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A Study on the Marketing Strategies on the Performance of Banks

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Abstract – This paper examines the effect of marketing strategies on banks performance in the Indian banking sector. Qualitative data were sourced through the administration of structure questionnaire while the quantitative data were sourced from the various private and public banks. The quantitative data were transformed to quantitative data with the use of Likert scale. The Ordinary Least Square estimation technique was employed for analysis.

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INTRODUCTION

The Indian banking sector has emerged as one of the strongest drivers of India's economic growth wherein private banks cater to short and medium term financing requirements, while national level and state level financial institutions meet longer-term requirements. It has a large geographic and functional coverage. The sector has undergone significant developments and investments in the recent past. There has been tremendous change in the working style of banks now-a-days with the availability of various innovative marketing services and promotional strategies to promote the banking services effectively. Banking industry in India has also achieved a new height with the changing times. Most of the banks provide various services such as Mobile banking, SMS & Net banking and ATM service to their customers for their convenience. The use of technology has brought a revolution in the working style of the banks.

A market-focused organization first determines the potential customer's desire, and then builds the products or services. Marketing theory and practices are justified in the belief that customers use a product or service because they have a need, or because it provides a perceived benefit (Kotler and Keller, 2006). Two major factors of marketing are the recruitment of new customers (acquisition) and the retention and expansion of relationships with existing customers (base management. For marketing plan to be successful, the mix of the four "Ps" must reflect the wants and desires of the consumers in the target market. Trying to convince a market segment to buy something they do not want is extremely expensive and seldom unsuccessful. Marketers depend on insights from marketing research, both formal and informal, to determine what consumers want and what they are willing to pay for. Marketers hope that this process will give them a sustainable competitive advantage (Meldan, 1984).

The study of Akinyele (2011) for the oil and gas sector in India suggest that strategic marketing is a driver of organizational positioning in a dynamic environment, and that it helps to enhance the development of new product/service for existing markets. Banks offer a wide range of financial services, to personal and business customers; some of these services which are bank account, guarantorship, and investment adviser are needed by an appreciable number of customers, but many other financial services such as import/export services, money transfers, credit cards and soon have to be brought to the attention of potential users, who then must be persuaded to use them (Abolaji, 2009).

Many services offered by banks are also offered by 'rival' organisations. Building societies have developed customer accounts which are similar in many ways to a bank account. Thrift and cooperative societies provide lending services to their numerous members and indirectly to the society at large. Solicitors act as an executor,trustee and accountant and give advice and so on. Banks not only compete with each other but also have to contend with challenges from other types of organisation in the market (Soyinbo, 1988). To do this successfully, bankers need an understanding of the process of marketing which will aid in improving banks performance. Marketing is an area of activity infamous for re-inventing itself and its vocabulary according to the times and the culture.

LITERATURE REVIEW

Banking sector reforms and consolidation all over the world are predicted upon the need for repositioning of the existing state of affairs in the sector in order to attain an effective and efficient status. This is more so in the developing nations like India where the banking sector has not been able to effectively provide the needed funds and services for the development of the real sector as expected. Hence, banking reforms become inevitable in the light of the global dynamic exigencies and emerging landscape. Consequently, the banking sector, as an important sector in the financial landscape needs to be reformed in order to enhance its competitiveness and capacity to play a fundamental role of financing investments.

Bank consolidation is viewed as the reduction in the number of public sector banks and other deposit-taking institutions whereas licenses have been issued to private sector banks which have mushroomed on a large scale. It is mostly motivated by technological innovations, deregulation of financial services, enhancing intermediation and increased emphasis on shareholder value, privatization and international competition (Berger, N. Allen., (1998); De Nicolo and Gianni 2003; IMF, 2001). The nexus between consolidation and financial sector stability and growth is explained by two polar views. Proponents of consolidation opine that increased size could potentially increase bank returns, through revenue and cost efficiency gains. It may also, reduce industry risks through the elimination of weak banks and create better diversification opportunities (Berger, 2000).

On the other hand, the opponents argue that consolidation could increase banks' propensity toward risk taking through increases in leverage and off balance sheet operations. In addition, scale economies are not unlimited as larger entities are usually more complex and costly to manage. Banking reforms involve several elements that are unique to each country based on historical, economic and institutional imperatives. For example, reforms in the banking sector proceeded against the backdrop of banking crisis due to highly undercapitalization of state owned banks; weakness in the regulatory and supervisory framework; weak management practices; and the tolerance of deficiencies in the corporate governance behaviour of banks (Gyargy Szapary, 2001).

In the Yugoslav economy, banking industry restructuring was motivated by the need to establish a healthy banking sector that will carry out its financial intermediation role at a minimal cost; effectively provide services consistent with world standards and which will involve foreign financial institutions; and banks privatization as the ultimate goal. The central focus was to shore up the capital base of banks consolidated through mergers and take overs of local banks and selection of strategic investors for additional capitalization. Specifically, foreign banks permeated the industry exclusively by providing additional capitalization through investment in the existing infrastructure, particularly new banking products and operating technologies and buying shares of the existing banks.

Also, the banking sector reforms and consolidation in Japan involved the reform of the regulatory and supervisory framework, the safety net arrangements, as well as mechanisms to speed up attempts at resolution of banks' non-performing loans. From the above, it is obvious that the fundamental objective of banks consolidation is the repositioning of the banking industry to attain an effective and efficient status that will promote economic development.

RESEARCH METHODOLOGY

This paper adopts the Data Envelopment Analysis (DEA) formulated by Charnes et al (1985). Data envelopment analysis is a model that tests marketing efficiency of an organisation. The method was developed as an evaluation tool to measure and compare decision-making unit productivity. It is a mathematical method of comparing different decision making productivity base on multiple inputs and multiple outputs. The Data Envelopment Analysis also called marketing efficiency model has revenue and operating profit as the output variables and advertising as the input variables

POPULATION AND SCOPE OF THE STUDY

15 banks were selected for this study based on simple random sampling techniques. The banks were grouped into 5 groups with five in each group. 3 banks were selected from each group to ensure adequate representativeness. The study population consists of all the officials and customers of the selected banks

DESCRIPTIONS OF VARIABLES

The variable used is Profit after Tax (PAT): The difference between revenues (Sales) and cost of goods sold is called gross profit. When the other expenses, including interest and taxes are deducted from Gross profit we obtain profit after tax (PAT). Profit after tax or net profit is generally regarded as a traditional measure of performance. Pricing: Prices means the value of a commodity or service expressed in monetary terms. Price in banks includes: interest charges on loans and advances, interest paid on deposits, commission and fees charge as well bank services. It is believed that banks fees and charges should not be exploitative but should reflect the true value of the service. Price as one of the marketing mix in banks is a major marketing strategy, because it has major impact on profit (Zethaml and Bittner, 2000). Product: Kotler (2001) defines a product as anything that can be offered in a market that satisfies a want or need. Product could be physical goods, service, experience, event, ideas etc. New product development that satisfies needs will have great impact on banks profitability.

Banks products or services includes: (1) retail banking product such as current account and saving deposit. (2) Corporate banking products such as loan syndication, equipment leasing, treasury and foreign operation. Promotion: This is regarded as the marketing function concerned with persuasive communication to target audience in order to facilitate exchange between banks and their customers. Promotion mix include –advertising, personal selling, sales promotion and public relations (Brassington and Pettitt, 2000).

Promotional activities of banks in India have increased greatly because of the level of competition in the industry. Thus, promotional activities are believed to have greater impact on bank returns. Place: This is simply the distribution strategy. It is concerned with making the banking products and services available at the desired time and place (Abolaji, 2009). Channels of distribution in banks includes Automated Teller Machine, Branch Network, Credit Cards, Mobile banking, On-line Tax Accounting system (OLTAS) , Multi City Cheque Facility, On-line tracking of the status of your funds, NEFT, RTGS and E-mail Banking among others. The more channels of distribution a bank has, the more customers it serves and the more returns it earns.

METHOD AND ADMINISTRATION OF DATA COLLECTION

The data for this study were generated from both primary and secondary sources. This is to capture both the quantitative and qualitative aspect of marketing. The primary data were sourced through structured questionnaire. Copies of the questionnaire were administered to both the administrative and the management staff of the selected banks. The questionnaire was administered in state capital of the each of the selected banks and the responses of the questionnaire were ranked with the aid of Likert Scale. Cross sectional secondary data were sourced from the financial statement of the selected banks. Some of the secondary data sourced for the study were: Incomes and Profit figures of the banks, Operating Expenses of the banks, Deposit base of the banks and Total credit to the private sector among others.

DATA ANALYSIS AND DISCUSSION

Table 1 Summary of result

Variables	Coefficient	Standard Error	T-Stat	Prob.
C	-1598021	10984484	-0.145480	0.8872
PX	-22112.69	9841.279	-2.246933	0.0484
PM	-27296.30	12848.22	-2.124519	0.0596
PD	-13702.94	15072.59	-0.909129	0.3847
PL	75074.17	15496.45	4.844604	0.0007

The above result explained the combined effect of marketing strategies or variables on banks performance. The coefficient of the constant parameters which explains the value of the dependent variable, i.e. profit after tax (PAT) at zero level of the explanatory or independent variable is given as -1598021. This indicates a negative relationship between the constant parameter and profit after tax. Although, constant parameter has no significant meaning in the model. Again, the result exerts a negative relationship between pricing of bank services and PAT. The coefficient of price, which is -22112.69 shows that a percentage increase in price will cause the profit or revenue to decrease by –22112.69 naira. Though, the banking institution in India operates under a guided price regulated regime, the banks are still able to take an advantage of weak regulation by charging hidden costs in the form of commissions and charges on services rendered to customers.

T-ratio Statistics

The t-test for the parameters was done by comparing the t-calculated with the t-tabulated at 5% level of significant which is approximately 0.025 for a two-tail test. The decision rule is that, if t-calculated is greater than t-tabulated (i.e. t-cal>t-tab), we reject the null hypothesis and accept the alternative hypothesis. The results of the t-test for the model are presented below:

Table 2: Summary of T-Statistical Test

Coefficients	T-calculated	T-tabulated	Decision rule	
Constant (a0)	-0.145480	2.131	t-cal<t-tab	Not significant
a1 (PD)	-2.246933	2.131	t-cal<t-tab	Significant
a2 (PL)	-2.124519	2.131	t-cal<t-tab	Not significant
a3 (PM)	-0.909129	2.131	t-cal<t-tab	Not significant
a4 (PX)	4.844604	2.131	t-cal<t-tab	Significant

CONCLUSION

The study revealed that marketing has become a major function in the banking industry as a result of increased competition brought about by bank consolidation and reforms. As a matter of fact, banks' employees involved in marketing activities in the post- consolidation era have surpassed those in the pre-consolidation era. Thus, there is a strong connection between banks competition brought about by banks reforms and marketing activities. The competition is supposed, among others, to facilitate effective deposit mobilization, technical efficiency, varieties of services, convenient banking services, productive efficiency, allocative efficiency, lower cost of funds, absence of customer exploitation, higher compensation to depositors, safety of depositors' funds, availability of funds for investment, increased savings that will transform a high quality service amongst others. The finding in this study shows an overall significance of the marketing variables adopted, although not much effect is seen when a marketing variable is compared with bank performance in isolation of other variables. This helps to conclude that the marketing strategies must be adequately combined in order to bring about improved performance. For example, if a bank is engaged in promotional activities without having an adequate knowledge of the market, the aim of the marketing will be defeated.

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