NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS MANAGEMENT
MSC IN MARKETING
MARKETING OF FINANCIAL SERVICES - CBU 5106
FINAL EXAMINATION DECEMBER 2007
TIME ALLOWED: 3 HOURS

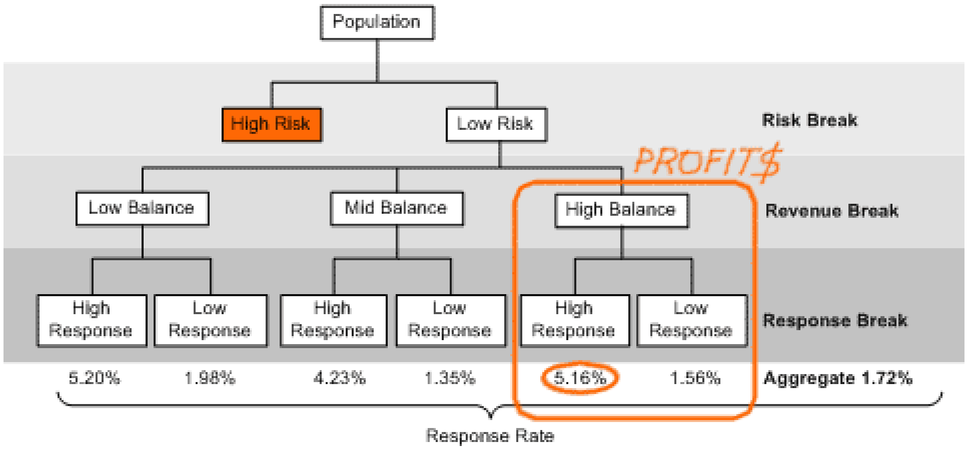
INSTRUCTIONS

- Answer Section A and three Questions from Section B
- Credit will be given for appropriate use of examples

Question 1

SEGMENTATION ANALYSIS

In order to offer the most suitable product for a financial institution's clientele, many marketing strategies can be considered. Based on scoring models, an institution can choose to divide its clients into different categories and apply to each of them diversified treatments. Suppose a financial institution wants to offer a new premium credit card and, therefore, is issued only to a specific portion of the entire population that fulfills some specific requirements. In order to properly define this sub-population, it is important to use the different tools that the institution possesses.
Within a financial institution there are many different divisions that manage various aspects of the business. The risk management division is focused on **managing risk** within the institution and is willing to decline prospects in the application process if considered a threat, financially speaking. On the other hand, the marketing division will try to attract specific prospects and retain as many of these as it can; it is interested in the **prospect's response**. Lastly, the goal of the portfolio management division is to **retain the institution's most profitable and less risky clients**. By managing all of these divisions' needs simultaneously, it is possible to identify the ideal segment of clients the institution is looking for. The segmentation tree shown below is an example of a strategy that identifies these prospects/clients. First of all, with the aid of a risk behavioural scoring model, it is possible to divide the entire population into two exclusive groups, high and low risk clients (Risk Break).



Secondly, since a new credit card could be a very dangerous weapon if placed in the wrong hands, the high-risk people are eliminated and the selection continues with the less risky clients. This group is then split again based on the clients' outstanding credit card balances (*Revenue Break*), selecting the high-balance clients, and consequently the most profitable ones, if treated properly, as possible candidates. Once this group is selected, it is time to identify which clients in this group are more likely to respond to the institution's offer. This can be accomplished by using a response model that separates the group into high-response and low-response prospects (*Response Break*). Finally, the group of prospects the institution wants to offer a credit card to is chosen, and they expect a response rate of 5.16% from only selecting this segment of the population.

Required :

(a) What benefits can the institution gain from using such a marketing segmentation analysis approach ? **[15]**

(b) Evaluate the institution's segmentation approach in terms of the Customer Relationship Management (CRM) paradigm **[25]**

SECTION B

Question 2

The way in which a financial service is delivered to a customer – whether it is through an automated teller machine (ATM), a branch, a loan officer, the mail or telephone – has become a crucial part of the value that customers buy. Discuss the major premises that underlie the belief that delivery systems are so important. **[20]**

Question 3

It has been said that the internet will do for services what the production line has done for goods. What does this mean for financial services? **[20]**

Question 4

“Market share is no longer a guarantee of profitability: Wallet share is the metric to watch.” Discuss the marketing strategies that financial companies can pursue to improve profitability via wallet share. **[20]**

Question 5

What trends in financial services are forcing companies to rethink the way they do business? **[20]**