106.

Effective Sales Management

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Course Code 106

Effective Sales Management

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Introduction

We begin by defining sales in a retail banking context where customer relationships are the important factor in determining long-term financial performance. Sales are an economic exchange of mutual value between individuals/companies and the bank. Sales are the culmination of all functions of a retail bank, ranging from leadership and strategy to people management, risk management and marketing. There are several reasons why effective sales management is paramount in a retail bank.

First, it is assumed that all products produced by a company are produced to be sold. They are sold to outside customers, leading to accounts receivable, or they are stored by the company and recognised as inventory. But banking services have unique characteristics, one of which is that they cannot be stored, or inventoried. Hence, in retail banking as in all service industries, sales to outside customers lead to accounts receivable. But accounts receivable can be impaired. For example, as was indicated in the module titled Retail Banking Overview, loans as part of the banking book are subject to credit risk, which then requires provisioning.

Second, the other three unique characteristics* of retail banks services have a significant effect on rendering sales management ***effective***. These are:

Intangibility reflecting the lack of a physical form, and hence not subject to taste or display in the pre-sale period;

Inseparability which means that banking services are produced and consumed by the customer at the same time. This characteristic of banking services coupled with intangibility places additional emphasis on customer experience in the actual delivery of the service;

Heterogeneity which reflects the fact that retail banking is a people business that is enabled by technology assets. Accordingly, there is an expectation of variation in customer service that affects customer experience.

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* Beckett et al states that there are three additional characteristics that differentiate financial services from other services. These are (a) transparency of performance, (b) uncertainty of outcome and (c) poor comparability (See Antony Beckett, Paul Hewer, Barry Howcroft, "An exposition of consumer behaviour in the financial services industry", *International Journal of Bank Marketing*, Vol 18 Iss: 1, pp.15 – 26 [2000]).

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The main point is that these service characteristics create unique challenges in order to achieve sales objectives effectively. Consumers will be more hesitant to make an 'all or nothing' commitment to the bank. They may wait for confirmation and only 'put all their eggs in one basket' after some experience with bank staff. For this reason, it is commonly asserted that effective sales management in retail banking is the outcome of ***relationship marketing***. This is defined as "all marketing activities that attract, maintain and enhance customer relationships; (see for example, Morgan and Hunt,1994).*

Relationship Marketing is considered in Chapter 1.

Third, there can be some misunderstanding between sales and marketing leading to the creation of disjointed activities and silos. Indeed, there is evidence of a conflict between marketing and sales in some companies. Philip Kotler, in an article in the Harvard Business Review† states, that *"an enormous number of US companies are sales-minded, but only a few are marketing-minded. The difference is subtle and usually hard for sales executives to see, but it spells the difference between unstable short-term success and stable long-term growth".*

The implication is that sales people are short-term focused, and marketing is more long-term in thinking.

Furthermore, as stated by Smith *et al* (2006):‡ "The marketing and sales functions in many firms are often at odds despite their common goal of increasing revenue and profit. The finger pointing goes both ways: Marketing complains of poor lead follow-up sales, and in turn, sales grumbles about the quality of leads generated by marketing. This disconnect can be damaging; high lead volumes generated through effective marketing campaigns could actually hurt downstream sales because of wasted effort on poorly qualified leads and/or delays in sales follow-up resulting from limited sales force capacity."

This concept of integration is in line with the modern version of Marketing 3.0. Whereas Marketing 2.0 is based on the concept of customer-centricity, its main drawback is that it puts the firm (i.e., the bank) in a dominant position and the consumer is viewed as passive. Marketing 3.0 places the consumer as a partner in the marketing and sales model of customer-centricity. This is one the bases for a customer-managed relationship (CMR) that is discussed in Relationship Management, the final module of the Retail Banking I programme. Indeed, the Kaminsky philosophy is at the heart of Marketing 3.0 and was ahead of its time.

The potential conflict between sales and marketing and recommendations for resolution are considered in Chapter 3 as part of an effective sales management programme.

Fourth, not only is there a trend towards an integration of marketing and sales, the strategy for sales is also rapidly being changed by the new forms of promotion to the consumer. For example, in an article in the *New York Times*,§ it is reported that as of 11 December 2011, one million mobile applications have entered the market. Digital marketing and sales are ramping up at an accelerated speed. For example, Portio Research (March 2013) predicts that by 2017 the number of application users worldwide will reach 4.4 billion with about 200 billion downloads per year. However, the pace is much slower in banking worldwide. In an April 2011 report,¶ it was revealed that only two thirds of banks adopted banking applications but they had very basic functionality and lacked adequate content**. This is an interesting revelation when taken in the context of a

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* Morgan, Robert M. and Shelby D. Hunt, "The Commitment-Trust Theory of Relationship Marketing," *Journal of Marketing*, 58 (3), 30-38 (1994).

† *Harvard Business Review*, November 1977.

‡ "A Three-Stage Model of Integrated Marketing Communications at the Marketing–Sales Interface", *Journal of Marketing Research*, Volume: 43 Issue: 4 pp.564-579 (Nov 2006).

§ Shelly Freierman, "One Million Mobile Apps, and Counting at a Fast Pace".

¶ See the MyPrivateBanking report titled *Mobile Apps in Banking*.

** In spite of this pessimistic view, banks have begun investing heavily in apps and it is forecasted that banking apps will likely be embedded not only in televisions and e-reader devices but also wearables such as Google Glass and smart watches. In addition some banks have made substantial progress in payments. For example, Commonwealth Bank of Australia's suite of bank apps permit people-to-people payments by e-mail, mobile

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recent comment. "The quality of a banking app can have the power to make consumers switch banks," according to ANZ Bank's Group General Manager for Innovation, Peter Dalton.

Recent recommendations in the marketing and sales literature are presented in Chapter 2. We select those relevant for (banking) services. Chapter 3 considers issues in integrating marketing and sales functions. This module concludes with a summary and review questions.

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phones and Facebook. Similar innovative bank apps are provided by NatWest's 'Get Cash' option and BBVA's virtual wallet.

Chapter 1:

Fundamentals of Relationship Marketing

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As stated several times in this programme, retail banking is not just about what is delivered to the customer, it is also about how it is delivered. Sales of financial services depend on both the what and the how, and effective sales management resides on a platform of relationship marketing. Relationship marketing is the art of creating long-term relationships with existing customers with the intent that this will lead to customer loyalty – which is the key for successful cross-sales. Cross-sales occur by selling additional products to existing customers. It is interesting that the concept of ***Relationship Selling*** as described in the book by Johnston and Marshall (2007)* states that it is the "creating and maintaining of profitable long-term relationships with customers, highlighting the salesperson as an essential element in communicating value to customers". This bears striking similarity to the concept of ***Relationship Marketing***. It is interesting that Standard Chartered Bank of the UK has recommitted itself to relationship selling. On its website, it states:

"We are committed to supporting our clients and customers. Responsible selling and marketing is a key element of this commitment. We want to treat our clients and customers fairly at all times, providing them with relevant, needs-based solutions.

"Treating Customers Fairly (TCF) remains a core focus for our lead regulator – the UK's Financial Services Authority (FSA) – and is central to its statutory objective to protect consumers.

"Our Consumer Banking business has shifted from a product-led to a customer-focused approach. It focuses on continually improving our customer service, ensuring that our employees are trained and equipped to meet the needs of our customers.

"In Wholesale Banking, we put our clients at the centre of everything we do. We continue to build our business by focusing on deepening our relationships with our clients, leveraging our international network to provide our clients with the solutions they need to achieve their global ambitions."

Relationship Marketing follows four steps which are discussed in turn:

* Mark W Johnston and Greg W Marshall: *Relationship Selling*, (McGraw Hill, 2007).

Know Your Customer's Needs

Many people in the world dream of a home loan, a car loan, a credit card. They want to own a house, a car or to be able to purchase something when they want. Hence, retail banking services are only a means to an end for customers. People may use banking services for convenience, transactions, ownership or safety – whether it is paying for something over the internet, making a large purchase, withdrawing money from an ATM for grocery purchase, or keeping money safely in a checking account. These services always meet an intermediate need for the customer.

Understanding how customers will use the services offered, and what they are trying to achieve, will help prepare staff for customer interactions, and present potential benefits as attractively as possible.

There are various ways of discovering the needs of potential customers. An effective way of doing this is by asking the customer for feedback during interactions. These interactions identify service-providing opportunities that the relationship manager should focus on.

The more scientific method is to identify the needs of similar groups of customers based on service history. This grouping of customers is called segmentation. Banks have tried for some time to learn about their customers through different forms of segmentation. From the first attempts in the 1950s, the process of segmenting customers has taken on many forms:

- ***Demographic:*** Grouping and classifying based on characteristics such as age, income, education level, sex, etc.
- ***Psychographic:*** Grouping and classifying based on attitudes, interests and opinions (AIO).
- ***Past-ownership behaviour:*** Grouping and classifying based on ownership they have had in the past.
- ***Needs-based:*** Grouping and classifying based on the needs that people have for a particular service.

With all this information, banks have still not managed to innovate or tailor their offerings significantly, and they continue to seek a link between what they know about customers and the services they can offer to them.

Over the past decade, a company called Strategyn has used a concept called outcomes-based segmentation together with outcomes-driven innovation (ODI) to address this issue in different industries. Although the applications to banking are limited, the basic principle fits well.

The principle is to look at customers based on the milestones they are trying to reach, (goals) and how they use different products/services to help them accomplish those goals. As stated earlier, retail banking services are only a means to an end, and these services always achieve the intermediate need for the customer.

This approach helps not only with design, e.g., making the car loan more efficient in getting the customer a new car, but it also helps with identifying and approaching potential customers (based on what people who are looking to buy a car have in common). Hence, from this perspective, a clear tie can be created between what customers are seeking and what the bank is offering.

Once contact is established with the potential customer, focusing the discussion on the benefits of ownership instead of the product itself (i.e., a car loan with monthly payments), sensitivity to price and comparison with competing products will be reduced, and emotional drawbacks minimised.

In gaining new customers for a retail bank, identifying and approaching potential customers for different services is one of the core activities of the relationship marketer. Yes, there are customers who will realise they have a need, and approach the bank on their own, but if that is

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the sole source of new customers, the bank's growth will be much slower than if there is also an effort made to initiate contact with potential customers.

The key is to identify groups of potential customers who can benefit from having a relationship with the bank, and who will be receptive when the bank initiates contact. Approaching this from an outcomes-based perspective will make the task easier, and the customers will be more receptive.

Another aspect to consider is the difference between the rational and the emotional motivations for the customer's goal. Everyone has their emotional and rational motivations, and one must consider both when initiating contact with customers.

Know the Bank Offers

Salespeople must understand the rational (objective) benefits and drawbacks of bank offers and importantly, emotional (subjective) benefits and drawbacks as well. The analysis should be based on probing questions.

- *Rational Benefits:*
  What will the service help them to achieve? A car loan helps the customer to get a new car faster than saving the entire amount first. A credit card provides a safe way to make payments and a way to borrow for short periods without going through an application/approval process for each purchase.

- *Emotional Benefit:*
  How will they feel about what the service does for them? Having a new car will not only be a status symbol, it will feel good to drive it on the open road. The credit card gives a sense of freedom/independence while making purchasing decisions.

- *Rational Drawbacks:*
  What will the customer not like about the characteristics and features? These items are almost always related to the pricing and terms of banking products. Interest rates, late fees, upfront commissions, etc. But sometimes we find the drawbacks to be aspects of the application/approval process, service issues, access to different locations for service, etc.

- *Emotional Drawbacks:*
  What negative emotions may arise as a result of ownership? Often, customers do not fully consider the responsibility they take on when purchasing a bank service. They may feel angry at being charged a late fee, even though they know they were late with the payment. They may feel betrayed if they find a better price at another bank once they have forgotten about the benefits that made it worthwhile at the time of agreement. Negative emotions might influence their decision to initiate a relationship with another bank.

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The relationship salesperson must highlight both the benefits and drawbacks to the customer at the point of interaction. This will reduce the possibility of emotional drawbacks after the customer has agreed to start the relationship and use the service. Educating the customer on all aspects of the service should be done in a structured manner, keeping the following techniques in mind:

- *Comparing:*
  Relationship marketer should compare the benefits or drawbacks with other similar services available to the customer and highlight the superior characteristics that the service may have, e.g., our approval process takes three days which is shorter than other available services.

- *Contrasting:*
  Contrast benefits that you have with the absence of that benefit among competitors, or contrast drawbacks that competitors have with the absence of that drawback in your service, e.g., we are the only bank in the market that does not charge a fee for early repayment.

- *Compounding*:
  Highlight the compounded effect of the benefits being greater than that of the drawbacks, e.g., yes, there are some fees associated with this service, but the benefits accruing to you are far greater, so there is a net benefit.

- *Coupling:*
  Match drawbacks with related benefits to mitigate the intensity or justify the existence of the drawback, e.g., our price is slightly higher in service charges than other banks, but we offer better service and a higher interest rate on deposits.

Combining the above techniques to include emotional and rational factors must be done with careful balance. The relationship salesperson should continue to analyse each customer interaction with a view to improving over time. To maintain this balance, some broad guidelines are:

- *Comparing and contrasting:*
  Always keep emotion with emotional, and rational with rational.

- *Coupling and compounding:*
  It is possible to use either rational or emotional benefits to overcome rational drawbacks. However, it is extremely rare that emotional drawbacks can be overcome with rational benefits.

While this section dealt with salespeople having full knowledge of the rational and emotional appeal of bank products, it is important to emphasise that the focus must be on products that match customer needs.

Match Customer Needs with Bank Offers and Begin a Relationship

After having a full and accurate knowledge of customers' needs, and of the bank's offers, the sales person must now match the bank's offers with customers' needs. A successful match may be defined as a sale – but this is just the start of a potential long-term relationship.

Open Question #1

There is old adage in business: ***match products and services with customer needs and selling will be easy.***

Do you agree?

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Over time, as the customer experiences fast, consistent delivery and positive experience with bank staff, customer satisfaction is increased. There is evidence that positive customer experience leads to increased customer loyalty.* Loyalty is a reflection of an emotional bond with the bank.

The consequence is higher customer retention rates (i.e., lower attrition rates). As the width of the customer relationship increases by having multiple services from a single bank, the likelihood of a customer switching bank is reduced.

Customer Loyalty results in higher switching costs for the Customer

This can be attributed to higher customer satisfaction as well as an increased inertia of the customer rather than moving all the services to another bank. In addition, customers by being loyal to the bank will generally exhibit higher adoption rates, usage and renewal of bank services. The benefit for the bank is a growth in the top-line revenues and lower operational costs† and hence higher overall profitability.

Finally, it is likely that loyal customers will promote the bank, helping to transform the bank's brand from being just a logo to one that embodies a reputation for customer service. This customer advocacy is an important part of the bank's strategy to convert prospects to customers.

To emphasise a key point, relationship marketing builds a robust partnership with the customer. This will permit sales based on a relationship, and not sales based on a single transaction.

Important Point

Relationship marketing will probably lead to customer retention and increased sales and profitability. Loyal customers are also promoters of the bank and this will help the bank's customer acquisition strategy. Both outcomes reflect the two dimensions of effective sales strategy defined above.

Important Point

To boost sales force productivity, companies should "systematically target their firms' offerings, matching the right products with the right customers".

Source: Ledingham *et al*: "The new science of sales force productivity", *Harvard Business Review* (2006).

It is clear that the customer-bank initiation process is important for the development of a long-term, mutually profitable relationship – especially at the pre-purchase stage.

The *Initiation* Process

Relationship marketing takes on a different approach depending on which party initiates the interaction. For new-to-bank customers, the style and tone of the interaction is determined by who initiated contact (bank or customer), and the relevance of the services provided. The role of the relationship salesperson is to motivate the customer to have a quality interaction, ensuring that it leads to understanding the customer and presenting the right services. This induces the customer to initiate and begin a relationship with the bank.

As the interaction with the customer becomes more detailed, the relationship salesperson may find it possible to identify multiple customer needs, and may be able to initiate the new customer relationship with more than a single service. The role of the relationship salesperson

* See the MyPrivateBanking report titled *Mobile Apps in Banking*, where the correlation is more than 50 percent.

† The literature on customer loyalty shows that the average cost of acquiring a new customer is significantly higher than the cost of keeping a customer.

in this scenario is to expand the relationship by identifying additional needs and helping the customer to understand how they will benefit from the bank's service. For example, the relationship salesperson may identify a primary customer need for a credit card. Since the customer is a traveller, he may require travel insurance along with a credit card, thereby initiating the relationship with two services. This process is called ***co-origination***.

There are further distinct differences between a bank-initiated interaction and a customer-initiated enquiry. Most retail banks rely heavily on bank-initiated interactions to gain new-to-bank customers. The result of these interactions depends on the attempt made by the relationship salesperson to align the bank services with the customer's needs. Customer-initiated enquiries for retail-banking products are fewer because most customers are not aware of the services provided by the bank, or how these services match their requirements.

In addition, people may not like being engaged in discussions where something is offered to them. This is also true for retail banking services. Hence, it is imperative that the relationship salesperson does not attempt to 'sell' services but to create an environment that will facilitate fruitful interaction.

Create a Conducive Environment

Companies across industries offer goods and services (products) and customers buy them. Companies develop their products to appeal to the largest group of potential customers, and salespeople have the job of approaching potential customers, initiating contact, and offering their products. The challenge faced by all companies is that people do not like being sold to, but they like shopping and buying.

In this section we discuss the traditional sales method and the changes recommended to create a conducive environment for customers. Specifically, the following topics will be covered:

1. The personality types of different customers – grouping them into basic segments
2. The traditional sales cycle and how it changes to become the buying cycle
3. The dialogue/interactive conversation and how to prepare for conversations with different personality types
4. Engaging customers for a positive interaction

Personality types

Understanding different personality types and how to communicate with them can increase the effectiveness of interactions dramatically. Most relationship salespersons use the same style and pitch regardless of their customer's personality type, but, generally, the top performers have several different approaches to interacting, presenting, interviewing, explaining, etc. Many of those people have acquired this ability through practice and analysis. In most cases, it cannot be attributed to any methodology.

There are literally hundreds of different approaches to studying personality types and behavioural styles readily available on the internet. We have made some modifications, and combined a couple of different approaches to provide a framework for understanding and working with different personality types in the retail-banking environment. These modifications originated from the Merrill-Reid approach to behavioural styles, but our changes are more appropriate for retail banking customers.

The four personality types range from Formal to Informal in tone of interaction, and Dominant to Easygoing in conversation.

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106.1: Four personality types

The methods for interacting with these different personality types can help in generating the desired results. The behaviour and tone of the initial interaction should provide guidance as to how behavioural adjustments should be made to engage the customer better.

Driver

Customer Behaviour	Ways to React
Will try to dominate the meeting	Move quickly/Be organised and well prepared
Little need to relate to you but wants to get on with the task	Provide examples/Give options/ Describe benefits
Has clear objectives/Usually the final decision maker	Be assertive but do not defeat
Needs information and options of most likely successful solutions	Prove that you are the expert
Is concerned about costs and quality	Follow-up immediately/Fulfil all promises promptly

Analytical

Customer Behaviour	Ways to React
Difficult to relate to – prefers business-like approach	Be efficient but not too personal
Needs to hear details – will need several visits before deciding	Be logical and practical – present things in a systematic manner
Will not be sold on risky or unproven solutions	Provide case studies, examples, references to verify validity
Must process and think things through – will check with others	Keep to time and agenda – provide additional information

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Case must be proven before a decision will be made	Give time to think – do not pressure for a decision

Promoter

Customer Behaviour	Ways to React
Works at a fast pace – difficult to stop	Move efficiently as a partner in the discussion
Tends to be direct and open	Be transparent and responsive
Creative and innovative – will want to discuss alternative ideas	Ask for their input in planning solutions for them – engage
Likes to be listened to – will freely offer more information	Ask about their vision of the future – show interest in ideas
Must be assured of your competence and knowledge	Be aware that they may be shopping with several other providers

Supportive

Customer Behaviour	Ways to React
Must know and trust you – needs several visits. Lasting relationship	Use friendly assertiveness but be patient with them
Likes to spend time talking about other topics to get to know you	Spend extra time to build the relationship – make a friend
Will want your recommendation and possibly that of an outsider	Tell them about others in similar situation that you have helped
Needs assurance that risk is low	Ask if another person will help them to make the decision

106.2: Methods for interacting with different personality types

Considering these different personality types during a conversation is useful in helping customers feel at ease and discovering their desire to buy what you are offering. Relationship salespersons who are able to identify personality types quickly, and adapt their style accordingly, generally demonstrate superior performance and enjoy more loyal relationships with their customers.

It is also important to consider how the contact is initiated. If a customer has initiated contact with the bank, generally they would have already identified the service needed. If the bank initiated the contact, it will have to understand the customer's need and to create the right environment. The relationship salesperson will have to engage and set the tone of the interaction based on the customer's personality type.

Bank-initiated contacts will generally not be regarded favourably by the customer; overcoming that barrier will be the first task during the interaction. A bank-initiated contact, whether in person or over the phone, is best structured with a quick introduction to the strongest benefit the service delivers. This should be done in the first 10 to 15 seconds of contact. It is called a value statement, and will establish interest and require agreement from the customer to continue the discussion. This is most effective when the contact is within a group of possible customers identified as potentially interested in the service's benefits. (For example, people seeking to purchase a new home might benefit from a home loan).

On bank-initiated contacts, it is often difficult to determine personality types until the relationship salesperson establishes interest, so we sometimes recommend preparing different versions of the value statement for each personality type. If a person does not respond the first time, it can be repeated in a different way to see if that works. If a customer has not responded positively after two attempts at the value statement, it will be best to thank them for their time and move on.

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Conducive environment may also be viewed as a tangible in the sense will be described in the Customer Service Quality module of Retail Banking I. There we will show that there are five antecedents of customer service quality, and tangibles or 'physical elements' is one of them. For completeness, we state here the relevant section in the Customer Service Quality module:

Conducive environment also refers to the appearance of the physical surroundings (e.g., bank branch) where the service is being delivered, or the user-friendliness of technology for alternative bank channels. It is not surprising that banks have invested in modern and user-friendly branch designs that incorporate the most recent technologies such as iPads, touchscreens, near field communications (NFC), LCD walls and augmented reality.* Allen International, a global branch design expert, reported that it has implemented "the very latest in banking technologies to enhance and improve the in-branch experience for customers for DBS Bank at their new headquarters branch in the Marina Bay Financial Centre Tower, Singapore. The resulting branch design utilises a motion-sensitive, interactive digital welcome wall, quick service stations for fast transactions and the installation of teller assist units in the semi-private consultation pods. The branch also comprises a 300-seat auditorium and the first in-branch television studio for Channel News Asia".†

Tangibles also include the quality of communication materials as well as appropriate dress code for bank staff. All sales materials must be accurate and easy to understand. The criteria should be 'accurate, concise and clear'. Do not let an overly glossy layout overwhelm the importance of the brochure content.

We have now described the steps required to achieve an effective sales programme that is founded on relationship marketing or relationship selling as described by Standard Chartered Bank. The next chapter considers the recent recommendations to foster and enhance effective sales management.

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* See an article in afritorial.com for such innovations by the largest four banks in South Africa.

† Allen International website.

Chapter 2:

Recommendations for Effective Sales Management in Retail Banking

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In this chapter, we present and discuss important issues in effective sales management for retail banking. The lessons and managerial implications are also presented.

a) Implementation of Relationship Selling

The literature on sales management has identified three primary functions – Formulation of a Sales Plan, Implementation of the Sales Plan and Evaluation of the Sales Force – with respect to its effectiveness in implementing the plan. To implement the sales plan, the bank executive must consider issues related to sales force recruitment, training and compensation.

Operational details are described below and to implement effective sales management (via relationship selling) we suggest the steps recommended by Standard Chartered Bank:

"As part of Consumer Banking's commitment to responsible selling, we have undertaken a number of improvements, which we will monitor annually, including:

- Enhancing the sales and suitability procedures that govern our sales practices for Consumer Banking wealth management products
- Strengthening the senior management oversight of our customer complaints processes
- Tightening procedures for identifying vulnerable customers, such as the elderly who may have no prior investment experience
- Ensuring that all our products are reviewed and rated from a risk perspective
- Embedding our product and client attitude to risk profiling processes into an automated frontline sales system that is more robust from a control and monitoring perspective than the manual processes we used in the past
- Introducing after-sales call monitoring and/or assurance calls for all customers who are first-time buyers of more complex investment products, to ensure the sales process has been conducted appropriately

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- Refreshing staff training to make sure staff properly understand our customers' requirements and that products sold are suitable for their needs and risk appetite

- Maintaining an ongoing review of our sales processes to ensure that they meet or exceed regulatory standards

This is "to ensure that we embed the right sales culture and provide clear direction and expectations at a leadership level; train and coach our managers so that they get the best from their teams; and provide training, tools and techniques to our frontline staff to enable them to conduct needs-based conversations with our customers."*

Lesson

The leadership of a retail bank must create a culture of customer care and sales people, as part of this culture, must be loyal to the requirements of relationship selling based on needs. Do not sell products. Rather match bank products to customer needs.

Open Question #2

"The literature asserts that organisational effectiveness is necessary for effective sales management. The 3Cs are Confidence, Compensation and Choices. Confidence refers to sales expertise and experience likely to instil confidence in the customer in interactions with the bank salesperson. Compensation refers to incentive for sales performance (discussed in the next section), and Choices refers to choices for the customer (product choices are presented in Module 103).

How do the 3Cs affect the customer bank relationship and hence long-term sales?

Open Question #3

"Retail banks cannot expect superior customer service unless they provide superior training for all frontline staff. You cannot expect branch employees to be excellent in sales when they do not have the right training."

Do you agree?

b) The Role of Compensation for Salespeople

It is interesting to note that Barclays Bank of the UK has abolished commission-based selling at its branches. Here is an excerpt from the Independent (11 October 2012):

"Scandal-hit Barclays has announced it is scrapping commission-based sales targets for frontline staff and will pay bonuses purely on customer satisfaction.

From 1 December, all 18,000 branch and call centre staff will have no commission or incentives based on products sold and bonuses will be based wholly on customers' views about the level of service they receive.

Chief executive Antony Jenkins has said the move is part of Barclays' journey towards regaining customers' trust.

The announcement comes after the City watchdog recently said it would look to introduce new rules if the financial sector does not address the use of incentive schemes, which it said were driving staff to mis-sell products in order to receive a bonus."

* Source: Standard Chartered Website

This article suggests that commission-based selling can lead to mis-selling, as salespeople respond to this compensation structure, which is based on a high proportion of variable pay and which rewards sales outcomes. Hence, what is rewarded is what is done.

It also sets up an organisational problem. As we stated in the introduction, sales outcomes are derived from the prior efforts of all other functional areas in the bank – ranging from leadership and strategy to people management, risk management and marketing. Hence, rewarding only sales people for sales outcomes may create internal conflicts. One such conflict is considered in Chapter 3.

Undue emphasis on commission-based selling has the potential of becoming short-termism and is not consistent with the requirements of the effective customer–bank relationship that is required for additional sales.

Lesson

There is a strong requirement for HR to consider a compensation plan that minimises the role of variable compensation and emphasises the role of customer experience through a measurable concept such as Net Promoter Score.

Open Question #4

Sales people tend to be myopic and seek the path of least resistance to make the sale. This is not strategic but tactical. The bank`s strategy is directed to achieving long-term growth. Hence, sales teams efforts to increase sales do not necessarily align with the bank`s strategy.

Do you agree?

Open Question #5

What is the link between sales person compensation that is commission-based and the moral principles of teleology and deontology presented in Course Code 101 (Ethics)?

c) Pricing must reflect Value to Customer

Price is a mechanism through which a firm communicates value to the customer. First, the salesperson should demonstrate the value (rational and emotional) that the bank product will deliver to the customer to achieve his/her needs. From a customer perspective, price is the cost and they compare this cost with the perceived benefits. Hence, customers will perceive value if the price (i.e., cost) is lower than the customer's perceived value. In microeconomics, this extra value is called consumer surplus.

Lesson

The salesperson must articulate the price in terms of consumer value and relative to the competition. Never try to justify price as being fair. Justify price as being fair ***relative to the value to the customer.***

Lesson

Too low a price (i.e., relative to competition) may increase sales but may attract risky customers. Hence, credit losses may accelerate and lead to reduced profits.

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Open Question #6

The sales manager of a retail bank proposes to reduce the price of loans in order to increase sales. It is expected that this would boost top line revenues and even profitability.

What are the implications for credit losses for this bank?

Can this strategy boost the top line but reduce profits?

d) The Role of Brand in Selling Financial Services

Berry (2000)* considers branding† is a principal success driver for service organisations. The main reason is that financial services are intangible and so consumers have difficulty in differentiating one bank product from another. Brand gives customers a mental picture of the service and a strong brand is valuable to consumers because it reduces perceived risk of buying products from the bank. The key is that a strong brand is a strong driver of sales for a bank. Indeed, Kellar (2003)‡ coined the term ***customer-based brand equity*** to illustrate the extent of the emotional bond between a bank (as represented by its brand) and the consumer.

Lesson

New customers of the bank will first form a mental image of the bank's brand before they seek to form a relationship with the bank's frontline staff.

But there is a feedback.

The quality of the relationship with bank staff will then affect the customer's future brand perception.

Brand perception is dynamic.

Lesson

Unlike pure tangible product companies where a strong brand in the market is a main driver of sales, in financial services it is ***also*** the case that the bank must endeavour to create a strong brand in the ***minds*** of customers.

e) Direct Response Sales and Bank Brand

Direct Response Sales (e.g., direct banking) is highly correlated with the company's brand. There are three stages for successful sales over the long term. These are:

i) Acquisition of a prospect

ii) Conversion (the matching solutions and needs described in Chapter 1)

iii) Retention

Lesson

A Trusted Brand is crucial to Direct-Response Sales success

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* L. L. Berry, "Cultivating service brand equity", *Journal of the Academy of Marketing Science*, 28, 128-37 (2000).

† This is the subject of the Brand Management module in Retail Banking III.

‡ K. L. Keller, "Understanding brands, branding and brand equity", *Interactive Marketing*, 5(1), 7 (2003).

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e) Digital Marketing and Sales

There are other recent developments that have an important bearing on effective sales management. For example, internet marketing and sales in retail banking have also advanced at break-neck speed and banks, in general, seek to market and sell to consumers on alternative channels. The 4I model of internet* (digital) marketing and sales is described as follows:

- ***Interaction*** – the ability of the frontline staff to interact with the customer over his/her life cycle and hence increase value to both the bank and the customer. This is an ongoing process and never really stops.

- ***Integration that is information driven*** – database marketing and sales (a form of direct marketing and sales) are highly dependent on customer information that is timely and accurate. This demands that the bank obtains a multichannel view of the customer.

- ***Identification or Immediacy*** – Salesperson or bank frontline staff must be able to act on customers' requirements promptly. This includes the demands of prospects. Indeed, 'responsiveness' is one of the dimensions that drives customer service quality (see module titled Customer Service Quality).

- ***Intensity–use*** – media between customer and the bank involving some degree of active communication.

Lesson

Implement the 4I model of digital marketing and sales for effective sales management. Embrace technology and develop a relationship with the customer on digital channels. Selling will have to evolve with technological advances.

f) The Role of Operational Excellence

We discussed above the role of pricing in affecting sales performance. We also showed that the bank must be aware that an unduly low price to attract new customers may create underwriting risk so that credit losses may increase to high levels. A low price may also cause an unbearable decline in gross margin. One way of combatting this problem of 'adverse selection' and the consequent underwriting risk is to take action to achieve lean operations. We show how to achieve lean operations through an application of Little's law in Course Module 108 – Operations I. With lean operations, operating cost is reduced and hence a lower price can provide an authentic competitive advantage to the bank.

Lesson

Achieving operational excellence can provide salespeople with a price competitive advantage.

We now discuss a bigger organisational issue that faces many companies including banks – marketing sales conflict. This is the subject of the next chapter.

* Pazgal Amit and Sikka Sandeep, "4I: A New Premise for Marketing Online", *Internet Marketing Research: Theory and Practice* edited by Ook Lee, Idea Group Publishing London pp 150-175 (2001).

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Chapter 3:

Integrating Sales and Marketing Functions

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In the normal functioning of a retail bank, marketing creates a plan for sales and sales people deliver the outcomes based on the plan. But in the normal course of sales, salespeople collect relevant information that is required for market research and statistical applications such as data mining. Clearly, there is a symbiotic relationship between marketing and sales. Athens (2000)* states that: "You'd expect sales and marketing to be aligned in any successful organisation — yet in fact the opposite is often true. The reality is that sales and marketing need to sync up or sink. The two need to be integrated in order to build customer relationships, enhance brand, capitalise on leads, improve market share and boost revenue."

There is evidence that sales and marketing in a typical retail bank may be in conflict. Kotler et al (2006)† states that "sales departments tend to believe that marketers are out of touch with what's really going on in the marketplace. Marketing people, in turn, believe the sales force is myopic - too focused on individual customer experiences, insufficiently aware of the larger market, and blind to the future. In short, each group undervalues the other's contributions. Both stumble (and organisational performance suffers) when they are out of sync… Marketing falls into two main categories: economic (a single budget is typically divided, between Sales and Marketing, and not always evenly) and cultural (the two functions attract very different types of people who achieve success by spending their time in very different ways).

"The conclusion is that a misalignment between sales and marketing can lead to negative firm performance. Poor coordination between the two teams only raises market-entry costs, lengthens sales cycles, and increases cost of sales." (Kotler *et al*).

Recent research (Dewsnap and Jobber 2000; 2002)‡ notes that the cross functional relationship between marketing and sales is characterised, mainly, by negative outcomes, e.g., lack of cohesion, distrust, dissatisfaction, and conflict.

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* Deborah Athens, *Integration Between Marketing and Sales*, (American Marketing Association, Chicago 2001).

† P. Kotler, N. Rackham, S. Krishnaswamy, "Ending the war between sales and marketing", *Harvard Business Review*, Jul/Aug2006, Vol 84 Issue 7/8, p68-78 (2006).

‡ Belinda Dewsnap and David Jobber, "The Sales–Marketing Interface in Consumer Packaged-Goods Companies: A Conceptual Framework," *Journal of Personal Selling & Sales Management*, 20, 2 (Spring), 109–119 "A Social Psychological Model of Relations Between Marketing and Sales", *European Journal of Marketing*, 36 (7–8), 874–894 (2000).

This is despite the fact that collaboration, goals consistency, information exchange and co-ordination of activities between marketing and sales departments are critical factors for company success (Guenzi, 2003).*

The main point is that coordination of marketing and sales teams in the bank should result in a single business unit. This point is made clear in the research findings of Ken Le Meunier-FitzHugh and Nigel F Piercy† who state, "this study identifies five antecedents to improving collaboration between sales and marketing, and outlines the management implications of the study. The findings indicate that a positive senior management attitude toward collaboration between sales and marketing, the reduction of inter-departmental conflict, the improvement of communications, the establishment of organisational learning, and effective market intelligence systems are important antecedents to effective collaboration between sales and marketing".

This paper suggests that the first step for greater coordination between the sales and marketing units is through the development of joint market intelligence. "Of course, there are other factors that may be important to improving collaboration between sales and marketing (for example, the use of joint working parties), but market intelligence may provide a particularly accessible and relevant area on which to focus management attention because it encourages sales and marketing to work together on a mutually beneficial activity."

Lesson

Start the coordination between marketing and sales with the development of joint market intelligence.

Summary

This module considered issues in relationship marketing, key factors for success in marketing and sales of financial services that include the role of salespeople compensation, training and development, bank brand and pricing as well as discussion of the potential conflict between marketing and sales. We also emphasised that salespeople succeed when they meet customer needs while achieving the company's financial goals that are set for their respective regions or bank branch. The lesson for bank executives is this: Do not see operational excellence or the rationalisation of products or channels only in terms of efficiency. See them also in terms of effective sales management where they give sales people an important competitive advantage to develop the customer–bank relationship for long-term financial performance. The book *Sales Growth*‡ states that "we've found that SEOs who put sales management at the heart of their agenda have captured astonishing growth — outstripping their peers by 50 to 80 percent in terms of revenue and profitability."

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* Paolo Guenzi, "Antecedents and consequences of a firm's selling orientation", *European Journal of Marketing*, Vol 37 Iss: 5/6, pp.706 - 727 (2003).

† Ken Le Meunier-FitzHugh and Nigel F Piercy, "Does Collaboration between sales and Marketing affect Business Performance?" *Journal of Personal Selling & Sales Management*, vol XXVII, no 3, pp (summer 2007) 207–220.

‡ Thomas Baumgartner *et al*, *Sales Growth – Five Proven Strategies*, (Wiley).

Multiple Choice Questions

1. Research has shown that in order to integrate marketing and sales functions, it is best to start with:

a) Senior management demonstrating the value of collaboration
b) Reducing inter-departmental conflict
c) Improving communication
d) Developing joint market intelligence

2. During a sales conversation the sales person says: "I know that you have to pay a monthly maintenance fee for your current account, but in return you get one percent cashback on bill payments, a three percent interest rate, free annual subscription to the fashion magazine of your choice, and a custom card design." This is an approach used to minimise the effect of a product drawback. Which approach is this?

a) Compounding
b) Coupling
c) Contrasting
d) Comparing

3. Grouping and classifying customers based on what they are trying to achieve, is what type of segmentation technique?

a) Demographic
b) Psychographic
c) Past-Purchase Behaviour
d) Outcomes-based

4. The matching of channels with bank products is based on the principle that simple products require less direct personal contact. Which of the following products would probably dominate the regular business of a direct (internet) bank?

a) Credit cards
b) Variable rate mortgage loans
c) Savings accounts
d) Current Accounts

5. Beckett et al (2000) stated that there are three additional characteristics that differentiate financial services from other services. These are (a) transparency of performance, (b) uncertainty of outcome and (c) poor comparability. Which one of these additional characteristics is described as: "the availability of information presented by the bank, and consumers' ability to make evaluations based on that information"

a) Transparency of performance
b) Uncertainty of outcome
c) Poor comparability

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6. Which statement is incorrect?

a) Research has shown that successful salespeople are not necessarily effective sales managers
b) Operational efficiencies can lead to effective sales management by providing a competitive price
c) Effective sales management is independent of marketing research
d) A trusted brand is crucial for effective sales management

7. Immediacy is one of the factors in the 4I model of digital marketing. This factor refers to:

a) The ability of the frontline staff to interact with the customer over his/her life cycle
b) The application of data and information for effective marketing
c) The ability of bank frontline staff to act on customers' requirements promptly
d) Bank staff actively communicating with the customer

8. Which is not one of the three stages of Direct Response Sales?

a) Acquisition of a prospect
b) Conversion (the matching solutions and needs described in Chapter 1)
c) Retention
d) Cross-selling

9. If a sales manager in a retail bank does not want sales people employed by the bank to try to increase sales irrespective of customer needs (i.e., mis-selling), a recommended compensation plan should be which of the following?

a) Commission only
b) A weighted average of salary and commission
c) A weighted average of salary and bonus based on NPS
d) Salary only

10. Which statement best describes relationship selling as defined by Barclays Bank?

a) The interaction between the salesperson and the bank customer is competitive
b) The salesperson is thinking only about the next sale
c) Developing a relationship between the salesperson and the customer takes priority over the sale
d) The sales person is self-interest oriented

Answers:

1	2	3	4	5	6	7	8	9	10
d	b	d	c	a	c	c	d	c	c

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