From Situational Analysis to Marketing Strategy

While many industries have been impacted by the Internet-era, the banking sector is an industry that has faced numerous environmental challenges. They have been impacted by new competitors, changing technology, record low interest rates, different consumer buying approaches, new distribution channels, and so on.

As a result, traditional banks cannot maintain their existing marketing strategy. They need to be able to adapt to the current environment and find a suitable long-term strategy that will enable them to achieve ongoing profitability.

Your task in this activity is to identify the key environmental factors that will impact strategy and then recommend appropriate strategy revisions and modifications.

KEY BANKING ENVIRONMENTAL FACTORS

Interest Rates

In recent years, many countries have experienced low interest rates. This has placed pressure upon the bank's ability to generate profits through what is known as their interest rate margin. A banks margin is the difference between the interest they pay out to depositors and the interest they receive from borrowers.

In a lower interest rate environment, there is generally pressure to reduce this margin. This occurs through competitive pressures, as well as the inability for the bank to reduce the interest rate it pays on savings accounts (because often they are around 0% anyway) – so when they reduce their loan interest rates, there unable to match it with a decrease in the interest rates that they pay out.

This dampening of their interest rate margin (revenue) has forced many banks to look for cost savings and efficiencies through technology.

Substitute Competitors for Deposits and Savings

Interest rates for larger deposits are now typically quite low. Consumers with significant amounts of money to invest and now able to get better "interest rate" returns by investing in blue-chip shares, where the dividend may be much higher than banking deals.

This means that the low interest rate environment, has made blue-chip shares a more viable "substitute competitor" for larger savings and deposits.

Substitute Competitors for Loans and Credit Cards

Not only do banks face competition for generating savings and deposits, they also have significant competition in trying to attract borrowers. There has been an emergence of "payday" lenders. These types of organizations provide very small loans – usually under $1,000 – for a short-term emergency period.

Collectively, they have managed to grow to a reasonable market size, which takes many small loans away from banks. In some countries, major supermarket chains have launched their own credit cards. They already have significant access to consumers who regularly use various credit cards at their stores.

These retailers are able to use personal selling methods in the store along with various forms of digital and email marketing to push credit cards onto the supermarket customers.

Additionally, other retailers such as department stores may also offer "store cards", which operate like a credit card within that particular store.

Credit cards usually provide a good form of profit for banks, so these retail competitors pose a threat to this business. Some other retailers may offer "interest-free repayments" for major purchases. This means that the consumer can buy – say furniture – with free credit from the retailer.

Obviously, the "free" credit is usually embedded in the purchase price or provided by the base manufacturer of the product. Either way, it provides an attractive alternative to borrowing money from a bank.

In a similar vein, many new cars are now sold with very low interest rate offerings – which are provided by the car manufacturer (or in some cases by a large dealer). This means that it is very difficult for a bank to compete in the new car lending market. Therefore, as you can see that banks are facing numerous challenges from array of competitors.

Substitute Competitors for Transactional Business

Most consumers would have some everyday transaction account where money goes in and out. New competitors have emerged in this regard, such as Apple Pay. Samsung, Google and Amazon also have products (either existing or planned) which are designed to take transactional business away from banks.

While typically there are not significant profits to be gained from holding transactional business (due to the smaller account size and the transactional costs involved), transactional business does provide a key "relationship" between the bank and consumer.

Therefore, losing this particular offering would potentially put the balance of the customer relationship at risk. Although not a mainstream concern at the moment, in the longer-term alternative digital currencies (such as Bitcoin) they also pose a threat to a bank's ability to hold its customer relationships.

Mortgage/home loan Brokers

A growing proportion of mortgage loans are delivered through independent mortgage brokers. These are "usually" independent firms that research the best home loan offerings in the market.

Many consumers prefer this way of purchasing a home loan because it is at no cost to them (the bank will pay a commission to the broker) and the broker does all the work for the consumer.

The downside of this arrangement for a bank is that they will have loyal customers using a broker who is more than likely to place the consumer with another financial institution. Also it means that the bank has to be constantly competitive with its interest rate offerings and its commissions to brokers.

Online Interest Rate Directory Comparison Sites

Like many industries, banking consumers will undertake their own research prior to a major purchase decision (such as a mortgage or a large deposit). There are numerous interest rate comparison sites in the market that compare all or some of the offerings available. This means that, as with mortgage brokers, banks have to be increasingly price and package deal competitive.

These interest rate comparison sites usually make their income through offering advertising or sponsored positions on these sites. The financial institutions will usually pay per click, in the same way as they would with Google advertising. Again, the concern for a bank is that there is a reduction in overall consumer loyalty, particularly for larger transactions, and the availability of online comparison sites creates increased price sensitivity among consumers.

Decline in the Importance of Bank Branches

Online banking is becoming quite common. In the old days, bank branches were widely located and were the main tool for acquisition of new customers. However, a branch's effectiveness in this regard has been significantly reduced through alternative methods of customer acquisition.

This creates a significant cost structure for a bank, particularly competing against new entrants which may have adopted an online-only model. The challenge remains of how to "reinvent" bank branches away from transactional facilities to sales and relationship facilities. There are many different types of branch design models that have been tried throughout the industry.

Fraud Issues

With many consumers moving to online banking, there is a growing threat from the risk of fraud for consumers. There are some organized groups who seek to trick consumers into revealing their passwords (through fake emails and/or fake websites representing banks) or some other form of hacking the consumer's computer system.

Therefore, banks need to invest in appropriate technology and staff – at a cost – to minimize the risk of fraud in order to protect their brand's security image with the market. In some cases, banks will be liable for the loss of money and will have to repay it to the customers.

Increasing Legislation

Following the GFC period, where banks were perceived to be reckless in some of their activities, there has been an increased scrutiny by governments on financial institutions. This has resulted in increased regulation, compliance, restrictions, and the need for greater financial capital.

Collectively, these measures usually have the effect of increasing the bank's cost of compliance, as well as limiting its growth potential in certain areas.

Economic Outlook

Interest rates have already been discussed above, but many countries face reduced economic growth prospects in future years. This reduces the ability of the bank to grow "naturally" with the size of the economy (with larger incomes and wealth).

There is also increasing income inequity in many countries. This may create a situation for a bank where they may need to have distinct offerings for both wealthier and poorer consumers.

Social Media Use

Many consumers tend to be heavy users of social media, across various platforms. Social media provides a good opportunity for organizations to create brand engagement, strengthen customer loyalty, leverage customer advocacy, and win new/first-time customers.

However, while this may be generally an attractive marketing and promotional opportunity, banking is usually not seen as an overly exciting type of brand to engage with. So the challenge here is to how to make a bank's brand "interesting and engaging" while still maintaining the appearance of security and stability expected from a bank.

Customer Database Analytics

Marketing is moving towards more data-driven decisions. Banks have an enormous amount of customer information on their customer database. Not only do they have precise demographic information, but they also are able to generate a very clear picture of their customer's lifestyles and behavior through analysis of their financial purchases.

Many banks are gaining an advantage through the analysis of their customer database, developing precise target market segment profiles, and even engaging in predictive behavior modelling. This information can then be fed into the firm's promotional activities, hopefully with much greater cost and result effectiveness.

Other Environment Factors? There are also other environmental factors worth considering, which you may choose to identify through further Internet research.

Student Task

For this task, you will be required to assume the role of the marketing manager for a hypothetical mid-sized retail bank. You will need to identify the various trends and environmental impacts that are affecting retail banking and then decide upon a suitable course of action – that is, a competitive marketing strategy.

Because it is a hypothetical retail bank, you have some scope to determine "how" the bank will compete. Obviously, you will have no real internal environment (corporate appraisal) information to work with. But keep in mind, because they are a mid-sized bank, they will have limited resources compared to the major banks. Therefore, they cannot match everything that a large bank is able to do and offer.

Please note that the term "retail" in this banking sense refers to banking services offered to individual consumers, not businesses or corporations.

What you need to do in this task is to find a way of both differentiating the banks offering and adapting to (or taking advantage of) the various macro environment and competitive and consumer trends. Ideally, you should be looking for the firm to have a distinctive and specialized strategy that will allow them to stand out in the competitive landscape.

In summary, your key tasks are:

1. Identify the KEY trends and environmental factors that will impact the bank's performance (positively or negatively)
2. Outline a clear marketing strategy that will be effective in this emerging banking market
3. Outline a case for why your strategic approach will deliver a differentiated offering that will enable them to be successful in the medium to long-term.