

A Note on Bank's Direct Marketing Approach

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Abstract

From the past half decade banks in Nepal started using direct marketing strategies in massive way choosing the marketing media in attracting the customers towards their financial services and products with objectives of maximizing operating profit by increasing sales volume so as to deal with the challenges arising from competition in banking business. In order to get success in this direction, bank managers need to choose communication media in such a way that it will attract customers in financial services and strengthen their purchase intention. To achieve the desired result banks need to consider the various factors that may significantly influence the attitude towards direct marketing techniques adopted by the bank.

Introduction

Direct marketing techniques were very popular for a long time in non banking sectors. Recently direct marketing techniques have been popularly adopted as an important component of bank marketing strategy. In UK and USA banks are the most users of direct marketing. The increased interest in bank direct marketing is primarily due to the increased competitive in market aroused from the deregulation, prospect of reconstruction and merger in the banking industry.

Meaning and definition

What direct marketing is? Scholars (Bovee and Ahrens, 1989; Gosden, 1985; Kobs, 1979; Nash, 1984) had defined direct marketing in different way over the years in terms of the characteristics it should possess such as;

- Direct marketing media are used to contact existing and potential customers.
- Some forms of response channel are provided for customers to place an order.
- Marketers can measure the effectiveness of their promotion by measuring customer response.
- Customer databases are established and developed as a marketing tool to create an ongoing customer relationship with the intention of stimulating repeat business over time.

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American Direct Marketing Association defined direct marketing as: "... an interactive system of marketing that uses one or more advertising media to effect a measurable response and / or transaction at any location, with this activity stored on database (Stone, 1997). Simply, direct marketing media should assist to better target potential customers and ultimately, customer attitudes, which in turn influences their intention to purchase the financial services or products offered by the bank.

Direct marketing techniques and its need

The most popular direct marketing techniques that can be used in communicating with customers are mail, email, telemarketing, and internet web sites, brochures, talk and orientation program, hoarding board and, radio and TV advertisements. Whatever the direct marketing media is used, it involves cost. That is why; benefits arising from that marketing media must be greater than cost associated to it. So key issue may arise that could the marketing media successfully convey the information bank wants to give to its prospective customers and significantly influence their attitudes to purchase bank financial services or product. The most important challenge for bank is to address and convey why should they prefer to choose particular bank services and product? So marketing media must be such that it is successful in addressing and arousing confidence as regards to convenience, quality of service, processing time, safety and accuracy, privacy and face to face contact with bank staff so as to avoid negative attitude associated with direct marketing efforts in general (Budkie, 1996; Prendergast and Marr, 1994; Lewis, 1989; Calantone and Sawyer, 1978; Allaire, 1972). However, evidence showed that direct mail and marketing through internet marketing have low response and about 90% is thrown away. It is, therefore, important that bank managers and marketers understand customers' attitudes towards bank marketing. The bank must try to achieve the high correlation between bank marketing effort and attitude change to make intention to purchase bank services and product. This requires understanding the target marketing. That is why, for the effective use of direct marketing bank uses database of existing customer profiles. This helps to retain long term customers in significant percentage which is important in banking industry. Long term customers buy more and use less of the bank's time, accept the price, and bring in friends and family as new customers (Healy, 1999). In order to increase size of long term customer, it is important that bank services and products must be competitively priced and must convince that they are receiving good value from the bank.

Evidences

Research evidences in developed financial market also show that bank customers have definite opinion what they want from their bank such as convenience, reputation and trust, quality of services and products, interaction with bank personnel, short service processing time and safety and security. A survey evidence (White, 1994) found that in strengthening the customer relationship and ensuring them about their requirements and expectations, face to face personnel interactions with the bank staff has been considered important tool to

enhance customer communication and relationship; building and in addition to clarify their negative attitudes toward bank direct marketing for services and products (Campbell, 1999; Driscoll, 1999; Biller, 1996; Milliron, 1996; Ryan, 1996; White, 1994).

Factors to be considered in bank marketing

The main important objective of direct bank marketing is to convert customer attitude and their intention to purchase into action. This requires understanding planned behavior of customers and their types as a first factor which helps to predict their attitude towards bank financial services and products; understanding relationship between customer attitude and intention to purchase so that customers' awareness of financial services and products could be changed to desire and finally to purchase. In this respect also evidence showed that in financial purchase decision making the rational dimension overrides emotional aspect in decision making (Foxwell and Pallister, 1998). Beckett Hower and Howcroft (2000) suggested studying the behavior of consumer in matrix form classifying consumers are in four types. They are 1. Repeat-passive (high confidence, low involvement); 2. Rational-active (high confidence, high involvement); 3. Relational-dependent (low confidence, high involvement); 4. No purchase (low confidence, low involvement).

One of the important components of bank-provided services is convenience that bank should consider. What a customer's want is access to financial service they need? Convenience may simply connote location of bank that conveniently answers their financial services need. However with the growing use of internet, home and office computers, fax machine, automated teller machine, credit card, master card, visa card had changed the term convenient in bank's financial services.

Next factors to be considered are the demographic factors such as gender, marital status, income, type of residence, home ownership, number of children living at home, educational level, age of male head of the household. However evidence showed only age and income influence the customer attitude (James and Cunningham, 1987) while others found that important demographic variables that influence customer attitude and intention to purchase are gender, age, educational level and income.

Minhas and Jacobs, (1996) emphasized on psychological factors such as social class, lifestyle and personality variables which may be another factors required to understand and predict customer behavior and their intention to purchase bank services and products.

Past experience is another likely determinant of an attitude influencing customer purchasing behavior and plays an important role in purchase behavior. Positive experience likely to increase the purchase while negative experience likely to decrease. Evidence showed that customers' past experience has direct impact on direct marketing media for influencing purchase intention (Milne et al., 1996)

Another strong determinant of customer attitude toward direct marketing is a perceived risk by the customer. Perceived risk influences the purchase behavior to a greater extent. It follows that higher risk may hinder the purchase decision (Boze, 1989; Akaah and

Korgaonkar, 1995). So bank should effort to minimize degree of risk perception of the customers. Reynolds (1974) studied and found that high perceived risk had a negative influence on attitude and intention to purchase financial services and products.

Another important factor that influences purchasing behavior of bank services and products is concerned with the issue of privacy. The bank should realize that customers do not want to lose their control over personnel information. It is also true that nearly all organizations gather data on their customers. Despite its need organizations should not ask for too much personal information than required. At the same time protect the privacy.

Need in Nepalese prospective

Direct bank marketing strategy has become inevitable in present banking operation. In Nepal large number of Commercial Banks, Development banks, Finance companies are already established . Many financial institutions may be still in pipeline as large investors and entrepreneurs continued to see these institutions as profit center organizations. Competition in banking sector in recent days is becoming more and more.. The trend of offering better services and products by the financial institutions, concentrated in city area, at low price is increasing causing possibility of low operating profits. Financial institution had already increased the interest rate on deposit with many sweetener products to overcome the liquidity problem and on the other hand decreased the interest rate on various financial services to retain the financial institutions' existing customers and to attract the new. Inter bank rate also increased due to liquidity problem with banks. Customers have many choices to .make purchase decision of financial product offered by banks. Newly established financial institutions are likely to face more problem in increasing their sales volume and turnover and to improve operating profit than already established banks one and half decade back. That is why, banks need to understand the process of decision making in financial services. Consumer in this process is first recognize his need, search the information, evaluate the alternatives and lastly arrives at purchase decision of financial services offered by bank. Bank directing marketing approach and strategy that changes the attitude of intention to purchase financial services and products may prove important tool to increase sales turnover by retaining existing customers and also attract new customers and at the same time to minimize the adverse affect of competition.

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Book Review

Bishwamber Pyakuryal, Madan Kumar Dahal, and Dadhi Adhikari (2005). *Partnership in Economic Development: An Enquiry into Indian Aid Policy to Nepal*. B.P. Koirala India Nepal Foundation, Embassy of India, Kathmandu. PP. 94 +iii including Annexes and References; Price not quoted.

No two countries in the world share many commonalities like Nepal and India. Their relationship is reflected not only in the area of economy but also has historically been extended to the culture, religion, geography and linguistics. India has been a premier donor country that is playing an important role in mobilizing aid to Nepal. Indian aid covers a wider spectrum of socio-economic and infra-structural sections. The grant assistance in education, health, technology, power, construction, communication, tourism and biodiversity conservation has made significant impact in contributing to growth, human development and poverty alleviation.

In the book, an attempt has been made to review and assess the status of Indian economic cooperation, aid compatibility with Nepal's developmental priorities and goals linking with productivity growth and economic opportunities, and to increase the efficacy of Indian aid in Nepal.

The present book under review is divided into different six chapters covering different aspects of Indian aid to Nepal. The first chapter describes the historical background of Nepal Indian relations of economic cooperation along with the context of Indian Aid to Nepal underlying the scope, objectives, methodology and expected outcome of the study. The second chapter, "Indian Aid Policy" describes India's Aid Policy towards Nepal and objectives of the Indian Aid. The third chapter, "Areas of Cooperation-A profile of Indian Aid" covers the major projects under Indian Assistance in the field of Transportation, Water Resources, and Social Sectors etc.

The fourth chapter, 'Selection, Execution and Ownership of Foreign Aid' highlights some of the procedural issues relating to project selection and project execution and ownership and sustainability of Indian aid in Nepal. The fifth chapter, "Social and Economic Impact of Indian Aid", focuses on different issues: compatibility with Nepal's development priorities, productivity growth and economic opportunities to the poor, human resource development and enhancing institutional capacity; and promoting good governance.

The authors argue that there has been shift in the priority of India's assistance to Nepal from the implementation of bigger to smaller projects that directly benefits to the people. These includes construction of school buildings, donation of books and ambulances, renovation of temples, scholarships to students, social welfare, irrigation and drinking water and local community development. Indian aid on health, education, and hydropower development, human resource development can be linked with Nepal's' priority projects,

and therefore, is compatible with development priorities of Nepal.

The sixth, and the final chapter, presents the summary, conclusion of the discussion on various issues of Indian aid along with the recommendations to increase the effectiveness and productivity of Indian aid in Nepal. The authors conclude that India's contribution has been instrumental to spur economic activities to a greater scale in Nepal.

On the whole, the book gives in depth insight on different issues of economic cooperation between two countries. As suggested by the title, the book has been able to raise some of the critical issues like quantification of aid, transparency etc. Nonetheless, the book is more descriptive and has dwelt upon largely on discussing the various project profiles carried out under Indian Aid. The book lacks explicit dealing on some of the objectives mentioned with good deal of statistical exercises. Some critical and cross-cutting issues on Indian aid to Nepal seemed to have discussed on ad hoc basis without satisfactory statistical evidences. Use of some of econometrics excises on assessing the impact of foreign aid and its link to economic development of Nepal would really have added value to book.

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