

Database Marketing Practices by South African Financial Institutions

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Keywords

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Individualized information

Database management

Database technology

Abstract

Database marketing is a fairly new concept in South Africa (Rudolph, 1997: Jan/Feb: 15). Against this background research was done to determine the state of database marketing in South African financial institutions. The research indicated a misunderstanding of what database marketing entails as well as not acknowledging the important role that database marketing can play in the marketing strategy of financial institutions.

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Introduction

The foundation of Database marketing can be traced to direct marketing. It is therefore based on many of the same principles as Direct Marketing (Nash, 1993:1). It should however not be confused with direct marketing. To distinguish between the two methods we can evaluate database marketing by using the following definition: *It is a process that utilises computer technology and sophisticated analytical techniques in combination with direct marketing to direct a marketing effort at a specifically selected target market* (Van der Walt et al. 1996: 362).

The main difference between direct marketing and database marketing lies in the extreme emphasis placed on individual clients (Roberts, 1997:27). During database marketing individual clients are identified first and because of practical considerations can be grouped together, but if possible contacted on an individual basis. It is therefore necessary to be in possession of intimate detail of clients so that the selection of individuals can be based on that detail. It also serves as the basis for customizing the institution's offering to clients (Shepard, et al, 1995: 14). Individuality plays therefore a more important role during database marketing (Roberts, 1997:27).

The South African perspective

It is important for financial institutions to make use of all marketing tools to gain that illusive competitive edge in a very competitive financial services market. Database marketing is such a tool that can support the marketing function of financial institutions. On the negative side, the very expensive operation of building a comprehensive database can be wasted if not implemented according to a set of guiding principles.

South African financial institutions do have national client databases and on the surface they seem to be ideally positioned to exploit the database marketing opportunity. However, large parts of South Africa are still under-developed. Of the 43 million South Africans, more than half of them live in rural areas with virtually no infrastructure (See table 1). This situation brings forward several problems to financial institutions, such as people do not have addresses, living in mud houses scattered all over the area. There are also in most cases in these underdeveloped rural areas no electricity, no postal services, no computers, telephones and other infrastructure to implement an effective database marketing system.

In general, the unique first world/third world business and social environment places extreme pressure on direct marketing techniques. According to the 1995 South African census, almost 52 percent of the South African population resides in underdeveloped rural areas (See table 1).

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Place table one approximately here

Apart from the infrastructural problems in South Africa, which hampers database marketing, the years of political and economic isolation let the South African financial industry falls behind developments in the major industrial countries of the world (Rudolph, January/February 1997: 15). According to Chen and Sakaguchi (2000:66) the ability of banks to gather detail client information will determine whether they will be able to survive in the modern competitive environment.

South African financial institutions do have national client databases on the first world component of the population and are therefore ideally positioned to exploit the database marketing opportunity in the first world component of South Africa. Special strategies and database marketing techniques must be developed for the third world component of the market. This study, however, focuses on database marketing as applied to the first world component of the population of South Africa.

Historically, South African financial institutions were making use of the branch system, with branches spread all over the country. Each branch has its own database, which is used for local applications (Rudolph, 1997, June: 21). However, these databases comprise only of the few people living in the developed areas of South Africa.

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The geographical spread of the branches of the financial institutions creates a problem to supply real-time information to marketers at the various client contact centres (Talmor, 1994:84). The database should be developed in such a way that it can feed on data from remote centres and dispatch information back to these centres without delay. At the same time, all data should be compiled and processed at a central location to ensure a complete picture to everyone who needs the information (Davies, 1993: 39).

Methodology and limitations

The research focused on all of the locally registered banks and insurance institutions in South Africa. It was decided to involve the total population because of the small number of registered institutions. From the 119 questionnaires sent out, a 32 percent response was received. A special and successful attempt was launched to ensure that all the major financial institutions participated in the research as indicated in Tables 2 and 3.

Place table 2 approximately here

Place table 3 approximately here

A structured questionnaire was developed and tested for ambiguity and other possible problems. The questionnaire method was chosen because of the widespread geographical nature of the South African financial institutions, which makes it impossible to visit each of them. It was also used because of cost and time constraints.

The questionnaire contains Yes-No questions as well as Likert-scale and open ended questions. The main areas tested were the level of importance of the marketing function, the structure and management of the database, the attitude of top-management towards/against database marketing, the technology used and the problems experienced by the database marketers.

The data received from the participants was processed by using a computer software package known as the Statistical Programme for Social Sciences (SPSS). Frequency tables were developed to determine the percentage of respondents who responded positively or negatively on specific questions. These questions were formulated specifically to test the use (or correct use) of the elements of database marketing. Hypotheses testing were applied by using Chi-square tests to determine the relationship between different answers.

Problem statement

The key problem investigated in this research was the ignorance and/or misinterpretation of database marketing by financial institutions of South Africa, while this industry has all the requirements to utilise it to its fullest extent in the first world component of South Africa as a marketing tool.

Findings

The empirical research revealed the following:

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- The Financial institutions that participated in the study were asked to select from a list which of the communication methods were used by their institutions to communicate with their clients. They report high levels of exploitation of direct marketing communication methods as indicated in Table 4. This emphasises the fact that South African financial institutions do have the processes in place to communicate directly with clients.

Place table 4 approximately here

- Table 5 indicate the response received from the participants on the question whether they are using data models and client profile models to market their products and services to their clients and prospects. The results were very discouraging. If the information in Table 4 is compared to the information in Table 5, it clearly indicates that although financial institutions do communicate to clients they do not know intimate details of clients. Without proper data models and client models the institutions do not know if clients are properly qualified to receive an offering.

Place table 5 approximately here

- As indicated in table 6 the important support that a database can supply to market products and services are ignored in many cases by the respondents, for example only nine percent use the database to create models for the evaluation of clients susceptibility to use a certain product or service. The database is used by only 59 percent to stimulate repetitive transactions. Thirty two percent did not use the database to identify the specific needs of clients so that products and

services can be tailor-made to their specific needs. These uses of the database form the core of database marketing.

Place table 6 approximately here

- A key issue to database marketing is the availability of all relevant information to all contact personnel at all service points. A database structure should be used to support this function. It is however not the case in all situations. Table 7 indicates that 65 percent of financial institutions have problems with database marketing because they do not have an integrated database. Sixty one percent have problems with database marketing because the data are not always relevant and recent.

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- The survey also indicated that financial institutions use information technology experts as database managers rather than marketing experts. Table 7 shows that 40 percent of financial institutions have problems with database marketing because of a database manager without marketing experience. This lead to problems because the data are not always processed into useful marketing information, but rather into complicated statistical information not usable to market products and services.
- The position of the database manager in the hierarchy of the financial institution can be related to how important database marketing is viewed by the institution. The lower the level the less important database marketing is viewed. Table 8 picture a bleak scenario in this regard. In 60 percent of the cases the

databases managers' position is at a lower level than that of the national marketing manager.

Place table 8 approximately here

Problems for the correct implementation of database marketing that were detected from the responses:

The database

South African financial institutions have branches spread all over the country. Each branch has its own database used for local applications (Rudolph, 1997, June: 21). A huge problem exists to merge these databases in one database and at the same time allowing distant client contact centers entrance to the data. Linked to this problem is the one of having different databases for different functional units, with the same merging problems.

The data from the accounting or financial departments were in many cases used to form the bases of the new aggregated database. The content of this data and the format, in which it is presented, does not suit database marketing purposes. The appointment of a database manager with a marketing background can solve the problem that irrelevant data is captured in the database as well as ensuring that the data is processed into a form suitable for database marketing.

Database management

The management of databases relates to two different problems. First, the management is in many cases situated at a low level in the businesses hierarchy. The managers have not enough input in the budgets and lacks the support necessary to implement a successful database marketing strategy.

Secondly, in almost all institutions, an Information Technology expert is appointed to the position of database manager. Direct input from marketing experts is an absolute necessity in the development of a database and its applications. Information technology experts without an in-depth knowledge of marketing leads to the inability of financial institutions to implement database marketing successfully.

Only general functions are supported by the databases of South African Financial Institutions, such as segmentation and cross selling. In most of them there are a lack of supporting functions such as developing tailor-made services and products to the needs of clients, the enhancement of repeat selling and the building of client models to identify clients susceptibility to buy specific products and services. This can be attributed to the lack of acknowledgement of the importance of database marketing as part of the marketing strategy of financial institutions.

Data source strategy

Several methods should be used to solicit information from clients. These methods range from telephone calls, letters, newspapers and magazines, personal interviews, Internet and E-mail. The internal reporting and financial systems of institutions are of the most important information sources for database marketing. Although all of these sources are available, it is not necessarily used effectively.

Database software

It seems that South African financial institutions in most cases use general database software that is not specifically developed for the needs of that specific institution. Although less expensive than specific developed database software, it sacrifices the advantage to develop specific models and other supporting information to exploit database marketing effectively.

Measurement of the success of the campaigns

Only a few South African financial institutions measure the effectiveness of database marketing campaigns. Specific success indicators should be identified and closely monitored to ensure that success is being achieved. Because the purpose of database marketing is individual contact with clients, the reaction of every client to a specific campaign can be monitored.

Recommendations

A prerequisite to the application of database marketing in financial institutions in South Africa is that senior management must make a paradigm shift away from the rigid channels of marketing to accommodate the very radical change in marketing ideas as well as to supply the necessary financial support for the building and implementation of the infrastructure for effective database marketing. Without acknowledgement of the important role that database marketing can play in the marketing strategy of South African financial institutions, database marketing is doomed in this industry. The acknowledgement of the important role of database marketing can bring forth the necessary support and financial resources to develop a proper database marketing system for financial institutions in South Africa.

To find all appropriate and useful data, a structured data source strategy should be employed. At the basis of such a data source strategy lays the concept that all employees should have direct access to the database so that they can immediately update the data in the database while in contact with the client. If institutions operate with remote client contact centres, they should develop a system to update the data collected from these remote contact centres in real time.

Managers should be positioned at top level to ensure thorough attention at the aspects where most needed. If positioned at a lower level, decisions can easily

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be made by higher-level managers who are not hands-on with databases marketing practices.

By no means should a client list be broken down into smaller segments, but individual clients must be identified and contacted on an individual basis. It is therefore necessary to be in possession of intimate detail of clients so that the selection of individuals can be based on that detail and also serves as the basis for customizing the offering (Shepard, et al, 1995: 14).

The whole database marketing system should be marketing driven and not information technology driven. Information technology experts are apt to focus on the data with not enough attention to marketing. Therefore the recommendation is that financial institutions in South Africa should recruit or develop their own marketing experts with an information technology background, called a database-marketing manager. A person with skills in both areas i.e. marketing and information technology will be a crucial element in the successful implementation of database marketing in financial institutions. This person with knowledge in both areas of concern should be able to oversee the creation of a database and applications with a marketing supportive output.

Although high cost are involved, it is essential that an integrated database is developed where information are categorised specifically for marketing purposes. Every institution must define the specific categories needed for marketing by that specific institution. Once in the correct format for marketing, the information must

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be made directly and immediately available to all frontline personnel of that institution, even those in remote contact centres. The frontline personnel must be able to view the information in real-time, while in contact with the client.

Conclusion

It seems that database marketing in the South African Financial Industry is still an illusion, but with the necessary commitment to adapt to the new technological environment, the implementation thereof can be successful. If database marketing is to become an important tool to market financial institutions, they need the commitment of personnel at all levels (from top to bottom) in the institution. A deliberate effort must underpin the employment of suitably qualified database and marketing experts and if possible people who are qualified in both areas. This will enhance the marketing effectiveness with an understanding of the technological processes that forms the basis of the marketing efforts.

Table 1: Some population statistics

<ul style="list-style-type: none"> • Percent of population non-urban 	51,7%
<ul style="list-style-type: none"> • Illiteracy Rural areas 	50%
<u>Education:</u> <ul style="list-style-type: none"> • Percent of population with no formal education • Percent of population with education levels from Grade 1 – Grade 7 	<ul style="list-style-type: none"> • 24,6% • 24,6% • 34,5%
<u>Lighting</u> <ul style="list-style-type: none"> • Electricity from public supply • Electricity from generator / battery / solar energy • Gas • Paraffin • Candles • Other 	<ul style="list-style-type: none"> • • 55,3% • 0,6% • 1,1% • 15,5% • 27,2% • 0,3%
<u>Telecommunications:</u> <ul style="list-style-type: none"> • Telephone in dwelling • Communal telephone / access to phone at neighbour • Access to telephone at shop • None 	<ul style="list-style-type: none"> • • 31,1% • 20,4% • 12,9% • 35,6%

Population Policy For South Africa, 1995

http://www.polity.org.za/html/govdocs/green_papers/population.html

Table 2 Market share of some of the banks that participated in the research

Institution	Investments by institution %	Credit cards %	Lease %	Advance loans %	Mortgages %	Total assets %
ABSA	26	20	20	18	30	21
First National	28	21	30	19	10	18
Standard Bank	22	23	25	19	15	19
* Total %	76	64	75	56	55	58

KPMG banking Survey 2001

<http://www.kpmg.co.za/Modules/Library/detail.cfm?libid=153&year=2001>)

*Total percentage represents the percentage market share of the institutions mentioned in the table from the total of all South African Financial Institutions

Table 3 Market share of some of the long-term insurance Institutions which participates in the research

Institutions	Premium income %	Payouts %
Investec	9	8
Old Mutual	22	27
Sanlam	19	25
*Total %	50	60

KPMG Banking Survey 2001

<http://www.kpmg.co.za/Modules/Library/detail.cfm?libid=153&year=2001>

* Total percentage represents the percentage market share of the institutions mentioned in the table form the total of all South African Financial Institutions

Table 4

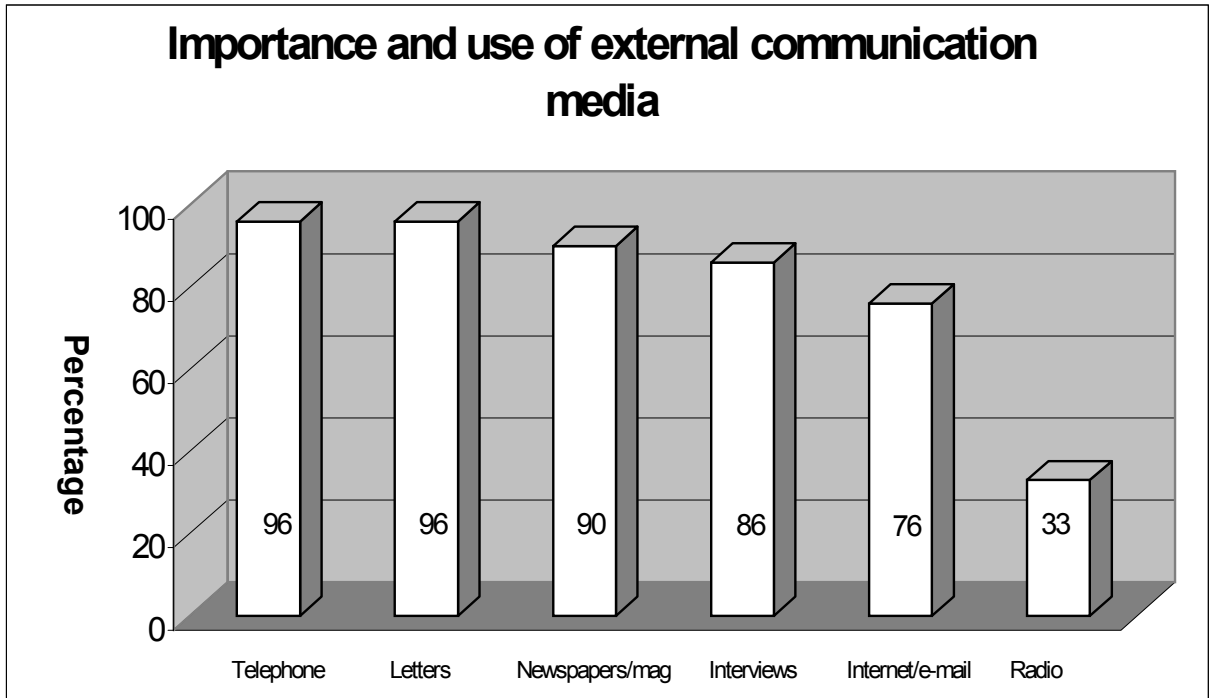


Table 5 Utilizing models for marketing purposes

Availability of:	Yes <i>respondents</i> %	No <i>respondents</i> %
Data models	53	47
Client profile models	45	55

Table 6 Uses of the database

Use	Application: respondents %
Segmentation of the market	82
Cross-selling of products and services	74
Tailor-made products/services to specific needs	68
Enhancement of repetitive transactions	59
Creation of client profiles for marketing	45
Creation of models for forecasting	9
Communication	4

Table 7 Problems that financial institutions have with database marketing

Problems with database marketing	Yes respondents %	No respondents %
Several databases not integrated with each other	65	35
Problems to keep data relevant and recent	61	39
Database manager is an information technology expert without a marketing background	40	60

Table 8 **Position of the database manager in the hierarchy of the institution.**

Position of the database manager	<i>respondents %</i>
Similar to national marketing manager	40
Similar to regional marketing manager	10
Similar to branch manager	10
Lower than branch manager	40
<i>Total</i>	<i>100</i>

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