

## Marketing Strategy for New Banking Services and Products and its Effects on the Stockholders Equity.

[Case Study: Arab Bank through Shabab Product]

Ahmad Areiqat      Naim Al-zeer      Ahmad Al-zaml

Al Ahliyya Amman University.

### ABSTRACT

This study aims to discern the impact of creating and triggering new Banking Products and Services on the shareholders equity. The researcher selected Shabab Product that provided by the Arab Bank of Jordan in 2005.

The Bank had implement an advanced marketing strategy to market this product for the Jordanian Citizens who are between 18-35 years. The results of the study were that, the shareholder equity increased in the end of 2005, and the net income also has increase.

### الملخص

تهدف هذه الدراسة لإبراز أثر خلق منتجات وخدمات مصرفية جديدة على حقوق المساهمين. لقد إختار الباحث المنتجات الجديدة التي قدمها البنك العربي في الأردن سنة لفئة الشباب في سنة 2005.

لقد كان هدف البنك هو تنفيذ استراتيجية تسويقية لتقديم خدمات جديدة للمواطنين الأردنيين الذين تتراوح أعمارهم بين 18-35 عاماً. توصلت الدراسة إلى أن تنفيذ هذه الاستراتيجية أدى لزيادة حقوق المساهمين وصافي الدخل المحقق في نهاية عام 2005

### Introduction:

Now a days, Organizations are working within a Sharply Competitive environment, related to new terms such as information and communication revolution, the environmental diversity, technological revolution, and globalization. And because of the main goal of an organization management is to maximize the Owner's wealth, managers especially in the banking sector are working under pressure from shareholders, international financial crisis, and the central Bank regulations. Such factors affected deeply the management practices and activities. In the banking sector, triggering safety Products can be considered as one tool in retaining the current customers and attracting new customers, this mean that bank's managers are facing now different attitudes and behaviors in the marketing process, because the marketing manager in a company's Primary link to the customer and the

competition. There for, the marketing manager must be especially concerned with the market position and marketing mix of the organization as well as with the overall reputation of the company and its products. (Weelen and Hunger, 2006, P.117)

The potential outcomes of the marketing strategy are:

- Acquire more customers.
- Persuade each customer to buy more products.
- Persuade each customer to buy more expensive products or up selling each customer.
- Persuade each customer to buy more profitable products (centa business services London).

And these outcomes are working together in achieving the major purposes in increasing the market share, the net income and the shareholder equity.

1. This paper aims to discuss and examine the Arab Bank of Jordan's Strategy in marketing the new product "Shabab product" and the financial results of this marketing Strategy especially on the Stockholders equity.

## 2. The Study Importance:

The banking sector in Jordan characterized by diversity either in the nature or the number of banks working in the Jordanian market, which created a higher competition environment. Jordanian Banking Market involves now, local banks, foreign banks, and international banks, and each bank is working now within a racetrack in order to increase his market share, to maximize equity, and to attract new customers. The traditional banking services and products became not enough any more in this racing, for that, banks now have to be pioneers in innovating and providing new products and services. The importance of this study refers to its attempt to link the new product to its marketing strategy.

## 3. The Study Objectives:

This Study aims to achieve the following objectives:

- New banking Services and products are useful in retaining the current customers and in attracting new customers.
- The marketing Strategy that applied by the Arab Bank was the success key in providing Shabab Product.

**4. The Study Problem and Questions:**

The study problem takes the following form "Failure in marketing a new banking service".

The questions of the study are:

1. Why banks tend now toward creation new products?
2. How can banks enhance the quality of the new service through the marketing strategy.
3. What are the factors and procedures applied by the Arab Bank of Jordan to succeed in providing Shabab product?

**5. The Study Hypotheses:**

- There is no relationship between triggering new banking products and the high competition in the banking market in Jordan.
- There is no relationship between implementing Shabab product and increasing the net income for the Arab bank of Jordan.
- There is no relationship between triggering new products and increasing the Shareholders equity.

**6. Previous Studies:**

- 6.1.** A Study by Robin Lang Ford (2009), under the title "New Mobile Banking Service Goes Live" England. A study aimed to create a kind of calm among the users about the security of their financial information. The author pointed out that "This Service works by connecting users, via the internet on a mobile phone, to a secure transactional payment system developed by txtrans."

Moreover, users pre- register a debit or credit card and receive a secure PIN to access the Mobank service from a mobile phone, so they do not have to enter card details every time a transaction is made.

The txtrans system means that no banking data, card details or PIN are stored on the mobile phone itself, so the transaction is secure, even if the mobile phone is stolen.

As a result of using this system, Steve Townend, CEO and founder of mobank said: "These days, people especially the under 30s- expect to be able to run their lives on the move. Now you can run your banking, shopping and money management from it too."

Michigan City (Business Wire) (2009), under the title "Horizon Bancorp Announces an Increase in First Quarter Earnings" the study represents a report that illustrates how Horizon accomplished this increase. Craig M. Dwight, president and chief executive officer attributed this increase to

many reasons, and for the purpose of this study, Stock holders equity totaled \$ 106.4 million at march 31. 2009 compared to \$ 103.4 million at December 31.2008. this increase was the result of net income which affected by opening a full service branch in Gosher, Indiana on April 6, 2009, holding company serving northern Indiana and southwest Michigan. Horizon also offers mortgage- banking services throughout the Midwest.

The current study could be benefited from this study in understanding that providing new services especially in banking industry may be through new branches in new locations.

- 6.2.** This Study by Information Builders (2009), under the title "Lacaixa Savings Bank Boots Profitability with Self- Service BI Environment": The report indicated that La caixa has become the largest Savings bank in Spain through its focus on retail banking. Banks may not create new Strategies, or services to achieve their goals, but they may develop and improve their existing services. La caixa followed this manner, where Xavier Gonzalaz Said "Instead of building a new Channel, we are enabling our well- established network of almost 5000 branch offices to address this market.

Adopting business intelligence (BI) has generated many benefits for La Caixa Bank, increasing in customer base by 9 percent in the last ten months and has dramatically increased profitability in this segment from 10percent to 16percent.

- 6.3.** A study by derdack, Matthes (2009), under the title "Improving Customer Service Via Mobile Banking": The report aimed to ling new services of Oman Arab Bank to building revenue. The report indicated that Oman Arab Bank has triggered many new services such as mobile bank, bill payment via SMS. Oman Arab Bank has shown what can be achieved by combining expert local knowledge and innovative vision of how to exploit the SMS channel and the latest technology for mobile banking to achieve revenue and customer growth.

- 6.4.** Triggering new baking and services may takes another aspect, this may be done through acquiring another bank or organization. Bradley keoun and Takahiko Hyuga (2008) pointed out that Bank of America corporation to day announced it has agree to acquire Merrill Lynch. Co. Inc. in a \$50 billion all- stock transaction that creates a

company unrivalled in its breadth of financial services and global reach. One of the executives of Bank of America has expected the potential results of this process, he said "Acquiring one of the premier wealth management, Capital markets, and advisory companies is a great opportunity for our shareholders.

- 6.5.** The study by shareholders' unit in the Arab Banking Corporation, under the title "Al- Mosahim". The study indicated that ABC Islamic Bank, and Standard Chartered Bank have provided a new service, 3 years revolving Murabaha financing facility for their client Aref investment Group. General Syndication received strong support from the regional and international syndication market and the facility was over- subscribed by more than 100%. The facility amount was increased from the initial us \$100 million to us \$200 million. The 27 bank syndicate comprises banks from Europe, the Far East and the Middle East. By comparing the net income of ABC Group for the years 2005, 2006, the net income was increased by 54% over the last year.
- 6.6.** Günal, Önce (2004), under title "Service Marketing in Banking Sector and Recent Perceptions in Marketing Thoughts of Services, Eylul University, Turkey: The study aimed to identify the reasons for marketing scope to have importance in banking and for banks to interest in marketing subject can be arranged as:
- Change in demographic structure: Differentiation of population in the number and composition affect quality and attribute of customer whom benefits from banking services.
  - Intense competition in financial service sector.
  - Bank's wish for increasing profit to create new markets, to protect and develop their market shares, and to survive on the basis of intense competition and demographic change levels.
- 6.7.** This Study by Ceylan Onay, (2003) under the title "The Impact of Internet- Banking on Bank Profitability".  
The Case of Turkey:  
The study aimed to describe the impact of adding the Internet technology as a new Service for e- banking on the profitability measured in terms of ROA and ROE.

The Study results Showed a significant decrease in the profitability. This could be attributed to the increase in IT expenditures following the adoption of the new technology. In the second year following the adoption of the technology, the researcher indicated that there was a positive co efficient of the variable on the ROE estimation.

This study provides an important benefit to the current study in the meaning of, the negative results may happen in the beginning of employing the new service cannot considered as failure.

- 6.8.** This study is a case study of Clariden Bank (2003), under the title "Clariden Bank Builds a Foundation for Profitability". The study aimed to discern the impact of replacing the current banking system in achieving the bank's goals. To increase customer satisfaction and lower its cost ratio the bank need a new core solution with high flexibility, high service quality, reduced failure rate, increased efficiency in transaction processing, flexible reporting and sophisticated information aggregation and retrieval.

As a potential Solution, Clariden Bank decided to implement IBM's Order Transport Management System (OTMS).

The most important results of implementation of the new system were: efficiently supports the business processes from front to back office. It enabled Clariden Bank to achieve its main goals: to increase both sustainable and measurable client satisfaction and the bank's profitability.

- 6.9.** The Study of Jack R. Salvetti and Nancy D. Schell (2002), under the title "A Grab Bag of Profit Ideas":

This study aimed to identify the marketing strategy's steps have to be applied by a bank in order to enhance its products and services. The authors indicated that "The marketers have to begin by viewing their bank from the customer's point of view. Each of the key activities of creating, producing, selling, and delivering a product or service should be examined closely and re- tooled if necessary to deliver top- notch service that will keep customers coming back. The main out comes of this study were: Once you have provided a higher level of service you may find additional opportunities to share the cost of your outstanding service and convenience with highly satisfied and loyal customers.

That is a vital part of profit improvement. And if you are unable or unwilling to ask your customers to share in some level of that cost, then you

are expecting your shareholders to bear the full burden through lower profits and returns on their investments.

**Theoretical Bank Ground:**

Triggering new products and services is very important for banks especially in a high competitive environment, but the most important issue is how to market this new product or service. Banks now are highly concerned to increase their market share for present products or services in present markets through greater marketing efforts in order to overcome the effects of the international financial crisis. This marketing strategy is called market penetration strategy. (David, 2007, p. 177)

New banking products and services have to be managed through an advanced marketing strategy which must include five components: Strategy in any field, marketing, production, teaching for example must include five components which are:

- a) Scope, which means breadth of strategic domain, represented by number and types of industries, product lines. Market segment. To reflect company mission and strategic intent.
- b) Objectives and goals: to evaluate the success of a strategy it must include a desired level of accomplishment on one or more performance dimension and the growth vector.
- c) Resources and their deployment: allocation of human, financial and other resources across business, markets, processes, etc.
- d) Competitive advantage: to discern the distinctive competencies or strength relative to competitors.
- e) Synergy: improving overall efficiency and effectiveness by exploiting synergies across businesses and product markets. For purpose of examining and evaluating the marketing strategy that applied by the Arab bank in marketing the new program, it is useful to recall how an organization formulate and implement a marketing strategy. Marketing strategy deals with pricing, selling and distribution a product.

When managers and marketers of the Arab Bank thought about Shabab Product, they had rely on a big opportunity related to the banking environment in Jordan, this opportunity pertains to the Jordanian population, which was in 2007, 5723 million citizen, with a structure based on age shows that:

12% of the total is between

15-19 years, 19% of the total is between  
20-29 years and 13% of the total is between  
30-39 years.

(Department of Statistics, Jordanian Government).

Shabab Product has been presented to the young individual who are between 18-35 years. The strategic issue here is that %19 from the population could be now current customers for Shabab Product, and three years later, about %12 will be added as potential customers.

This product was the first one in the banking services in Jordan, which is working in a high competitive environment. And this leads us to deny the first hypothesis which is "There is no relationship between triggering new banking products and the high competition in the banking market in Jordan" and to accept the alternative hypothesis "There is a relationship between triggering new banking products and the high competition in the banking market in Jordan."

The second step of the marketing strategy for Shabab Product was; defining the objectives that represents a main element in formulating and implementing marketing strategy. (x- files, 2002)

The general objectives of triggering Shabab product were:

- a) To attract new layer of customers (young people).
- b) To increase the bank's market share through providing special products and services to specific potential customers who need different financial services.
- c) To identify profits generated from the interests and commission that derived from the product.
- d) To enhance the customer relationships.
- e) To increase the opportunity of selling other products and services.

The consistency of those objectives to the major objectives of the Arab Bank and its mission is very high. And these objectives lead us to deny the second hypothesis "There is no relationship between implementing Shabab Product and increasing the net income for the Arab Bank of Jordan" and to accept the alternative hypothesis "There is a relationship between implementing Shabab Product and increasing the net income for the Arab Bank of Jordan".

The financial statements of the Arab Bank shows the increase in the net income for the years 2004-2005, because Shabab Product had been applied in 2005. The net income for the year ended in December 31. 2004 was JD 148.3 million, and in the end of 2005 (200.1) million, the net



income increased by 518 million which represents % 34.9 over 2004 net income. (The Annual Report (2005), Arab Bank of Jordan).

As we know, the net income is a main component of the shareholders equity, and the same annual report shows an increase in shareholder equity in 2005 compared by 2004. Shareholders equity totaled 1640.5 million JD in 2004, and increased to JD 1859.6 million in 2005, with a positive increase of JD 219.1 million and %13.4.

This analysis deny the third nil hypothesis "There is no relationship between triggering new banking products and increasing the shareholders equity" and accept the alternative hypothesis "There is relationship between triggering new banking products and increasing the shareholders equity" products and in creasing the shareholders" equity.

As mentioned earlier, the marketing strategy for new banking products and services is the success key for the product it self.

The marketing strategy of the new product, depends on market segmentation, because this product is presented to the young people.

The strategic planning that applied by the Arab Bank, aimed firstly to explain the new product, its benefits, feature, offers, prices, and conditions.

This conducted by a lecture for tow hours in each branch for the employees especially those who are CRO.

#### **Shabab Product:**

- Shabab is distinctive bundle of Banking and non banking benefits.
- It was designed especially to meet the financial and non financial needs of the youth segment.

In order to accomplish the objectives through attracting new customers, the bank is concerned to provide banking and non banking benefits. The banking benefits should be highly desired by the customer, and that enhances the marketing strategy. These benefits are:

1. Preferential interest rates on loans, 25% less.
2. Special loans tailored to meet youth needs i.e Shabab Tech and Shabab car.
3. Exemption from salary transfer.
4. Exemption from account minimum balance fees
5. Exemption from standing orders fees (order/month)
6. A Credit card free of issuance and renewal fees.
7. Internet shopping card free of issuance and renewal fees.
8. Free Shabab card (Visa Electron).

9. All E-channels free of subscription fee, Hala Arabic (phone banking), internet banking and SMS banking.

These benefits are working as an attractive factors in the marketing strategy because of their congruous with youth attentions. Which generally living with a low income, so they will search for cheaper products.

Also the non banking benefits are closely appropriate to the youth needs, such as:

- Discounted offer from Mobile Com.
- Discounted offer from Wanadoo.
- Discounted offer from Wide range of shopping spots.

And these benefits considered as strengths for the strategy. Through its marketing strategy, the Arab Bank exploited other organization that participate in the implementation of the strategy and it's prosper.

The non banking benefits are provided through external actors in the market. Through coordination and functional contracts, the bank tends to accomplish its objectives through other whose objectives are accommodate with the bank objectives in meeting the customer needs and expectations, and marketers have to understand the desired services that satisfy the customer and eliminate the gap between the customer expectations and the provided services (Zenithal and banter, 2002, PP.66-67).

Mobil Com-smart offer caters the following benefits:

- Fixing monthly bill.
- A discount of JD 2.00 on the bill in case of direct debit from customer's AB account (AB is Arab Bank).
- Three monthly subscriptions with a yearly contract credit on the 4<sup>th</sup>, 8<sup>th</sup>, and 13<sup>th</sup> month from subscription date.
- Same rate to any destination.
- Ability to scratch and recharge the account after that initial credit is used.
- Carry over any unused credit-never lose the money.
- International access service without having to pay a deposit.
- Roaming service without having to pay a deposit.
- An attractive handset discount.
- Discount on mobile phones selling prices (JD 35 approx).

Those benefits would be highly appreciate buy youth, and could be the success key of the marketing strategy.

The information and communication revolution influenced the life style for the Jordanian citizen, especially youth, who deal and use the

internet for different purposes, such as learning, e-commerce, shopping, playing games, and viewing movies etc. also the Jordanian government now is attempting to transfer from traditional government to e-government, this aspect requires flexibility, that enables the user to pay lower charges for the services provider. The Arab Bank and through Shabab Product, can provide through Wanadoo tow facilities:

- Dial up with a JD 2 directly debited from the customer account he/she will entitled of the following:
  - o 35 internet hours per month.
  - o Free usage between 12am-08am
- ADSL: the customer can get discounted ADSL home-line subscription when presenting his Shabab card at Wanadoo.

Also the non banking benefits offer includes discount spots for Shabab member in several shops and services providers, such as:

- Restaurants: Alcantina Café, chili house, dominao's Pizza, cupid café.
- Clothing: Uright, Orchestra, Givenchy, Adidas...etc.
- Furniture and home building: Bibar stores options.
- Gifts, Jewelries: Samar Optics, Gifts corner, Optikos Shami....etc.
- Movies, Bookstand Magazines: Orange DVD, Titles Book and Movies, Aramex Media....etc.
- Training and educational centers: Arab academy for Microsoft, Amid east, School Arabia and others.
- Hotels: Movempick.
- Mobiles and computers: Maraqa Tel, Ring Jordan, PC Zone and others.
- Automobiles and vehicles: Delta TV5 Scooters, Piaggio Vaspa.
- Entertainment: Race ways.
- Beauty centers: Awad Saloon.
- Gyms and Health clubs: Flex Fitness Centre.
- Currier delivery: Aramex shop and ship, Aramex express shipment.

The strategy designer made links between external environment and various market actors, and he was very smart in selecting the needs that can satisfy the potential customer.

Attracting new customers through Shabab program also took place in the marketing strategy which indicated that:

- Both AB customers and non AB customer can join Shabab if they are eligible to open an AB current or saving account in JD.
- Age should range between 18-35.
- Neither there is minimum income for joining Shabab nor a minimum account opening.
- If a customer applies for a credit card or a loan the related product credit eligibility criteria shall apply.

Here the strategy defined the product and its complementary services as a basic factor of the marketing mix, also defined the resources that will be located to implement the strategy.

Promotion strategy in its large attention depends on the various actors in the market, because each organization mentioned earlier has its marketing strategy, so they will act as free of charges marketers for the Arab Bank.

### **Pricing and Financial Benefits:**

Pricing:

- JD 2 monthly Shabab membership fees.
- JD 2 monthly Wanadoo's dialup subscription fees.
- JD 25 cash collateral:
  - This amount is blocked against any insufficient fund that is to cover Shabab monthly subscription.
  - Customer with the following may be excluded from the cash collateral:
    - Salary transfer.
    - AB credit card.
    - AB loan.
- Fees are debited on monthly basis from the customer's account on the last working day of each month.

In the marketing perspective, these prices encourage the customers to be benefited from other product like, salary transfer, AB credit card, and AB loan. Marketing strategy maintains cross-functional responsibility for marketing operations across combined effort from subunits, loan department, credit cards department, and salaries department or function.

Also pricing tackled the service prices, so the customer is eligible to get a loan he will save the following with the discount of 25% on loan interest rate

Loan type	Amount	Tenor	Discount of %25
Housing loan	JD 40000	144	JD 607
Auto loan	JD 10000	60	JD 125
Personal loan	JD 5000	60	JD 35

It seems as an integrated batch that can play a main role in achieving the competitive advantage.

Then the strategy printed out the requirements to join Shabab, and the procedures for each complementary product.

The marketing communication that conducted by the Arab bank was the radio advertising and roads advertising. Then the cost of marketing for the bank will be lower, because the bank depends on the marketing communication by the external players. Each shop, restaurant, café, and

hotel will show its own customers about Shabab program and this is a type of word of mouth in communicating with the potential customers.

**Recommendations:**

After this analysis, the recommendations for the management are:

1. The current strategy used market segmentation in on issue (the age). It would be more useful if the management breakdown this layer to smaller segments, such as, universities students, employees in both private and public sector, and young doctors for example.
2. The "Cro" employees must be motivated to persuade any individual enter the bank for any purpose.
3. To conduct an advertising campaign for the individuals who will reach 18 years of age in the next year.
4. To hold lectures in the schools and universities to describe the benefits of the program.
5. To put measurable goals for each branch in order to evaluate its performance in this activity.

Then we can say that triggering new banking products and services, and using an integration marketing strategy forms a main factor in increasing the shareholders equity. Because the organization with high net income will keep a good number of the net income in the retained earnings section, which increase the shareholders equity and distributed cash dividends on the stockholders to make them highly satisfied.

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