



12

CHAPTER

Bank Marketing

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| 12.1 | Define the Customer |
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PHOTODISC/GETTY IMAGES

skills that pay dividends

Understanding Consumer Motives

People have a variety of reasons for buying products and services. Some of these reasons are based on thoughts and some are based on feelings.

Banking is a basic need in modern society. Intellectually, most people understand that they need a bank to deposit a paycheck, to hold their funds, to provide various checking and savings accounts, and to provide ATM services. How a bank is chosen depends on the personality and values of the customer.

An analytical customer may do a lot of research to compare products, service levels, and costs among competing banks. If an analytical customer values cost effectiveness and efficiency, they may select the bank that provides the best combination of both. This analytical customer takes a detached, objective approach to decision making.

Some customers take a more emotional approach when choosing a bank. A customer who either lived through the depression or who is worried about the lasting impact of the 2008 credit crisis may place a high premium on the security of their funds. This customer may gravitate to a bank with personnel that convey a strong sense of financial knowledge and financial responsibility. During banking transactions, this customer may often seek reassurance that their funds are safe.

A customer with a strong need either to feel like part of a community or to do business with people they know socially may place a higher premium on banking where one can develop strong personal relationships. This customer may not thoroughly comparison shop and may select, instead, to choose a bank where they feel they can trust the people they know.

When interacting with customers regarding product or service selection, ask them to rank what is most important to them in their selection process. Their answers will reveal whether they are more analytical, emotional, or a combination of both. Using their responses to frame your discussion, emphasize the qualities of your products or services that are most important to them. For example, efficiency- and value-driven customers might be influenced to buy from you if they hear about all of the free online services offered by your bank. Socially oriented customers might like to hear about outings to pro baseball games sponsored by your bank.

Customers make post-purchase evaluations. Followup with customers after a purchase to see if there's anything you can do to improve their satisfaction.



Develop Your Skill

In small groups, assign the role of an analytical customer and a social customer to group members. Assign the role of a bank representative, focusing on specific bank products, like a checking account or a CD, to other group members. The bank representatives should try to sell each type of customer their product by first asking the customer to list their decision priorities and then by framing the discussion around those priorities. Reflect on how the approaches and conversations are different based on the personality type of the customer. Be prepared to share your findings with the class.



12.1

Define the Customer

goals

- + Understand customer characteristics.
- + Apply customer characteristics to banking customers.

terms

- + demographics
- + need
- + want
- + customer segmentation
- + target market

Banking Scene

Yuan Liang is new to the city. He grew up in a small community where most people know each other, and he went to college in a nearby small town. He needs to find a bank where he can open checking and savings accounts. He knows what he expects from a bank, but he isn't sure how to identify one that meets his needs.

He wants to be a valued customer at his bank. How can he find a bank that is interested in a customer who is just beginning his or her career?

CUSTOMERS ARE THE REASON BUSINESSES EXIST • • • • •

All businesses exist to serve customers. Successfully defining current customers and accurately identifying targeted customers is critical to a business's ability to prosper.

Who is a Customer?

Marketing theories abound on how to best define a customer. However, there are common definitions of terms that describe characteristics of customers. **Demographics** refers to the specific shared characteristics that comprise distinct groups of consumers. Income, age, gender, race, profession, and home zip code are examples of specific customer characteristics. Knowing the demographic composition of your customers will help you decide which financial products to offer either nationally, regionally, or locally. For example, a bank branch located in a zip code with high net worth residents might elect to highlight investment options at that branch.

Customers have needs and wants. A **need** is a requirement for basic survival. Basic physiological needs include air, food, clothing, and shelter. A **want** is something that you would prefer to have but that you could live without if necessary. Wants may include Blackberrys, iPods, and designer clothes. In modern society, citizens have a basic need for money. If they want to have written records of their transactions, buy or rent a home, pay bills online, or put their money in a safe location, then they need the services of a financial institution.

Banks recognize that they can't be all things to all people. **Customer segmentation** is the process of dividing customers into subgroups, each of which is identifiable by its specific preferences or needs, so that distinctive products can be developed for and sold profitably to these groups. As an example, all customers who need to open checking accounts are not the same but want and need different things from that account. Some want to write only a few checks a month, but others need to write unlimited checks and are willing to pay a fee for the service.

A small, two-seater car with a bright yellow upper body and a black lower body. It has a boxy, futuristic design with large windows and a black roof rack. The car is parked on a dark surface, possibly a street or parking lot, with a dark building in the background. A portion of another car is visible on the right side of the frame.

What is demographic information?

There are multiple ways to define, group, service, and sell to banking customers. The way that a bank defines its customers will impact how it provides products and services to those customers.

Many bank customers are interested in services for themselves or their households. Ongoing products and services these customers need include checking accounts, savings accounts, CDs, insurance, and online banking. Lending products they need include mortgage, car, and home-equity and student loans. They may also seek credit cards, wealth management assistance, retirement planning, and trust planning. Within each of these categories of need there are multiple ways to approach the customer and multiple products from which each customer can choose.



branching out

Aisling

Banks have had branches in nontraditional locations, like grocery stores, for well over a decade. In addition to providing convenience to customers, these branches need to work to stay prominent in customers' minds. A variety of creative marketing approaches have been used by personnel at nontraditional branches. At one Ohio bank, tellers take to the supermarket aisles to interact with customers. By telling customers that they can receive \$100,000 if they can identify the name of the bank

located in the store, customers are prompted to recall the bank's name. If they correctly identify the name of the bank, the teller then gives them a \$100,000 candy bar. Undoubtedly, receiving the candy sweetens their experience!

Think Critically How would you react if your grocery shopping experience included an individualized marketing effort by a bank? Do you think this is an effective way to engage customers?

Business Customers

Business customers have a variety of needs depending on their industry and business focus. Many banks serve a wide variety of business customers ranging from small businesses to large businesses. Businesses may vary from sole proprietorships to businesses with a few employees to multinational corporations. Industries that businesses participate in may range from house cleaning services to consumer products companies to agricultural businesses. Nonprofit groups, ranging from Girl Scout troops through various charities, need banking services. Religious institutions also need banking services.

New Immigrants

People who have recently immigrated to the United States, including those who do not speak English as a primary language, are a potential customer segment for banks. In the spring of 2008, it was estimated that there were nearly 12 million unauthorized immigrants living in the U.S. Between 2000 and 2007, it is estimated that the unauthorized immigrant population grew by 4 million. Specific banking programs are under development to address the needs of this population.

Various Approaches to Specific Customer Groups

There are many ways to approach individual groups that are in the targeted segment of a market.

Demographic Approach for Individuals Some financial institutions structure their sales approach and websites to appeal directly to specific age groups. For example, one credit union offers products to the following four distinct age groups: ages 20–34, ages 35–49, ages 50–64, and ages 65 and over. Advice on financial products is tailored to each age group. Customers in the ages 20–34 age group may be advised to focus on saving for a house down payment; customers in the ages 65 and over group may be advised to consider the ongoing income generated by their investments.



Business Approach A separate section of a bank's website may be dedicated to businesses. Categorizing products by basic business accounts, from checking accounts through loan lines, by services that will benefit employees, and by services that will help the business manage all types of routine transactions, from merchant services through payroll, is one approach.

Functionality Approach A national banking chain presents their products from a more functional standpoint. Their website breaks down personal banking services into the categories of earned income, loans, and savings accounts. Specific product offerings, from checking accounts through investment products, are positioned within these broad categories.

Product Approach A community bank prefers to offer product categories, from savings accounts through IRAs to loans, as direct product offerings. This is a straightforward approach that presumes that the customer has a basic understanding of products. This approach allows an educated customer to directly access specific products of interest.

✓ checkpoint

Why is identifying the age group of a customer an important consideration for a bank?

assessment | 2.1

Think Critically

1. Define customer segmentation.

2. What is a target market?

3. Why are banks interested in new immigrants?

4. How would your interaction with a customer be different for an analytical customer versus a customer with strong social needs?

Make Academic Connections

5. **ETHICS** Early in 2007 there was a great deal of media discussion about one bank's intended program to offer credit cards to customers without Social Security numbers. The program, which could potentially be used by illegal immigrants, caused concern on a number of levels. One concern was that the program would implicitly condone the status of illegal immigrants. Another concern was that the high fees associated with the cards could cause severe financial penalties to account holders. Research current offerings for nonauthorized workers. Summarize the required documentation standards for obtaining any type of account with a financial institution. Consider the benefits and risks to the consumer and the financial institution of the account. Be prepared to discuss your findings with the class.

6. **MARKETPLACE COMPARISONS** Have students visit three bank websites, one for a national bank, one for a community bank, and one for a credit union. Have them compare website organization relative to customer and product focus. Have them identify similarities and differences in how the banks identify and target their customers. Prepare a two-page report to share results with the class.

Develop and Maintain the Customer

Banking Scene

Yuan Liang is happy with his new bank. He looks forward to the occasional Friday when he can get a free hot dog lunch sponsored by his bank. Last summer he even got two free tickets to a professional baseball game from his bank. Yuan has taken advantage of the bank's online bill payment option and uses it to pay his regular bills. Some of his friends, who get a financial reward for referring new customers, are trying to get him to change banks. Yuan is hesitant to do so. What should he consider before changing banks?

CUSTOMER DEVELOPMENT

There's a popular business saying that says it is much less expensive to keep an existing customer than it is to obtain a new customer. Competition for banking customers is fierce. Traditional sources, like other brick-and-mortar banks, are a source of competition. Nontraditional sources that are part of the ongoing financial innovations in the industry, like automotive companies that offer financial products and online banks, also change the competitive dynamic within the industry.

Customer Relationship Management (CRM)

Customer Relationship Management (CRM) captures the idea that the most profitable way to view customers is not merely in terms of the current products or services they buy from you, but in terms of both the present and future potential value to your business as a customer. By fully understanding the customer's financial position, financial needs, and long-term financial goals, you can cross-sell customers into more lucrative financial products. **Cross-selling** occurs when you apply your understanding of your customer to suggest other products from which the customer could benefit. A quantitative way to understand your customer is through a thorough analysis of past buying patterns. *Customer relationship management software* can track customers' online transactions to garner up-to-date customer behavior information.

12.2

goals

- + Discuss a strategic approach for developing and maintaining profitable customer relationships.
- + Explain how to keep customers in the midst of a highly competitive environment.

terms

- + customer relationship management (CRM)
- + cross-selling

Strategically Developing Banking Customers

Banks, like all businesses, need a distinct business focus. Once banks have determined which products and services they want to sell, they need to develop methods for attracting customers from within their target market. They may align certain products to specific demographic groups.

Unique Product Benefits Banks need to identify the unique, value-adding benefits of the products they offer. Highlighting these benefits to customers in all marketing, sales, and service interactions will help persuade customers that buying the product would be a good investment.

Keep Existing Customers Banks need to strive to maintain all existing customers. Providing exemplary, proactive customer service is one way to do this. Offering customers structured ways to provide feedback, and then responding to that feedback, enables customers to help the bank continuously improve.

Expand Existing Customer Relationships By cross-selling other products to customers, by servicing their accounts, and by forming partnerships with them to provide for their evolving needs, you can maintain customers.

Letting Go of Less Profitable Customers Although this can be controversial, if a bank's business model or product offerings change, in some cases it may make sense to provide disincentives for a customer to continue in the banking relationship. For example, if current customers no longer fit the desired customer profile, then increasing the charges on their accounts may cause them to start to look for a new financial institution.

On the other hand, there are those who would argue that banks have fixed costs and the incremental cost of maintaining a less desirable customer is not that great. One financial institution consulting company, Peak Performance Consulting Group, states that banking is basically a fixed-cost business. Two hundred dollars per customer is an industry-accepted level of per customer cost. However, the marginal cost of each customer is only \$35–\$40. In essence this means that, on average, it is relatively inexpensive to keep a less profitable customer. This line of reasoning would further the line of thought that it is all right to keep a less profitable customer. A bank's decisions on overall profitability and its desire to maintain a rigid business focus will influence its decisions about whether to maintain less profitable customers.



What is customer relationship management and why is it significant to the banking industry?

NETBookmark

Companies are leveraging the comfort that younger customers have with social networking sites to further business opportunities. Access www.cengage.com/school/pfinance/banking and click on the link for Chapter 12. Visit the demo for MyMoney in Facebook. Is this an application you would be comfortable using? Why or why not?

www.cengage.com/school/pfinance/banking

Competitive Threats

The best way to avoid losing customers to the competition is to not only know what the competition is currently doing, but also what they plan on doing. With a thorough knowledge of the competition, you can proactively address competitive programs and provide programs that will keep your customers with you. Below are some examples of some nontraditional competitors to the financial market.

Automotive Manufacturers Offering Mortgage Loans, Credit Cards, Personal Banking, and Insurance Products Although financial companies have become accustomed to auto manufacturers offering car loans to customers, it was somewhat unusual to see General Motors

(GM) offering mortgage loans to consumers. Although GM entered the market to offset the cyclical automotive loan business, the particular mortgages they provided tended to be high-risk loans where homeowners could pay only interest for the first few years. Many of the loans were also low-documentation loans. When the mortgage crisis of 2008 occurred, GM was forced to heavily invest to try to salvage the mortgage end of its business.

Through a subsidiary, BMW FS, BMW offers a variety of financial products. The credit card, personal banking, and home and auto insurance products they offer directly compete with traditional banking services. In their mission, vision, and values statement, BMW indicates they offer these services to enhance the BMW customer relationship by offering comprehensive banking and insurance services tailored for the BMW driver. BMW is cross-selling financial products to its customers.

Peer-to-Peer Lending New lending opportunities are available for both borrowers and prospective lenders. With Internet sites to facilitate the borrower and lender matchmaking, a variety of streamlined financing methods are available. Although specifics vary, common options include using social networks to facilitate connections, allowing lenders to participate in earning interest at low risk (by offering a relatively small contribution as part of a larger loan), and selecting borrowers to finance by their personal narrative in addition to their credit ratings.



checkpoint

Why might a customer with an established online banking relationship hesitate to change banks?

assessment 12.2

Think Critically

1. What is cross-selling and why is it important in banking?

2. Why would a bank decide to let go of less profitable customers?

3. Why is peer-to-peer lending attractive to both lenders and borrowers?

4. Provide five examples of customer incentive programs. Which program would appeal to you most? Why would you prefer that program?

Make Academic Connections

5. **PARTICIPATING IN THE LENDING ECONOMY** Investigate peer-to-peer lending sites. Read the compelling narratives of potential borrowers. Do their stories move you? Would their personal stories influence your decision to lend to a prospective borrower? What factors would you weight most heavily in your lending decision making—earnestness, tough times, shared hobbies, shared political beliefs, volunteer activities, or others? How much of a competitive threat do peer-to-peer websites present to traditional banks? Summarize your thoughts and findings and be prepared to participate in a lively class discussion.

6. **MARKETPLACE COMPARISONS** An Ohio bank recently offered prospective customers \$100 to open a new checking account. Search your local media, including newspapers, billboards, and the Internet. Are similar offers currently offered in your area? Are the customers who open such an account likely to be profitable customers to the bank? Why do banks provide customer incentives for new accounts? Summarize your findings and your thoughts. Be prepared to use the collected information to participate in a class discussion.



12.3

Public Relations

goals

- + Discuss the process of creating a public image.
- + Name the major tools used as part of a public relations effort.

terms

- + public image
- + public relations

Banking Scene

Yuan was surprised to learn of the philanthropic causes his bank sponsors. When he went to the local community theater production, he saw his bank helped sponsor the community theater troupe. Yuan wondered why the bank would be willing to donate money to such a cause. What do you think are some of the reasons?

CREATION OF A PUBLIC IMAGE

One of the most important assets a company has can't be found on its financial statements, but it can constitute a significant percentage of the company's value. Corporate *image* and *reputation* contribute to the bottom line in many ways—from attracting customers and investors to how successfully a company can recover from a crisis. A **public image** is the concept the public has of a business and should reflect its mission, values, and culture. You choose the businesses you frequent and the products you buy based on your image of the company. If the image is good, you buy; if it is negative, you don't. A bank's image or prestige is a critical factor in whether it will be able to attract and retain customers, sell its products and services, support its claims, attract the best employees, and satisfy its stockholders.

Steps in Creating an Image

It is important for a bank to consider the public image it wants to project. Many banks support local activities to keep their names before the public. They sponsor home and garden shows, fireworks displays, youth clubs, teen organizations, sport teams, playing fields, and even arenas, as well as cultural events such as theater, opera, ballet, and orchestra performances.

A bank must take a number of steps to create its public image, including the following.

Step 1 Analyze the image the bank wants to present. Does the bank want to be known for the services it offers? Perhaps it wants to be known as a community supporter.

Step 2 Determine its target audience of who it wants to be aware of its image.

Step 3 Determine the current image the bank has with its target market.

Step 6 Track the results of the public relations campaign to create or revise the bank's image. Determine whether the bank achieved its defined objectives and goals.



Why does a bank want to create a public image?

- What objectives will the PR program aim to accomplish?
- Is there a clear definition of the targeted audience or public? Have the methods to reach the targeted audience been clearly defined and described?



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- Are employees prepared to support the activity? Will they need training?
- Do current forces, such as local, state, national, or international events, affect the message?
- What are the organization's current PR activities? Do they fit the plan?
- What does the budget allow?
- Who will implement the plan? Will outside help be needed?

In large banks, the key public relations executive, frequently a vice president, may develop the overall plans and policies with other executives. The public relations department employs specialists to write, research, and prepare materials for distribution, to maintain contacts, and to respond to



Ethics in Action

Because companies emphasize and expect immediate monetary benefits from their public relations programs, attention to ethics in this arena has increased in recent years. The Council of Public Relations has adopted a code of professional ethics for its members.

Think Critically

Do you see any problems with activities that businesses use to establish and maintain the public's goodwill toward them? Would you expect to find ethical problems in banks' PR efforts? Why or why not?

inquiries. In a small organization, there may be either one person or a few people who deal with all aspects of the PR job.

Public Relations Tools

The PR function uses various techniques to influence and direct the attention of the general public, interest groups, and stockholders to the company and its products. Public relations can and should use any media, including radio, television, the Internet, and print advertising, to gain a competitive advantage as well as to establish and maintain goodwill and mutual understanding between the company and the public.

Public relations activities can inform the public about facts relating to a bank such as its Community Reinvestment Act projects, a new branch, and the extension of its hours of business. News or press releases keep editors and readers up to date on positive developments including business news, technological advances, promotions and new hires, and special events. A bank submits written feature articles or “leads” to local and state news media about specific projects, industry trends, and so forth that involve the bank, suggesting that it is a leader in these areas. Brochures are PR tools that inform the reader about some aspect of the bank, such as its history, involvement in community events or special programs, interesting facts about its building architecture, and the details of its services. Brochures can also call attention to any special recognition the bank has received. Newsletters provide a valuable, ongoing channel for delivering a bank’s message to current and potential customers.

Special events, such as anniversaries of doing business or winning an award for community reinvestment activities, offer the public and the media a reason to focus on the bank. Hosting professional organizations or associations can help a bank create the impression that it is well respected in the profession. Holding business seminars for customers allows a bank to explain new banking-related developments, trends, services, and products in detail, suggesting that it has expertise in these areas.



PHOTODISC/GETTY IMAGES

✓ checkpoint

To whom are public relations activities addressed?

assessment | 2.3

Think Critically

1. Why do you think a bank needs to be cautious and careful in creating its public image?

2. List and explain the first four steps in creating the public image of a bank.

3. What public relations tools may be used?

4. In your opinion, what are the most effective public relations tools discussed in the lesson?

Make Academic Connections

5. **ETHICS** Use the Internet to investigate ethical issues relating to public relations. Write a one-page report or prepare an oral presentation on your findings.

6. **COMMUNICATION** Collect at least four pieces of written documents or web-based documents such as brochures, news releases, newsletters, or a printout from the Internet for a local bank. What image do you believe the bank is trying to create through them?

7. **ECONOMICS** How do economic conditions affect the image a bank communicates?



Customer Service

12.4

Banking Scene

Yuan Liang was asked to participate in a customer service survey offered by his bank. The bank wanted to understand whether they were meeting customers' needs and expectations on service. Yuan reflected on the service he had received and thought about ways that service could be improved. What elements of service should he include?

goals

- + Explain the elements of good customer service.
- + Identify behaviors that are inappropriate in dealing with customers.

terms

- + customer service
- + empathy

CUSTOMER ASSISTANCE • • • • •

In their classic book *In Search of Excellence*, Thomas J. Peters and Robert H. Waterman, Jr., listed eight characteristics of large, profitable companies. One was being “close to the customer.” According to Peters and Waterman, profitable companies learn from the people they serve and provide unparalleled quality, service, and reliability. **Customer service** can be defined as the activities and programs a seller provides to make the relationship with its customers satisfying. Customer service is a concept that can be difficult to measure, but when it is good you know it, just as you do when it is bad.

Companies consider customer service to be a way they can differentiate themselves from competitors. The money that you receive from Bank A is the same as the money you receive from Banks B through Z. What distinguishes your experience in getting the money is service. In a 2008 survey reported in *Fortune*, respondents cited Apple, Berkshire Hathaway, General Electric, Google, and Toyota Motor as the top 5 of the top 20 firms that set the standard for service quality in the United States. In addition to Berkshire Hathaway, another investment company, Goldman Sachs Group, made the list. Banks did not make the top 20 list. Banks have become keenly aware of the importance of customer service to their image as well as their bottom line.

Meeting Customers' Needs

Financial institutions share common needs for developing strong customer loyalty, and offering outstanding customer service is a key component of customer loyalty. Before a bank develops its customer service program, it needs to consider customer preferences. Most customers want the following in their dealings with a bank.

interesting facts

The U.S. government offers the Malcolm Baldrige National Quality Award to motivate American companies to improve the quality of their goods and services.



DIGITAL VISION/GETTY IMAGES

Responsive Service You want your bank to be ready and willing to serve you promptly. Such responsive service makes it clear that the bank wants and values your business. You expect all bank personnel to be willing and ready to provide service, to answer your questions quickly and correctly, and to keep you informed about your accounts. To provide responsive service, banks must be sensitive to customer needs and help solve problems. Banks must also demonstrate flexibility, go “the extra mile,” and follow up as needed. By proactively meeting customer needs, banks increase customer loyalty and good will.

Competent Staff You expect all members of the bank staff to be professional and knowledgeable. Employees should have the skills to explain the bank’s products and services accurately and clearly and be able to answer your questions. When staff members can assure you that they are trustworthy and competent, it increases your confidence in the bank.

Courteous Treatment You want to hear “thank you” when you finish your business and “excuse me” if the bank employee needs to interrupt your service for any reason. You expect all bank staff to be considerate of your feelings and sensitive to your financial situation. You need assurance that you have the right bank that provides both courtesy and competence. The degree of caring and individual attention shown customers is known as **empathy**. A step beyond assurance, it demonstrates commitment to understanding customers’ needs and finding the answer to exactly what they need. Empathetic service is caring and individualized. It is another way the bank lets you know that customer satisfaction is a top priority.

Customer Perspective Bank employees should consider the customer’s perspective. As the customer, you want a bank to communicate with you in

clear, concise language that doesn't use banking "jargon." You don't want to have to decipher a lot of technical terminology. Bank employees can help acquire and secure business by making certain that the customer has a clear understanding of the product or service.

Reliable Service The concept of reliability refers to a bank's ability to provide you what it promised in a dependable and accurate manner. In addition, reliability means that the bank will provide its services with consistency, dependability, and respect. Finally, reliability means that the bank will follow through when it says it will.

Easy Access to Staff and Funds As a customer, you want your bank to make its services available when and where you need them. You need to access services without unacceptably long waits. Branches and ATMs should be conveniently located.

tech talk

Technology: Customer Service Asset or Problem?

According to a recent article in the *Dallas Morning News*, companies around the nation are beginning to recognize that technology can have both negative and positive effects on customer service.

Technology can be a huge asset for customer service. For example, Dallas-based 7-Eleven Inc. uses sophisticated software daily to identify which products sell and which don't. That way, the stores can keep what the customers want in stock. "By their purchases, we know what they want in their stores," said Margaret Chabris, a 7-Eleven spokeswoman.

Technology also can be advantageous in training. Sprint Corp. uses technology to put sales representatives through "hard-core training" with the use of simulations, according to Jed Dodd, vice president of training and development. Mad, angry customers have been filmed so that sales representatives get first-hand experience dealing with such customers. The video is a great training tool. It can be stopped as needed to discuss the best way to handle a situation.

In contrast, automated messages are prone to cause frustration for consumers. Frequently, the choices on the menus don't apply to their needs. At one point, Sprint used a computerized representative known as Claire, who was intended to help people through the interactive phone maze. But customers hated her, so the company "killed her," said Roxie Ramirez, a Sprint spokeswoman.

Think Critically Search the Internet for examples of companies that are finding technology an asset or a problem for their customer service. Do you think the effect of technology on customer service is more positive or negative?



Professional Appearance Both the banking environment and its employees should meet your expectations of professional appearance. The bank should be clean, uncluttered, and inviting, creating an atmosphere in which you expect safety for yourself and your funds. The employees should be dressed appropriately to convey a sense of professionalism. Employees that are dressed too casually or sloppily can project an apathetic image, which many customers may find disrespectful.

checkpoint

How does the concept of reliability apply to customer service?

INAPPROPRIATE BEHAVIOR AND PROBLEMS • • • • •

Sam Walton, founder of Wal-Mart, once said, “There is only one boss, the customer. And he can fire everybody simply by spending his money elsewhere.” A typical dissatisfied customer will tell 8 to 10 people about the bad experience. One person in 5 will inform 20 or more. Some behaviors are certain to annoy or anger customers. These inappropriate behaviors may seem obvious to you, but they do occur and should be avoided.

- **Don’t be rude to the customer.** Remember that you represent the bank to the customer. Remember to say “please,” “thank you,” and “excuse me”; make eye contact; avoid having a conversation with other employees or customers while serving the current customer; don’t be abrupt; and never use rude or offensive language. Think about checkout clerks who mumble, “Have a nice day. Thank you for shopping at Blank Store” without ever looking at you and in a manner that suggests they really care nothing about you and where you shop but are required to memorize and repeat this phrase.
- **Don’t argue with the customer.** Even if you are absolutely certain you are correct, arguing will insult and embarrass the customer without solving the problem and will likely make it worse.
- **Don’t ignore a customer.** Ignoring the person basically treats him or her as a nonperson.
- **Don’t make excuses or use negative phrases.** Avoid the phrases “I don’t know,” “It’s not my job,” “I can’t help you,” or “You’ll have to wait.” Instead, use phrases such as “I’ll get that information for you,” “Rick can help you with that,” or “I’ll be happy to help you as soon as I finish this transaction.” Be helpful in recognizing what the customer needs and quickly find an answer or solution.

- **Don't criticize, condemn, or complain.** You should never criticize the bank, any employees, or customers. Avoid condemning bank policies or complaining about anything while with a customer.
- **Don't be condescending.** Never treat a customer as if he or she is not your equal. Don't "talk down" to them, treat them as if they are incapable of understanding, or give them "pat" answers.
- **Don't leave customers on the telephone.** If talking to clients on the telephone is part of your job, be constantly aware of them when they are on hold. Check with them frequently to let them know that you are still working with them. Apologize for delays.



PHOTODISC/GETTY IMAGES

Responding When Things Go Wrong

Some days are simply difficult, and things will go wrong no matter how you try to prevent problems. These are some steps you can take to salvage the situation.

- **Apologize.** Start by saying you are sorry, even if you believe the customer is at fault.
- **Listen and ask questions.** Listen carefully to the customer, show empathy, and ask questions that will allow you to gain and keep control.
- **Correct the problem quickly and fairly.** Tell the customer how you are going to solve the problem.
- **Keep your promises.** Be realistic about what you can and cannot do. Don't promise something just to pacify the customer.
- **Follow up on the problem.** Check with your customer to ensure that what was wrong has been addressed and corrected.

✓ checkpoint

Why should an employee not argue with a customer?

assessment 12.4

Think Critically

1. It has been said that profitable companies learn from their customers. Explain in your own words what this means.

2. Why is it important that employees convey a sense of assurance?

3. Why do you think an empathetic attitude is important in dealing with a bank's customers?

4. What do you think is wrong with using the phrases "I don't know" and "I can't help you" with a customer?

Make Academic Connections

5. **HISTORY** Investigate the Malcolm Baldrige National Quality Award. Identify the criteria for this award. Make a list of firms that have received this honor. Do you see any consistency in the service standards among these companies?

6. **PROBLEM SOLVING** Inappropriate employee behavior may seem obvious to you, but customers encounter it all too often. Suggest ways that businesses can prevent this behavior.



Marketing and Advertising

Banking Scene

Yuan Liang now knows what he expects from a bank in terms of customer service. What are some ways that banks market their services to potential customers like Yuan?

TARGET MARKET

Many people think that marketing is only about advertising or selling goods and services. However, advertising and selling are just two of many marketing activities. **Marketing** is the process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges that satisfy individual and organization objectives. A bank can identify the goals of its marketing plan by answering the following questions: Where is the company now? Where does it want to go? How will the company get where it wants to go? How will the company know when it gets there? Marketing objectives for a bank should be measurable, flexible, and complement its financial objectives. The marketing plan also needs to stretch the entire bank to a higher level of performance. The plan should include the “4 Ps” of marketing—*p*roducing [developing], *p*ricing, *p*romoting, and *p*lacing [distributing]—which classify the controllable elements of a marketing plan.

- **The bank should have the same goals as its target market.** If the target market is teenagers, advertisements for mortgage lending would be inappropriate.
- **Its target market should be consistent with its resources.** A bank without an adequate computer system and technical support should not advertise online banking services.
- **Its target market should generate sufficient profit.** The selected market must provide profits that warrant the effort.
- **Its target market should be adequate in size.** A market in which many competitors are already present is difficult to enter. Thus, it's important that the customer base is large enough to support all participants.

12.5

goals

- + Explain how banks create a target market.
- + Identify the way banks advertise their products and services.

terms

- + marketing
- + social responsibility
- + advertising
- + cybermarketing
- + search engine optimization (SEO)
- + direct marketing
- + viral marketing

“communicate”

Ask a number of people in your community to identify ways that local banks exhibit social responsibility. Rank the projects they name in the order in which you believe these activities have benefited the local community.

Extensive research is required in identifying a target market. Banks generally hire companies that specialize in developing this information to direct the research.

Marketing Planning

The American Bankers Association (ABA) reported that banks spent more than \$3.8 billion on marketing in 2001. Its Bank Marketing Planning Survey Report investigated how banks planned to spend their marketing money in 2004. Survey highlights include the following:

- On average, banks anticipate increasing their marketing budgets by 7 percent.
- Internet initiatives such as website development and bill payment top the list of marketing initiatives that banks are planning to pursue.
- More than three-fourths of banks with less than \$100 million in assets use market segmentation, up significantly from 2001 when less than one-third did so.

Successful marketing encompasses many aspects of a business, from front-line customer service, backroom operations, and human resource management to advertising and other corporate communications. As in other companies, banks need to recognize that effectively integrating and coordinating marketing activities is based on a simple truth: The people who work for them are the business. A bank markets itself every time a customer interacts with an employee. A courteous and efficient teller gives the impression that those characteristics apply to the bank as a whole. Integrating the marketing concept effectively throughout the bank increases the likelihood that all bank jobs will be performed in a manner consistent with that concept.

Marketing and Social Responsibility

Social responsibility is the obligation to profitably serve employees and customers in an ethical and law-abiding manner. Like other respected institutions in the community, banks are expected to take an active, socially responsible role in civic affairs. This is especially important because banks provide somewhat of a public service. Financial institutions frequently require their officers to be involved with local service organizations and give them time to do so.



What is the purpose of marketing?

ADVERTISING

Advertising permeates society in the twenty-first century. One estimate suggests that the average person encounters 1,500 to 1,800 ads a day! This is an enormous number, but you have learned to “turn off” most of these ads. **Advertising** is the paid description or presentation of a product, service, idea, or organization to encourage individuals to buy, support, or approve of it. It is one element in a firm’s marketing plan.

Organizations use a variety of media to send their messages. Ad distribution can occur via the Internet, print media, broadcast media, outdoor media, mobile media, and through direct marketing. An effective advertising campaign uses a combination of these.



PHOTODISC/GETTY IMAGES

Cybermarketing and Search Engine Optimization

Some estimates predict that online business will either triple or quadruple in the future. As Internet usage displaces print media, advertising on the Internet has transformed into a highly effective way to reach customers.

Cybermarketing is a carefully planned and sustained effort to advertise a company, its products, and/or services through the Internet by using the most practical, effective, and up-to-date strategies. Public relations information, marketing materials, and online data transactions can all take place on the Internet.

Search engine optimization (SEO) is the most effective way to drive Internet business to your site. A *search engine* is a software program that indexes web content so that it can be referenced in Internet searches. There are complicated mathematical formulas, called *algorithms*, that are used by search engines to select relevant data in response to an Internet search. The selection algorithms are being continually tweaked. There are precise methodologies available to optimize how valuable your website is relative to other websites. Developing intriguing web content that will increase web traffic to your site, either through direct hits or via links from other websites, is a bit of an art and a science. Training staff to do this or outsourcing this work to a qualified vendor will greatly improve your marketing presence online.



Banking Math *Connection*

Financial success in a business is far more likely if the projects in which it invests provide a return on its investment. Assume that Third State Bank is considering two marketing opportunities. One is a newspaper advertising campaign budgeted at \$75,000 and estimated to have a positive benefit of \$11,000 in the first year. The other is a series of television commercials that will cost \$200,000 in the first year with an expected return of \$33,000. Using the return on investment (ROI) formula below, what return on investment from each option can the bank expect?

$$\text{ROI} = \text{Average annual net benefit} \div \text{Initial costs}$$

Solution

The newspaper ads will have the following return:

$$\text{ROI} = \$11,000 \div \$75,000 = 15\%$$

The TV ads will have this return:

$$\text{ROI} = \$33,000 \div \$200,000 = 17\%$$

These figures indicate that although it involves a considerably larger investment, Third State Bank should choose the television campaign.

Print Media

Look in any Sunday newspaper, and you will find advertisements for a number of banks. The ads describe the characteristics of checking accounts, mortgage and home equity loans, free Internet banking and online bill payment, and extended lobby and drive-up hours.

Although circulation is declining, newspapers are still common in U.S. homes. By advertising in local newspapers, a bank can target a specific geographic area. Newspapers provide a quick turnaround for ad distribution for ads that highlight bank promotions. Ads that promote a bank's image can be found in other printed materials including programs at theater, orchestra, opera, and dance events.

Broadcast Media

In the early years of the twenty-first century, commercials for banks seemed to saturate television and radio advertising. Banks use these media to emphasize their low lending rates, especially those on home mortgages and home equity loans. Although broadcast media is more costly than print media, broadcast media is better at reaching the target market. For example, the bank may target a certain age group by selecting a radio station that caters to those specific age demographics. A bank may want to target young families by running television advertisements during family-oriented shows.

Outdoor Media

Many of you may have become somewhat immune to outdoor advertising, but because people now spend much more time in their vehicles than ever before, it is experiencing a resurgence. A billboard may be the most obvious form of an outdoor ad, but its style has changed in recent years. Computer technology enables the modern “billboard” to present supersize digital images that can be changed on a daily or even hourly basis. A tri-vision billboard allows up to three advertisements to rotate at various intervals on a single billboard.

People tend to notice moving objects when they are driving. Bus ads are eye-catching and unique and therefore memorable. Full-wrap and tail-wrap ads on buses and even cars are so distinctive that people often remember them after only one viewing.

Advertising at airports and subways offers a range of opportunities. It includes signage along an airport’s concourses or at subway entrances and stops.

Outdoor advertising also includes large banners such as those draped around the entrance to a museum stating, “Treasures of the Orient Presented by City National Bank.”

Direct Marketing

Another form of advertising, **direct marketing** is a promotion technique that delivers the materials individually to a target market via direct mail, telemarketing, or other direct means. Its purpose is to generate a revenue-producing response. Direct mail campaigns generally consist of printed material such as flyers, brochures, or letters that appear to be first-class mail. These documents offer low-cost checking accounts, interest rates on auto loans, and limited-time specials. In the last few years, consumers have become so bothered by telemarketers that the United States has implemented a national “do-not-call” list intended to block most phone sales pitches.

Viral Marketing

Viral marketing is intentionally using ordinary people to help spread the word about a product or service. Referral programs are one form of viral marketing. Some websites are so intriguing and entertaining that you are inclined to share them with your friends. One online bank even developed an animated website complete with games to draw people to it. Finding a specific, unique, or fun attribute associated with your product or service is another way to promote viral marketing.



PHOTODISC/GETTY IMAGES

Digital Signage

Some banks are using digital signs, which can resemble flat-screen TVs, to provide continually updated information to customers visiting branches. Updated information can pertain to rate changes, referral incentives, or new product offerings and can be programmed to change based on typical traffic patterns in the bank. Some digital signs have embedded RFID technology to record what products a customer picks up from a shelf. Digital ads that are shown can be changed in response to RFID signals to reflect the interest of customers in the branch.

Advertising Spending By Media

Media	Jan–June 2007 (Millions)
Television Media	\$31,627.7
Network TV	\$11,835.9
Cable TV	\$8,3790.0
Spot TV	\$7,287.6
Spanish Language TV	\$2,127.5
Syndication—National	\$1,997.7
Magazine Media	\$14,551.7
Consumer Magazines	\$11,501.9
B-To-B Magazines	\$1,858.9
Sunday Magazines	\$860.0
Local Magazines	\$228.5
Spanish Language Magazines	\$102.4
Newspaper Media	\$12,916.60
Newspapers (local)	\$11,091.1
National Newspapers	\$1,653.5
Spanish Language Newspapers	\$172.0
Internet	\$5,519.0
Radio Media	\$5,139.8
Local Radio	\$3,516.2
National Spot Radio	\$1,161.0
Network Radio	\$462.6
Outdoor	\$1,903.9
Free Standing Inserts	\$934.7
Total	\$72,593.4

Advertising Budget

An old adage says that at least 50 percent of all advertising is a waste of money. This may be true, and anyone who can figure out which half is useless can revolutionize the industry with that knowledge. According to TNS Media Intelligence, advertising expenditures during the first half of 2007 were as shown in the table.

checkpoint

What is advertising and how does it relate to marketing?

assessment 12.5

Think Critically

1. What are the “4 Ps” of marketing?

2. Why should banks engage in socially responsible activities?

3. Banks often support community cultural activities. In your opinion, what does this say about their target markets?

4. What is search engine optimization (SEO) and why is it important to banking?

Make Academic Connections

5. **ADVERTISING** Design a newspaper ad for a bank. The size should be $5\frac{3}{4}'' \times 4''$. Identify the target market for the ad.

6. **BANKING MATH** Woodstown Bank is considering investment in several advertising projects. Ads in the local orchestra’s programs will cost \$5,000 and have an expected return of \$400 in the first year. The other is to build a playground at the local park. This project will cost \$9,000 with an expected first-year return of \$900. Which project will have the higher return on investment? List any nonfinancial considerations that could affect this decision.

7. **COMMUNICATION** Work in teams to conduct a poll of at least 20 people. Find out how many can recall an ad from any medium in the last month. Which medium did most people name?



chapter 12 assessment

Chapter Summary

12.1 Define the Customer

- A. Demographics, customer segmentation, and target markets provide an organized method for grouping customers.
- B. Customer characteristics drive product recommendations.

12.2 Develop and Maintain the Customer

- A. Customer relationship management provides a methodology for viewing the long-term potential value of a customer.
- B. Banks need to provide customers with incentives to maintain their existing banking relationships.

12.3 Public Relations

- A. Banks need a positive public image to attract and retain customers.
- B. Public relations strategies are used to create and maintain goodwill between an organization and the public.

12.4 Customer Service

- A. Banks must provide exemplary customer service.
- B. Banks must ensure that their employees understand the importance of customer service and avoid behaviors that are inappropriate.

12.5 Marketing and Advertising

- A. The 4 Ps of marketing are producing, pricing, promoting, and placing.
- B. Multiple advertising methods should be used.

Vocabulary Builder

Choose the term that best fits the definition. Write the letter of the answer in the space provided. Some terms may not be used.

- ___ 1. The public's concept of a business
- ___ 2. Degree of caring and individual attention shown to customers
- ___ 3. Paid presentation of a product, service, idea, or organization
- ___ 4. Promotion technique that delivers materials directly to targeted individuals
- ___ 5. Activities and programs a business provides its customers to satisfy them
- ___ 6. Preselected group of buyers who are the focus of marketing efforts
- ___ 7. Company's effort to advertise through the Internet
- ___ 8. Planning and executing a program to create exchanges that satisfy the objectives of both an organization and individuals
- ___ 9. Division of customers into subgroups
- ___ 10. Effort to establish goodwill with the public
- ___ 11. The most effective way to drive Internet traffic to your website
- ___ 12. Viewing the customer in terms of their total present and future value to your company

- a. advertising
- b. cross-selling
- c. customer relationship management (CRM)
- d. customer segmentation
- e. customer service
- f. cybermarketing
- g. demographics
- h. direct marketing
- i. empathy
- j. marketing
- k. need
- l. public image
- m. public relations
- n. search engine optimization (SEO)
- o. social responsibility
- p. target market
- q. viral marketing
- r. want

Review Concepts

13. Why are banks interested in recent immigrant demographic information?

14. What is public relations, and how does it relate to customer service and marketing?

15. Name four components of a plan to strategically develop customers.

16. You can choose to do business with any number of banks. How does customer service affect your decision of which bank to use?

17. List five types of customer incentive programs.

18. What is empathy? Why is it an important part of customer service?

19. How can offending a customer affect a bank's public image?





20. List competitive threats to traditional banks. Why are banks concerned about the competition?

21. What activities make up the marketing process?

22. What is customer segmentation?

23. Describe cybermarketing.

Apply What You Learned

24. Why is it important that a bank identify the audience for its public relations activities?

25. In what ways does corporate or public image contribute to a bank's bottom line?

26. Why is search engine optimization critical to the effective use of an Internet advertising budget?

27. What does responsive service entail?

28. Why is viral marketing important?

29. Do you think that banks should use computer popup ads? Why or why not?

Make Academic Connections

30. **PROBLEM SOLVING** As a bank teller, you have an obviously upset customer because the bank has returned checks to the telephone and utility companies due to nonsufficient funds in her account. The customer believes this is a bank error. She states that the bank has ruined her credit rating and that she must now pay late fees plus “excessive” bank fees for the returned checks. Write a one-page paper discussing how to appease this customer.
31. **BANKING MATH** Use the Internet to find the financial statement of a bank that shows its marketing budget. This information may be listed under various headings such as advertising and promotion, marketing, and so on. Calculate the percentage of sales/revenue this amount represents. (*Hint:* Divide advertising/marketing expense by net sales/revenue.)
-
-
32. **COMMUNICATION** Use the Internet to investigate one of the companies that *Fortune* listed in its 2008 survey that set the standard for customer service. Describe the characteristics of the customer service policies of one of these businesses
33. **RESEARCH** In 1982, Johnson & Johnson, the highly respected U.S. pharmaceutical company, faced a crisis. One of its major products, Tylenol, the leading painkiller medicine in the United States, was at the time responsible for \$1.2 million in annual revenue. However, Tylenol was linked to seven poisoning deaths in the Chicago, Illinois, area. Research this classic case. Find out how the company reacted to protect both its image and its customers, and present your findings to the class.

