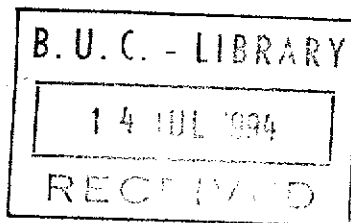


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MARKETING ASSESSMENT OF
LEADING BANKS IN LEBANON



A research Topic

Presented to Business Division

• Beirut University College

In Partial Fulfillment
of the Requirements for the Degree
Master of Science in
Business Management

By
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June, 1994

BUC (Busi School)

BEIRUT UNIVERSITY COLLEGE
BEIRUT, LEBANON

APPROVAL OF RESEARCH TOPIC

Sebouh Aintablian 880492 June, 1994

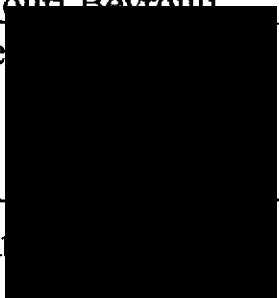
Master of Science in Business Management

Marketing Assessment of Leading Banks in Lebanon

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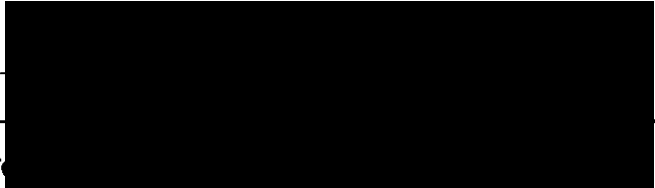
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I Dedicate this Project To My Fiancee

Arminée... With Love...

ABSTRACT

Marketing has become a major field of interest in the 1990's. Whereas, a century ago, the term marketing was almost unknown. It has, over time, gained extensive application in most industries. The evolution of the marketing concept has reached such a stage as to implicate issues as global in nature such as society welfare and marketing of political careers. Then, the inclusion of services, especially those of the banking sector, as industries that not only need to be marketed rather live by means of marketing, would not be surprising. This project attempts to incorporate all issues of concern to those interested in venturing into marketing of bank services in Lebanon. The main purpose of the research is directed towards evaluating the marketing management process, in general, and the overall marketing activities of the Lebanese banks, in particular.

The first chapter introduces the statement of the problem, the need, purpose and limitations of the study, and the methodology used for the assessment of bank marketing in Lebanon. The second chapter starts by classifying bank marketing among other service industries. Tables are used to enhance this classification. Then, a detailed discussion of how bank marketing differs from product marketing follows. After this stage, all elements of bank marketing mix are analyzed. The third chapter encompasses practical issues in bank marketing. First, the bank marketing environment is evaluated. Then, the new product and service development for banks follows. The fourth chapter concludes on the possible application of what is discussed to Lebanon. First, the

environmental setting is portrayed. Then, basic proportions for marketing of Lebanese banks are intercepted. After this stage, a field survey is conducted by interviewing six leading banks' senior managers, in order to evaluate the existing marketing programs.

Based on the results of the sample chosen for the study, it is concluded that the marketing programs adopted by the Lebanese banks are very limited and small in relation to the level of banking sector operations, and to the market coverage of the banks. By analyzing in depth the current states of marketing activities in the Lebanese banks, it is recommended that every bank operating in Lebanon should establish a marketing department, equipped with the necessary qualified staff.

Table of Contents

	Pages
CHAPTER ONE	1
I. INTRODUCTION	1
A. Statement of the Problem	2
B. Need and Purpose of the Study	3
C. Methodology	3
1. Primary Data	4
2. Secondary Data	4
D. Limitations of the Study	4
CHAPTER TWO	6
A THEORETICAL BACKGROUND	6
A. The Classification of Bank Marketing within the Service Industry	6
B. Similarities and Differences between Banks (and Services) and Product Marketing	12
1. Similarities	12
2. Differences	12
a. Intangibility	13
b. Inseparability	13
c. Heterogeneity	14
C. Marketing Mix Analyses for Banks	14
1. Product Strategy	15
2. Price Strategy	20
a. Relating Price to Product Life Cycle	21
b. Relating Prices to Elasticity of Demand	22
c. Relating Prices to Competitive Situation	22

d.	<i>Relating Prices to Bank Profile</i>	22
e.	<i>Prices Flexibility and Relationship Pricing</i>	23
3.	<i>Promotion Strategy</i>	23
a.	<i>Advertising and Direct Marketing</i>	24
b.	<i>Sales Promotion</i>	26
c.	<i>Public Relations & Publicity</i>	26
d.	<i>Personal Selling</i>	26
4.	<i>Place Strategy</i>	27
5.	<i>The "5th P"</i>	28
	CHAPTER THREE	29
	<i>PRACTICAL ISSUES IN BANK MARKETING</i>	29
A.	<i>The Bank Marketing Environment</i>	29
1.	<i>Internal</i>	29
2.	<i>External</i>	31
a.	<i>Competition</i>	31
b.	<i>Economic</i>	31
c.	<i>Role of the Monetary Authorities</i>	32
d.	<i>Legal Restraints</i>	32
e.	<i>High Technology</i>	32
f.	<i>Demographics</i>	33
3.	<i>Consumer Behavior Analysis</i>	33
a.	<i>Marketing to Bank's Business Customers</i>	34
b.	<i>Marketing to Personal Bank Customers</i>	35
B.	<i>New Product and Service Development for Banks</i>	36
1.	<i>Getting Ideas</i>	38
2.	<i>Screening and Viability Analysis</i>	38
3.	<i>Developing the Service and Presentation</i>	38

4. <i>The Launch</i>	39
C. <i>Monitoring Results</i>	39
CHAPTER FOUR	41
<i>POSSIBLE APPLICATIONS OF BANK MARKETING IN</i>	
<i>LEBANON</i>	41
A. <i>Environmental Setting</i>	41
1. <i>Prevailing Socio-economic Situation</i>	41
2. <i>Competitive Structure</i>	45
a. <i>Bank Failures, Causes and Implications</i>	45
b. <i>Legal and Regulatory Setup for Bank</i>	
<i>Marketing</i>	46
c. <i>The Use of Technology</i>	49
B. <i>Basic Propositions for Bank Marketing in Lebanon</i>	49
1. <i>Bank Customers' Segments</i>	49
2. <i>Internal Force (Employee) Training</i>	51
3. <i>Enhancement of Existing Products, or</i>	
<i>Development of New Ones</i>	52
4. <i>The Use of More Intense Promotional Mix</i>	54
5. <i>Price Decisions</i>	54
6. <i>Distribution-Place Thoughts</i>	56
C. <i>Evaluating the Marketing Management in the</i>	
<i>Lebanese Banking Sector</i>	56
1. <i>The Size and Activities of the Marketing</i>	
<i>Department</i>	57
2. <i>The Relation of the Marketing Department to</i>	
<i>Other Departments, Branches and Upper</i>	
<i>Management</i>	57

3.	<i>Bank Customers' Segments</i>	58
4.	<i>New Product/Service Development</i>	59
5.	<i>Pricing Strategy</i>	60
6.	<i>Promotion Strategy</i>	61
	a. <i>Personal Selling</i>	61
	b. <i>Advertising</i>	61
	c. <i>Public Relations and Publicity</i>	62
	d. <i>Sales Promotion</i>	62
7.	<i>Place Strategy</i>	62
8.	<i>Internal Force (Employee) Training</i>	63
9.	<i>Extension of Working Hours</i>	63
10.	<i>Foreign Competition</i>	64
CHAPTER FIVE		65
CONCLUSION		65
A.	<i>Findings of the Research</i>	68
B.	<i>Recommendations</i>	70
Appendix A		74
Appendix B		75
Bibliography		77

List of Tables

	Page
Table (2-1): What is the Nature of Service Act?	7
Table (2-2): What Type or Relationship Does the Service Organization Have with Its Customer?	8
Table (2-3): How Much Room Is There for Customization and Judgment on the Part of the Service Provider?	9
Table (2-4): What is the Nature of DD & SS for the Service?	10
Table (2-5): How is the Service Delivered?	11
Table (2-6): Advantages and Disadvantages of ATMs.	17
Table (2-7): The Variety of Bank Products.	20
Table (2-8): Communication System Variant.	24
Table (2-9): Advantages and Disadvantages of Specific Media.	25
Table (3-1): Elements of Marketing Strategy in Product Life Cycle.	37
Graph	40
Table (4-1): Lebanon, Economic Indicators 1975-1992.	42
Table (4-2): Summary of the Most Important Monetary Measures by the Central Bank in Lebanon 1974-1990.	48

ACKNOWLEDGMENTS

I wish to extend my thanks to Professor Nouri Beyrouti for his precious help and guidance. Also, many thanks to Dr. Tarek Mikdashi whose suggestions for the study were extremely valuable. Additionally, I would like to thank Miss Basma Kaissi and Miss Asmahan Khoury for their help in computer work and editing.

Last, but not least, I would like to thank my fiancée, Arminée, for her understanding and moral support.

CHAPTER ONE

INTRODUCTION

Marketing has become a major field of interest in the 1990's. Whereas, half a century ago, the term marketing was almost unknown; it has, over time, gained extensive application in most kinds of industries.

Marketing theories and strategies have rapidly reached such a comprehensive stage where no domain, be it manufacturing, banking, or any industry, can prosper and achieve its objectives without the setting of sophisticated marketing logic. Marketing was first known to be the promotional efforts undertaken by an institution, and although promotion is one major area of marketing, it is just a part of marketing. Later on, marketing was confused with selling which was explained afterwards to be one area of promotion. However, it has now become commonly known that marketing is the set of activities involving all aspects relating to an organization's business. Departing from studies of the working environmental factors, the company's internal forces, the market opportunities available, and the needs of the marketplace, marketing provides developed strategies, sets techniques, and methods to approach the difficult task of achieving profits, while maintaining a respectable image and developing societal concerns.

A. Statement of the Problem

The development of the marketing concept has witnessed drastic changes in the past four decades. Beginning with being a pure business concept, marketing has evolved to its current state to include more comprehensive issues of concern to society as whole. At the present time, marketing not only encompasses theories and debates related to marketing issues, instead, its field has expanded to include matters related to strategic planning, personnel management, and other aspects of a firm's profit-seeking undertakings.

Whether in the field of manufacturing or services, marketing theorists and practitioners have succeeded in setting fertile grounds for the evolvement of marketing into a widespread science. The way in which marketing concepts and tools are used and their relative importance to products or services differs while trying to execute the marketing plan. However, this does not cancel the truth that most of the developed theories on product marketing are as applicable and necessary to services marketing as they are to products.

Marketing in the banking industry proceeds by following the same general patterns developed in other domains (manufacturing, non-profit organizations, etc.) even though the specific application of marketing roots differs between banking and the other industries.

This project attempts to incorporate all issues of concern to those interested in venturing into marketing of bank services in Lebanon. The main purpose of the research is directed towards evaluating the marketing management process, in general, and the overall marketing activities of the Lebanese banks, in particular.

B. Need and Purpose of the Study

The evolution of the marketing concept has reached such a stage as to implicate issues as global in nature, such as society welfare and marketing of political careers. Then, the inclusion of services, especially those of the banking sector, as industries that not only need to be marketed rather live by means of marketing, would not be surprising.

Marketing in the banking sector was not considered to be a reliable profit-generating mechanism until very recently.

In the past, marketing activity was considered by bankers as "window dresser" rather than as "true business" --as a luxury rather than a necessity. For this reason, marketing should not be regarded as an independent activity that does not mix with other banking activities. Instead, top bankers should be trained to be marketers, and to whom marketing orientation needs to be transmitted before hitting the marketplace.

Nowadays, competition has created the basic need for marketing in the banking sector. Also, consumers, have become more "marketing oriented" by developing more awareness, knowledge, and wisdom about what they need from those institutions that deal with their most vital belongings, their financial assets. Hence, failure to respond to consumer aspiration signals the beginning of the industry's decline. It is true that any business cannot survive without customer satisfaction.

C. Methodology

The data for this study will be collected from two sources:

- 1) primary
- 2) secondary.

1. Primary Data

The main sources of information for the research are the Lebanese commercial banks. Interviews are performed with marketing managers of those banks, that claim to have organized and independent marketing departments. The interviews include some important topics discussed in this research, such as: Consumer bases, internal forces-employee training, enhancement of existing products and the development of new ones, use of more intense promotional mix, pricing decisions distribution-place strategies, etc.

2. Secondary Data

In addition to the data gathered from the interviews with bank managers, several articles in books, magazines, reports and previous studies, such as seminars conducted in Lebanese banks, are used to collect information for this research. Also, existing statistics, such as yearly and quarterly bulletins of Bank of Lebanon and The Chamber of Commerce and Industry are very helpful and complementary information.

Finally, the research is supported by numerous tables and graphs, that not only help in the interpretation of marketing logic, but also deepen its assimilation.

D. Limitations of the Study

The study will proceed by tackling the issue of bank marketing, which is first classified within other service industries and then compared with them. Similarities and differences between banking and product marketing are discussed. A marketing

mix analysis (product, place, price and promotion) for banks precedes the detailing of two important bank marketing schemes:

- a) The marketing environment of the banks, which includes the internal bank forces, the external factors and consumer behavior.
- b) New product and service development, which encompasses five levels: idea formulation, screening, developing, launching, and then monitoring the results.

In the second part of the study, recommendations on the possibility of applying bank marketing in Lebanon is contemplated. Prior to suggesting propositions for bank marketing in Lebanon, the environmental setting is portrayed. Then, the competitive structure of the Lebanese banks tackles the causes and consequences of bank failures. At this stage, basic propositions for bank marketing in Lebanon are formulated: consumer bases, internal forces, enhancement of existing products, development of new products, use of more intense promotional mix, pricing decisions and place-distribution ideas.

The study will conclude on all aspects of general bank marketing with special emphasis given to the Lebanese banking sector.

CHAPTER TWO

A THEORETICAL BACKGROUND

A. The Classification of Bank Marketing within the Service Industry

The basic issues and challenges of the marketing activity do not vary from one industry to another. However, the approaches, techniques, and communication methods do. These differences between services and manufacturing have gone through several stages, but the divergence of the marketing activity within one industry (services or manufacturing) has gained less attention. In his book, Managing Services, Christopher Lovelock elaborated on the various viewpoints relating to the areas of the services industry. Departing from previous views on the historical evolution, Lovelock suggested that the classification of service organization should be done in matrix form. (2 & 2 matrix). This type of classification will help yield better strategic insight for marketing management, than in the case of classifying service firms on a one by one variable at a time. Lovelock developed five such matrices in response to five question-categorization schemes. These five suggestive questions and their corresponding matrices are tabulated below¹; the banking industry position is highlighted:

¹ C. H. Lovelock, Managing Services: Marketing, Operations, and Human Resources. (New Jersey: Prentice Hall Inc., 1984), pp. 44-57.

Table (2-1): What is the Nature of Service Act?

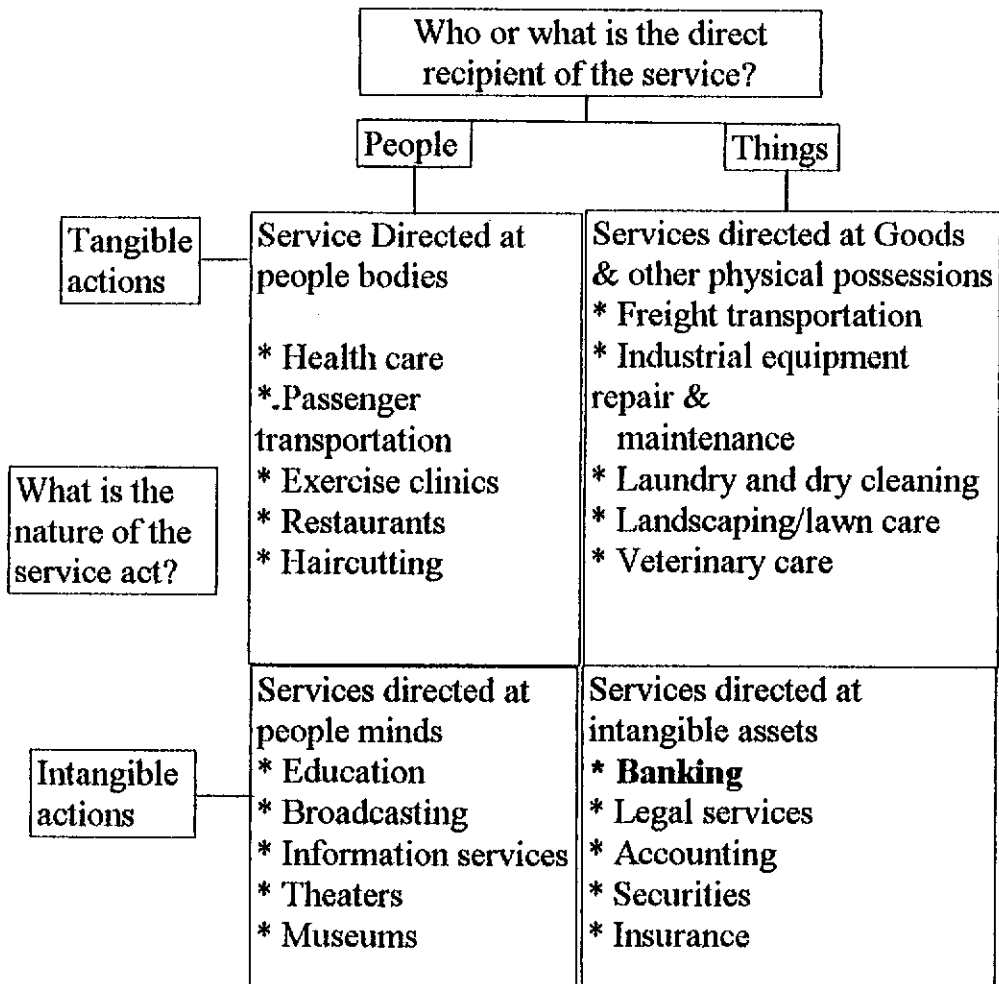


Table (2-2): What Type or Relationship Does the Service Organization Have with Its Customer?

Type of relationship between the service organization & its customers		
	Membership relationship	No formal relationship
Continue delivery of services	<ul style="list-style-type: none"> * Insurance * Telephone subscription * College enrollment * Banking * Automobile association 	<ul style="list-style-type: none"> * Radio station * Police protection * Lighthouse * Public highway
Nature of service delivery	<ul style="list-style-type: none"> * Long distance phone calls * Theater series subscription * Commuter ticket or transit pass 	<ul style="list-style-type: none"> * Car rental * Mail service * Toll highway * Pay phone * Movie theater * Public transportation * Restaurant
Discrete transactions		

Table (2-3): How Much Room Is There for Customization and Judgment on the Part of the Service Provider?

		Extent to which service characteristics are customized	
		High	Low
Extent to which customer contact personnel exercise judgment in meeting individual customer needs	High	<ul style="list-style-type: none"> * Legal services * Health care/surgery * Architectural design * Executive search firm * Real estate agency * Taxi service * Beautician * Plumber * Education (tutorials) 	<ul style="list-style-type: none"> * Education (large classes) * Preventive health program
	Low	<ul style="list-style-type: none"> * Telephone service * Hotel services * Retail banking (excl. major loans) * Good restaurant 	<ul style="list-style-type: none"> * Public transportation * Routine appliance repair * Fast food restaurant * Movie theater * Spectator sports

Table (2-4): What Is the Nature of DD & SS for the Service?

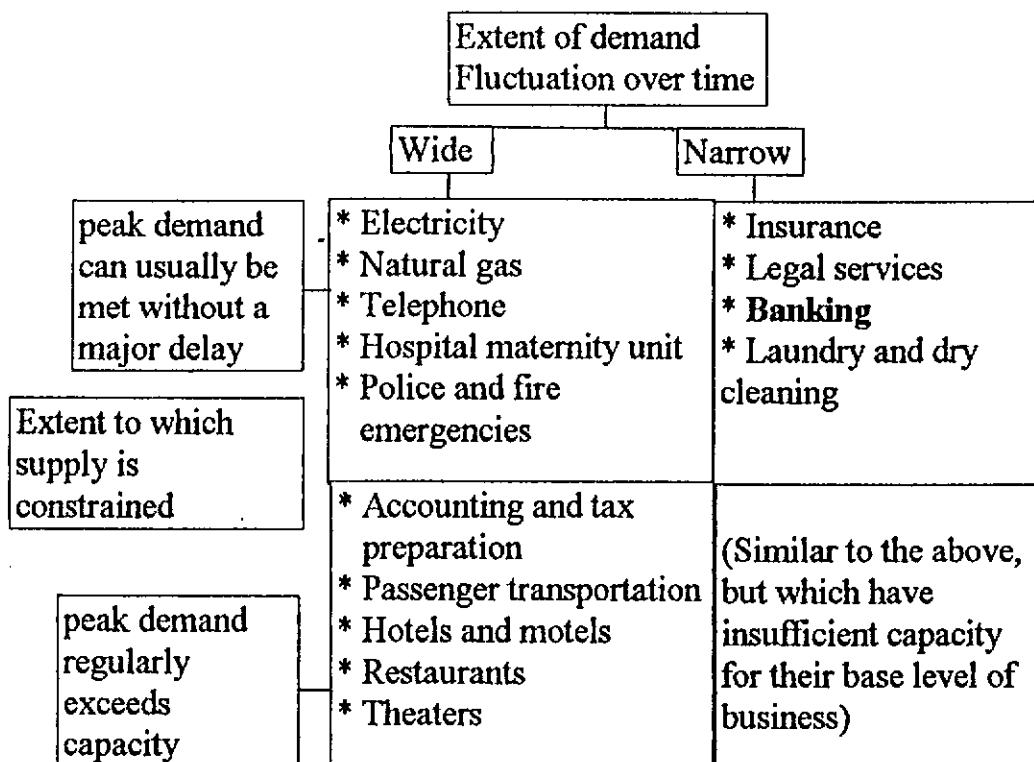
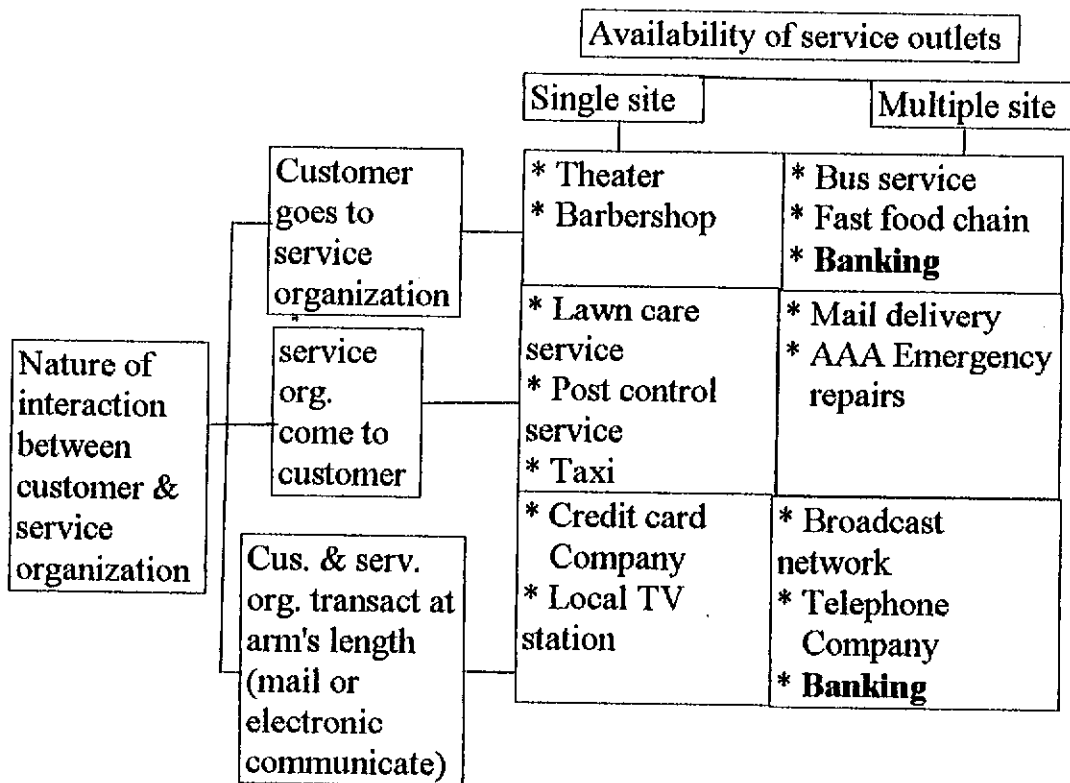


Table (2-5): How Is the service Delivered?



B. Similarities and Differences between Banks (and Services) and Product Marketing

1. Similarities

The way in which marketing concepts and tools are used and their relative importance to products or services differs while trying to execute the marketing plan. However, this does not cancel the truth that most of the developed theories on product marketing are as applicable and necessary to services marketing as they are to products.

In many instances, the words "product" or "service" are used interchangeably in developing marketing schemes. At some stages, products prove to contain different types of services and vice versa.

Before attempting to tackle technical and functional differences between product and service marketing, it must be clear that although the said disparities translate into setting objectives unique to each, still the fundamental theories, concepts, scopes, philosophies, and other product marketing procedures pave the way for marketing services and are, in essence, parallel.

Recently, banking as well as other service industries have tended to learn and grasp more knowledge and experience from the industrial marketers' past experiences; thus, the gap between product and service marketing is gradually narrowing.

2. Differences

Technically, "products" can be classified as "goods" and "services". As a product moves from the "pure good" -tangible stage, to a "combination of goods and services", to a "pure service"-intangible stage the difference of its marketing action from the so-

called "product-pure-good-tangible" stage will then be magnified. In 1991, J. R. Marsh advocated three major differences between products and services, mainly banking services' marketing:

a. Intangibility

Services embody features that cannot be perceived physically: neither seen, smelt, felt, tasted, nor touched. Services cannot be possessed but rather consumed; what is being paid for is the performance. They cannot be easily defined, formulated mentally, or grasped. Sampling, for example, is impossible in bank services; advertising must focus on any aspect that renders the bank service more concrete to the consumer by concentrating on the benefits defined from the service rather than on the service itself.

b. Inseparability

The service provider is in most instances inseparable from the service provided. Most bank service sales depend largely on the banker's ability to explain their pros and cons, and completing the formalities. The function of production, distribution, delivery and consumption of the service are simultaneously executed. In addition to the traditional claim of product marketers that delivery should be effected in the "right place" and at the "right time", service and bank marketers should stress the "right way" of delivering the service. This is particularly important since bank customers are not single transaction users; and so, only if a customer is satisfied, will he come back again. The bank staff is one of the main areas of

performance where a bank has control. "In banking the delivery of the product is as important as the product itself."²

c. Heterogeneity

Bank services are not similar among their branches as quality standards of delivery vary. This is mainly due to the "people based" criteria of a service; the larger the human component of an action, the more that emotions, moods, and personal abilities affect its outcome. Services are not produced in an assembly-line fashion as most goods are, and hence tend to be far less standardized over time and place. Concentration on developing quality, technique, knowledge, and satisfaction internally (bank employees) will result in a less variable performance. Also, moving toward equipment-based services (like ATMs in the banking industry) will soften the burden imposed by variability for bank service marketers.

A simplified presentation of the similarities and differences between banks (and services) and product marketing follows:

<u>Product</u>	<u>Common aspects</u>	<u>Services</u>
- Label	(All marketing theories, scope, philosophies, concepts.)	- Intangibility
- Package		- Inseparability
- Color		- Heterogeneity

C. Marketing Mix Analysis for Banks

The aim of any banking institution is to optimize assets and deposit management, profits, ROI (Return On Investment), and minimize costs. A marketing plan is supposed to reduce the

² J. R. Marsh, Managing Financial Services Marketing, (UK.: Pitman Publishing, 1991), p. 19.

intricacy of bank operations and highlight the banks' aspirations for the future. A bank objective can be only met if management has the ability to render the use of its resources more efficient. This is where the role of the marketing function gains utmost importance since it will help identifying the range of options a bank has, choosing among them, and scheduling costs and time span to meet objectives through the chosen option(s). The weighing part of any marketing plan would be the development of the service marketing mix.

When banks judged that lucrative use of funds was restricted, they did not make any marketing effort to attract new deposits and paid comparatively low rates on existing ones. However, the use of marketing concepts evolved only after banks felt that they are losing lots of headway to other financial intermediaries; so the banking industry began searching to satisfy the customers' wants in terms of products and services, rather than just imposing what they provide on them. Even in the developed countries, the use of the marketing frame in banking is still considered at its early stages, and further development of marketing abilities is a challenging endeavor.

1. Product Strategy

Bank products have been traditionally divided into three main categories: lending (credit), saving (deposit), and other general and specialist services (transmitting money). Bank customers tend to see these three activities as totally distinct, in a sense that for example, the act of lending money is perceived as a primary function of a bank. Whereas, most of the references on banks' products strategy tended to discuss the development of new

products as the primary step in this issue; it was preferred to keep the new product development to a later section to be able to elaborate more on product strategy.

Bank has been commonly given as an example of derived demand, where most of bank products are dealt with in support to some other economic activity; hence, it is imperative for a bank to thoroughly understand the hindered aspirations that initiated customers to make their transactions. A simple example for that would be the cheque book product of a bank; in addition to its primary use for transmitting money, cheque book customers may use their products as a supporting record to keep on-hand track of their transactions, in addition to its usefulness as a time saving method of transfer. Customers are perceived to be searching for a parcel of benefits rather than simply buying a product.

Understanding this logic will help answer the question "Does each product provide relevant and desired benefits for today's needs?".

To answer this question will be that banking products cannot be piled in stocks, and thus do not incur inventory carrying costs; nevertheless, if the bank fails to maintain a broad customer base, it would be incurring opportunity costs. Presently, most developments on bank products come from existing-product service development, or "new" product lines, which are new to the bank itself but not to the industry as a whole.

A tabular example of a bank's developed product ATMs (Automatic Teller Machine) pros and cons follows:

Table (2-6): Advantages and Disadvantages of ATMs³

<u>Advantages</u>	<u>Disadvantages</u>
* Reduce paperwork/cheques	* Competitive threats
* Reduce costs	* Installation costs
* Extends banking base via new accounts	* Running costs
* Provide a wider range of	* Security
* ATM-style operations	* System fraud
* Increased customer	* Competitive threats
* Service	* Installation costs
* Competitive edge with respect to technology	* Running costs
* Reduced time at the Checkout	* Customer privacy
* Reduced cheque handling /cash security	* Customers without bank accounts
* Store account credited more quickly	* Poor customer relations (resulting from non-authorization)
* Security	* Too easy to overspend
* Time-saving	* Instant debiting
* Convenience	* Possible technical error
* No need to visit a bank	* Loss by fraud
* Fewer cash payments	* Lack of privacy
* Simplicity	* Cost passed on to customer
* Cheaper than cheque	* Monitoring of buying behavior

It is crucial to keep in mind that products are vehicles through which matching of organizational resources and market needs is accomplished. Therefore, proficient product management can be easily defined as the ability to successfully meet the twin goals of bank objectives and satisfied customers (through product development --modifying the existing product mix, market development-- existing & new, and product/market strategies).

The SWOT (Strength, Weaknesses, Opportunities, and Threats) technique is one way to assess the internal resources of the bank as well as the market potential and competition. Four

³ Watkins Ennew, Marketing Financial Services, (UK.: Heinman Professional Publishing Ltd., 1990), p. 168.

questions can help in a successful analysis of the bank's existing product-market strategy:

- * What are the benefits sought by the customer in this kind of product? Does the bank defeat competitors by offering a greater quotient of this product's benefits?
- * What are the competitive advantages of the product, both bank's and competitor advantages, that are expanding or contracting the bank's market share?
- * Does the cost paid by the customers in exchange for the bank product range still represent "value-in-use" for them?
- * Is each product of the bank's set still representing the bank's objectives earlier set for it?

In respect to standard issues related to product's strategies as packaging, color, labeling, style, branding, and standardization, most of them (with the exception of branding and standardization) are virtually non-existent in bank marketing. Standardization of quality is the ultimate goal of the service industry in as much as consistency of quality is a sign of soundness, in spite of the difficulty of attainment.

Product branding in banking is new to the industry and serves as an essential means of segregating financial services and enhancing both the services, and the institution's image.

After this elaboration on product strategy, it would be appropriate to enumerate the various products currently used in banks:

Table (2-7): The Variety of Bank Products⁴Deposit Services

- * Current account
- * Saving account
- * Term deposit account
- * Bank certificate of deposit
- * Foreign currency hold account
- * Collections & float
(cheques, notes, money drafts,
trade acceptance, letters of
credit)
- * Inter bank deposits

Lending & Credit Services

- * Overdraft
- * Acceptance finance
- * Multicurrency lending
- * Term loans
- * Commodity & stock loans
- * Accounts variable loans
- * Industrial sales finance
(secured equipment loan)
- * Mechanizing loans
- * Parallel loans
- * Multicurrency credits
- * Import finance
- * Leverage leasing
- * Tax leasing
- * Sale & leaseback
- * Hire purchase
- * Project finance
- * Eurocurrency loans
- * Syndicated loans
- * Fixed rates Eurobonds
- * Floating rate Euromarket notes
- * Retail installment
- * Financing for dealers
- * Property construction loans
- * Merger & acquisition finance
- * Mortgage finance
- * Currency and interest
rate swap loans

Other Services* 1) General Banking Services

- Domestic transfers
- * Cheques
- * Credit transfers
- * Standing orders
- * Bank-to-bank transfers
- * Direct debits
- * Bankers payments
- * EFT transfers
- * Lock boxes
- Int'l transfers
- * Mail transfers
- * EFT transfers
- * Bank draft
- * Customer cheques
- Commercial credit
- * Clean credits
- * Documentary credit
- * Import & export credit
- Foreign Exchange

* 2) Specialist service

- Consultancy service
- * Money management
- * Invoicing centers
- * Treasury mngmt services
- * Pension fund management
- * Insurance management
- * Foreign exchange rate
forecasting
- * Banking & financial
education
- Trust services
- * Stock & bond purchases
- * Executor ships
- * Trusteeships
- * Dividend payments
- * Investment portfolio
- * Safety deposit
- * Estate planning
- * Tax planning

⁴ D. F. Chanon, Bank Strategic Management and Marketing, (UK.: John Wiley and Sons Ltd., 1986), pp. 122-123.

2. *Price Strategy*

In the past, pricing of bank products was heavily regulated by monetary authorities where the market had to operate within an oligopolistic mood. However, nowadays, due to less regulations, the banking industry is finding itself in much more competitive environment. It is also argued that most banking institutions are still using unsophisticated methods in determining their prices. While it is relatively common that prices are the direct determinant of profits, demand, and the volume of business, it would be rather unrealistic to formulate price strategies that do not spur advancement and profitability of the bank. In banking, pricing consists of setting the levels of interest rates, fee structures and charges.

Banking has an important unique feature since bank prices are directly related to the levels of risks. i.e., the price of a product has to take into consideration, for example, the ranking and the credit worthiness of a customer. Hence, it is necessary that a frame of prices is set in compliance with criteria of risk assessment. Like any industry venturing into sophisticated pricing methods, banks began by adopting the cost structure method where prices of credits must be in close connection with those of deposits. This was prior to marketing oriented logic. Customer aspirations, competition and other marketing factors, such as image, were not taken into consideration in the cost structure method. Today, competition, from other financial institutions operating within the same markets strongly influences lending margins and deposit rates; furthermore, other marketing mix elements may impose prices in some instances

where bank soundness is related to prices. Hence, relating prices to overall marketing strategy is crucial.

The most important marketing-related pricing techniques of banks are:

a. Relating Price to Product Life Cycle

If the product is at its earliest stages, for example, the bank can either "skim" the market, i.e. set a high entry price to gain high profits and add to the image of a superior product, before competitors enter the same market. At a later stage, the price would be lowered to attain acceptance in other lower market price segments, at the same time taking on competitors' who are by then ready with a "me too" product. Note that in banking, barriers to competition, such as patents and trademarks, are hardly sustained.

Also, applicable in the first phases of a product life cycle is the "penetration" policy, where prices are deliberately set low to render imitation by competition a non-profitable undertaking (low prices imply low profits), and to maximize the adoption of the bank product by as many customers as possible. However, profits lost by lowering prices may be regarded as an expensive opportunity cost by some bankers. This latter comment would be of less importance if the low price gains on significant market share of the bank, and the subsequent surrender of competitors as a result of the market over-capacity situation created by the low shaking-out prices. In fact, many competitors would find themselves without the price umbrella prevailing prior to the penetration price.

b. Relating Prices to Elasticity of Demand

This concept is widely known as the responsiveness of demand to bank products due to changing prices. For example, it is argued that depositors' response to changing deposit pricing is somewhat inelastic, since people have other important reasons for depositing their money in banks (safety, transactionary...). This does not cancel the fact that many other bank trading areas are much more price elastic like major loans, LCs (Letter of Credits) and other fees.

c. Relating Prices to Competitive Situation

Price competition in banking is not as liberated as in other service industries. Brackets and norms are set that have to be adopted. Bankers can decide whether to be market makers or takers, only within set brackets. A fact featured later arises in customer-aim evaluation; confidence in a bank's reputation or a manager, location of a branch and many other factors other than prices that way customer choices.

d. Relating Prices to Bank Profile

A bank's market profile has major impact on its pricing decisions. A bank that has been historically reputed for soundness, technical proficiency, and societal concern would damage its reputation if it prices within a lower range since such a decision might be misinterpreted by associating the lower price to lower quality. Hence, pricing bank services should not be strictly considered as a "cost-coverage" issue, or a "follow the market".

Simply, it is rather a major strategic role to play in the attainment of marketing objectives.

e. Prices Flexibility and Relationship Pricing

There is a growing marketing trend to implore setting flexible prices (flexible vis-à-vis nature of customer). For example, students should be given free advisory services, and some bank products may be chosen to be offered at cost or at a loss to attract new comers and to initiate new products in a better fashion. Relations with customers are a major resource for banks. These might offer "good-relation" customer services at low margins; and at the same time, cross-sell them improved high margin --more profitable services.

3. Promotion Strategy

Promotion of banking activities is of utmost importance because this bolsters any marketing plan and marketing mix action and remains widely underestimated by the banking sector's decision makers. "A good service always sells with or without promotion"; "We have enough customers already, why promote for more", and may other unrealistic but widely spread attitudes govern the behavior of top level banks' decision makers. Promotion should be perceived as a means to build image and reputation, distinguish a bank from its competitors, provoke customer loyalty, interest and knowledge, develop awareness and interactiveness, and catch up with new segments and customers. The tabular presentation of the "Communication System Variants" for banks will be exhibited before elaborating on each of the four basic promotion components

of advertising, sales promotion, public relations, publicity, and personal selling:

Table (2-8): Communication System Variant⁵

<u>Advertising</u>	<u>Public Relations</u>	<u>Promotions</u>	<u>Personal Selling</u>
* Print ads	* Press kits	* Givaways	* Branch managers
* TV & radio ads	* Speeches	* Fairs & trade shows	* Relationship
* Cinema ads	* Seminars	* Demonstration	* Personal
* Mailings	* Annual reports	* Special discount	* Investment managers
* Directories	* Sponsorship	* Free banking	* Telemarketing
* In branch leaflets		* Special investments	* Seminar selling
* Display signs			
* Promotional magazines			
* Audiovisual materials			
* Brochures & bulletins			

a. Advertising and Direct Marketing

It is a non-personal vehicle used to present and promote services and enhance the image of a bank. Advertising is diffused in many printed and broadcast media to attain external financial services' customers and internal (in-house) employees through internal magazines diffusion and training material. Ads have been known as a means of direct marketing whose characteristics include selectivity, versatility (unlimited space for offer), ability to include leads, solicit clearly defined target segments (testability), feedback, and ease of control. Until recently, the banking institutions that are using advertising are doing it via printed channels (direct mail, brochures); however, reply cards are not widely used yet since customers were presumed to reply personally. Also, interactive

⁵ Chanon, p. 179.

media, such as telephones and video phones, are only used to reply to inquiries and complaints rather than being allowed to play a major task in effective bank-customer communication.

The graphical presentation of the advantages and disadvantages of each media for bank services follows:

Table (2-9): Advantages and Disadvantages of Specific Media⁶

	<u>Advantages</u>	<u>Disadvantages</u>
<u>Newspapers</u>	<ul style="list-style-type: none"> * Geographic selectivity * Flexibility * Editorial support * Secondary readership * Cooperative advertising 	<ul style="list-style-type: none"> * Lack of permanence * Poor quality * Limited demographic orientation
<u>Magazines</u>	<ul style="list-style-type: none"> * Demographic selectivity * Permanence * High quality presentation * Secondary readership 	<ul style="list-style-type: none"> * Lack of flexibility * Limited availability * Expensive
<u>Radio</u>	<ul style="list-style-type: none"> * Geographic/demographic selectivity * Flexibility * Cheap 	<ul style="list-style-type: none"> * Perishability * Cluttered * Lack of visual support * Use of background medium
<u>TV</u>	<ul style="list-style-type: none"> * Show & tell * Geographic selectivity * Penetration 	<ul style="list-style-type: none"> * Perishability * Costly * Cluttered
<u>Direct Mail</u>	<ul style="list-style-type: none"> * Selectivity * Permanence * Flexibility * Impact * Measurability 	<ul style="list-style-type: none"> * Cost * Lack of editorial support * Lack of reader influence
<u>Point of Purchase</u>	<ul style="list-style-type: none"> * Longevity * Flexibility * Selectivity 	<ul style="list-style-type: none"> * Limited space * Advertising cost

⁶ William Bollen, Advertising, 2nd edition, (N.Y.: John Wiley & Sons, Inc., 1984).

b. Sales Promotion

It is the use of short term incentives to boost sales of certain services. Sales promotion includes free banking for specific segments to attract accounts, free cheque books and mail services, diaries, agendas, and other gifts to customers' children and students. Recently, promotion has been used internally to motivate and encourage employee skills and hard work by giving them rewards and expressing appreciation.

c. Public Relations & Publicity

These are non-personal communication channels that try to highlight the bank's efforts through reports on the bank (that are not necessarily paid for, like article releases, annual reports, orientation sessions to community, charitable acts, sponsorship of exhibitions, shows, and social activities like arts and sports). In this field, bankers learn a lot from the manufacturing sector, since most of the techniques and methods used are similar. Some bankers even see an ROI in public relations and publicity activities since they will suspiciously present the bank as well as promote it and its services.

d. Personal Selling

This is directed only to the bank customers' segment which justifies its high cost. The task of personal selling could be provided to a wide range-level of employees depending on the size of the bank. However, the problem still resides in convincing concerned personnel with the concept of selling.

The importance of promotion to bank services is that it adds an important pillar when trying to solidify services. By associating

bank services with more concrete ideas through promotion, this latter helps in reducing the abstraction associated with them. The potent media depiction of intangibles is a function of enlightening non-abstract indications of them.

4. Place Strategy

The most appealing approach to place strategy was found to be the one that follows the trend of matching customer and organizational needs. The place is the way by which a bank makes its product available to customers. Unless the component of this marketing mix is well designed, the product, price and promotion strategies would be not only worthless, but also unavailable to customers. In banking and services, the location aspect of marketing mix does not imperatively imply the distributional effort usually undertaken by manufacturers; it is rather the way in which the service is delivered and where it is delivered. In developing place marketing channels, once again the needs of customers and organizations will have to be taken into consideration.

As for customers, the best channel is the one that represents convenient access to a bank's branch or head-quarter. Here, the problem of parking space arises since many banks are located in the down-town areas and congested centers. Most bank customers appreciate the idea of ATMs, but some of them may also want to "communicate" with an employee. inquire about some information, and ask for advice. Also, some customers want the banker to visit them in their working place; this would be the banker's best possibility to inquire about the customer's wants and needs. Also,

branch designs and architecture may effectively affect customers' perception of a bank.

For banks, the branch network has the historical means of channeling, and the heterogeneity of services offered among branches may affect the customer's esteem for the bank. As a vertically integrated organization, a bank has complete control over the "distribution" effort, since it deals with no intermediaries.

It should be stressed, however, that, according to many experts, the recent trend in banking is toward less branching, limited service branches, and specialist branches. Additionally, technological innovation has resulted in revolutionizing the channels: Electronic Fund Transfer at Points of Sale, ATMs, Home Banking, etc. Hence, some may detect that the trend in delivering financial services may be moving from the traditional "simultaneous production and distribution" concept, to the separation of these tasks due to the electronic revolution and telemarketing in distribution channels.

5. *The "5th P"*

There is a growing trend to consider bank employees as part of an institution's marketing mix. Manufacturers consider the "package" as the "5th P" of the marketing mix 4 Ps; bankers should follow suit although in a more sophisticated and imperative manner. As already argued, the delivery of bank products and services is as important as the product itself. The deliverer, being the bank's internal marketing force, is the employee who is to "package" the satisfaction he is providing to the customer in the best possible way.

CHAPTER THREE

PRACTICAL ISSUES IN BANK MARKETING

A. The Bank Marketing Environment

1. Internal

Internal bank marketing means marketing to employees and staff. "Internal marketing is viewing employees as internal customers, viewing jobs as internal products, and endeavoring to design these products to better meet the needs of these customers".⁷ The bank needs to know its own strengths and weaknesses, optimize the use of its strengths in order to capitalize on the opportunities of the marketplace, and reinforce its weaknesses via reshaping and proper training in order to be able then to fight the competitors. In banking, it is impossible to separate the quality of the service provider from that of what he is providing since the industry is a "high-contact" one. Performance of personnel shapes the product or service outcome and becomes part of it. Internal marketing stresses on two basic aspects of employment: the finest possible candidates are hired and properly trained, and the work they are providing is done in the best possible way. Personnel management is very relevant to bank marketing logic. Aggressive investment to hire quality employees will offset the relative rise in costs by increasing productivity through superior performance. Upgrading the banks' employees by satisfying their needs, morals,

⁷ Philip Kotler and Keith Cox, Marketing Management and Strategy, 4th edition, (New Jersey: Prentice Hall International Inc., 1988), p. 281.

and loyalty will undoubtedly result in reshaping external customers (increased existing customers retention, and attraction of new ones). Where services are concerned, priority should be given to selling ideas and patterns of jobs to the internal forces; the consumers would be best satisfied if served by a convinced employee. due to the interpersonal nature of bank services. The commitment of an effective leader management from top to bottom would ensure that the customer orientation structure is embedded within the organization. High expenditure communication and training programs might be regarded as top priorities, since their cost is expected to be allocated over a reasonable run. The training programs might not only include enhancement of staff stances and conduct, but also be part of a more global quality program (events, workshops, quality circles, and in-house training) on the betterment of all facets of service to customers (improvements in technology, retail design, systems and procedures). For example, program objectives might include the emphasis of satisfying customers by virtue of providing high level services, increasing staff abilities (skills and knowledge) to effectively meet the customer requirements, encouraging and rewarding staff to stimulate their motivation, and adopting fitting styles to create shared goals working environment through better internal staff coalition. "The payoff is in terms of true market orientation, a better understanding of customer needs, improved service quality, and increased customer satisfaction. However, at the end of the day, excellent levels of service or total quality may be described as a striving rather than an achieving process, just as a philosophy that must be

ingrained (to cause to become penetrated into the mental or moral constitution) into a bank's culture."⁸

2. External

The market within which banks operate is becoming more and more dynamic, highly competitive, and mostly unpredictable. As already understood, the market planning process focuses on the thorough knowledge and analysis of the market place prior to tackling the marketing mix and analysis of the bank's product or service. The six major environmental forces that affect in the deepest way the setting of the marketing mix are:

a. Competition

Four major sources of competition to the banking industry should be evoked. The first is obviously from banking institutions existing in the market (local and foreign). The second is the new comers to the industry, despite formal (capital adequacy requirements) and informal (product differentiation and brand loyalty) barriers to entry. The new competitors enjoy a potential economies of scale; as a result of the high technology, they tend to be equipped with; they also prone to take advantage of plagiarizing existing-profitable bank services.

b. Economic

Inflation, exchange rate, level of employment, budget deficit, and all other economic variables affect the demand for bank services in the marketplace. Demand for financial services is one

⁸ Ennew, p. 173.

derived from the needs and wants of some other products. Hence, for instance, a company dealing with overseas business (export sales, investment, raw materials) might face currency exposure problems due to the volatile exchange rates. Inflation might cause a recession in the estate sector, causing thus a perturbation in building and housing loan demands from banks. That is why the anticipation and understanding of the level of economic certainty might help a bank adjust its products or service offerings to respond changing economic environmental factors.

c. Role of the Monetary Authorities

Open market operations, credit ceilings, discount rates, and other instruments regulating the conditions of commercial bank trade (as the restriction on the availability of credit).

d. Legal Restraints

Constitutional laws and regulations control all aspects of the economic cycle, as well as those of banks (trade barriers, tariffs and quotas, taxes, exchange rate systems, etc.).

e. High Technology

Not only does technology affect the internal business of a bank, but it also dramatically changes people's notion of a needed product. Computerization and communication efforts will result in higher degree of globalization, increasing the need for product differentiation and challenging the established norms of work. Soon, the consumers' allergic attitudes to changing technologies

will vanish with the coming generations being more high-tech friendly.

f. Demographics

The varying age brackets, society's sex composition, housing disposition, and levels of education, clearly affect people's perception to their financial needs.

3. Consumer Behavior Analysis

The author of the Handbook of Marketing and Selling Bank Services summarized the "Alphabet of the customer's Criteria of Choice":⁹

- * Availability: Meaning that the customer wants the product and its decision fast.
- * Benefits: Why should he buy it --What good will it do him?
- * Convenience and Confidence: It must be easy to use , and he must be able to trust it.
- * Distribution: If the bank does not get the product to him, he will not buy it.
- * Efficiency: Will it really work for him, not just serve or make him feel good?
- * Fertile: Will it generate profit or save more costs (for business sector)?
- * Generous: Will it make more money in the end (for the personal customers)?

⁹ J. Cheese, A. Day, and G. Wills, The International Journal of Bank Marketing: Handbook of Marketing and Selling Bank Services. U.K.: MCB University Press Ltd., 1988, pp. 46-47.

* Happiness: Can he relax happily while benefits occur?

This alphabet being set, it should be stressed that the bank customers are usually divided into two natural subgroups, the Business and the Personal sectors. The marketing mix for each of the segments should tail specific measures to meet their diverse aspirations.

a. Marketing to Bank's Business Customers

A bank's business customer cannot operate without bank services; this creates a dual challenge for banks. A bank should first offer excellent products and services quality in order to prevent the customer to switch to other financial institutions (usually business customers deal with more than one bank). Banks should then tail the other fashions of their marketing effort to try to scrutinize and attract as many potential customers as possible. Hence, a bank's business customer needs may be of a wide variety (significant borrowing, international financial service, export financing management of available liquidity portfolio, help in computerizing his paybook), and the bank that plans to grow is the one that best satisfies those requirements. In most cases, the corporate bank customer has in turn his own customers in his field of business, and if he spends time and effort to court him, he expects the bank to do the same for him. Business customers might be large or small. The large ones have more power while bargaining for prices, specially if it is profitable and credit worthy. Smaller ones may require help in fields other than the traditional bank services (insurance, cash flow management, collecting receivables, and other subordinated services), and should be served

favorably (they might grow larger one day). Serving all, such business customers promptly might enhance a bank's potentials now and in the future.

b. Marketing to Personal Bank Customers

It differs in some aspects from that of a corporate customer. The exigencies of such customers are not as constant and unvarying, due to age, sex, employment, and background bases. Mass media diffusions for promotional purposes are favorable to personal customer marketing (as compared to personal selling to business customers). Increased competition for personal customers' funds has made them more aware of the different price alternatives available to them; here, a bank can link its savings' prices to a package of facilities widening from overdrafts to air reservation help.

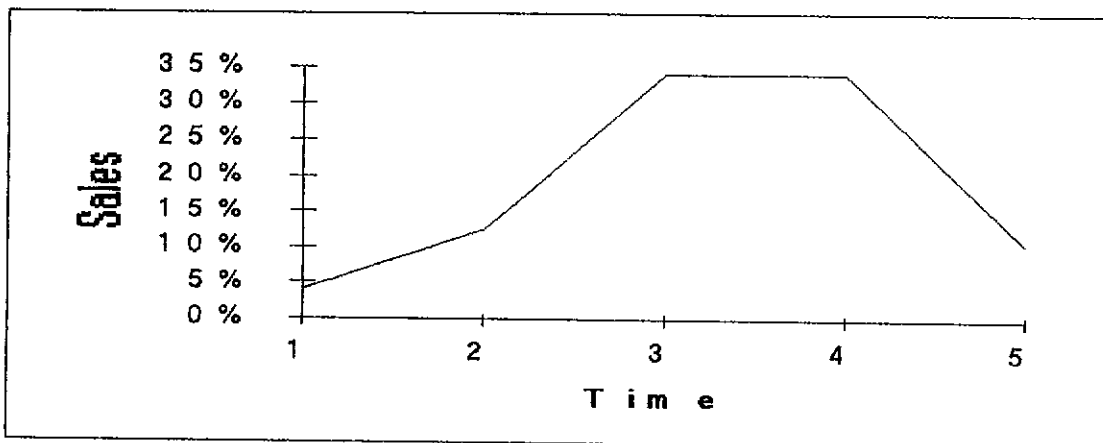
Next is the calibration of the buyer's psyching action in the buying process model. As the consumers give feedback to inputs channeled through medium, they will be the link or those who make the marketing efforts conclusive. The buying process conceived by Totelian and Gaedeke fancies this fact:¹⁰

¹⁰ Dennis H. Tootelian, and Ralph M. Gaedeke, Cases and Classics in Marketing Management. (San Diego: Harcourt Brace Jovanovich Publishers, 1986).

<u>Input</u>	<u>Channels</u>	<u>Processor</u>	<u>Output</u>
* Product	* Advertising media		* Product choice
* Quality	* Salesman	* Buyer's	* Brand choice
* Availability	* Acquaintance	psychology	* Dealers choice
* Service	* Family		* Quantities
* Style	* Personal observation		* Frequency
* Options			

B. New Product and Service Development for Banks

Why does a bank need a new product or service like manufacturers do, if it can be advocated that banks enjoy a longer life cycle. In fact, some basic bank products and services will never vanish; whereas, some others might reach the decline stage and should be healed. The "Elements of Marketing Strategy in Product Life Cycle" would help assimilate more about the relative marketing strategies appropriate to each stage of a newly launched and then matured product.

Table (3-1): Elements of Marketing Strategy in Product Life Cycle¹¹

Marketing Strategy Elements	Stages in Product Life Cycle			
	Introduction	Growth	Maturity	Decline
<u>Objective</u>	To get trial	Establish strong brand position with distributors and users	Maintain and strengthen customer loyalty	Seek remaining profit
<u>Product</u>	Few models high quality	Modular, flexible more models for segments emerging	Tighten lines not serving good markets. Product improvement & differentiation	Reduce line to major profit producers
<u>Distribution</u>	Good value trade discounts	Long price line from low to premium	Attention to broadening market, promotional pricing to extend brand coverage	Maintain profit levels without regard to share of market
<u>Promotion</u>	Create awareness, get early trial heavy ads & free samples	Create strong brand awareness and performance, maximum use of mass media	Maintain and strengthen customer-dealer relations, continue mass media, sales promotion	Rapid phase out sustain enough to sell profitable volume only
<u>Marketing Research</u>	discover weaknesses; identify emerging segments	Market position market gaps, products gaps	Attention to product improvement; search for broader mkt. & new promotion themes	Determine point of product elimination

¹¹ J. P. Peter, and J. C. Olson, Consumer Behavior: Marketing Strategy Perspectives, (Illinois: Richard D. Irwin, Inc., 1987), p. 501.

As it is obvious in the above diagram, falling sales and profits, intense competition, and newly identified profitable market needs would call for the development of a new product; steps to follow in this respect are:

1. Getting Ideas

The idea for a new service could come from internal as well as external sources. Internal sources are the research and development, the marketing department, and brain storming sessions of staff; the important factor is still that the customers' ambitions and the organizational objectives are met through the new service. The external sources can include existing customers, associates, government regulations and competition.

2. Screening and Viability Analysis

Selection of the fetched ideas should proceed with good ones and drop poor ones. the preliminary judgment being made on light of a comparison with bank's objectives, sources, and customer's needs. The chosen selection is then tested to the appropriate target consumer niche, after being expanded to the phase of a concept. Next is the development of the marketing analysis, through determining the possible size, configuration and conduct of the selected market, setting the contemplated price, channels, and marketing budget for a certain run, to then project on the longer run marketing mix strategy for the new service, where "strategy" litigates a chosen route to a set goal and proffers a foundation of long-term planning.

3. Developing the Service and Presentation

Prior to the full scale product launch or the commercialization stage of the new service, also called "test marketing" can dispense substantial information on the service features, operational requirements, and staff training, enhancing thus its marketing objectives. In answering the traditional "when", "where", "to whom", and "how" questions, a bank would have set the timing, geographic strategy, target markets, and the introductory marketing strategy required; then, the launch is set.

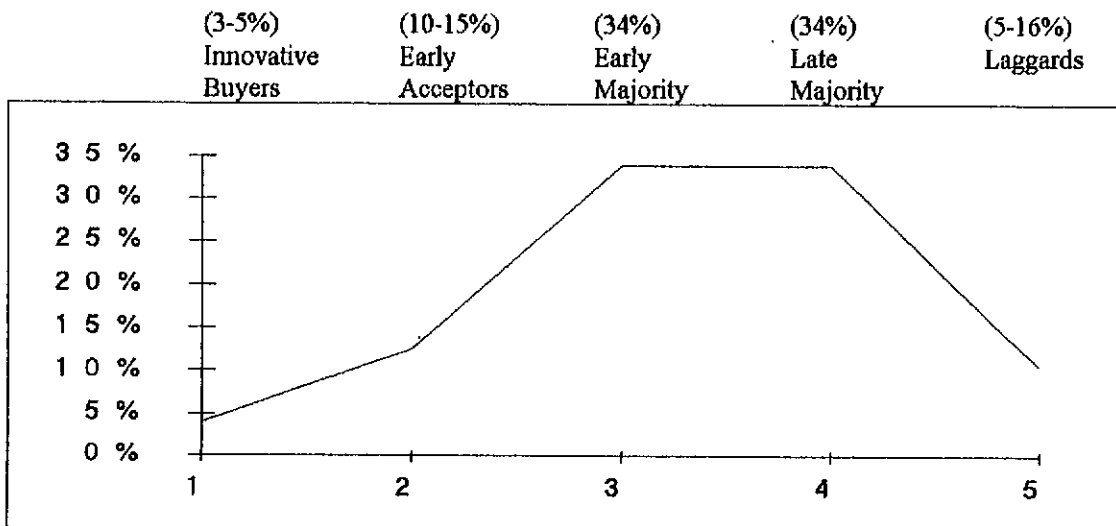
4. The Launch

The important findings and conjectures developed till now will have to be communicated to all the internal force involved with the launch: expected actions, level of responsibilities and creation of feedback systems.

C. Monitoring Results

Supervision of the new launched service is essential to conduct corrective measures if necessary. It should be determined whether the service is satisfying customers needs better than competitors is it adjusting flexibility rapidly to the marketplace varying needs is it being profitable, what is the expected life cycle, and whether weighing of the effort undertaken with the results is it still justifying the costs. A study of the current market adoption curve would help assess its position:

Graph



A major drawback for developing a new product in the banking industry will be the lack of protectionism:

"In banking, innovation is not likely to lead to any significant amount of product differentiation, owing to the lack of protection by patents and copyrights for the innovating organization, i.e. it is easy for competitors to copy new ideas."¹²

¹²

Ernew, p. 163.

CHAPTER FOUR

POSSIBLE APPLICATIONS OF BANK MARKETING IN LEBANON

A. Environmental Setting

1. Prevailing Socio-economic Situation

Prior to 1975, Lebanon was a heaven of investments. Funds and capital investments flowed from Lebanese expatriates and the booming neighboring oil exporting countries to make of this tiny state a financial fortress and a prime banking center for the rich Arab world. The coming of the Lebanese and the regional wars disrupted the wavering Lebanese political system, imposing its adverse implications on the indicators and hence on society as a whole. With the Israeli Invasion in 1982, the war began distorting the monetary performance of the economy, a monetary side that resisted the erosion already witnessed by the fiscal performance since 1975, (refer to the coming table).

Decreasing real output (GDP), increasing budgetary deficit, hyper-inflation, exchange rate volatility, and B/P (Balance of Payment) deficits prevailed. The process of financing the budget deficit through the internal public debt is thought to be one of the major causes for the deterioration. "A public sector deficit may contribute to inflation when it is monetized, that is, when it is financed by the creation money. If credits to the government cause the money supply to increase more rapidly than demand for money,

inflationary pressures will result, as may difficulties in the B/P (if the exchange rate is not allowed to depreciate to the required extent)... 'the inflation tax' is collected by the central bank and indirectly by the government through the issue of currency and through the reserve requirement imposed on commercial banks."¹³

The economic indications, on Lebanon for the period 1974-1990, follows:

Table (4-1): Lebanon, Economic Indicators 1975-1992

	GDP*		CPI**		budget def. as a % of Gov. Ex.	FCR*** \$ mio	LL./\$	
	real LL. Bio	nominal \$ Bio	value 1966-100	% chng.			end	avg.
1975	3.37	8.1	148.6	9.90	21.80	1199	2.43	2.30
1976	2.08	6.1	191.5	28.90	76.30	1300	2.93	2.87
1977	3.40	10.2	228.4	19.30	SURPLUS	1586	3.00	3.07
1978	3.80	11.4	251.6	10.20	26.00	1832	3.00	2.96
1979	3.43	11.2	311.4	23.80	23.70	1527	3.26	3.24
1980	4.07	14.8	385.3	23.70	24.30	1580	3.65	3.44
1981	3.89	17.9	460.1	19.50	30.20	1507	4.63	4.31
1982	3.88	12.8	550.2	19.60	71.00	2599	4.81	4.74
1983	3.58	19.6	589.8	7.20	61.70	1883	5.49	4.53
1984	2.59	22.3	696.0	18.88	81.50	652	8.88	6.51
1985	2.16	39.2	1225.0	76.00	83.00	1051	18.10	16.42
1986	2.67	232.8	2511.2	105.00	82.30	462	87.00	38.37
1987	3.29	1500.5	12631.4	403.00	86.00	336	455.00	224.60
1988	3.66	1942.4	32210.0	155.00	93.00	947	530.00	409.23
1989	3.29	1665.9	54757.0	70.00	91.00	906	505.00	496.69
1990	3.13	2638.8	76659.8	41.00	84.10	542	830.00	707.19
1991	3.44	3029.9	103489.8	35.00	66.60	1236	879.00	854.50
1992	3.61	6651.7	238027.0	130.00	61.30	1488	1838.00	1358.00

Sources: - Chamber of Commerce and Industry, various issues.

- Banque Du Liban, yearly and quarterly bulletins.

- International Financial Statistics, various issues

* GDP stands for Gross Domestic Product

** CPI stands for Consumer Price Index

*** F.C.R. stands for Foreign Currency Reserves.

The apparatus of deterioration was very simple and yet extremely harmful, since the initial increase in money supply

¹³ J. Da Silva Lopes, The Economic Development Institute of the World Bank, "Reform of the Financial Sector", (June 1988).

caused a rise in prices; this inflation resulted in wider fiscal deficits that were financed by the banking sector, leading thus to further jump in prices. While the rise in government expenditures was commitment with inflation, government collection fell behind (and was relatively non-existent). This inflation induced deficit would hence make the money supply rise and further generate inflation. Then, the money supply increase would have been both the cause of inflation and the result of it. The testimony of Deena Khalkhate would sustain this argument:

"A passive fiscal policy in terms of inflation is hazardous; fiscal policy in developing countries tends to be automatically destabilizing, the principal built-in de-stabilizer being the various revenue lags (and their likely absence in the case of Lebanon). The control of inflation requires deliberate actions by budgetary authorities to eliminate budgetary deficits or even achieve surpluses, if the burden on monetary policy is not to be excessive".¹⁴

More important is the crowding out effect of credits from the private to the public sector via an obligation of retaining 73% of the LL. deposit base with the central bank (3% in special T.Bs + 10% required reserves and 60% in T.Bs).

To amplify the scarcity of LL. credit availability was the increased Dollarization process (currency substitution) taking place due to the pessimistic expectation of the Pound (70% of total deposits were in foreign currency by the end of 1991). This has not only made the domestic currency credits scarce, but has also created mounting pressures on the LL. exchange rate value. It should be noted that the transfer of credits from the private to the public

¹⁴ Jr. Warren Coats, and Deena Khatkhate, Money and Monetary in LDC, (N.Y.: Pergamon Press, 1980).

sector (through T.Bs) had the most unfavorable repercussions, since it was a movement of scarce funds from a productive to a non-productive sector, with the public sector mis-allocating and inefficiently spending resources.

The Lebanese expatriates' remittances helped sustain the social life of the Lebanese citizens, transfers without which the consequences of dangling salaries would have been much more dependent on chance. Unfortunately, it has been noticed that the Gulf war disrupted many of these remittances and their inflow declined. This led to the destruction of the purchasing power of additional segments of the Lebanese society, the destruction of the so-called "middle class", and boosted the immigration of brains in search for worthier salaries. With the coming of the "Taef" era, the military cessation was supposed to create the proper atmosphere for reshaping the Lebanese economy. However, the sharp fall in the value of LL. vis-à-vis other currencies to unprecedented levels (LL. 1500-1700 vis-à-vis the US \$ in May 1992, with black real rates attaining LL. 2700 in September 1992)¹⁵ reflected the prevailing political instability and the prodigious public sector conduct; ongoing pessimistic expectations about the country's future, and the prodigal governmental scope of actions (raising unproductive expenditures) wiped out the relative rise in collections as well as the confidence of the citizens. But since October 1992, by the assignment of a new government, the country entered to a relatively stable economic phase characterized by the improvement of the purchasing power of LL., increasing investments by foreign companies and the reconstruction of the infrastructure.

¹⁵ Banque Du Liban, Quarterly Bulletins, 1992.

2. *Competitive Structure*

a. *Bank Failures, Causes and Implications*

Bank failures may ensue from three major blocks, the economic and legal environment, the uncalculated risk taken by management (whether it is interest rate, foreign exchange, credit, or liquidity risks), and most importantly the fraudulent and mismanagement actions undertaken by highly ranked employees. In Lebanon, fraudulent actions, politically backed malpractice, and abuse of trust were the causes that generally led to the failure of many banks (loss incurred in the foreign exchange positions could have been added to the causes).

This was also coupled with the fact that the Lebanese banking sector is a highly concentrated one, with 10-15 banks controlling more than 50% of the overall banking market (deposits). This would imply that 65-70 banks are competing for the remaining 50% of the market.¹⁶ It should be stressed that, in banking, an institution is considered to be "sound" as long as it enjoys respectable levels of capital adequacy, solvency and liquidity ratios, sound credit base, and is still making profits. Nevertheless, researches, seminars, and conferences preached for reforms and proficiency in the banking sector. In fact, some laws¹⁷ facilitated the self-liquidation of problem banks, and recent pronouncements of Bank of Lebanon encourage self-liquidation and mergers between banks.

The implications of bank failures on the sector were mostly unfavorable. Not only the trust of the Lebanese residents was

¹⁶ Freddie C. Baz, *Bilanbanques 1992 Liban*, 10th ed., (Beirut: Beirut Bank Data Financial Services WLL, 1992).

¹⁷ Laws N° 99 & 110, issued by the Council of the Ministers, November 1991.

shacked, but also that of the Lebanese abroad, whose savings in their homeland has been traditionally a major source of funds for the banking sector and used to rotate the economic cycle. Many of the small and medium but yet sound banks have to face a dual challenge: that imposed by advantageous economies of scale enjoyed by large banks, and that of attracting, keeping, using of depositors' funds while facing the fear and panic rising at the announcement of each failure. To amplify the importance of rumors and trust in the banking sector, one of the strongest Lebanese banks fought hard to face gossips on its possible bankruptcy. There is a current mood of opening branches or subsidiaries of foreign (non-Lebanese) banks; some depositors have even preferred to hoard. Hence, the Lebanese-owned banks have yet to face these additional challenges.

b. Legal and Regulatory Setup for Bank Marketing

The Banque Du Liban (BDL) is the monetary authority of the banking system. The BDL has been given by the Code of Money and Credit (the law governing the Lebanese banking system) regulatory, functional, and supervisory powers over the commercial banks operating in Lebanon. The BDL sets legal reserve requirements, discount rates, and credit ceilings to limit or expand credit creation in view of issues related to the economic-financial policy of the nation at a certain point in time. Also, the BDL might choose to impose liquidity, solvency, and capital adequacy ratios.

The articles of The Code of Money and Credit¹⁸ affecting bank marketing in Lebanon are:

¹⁸ The Republic of Lebanon, Argus of Lebanese Documents, The Code of Money and Credit, (Beirut: Bureau of Lebanese and Arab Documentation, 1984).

- * N° 76 pertaining to discount rate and reserve requirements.
- * N° 79 pertaining to credit ceilings and conditions.
- * N° 103 pertaining to the possible regulation of interest rates and bank commissions.
- * N° 129 to 137 pertaining to establishment of a new bank, the capital requirement, bank shares, and branching.
- * N° 152 pertaining to the scope of action allowed to be covered by the banking industry.
- * N° 156-157 pertaining to the nature and duration of credits.

A summary of the most important monetary measures undertaken by the Banque Du Liban follows:

Table (4-2): Summary of the most important monetary measures by the Central Bank in Lebanon, 1974-1990.

Reserve Requirement	Discount rate	Participation in T.Bs	Credit selling	Liquidity & solvency
Beginning July 1, 74 RR = 8%	1979: DR = 6, 5%	Until March 31, 86 voluntary particip.	1975: 24% of 31/2/74 outstanding balance	Effective end of 85 solvency = 3%
Beginning Jan. 1, 75 RR = 10%	Dec. 12, 1980 DR = 9.5%	Beginning Jun. 10, 86 banks with total LL. deposit (excluding bank deposits) that are less than one billion LL. will have to subscribe in 35% of that total; those with a total of more than one billion LL. will have to subscribe in 30% of that total	1979: permit to increase loans by a maximum of 20% + 5% to industry & tourism.	Effective end of 84 liquidity = 25%
Beginning Nov. 1, 79 RR = 15%	Apr. 5, 1981 DR = 13%		1980: by the control commission 22% + 8% to industry & tourism	
Beginning Oct. 5, 84 RR = 17%; of which 7.5% in special T.B.	Mar. 13, 1986 DR = 30%		1985: by the control commission the max. % increase should be less or equal to 30% the period ending September 1985	
Beginning Oct. 22, 84 RR = 100%, for non- resident banks		Beginning Dec. 5, 86 T. Deposits with less than one billion LL. subscription = 30% T. deposits with more than one billion subscription = 45%		
Beginning Mar. 23, 85 RR = 18%, of which 8.5 in special T.B.		Beginning Jan. 4, 87 New deposits are subject to 60% subscription		
Beginning Mar. 13, 86 RR = 22%			Ending of 1985: the later circular was canceled	
Beginning Jun. 10, 86 RR = 10%			1985 Dec.: Banque Du Liban prohibited all banks from lending in LL. for non-resident banks or financial institution	
Beginning Jan. 24, 86 penalty rate on violation of RR = 1% daily				
Beginning Jan. 1, 87 RR = 11%				
Beginning Feb. 1, 87 RR = 12%				
Beginning Mar. 1, 87 RR = 13%				
Beginning Aug. 1, 87 RR = 16%				

Source: Banque Du Liban yearly and quarterly bulletins.

It should be noted that advertising, public relations and other aspects of marketing are not regulated in the banking industry.

c. The Use of Technology

Computers, faxes, and other communication systems are spreading in the Lebanese banking sector. The use of on-link task processing is being more and more ingrained in the sector. Mainframes and branch networks connect departments as well as the branches and the headquarters. A major drawback to this task is still the unreliable telecommunication infrastructure that distorts data processing, and enables at many instances the transfer of valuable information. This was partly solved by processing branch by branch information on separate branch network, and where each of the networks' information is physically taken to the headquarters. Not only systems are used for storage purposes, but also they are helping carry out in-house reporting analysis and facilities, and customer dissection and data bases (for credit analysis purposes and portfolio management). Word processors are quickly replacing traditional typewriters, with high input sophistication and storage facilities. Faxes have become a necessity rather than a luxury; the major setback being the inefficient prevailing telephone communication network.

B. Basic Propositions for Bank Marketing in Lebanon

1. Bank Customers' Segments

The banking market in Lebanon could be classified into five major categories: the "Loan Seekers", the "Value Seekers, the "Front Runners", the "One Stop Bankers", and the "Representative

Subgroup". This classification is suggested by Paul Peter and Jerry Olson in their Consumer Behavior,¹⁹ and it implies that each of the groups has its lifestyle, principal benefits, and demographic characteristics. The "Loan Seekers" are the more transient blue collar segment of the customers that enjoy good reputation and sound historical record; they require easy access to loans and like to insure them with low interest; they are by nature positive about the use of bank loans and liberal about the utilization of credit. By contrast, the "Value Seekers" consist of the "saving part" of the market that required quick service, ease of packing and saving options and facilities. They have low loan and credit interest, a conservative lifestyle, and tend to tolerate minor propensity toward risk taking. On the other hand, "Front Runners" are those young talented customer that enjoy a high ability to manage money, require large benefits from the use of bank services, believe that these services should be more spread and engulfing and are highly affected by good advertising. The "One-Stop Bankers" are the older segment of the market; they require a wide variety of service, convenient working hours, quick service, financial responsibility, and suitable branch location; they have been historically averse about the use of credits and the most positive towards the use of checking accounts. Finally, the "Representative Subgroups" are the part of the market that has equal interest in all bank services and do not require any specific differentiation while dealing with their banks; they come from different demographic and lifestyle backgrounds, and dealing with them is somewhat on an "each time" basis. However, a detailed market study of the Lebanese banking

¹⁹ Peter, and Olson.

market would help assign percentages of allocation to each of the described consumer groups; and hence, the proper distribution of effort and resources could be assigned accordingly to satisfy each of them.

2. *Internal Force (Employee) Training*

Employees feel that they are involved in the bank's business. They are encouraged to show their enthusiasm by allowing them to give their suggestions. In the United States, the statistical test of profit and survival proof confirmed that the banks that follow the training patterns (as compared to those who cut on training to reduce overheads) are the winners "if the job is done well, and tied to total customer service and good management".²⁰ This should be the same in Lebanon. In any bank, there should be two groups of people, those who serve customers, and those who serve those serving the customer. Part of training is knowing how to deal with angry customers, and even if a customer is not satisfied with the service rendered, he should know and feel that the banker did his best. Bankers do mistakes; this is human, but training tries to avoid them and soften their affects, and if a mistake, nevertheless, occurs, it should be corrected for as quickly and pleasantly as possible to avoid law suits since they may cause both physical and moral damage to the bank. Businessmen change banks because they cannot afford to spend time correcting bank mistakes (an innovation would be to pay customers for mistakes, cues, or poor service rendered). Employees must know how to do a job through training; otherwise, they will take a defensive attitude toward customers.

²⁰ Don Wright, Bank Marketing for the 90's, (New York: John Wiley and Sons, Inc., 1991), p. 208.

Real communication and avoidance of bad feelings are the keys to bypass irritations, if the customer understands the sensible real reason behind the bank's action. There are legions about poor communication in Lebanon, and this maybe the reduced educational emphasis on communication: Businesses from one side and the consumers from the other are on their own. The bank's internal force should master the details of opportunities the bank has available for sale; who does it, and who essentially needs it. It is important to reward employees that meet the recognized customer's needs, if they show talent for being sales-oriented. They should be rewarded, and they must know that they can win. Bankers should always ask what is working well in their institutions. Ideas should be gathered and stored, to be then exposed in internal conventions and seminars. To score their targets, employees must perceive the "customer's connection" in what they do. Exposures learned in other business sectors could be assimilated. Banks can no more afford "marketing is not my job" from staff, or "the man who writes the advertisements is not the one who makes the loans". The commercial institutions that succeeded in selling and staying in business during hard times do not need to be taught how to sell, but bankers do.

3. Enhancement of Existing Products, or Development of New Ones

Customarily, bank services embodied three main streams: Money lodges (deposited or saved), money lent (credit), and money transmitted. Nowadays, a fourth peer grouping imposes itself, and which is the provision of advice, and not only finance and portfolio

had traditionally been the case, but also practical help and counseling. Sympathy in providing traditional or new bank services might render them more appealing, more sound. The architecture and design of bank's branch might affect the way its products and services are perceived. On the technical side, the Lebanese banking system lacks many world wide used products: technology based tellers ATM like (maybe due to telecommunication difficulties and lack of security), bank credit cards, leasing services, social security funds, pension fund management, insurance (life and other), estate planning, customer's payroll management, accounting, data processing, etc.

Market research precedes any effort in product development. Great ideas might sometimes be next to the banker; all he has to do is cease, grasp, and apply. It was once advised by a banker "Keep your eyes open and steal all the good ideas you can"; in banks, there is no patent; goodwill, protectionism, and new products are only for a limited time; it is rather how they are delivered that makes the difference. The new account department is a center for getting to do more business with every new account customer. There are so many opportunities to grasp from current customers (that eventually do business with other banks) that a banker tends to be shocked by their magnitude. There is currently a lack of clear idea of what markets bank do and do not want to serve. Market definition is essential and should be made carefully to avoid concentration of credit, and choose the most promising and profitable sectors. Hearsay (rumor) should not be the criteria for strategic planning and policy formulation.

4. *The Use of More Intense Promotional Mix*

Neither of promotional means is satisfactorily used in Lebanon. Press advertising is limited to annual statements' releases, TV, cinema, and poster ads are rarely existing; very few sponsorship activities are undertaken (exhibitions, workshops, contests), public relation and publicity efforts (community projects, teaching the non-wealthy, developing youth programs) are restricted to top management's personal contact. Personal selling is still at its earliest stages of development. Direct marketing is almost neglected with very few banks using direct mail, telephones, faxes, and telexes to market their services and products. Direct marketing will help develop computer technology and databases; key characteristics of direct marketing are selectivity, versatility, testability, immediate and quantifiable feedback.

Consequently, not only the promotion mix should be used to sell existing bank products and services, but also it should be made to enhance the bank's image and worthiness. Customer abstention to bank's selling activity will also augment when promotion is not accurately anticipated and properly consummated.

5. *Price Decisions*

A somewhat oligopolistic pricing overshadows the Lebanese banking market. Very few banks differentiate their lending and deposit rates; in fact, any discrimination in prices was regarded as a sign of weakness, i.e. the decision of a bank to pay more on deposits and charge less on credits was regarded as a sign of trouble.

The banking market in Lebanon is more competitive, especially in areas where the legislator permits. Cost structure analysis is related to more fundamental issues, like bank's size, market share, and profit targets. Banking in Lebanon, for example, is beginning to face competition from the industry's new-entry competitors; this will prohibit even leading banks from enjoying the implicit agreement to pay very low interest rates on current account balances (and hence, prohibiting them to maximize current profit). Also, higher long-term level of profitability through active pricing could help maximize market share before the potential expected introduction of new technologies and products (like ATM if the telecommunication infrastructure permits).

Large-sound banks may even choose (as is almost the case) to adopt a product quality leadership pricing, where their customers are ready to pay substantially higher prices (or receive lesser returns) for services they perceive as being excellently provided by the bank, and where the bank's image and reputation play the role of service-quality booster. The other medium-sized banks in Lebanon, faced with the over-crowded banking environment, tend to maximize the volume of transactions on behalf of profits (by low pricing). By doing so, they will be able to maintain capacity vis-à-vis competitors, enjoying lower overheads on one hand, and having damaged the cost structure on the other hand, especially if the latter is not properly weighed. This policy might even lead to serious troubles in the case --for example, when the variable costs are merely covered for (and even sometimes the marginal costs only).

A lesser price-quality related area of bank services are the commissions administered on transactions and facilities, where personal relations and importance of customer play the major role in the price determination. In fact, this area (commissions) is more technically evaluated since it is both a major source of profits and a sign of customer appraisal.

6. Distribution-Place Thoughts

The only channel of distributing bank services in Lebanon is the traditional branches network. This has allowed banks to reach most demographic segments in as many geographical locations as possible. Currently, there is a worldwide trend to minimize the branches' number due to factors not yet applicable to the Lebanese banking industry, such as communication facilities that permit the installation of electronic channels of exchange. Other non-technology based against traditional branching are the advocates for limited services (or specialist branches) as compared to all-service ones that have high fixed costs, which is the case of Lebanese banks. In distributing bank services, (as in the other aspects of the marketing mix), customers' inclinations are detected, and the relative decisions are then based on more practical pros and cons revealed by the marketplace.

C. Evaluating the Marketing Management in the Lebanese Banking Sector

A field study was conducted to evaluate the marketing management of the Lebanese banks. The study was limited to only six (out of eighty) local banks, that are leaders in the Lebanese

banking sector. (See Appendix A). Interviews were conducted with senior level managers who are in charge of the marketing departments of the chosen banks.

The interview included ten major subjects starting with the size and activities of the marketing department, the relation of the marketing department to other departments, bank customer segments, product-price-promotion-place strategies, training of the personnel, competition among local banks, and competition with foreign banks. (See Appendix B)

1. The Size and Activities of the Marketing Department

The number of employees working in the marketing department ranges between 4 and 10, and the major activities that the marketing department is responsible for are the following:

- * Training the bank's sales force and other customer contact personnel.
- * Promoting the bank's services.
- * Handling research and development.

In addition to these activities, fewer banks have an advertising division, being a separate part of the marketing department, whose job is to develop advertising messages and assist in deciding on the form, media, and timing of advertisements.

2. The Relation of the Marketing Department to Other Departments, Branches and Upper Management

The marketing department is perceived to have a role of the coordinator between the various departments, branches and the

general management. It has been given some authority from the upper management to communicate with branches and other departments for the development of a marketing plan. Also, the marketing department receives suggestions from branches concerning promotional activities. Some banks consider the marketing department to be "a marketing cell", because the latter processes a great range of communication than a department does. One bank suggests to have a decentralized consolidated marketing plan, by assigning regional marketing officers, whose job will be to study the regional market and report to the central unit; whereas, other banks do not see the use of such a plan, since the existing branch manager is expected to be the "marketer" of the bank.

The budget that the marketing department is given seems to be flexible, because the costs incurred are directly related to another department. For example, when the marketing department is going to launch a new product (such as, the credit card), a controversy will arise about the billing of the incurred costs (whether to bill the costs on the marketing department's account or on the credit department's).

3. Bank Customers' Segments

Almost all the banks agree on the suggested classification (the five major categories). Some of them position themselves at equal distance from each customer segment, thus assigning equal percentages to each subgroup. This strategy reflects the given bank's general policy to satisfy equally the different customer segments. Other banks view this matter from another point. They claim that the percentage allocation of each mentioned customer

group might change from year to year. Thus, this allocation becomes directly related to the fiscal year's policy. For example, if in a given year, the bank's strategic policy is to increase deposits, then the "saving part" of the market will be targeted. Similarly, if the bank plans to issue personal (non-commercial) loans, the customers with limited and stable income will be targeted.

4. New Product/Service Development

Due to competition, local banks are trying to enhance existing products and develop new ones. Preceded by market research and having taken into consideration the technical aspects of the problem, some banks have reached to mature phases in launching ATMs (Automatic Teller Machines). They are expecting to start with this "locally new" product in the near future, by installing them first in main branches. The denomination of new currency in the categories of L.L. 50,000 and 100,000 will definitely facilitate the launching of ATMs.

Many banks are already issuing bank credit cards like VISA, Mastercard, American Express, etc. For the purpose of product differentiation, some banks are offering extra benefits for no extra charge when issuing such credit cards.

A new product might be the CD (Certificate of Deposit) in foreign currencies, with a relatively higher return (about 6%) than usual saving accounts. The purpose of the CD is to attract expatriates' savings and to prevent the transfer of local deposits out of the country.

Another new product is the personal loan. Some banks are experiencing an excess of L.L. deposits in the Last two years. They

are planning to invest these funds in personal loans, mainly targeting to the middle class, those with a limited income. Since the central bank has recently decided to decrease the prime on L.L. loans from 26% to 22%, then the personal loan might be an attractive product for many people who are unable to get commercial loans.

Many banks have acquired customer payroll management by debiting directly to the customer's account various kinds of bills such as electricity, telephone, tuition, etc.

In addition to existing traditional services, the provision of advice, counseling, and portfolio management are on their way to enter the field of bank services.

Finally, one of the reasons that the Lebanese banking system lacks many worldwide used services, such as leasing services, estate planning, pension funds, social security funds, etc., is the absence of legal and regulatory setup to acquire such services.

5. Pricing Strategy

Personal relations and importance of customer play the major role in the price determination process. Very few banks differentiate their lending and deposit rates. Some banks relate prices to bank soundness. They argue that the depositor's response to changing deposit pricing is somewhat inelastic, since people have some other reasons for depositing their money in banks, such as safety, confidence in a bank's reputation, location of a branch, etc.

Due to competition, most banks are adopting a flexible pricing strategy. For example, some bank products are chosen to be

offered at cost or even at loss to attract new comers. This happens usually when a bank decides to open a new branch to penetrate into new markets.

Relationship pricing is another technique used by banks, since relations with customers are a major resource for them. These banks offer a "good relation" customer services at low margins; and at the same time, cross-sell them improved high margin more profitable services.

6. *Promotion Strategy*

If we are going to rank the four promotion mix elements according to their relative importance in Lebanese banks, we will find out that personal setting comes first, followed by advertising, public relations, and finally sales promotion which is the least important.

a. *Personal Selling*

Most banks establish personal relations with their customers, through periodical visits to the customer's work-place. Some banks arrange sales settings and personal contact activities with present and potential customers.

b. *Advertising*

Advertisements are mainly concentrated on printed media, like magazines and local newspapers. Also, brochures, booklets, and leaflets are displayed on counters. Posters are frequently seen on billboards. Recently, radio advertisements, a new media, are used to promote bank services.

c. Public Relations and Publicity

Since the end of civil war, banks are seriously using this promotional element. Examples are: economic reports, charitable activities, donations to religious and humanitarian institutions, scholarships, sponsorship of trade exhibitions, educational and artistic events, environmental campaigns.

d. Sales Promotion

It is not a reliable promotional tool for Lebanese banks. It comes in the form of items that carry the bank's name, such as pens, pencils, memo-pads, and ashtrays.

7. Place Strategy

The only channel of distribution banks services in Lebanon is the traditional branch network. During the civil war, the opening of new branches was considered to be a difficult and risky task. By the end of the civil war, most of the leading banks are opening new branches to increase market share by targeting specific geographical areas.

Nowadays, banks are being more careful about the architecture and design of the branches, since the latter affect the customer's conception of the bank.

Some banks prefer to have their branches at the ground level (for easy access). On the other hand, the parking space is one of the major problems of convenience for customers. Although bank managers are aware of this fact, they seem to be unable to find remedies for this problem.

8. *Internal Force (Employee) Training*

Some banks are organizing in-house seminars to train their employees to be "marketing oriented". They are taught how to deal with angry customers, by softening the effects of mistakes.

A new idea called the "workshop unit" has been adopted by very few banks for the improvement of the quality of services. The "workshop unit" consists of employees who are trained to perform all transactions related to the customer's service. It is a time saving process, but it requires competence on the part of the employee.

To reward employees, banks have introduced incentive programs for the sales force in order to participate in the bank's profit from a new customer account. Usually, the reward consists of a certain percentage (about 2 per thousand) of the amount deposited.

9. *Extension of Working Hours*

There is a conflict about this subject among local banks. Some of them have started to extend their working hours till afternoon (5:00 p.m. instead of 2:00 p.m.). They justify their action by the following reasons:

- a. Since many companies have their working hours extending till the evening, so there will be a market need to provide services for those companies as well as for commercial establishments.
- b. This initiative will have a positive impact on the staff salaries (with an increase of 40-60%)

On the other hand, other banks are not enthusiastic about this subject. They justify their objection by the following reasons:

- a. Many employees will not be able to work in the afternoon, since there is a large proportion of married women in the banking staff.
- b. The marginal costs of the extra working hours will be very close to the marginal revenue.

Since some banks have already started to apply the new schedule of working hours, some sort of an "illegal competition" is created. It seems that other banks, willingly or not, will follow the trend, in order not to lose markets.

10. Foreign Competition

All banks are aware of the fact that foreign banks will soon open branches in Lebanon. To face this challenge, some banks suggest that local banks improve their existing services and develop new ones that are globally competitive. Another opinion is "to deal with others as they deal with us", by imposing legal barriers that regulate foreign banks' activities in Lebanon.

Finally, it should be noted that local banks are very flexible in their services and facilities. This unique aspect matches well with local customers' needs, while foreign banks will be unable to acquire this advantage.

CHAPTER FIVE

CONCLUSION

This project attempts to incorporate all issues of concern to those interested in venturing into marketing of bank services.

The first chapter introduces the purpose of the project, being the evaluation of the marketing management in the Lebanese banking sector. The need of such a study is emphasized, because of existing competition among local banks. Then, the problem is stated, which is the application of marketing concepts in the management of local banks. The limitations of the study are made clear, starting from a theoretical background, that will be used as a base for the final stage of the study, which is the possible applications of marketing theories in the Lebanese banking system. Finally, the methodology used comprises mainly of two kinds of sources: primary, being the field surveys and interviews performed with bank managers, and secondary, being books, magazines, and previous studies, such as seminars conducted in banks.

The second chapter starts by classifying bank marketing among other service industries. Tables are used to enhance this classification. Then, a detailed discussion of how bank marketing differs from product marketing reveals that undoubted similarity is the common ground of both fields. The theories and philosophies are applicable to both. On the other hand, differences contain intangibility, inseparability of tasks, and heterogeneity due to high

people-based service. After this stage, all elements of bank marketing mix are ensued. Products are analyzed in terms of competitive strength and market attractiveness, with development questions helping in the successful analysis of the product in the market. Prices are related to product life cycle, elasticity of demand, competitive situation, bank profile, and flexibility. Bank promotion and communication systems are developed, with its components being: advertising and direct marketing, sales promotion, public relations and publicity, and personal selling. Place strategies elaborate on the existing (branch network) and potential (ex. ATM) bank services distribution media. The internal bank force (employees) are considered as a "5th P" to the earlier 4 Ps; their proper training and awareness of bank marketing proves to be a must.

The third chapter encompasses practical issues in bank marketing. First, the bank marketing environment is evaluated by internal marketing, which helps the bank to know its own strengths and weaknesses, optimize the use of its strengths in order to capitalize on the opportunities of the market place, and reinforce its weaknesses through reshaping and proper training in order to be able then to hit the competitors. Then, external factors to bank marketing are exposed, with competition, economic-legal-monetary structure, technology and demographics, as the issues analyzed prior to intercepting bank marketing. Consumer behavior analysis approaches both the business and the personal customers' needs. Next comes the new product and service development for banks. The five levels relative to the development of a new product are

conferred: idea formulation, screening, developing, launching, and monitoring results.

The last chapter concludes on the possible application of what is discussed to Lebanon. First, the environmental setting is portrayed. Relevant economic indicators show the damaging effects of the budget deficit, the inefficient allocation of expenditures, and inflation are reflected in the lack of confidence of citizens. The competitive structure of the Lebanese banks tackles the causes (fraudulent actions, politically backed malpractice, and abuse of trust) and consequences (concentration of banking business, further fragility to rumors) of bank failures. The articles of the Lebanese Code of Money and Credit (the laws governing banks) relevant to bank marketing are portrayed, as well as the most important regulatory measures undertaken by the Bank of Lebanon. The different possible uses of technology in the banking sector are clarified, the major drawback being the unreliable infrastructural communication system. After the environmental setting, a field survey is conducted by interviewing six leading banks' senior managers, in order to evaluate the existing marketing programs. The interviews included ten major subjects, starting with the size and activities of the marketing department, the relation of the marketing department to other departments, bank customer segments, product-price-promotion-place strategies, training of the personnel, competition among local banks, and ending with competition with foreign banks.

At this stage, basic propositions for marketing of Lebanese banks are intercepted. The Lebanese bank customer segments are divided into five categories: the loan seekers, the front runners, the

one-stop bankers, and the representative subgroup. The importance of bank staff training is stressed, where this latter proves to be the major pattern that is followed towards profit. Although banks in Lebanon are found to be lagging behind in offering worldwide used bank products, it is suggested that the provision of advice is an attainable-desirable service to be formerly offered. The promotional mix turns to be poorly used. The proper means of using it will facilitate the marketing of bank products and services. Moreover, it will enhance the institutional image and worthiness. A somewhat oligopolistic pricing scheme is found to rule the Lebanese banking sector, and differential pricing is proposed where the legislator permits. This should be done through relating the cost structure of interest rates, fees, and commissions to issues, like bank size, quality of service provided, and set profit targets. The only channels of distributing bank services in Lebanon are the branch networks. The establishment of new channels (electronic, specialist branches, etc.) will only take place in response to revealed market place preferences.

A. Findings of the Research

The study reveals that undoubted similarity is the common ground of both service and product marketing. The way in which marketing concepts and tools are used and their relative importance to products or services differs while trying to execute the marketing plan. However, this does not cancel the truth that most of the developed theories on product marketing are as applicable and necessary to services marketing as they are to products.

bank to spend more efforts in getting a greater market share. However, these challenges are considered to be motivators to use marketing philosophy in the banking institutions, in order to satisfy the changing and developing needs of customers.

B. Recommendations

By analyzing in depth the current states of marketing activities in the Lebanese banks, it is recommended that every bank operating in Lebanon should establish a marketing department, equipped with the necessary qualified staff. The major functions of this department should be:

- * Handling research and development.
- * Promoting the bank's services.
- * Training the bank's sales force.

In this regard, below are suggested recommendations to be considered by those who venture in marketing of bank services:

1. The role of the marketing department should be to coordinate between various departments, branches and the strategic management. There should not exist any barriers for communication, being horizontal or vertical. The marketing department should be ready to hear suggestions from branch managers and employees, since the latter are the sales force and the customer contact personnel.
2. The marketing departments of banks should perform a detailed market study in order to classify the customer segments of the bank according to their lifestyle, principal benefits from bank services, and demographic characteristics. The market study will help to assign the proper distribution of

effort and resources in order to satisfy the customer's needs. Also, the marketing efforts of the bank should move in the same direction with the strategic policies when a specified group of customers are targeted.

3. Local banks should enhance existing products and develop new ones. This can be achieved by market research and employee training. In addition to existing traditional services, the provision of advice and counseling should enter the field of bank services. Also, many worldwide used products and services should be introduced to the local customers.

4. Since the only channel of distributing bank services in Lebanon is the traditional branch network, any decision of opening a new branch must be preceded by market study. The design and architecture of the branches should be uniform, homogenous, and integrated with the image of the bank. Easy access to the bank should be provided, and thus the parking space should be available for customers.

5. The pricing strategies adopted by banks should be very flexible. At some instances, specific bank products or services should be offered at cost to attract new comers. Relationship pricing is a good technique that can be used by banks, since relations with customers are a major resource for them. By this technique, banks will offer "good relation" customer services at low margins; and at the same time, cross-sell them improved high margin more profitable services.

6. Internal force (employee) training should be emphasized, in order to improve the quality of the services.

The training process could be "on-the-job", the employee being directly involved, or "off-the-job" by organizing seminars, lectures, that emphasize the selling of bank services.

7. All of the elements of the promotional mix should be used equally and efficiently. Advertisements should be used heavily, since they have a special appeal, and they cover a large geographical area. Continuity should be developed when dealing with advertisements, in order to overcome some disadvantages, like intangibility and service diversification. Personal relationships should be developed with customers, since good personal contacts between employees and customers can lead to mutual satisfaction.

8. Adequate compensation and career advancement programs should be developed. A career ladder system that offers competitive income is necessary. To reward employees, banks should introduce incentive programs for the sales force in order to participate in the bank's profit. As a result, the employees will be motivated to perform creatively, and hence they stimulate customer interests and ensure long-term customer loyalty.

9. In order to face foreign competition, local banks should improve their existing services and develop new ones that are globally competitive. This can be achieved by "internal marketing", by assessment of bank's own strengths and weaknesses. The use of the strengths should be optimized to capitalize on the opportunities of the market place, and the weaknesses should be reinforced by reshaping and proper training to be able to hit the competitors.

A further research is recommended to include a wider number of banks so that the sample becomes more representative, and some time should be allowed to pass in order to see what changes might appear in the marketing management programs adopted by the Lebanese banks in the coming years.

APPENDIX A

Below is the list of the banks in which the managers were interviewed. Each bank was chosen according to the criterion* following it.

1. Banque du Liban et D'outre-Mer: Ranking first by customers' deposits.
2. Banque Libano-Française: Ranking first by total openings of L/Cs.
3. Banque de la Méditerranée: Scoring highest progression in customers' deposits.
4. Fransabank: Having the largest branch network in Lebanon.
5. Banque Audi: Having the largest research center.
6. Byblos Bank: Being a good performer in marketing activities.

Sources: - Local newspapers and magazines.
- Banque du Liban bulletins.

* Based on performances of 1992.

APPENDIX B

Questionnaire

My name is Sebouh Aintablian, a graduate student at BUC, working for MS program.

I am currently doing a research on "MARKETING ASSESSMENT OF LEADING BANKS IN LEBANON". The information you provide in this questionnaire will be strictly confidential, and will be used for research purposes only.

The results of this study will be available upon request.

1. Does your bank have an independent marketing department? What are the main activities that the marketing department is responsible for? What is the number of employees working in the marketing department?
2. How is the marketing department related to other departments in the general management as well as to the branches of the bank?
3. If we are going to classify the banking market in Lebanon into the following customer segments:
 - * The "Loan Seekers", being the blue collar segment of the customers that enjoy good reputation and sound historical record,
 - * The "Value Seekers", being the saving part of the market, that follow a conservative lifestyle,
 - * The "One-Stop Bankers", who are the older segment of the market that require convenient working hours and suitable branch location,
 - * The "Representative Subgroups", that have equal interest in all bank services,
 then, how would you assign percentages of allocation to each of the mentioned customer groups (in the case of your bank); and accordingly, how would you assign proper distribution of effort and resources to satisfy each of them?
4. The Lebanese banking system lacks many worldwide used services, such as: technology based tellers (like ATM) bank credit cards, leasing services, social security funds, estate planning, customer payroll management, etc. How does your bank assess its internal resources as well as the market potential to develop new product/services that are applicable in Lebanon?
5. What are the pricing strategies of your bank concerning interest rates, fee structures and charges?
6. Which of the following basic components of promotion are used in your bank?
 - a. Advertising and direct marketing.
 - b. Sales promotion.
 - c. Public relations and publicity.
 - d. Personal selling.
7. Knowing that the branch is the place where a bank makes its product available to customers, what is your bank's "place strategy" concerning matters, such as: establishing new branches, targeting specific geographical areas, branch designs, and architecture, convenient access to the bank, parking space, etc.?
8. There is a growing trend to consider bank employees as part of an institution's marketing mix. Are they trained to be "marketing oriented" rather than being just "service deliverers"? How?
9. Some local banks extended their working hours till afternoon. What is your bank's attitude toward this subject? Do you think that this initiative will create some sort of "illegal competition" among banks?
10. There is a current mood of opening branches or subsidiaries of foreign (non-Lebanese) banks. How do you think Lebanese banks should face this challenge?

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