SILESIAN
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ADMINISTRATION IN KARVINA

PRODUCT – FINANCIAL SERVICE

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MARKETING OF FINANCIAL SERVICES/NAMAF

OUTLINE OF THE LECTURE

1. Financial service – basic terms
2. Product mix of financial services
3. Product levels of financial products
4. Cross-selling and up-selling
5. Financial product life cycle

    5.1 Financial product innovation

    5.2 New financial product development

1. FINANCIAL PRODUCT – BASIC TERMS

- **Financial service** - any activity or benefit associated with the finances (current account, credit card, mortgage, life insurance, savings, securities trading, ...)

- **Basic (key) product** - the main cause of the financial service purchase of services (access to cash, security of assets, savings, insurance, credit, return on investment etc.).

- **Supplementary (peripheral) product** - offered within the basic service and creating added value (account statements, advice, personal banker, internet banking, insurance, services assistance etc.)

2. PRODUCT MIX OF FINANCIAL SERVICES

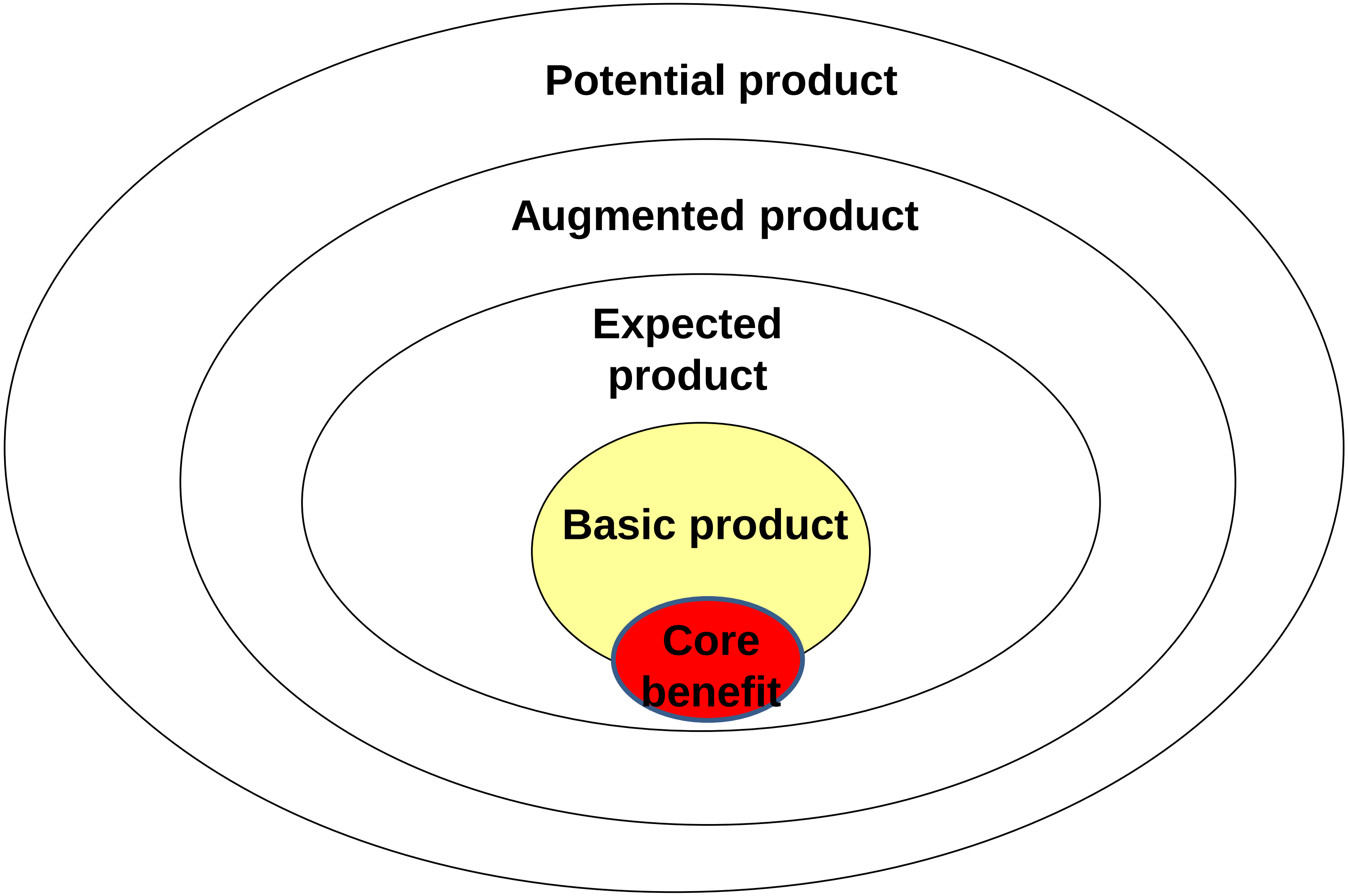
- **Product mix (PM)** - all products and items that a particular seller offers for sale to its customers.
- **Product line** – a group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels.
- **Width of PM** - number of different product lines.
- **Depth of PM** – number of product variants in each product line.
- **Length of PM** - total number of items in product mix.

- **Diversification of risk!**

CHANGES OF PRODUCT MIX IN FS

- Add a totally new product line.
- Increase the number of products in the product line.
- Modifications (small product modifications).
- Innovations (more significant product modifications).
- Elimination (reducing in the number of product lines or products in the product line).

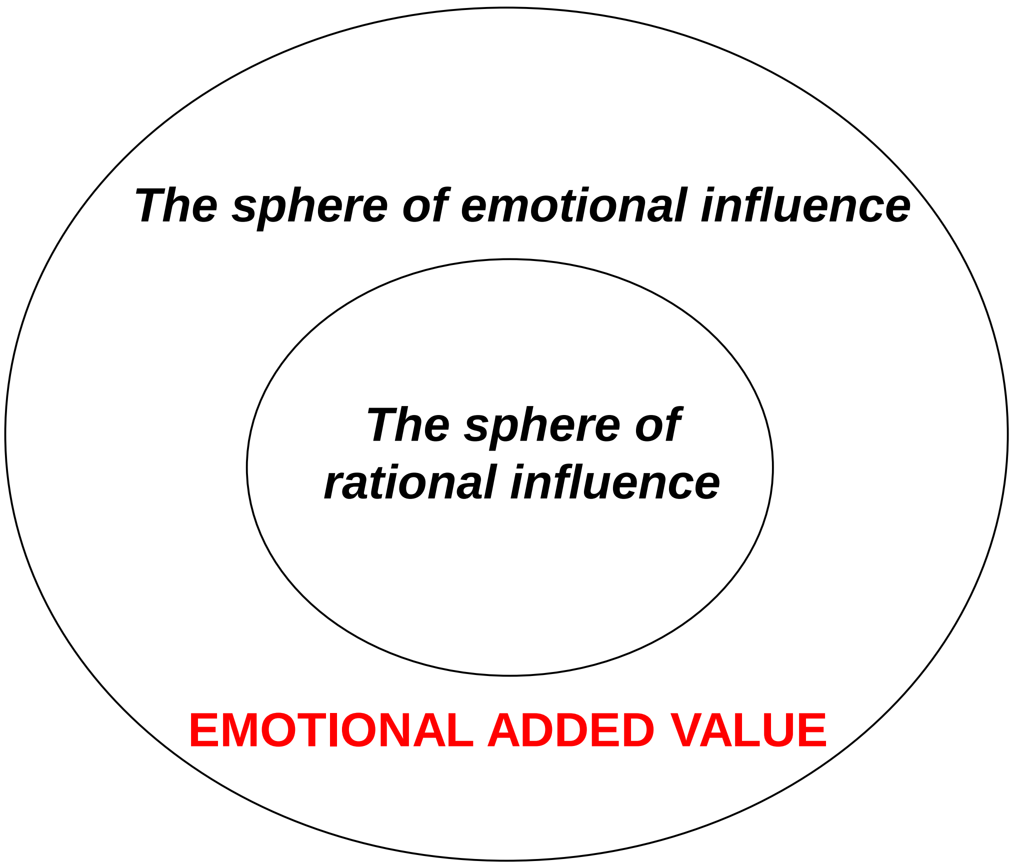
3. PRODUCT LEVELS OF FINANCIAL PRODUCTS



⇨ **TOTAL MARKETING PRODUCT**

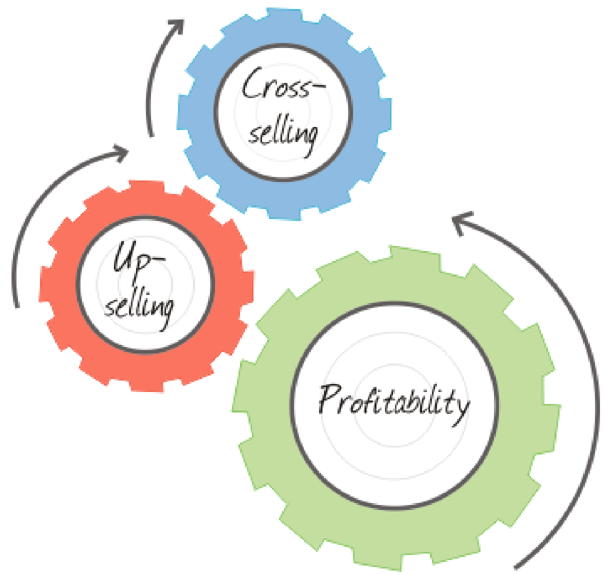
EMOTIONAL VALUE ADDED AS A SOURCE OF COMMERCIAL SUCCESS

HOW TO CREATE THE VALUE FOR CUSTOMERS?



> **FINANCIAL SERVICE PRICE**

4. CROSS-SELLING VERSUS UP-SELLING



CROSS-SELLING

- **CROSS-SELLING =** the action or practice of selling an additional product or service to an existing customer.
- Activities designed to increase overall customer order thanks to recommendations of complementary goods, ie. targeted and absolutely correct offer.
- Product package (package) should represent certain advantage for the customer (usually lower price).

- Mortgage + life insurance, term life insurance, bank account + pension insurance, …

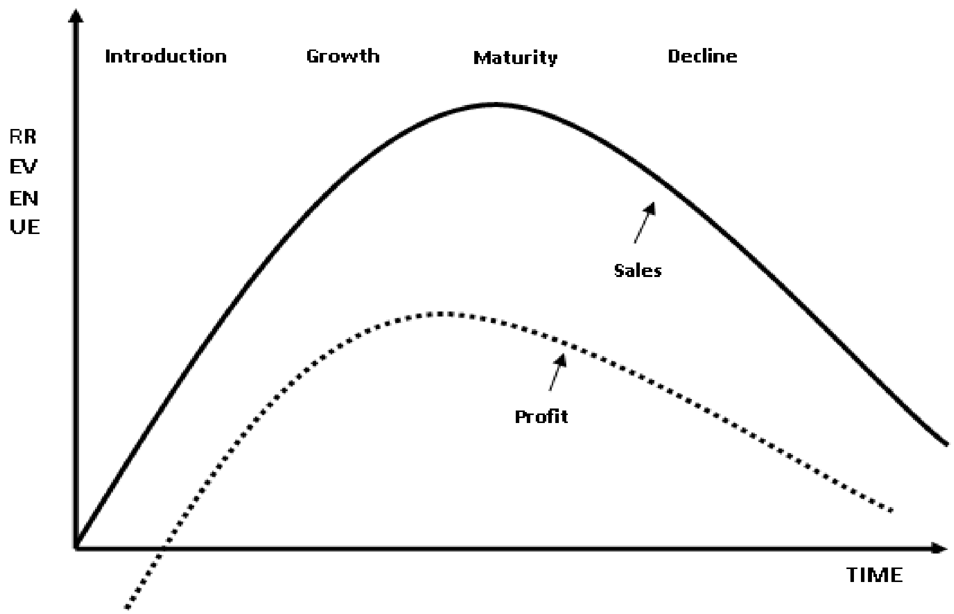
UP-SELLING

- **UP-SELLING** = sale of product or service qualitatively better than the original order.
- Higher product or service model or a more advanced version of the service as opposite solution of complementary products offering (cross-selling).

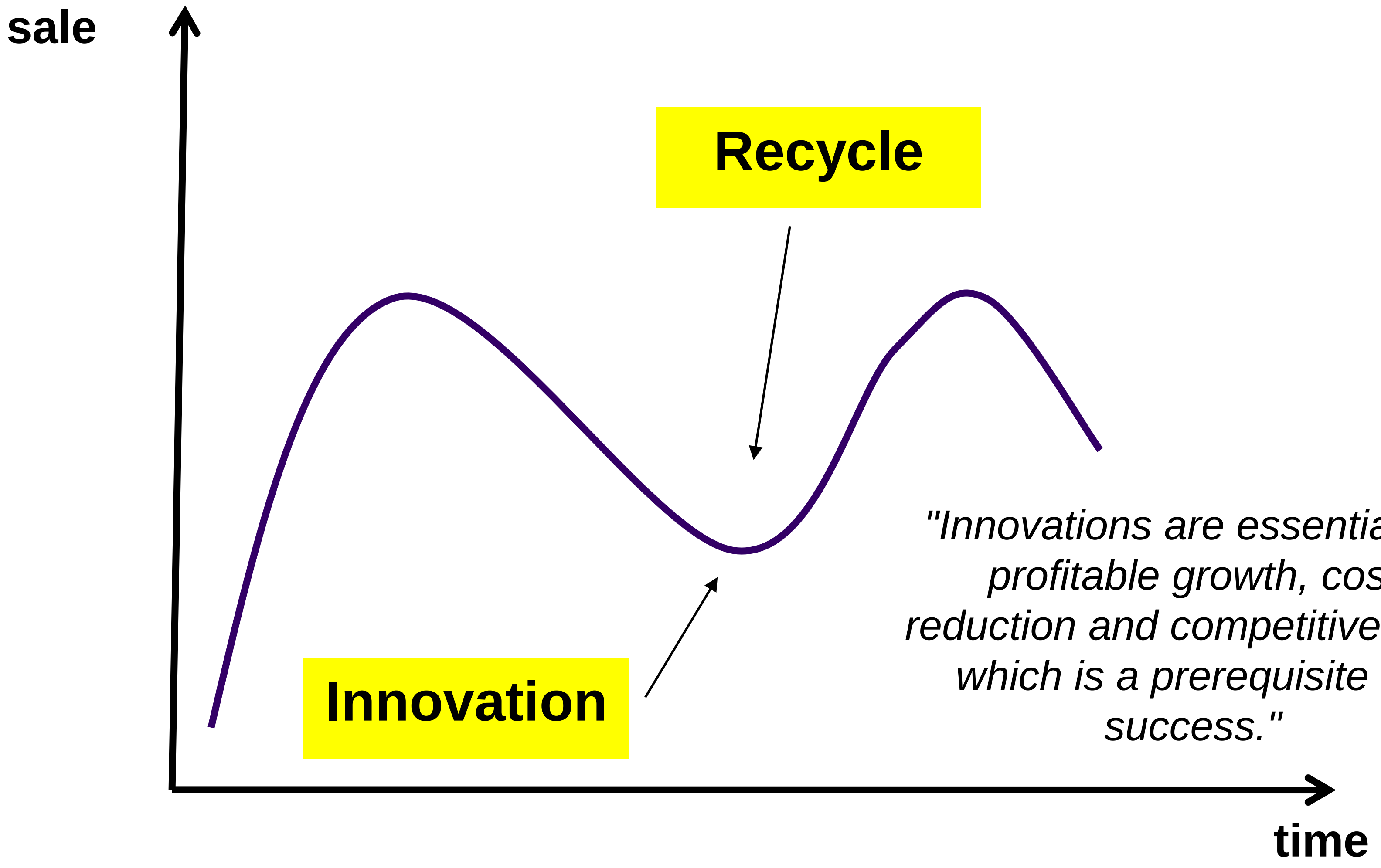
- The basic version of travel insurance - just covering health risks X travel insurance - health insurance with higher limits, baggage insurance, liability insurance, COVID-19, …
- The basic version of bank account X a bank account with an improved payment card, higher overdraft limit, …
- Standard Erasmus package of the bank account G2 X Premium Erasmus package of the bank account G2 for students

5. FINANCIAL PRODUCT LIFE CYCLE

- **Product life cycle (PLC)** = time when the financial product is offered in the market.
- **Specifics of PLC of financial products:**
  - short time of product introduction,
  - development costs are relatively low, these products can not be patented easily,
  - very difficult product differentiation,
  - a short life cycle.



5.1 FINANCIAL PRODUCT INNOVATION



"Innovations are essential for profitable growth, cost reduction and competitiveness, which is a prerequisite for success."

INNOVATION

- The idea, service, product or technology that is developed and offered to customers who can perceive it as a new and original ⇨ **discernible positive change of the product.**

- **Innovation according to the level of change:** fundamentally new products, products representing the improvement of existing products (modification), analogous products (expansion of the range with a new variant).

INNOVATION SEGMENTS

Innovators	**2.5 %**	The innovators are the most willing to adopt innovations. They are open-minded, adventurous, and tend to be younger, better educated, and more financially secure. They try new things just because they like having something new and unusual.
Early adopters	**13.5 %**	Early adopters are more socially aware than innovators and consider the prestige or social implications of being seen using a new product. They are media savvy, and more mainstream groups look to early adopters for cues as to what is the "next big thing".
Early majority	**34 %**	Members of the early majority do not want to be the first or the last to try a new product. Instead, they wait to see what excites the early majority adopts a product, it is no longer a cutting-edge item, but has become part of the mainstream.
Late majority	**34 %**	Older and more conservative than other groups, the late majority will not adopt a product they consider to be too risky. They will purchase something only if they consider it to be a necessity or when they are under some form of social pressure.
Laggards	**16 %**	Laggards are heavily bound by tradition and are the last to adopt an innovation. By the time laggards take up a product, it may already have been rendered obsolete by another innovation.

Source: Levens (2012, p. 172-73)

5.2 NEW FINANCIAL PRODUCTS DEVELOPMENT

- The emergence of themes, topics filtration, development and testing of the concept, assessment of potential markets, new product development and testing and commercialization.

- **New products can:**
  - attract clients from external (to the institution) markets,
  - increase sales in existing markets, mainly the development of the sale of various types of products (cross-selling) to the same customers,
  - reduce the cost of providing the same or similar services.

- **Market cannibalization!**
- **Marketing mortality!**
- Ansoff matrix

ANSOFF MATRIX IN FINANCIAL MARKET

PRODUCTS	MARKETS: ***Existing***	MARKETS: ***New***
Existing	***Market penetration*** *through increased providing of services, intensifying the degree of use offering advisory services, extension of branches and ATMs, business cards offer to other business entities.*	***Market development*** *by attracting new customers, eg. sale of mortgage loans or other life insurances, loans to finance vacation, providing payment cards, pet insurance, establishing children's accounts, etc.*
New	***Product development*** *via product innovation, specialization, new products – new savings programs, new types of loans for different segments, student accounts with innovative characteristics.*	***Diversification -*** *accepting higher risks, the development of new market segments (insurance of paragliding), providing of completely new services (building societies can provide screening and real estate services).*

NEW PRODUCT DEVELOPMENT – PROCESS STRUCTURE

- **Fuzzy front-end** is the set of activities employed before the formal and well defined requirements specification is completed.
- **Product design** is the development of both the high-level and detailed-level design of the product: which turns the what of the requirements into a specific how this particular product will meet those requirements. On the marketing and planning side, this phase ends at pre-commercialization analysis stage.
- **Product implementation** is the phase of detailed engineering design of mechanical or electrical hardware, or the software engineering of software or embedded software, or design of soft goods or other product forms, as well as of any test process that may be used to validate that the prototype objects actually meet the design specification and the requirements specification that was previously agreed to.
- **Fuzzy back-end** or commercialization phase represent the action steps where the production and market launch occur.

NEW PRODUCT STRATEGY

- Focus on digital financial services.
- Develop a vision and strategy focusing on the priority of the customer relationship.
- Be prepared for cooperation with business partners.
- Gaining an advantage as the first innovator in the market.