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A Study on Marketing Strategies in Banking Services

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Abstract – Financial Sector Reforms set in motion in 1991 have greatly changed the face of Indian Banking. The banking industry has moved gradually from a regulated environment to a deregulated market economy. The market developments kindled by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been more significant in recent times with technology acting as a catalyst. While the banking system has done fairly well in adjusting to the new market dynamics, greater challenges lie ahead. Financial sector would be opened up for greater international competition under WTO.

- x -

INTRODUCTION

The need for an efficient financial sector for the overall development of an economy has long been recognized. Joseph Schumpeter, in his book “Theory of Economic Development”, argued that scarcity of finance is a severe problem for economic development. Cross country experience suggests that development of the economy necessarily requires the existence of healthy, efficient and competitive financial sector. This is because, in an economy with an underdeveloped financial market, the opportunity cost of capital is more. As a consequence, financing of projects in such an economy is more expensive. Therefore, an efficient and enduring financial sector is an important factor for overall economic development.

The Indian banking sector is the largest in South Asia with its various financial instruments. It is distinguished by the coexistence of different ownership groups, such as public, private, domestic and foreign. Prior to 1969, all the banks, except the state bank of India (SBI) and its seven associates were privately owned. However, as India increasingly became a planned economy, there was a perception among the policy makers that it would be difficult to undertake credit planning unless the industry and banks are linked. Keeping in view its financial linkage with the rest of the economy, the government of India nationalized 14 largest privately owned domestic banks in 1969 and six more in 1980, in order to meet the socioeconomic objectives of economic development.

Several regulatory measures on banks were adopted by Reserve bank of India after nationalization. Apart from changing the sectoral composition of credit, The RBI stipulated lending targets to priority sectors. Set up credit guarantee schemes and asked banks to open branches in rural and semi urban areas. The RBI also fixed minimum deposit rates on both savings and time deposits of all maturities.

Having identified the rising aliments in the Indian banking sector, RBI launched major banking reforms based on the recommendation of Narasimhan Committee on financial sector reforms in 1992 aiming at creating a more profitable efficient and sound banking system. The reforms sought to improve bank efficiency by opening banking industry to foreign ownership, by de-licensing, deregulation of interest rates and by promoting strong public sector banks to go to the capital market to raise funds. Additionally, new norms like income recognition, asset classification and provisioning were introduced to reflect the quality of the loan.

These measures are expected to enable and encourage banks to enhance their efficiency i.e. their ability to transform inputs into output, which in turn, is expected to enhance` economic growth by increasing the volume of funds intermediated in the economy.

The ability of the financial system in its present structure to make available investible resources to the potential investors in the forms and tenors that will be required by them in the coming years, that is, as equity, long term debt and medium and short-term debt would be critical to the achievement of plan objectives. The gap in demand and supply of resources in different segments of the financial markets has to be met and for this, smooth flow of funds between various types of financial institutions and instruments would need to be facilitated.

STATEMENT OF THE PROBLEM:

Marketing is the management function which organizes and directs all those activities involved in assessing and converting customers purchasing power in to effective demand for a specific product or service on moving the product or service to the final customer or user so as to achieve the profit target or other objectives set by the company. The purpose of any business is to create customer and the company aims at creating and maintaining the relation with the same customer for a long period of time enabling the bank to achieve the sustainable growth of the business.

OBJECTIVES OF THE STUDY:

1. To study an insight of the current practices with regards to marketing strategies in the selected banks.

2. To make a comparative analysis of selected public and private sector banks to judge the marketing practices, innovation strategy and performance.

3. To find the impact of change in the business model of banks on employees, customers and branch managers.

4. To find the inter linkage of the marketing departmental activities with Human resource department.

5. To find out how efficiently marketing strategies are managed in banks. If not, to study the symptoms and drawbacks and therefore, to suggest measures for ensuring effective strategies for marketing.

HYPOTHESIS

Consumers prefer to have “one stop banking” – rather than depending on more banks for different services. This provides a framework for thinking about the various avenues through which banks can pursue growth. This includes the discussion of market penetration, market development, product development and diversification together with evaluation of such growth strategies.

The researcher has studied the trends of marketing after the liberalization, with respect to the micro and macro-economic variables affecting the growth of the banks. The analysis has been dine from the consumers point of view, which will be a useful analysis for all banks to forecast their growth.

Market segmentation has helped the bankers to increase their profit with less cost. The correct identification of market segment is the key to marketing success. This examines the way in which banks could segment both their corporate and consumer market. According to “Philip Kotler” good market segmentation strategy must have measurability, accessibility and cost effectiveness. This helps in finding out the ways of developing marketing strategy to pursue the organizational objectives in the context of viable segment identified.

NEED FOR THE STUDY

After studying the literature and the present banking**,** scenario, the researcher has felt the need of studying the issues related to bank marketing in public and private sector banks. The banking business here has come a long way from traditional commercial banking functions. Today, many banks have an extensive strong network, which is more and more involved in strengthening the economic self dependence effort by mobilizing financial resources and affording the need based employment of these funds with national priorities and regional expediencies.

The way banking is a customized business, the strategies for each of the bank shall be a customized one. The researcher has found the need for studying the impact of reforms in the marketing strategies which has happened in this region and the strategies for improving the market share for public, private banks.

The review of research and literature presented in the above paragraphs indicated that no comprehensive research had been undertaken on the marketing efforts of banks. The sporadic research conducted earlier has limitations regarding their coverage and methodology. A majority of them were general in their approach. The lapses and gaps in the literature strongly supported the idea to undertake a comprehensive study with a sound methodological base.

REVIEW OF LITERATURE

Considerable work of research has taken place on efficiency and marketing of Indian banks as well as other related fields like banking sector reforms etc by the academicians, researchers and institutions individually as well as outside banking system and also by institutions within the fold of Indian banking system viz, RBI, NIBM, various committees set up by RBI etc. A brief review of major studies is given here.

MCGregor in his study argued that management of spread, which is a potent tool for improving profit margins, could be achieved by maximizing net interest margin. The technique of spread management as shown in this analysis indicates the relationship between asset liability and costs.

Devatia and Venkatachalam in their study proposed a composite index which they believe would be able to investigate the efficiency of bank operations and profitability. The main elements of this composite index are operational efficiency in terms of productivity, social objectives and profitability.

Shah in his study argues that bank profitability is linked with bank management, customer service and financial performance. He recommended that in order to improve profitability in a bank, emphasis should be laid on reducing costs, creating team spirit, improving the management and making the user pay for the cost involved in a service.

Shrivastva tries to build a relationship between the productivity and profitability of commercial banks. He argues that an important reason of low profitability is productivity could be the result of ineffective time that occurs due to defects in the form design, inefficient methods of operations, bad layouts, excessive product variety, bad working conditions, power breakdown, power breakdown and poor maintenance of records.

Mr. Abhram Hawkes in Relationship Marketing in Financial Services Industry opines that through frustration with traditional marketing approaches, financial service providers to continue to look for new marketing approaches, new marketing models to enhance their competitive position. In his study, he has analyzed forty financial services to identify the extent to which such companies recognize the term relationship marketing and the perceived benefits. The findings do not undermine the inherent value of the relationship marketing concept, but they do suggest that the theory is much better understood than practice.

Thomos Hellmann and Kevin Murdock has worked on liberalization of the Indian banking. The experts have expressed their opinion that using capital requirement in an economy with freely determined deposit rates yields Pareto efficient outcomes. They have also written that binding deposit rate ceiling generates inefficient non price competition; a regulation still may use a non-binding deposit rate ceiling.

CONCLUSION:

A sound financial system is indispensable for a healthy and vibrant economy. The banking sector constitutes a predominant component of the financial service industry and the performance of any economy, to a large extent, is dependent on the performance of the banks. Banking institutions in our country have been assigned a significant role in financing the process of planned economic growth. In 1969, 14 banks were nationalized with the objective of extending credit facilities to all segments of the economy and also to mitigate seasonal imbalance in their availability. Since nationalization banking system in India has witnessed structural and dimensional changes. The second step in the process of nationalization the banks were taken in 1980, when six major banks were nationalized. Directed interest rates on deposits and lending, exchange controls, directed credit became the hall mark of the tightly regulated structure.

Following the balance of payments crisis in 1991-92, wide ranging reforms were initiated in almost all the spheres of the economy including real sector, external sector, agricultural and industrial sectors, macroeconomic policy, public sector disinvestment etc. The objectives of the financial sector reforms were to bring greater efficiency and competitiveness in all the spheres of the economy.

A decade and a half has elapsed since the initiation of banking sector reforms in India. Over a period, the banking sector has experienced a paradigm shift. With the rapid economic development of the country, the role of banks has become increasingly crucial. On the one hand we can find the death of so many cooperative banks and on the other hand we find the success stories of ICICI, SBI Bank, Centurion bank of Punjab etc. The main reason for the success of few banks is because they have accepted banking as a service. To survive, bankers will have to develop entirely new revenues, driven by radically different products and services offered to totally new markets and customers. The banking business has therefore become complex and requires specialized skills.

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