THE MARKETING OF FINANCIAL SERVICES IN TANZANIA: THE CHALLENGES OF THE 1990s

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1.0 Marketing: A Forgotten Function

In 1990 I was engaged by the Tanzania Housing Bank (THB) to assist its managers formulate a five-year Corporate Plan for their dear company. One of my many questions posed to these managers was whether THB needed a marketing man to help improve its performance. The answer to this question was quick and blunt: "No Sir, we do not need an "Arts" man. We need more engineers, instead."

1.1 This answer, which came from a Senior Manager of THB, possibly an engineer by training, was chilling, to say the least. It probably demonstrated the contempt that some bankers have on marketing as being merely a useless "arts" discipline. However, a subsequent discussion with this manager, as well as others, revealed that most THB managers did not know what really marketing was all about. And the few who did could not easily conceptualizes its place and importance in enhancing banking operations. This problem appeared to have been worse among those managers with an engineering background than those with commerce or economics degrees and/or diplomas. However, after pressing hard on the importance of a marketing oriented approach to strategic planning, most managers started appreciating "marketing" as an important and possibly inescapable function in all business operations, including banking operations.

1.2 The objective of this paper, therefore, is to try and impress upon the Chief Executives of our financial institutions on the importance and place of the marketing function in enhancing the operations of their firms. The importance of marketing in this regard is particularly so during this decade (1990s) due to the impending liberalization of the financial sector, following the recent enactment of the *Banking and Financial Institution Act,* (which, in principle allows creation of private banks), the *Tanzania Postal Bank,* the *Loans and Advances Realization Trust* and the *National Investment (Promotion and Protection Act) of 1989.* This "opening up" of the financial sector and the economy as a whole is expected to be intensified, partly through the restructuring of the National Bank of Commerce (NBC) and the National Insurance Corporation (NIC) along the lines proposed by the Presidential Commission of inquiry on Monetary and Banking System.

1.3 Furthermore, it is the objective of this paper to point out and explain briefly some of the necessary tools and skills needed to undertake, more professionally, marketing activities at the branch and corporate levels of our financial institutions. It is our sincere hope that at the conclusion of this paper and subsequent discussions on the issue raised therein, most of the Chief Executives, if not all, will be *marketing or consumer-oriented* in their thinking and operations. In other words, they should go back to their work stations and professionally market their products (services) more purposively, scientifically and effectively.

1.4 In this presentation, we first explore the Tanzanian financial Marketing Scene in a bid to determine its adequacy or inadequacy in the application of the marketing concept in our financial institutions. The exploratory survey is achieved in Section Two of this paper. The following Section looks at what marketing and the marketing concept is. The aim here is to look at an "ideal" marketing philosophy and contrast it with the "practice" as seen in the preceding Section. Possible reasons for the failure of our banks to apply the marketing concept in their operations follows in Section Four, Section Five, then proceeds to justify the need for a marketing orientation of our financial institutions in general, and banks, in particular. Section Six then looks at the tools of marketing and their application in the marketing of financial services.

2.0 Bank Marketing: The Tanzanian Style

The opening paragraph of this paper is probably an extreme case of the way THB views marketing negatively. After all THB knows about advertising and actually advertises its services vide the radio and newspapers. It also has a fully fledged Public Relations Department. But that is all. This national company with a branch in every region does not have a marketing department, let alone a marketing officer! It would appear that marketing research, one of the corner stones of marketing is completely unknown to THB!

2.1 The Co-operative and Rural Development Bank (CRDB) is not much better than THB, either. Marketing is a diffused section within the Directorate of Banking. But even here, it does not use the name "marketing". Instead it is termed "business development", whatever its meaning.

2.2 Our largest and oldest commercial bank, the National Bank of Commerce (NBC) should give us a more complete picture about the level of marketing activities among our banks. The Daily News edition of Monday, April 23, 1990 carried the following bizarre news about the collapsing of two NBC customers while "trying" to collect *their* money at the city Branch in Dar es Salaam

"Two people collapsed .... as they queued for their money .... A Tanzania News Agency Shihata reporter who witnessed the incident said the two fellows had allegedly spent more than four hours at the bank ....

In another development at the same branch, tellers were shouting to customers that "those with cheques with big amounts of money not to waste their time" as the bank had not enough cash. "Mwenye Cheki kubwa aondoke, hakuna fedha" one teller was quoted as telling customers".

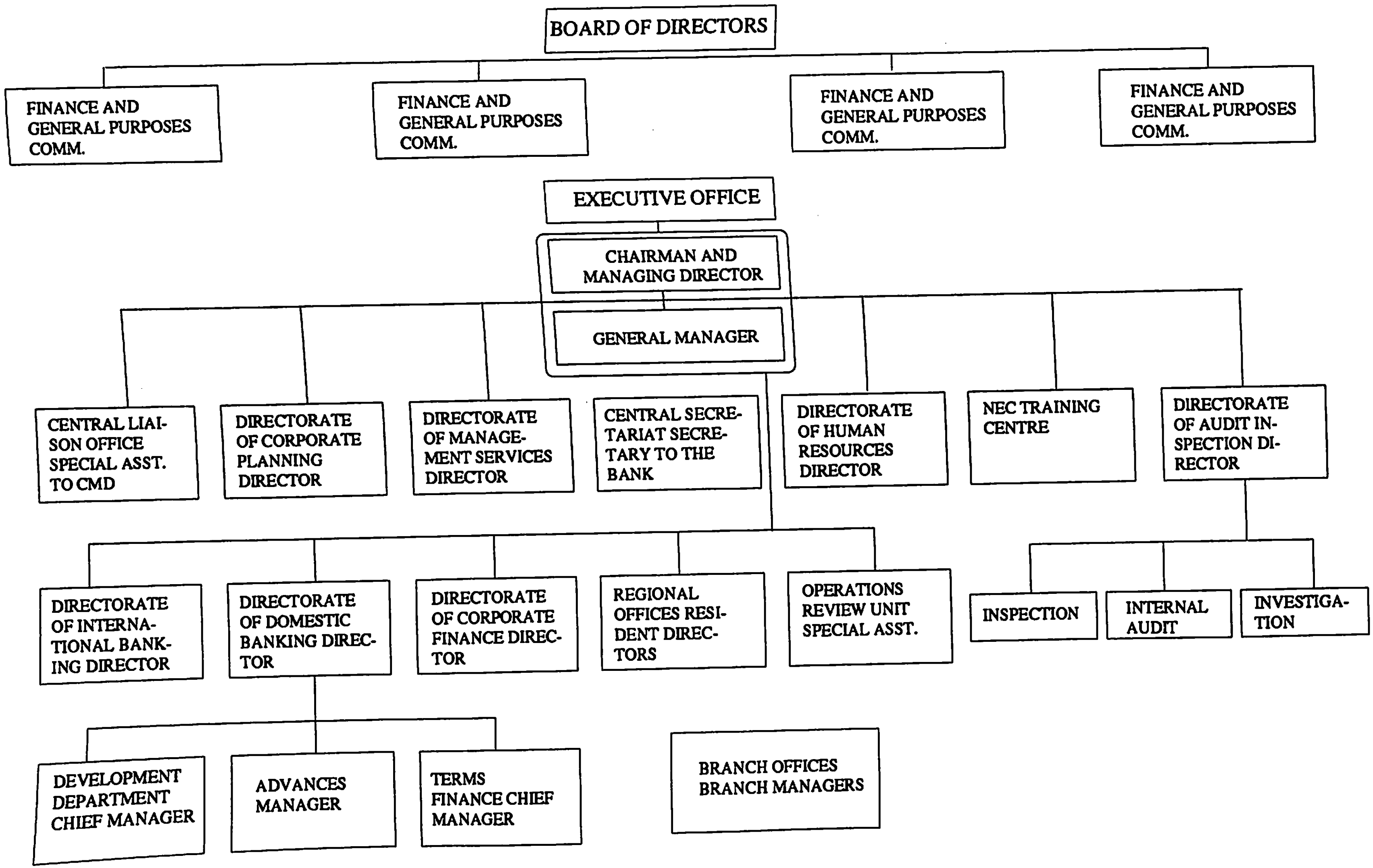
2.3 This story reminds us of the many *de-marketing practices* which were typical of the Tanzanian Marketing scene during the 1974-1984 decade of scarcity of consumer goods and service, price controls and controls in the distribution of goods and services through the policy of "confinement". At that time it was usual to spend the whole day trying to buy a kilogram of sugar, a pair of khanga, a bar of soap or a bus ticket to Songea. But whereas trade *liberalization* seems to have forced many Tanzanian producers, importers and other middlemen (wholesalers and retailers) to be consumer or marketing-oriented in their business undertakings, our banks continue to operate in the traditional fashion of "selling" rather than marketing.

2.4 The NBC *Annual Report* and Accounts for the year ended 30th June, 1988 has 57 (English) pages, but it does not carry a single word of "marketing". This is despite the fact that the Chairman and Managing Director of NBC repeats his Company's "Credo" of offering services to customers which are "qualitatively of the highest degree, prompt, efficient, courteous and personalized". This, indeed, is paying lip service to marketing and it is no wonder that the same report shows a *decline* in demand, time and savings depositors by 14.3%, 7.6% and 7.0%, respectively from 1986/87 to 1987/88 period. It is also not surprising for the bank to treat its customers with utter contempt and indifference as reported above!

2.5 The limited application of the marketing concept (to be explained in the next Section) is demonstrated by the way the marketing function is treated in NBC's organizational set-up. As early as 1973 this company seems to have appreciated the importance of the marketing function by placing it under a Chief Manager, although the title of this function was "Development", rather than "Marketing". In subsequent years we have seen this department being stripped off of its powers, and relegated to a mere section, and again lifted to a division, etc. For instance in 1984 it was a full department under the functional name of "Development"; In 1986 the department was relegated and placed under Planning and Research and in 1987 it was again upgraded to a division but placed under the Directorate of Domestic Banking. This Directorate deals with loans and overdrafts. In the circumstances it is so busy with borrowers that it rarely has sufficient time to think about marketing. As a matter of fact the Department is over-shadowed by other seemingly more important functions. Thus the marketing function's uncertainty about its "position" in the organizational set-up of NBC renders it ineffective and subject to ridicule. Appendix 1 shows the present (1989) organizational set-up of NBC.

2.6 While organizationally, NBC does not seem to have recognized and accepted Marketing as an important function, it has slowly and painfully been improving its marketing practices. A notable area in this regard is marketing research as a key input in marketing planning. Prior to 1983 market research for the Company was limited to socio-economic surveys which were, in essence an exercise of resource taking. However crude as they might have been, they accounted for many branches opened between 1967 and 1983. These surveys were accompanied with past data on the

APPENDIX 1: NBC'S ORGANIZATIONAL SET-UP (1987)



performance of the economy as well as data on growth trends on deposits. This information was used to determine market potentials, an important ingredient of a marketing plant.

2.7 Beginning 1984/85 NBC introduced performance budgeting based on some limited market analysis. This analysis was based on demographic data and data on economic activities. The problem here is that most of these surveys were hurriedly carried out, and were done by people with little or no knowledge at all of marketing and marketing research. However, the most serious deficiency in most of these surveys was the absence of research on customer attitudes towards banking services, the driving forces that determine customer's decision to bank with NBC or with other banks, and a study of unsatisfied needs in respect of financial services. In other words NBC as well as other banks in the country have not bothered to know their markets in terms of characteristics and consumer behavior. They have taken them for granted.

2.8 The National Insurance Corporation (NIC) appears to be the only financial institution in the country with a fully fledged marketing function. This function is highly placed within the company's organizational set-up (Directorate level). This set-up, plus the company's country-wide "marketing agency" system has contributed significantly to NIC's savings mobilization (Ref. to Appendix 2 which shows substantial increase of both nominal and real deposits between 1978 and 1988), although part of this increase can be attributed to the statutory nature of some of NIC's Insurance schemes.

2.9 One can conclude this section by saying that to the National Bank of Commerce, the THB and to most other banks in the country, marketing is advertising. Or it is advertising and public relations. Or it is advertising, public relations and selling. Or it is all those plus research. But all these are not enough in and of themselves.

2.10 Most Tanzanian banks have a very narrow view of marketing. As will be discussed later, this position is understandable. Acceptance of marketing in the USA and Europe is dated as late as the 1960s and it was not until the 1970s that marketing of banking became a widely discussed topic in British Banking Circles. One reason for the delay in accepting marketing is the nature of banking to be discussed later. The illusion of having a face to face relationship with customers, (or) the absence of intermediaries, has made the financial institutions flounder in the application of the marketing concern whose important pillar is consumer service and satisfaction.

3.0 The Marketing Concept: A Reflection

Companies can design great products, but if they cannot reach their customers, or if potential buyers remain unconvinced to buy, then all is for naught. *Marketing* is an essential business discipline that tests the company's product or service against the customers' willingness to buy at a price that is not only acceptable to them but also generates an acceptable profit to the company. The central place of the consumer in the success of a firm has led to the development of the so-called "marketing concept".

3.1 The way the *marketing concept* is interpreted varies quite considerably as almost every text-book of marketing has its own definition. However, there seems to be a common thread cutting across authors, practitioners and politicians alike. Probably the best way of understanding the marketing concept is to contrast it with the sales concept ("selling" or "product concept" or orientation).

Two eminent scholars of marketing have made an excellent distinction of the two, almost opposing concepts: Theodore Levitt and Phillip Kotler. Thus according to Levitt:

> "Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is pre-occupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the produce and the whole cluster of things associated with creating, delivering and finally consuming it"[1]

Thus the distinction between the two concepts is stark clear: The marketing concept is outward-looking towards customer needs; selling, on the other hand is inward-looking toward products or services. It is myopic.

3.2 The figure below further illustrates the difference between the sales concept and the marketing concept. Companies pursuing the sales concept or product orientation, as is the case with most of our financial institutions, will direct their attention on producing or creating a service, the goal being to achieve profits through sales volumes. This would be achieved through very high pressure selling and heavy advertising campaigns. The company pursuing the marketing concept, on the other hand, works differently. It cannot afford to rely on its products (services) or those technical skills it possesses. Instead it puts the customer in focus since "the customer is the business'. To this company, the goal is to achieve profits through *customer satisfaction,* thereby using integrated marketing as a means to achieve this end. The concept of *integrated marketing* refers to a situation whereby customer needs become the guiding force for all activities in the company.

3.3 The implication's of the marketing approach are many. First, with this approach there is need to have broad *corporate objective* or mission, one that is based on the present and potential *needs of the market* and not one that is based on *current products.* Such a corporate mission will enable a company to be dynamic and keep abreast of the *changing environment* in the market.

An example here are the commercial banks which traditionally have thought of themselves as being in the "banking business" *Instead* of

[1]*Theodore Levitt, "Marketing Myopia". Harvard Business, July-August, 1960*

being in the business of "providing financial services" for their depositors and borrowers.

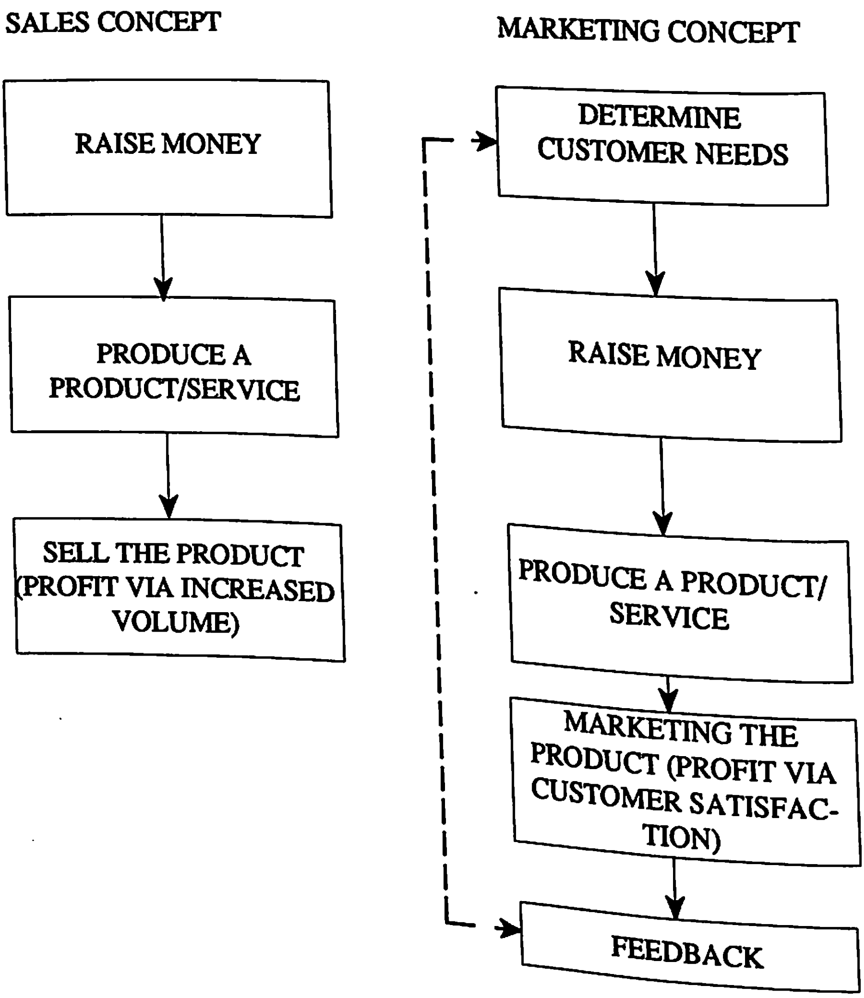


Fig:1 Comparison of the Sales and Marketing Concepts

The former is sales orientation and accordingly myopic. The latter - "marketing of financial services" is broader, outward sounding, dynamic and in line with the marketing concept. With this objective in mind, the bank's "services" become widened to include safe-keeping of funds, investment of funds, making money available when needed, keeping records and giving expert advice on personal and corporate financial management. In the case of THB whose other function is the "provision of housing finance" it could widen its scope to cover all housing-related finance including advice on low-cost housing, hire purchase, etc.

3.4 Secondly, pursuance of the marketing concept requires extensive and scientific use of *marketing research* to assess the present and future needs of customers, the objective being to identify and concentrate on most profitable markets now and in the future. Marketing studies and analyses should ideally precede the opening up of new bank or insurance branches or agencies, or the introduction of a new savings mobilization scheme. Like-wise, before THB decides to build low-cost houses for hire purchase it should ideally study the market potential for those houses.

Marketing research covers many areas including product or service research, advertising, distribution, etc.

3.5 The third, and probably the most important implication of the marketing concept concerns the place or position of the marketing function in the organizational set up of a company. If indeed, a company's objectives are to be directed out of customer needs, and if marketing is to become a central function at all levels, it is natural that this function be elevated vertically. In the sales-oriented company the marketing function more or less serves the production people. In the case of banking operations these are managers in the directorates of Domestic and International Banking.

In the customer or marketing-oriented company it should be the other way round. The initiative should, instead, come from the marketing people. The production and other functions in the Company have to adjust production schedules, product or service quality, materials, personnel, finances, etc., according to signals from the marketing people.

Organizationally, therefore, it might appear that all functions of a marketing-oriented firm should be brought under marketing, although the *conventional* approach is to give each function an *equal* status in the organizational hierarchy.

3.6 Irrespective of the organizational structure being used, the marketing concept can still be applied. The most important thing is the practice of marketing rather than the organization perse. Marketing, irrespective of its positioning, should come into the picture right from the time a new product or service is being contemplated, and it should remain the driving force in subsequent developments such as designing the product/service, introducing it, phasing it out, etc. Of course the amount of this "influence" would, under normal circumstances, depend on the level and seniority of the person who heads this function. The higher his level the more effective he will be in making the company marketing-oriented.

3.7 It is our hope that this exposition of the marketing concept has helped expose the inadequacy of our financial institutions in the application of this concept. In all fairness they are far from being marketing-oriented. But is it necessary that they should? This question is pursued in the next Section.

4.0 The Marketing of Financial Services in a Seller's Market

It is necessary to point out here that application of the marketing concept by business firms is more relevant and compelling under certain economic conditions usually referred to as a buyer's market. Characteristics of a buyer's market include the following:-

- Free supply of goods and services, particularly when supply exceeds demand. This gives rise to intense competitions among product or service suppliers. In this situation the consumer has a choice of many almost equally well-matched brands or services.

- Competition at distribution point: there are no bottlenecks in the distribution chain and all brands are well represented at all relevant distribution outlets in the entire market.

- Increase in personal disposable income, leading to greater mass market opportunity which in turn contributes to intense competition among suppliers in the market.

- A rapid change in technology in the economy, contributing to more and more technological "sameness" among competing products and services e.g. electronic funds transfer technology, automatic teller equipment, etc. In circumstances where competing products may be more or less alike e.g. soft drinks, deodorants, *checking accounts* etc., marketing tends to emerge as the only opportunity to distinguish one firm from its competition. For example, even though Bank D may be unable to market a superior checking account from a "technical" point of view, the same bank may still achieve a disproportionately high share of the market in checking accounts by undertaking cross-selling, "packaging" of such accounts with other services, sensitive pricing practices, well executed advertising, etc.

- Changing in the social, economic and political environment affecting the shape and nature of markets. As the market changes so must the firm that serves it. It is a marketer's job to "manage" the market by initiating change which is within the control of the firm.

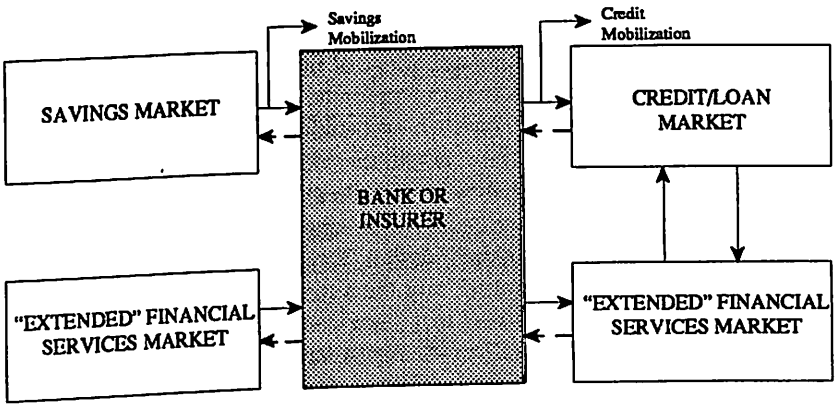
4.1 Companies in a *Seller's Market*, on the other hand tend to rely less and less on marketing in carrying out their activities. Such a market is the 1974-84 decade of scarcity which rocked Tanzania. Some of the characteristics of a seller's market are:

- Scarcity of goods, and rationing.
- Price control and control of the distribution function
- Monopoly or cartel (i.e. absence of competition).
- Low margins for marketing.

Business in a market like this thus leads to complacency on the part of "marketers" and their inability to measure fully the success or failure of a product or service on its own merit. Other problems related with a seller's market are high pricing and inability on the part of marketers to know the real size of the market since demand tends to be unduly exaggerated in a shortage situation.

4.2 This appears to have been the behavior of our financial institutions as observed in Section Two of this paper. The reason for lack of marketing orientation for most of our financial institutions is partly the seller's market in which they have been operating. A closer look at the markets of financial institutions shows this to be true.

4.3 The Market of a financial institution has three dimensions, and these are shown in Figure Two below. First and foremost is the



The three Dimensions of a Bank's Market

Savings Market - people and organizations whose current resources exceed their planned expenditure and have a need of "saving" this excess in a bank or another financial institution. The financial institution must attract this market in order to serve the credit or loan market, on the one hand, and the market for the extended "financial services, on the other. In other words the "Savings Market" provides money which can be equated to "raw materials" on which credit as well as other financial services are based. It is true that the banking industry can "buy" a proportion of its raw materials (money) in the money market (equity capital, loan, etc.); but an important proportion of its raw materials has to be gained by persuading individuals or corporate organizations to deposit their funds with it. And persuasion is a marketing function. Appendix 3 shows that private savings have for the last 18 years (1970-18=987) stood at an average of 70 percent of total savings. This is the market that financial institutions should concentrate on.

4.4 The "Savings Market" prefers more cash (i.e. higher intrest rate) to less cash; cash sooner rather than later (i.e. a shorter investment period) and minimal risk of cash inflows. In short:

price = f (amount, timing, risk of cashflows).

4.5. On the other hand the banker has another market to serve: the credit market or those individuals or organizations whose spending plans exceed their current resources. This market is usually the largest source of a bank's revenue, realizable through interest charged on the credit consumer. These prefer lower interest rates and longer borrowing times.

4.6 The characteristics of the Markets of financial institutions classified above have since the late 70's (after the Arusha Declaration) exhibited the culture of a seller's market. Some of the reasons for this situation are:

- Shortage of financial services
- Limited competition
- Government control
- Low disposable income.

4.7 Tanzania is currently facing a shortage of financial services for both the Savings and Credit markets as well as for the extended financial services. Appendix 4 shows the number of banking outlets available to the Tanzanian market in 1989. The number of branches was too small in relation to the population they served. On the average we had more than 100,000 people per branch and the ratio ranged from 80,000 in the Coast Region to 177,000 in Dodoma Region. To a large extend the Tanzanian market is still under banked, and the situation is made worse by the obsolete and archaic banking technology and facilities still being used. As a result of this the staff of the banks have been overloaded in their operations, culminating into inefficiency and poor service.

4.8 For most banks the shortage of banking services is compounded by a shortage of "raw materials" or funds to effect their lending operations, resulting in frustrating the creditor/loan market. For example, the Karadha Company, a hire purchase financing company has been recording a decreasing number of units financed. This is also true in respect of THB's mortgage loans. For example this company's loan disbursements has gone down from Shs. 190 million in 1983/84 to Shs. 130 million in 1989/90, a decline of 30 percent. During the decade of 1979-1988 real lending by our commercial banks has declined by about 8 *percent*.

4.9 Another factor contributing to the minimal application of the marketing concept in the financial services' sector is its limited competition resulting from clear cut "allocation" of services to each financial institution. Table 3 below shows the demarcation of the saving market, on the one hand, and the loan/credit market among our financial institutions, on the other. In so far as the Savings Market is concerned we have only four banks competing for the savings and time depositors. These are the National Bank of Commerce, (PBZ for Zanzibar), Tanzania Housing Bank (THB), and the Post Office Savings Bank (TPOSB). Current accounts, on the other hand, are offered only by two banks, (NBC and CRDB) although THB has plans to enter into this market segment. Four Banks are not enough to offer the competitive pressure required to make them consumer-oriented. This problem is compounded by the shortage of banking facilities and money as explained in Section 4.6, above.

4.10 The Credit Market, on the other hand is too structured in terms of sectoral specialization to make competition among the financial institutions almost meaningless. The Bank of Tanzania has a monopoly of financial institutions, THB, Building Construction and Allied industries, and

	SAVINGS MARKET	CREDIT MARKET	
INSTITUTION	SAVINGS MOBILIZATION SCHEME	MATURITY & TYPE OF FACILITY	SECTORAL FOCUS
Bank of Tanzania	Currency issues	Short, medium and long-term credit	Government, financial institution
NBC and Peoples Bank of Zanzibar (PBZ)	Demand, Time Savings Deposits	Short, medium term credit and equity	Productive and Distributive sectors Government
THB	Time and Savings Deposits	Medium and long-term credit	Building Construction and allied industries
Post Office Savings Bank	Savings and Time Deposts	Medium and long-term credit	Government
CRDB	Demand, Time and Savings deposits now.	Short, medium and credit	Rural Programmes
TIB	None	Medium and Long-term credit, equity	Industry and Commercial Agriculture (Scale)
Tanganyika Development Finance Company (TDFL)	None	Medum and Long-term credit, eqity	Industry
Karadha Company	None	Hire purchase finance for machinery	Transport and production
National Insurance Corporation (NIC)	Premiums	Short, medium and long-term credit	Government
National Provident Fund (NPF)	Provident Fund Contribution	Short, medium and long-term credit	Government

Table 3: The Markets of Financial Institutions

CRDB Rural Programs. Provision of credit to industry is shared between two or three financial institutions - Tanganyika Development Finance Company (TDFL), Tanzania Investment Bank (TIB) and NBC (for short and medium term finance). All in all such an arrangement does not provide a conducive picture for optimum competition which could lead to the intensification of marketing. Again shortage of finance amplifies the "seller's market" situation.

4.11 Tanzania's disposable income is low and for quite some time now "real" income has been going down, thus affecting people's consumption patterns. Demand for financial services such as checking accounts, credit cards, etc. has been low. For the THB for example, housing credit appears to be beyond the reach of most Tanzanians. As has been the case with other parastatal organizations in the country, state interference in the operations of our financial organizations has been endemic, featuring in price control (control of interest rates), choice of loan beneficiaries (e.g. cooperative unions, marketing boards, etc.), and state intervention into banking information. This again has forestalled the application of the marketing concept.

4.12 This Section has tried to explain why our Banks and other financial institutions have been "selling" their services rather than "marketing" them. In so doing, however, we are not condoning this inward looking business behavior. In the next section we endeavor to justify the need for a more aggressive approach to the marketing of financial services in Tanzania.

5.0 The Need for a Marketing Orientation in our Financial Institutions

It is the contention of this paper that "marketing orientation" should govern all business firms including financial institutions in Tanzania if they are to grow and prosper in direct proportion to the market potentials of their industries. Four reasons explain the need for our financial institutions to transform their operations from "selling" to marketing:

(a) The power of marketing efforts to increase sales and profitability of a company.
(b) Existence of a large market for saving and loan product offerings.
(c) The unique characteristics of financial services that require unique marketing techniques and/or approaches.
(d) The impending liberalization's of the banking and financial sector.

5.1 One obvious reason why our financial institutions should be more marketing oriented in their operations is the positive correlation between marketing efforts and sales. Well executed marketing efforts will help a company raise its market share of its industry. As the figure below shows, a company's sales potential is a function of its marketing efforts. In other words, assuming an expansible market (e.g. an unsaturated market), increase in marketing efforts will increase a company's sales until it reaches its highest potential. This increase will, of course depend, in part, on the marketing efforts of the competitors in the industry

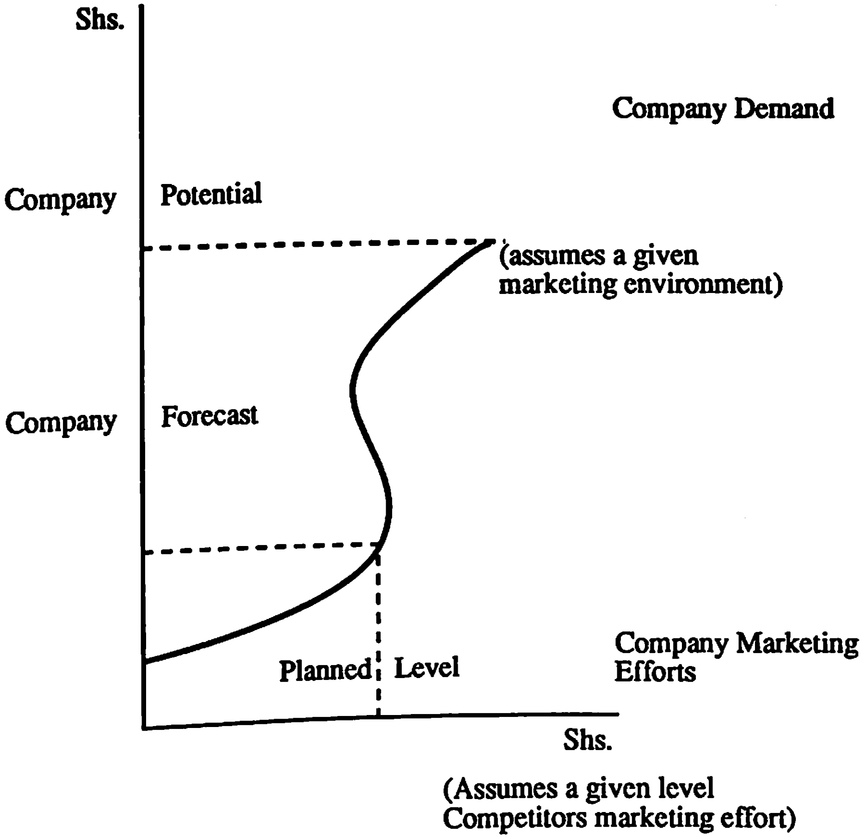


Figure 3: Demand as a Function of a Company's Marketing Efforts

Applied to the financial industry the message is clear: well executed marketing efforts will lead to an increase in a bank's or insurer's share in the "savings" and "credit" markets as well as the market of "extended" financial services.

5.2 The "Savings Market" potential of financial institutions is large and unsaturated as evidenced by the growth of money supply (m_2) which had been growing at a rate of 21% per annum form 1980-1987[3]. In 1987 money supply which as outside banks represented 35% of total money supply (m_2), and this has been increasing at an annual rate of 46% from 1980 to 1987. The increase in money supply outside banks is indicative of poor performance of our banks in savings mobilization, and this is partly caused by unsatisfactory marketing efforts on the part of our banks.

5.3 We hasten to emphasize here that other factors have contributed to the increase in money supply outside financial institutions. These include frequent frauds, forgery and thefts taking place in our banks. Others are the negative interest rates and the general decline of people's confidence in our banks. On the other hand, improving efficiency in financial institutions is one of the most important factors in savings mobilizations.

[3]*Bank of Tanzania, Economic and Operations Report (Various years)*

Speedy customer service, enough cash balances at bank branch counters, etc., should go a long way in improving the situation.

The contention that there is a remarkable increase in growth of deposits has been proven to be illusory. Whereas in nominal terms the trend seems to be good, real deposits have tremendously declined. This picture is clearly depicted by the statistics in Appendix 5, 6 and 7.

5.4 The Marketing of financial services differ from the marketing of consumer or industrial goods and services. These unique characteristics make it more compelling for banks and other financial institutions to practice marketing seriously even when they are operating in a seller's market. The following are some of the unique characteristics of financial services which complicate marketing.

(a) The intangibility, inseparability and the individualized nature of these services.
(b) The fiduciary responsibility of a banker, and
(c) The special role of financial institutions in the economy of a country.

5.5 Financial services cannot be seen, touched, tasted, felt or heard. Hence the customer cannot inspect it or ascertain its attributes before the actual purchase. For example, the *credit* a bank offers is represented by its acceptance of demand and time deposits and by making loans. The individual depositor actually buys the bank's credit by depositing cash or cheques and allowing the bank to owe him until he requests payment through his checking account or savings account. The individual borrower offers his credit to the bank when requesting a loan. If the bank grants the loan, it makes credit available to the borrower, usually by making a deposit to his account. Since a bank is usually selling an *idea*, not a physical product it must tell the buyer what the service will do.

5.6 Financial services are inseparable in the sense that they cannot be separated from their source using middlemen. Furthermore these services are highly personalized. In many bank transactions such as those involving provision of credit a *client* relationship exists between the buyer and the seller as distinguished from the customer *relationship* existing in transactions involving physical goods.

5.7 Another factor which makes marketing especially important in financial operations is the "fiduciary responsibility" of the banker. Bankers or insurers who persuade their customers to entrust personal or corporate funds to their care or to accept advice on investment incur a heavier responsibility than say the seller of clothing. This is not to say that the manufacturer of consumer or industrial goods is without responsibility.

But the responsibility in these other cases is limited to the fitness of purpose, quality and value for the money of product or services concerned. It is inconvenient but seldom catastrophic if the milk is sour or the refrigerator breaks down. But a banker's failure to discharge his fiduciary responsibility for safeguarding customer's funds or to provide responsible advice on financial matters can bankrupt a company. All these points to the fact that marketing of financial services should be carried out by skilled marketers and preferably those with financial knowledge and ethics.

5.8 Financial operations have a "special" role to play in the national economy for they help provide real resources to finance economic development. Private resource mobilization is particularly important in Tanzania as the government and parastatal sector has been saving about 70% of all savings done through financial institutions. Unfortunately, as has already been pointed out resource mobilization by our financial institutions is far from being satisfactory. One of the reasons for this abysmal performance is the failure of these firms to market their services effectively.

5.9 In Section one we pointed out about the impending liberalization of the financial sector and the resultant intensification of competition by banks and other financial institutions for the savers and borrower's shilling. We forecast intensification of inter-company and intra-company competition (inter-branch) in this regard.

5.10 All in all the likely result of these changes will be the creation of a *buyer's market* and all that goes with it in the area of marketing. This change is going to be enhanced by an invasion of modern banking technology including computers. Thus in the nearest future our banks' and insurer's competitive tools are likely to be found in "marketing" rather than in banking or insurance *perse.*

6.0 The Tools of Marketing of Financial Services

Let us now complete our paper by looking at what one might call "tools" of marketing, and how they can be used by our financial institutions to enhance operations. A clear reference is made to the THB although most of these examples could be applied to other financial institutions. I dare say that this subject matter is extensive and would ideally require a separate paper or two to treat it satisfactorily. Accordingly we are forced to be sketchy for fear of being too long.

6.1 As pointed out in the preceding sections, a financial institution performs three major functions. It must *attract* deposits from the "savings market" and attract borrowers from the "credit market". Furthermore, a financial institution must *attract* users of extended financial services which are indirectly related with the first two functions. This function of "attracting" depositors and borrowers can be considered as a "demand creating" function which can be achieved by using certain marketing tools including promotion. Once the demand has been created it has to be *serviced* using certain demand servicing tools including distribution.

The Marketing Manage ment Process

6.2 The tools of marketing can be easily conceptualized if we link them to a bank's or insurer's marketing management process. This process or steps in managing the marketing activities appears in Figure 5 We have pointed out in the preceding sections that success of a financial institution depends importantly on the marketer's knowledge of his markets. Accordingly the marketing management process should ideally start with this task: the task of knowing the market. It is through this knowledge that the marketer will be able to determine the market segment or segments he wants to concentrate on (market segmentation) and then design an appropriate marketing program to serve it (stage2). This program will include both demand creating and demand serving activities. Stage three of this process is control, including performance evaluation.

Market Analysis

6.3 The subject matter of market analysis is beyond the scope of this paper as it includes, among other things determination of the present and future market potential or size of the markets (s) of a product(s) or service(s). Appendix 8 itemizes some the elements of the scope of a market analysis. These revolve around consumer's buyer behavior, market characteristics (size, location, etc.) and the Marketing Environment

6.4 Market Analysis includes market segmentation. The premise of segmentation is that markets are far from being homogenous with respect to buyer needs and responses to a given product, price, promotion and place offerings. The power of the concept of market segmentation is that in an age of intense competition for the mass market, individual marketers can prosper through creatively serving specific market segments whose needs are imperfectly satisfied by mass-market offerings. Conversely the danger in not basing marketing programs on a careful study of the differences and similarities among market segments is average satisfaction of many needs, and thus vulnerability to competitors that design marketing programs to satisfy the specific needs of selected segments more effectively.

6.5 Possible bases for segmenting markets are:-

- geographical segmentation
- demographic segmentation
- psycho graphic segmentation
- volume segmentation, and
- benefit segmentation

Appendix 9 is an example of benefit segmentation utilizing only the principal benefits sought by each benefit segment for the "savings" market. THB might wish to study its mortgage loan market in bid to determine major market segments therein, evaluate these segments and finally select those ones it is capable of serving effectively and profitably.

Tools of Market Analysis

6.6 In modern business management, information is a vital input in the successful management of an organization. Thus marketing information is important in the successful management of the marketing function. As a matter of fact its importance is to be found at every stage of the marketing management process. There is thus a need of formalizing and

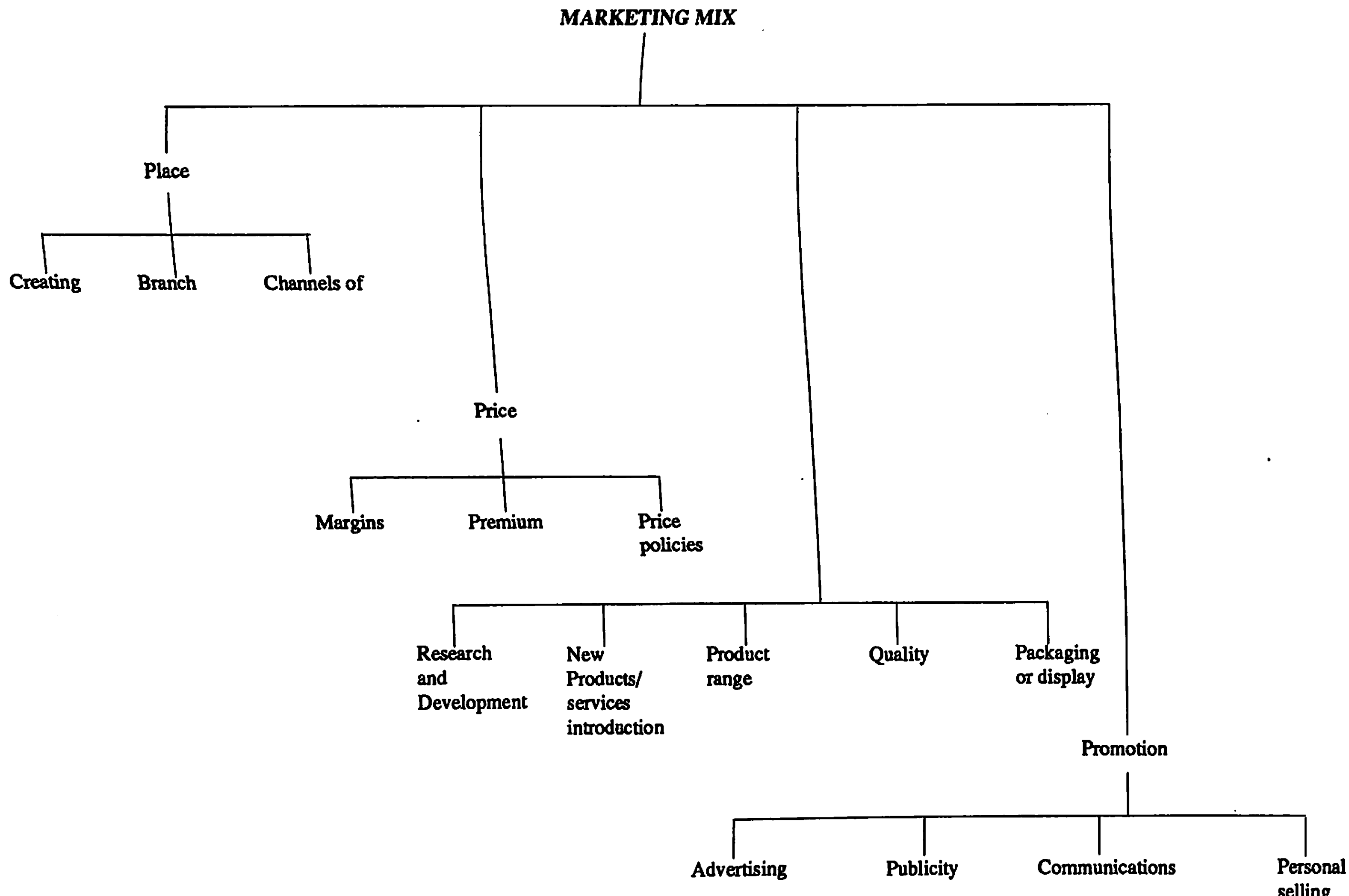


Figure 5: Elements of Marketing - Mix in Banking

facilitating the flow of information both from internal and external sources.

6.7 The Accounting System is the traditional way of generating an orderly flow of vital information for decision making and is part and parcel of the Marketing Information System (MIS). For example in the case of THB it can be used to collect data on deposits, mortgage loan payable and receivables and the cost of a bank's operations.

6.8 Another tool of market analysis is marketing intelligence which should serve as the "eyes and ears" of a financial institution. The function of marketing intelligence activity is two-fold.

(a) to identify unknown environmental and competitive factors into known ones, and

(b) to interpret and predict how and when those factors will alter market demand.

Thus for example THB's intelligence could have informed management well in advance the likely recommendations of the Banking Commission, future actions of the Government, moods and actions of the Bank of Tanzania in respect of interest rates and credit and the Government's plans in respect of policy on residential housing, the Workers and Farmers Housing Development Fund (W&FHDH) and the Special Forces Fund (SEF). Secondly, it would interpret just how and when if at all, these forces for change will eventually affect the ability of the bank to accomplish its marketing objectives.

6.9 When there is need for *specific* data on *specific* problems and opportunities, information which might not be easily available through the accounting or marketing intelligence systems can be obtained through marketing research. Marketing research is particularly necessary in determining the market characteristics of a financial institution's product offering as well as consumer attitudes about a given service, new or otherwise.

6.10 We have a feeling that THB does not know much about its "savings" or mortgage loan markets. It should therefore carry out a study to determine, *inter-alia,* market characteristics, market segments and the competitive situation of these markets. Findings of this study are bound to be invaluable as input in future planning exercise which will induce evaluation of previous operations.

Developing a Marketing Plan

6.11 The second stage of the marketing management process is the Setting of Marketing Objectives and Developing a Marketing Plan. These objectives and plans would normally be based on the expressed needs and characteristics of target markets identified in the first stage of this process. Most bankers see the specific marketing objectives as being those related with increasing the profitability and growth of both investment and lending as well as increasing market shares in the chosen market segments. Others are to increase commissions and attract funds for lending.

6.12 A Marketing Plan describes the proposed *Marketing mix* or tools needed to achieve the defined marketing objectives. The four elements of a marketing mix are product, place, promotion and price. The unique needs and characteristics of selected target markets should determine the nature and "blending" of this mix. Figure 5 below summarizes a marketing mix of a Banking organization.

6.13 Product strategy involves decisions about developing the right product for the target market, where product refers to means or capacity to provide a *solution* to consumer problems or satisfaction of needs. A product could be new, as THB's idea of "Housing Estates" or it could be an improvement over existing products. The concept of the product as potential satisfactions, or problem solutions is vital to the firm's ability to generate a flow of product offerings that truly provide real and important benefits to the consumer. It also forces the recognition that *customer service* is as important as the physical product itself in terms of potential need satisfaction. For a bank, this means, for example, that, convenience benefits created by the automatic cash dispensing and teller machines is only one of the consumer's potential perception of the total product. In addition to convenience benefits, the consumer's imagine or actual experiences with the machine are a vital part of the product. If a consumer perceives the machine as too complex to use, *impersonal*, or not to be trusted in making important bank transactions then the fact that the hardware offers convenience value may not be enough to get market acceptance. The product for a bank is never simply the availability of credit, checking accounts, savings programs, deposit boxes or machines; instead it incudes the quality of the consumer's experience each time he interacts with the bank.

6.14 Place strategy concerns itself with the necessary actions to make the product available at the time and location desired by the target market. The idea of a channel of distributing is easily comprehended if one thinks in terms of physical products. However, the unique characteristics of banking services described in Section 5 of this paper dictate *direct* channels of distribution.

6.15 The distribution function of banking services has been defined as follows:

"any means of increasing the availability and/or convenience of a service which increases its use or the revenues from its use (either by maintaining existing users, increasing its use among existing users or attracting new users"[3]

Examples here is the Credit Card which is an innovation in the distribution of a bank's major service, credit. Another one is package offering - offering a grouping of bank services to retail or corporate customers. This

[3] *J.Donnely, Jr. "Distributing Bank Services" in Berry L.L. & Capalalin, L.A. (Eds), Marketing for the Bank Executive, Leviathan House, London, 1974*

The Marketing Management Process	Tools of Marketing	Examples for THB

Market Analysis and Segmentation	- Marketing Information System (MIS)
	  - Accounting System
	  - Marketing Intelligence System
	  - Marketing Research
		- Research into Market Potential of Savings of Mortgage Loan Markets.
		- Research Market Segments of the mortgage loan market.
		- Need for an MIS within the THB.

Developing and Executing Marketing Programmes	- Marketing Information System
	- Target Marketing
	- Marketing-Mix Programming
	  - Product Decisions
	  - Price Decisions
	  - Place Decisions
	  - Promotion Decisions
		- THB should seriously think of introducing new products, particularly in the Housing Finance area.
		- New promotional strategies are wanted.

Controlling the Marketing Programmes	- Marketing Information System - Performance Monitoring & Evaluation - Marketing Audit.	With performance Budgeting established in THB, performance evaluation will be made easy and more effective.

Figure 4: The Marketing Management Process and Tools of Marketing

serves to increase the availability and convenience of several bank services. For example, a package might include advice on money market investments, the right to obtain bank credit, foreign exchange transactions in return for substantial demand deposit balances. Yet another example are automatic cash dispensers and Bank by Mail. With the Bank-by-mail service offered by some banks, the banking industry has been successful in locating a middleman, the post office, to aid in facilitating the transfer of funds.

6.16 It should be made clear, however, that the *location* of banking facilities is the most important channel of distribution of banking services. Bank management may have the *right product* for the *right people* at the *right price*, but they will remain vulnerable if someone else offers the same satisfactions at a better place. Thus if THB wants to seriously compete with NBC, CRDB and the Post Office Savings Bank it must reach more of its savings market either by opening more branches, operating agency schemes or by running mobile banking services. Furthermore processing of mortgage loans at the branch level will increase the availability and/or convenience of this product, leading to enhance consumer satisfaction and increase in such loans. THB should strive to strengthen its distribution system so as to generate new accounts, increase average balances, reduce labor costs and income from service charge. Furthermore the improved channels of distributing should be capable of generating more mortgage loans and increasing customer service.

6.17 Promotion refer to activities designed to informing customers about a bank's product offerings features and benefits that they can derive from consuming the product. A typical promotion-mix consists of advertising, personal selling, publicity and sales promotion. Most Tanzania banks, including THB, undertake one form or another of promotion. However, we doubt whether these communications are well designed and executed to win identifiable target markets.

6.18 Although uniqueness of a product, creative promotion and simple availability of the product may be important in selling a product, price becomes the qualifying variable in determining ultimate purchases. Unlike the first three elements of the marketing mix, pricing of banking services in Tanzania, have, until recently not been "controllable" by management as interest rates were centrally fixed by the Government. Following the price decontrol announced recently by the Bank of Tanzania, and with increased competition, it is conceivable that in future, prospective depositors (and borrowers) will be dictating what rates of interest the banks should fix. This situation is already happening in countries such as Nigeria.

6.19 It is also important for our bankers to realize that price includes not only money paid, but also the amount of time and physical and psychological discomfort involved in buying and consuming the product. Thus a bank may find that although staying open from 9.00 a.m. until 6.00 p.m. causes administrative and operational problems and added expenses, closing at 1.00 p.m. on the other hand, causes the consumer inconvenience and therefore is part of the price people pay for using the bank's services. As such, the banks should carefully analyze the marginal revenue that might be generated by offering the consumer extra convenience.

7.0 Conclusions

We would like to conclude our paper by repeating what we said in Section 5 that marketing orientation should start governing our banks and other financial institutions which have, since their creation, been selling rather than marketing their invaluable services. The need for this re-orientation is particularly urgent for those financial institutions whose share in the "Savings Market" is very small. The "power" of marketing to raise sales, the specific characteristics of the financial industry, its role and importance in the national economy, and the impending transformation of the bank market from a seller's market into a buyer's market are some of the factors which support our call for these firms to be marketing oriented.

7.1 Accordingly all Managers at Branch and Corporate level should forthwith consider themselves not merely as bankers or insurers but providers of financial services. They should also start using the marketing tools to improve their operations. Marketing research is particularly import at this stage of the re-orientation exercise. Start collecting data and information pertaining to your markets in bid to understand them. The rest will follow.

7.2 Organizationally the Marketing Function should be institutionalized, either as a staff function of providing management with specialist marketing services, or as a *line function*. It should also be elevated to a position of power preferably at a directorate or top managerial level. Only in this way will our firms be effectively consumer-oriented and eventually successful in serving the "saving" and credit markets.

APPENDIX 2: **POSITION OF INSURANCE SCHEMES OF THE NIC (IN MILLION SHS.)**

YEAR	LIFE INSURANCE	GENERAL INSURANCE	PPF	TOTAL NOMINAL	NCPI	TOTAL REAL (1977=100)
1978	82.7	170.6	-	253.3	103.3	237.6
1979	94.5	211.1	97.8	403.4	120.3	335.3
1980	96.6	286.3	109.3	492.2	156.7	314.1
1981	124.0	318.7	155.9	598.6	196.9	304.0
1982	132.8	389.2	236.5	758.5	253.9	298.7
1983	158.3	417.1	226.7	802.1	322.6	248.6
1984	174.0	512.9	319.8	1,006.7	439.2	229.2
1985	230.8	592.3	274.2	1,097.3	585.4	178.4
1986	300.3	963.1	323.6	1,587.0	775.2	204.7
1987	386.3	1,321.8	326.9	2,035.0	1,007.4	202.0
1988	390.0	2,826.0	450.0	3,666.0	1,238.8	295.9

SOURCE: **The National Insurance Corporation (NIC)**

APPENDIX 3

RESOURCE MOBILIZATION BY FINANCIAL INSTITUTIONS DURING THE 1980s

(Millions of Shs.)

YEAR	Deposits with Financial Institutions			Contractual Savings	Total Resource Mobilization	Total Private Savings	% of Private
	PUBLIC	PRIVATE	TOTAL		(4) (5)	(5)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1970	814.0	1,041.0	1,855.0	319.0	2,174.0	1,260.0	62.6
1971	1,095.0	1,156.5	2,251.9	398.0	2,649.9	1,554.5	58.7
1972	1,173.7	1,431.9	2,605.6	479.0	3,084.6	1,910.9	61.9
1973	1,366.5	1,788.7	3,155.2	597.0	3,752.2	2,385.7	63.6
1974	1,423.0	2,249.0	3,672.2	733.0	4,405.0	2,982.0	67.7
1975	1,954.0	2,796.4	4,750.4	954.0	5,704.4	3,750.4	65.7
1976	2,496.4	3,372.9	5,860.3	1,166.0	7,035.3	4,538.9	64.5
1977	2,585.3	4,200.1	6,875.4	1,435.0	8,310.4	5,835.1	67.8
1978	3,148.2	4,826.6	7,974.8	1,550.0	9,524.8	6,576.6	66.9
1979	3,550.0	7,512.8	11,062.8	1,928.0	12,990.8	9,840.8	72.8
1980	3,650.8	8,378.9	12,029.7	3,813.0	14,842.7	11,191.9	75.4
1981	3,976.6	10,891.1	14,867.7	803.7	15,671.4	11,694.8	74.6
1982	6,975.0	11,202.8	18,177.8	858.4	19,036.2	12,061.2	83.4
1983	6,209.5	15,588.8	21,798.3	1,042.5	22,840.8	16,631.3	72.8
1984	9,031.6	16,720.2	25,751.8	1,195.4	26,947.2	17,915.6	66.5
1985	13,942.3	13,892.5	27,834.8	1,377.8	29,212.6	15,270.3	52.3
1986	13,143.0	19,304.8	32,447.8	1,771.5	34,219.3	21,076.3	61.6
1987	20,416.7	22,822.6	43,239.3	1,923.5	36,162.8	24,746.1	68.4

SOURCE: BOT Annual Report

APPENDIX 4: AVERAGE POPULATION PER EXISTING BANKING OFFICERS:

REGIONS	BRANCHES					AGENCIES			POPULATION 1,988 FIGURES	RATIO OF POPULATION PER BRANCH
	NBC	CRDB	THB	PBZ	TOTAL	NBC	CRDB	TOTAL		
ARUSHA	14	1	1		16	11		11	1,351,676	84,480
COAST	8	-	-		8	5		5	638,015	79,752
DAR ES SALAAM	16	2	2		20	7	1	8	1,360,850	68,045
DODOMA	6	-	1		7	15		15	1,237,819	176,832
IRINGA	12	1	1		14	11		11	1,208,914	86,351
KAGERA	14	-	1		15	14		14	1,326,183	88,412
KIGOMA	5	-	1		6	9		9	854,817	142,470
KILIMANJARO	10	1	1		12	17		17	1,108,699	92,392
LINDI	6	1	1		8	13		13	646,550	80,819
MARA	6	-	1		7	12		12	970,942	38,706
MBEYA	12	-	1		13	13		13	1,476,189	113,553
MOROGORO	9	1	1		11	9		9	1,222,737	111,158
MTWARA	6	-	1		7	7		7	889,494	127,071
MWANZA	12	1	1		14	17		17	1,878,271	134,162
RUKWA	4	-	1		5	6		6	694,974	138,995
RUVUMA	5	-	1		6	12		12	783,347	130,555
SHINYANGA	7	1	1		9	8		8	1,772,549	196,950
SINGIDA	3	1	1		5	10		10	791,814	158,363
TABORA	9	-	1		10	11		11	1,036,293	103,629
TANGA	14	1	1		16	13		13	1,283,636	80,227
ZANZIBAR	1	-	1	2	4	-		0	604,578	160,145
TOTAL	179	11	21	2	213	220	1	221	23,138,347	2,393,067

SOURCE: Reports of respective Banks to the Commissioner

APPENDIX 5: COMMERCIAL BANKING: DEPOSITS VS AGREGATE LENDING

YEAR	NCPI	DEPOSITS		LENDING	
		NOMINAL	REAL	NOMINAL	REAL
1977	100.0	6,500.4	6,500.4	4,401.2	4,401.2
1978	106.6	7,503.8	7,039.2	6,249.2	5,862.3
1979	120.3	10,523.4	8,747.6	6,865.8	5,707.2
1980	156.7	12,910.4	8,239.2	7,400.1	4,722.5
1981	196.9	14,985.9	7,610.9	8,551.0	4,342.8
1982	253.9	18,650.8	7,345.7	9,579.3	3,772.9
1983	322.6	21,801.5	6,758.1	10,642.8	3,299.1
1984	439.2	25,844.4	5,884.4	12,711.8	2,894.3
1985	585.4	28,612.9	4,887.8	17,430.6	2,977.6
1986	775.2	32,828.2	4,234.8	27,689.6	3,571.9
1987	1,007.4	43,545.7	4,322.6	55,042.5	5,463.8
1988	1,238.8	44,101.9	3,560.0	65,121.2	5,256.8

SOURCE: BOT Economic and Operations Report (1988)

Note: Deposits and Lendingfigures include those from NBC,CRDB and PBZ.

APPENDIX 6: DEPOSIT MOBLIZATION BY THE THB

YEAR	NCPI	DEPOSITS IN MILL. SHS. TOTAL NOMINAL	TOTAL REAL (1977 = 100)	% GROWTH IN REAL TERMS
1977	100.0	116.9	116.9	-
1978	106.6	150.3	141.0	20.6
1979	120.3	187.3	155.7	10.4
1980	156.7	224.3	143.1	-8.1
1981	196.9	531.4	269.9	88.6
1982	253.9	530.4	208.9	-22.6
1983	322.6	633.5	196.4	-6.0
1984	439.2	700.3	159.4	-18.8
1985	585.4	794.8	135.8	-14.8
1986	775.2	1,077.2	139.0	2.4
1987	1,007.4	1,148.6	114.0	-18.0
1988	1,238.8	1,506.2	114.0	0.0

SOURCE: THB Annual Reports

APPENDIX 7: DEPOSIT MOBLIZATION BY THE TPOSB

YEAR	NCPI	DEPOSITS IN 000 Shs. TOTAL NOMINAL	TOTAL REAL (1977 = 100)	% GROWTH IN REAL TERMS	NUMBER OF DEPOSITORS (000)
1977	100.0	90,623	90,623.0	-	442
1978	106.6	110,999	104,126.6	14.9	476
1979	120.3	138,840	115,411.5	10.8	508
1980	156.7	163,058	104,057.4	-9.8	538
1981	196.9	204,424	103,821.2	-0.2	574
1982	253.9	214,302	84,404.1	-18.7	601
1983	322.6	245,685	76,157.8	-9.8	633
1984	439.2	67,058	15,268.2	-79.9	657
1985	585.4	45,219	7,724.5	-49.4	681
1986	775.2	59,084	7,621.8	-1.3	706
1987	1,007.4	82,370	8,176.5	7.3	733
1988	1,238.8	105,517	7,984.0	-2.4	987

SOURCE: TPOSB Reports to BOT

Appendix 8: Market Analysis: The Pertinent Questions

1. *Consumer Behavior*
   - (a) *What they buy*
     - A savings, Time or Demand deposits.
   - (b) *Who buys*
     - Everybody? Women only? Teenagers (i.e. demographic, geographic, psychographic classification)?
   - (c) *Where they buy?*
     - which banks?
   - (d) *Why they buy?*
     - Motivations, perception of product and needs, influences of peers, prestige, influence of advertising, media.
   - (e) *How they buy*
     - On impulse, by shopping (i.e. the process theygo through in purchasing).
   - (f) *When they buy*
     - Once a week? Every day? Seasonal changes?
   - (g) *How much they buy at a time?*
   - (h) *Anticipated change*
     - Incidence of new products, shifts in consumers' preferences, needs.

2. *Market Characteristics*
   - (a) Size
     Potential market, actual market, selected segments of market.
   - (b) Location
   - (c) Competition
     Who is competition, what are their characteristics, what is their likely behavior in marketing activities (promotion, pricing, new products, etc)?
   - (d) Competitive products
     Their nature and number
   - (e) Economic conditions

3. Marketing Environment
   - (a) Technology
     What new technology will emerge?
   - (b) Culture
     What is becoming fashionable?
   - (c) Economic trends.