

# Evaluation of the Risk and of the Opportunities in Launching the New Banking Services

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**Abstract.** *The creation of new products and services is acknowledged as being a necessity for the development of a company. Furthermore, due to the changes occurred in the banking field, the introduction of new services became for institutions a condition to remain competitive.*

*The banking institutions which intend to be leaders in a domain should take the initiative and introduce new services. In the same measure, there are companies for which the cost of a potential failure is too high and they cannot allow it. They limit to introduce in their offer the products that have been tested on the market and have success among the consumers. This option in the marketing policy of the firm depends on several factors, such as the mission of the organisation, the intended objectives, the dimension and the resources of which it disposes and last but not least the nature of the new proposed service.*

**Key words:** development of new financial services; management of existing products; product elimination.

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## Introduction

The product is, undoubtedly, the main component of the marketing mix. However competitive the price shall be, however effective the distribution and inspired the promotion is, if the product does not meet the qualities required by market, the organisation won't register a success on long term.

As much as, in case of the financial products, the high degree of intangibility has as consequence the difficulty of "isolation" of the service by the price and its manner of distribution.

The banks must ensure certain aspects related of the tangibility of the services offered, so as they may be effectively sold. The banks shall use the marketing elements which may allow them the promotion of these services. As result, to any service or group of services must be attached tangible characteristics which may be used in marketing. Also, a bank shall create products from an entire portfolio of services. For instance, the banks shall "spoke" about their products: credits, investments, economies.

This is an usual element in the industry of financial-banking services. In fact, it was previously stated that what the banks offer to the consumers are services. In this case, the totality of these services represents an offer on the market of the respective institution. For instance, the card VISA GOLD is the tangible product which is accessible to the client, and the service represents the totality of benefices associated to such a card, for instance: higher limits of credit, the statute of preferential client, potential benefits of use, transfers of funds.

In the banking institution, the notions of product and service became interdependent and interchangeable, being used to describe what is offered to the consumer.

### Typology of banking services

More of the offered services involve the bank and the client alike, since there are forms to be filled up, cash to be deposited and withdrawn. Some products, due to their nature, shall need the presence of the bank staff.

As a result of the necessity of consolidating these relations, the fact that each has a role to play and that the quality of the offered service must be at the highest standard with a view to ensure the continuity of the relations becomes more and more obvious for banks. Subsequently, we shall see the necessities of the clients and the qualities of the services, as well as their importance for the bank. The organisations and their employees must be capable to deal with these changes and to ensure the services and the products that the clients need and want.

In general, the banks offer two types of services to their clients: sole transactions and services with a continuity character.

*The sole transactions* form when the client comes to a bank, buys the service, not having another contact subsequently (for instance, buying currency or cashing a cheque in currency). These sole services must be sold to the client any time he needs them.

The services with continuity character appear in the case when the client has a long relationship with the bank (for instance, a client who opens a deposit at term).

The marketing department must adopt a strategy which shall encourage the client and, based on the relationship with the bank, to resort, naturally, to sole transactions as well. This shall determine the increase of the transaction volume with expenses as reduced as possible and small effort.

Anyway, for a bank, all the clients are important, even though they visit it once or several times. Any client

must have a satisfaction feeling which, ultimately, shall determine him use several services and, if he does it, he may become loyal client on long term.

At the same time, we shall take into account that the banking services address to:

- physical persons, but differentiated to the youth, pupils, students, workers and pensioners;
- trading companies, but differentiated to the small and middle enterprises, big plants and factories, transnational societies, societies of commerce;
- other banks; there are banks of the banks (en gross), there are banks that offer collaboration services with similar banks, mandate operations, on the behalf of other banks. In Romania for instance, Transylvania Bank issues cheques Tomas Cook;
- the financial societies, within theses being the brokering societies (in Romania, approximately 15-20 banks attend to societies of movable values), the insuring societies (many banks have their own insuring societies and impose the clients to insure their credits and mortgaged goods to these – ASIT, OMNIASIG, AGRAS), the leasing societies, etc.;
- the state, such as collecting taxes, crediting the budget under the form of state titles, financing the infrastructure projects etc.

The products and the banking services modify and adapt permanently, with a view to satisfy the necessities of consume and the environment conditions in continuous change.

No matter if it is selected the extension, the diversification or the renewal of the products, the decision is being influenced by a high number of internal and external factors. We state further on four of the factors with high impact on the strategic alternatives in the banking field, the internal factors following to be detailed in a future chapter.

*The consumers.* A financial institution may have different segments of consumers (clients): physical persons, trading companies, financial companies, the state. No matter the segmentation criterion used, the satisfaction of the necessities, of the desires, of the aspirations of the consumer remains the main point of the marketing activity. One of the issues associated to the financial services is that the consumers do not experience the necessity of acquisition of a service, but they perceive the legal obligation to do it (such as in the case of some insurance services). Consequently, it is not always relevant to identify the necessities for a product, but to create demands for different services.

Also, there must be taken into account the current products of the banking institution which continue to satisfy the basic necessity of the consumer, but which became used morally, being necessary their modernization. But, if the resources of the bank do not allow realising the satisfaction of a need new-identified on the market, especially in the conditions when this thing is also followed by the competition, it is better to give up the idea. It is more important to identify the more critical demands of the consumers that the bank may satisfy, realising therefore a balance between the client's satisfaction and the profitability of the bank.

*The competition* represents an important source of information that may be used not only in the decisions referring to the product policy. For instance, the actions of some concurrent institutions prove how they perceive the evolution (or the changes in the evolution) of the environment. This may confirm or refute the individual assumptions referring to the market tendencies. Last but not least, a significant part of the new products comes from the imitation of the competition. Indeed, the one who "imitates" benefits from the results of the marketing research made by the competition, of their putting into practice. If the competition evaluated erroneously the necessities, the mistake is less costly for the one who took over the new services.

*The technological environment* has an influence both on the development of the products and on the strategies of distribution. The development of the technology allowed the use of the banking card and automatic teller machines. In order to be implemented with success, any modification in the technological system must take into account the changes that occur in the conduit of the consumer.

*The legislation and the judicial frame* have a decisive impact, ultimately, in the development of the financial products. Many financial products are influenced and even controlled through the system of taxes imposed by the enforced judicial norms. Also, the central banks interfere through mechanisms and levers which favour or redirection, during certain intervals, different actions of the financial institutions.

### **Launching and developing the banking services**

In general, the financial companies may be classified according to the degree of introduction of the new

services in proactive and adaptive (Cowell, 1988, pp. 296-312) institutions. The proactive ones initiate major changes on the financial market. The market leaders have usually a strong conduit of marketing and, implicitly, a clear orientation towards the necessities of the consumer.

An adaptive strategy implies that the institution shall wait the market reaction, according to which it shall introduce the same type of service, with the same characteristics or an "identical", but "superior" service (with certain improvements in comparison with the initial service).

The degree of novelty of the financial products may result from (Edgett, 1993, pp. 35-43):

- changes in the technological domain (bancomats, cards);
- changes in the demands of the consumers (different types of insurances, new credits etc.);
- changes in the strategies of the competition (introduction of new financial services, adopted fast by the consumers).

At their turn, the changes in the technological field and in the necessities of the consumers may be proactive and adaptive.

Usually, the financial societies of reduced dimensions choose to offer new services on the market after the competition, whereas those which dispose of high resources assume the risk to introduce and adapt the services at the level of the technological and informational development in the financial field.

The majority of the new financial services occurred in the last years proves that the financial institution have the tendency to react rather to the concurrence than to the market. The conclusion would be that, in case of the financial companies, the advantage of the "first came" is not applied.

The measure in which a new financial service shall be accepted and adapted by the market depends on a series of factors, a part of them being attributed to the consumer, another part to the product or service. The financial institution must know the reasons for which a segment of consumers is willing to try a new service, whereas another prefers to wait a period and, at the same time, to understand (the causes) of his rejection. While the conduit of the consumer may be less influenced, the companies possess the control over their own products and services.

The process of adapting the new services depends on several factors among which (Rogers, 1982, p. 187):

- *the relative advantage*. The product or the service must, first of all, offer to the consumer a package of benefits which may emphasize its superiority in comparison with similar products. The variability of services, in general, and of the financial ones, in particular, implies differences in the process of carrying out, whereas the heterogeneity may have a positive impact in terms of personalisation and creation of a concurrent advantage. The financial institution must identify the level of tolerance of the new service variability and, at the same time, to evaluate the new service after launching it in order to ensure the satisfaction of the consumer;
- *the compatibility* with the necessities and with the system of values of the aimed segment of consumers. Within the new services occurred as a consequence of developing a new necessity, this factor is understood. In case of the services developed as a consequence of perfecting the technological and informational system or following the imitation of the competition, it is risky not to check up a current necessity of the consumers;
- *the marketing testability* – is more difficult to apply (if not impossible) in case of the financial services. The difficulty is accrued as well by the inseparability of the consumer carrier out. Consequently, the financial institutions which launch a new service must orientate both on the process of carrying out and on the existence that the consumer shall have (the degree of implication of the consumer, the level of understanding of the service complexity, changes in the consume conduit etc.);
- *the communication* – refers to a higher or lower measure in which the new service may be effectively and efficiently promoted (methods, techniques, programs). It shall be stated the fact that some aspects of the financial services' communication are judicially regulated fact which increases the attention offered to this important factor in the launching of a new service.

The systematic development of the new services involves the pass of some stages:

1. The analyse of the existing services and the definition of the strategic roles

2. The exploitation of some varieties of new services
3. The evaluation of the perspectives of these varieties
4. The exhaustive analysis
5. The proper creation and the acceptability testing
6. Post-launch evaluation.

#### *1. The analysis of the existing services and the definition of the strategic roles*

A first crucial step in the development of the new services is the definition of the strategic roles that the new services could play and of the priority market segments that these may attract. This shall be performed in parallel with the analysis of the situation of the existing services, of each contribution to the profitability of the bank, of the existing environment conditions.

#### *2. The exploitation of some varieties of new services*

The following stage is the exploitation, with a view to find some varieties of new services, the exploitation which shall be formalised and proactive, since for the insurance of its success is necessary to assume responsibilities.

The varieties of new services with the highest potential are those which determine an important or unique demand on the markets-target. Therefore, a key source of the ideas is the “target”-market, and a key method to use this source is the marketing research.

The outline of specific “target”-markets and the knowing the desires of these current and potential clients may represent an important source of ideas concerning the new service which may be developed, and the old services, which may be improved.

Also, the internal sources, requiring the direct contribution of the bank's employees, may represent a rich potential of ideas, especially in the conditions in which these realise that it worth making suggestions, and the suggestions are appreciated.

The personal contact with the clients, the periodical completion of the questionnaires, the profound interviews number among the techniques which may be used in the realisation of the feedback related with the existing services and the unknown needs of the consumers.

It shall not be ignored the solution “to take a look in the neighbour's garden”, to be practically inspired by what the competition does or to document oneself abroad. The warm water shall not be invented.

### *3. The evaluation of the perspectives of these varieties*

This stage consists in determining which of these guarantees the accomplishment of some complex conditions. Each variety is evaluated in terms of some predominant criteria.

### *4. The exhaustive analysis*

The next step refers to an intrinsic analysis of the idea of service. This stage involves a detailed examination of the financial, marketing and operational feasibility of the bank.

### *5. The proper creation and the acceptability testing*

This stage involves the effective “production” of the service, the test on a restricted circle of users and the acquirement of the market feedback.

In the process of realising the testing, there must be selected areas of the market where the consumers are not warned that they are submitted to a test and they response to the services simulates the conditions of the real world.

The market testing delivers possibilities to experiment the marketing tactics and to evaluate the entire marketing strategy whereas the service is still in the phase of limited distribution.

### *6. Post-launch evaluation*

The previous stages passed by the bank before launching condition this stage, in the sense that the acceptability testing has success when the product shall be launched. This process includes the employees from the Department of Marketing and Strategies, and the staff of public contact, of relations with the client shall be trained how to sell the product.

The launching implies solving the following issues:

1. Establishment of the launching period
2. Selecting the territorial area for launching depending on the strategy of distribution
3. Preparation of the distribution network
4. Preparation of the market
5. Establishing forth the volume of new services which are brought for sale, the organisation of the promotional actions

The launch is an operation which must be well prepared, on it depending to a great extent the success or the failure of the respective product, as well as the expenses performed for its creation.

## **Opportunities on new markets**

It is very probable that the banks shall search to exploit markets which are new for them, or new for anyone in the next dozens of years. Those who shall “make their homework faster” and shall act quicker, will gain from this tendency.

But not everything resumes to speculating on this theme, there must be discussed the criteria according to which it shall be decided the entrance or not on the new markets.

It is probably that a criterion shall be that, if the aimed market is national or even international in a higher proportion than the local one. This is for instance the dilemma of the Swiss banks which number among the first banks in the world as dimension in the conditions that Switzerland is far to be a great market.

It is also probable that the managers shall want to have as qualified staff more men than women, relying on the fact that in the '90 the fluctuation of the feminine staff was much higher. Other criteria are probably those of preferring the banking services generators of incomes from commissions, according to the present style of management and know-how and not the realisation of incomes resulted from credit interests, due to the adversity with respect to the risks, as well as to the existing “elements of endowment” in the totality of the resources.

New opportunities, “new” in fact for anyone, may occur be determined by the legal (judicial) changes or following other incentives.

When we refer to new markets, we do not necessarily think of new countries or new locations. Certainly, Central and East Europe, Russia, Asia of South-East are areas of investment interest and with a huge potential for the development and evolution of the banking services, since the level of these in the respective areas is still very low.

But, new markets mean as well new products and even new concepts to build financial services: INTERNET Banking is an obvious case of market which barely shows its potential, the sole currency created the configuration of a banking market completely new for all the banks from the countries of the European Community as well as in its extension.

The marketing intends to discover these new opportunities through the thorough study of the markets, of the products, of the consume customs, and of the competition such that the strategic decisions of development and positioning to be taken in time.

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