belief of most traditional bankers that marketing techniques could not be applied in the banking sector as they were applied in other sectors while most marketers expressed the opinion that bankers were very resistant to any change and as one marketer put it "bankers are illiterate and cannot follow the marketing techniques".

The development of the preeminence of the marketing function in the financial institutions also contributed to the development of rivalries between the different departments especially to those departments which before the establishment of marketing department were responsible for some aspects of marketing such as advertising and public relations.

#### 4.2.3 Difficulties in measuring performance

A problem which had not been resolved in many of the sample financial institutions was that of the profitability assessment of the newly created marketing activities and/or programmes.

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It is well-known than an answer to the question "are the marketing expenses profitable" is not an easy one since it is very difficult to give a reply based on figures.

The two usually used answers to the above question are, first, "it is a long-term investment" and the second one "savings in that particular marketing activity have been achieved". As the first type of answer concerns, some claim that marketing investment have been profitable, but they cannot substantiate their claim. This was the view of a few marketing managers of the sample financial institutions. As concerns the second type of question that was not mentioned by the marketing managers of the sample financial institutions.

#### 4.2.4 Problems of Coordination

Problems of coordination did appear within the sample financial institutions at several levels.

First, difficulties appeared in the relationships between the new marketing departments and the already existed advertising and public relations departments.



More specifically, in several cases, many public relations and/or advertising campaigns were handled independently by the public relations and/or advertising departments without the marketing departments' cooperation and coordination.

In the words of one senior manager "our advertising is becoming marketing related but it will take a long time before it becomes absolutely related to marketing".

Many of the marketing and/or advertising executives of the sample financial institutions would like to see more coordination and cooperation in the future.

Problems of coordination also appeared between the marketing department and the regional headquarters and/or the branches.

These problems were solved by meetings between these parties and by the development of the position of the district marketing manager whose major task was the coordination of marketing efforts between the headquarters and the branches of his area.



In addition to that before any local and/or national advertising and/or sales promotion exercise a circular was sent to the branches concerned about the specific objectives, rationale and strategies of that particular exercise.

As far as the coordination between the marketing and the other functions of the banks is concerned, the marketing people were trying "to sell themselves" to other departments and to prove the usefulness of marketing in the solution of their and/or bank's problems in order to achieve better cooperation and coordination with them.

Despite all the attempts, it was obvious in a few cases that these were still big problems of coordination of the marketing activities themselves and the marketing and several other departments and that there was considerable room for better and more effective coordination.

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Some problems appeared also in the relationships between some of the sample financial institutions and their advertising agencies.

As we mentioned earlier, marketing was limited before the adoption of the formal marketing approach to advertising. The agency people were rather free to do what they wanted and their recommendations were rarely discussed.

After the establishment of formal marketing organizations they faced new competent marketing people who took the initiative and made in a few cases a reevaluation of their agencies; the fact that few financial institutions had changed recently their advertising agencies was a consequence of that reevaluation.

Other problems which appeared were the lack of marketing objectives by the top management; it took a considerable time before top management determined their objectives and the reluctance of the departments which carried out some marketing

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activities prior to the establishment of a separate department to recognise the preeminence of the new department.

### S u m m a r y

The purpose of this chapter was to analyze the impact that the establishment of a formal marketing organization had on the management policies and practices of the sample financial institutions and, second, to review the most important types of problems faced by the sample financial institutions as well as the solutions which in some cases were devised to alleviate these problems.

Five areas of bank management were given particular attention during the field research i.e. bank organization, marketing personnel, use of marketing techniques, definition and implementation of marketing objectives and policies and personnel selection and recruitment policies.

The results do confirm that the adoption of a formal marketing approach by the sample financial

institutions had had numerous effects on traditional bank management and do support the first hypothesis of this study that the establishment of a formal marketing approach is changing significantly the traditional management patterns of banking and seems likely to play a key role in maintaining the profitability of the banks.

The major effects of the formal marketing approach to bank management were:

(1) Organizational changes  
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- The development of a separate marketing operation. The size of that organization, which in the majority of cases took the form of a separate department, is absolutely related to the size of the institution.

- The recruitment of new marketing personnel.

- The definition of job descriptions for marketing personnel.

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(ii) Operational changes

- Use, or greater in few cases use, of marketing research.
- Marketing training (in-house and outside courses) for the personnel of marketing department and people of other departments and/or branches as well.
- Emphasis on new service development.

(iii) Policy changes

- The development of formal marketing policies in order to achieve specific objectives.
- An increase in marketing budgets,
- Use (or greater use) of marketing planning.
- Coordination of the various elements of the marketing mix.

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As problems faced by the sample financial institutions adopting a formal marketing approach they were:

- i) Personnel policy problems (recruitment problem, training problems),
- ii) Human relations problems,
- iii) Difficulties in measuring performance,
- iv) Problems of coordination, and
- v) Lack of objectives by the top management.

Having seen the effects of the formal marketing approach on bank management we are proceeding now with an analysis and contrast of marketing activities performed by retail and wholesale financial institutions and U.K. and American.

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- CHAPTER V -

MARKETING ACTIVITIES IN U.K. AND MARKETING BANKS

I n t r o d u c t i o n

The objective of this chapter is to present the analysis and contrast of the data showing the extent of the marketing activities of U.K. financial institutions in the retail and wholesale banking side and of American banks operating in the U.K.

The analysis will be confirmed to those institutions with which personal interviews took place with their marketing and / or advertising executives.

Identification of the presence or absence of extensive marketing activities among the financial institutions under consideration may point out differences between and similarities of each type of financial institution.

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If size of the institution were to be found to be a significant factor relating to the level of the institution's marketing activities, this may suggest the existence of economies of scale for that type of institution.

In addition to that the presence or absence of a marketing plan, a promotional budget, a formal pricing policy should indicate the degree of importance attached to the marketing function by the bank's executives.

The findings of this chapter will point out strengths, weaknesses, similarities and differences of the marketing activities of the both types (English and American) of financial institutions as they are classified by asset size and services offered i.e. retail or wholesale banking.

The data are presented in written form with the intent of showing the marketing planning, pricing, promotional mix, distribution and use of marketing research.

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5.1      Marketing Planning

The extent of the marketing planning being done by the examined financial institutions was measured by whether these had:

1.    Prepared and used an annual marketing plan during 1 9 7 4.
2.    Prepared and used a long-range plan during 1 9 7 4.
3.    Expected to prepare an annual marketing plan during 1 9 7 5.
4.    Expected to prepare a long-range plan during 1 9 7 5.

The findings on the subject of marketing planning are given in the following paragraphs.

Prepared and used an annual marketing plan during 1974.

Thirty per cent of the respondents prepared and used a marketing plan during 1974.

When viewed in terms of the number of respondents in classification the percent prepared an annual marketing plan was greatest among the larger institutions.

More specifically, only ten per cent of the small institutions prepared an annual marketing plan, while seventy per cent of the large bank prepared such a plan.

As to the type of market served i.e. retail versus wholesale banking concerns, the percentage of financial institutions belonging to the retail side which prepared an annual marketing plan was significantly higher than the percentage of financial institutions serving the wholesale side market.

No significant difference was found between the percentage of U.K. and American financial institutions in respect to this particular activities i.e. the preparation of an annual marketing plan during 1974.

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Prepared and used a long-range plan during 1974

In respect to long-range planning, none of the wholesale side financial institutions prepared one in 1974 while sixty per cent of the examined institutions in the retail side of banking had prepared such a plan in 1974.

As regards American banks operated in this country none of them prepared a long-range plan.

Expected to prepare an annual marketing plan during 1974

The percentage of financial institutions expected to prepare an annual marketing plan during 1975 was higher in the large and retail banking classifications.

Expected to prepare a long-range plan during 1975

The same trend was observed in the preparation of a long-range plan.

5.2      Pricing

Pricing was not used as a competitive tool in the banking area until recently. Now banks are looking

closely after their pricing strategies and tactics.

In thirty per cent of the financial institutions surveyed pricing was a responsibility of the marketing department.

It should be noted that pricing as a marketing tool is used mainly by American banks when they are first established in this country in order to attract customers.

Another division which looks after pricing was found to be the money market division; this division in one of the major clearing banks "is responsible not only for co-ordinating deposit gathering but also ensuring that surplus funds are employed to maximum effect".

We should point out here, however, that a major obstacle for the pricing of bank services is the difficulty which banks have in costing their services; to find how much a particular service costs is an enormous task and much has to be done in this area.



Nevertheless, banks are going to use pricing as a competitive marketing tool; as one bank put it "the traditional bank interest rate structures are now beginning to be phased out as the new more flexible and more competitive business stance of the banks takes effect. In the future interest rates, both debit and credit, and commission charges will be subjected to far more promotional "push" and inter alia public and governmental enquiry".

### 5.3 Promotional mix

The key elements of a promotional mix are advertising, sales promotion, and personal selling.

#### 5.3.1 ADVERTISING

The extent and characteristics of the advertising programmes of the British and American financial institutions were measured by the following parameters:

- 1) Their use of the services of an advertising agent,
- 2) The preparation of an advertising budget for 1974,

- 3) The expectation to prepare an advertising budget for 1975,
- 4) The establishment of an advertising pattern for their services.

#### Use of the services of an advertising agent

As the use of the services of an advertising agent concerns, all the surveyed financial institutions in the retail banking side used such services while the majority of institutions (seventy per cent) in the wholesale side used these services.

In respect to American banks operated in this country, some of them, approximately thirty per cent, used an advertising agent while the remaining did not.

#### Preparation of an advertising budget for 1974

In respect to the preparation of an advertising budget for 1974 eighty per cent of the institutions belonging to the retail side had prepared one while only twelve per cent of the institutions at the wholesale side did so.

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The majority of them, ninety per cent, were large financial institutions.

Less than fifty per cent of American banks prepared such a budget in 1974.

Expectation to prepare an advertising budget for 1975

As concerns the percentages of financial institutions expected to prepare an advertising budget these were as follows:

Financial institutions in retail side seventy per cent, in wholesale side fifteen per cent, American banks eighteen per cent.

In all categories the percentages of large institutions prepared or planning to prepare an advertising budget was higher than those of small institutions.

Establishment of an advertising pattern for their services

Lastly an advertising pattern for their services was evident in retail financial institutions

but not in wholesale (English or American) institutions.

While for many years financial institution advertising has concentrated on building an image of each of them as being able of solving any financial problem with themes such as friendly and professional service, nowadays advertising becomes more specific to particular services.

It should be noted that the low percentage of financial institutions in the wholesale side used or prepared to use an advertising budget is due to the lower importance that is given to advertising by them in comparison with other elements of their marketing mix.

When the executives of these institutions were asked to give their opinion about the importance of advertising in their field they gave answers such as "Advertising would not help us", "I never see good in these advertisements". "Advertising is not effective", "Advertising calls the most unsuitable people", "I do not believe that advertising brings people".



It is interesting that this low relative importance given to the advertising by financial institutions in the wholesale side is similar to what is happening in the area of industrial goods marketing ( 66 ).

On the contrary it was found that the perceived importance of advertising for financial institutions in the retail side was high i.e. the same as in consumer goods marketing ( 67 ).

Another trend that was found in the advertising area was the media used.

Financial institutions in the retail side used as their media national and local press, magazines, T.V., radio and posters while institutions in the wholesale side (British and American) used, mainly, only national financial press.

#### 5.3.2. SALES PROMOTION

A sales promotion tool is direct mail.

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Direct mail was used by thirty per cent of financial institutions in the retail side for particular services to selected customers.

In the wholesale side none of the sample British banks used that medium, while only ten per cent of American banks used that tool.

In one form of such a letter was mentioned that:

"I note from our files that we have not previously had the opportunity to make contact with your Company in this country and I would like to take this opportunity of drawing to your attention the ..... (services) that our bank is able to offer".

A description of a particular service followed and the letter concluded:

"I would like to have the opportunity of meeting with you and of learning more about ..... Ltd and I shall make a point of calling you on the telephone within the next few days to see if we can arrange a mutually convenient appointment".

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Other promotional tools used by the retail side were booklets, literature, point-of-purchase displays, exhibits, premiums and specialities (gifts, calendars, matches etc.).

In the wholesale side booklets, literature and lunches for existing and/or potential customers were used.

English wholesale financial institutions gave special importance to lunchers; as one senior manager of one of them put it "our marketing is our dining room".

American banks used lunches but less than British ones; as one manager of one of them stated "lunches are not effective, especially in London".

The promotional exercises took usually place on a regional basis and experiments were conducted in order to explore the effect of localized "ad hoc" branch promotions.

As the future concerns, a major development which is to be expected is the increase of giveaways and self-liquidating offers although it may

be a long time before the American trend in this field will be replicated in this country.

5.3.3. PERSONAL SELLING

The extent of the personal selling, activities and the importance attached to it by the sample financial institutions were measured by whether these insitutions had engaged in the following activities:

- 1) Sent bank officers and/or employees to special courses or seminars on sales techniques during 1 9 7 4.
- 2) Planned to send bank officers and/or employees to special courses or seminars on sales techniques in 1 9 7 5.
- 3) Addition of sales techniques courses in the already offered courses by them to new and/or old employees.
- 4) Planned to add sales techniques courses in the already offered courses by them (or to develop new special courses on sales techniques) to



new and/or old employees.

5) Existence of calling-programmes to existing and/or potential customers.

6) Planned to develop calling-programmes to existing and/or potential customers.

7) Formal organisation of their sales force and their specific duties in 1974.

8) Plans for developing formal sales force organisations during 1975.

9) Promoted employee contests aimed at increasing their business during 1974.

10) Planned to conduct employee contests aimed at increasing bank business during 1975.

The data relevant to the above set activities which were gathered using personal interviews were as follows:

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Sent bank officers and/or employees to  
special courses or seminars on sales techniques  
in 1 9 7 4.

None of the sample financial institutions belonging to the retail side sent officers and/or employees to attend special courses on sales techniques during 1 9 7 4.

The same occurred to the U.K. financial institutions in the wholesale side.

As the American sample banks concerns only ten per cent of them sent a group of their executives to attend a course on sales techniques.

Planned to send bank officers and/or employees to special courses or seminars on sales techniques  
in 1 9 7 5.

Twenty-two per cent of the sample institutions in the retail side had decided to send some of their employees, particularly those of the middle-level, to attend such courses in 1 9 7 5.

None of the U.K. institutions in the wholesale side did plan to send their people to such courses during 1 9 7 5 although a very small proportion of them i.e. eight per cent were thinking of doing that in the future but not during 1 9 7 5.

Also none of the American sample banks had such a plan for 1 9 7 5.

Addition of sales techniques courses in the already offered courses by them to new and/or old employees.

Thirty per cent of the sample financial institutions in the retail side had included in their courses for new and/or old employees courses on sales techniques.

The teaching methods used for that courses were lectures, case studies, and the use of films for the presentation of real life selling situations.

In the U.K. wholesale financial institutions no such course on sales techniques was present; it should be noted, however, that the percentage of

this type of sample institutions offering general courses to their staff was very low (less than eight per cent).

As American sample banks concerns there was, in the majority of them (fifty-five per cent) a course on sales techniques in their training programmes,

Planned to add sales techniques courses in the already offered courses by them (or to develop new special courses on sales techniques) to new and/or old employees.

Most of the sample financial institutions in the retail side, fifty-four per cent, were planning to offer special courses on sales techniques to their staff in the future; some of them i.e. twenty-five per cent had planned to do that in 1975 while the remaining had planned to offer these courses after 1975.

As the U.K. financial institutions in the wholesale side concerns there were no concrete plans to start such courses in 1975; although some



of them did recognize the necessity for such courses they had not planned to do something specific for that in the near future.

As American sample banks concerns ten per cent of those not already offering such courses planned to do that in 1975.

Existence of calling-programmes to existing and/or potential customers

Calling-programmes did exist in a small number of financial institutions in the retail side (fifteen per cent of the sample) aiming at specific target markets. These programmes, however, we could say that they were in a rather embryonic stage.

As U.K. financial institutions in the wholesale side concerns there were no such programmes in the majority of them. This can be explained by the general attitude among the British financial institutions that they should wait for the customers to come and not to go out to the customer.

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Of course this attitude has been changing recently but it would take enough time before the people of this type of institutions fully appreciate the importance of calling to the customer and still more time before they would design formal and really effective calling-programmes.

The most significant difference between U.K. financial institutions in the wholesale side and American Banks operated in this country was found to that particular activity.

The majority of sample American Banks (seventy per cent) had formal calling-programmes and they did try to do these programmes more effective.

This was due to the fact that Americans believe that Banks should go out and find the customer and not sitting in their offices waiting for him. Account officers and other senior staff were involved in these calling-programmes to existing and/or potential customers.

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Planned to develop calling-programmes  
to existing and/or potential customers.

There were found no concrete plans among the sample financial institutions in the retail side, which had not developed calling-programmes up to them, to do so in the near future.

On the contrary U.K. financial institutions in the wholesale side were thinking seriously of developing some elementary calling-programmes in the near future. This could be explained, we think, by the changing attitudes of U.K. merchant bankers about calling on the existing and/or potential customers; although some of them still believed that "calling is not fruitful" the invasion of American Banks in this area with their marketing techniques were forcing them to reconsider or "rethink" their approach.

As American sample Banks concerns fifty per cent of those which had not used calling-programmes up to them planned to do so in the near future; as those which already were using such programmes they were planning to improve them in order to become more effective.

Formal organisation of their sales force and  
their specific duties in 1974.

As is well-known sales forces can be organized on a customer, service or region basis.

The basis found to be used by fifteen per cent of the sample financial institutions in the retail side was service i.e. employees of various departments had been assigned to various services. It should be noted, however, that these people did belong to various departments and not specifically to marketing and/or sales department.

In the U.K. wholesale side there was no formal sales organization. Obviously the function of selling was performed in practice by the lending officers in their offices in the majority of cases and in few cases in the potential customers offices when they called at them. In all cases, however, there was no effort of cross-selling other services.

In the majority of American sample Banks (sixty-five per cent) there were found sales organizations.



The bases used for the organization of their sales forces were the service and the customer.

In the customer basis, the customers (existing and/or potential) had been divided into groups according to the industry they did belong i.e. chemicals, engineering etc. The duty of the sales forces was to "dig" the industry for which they were responsible, to become familiar with every particular problem of them and, they, to visit existing and/or potential customers.

A part from their competence in selling, they were very competent in financial analysis as well in order to fully understand their existing and/or potential customers' real financial problems.

According to their experience what a Company needs is, most of the times, quite different from what they request; the role of these people was not to say "sorry we cannot do that" to customers but "they were trying to turn it (their request) to something that it could work".

Another feature in the American sample Banks' sales forces was the tremendous emphasis given by them to cross-selling.

Promoted employee contests aimed at increasing their business during 1974.

No promotion of employee contests was found in financial institutions in the retail side and this was the case in U.K. financial institutions (wholesale side) and American Banks operated in this country.

Planned to conduct employee contests aimed at increasing Bank business during 1975.

A small proportion of institutions in the retail side (twelve per cent) planned to promote employee contests aimed at increasing their business in the future but not in the near one.

No such intention was found in U.K. financial institutions in the wholesale side and in American Banks operated in this country.

#### 5.4 Marketing research

Marketing research has been defined as :  
"the application of scientific method to the solution of marketing problems", while its role may be generally expressed as "uncertainty reduction" for the

decision makers.

The extent of the marketing research being done by the sample financial institutions was measured by whether they had:

1) Conducted marketing research to determine customer image of their institutions.

2) Planned to conduct research to determine customer image of their institutions.

3) Conducted market research to determine customer awareness to their services during 1 9 7 4.

4) Planned to conduct market research to determine customer awareness to their services during 1 9 7 5.

5) Analysis their customers' accounts to determine key economic and social characteristics during 1 9 7 4.

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6) Planned to analyze their customers' accounts during 1 9 7 5 to determine their key economic and social characteristics.

7) Attempted to do location analysis studies for new and/or existing branches in 1 9 7 4.

8) Planned to do location analysis for new and/or existing branches in 1 9 7 5.

9) Attempted to measure the effectiveness of their advertising during 1 9 7 4.

10) Planned to try to measure the effectiveness of their advertising during 1 9 7 5.

11) Conducted pre-testing of their advertising copy during 1 9 7 4.

12) Planned to conduct pre-testing of their advertising copy in 1 9 7 5.

13) Conducted market research aimed at finding new markets during 1 9 7 4.

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14) Planned to conduct market research aimed at finding new markets during 1 9 7 5.

15) Attempted to measure the price elasticity of demand of their services in 1 9 7 4.

16) Planned to attempt to measure the price elasticity of demand of their services during 1 9 7 5.

The data relevant to the above set activities which were gathered using personal interviews were as follows:

Conducted marketing research to determine customer image of their institutions.

Sixty per cent of the financial institutions belonging to the retail side had conducted marketing research in order to determine customer image.

Projects such as "Reputation of X Bank" "X Bank customer attitude survey" etc. were common among financial institutions in the retail side.

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One of financial institutions belonging to that classification had done this type of study to various groups such as journalists, advisers (accountants and solicitors), Bank account holders, financial directors, and small business proprietors.

As the financial institutions in the wholesale side concerns none of them had conducted any study in this area.

Also none of the sample American banks operated in this country had conducted a customer image study.

Planned to conduct research to determine customer image of their institutions.

Seventy per cent of the financial institutions in the retail side which had not yet conducted a customer image study planned to conduct one in the next two-year time period.

As the financial institutions in the wholesale side concerns only five per cent of them planned to

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conduct a customer image study in the next two-year time period.

None of the American Banks operated in this country, however, planned to conduct this type of marketing research project.

Conducted market research to determine customer awareness to their services during 1\_9\_7\_4.

Forty per cent of the sample financial institutions in the retail side conducted research projects in order to determine customer awareness to specific services they were offering during 1974.

None of the financial institutions in the wholesale side and none of the American Banks had done this type of project.

Planned to conduct market research to determine customer awareness to their services during 1\_9\_7\_5

The majority (fifty-four per cent) of the financial institutions in the retail side planned

to conduct market research in order to determine customer awareness to their services during 1 9 7 5.

Contrary to that no plans were found in the wholesale side financial institutions for conducting research projects to determine customer awareness to their services during 1 9 7 5.

As American Banks concerns no intention of doing that in 1 9 7 5 was revealed too.

Analysized their customers accounts to determine key economic and social characteristics during 1 9 7 4

The analysis of customers' account in order to determine their economic and social characteristics was done by forty-five per cent, approximately, of the sample financial institutions belonging to the retail side.

These institutions had started to analyze various groups of their customers and they thought that this activity was of paramount importance.

To financial institutions in the wholesale side this activity does not apply; the only thing



that some of them (twenty per cent) were doing in this context was a list of their customers' names.

Planned to analyze their customers' accounts during 1975 to determine their key economic and social characteristics

The majority of the financial institutions in the retail side (fifty-seven per cent approximately) did plan to analyze their customers (or groups of customers) accounts in order to find out their economic and social characteristics.

This sort of activity which is also called "customer profile analysis" was planned to be done mainly with the aid of computer. As one executive said "We are going to have 'computer customer files' which will include economic and social characteristics of our customers and the services currently used by them".

Something similar i.e. to make a list of their customers' names plus the particular services which they were using was planned to be done by one of the sample English financial institutions in the

wholesale side and by three of the sample American Banks operated here.

Attempted to do location analysis studies for new and/or existing branches in 1974.

Market research projects concerning the location of new and/or existing branches was done in 1974 was done in 1974 by thirty-five per cent of sample institutions in the retail side.

One of them did use a model for the projection of proposed branch growth in five-year time period; in this particular model which made use of the regression analysis technique, the dependent variable was branch growth and the independent variables were the population of the branch area, their incomes etc.

Another bank used break-even analysis in order to find the point where the proposed branch will break-even.

Two models were used by another Bank: one macro-model which was built to forecast the general economic activities of the area and one micro-model which was built to forecast the branch growth given the forecasts of the first model.

None of the English wholesale financial institutions did this type of activities although they did open branches in many places outside London for the first time recently.

On the contrary American Banks (seventy-five per cent of the sample) did undertake some formal research before establishing new branches.

Planned to do location analysis for new and/or existing branches in 1975.

Fifty-four per cent of financial institutions in the retail side planned to undertake location analysis studies for new and/or existing branches.

An interesting research project planned to take place in 1975 by such a financial institution was to find out how their market share would alter if they would change their premises.

Among the merchant banks no intention was found to undertake location analysis studies in 1975.

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As American banks concerns only one belonging to the retail side had planned to undertake location analysis studies in 1 9 7 5.

These differences between financial in the retail and wholesale side could be explained, we think, by the fact that location is a much more crucial marketing factor in the retail side than in the wholesale side.

Studies which have been done in other countries have shown that among the crucial factors which did influence customers to choose a particular bank was the location of their branches.

Attempted to measure the effectiveness of their advertising during 1 9 7 4.

Advertising effectiveness studies were undertaken by a very small percentage of sample financial institutions in the retail side. Only ten per cent of the sample institutions undertook studies on the measurement of advertising effectiveness in some of their campaigns.



The technique used for that purpose were mainly recall tests.

In the area of wholesale financial institutions none of them undertook any advertising effectiveness study. This could be explained by the low importance which is given by this type of institutions in advertising.

American banks, also, in this country did not undertake any advertising effectiveness study during 1 9 7 4.

Planned to try to measure the effectiveness of their advertising during 1 9 7 5.

A larger proportion of the sample financial institutions in the retail side (twenty-per cent) than the above mentioned one planned to conduct advertising effectiveness studies during 1 9 7 5.

Two reasons, we think, are responsible for that; the first reason is the increasing amount of money spent

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on advertising by this type of institutions and the second the further development of formal marketing organizations.

As American banks (wholesale side) and U.K. financial institutions belonging to the wholesale side concerns none of them was intending to conduct some advertising effectiveness study in 1975.

The low importance given by them to advertising explains that situation.

Conducted pre-testing of their advertising copy during 1974.

Some pretesting of advertising copy took place in 1974 by financial institutions in the retail side.

More specifically forty-five per cent of them pretested the copy of some of their advertisements; this pretesting took place with small groups of people from the target market towards which the particular

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advertisements were going to be directed.

In American banks (wholesale side) and U.K. financial institutions no advertising pretesting took place; the little emphasis given by them to advertising, the kind of advertising they did use (i.e. institutional advertising) and the lack, in the majority of cases, of formal marketing organisations are, we think, the key factors responsible for that.

Planned to conduct pretesting of their  
advertising copy in 1975.

More advertising-pretesting was planned of 1975; this was planned to be done by, first, financial institutions in the retail side which had not done that in 1974 (thirty per cent of them) and, secondly, by those institutions that they had done that activity in 1974 in some of their advertisements. The latter planned to extend that activity to more (if not all) of their advertisements.

No pretesting had been planned to take place by U.K. financial institutions in the wholesale side and American Banks (wholesale side) during 1975.

Conducted market research aimed at finding  
new markets during 1 9 7 4.

Research aimed at finding new markets took place in a rather small proportion (twelve per cent) of financial institutions in the retail side; this can be explained by the fact that they did not know exactly their present markets.

Therefore much effort was devoted to learn their present markets and their characteristics (size, demographic data etc.)

The same effort i.e. finding the present markets was taking place, although to a smaller scale; this was thought to be an essential prerequisite before any effort for new markets would take place.

On the contrary American sample banks (wholesale side) did know very well their customers and they were undertaking research in order to find new customers.

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Planned to conduct market research aimed  
at finding new markets during 1 9 7 5.

Thirty per cent of financial institutions in the retail side planned to conduct research aiming at finding new markets for some of their services in 1 9 7 5 but none of the U.K. financial institutions (wholesale side) planned to do so in 1 9 7 5.

Attempted to measure the price elasticity  
of demand of their services in 1 9 7 4.

Although it was believed that interest rates and various commission charges would be formally used as a marketing tool in the future no study on interest and/or commission charges elasticity of demand for bank services had taken place during 1 9 7 4 in both retail and wholesale side.

American sample banks (wholesale side) although they did use interest rates and other commission charges as a marketing tool especially when they entered a new market or/and when they first established in U.K. had undertaken no study in this area.

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Planned to attempt to measure the price elasticity of demand of their services during 1 9 7 5.

Studies on price elasticity of demand for bank services were going to take place in the future in twenty-four per cent of financial institutions in the retail side but, in any case, not during 1 9 7 5.

No such intention was present at U.K. and American financial institutions in the wholesale side.

#### 5.5 Evaluation of the thesis hypotheses

We are now in a position to test hypotheses II and III of the present thesis.

##### Hypothesis II

The marketing approach of retail banking should be different from that of wholesale banking.

The survey results relating to the marketing activities of the sample financial institutions

belonging to the retail and wholesale side presented in this chapter strongly support this hypothesis.

As we saw the extent of the marketing activities performed by these two types of financial institutions was different.

Also, the perceived importance of the various marketing tools was different between the "retail" banking and the "wholesale" banking.

It is interesting to point out similarities founded, as the perceived importance of the various marketing tools concerns, between "retail" bank marketing and consumer goods marketing and "wholesale" bank marketing and industrial goods marketing.

### Hypothesis III

American banks are more sophisticated in their marketing approach than English ones.

The survey results relating to this hypothesis presented in this chapter support this hypothesis too.

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We did see that the marketing approach of American banks was different than that of U.K. financial institutions.

It should be noted, however, that the marketing approach of American banks in this country was not so sophisticated as that one the same banks used in their country.

Two reasons can be provided, we think, for that: First, American banks in this country do concentrate mainly in the wholesale banking and, second, a phenomenon of two-way "OSMOSIS" is also likely to take place i.e. U.K. financial institutions are influenced by American bank marketing techniques and American banks operated in this country might be influenced by the U.K. bank marketing approach.

Last, but not least, we should mention that the size of the financial institutions did play a key role in the number of marketing activities performed by them; the larger the institution the more marketing activities performed.

This is another interesting similarity with firms



producing physical products and it could be explained, in both cases, in terms of the higher availability of financial means and human resources in the larger firms and banks than the small ones.

#### Summary

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In this chapter the data have been analyzed relative to showing the extent of marketing activities of the sample financial institutions.

This was done in order to point out differences and similarities among the various types of financial institutions and in order to test hypotheses II and III of this thesis.

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### Marketing Planning

In the area of marketing planning, it was found that an annual marketing plan was prepared and used in 1974 by thirty percent of the sample financial institutions.

This percentage was higher among financial institutions in the retail side and large ones.

A long-range plan was prepared and used in 1974 by sixty percent of the financial institutions in the retail side and by none of the wholesale financial institutions.

Also the percentage of institutions planned to prepare and use an annual marketing and/or long-range plan was higher in those belonging in the retail side.

### Pricing

It was found that pricing was not used by the sample financial institutions as a marketing tool.

It was planned, however, to be used in that context in the future.

Promotional mix  
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Advertising  
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Advertising was used mainly as a major marketing tool by the majority of sample financial institutions belonging in the retail side.

Also the importance given to advertising by the banking retail side was much higher than that given by the banking wholesale side; this is similar to consumers goods marketing and industrial goods marketing.

Sales promotion  
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Various sales promotion tools such as booklets, literature, point-of-purchase displays, exhibits, premiums and specialities were used mainly by the sample financial institutions in the retail side but it may be a long time before the American trend in this field will be replicated in this country.

Personal selling  
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American sample banks in the wholesale side did pay particular attention to that particular marketing activity; formal sales organizations, calling-programmes and special seminars on sales techniques were common in

American banks but not in the U.K. sample banks.

There are found no employee contests aimed at increasing banks' business during 1974 and no such plan did exist for 1975.

#### Marketing research

The extent of the marketing research being done by the sample institutions was measured by whether they had undertaken and/or planned to undertake research in the areas of customer image, customer awareness, customers' accounts analysis, location analysis, advertising effectiveness studies, price elasticity studies, finding new markets and pretesting of their advertisements.

It was found that financial institutions in the retail side were conducting more research projects in the above specified areas than those in the wholesale side.

Also, American sample banks (wholesale side) were conducting more research projects than the U.K. wholesale financial institutions.

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Evaluation of the thesis hypotheses

The survey results presented in this chapter did support the thesis hypotheses II and III i.e. the marketing approach of retail banking should be different from that of wholesale banking and that American banks are more sophisticated in their marketing approach than English ones.

Last, but not least, it should be mentioned that there was considerable room for improvement in standards of marketing activities performed.

This proposed improvement did seem to play a crucial role in maintaining the profitability of financial institutions in the U.K.

- CHAPTER VI -

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SUMMARY OF FINDINGS AND RESEARCH

SUGGESTIONS

I n t r o d u c t i o n

The purpose of this thesis was to gauge the why and how the U.K. financial institutions developed formal marketing organizations, the implications and impact of these on bank management and to analyze and contrast the marketing activities performed by the U.K. financial institutions on the retail-banking side with those on the wholesale-banking side and with those carried out by American banks operated in the U.K.

This final chapter first sets out the principal findings of the research and uses them to evaluate the thesis hypotheses that, first, the establishment of a formal marketing approach is changing significantly the traditional management patterns of banking, second, the marketing

approach of retail banking should be different from that of wholesale banking and, third, American banks operated in this country should be more sophisticated in their marketing approach than English banks.

Another section examines some of the more important implications of the research findings for the banks and other financial institutions; in addition to financial institutions which are directly concerned with the formal marketing approach, a certain number of other organizations or institutions will also tend to be affected to a certain extent. The corresponding implications are elaborated in this section too.

Lastly some suggestions are presented for further research in the area of bank marketing.

## 6.1 Principal findings

### a. Conclusions from the literature review

Before any field research was undertaken a study of the U.K. bank marketing literature was done.

The major conclusion which can be drawn from this review is that compared to the United States, U.K. is very poor as far as bank marketing literature is concerned. Most of the literature found in U.K. about marketing of financial services has been imported from America. This conclusion applies to books as well as periodicals.

As far as books are concerned, there was no comprehensive English book by an English author on the subject of bank marketing.

As far as periodicals are concerned the first U.K. articles dealing with the subject of bank marketing appeared at the end of 1974.

b. Factors influencing the adoption of a formal marketing approach

-- The operation of the Bank of England proposals on "Competition and Credit Control" which came into effect on 16 September 1971.

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This act introduced more competition among financial institutions and "the banking sector has changed from being an island of oligopoly and control in a generally competitive economy, to an island of competition and market forces in an economy subject to official support and direction, including the present regulation of prices incomes and profits".

-- The establishment of foreign and especially American banks in London which increased the competition in the banking sector.

-- The growth of Finance Houses and Hire-purchase companies.

-- Growth of competition from Building Societies, the Trustee Savings Banks and National Savings Certificate.

-- Apart from the above mentioned factors which applied to all sample financial institutions one of them was motivated by its merger with another bank; according to them "merger made more apparent the need for marketing".

c. Implementation of the formal marketing approach

After the decision of sample financial institutions to follow a formal marketing approach, it was decided to look at the implementation of this concept.

-- First, they started to offer in-house courses and senior management people attended courses at business schools and/or went to America in order to study the American bank marketing approach.

-- Most banks established a separate marketing department; as the head of that department is concerned some sample financial institutions drew on inside personnel to head up the operation while others brought people from outside.

-- At the beginning the marketing department was based at headquarters (in London) but later the concept of regional marketing officers was developed.

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-- Common problems faced by the majority of sample financial institutions in the implementation of the formal marketing approach stage were personnel policy problems (recruitment and training problems), problems of coordination and human relations problems.

d. Effects of formal marketing approach to bank management

1) ORGANIZATIONAL CHANGES

- The development of a separate marketing organization. The size of that organization, which in the majority of cases took the form of a separate department, is absolutely related to the size of the institution.
- The recruitment of new marketing personnel.

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- The definition of job descriptions for marketing personnel.

#### ii) OPERATIONAL CHANGES

- Use, or greater in few cases use, of marketing research.
- Marketing training (in-house and outside courses) for the personnel of marketing department and people of other departments and/or branches as well.
- Emphasis on new service development.

#### iii) POLICY CHANGES

- The development of formal marketing policies in order to achieve specific objectives.
- An increase in marketing budgets.
- Use (or greater use) of marketing planning.



- Coordination of the various elements  
of the marketing mix.

- e. Marketing activities in retail banking and  
wholesale banking and U.K. and American  
financial institutions

MARKETING PLANNING

In the area of marketing planning, it was found that an annual marketing plan was prepared and used in 1974 by thirty percent of the sample financial institutions.

This percentage was higher among financial institutions in the retail side and large ones.

A long-range plan was prepared and used in 1974 by sixty percent of the financial institutions in the retail side and by none of the wholesale financial institutions.

Also the percentage of institutions planned to prepare and use an annual marketing and/or long-range plan was higher in those belonging in the retail side.

### PRICING

It was found that pricing was not used by the sample financial institutions as a marketing tool.

It was planned, however, to be used in that context in the future.

### PROMOTIONAL MIX

#### Advertising

Advertising was used mainly as a major marketing tool by the majority of sample financial institutions belonging in the retail side.

Also the importance given to advertising by the banking retail side was much higher than that given by the banking wholesale side; this is similar to consumers goods marketing and industrial goods marketing.

#### Sales promotion

Various sales promotion tools such as booklets, literature, point-of-purchase displays, exhibits,

premiums and specialities were used mainly by the sample financial institutions in the retail side but it may be a long time before the American trend in this field will be replicated in this country.

### Personal Selling

American sample banks in the wholesale side did pay particular attention to that particular marketing activity; formal sales organizations, calling-programmes and special seminars on sales techniques were common in American banks but not in the U.K. sample banks.

There were found no employee contests aimed at increasing banks business during 1974 and no such plan did exist for 1975.

### MARKETING RESEARCH

The extent of the marketing research being done by the sample institutions was measured by whether they had undertaken and/or planned to undertake research in the areas of customer image, customer awareness, customers' accounts analysis, location analysis, advertising effectiveness studies, price

elasticity studies, finding new markets and pretesting of their advertisements.

It was found that financial institutions in the retail side were conducting more research projects in the above specified areas than those in the wholesale side.

Also, American sample banks (wholesale side) were conducting more research projects than the U.K. wholesale financial institutions.

It should be mentioned that there was considerable room for improvement in standards of all marketing activities performed.

This proposed improvement seem to play a crucial role in maintaining the profitability of the U.K. financial institutions.

f. Evaluation of the thesis hypotheses

The results of the study do support the three thesis hypotheses i.e.

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i) That the establishment of a formal marketing approach is changing significantly the traditional management patterns of banking and seems likely to play a key role in maintaining the profitability of banks.

ii) That the marketing approach of retail banking should be different from that of wholesale banking, and

iii) That American banks are more sophisticated in their marketing approach than the U.K. banks and this should be a major factor determining their relative efficiency.

## 6.2 Implications of the Research findings

The findings of the present study summarized in the preceding section will have numerous important implications.

These implications will concern first financial institutions directly but also a number of other

institutions indirectly. The most important among these institutions are marketing and/or advertising agencies, professional bankers and/or marketing associations, various educational institutions and publishers.

All these various implications are analyzed below.

(a) Implications from the point of view of the U.K. financial institutions

From the U.K. financial institutions point of view, the implications will be different according to the commitment of their top management and key personnel of the different categories of them.

For the institutions which are highly committed to the formal marketing approach, they will tend to push (further) the development of their marketing orientation.

This development is likely to have an effect on the use of marketing research in order to assess

consumers' (dis)satisfaction with the present services offered by them, the rate of development of new services, the development of (more detailed) marketing plans, the recruitment and training of marketing personnel (for the marketing department and/or other department and/or their branches) and the magnitude of marketing budgets.

F i r s t, the newly-acquired philosophy of consumers' needs satisfaction will tend to increase the number of new services introductions. This will have an effect on consumers since they will have a wider variety of financial services to choose from, and this increased complexity might affect their present buying behavior.

They would want more information and this would influence the advertising copy which might become more factual or rational than the present one in order to help and/or simplify the consumers' decision-making process; since advertising would play a more critical role, advertising effectiveness studies will become a must.

In order to avoid new financial services failures, financial institutions will have to put more emphasis on R and D (usually the R and D function, in a financial institution, is performed by its organization department) and market research.

S e c o n d, another consequence of the full adoption of a formal marketing approach by the U.K. financial institutions will have to do with the recruitment and/or education of marketing personnel. The expansion of the marketing departments will call for an increase in marketings specialists.

In the case of recruitment of outside marketing people, this will affect employment agencies, the turnover of bank marketing specialists from one institution to another, and the level of salaries paid.

Since there is a scarcity of marketing specialists, and this will continue in the near future, banks will have to attract marketers from other industries and/or American Banks.



Classified advertisements for bank marketers in various professional papers are found more and more frequently; they ask for marketers and/or specialists on some function(s) of marketing such as marketing research, advertising, training etc. This may ultimately tend to increase the relative attractiveness of the bank marketing profession in the eyes of young business and/or marketing graduates.

In the case that some financial institutions would prefer to train their own personnel in marketing this will have an effect on the number of educational leaves of absence; the duration of such leaves might be short (one week) or long (annual) for the attendance of full time programmes (especially postgraduate) in marketing.

Also, they might put (as some banks already did) the possession of a professional qualification (the Institute's of Marketing Diploma) a must for the bank employees who would like to join and/or stay in the marketing department.

T h i r d, another direct implication of the formal marketing approach will concern the level of marketing expenditures. First of all in order to be able to take consumer needs into account banks will have to know their markets and this will call for an increase in the use of market research techniques and a corresponding increase in market research expenditures.

The second budget which will increase will be that of R and D. Banks should try to make new services which are not going to be failures and this will induce higher R and D expenditures as well.

The third budget which will be undoubtedly be increased is that of training; financial institutions will have to spend more on offering courses on marketing for marketing departments' people and for branch managers and other people.

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Since, as is well-known, one aspect of the marketing philosophy is the profit-orientation financial institutions will have to measure their profitability; this will do banks to face a big problem which they have not been able to solve up to now i.e. the problem of costing their various services.

It is very difficult for a financial institution to know the cost of a particular service and this will be a challenging task (if not the challenging job) of the bank marketer.

(b) Implications from the point of view of other institutions

In addition to financial institutions which are directly concerned with the development of a formal marketing approach, a certain number of other institutions will also tend to be more or less affected. The corresponding implications are elaborated upon below.

First the development of a formal marketing approach by the U.K. financial institutions will obviously be a profitable development for advertising and marketing research agencies.

The increase in advertising and marketing research budgets of the U.K. financial institutions will allow these agencies to grow more rapidly as the number and size of their accounts increase. This will call for an increase in the number of specialists employed by these firms such as psychologists, statisticians, Operational Research men etc.

The presence of marketing specialists within banks will also increase the proficiency of the agency people.

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Thus, at the professional level, advertising and marketing research techniques are likely to get more and more sophisticated and ultimately the marketing research should get recognition in the U.K. financial institutions. This development may increase the competition among leading agencies and may tend to affect well established American agencies who had relatively little national competition to cope with until recently.

Second it has been seen that the U.K. marketing literature is very poor as far as bank marketing is concerned. This apply to books as well as journals.

As regards books, it seems that there is a definite need for a basic U.K. bank marketing textbook, on the one hand and a more sophisticated bank marketing management U.K. book on the other hand. Both should be based upon U.K. data and U.K. examples as much as possible.

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As far as journals are concerned it has been seen that something started to appear but there is room for much improvement.

The present audiences for the publication of a professional journal on bank marketing (as the "Bank Marketing Management" of the U.S.A. Bank Marketing Association) are rather small to ensure a sufficient profit for a private publishing firm. So, we would propose the professional journal of the Institute of Bankers to establish a marketing supplement in its editions.

Third, various educational institutions should be directly affected by the development of a formal marketing approach by the U.K. financial institutions. Programmes at graduate and/or postgraduate level dealing with the subject of marketing as applied to financial institutions should be developed. Also, some of the academic interest of marketing schools' staff should be directed and devoted from consumer and/or industrial marketing to services marketing and especially bank marketing.

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Apart from the academic educational institutions the professional ones should revise their syllabuses in order to take into account the new development. The Institute of Banks has already introduced in their Diploma examinations the subject of bank marketing (this will be effected in 1977) but we think that more than that is needed.

Fourth, the development of a formal marketing approach by the U.K. financial institutions, the increase in the number of people involved in marketing activities and the increase with the specialization of bank marketing people may well call for the creation of professional associations in the field of bank marketing.

The development of a U.K. association with a scope similar to that of the (American) Bank Marketing Association could be considered.

Last, but not least, we think, the development of bank marketing techniques may inevitably lead to a certain number of misuses. This will affect consumers and reactions will take place accordingly.

### 6.3 Suggestions for further research

Additional research could be undertaken along several lines either to complement or to deepen some aspects of the present study.

#### I. Additional research on the marketing approach of other financial institutions

Further research should be conducted on the issue of other financial institutions marketing approach. The effects that the adoption of a formal marketing approach had had on the management policies and practices of other financial institutions such as building societies, trustee savings banks etc. could be described and analysed.

Also the marketing activities conducted by these institutions need to be described, analyzed and contrasted with those presented in this thesis.

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Second a survey similar to the present one could be done again; this would provide new information about the changes occurring in the financial institutions due to the formal marketing approach, about the marketing activities performed by them and the perceived importance of each of them, and, last, about the lessons the financial institutions did learn from the introduction of a formal marketing approach.

Third, it would seem important to extend the present study in order to include foreign (other than American) banks operated in this country in order to find out their marketing approach and sophistication.

## 2. Comparative Studies

Another important research suggestion has to do with the extension of the present study to other countries.

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It would seem interesting to conduct a study similar to the present one in various other countries, especially European countries, and finding whether a formal marketing approach has been adopted by their financial institutions and the marketing activities performed by them.

These results would be interesting not only for the academics of marketing but for banks people and policy makes as well; the latter could obtain useful information about the relative competitiveness of their banks.

In such a kind of study, environmental factors (economic, social, cultural etc.) have to be taken into account to see whether or not they influence the marketing approach of the financial institutions, and if so, how and to what extent.

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3. Research on the marketing organization and marketing activities of various service industries other than financial

There is a lack of research in respect to marketing as applied to service industries.

There are no studies on the marketing organizations used by service industries and the proposed research will add to the building of a data base for services marketing.

The marketing activities in the service industries also do need a scholar examination and investigation; the purpose of that investigation would be, first, to describe them, and, second, to contrast them with those of industries belonging to the manufacturing sector. It would be interesting, also, to find out if there are any similarities between manufacturing and service industries as their marketing activities concerns which could be explained, in both cases, by the type of the customer served (i.e. retail versus wholesale side the size of the firm, the existing competition in that industry etc.).

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4. Objectives of the financial institutions

It would seem interesting to find out which are the specific objectives of the financial institutions, who sets them, and whether they are written down or not.

5. The consumer's decision - process in order to choose a particular bank

This is a very important research question both for the academics and the practitioners of the bank marketing.

If the most crucial factors which influence people to choose a particular bank are known, it will be easy for the bank marketer to attract more customers to his bank by manipulating one and/or all of the crucial factors.

6. Consumers expectations and wants from banks

If bank marketing practitioners are going to develop and implement effective marketing programmes



they should know exactly what consumers expect and want from a bank.

It is of no use to offer new services and/or to modify existing ones if you do not know consumers' wants and expectations.

7. The Company's decision - process in order to choose a particular bank

This research will help bank marketing officers to learn about the key factors which influence a Company to use the services of a particular bank. The key factors which influence a company to choose a bank may be different from those influencing a consumer to choose a bank.

8. Research on bank advertising

Interesting topics in this area on which research should be undertaken are the development of means for evaluating bank advertising and the

development of methods for determining bank advertising budgets.

9. The effect upon bank's prestige, as that is perceived by consumers, of the use of various promotional devices by banks

Many bankers think that some promotional tools such as give-aways and self-liquidating offers are only suitable for consumer goods marketing and not for bank services marketing. According to them if a bank is going to use these tools her " image " will be destroyed.

Research therefore, is needed in this area in order to validate (or not) the bankers thoughts concerning the use of these promotional techniques by the banks.

10. Research for improving the sales and marketing functions in the financial services industry

Finally, more prescriptive research should be undertaken on how to improve the sales and marketing

efficiency in the banks.

One research project will have to do with the effectiveness of sales training programmes. Since it has been suggested, that training in sales techniques is to be given more emphasis in banks and that a lot of money is going to be spent for that purpose, the measurement of the effectiveness of sales techniques programmes becomes a critical issue. Research on how to train employees as well as officers; on how to select bank employees who will be good salesmen.

Another research project will have to deal with the performance effectiveness of the bank marketing managers. An additional research topic could involve the profile of the bank marketing manager: is there an ideal bank marketing manager? Is a bank marketing manager born or trained? If less competent bank marketing managers have to be trained then the issue about the most effective kinds of training becomes another research objective.

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MARKETING OF BANK SERVICES

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MARKETING OF BANK SERVICES INTERVIEW QUESTIONNAIRE<sup>1</sup>

RESEARCH OBJECTIVE (1)

To explain and describe why and how British financial institutions decided to establish formal marketing organizations.

(a) Interview Schedule

-- When and why your institution first consider establishing a formal marketing organization?

-- What considerations influenced your institution to adopt a formal marketing organization? Which factors were most important?

-- What benefits did your institution expect from the establishment of a formal marketing organization?

-- Which factors were least favorable to your decision to establish a formal marketing organization?

-- Where in your management structure did the idea for a formal marketing organization originate?

<sup>1</sup>

The questions presented here were used only as a guide to the researcher. They are indicative of the general topics covered during a financial institution visit.

-- What value did you see in adopting a formal marketing organization?

-- Has your institution considered the possibility of establishing a formal marketing organization on earlier occasions?

(b) Data\_\_requested

-- Any minutes, documents relating to the management's consideration of its decision to establish a formal marketing organization.

-- An organization chart at the time the financial institution first considered establishing a formal marketing organization, and when the "go" decision was made, showing key personnel involved.

RESEARCH OBJECTIVE (2)

To describe the measures taken by the sample financial institutions for the implementation of their formal marketing organizations

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(a) Interview Schedule

-- What were the major features of the formal marketing organization your institution selected?

-- What considerations influenced the institution to adopt this type of formal marketing organization?

-- What do you consider to be the main advantages and disadvantages of your institution's formal marketing organization?

-- To what extent did your institution use internal staff resources versus outside consulting help as a basis for implementing its decision?

-- What new skills were required by the institution to successfully implement the formal marketing organization? To what extent were they available inside the institution, and what kind of skills were brought in from outside? What new skills have been retained permanently retained on the staff of institution?

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-- What were the major problems faced by the institution in implementing the formal marketing organization?

-- What is the structure of your institution's formal marketing organization, and what its reporting relationships to the rest of the institution?

-- How your employees regard opportunities to work in that marketing organization?

(b) Data Requested

-- Any memoranda, correspondence describing the features of the formal marketing organization.

-- Organization chart showing the structure of the formal marketing organization.

RESEARCH OBJECTIVE (3)

To analyze the impact that the establishment of a formal marketing organization has had on the banks' organization, operations and policies.



(a) Interview Schedule

-- Which departments were responsible for the performance of marketing activities before the establishment of the formal marketing organization?

-- What main lessons have you learnt about the best ways of establishing a formal marketing organization? What would you do differently?

-- To what extent has the establishment of a formal marketing organization involved another way of marketing your services?

-- Can you tell me about any specific new policies which have resulted from establishment of the formal marketing organization?

-- Has your institution made any changes in its traditional personnel recruitment and/or training policies as a result of establishment of a formal marketing organization?

-- What are the methods used for controlling the performance of the formal marketing organization?

(b) Data\_\_Requested

-- Reports relating to policies considered after the establishment of the formal marketing organization.

-- Any marketing research studies conducted after the establishment of the formal marketing organization.

RESEARCH OBJECTIVE (4)

To describe, analyze and contrast the marketing activities of the sample financial institutions belonging to the retail side and these of those belonging to the wholesale side; also to contrast the marketing activities of American Banks with these of the U.K. sample financial institutions.

(a) Interview Schedule

Ask questions about the following specific marketing activities:

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-- Marketing Planning,

-- Pricing,

-- Promotional mix (Advertising - Sales promotion -  
Personal Selling),

-- Marketing Research.

(b) Data Requested

-- Marketing plans, marketing research projects,  
sales promotions exercises, advertisements, sales  
manuals.

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