

CHAPTER 6

RECOMMENDATIONS

Alice said, "Would you please tell me which way to go from here?" The cat said,
"That depends on where you want to get to."- Lewis Carroll.

Ultimately, strategy is how the 'totality' of a company works together to achieve its goals. Therefore, a firm's success can be likened to the 'summation' of the right things done and followed through. The following recommendations for X Merchant Bank are formulated with that thought in mind. They seek to highlight issues for further analysis rather than aim to be conclusive in nature because of data and legislative limitations. They are outlined below at corporate and micro/firm level strategies.

Corporate Strategies

It is recommended that the Bank utilizes intensive strategies in the face of impending competition. These would entail efforts in three areas:

Market Penetration

This strategy seeks to increase market share of the Bank's present products and services in the existing market through greater marketing efforts. The Bank should

consider increasing the number of competent relationship officers and intensifying promotion activities. As a related issue, joint ventures and alliance with related and associated companies and foreign banks should be actively sought to strengthen the Bank's market position. Strategic networking as part of a long-term cooperative approach with other related organizations will allow the Bank to gain and sustain competitive advantage vis-à-vis competitors outside the network, through joint marketing efforts and optimizing its activity areas. From the Bank's viewpoint, fostering trust and internalizing risk issues so that reputation is constantly enhanced is absolutely essential to the future success of such a network.

Market Development

This strategy is imperative as Malaysian corporations are rapidly becoming global in nature. The Bank should introduce present products and services to new geographic markets and market segments. Ultimately, it should take advantage of the new emerging markets in the South East Asia as well as intensifying efforts in East and West Malaysia. Financing ASEAN projects and promoting regional stock exchange listings are the natural progression within the capabilities of the Malaysian merchant banking industry. However, all require considerable investment in time and resources for initially nominal returns. Nevertheless, the eventual substantial revenue and competitive edge of being there regionally should present an attractive alternative to the Bank. This is also one of the ways of cushioning the effects of liberalisation and the ensuing competition expected in Malaysia itself. The Bank should consider expanding market coverage through the setting up of branches or other means of re-architecting local distribution channels. With the advent of technology, it is now

possible for financial services to be distributed through information technology via relationship officers at the customer's place e.g. transmission of money, risk management - interest/exchange rates, confirm and integrate data etc. The rationale is that a more speedy and personal customer service can be provided if the contact point is accessible and local. Marketing efforts can also be focused at these particular markets and the efficiency of providing services and support will also increase. Finally, the Bank should explore new market segments for business opportunities such as non-traditional industries and entrepreneurs.

Product Development

This is directed at creating new products and services to serve an increasingly sophisticated market and its concurrent needs. The financial services industry in Malaysia has been largely driven by the supply of services and products rather than by demand. Rapid economic development and regional integration, as well as a rise in personal affluence, will lead to a positive reception of more sophisticated products that would develop beyond the traditional wholesale bank offerings. As a consequence, customers with acquired market and product knowledge will increasingly demand more advanced services. As such, the Bank should continue to adopt an innovative outlook and seek to offer clients creative financial and capital market solutions. It is recognised that few companies will have all the core competencies to deliver breakthrough products/services of the future. Therefore, it follows that the Bank should undertake strategic alliances, partnerships and networks with foreign banks or other organizations with the necessary expertise and extensive network to create and market new instruments suited to Malaysian requirements. Such

product development must be customer focused and aimed at building on core competencies and skills of the Bank.

Micro/firm level strategies

Customer Focus

The Bank should adopt a total customer orientation or focus to be incorporated into (1) all aspects of marketing, management, and back office operations (2) the pursuit of innovative possibilities and (3) the effective delivery of services designed to satisfy customer's needs. It must be the dominant firm-wide value whereby the Bank must be committed to exceed customer's expectations and needs in all its undertakings and as such forms the basis on which to measure, evaluate and reward performance.

Service Quality

Research suggests that sustainable market share is a direct result of relative perceived service quality. Therefore, the Bank with its various constraints ought to make a strong sense of commitment to customer service as a basis for competitive advantage. A high level of professionalism, reliability, responsiveness, courteous service, approachability and ease of contact, credibility, security, personalised relationship, experienced and skilled staff, strong communication skills and generally, a 'can-do' attitude are important determinants of service quality. Hence, it is anticipated that proper training of the staff is needed to upgrade and maintain delivery of quality services. Further, market research should be undertaken on perceived service quality

and detailed databases of clients kept to ensure continuous improvement on the delivery of quality services.

Financial Services Marketing

Generally, strategic marketing management is loosely adopted by Malaysian merchant banks. The Bank can gain competitive advantage by giving the required attention to market segmentation, positioning, product, price, distribution, promotion and the INTERNET.

Market Segmentation

Markets must be segmented intelligently to define the real target commercial customer precisely so that unsatisfied needs can be identified and translated into opportunities. Once the target market has been identified, marketing mix decisions can be integrated and implemented. Further, relationship banking in selected segments of the market pay richer rewards than superficial and fragmented banking in all segments of the market.

The challenge is the selection of those segments that are best for the Bank, those that make the most sense in terms of the following criteria:

1. Bank's own criteria - segments that are consistent with the Bank's long-range objectives, resources and expertise.
2. Market criteria - segments that are characterised by the specific industry, present size, growth potential, unmet financial and advisory need, and diversity to avoid undue dependence on the health of the particular industry etc.

3. Primary vs. secondary relationship criteria - segments selected should be determined by the Bank's own willingness to foster viable primary account relationships that may prove more durable and rewarding.

A related issue is the segmentation that revolves around small to medium organisations which have been neglected by the merchant banking community in general. It is this sector that has a wide variety of financial and advisory needs that a merchant bank can help satisfy (ranging from bills discounting to long term capital financing). The Bank may find it worthwhile to explore such non-traditional market segments.

Positioning

The Bank must position its services and a desired image affirmatively to avoid negative perceptions of clients and prospective clients of the Bank to form through chance. It is suggested that the Bank differentiate itself on customer intimacy and extent of product mix.

Product

Product decisions entail product mix objectives, organisational objectives and resources, existing and prospective clients' knowledge and requirements, positioning of the Bank and competitors' offerings and other various factors such as economic, industrial or capital market trends. The Bank might find it useful to assess its product lines and market share in depth vis-à-vis the market leader and market growth for the particular product using the Boston Consulting Group (BCG) product portfolio matrix.

Pricing

Increased price competition, both covert and overt have already resulted in consequential margin compression for most financial services. Therefore, the Bank should be wary of the worship of premium pricing as it always create a market for the competitor. High profit margins do not equal maximum profits. (Drucker, 1995) Total profit is profit margin multiplied by turnover, which is synonymous with more deals. This is especially true in money-market transactions where volume is the key to profitability. Thus, maximum profit is obtained by the profit margin that produces optimum market standing. Effective pricing will need to presuppose a realistic determination of research and development expenditures such as people-time, maintenance expenses during the product's life i.e. processing costs, cost of funds etc.; and including indirect expenditures such as customer education and promotion expenses.

Distribution

This concerns delivery systems, market coverage and the necessity of a branch network. As discussed earlier, the Bank would have to reevaluate the extent of delivery systems if it were to adopt market development strategy. The Bank can adopt a personal and/or an electronic means of delivery to ensure customer satisfaction and to raise efficiency and operational productivity.

Promotion

Promotional strategies must be coordinated with the rest of the marketing mix. This entails the use of advertising, sales promotions, public relations, personal selling and direct marketing. The Bank should continue with its advertising efforts in suitable media for informing, persuasive and positioning purposes. Sales promotion activities

such as participation in trade shows and exhibitions should be re-engaged by the Bank to gain prospective clients' attention, incorporate some incentive element and invitation to the customer to try out the Bank and its services. Public relations should be well coordinated with other promotional mix elements for it to have maximum effect. It can be an effective tool as news and features may seem more credible to the purchasing agent of merchant bank services. Personal selling is the mainstay of merchant banks' promotional efforts and can never be over emphasized as the most effective promotional tool. Perhaps the Bank can experiment with monthly cocktail parties at the Bank followed up with luncheons for prospects, referral sources, and clients, which include updates on the Bank. Lastly, the Bank may utilise the direct marketing tool in the form of a newsletter to keep in touch with the marketplace. Ideally, the monthly newsletter would be a one page affair consisting of headlines highlighting client's activities and Bank news; addressed to the Bank's clients and referral sources. This would be an inexpensive and easy way to get the Bank's message to clients, referral sources and clients.

INTERNET Marketing

INTERNET marketing may sound gimmicky but it is here to stay - it is a dialogue medium whereby information can be exchanged as opposed to a monologue medium, literally markets to the world, is relatively inexpensive and markets faster because the timespan between concept execution and customer response is shorter. The Bank should investigate and analyze the Net as a feasible marketing medium to fit in and supplement existing marketing methods.

Human Resource Development

A commitment to invest in human resource development is a recognition that quality human resources is one of the most critical areas determining the inner strengths of the merchant banks. Therefore, an excellent trait is to pour resources including top management time into the training and career development of existing and new personnel. Product and market knowledge, cross-training, managerial skills, communications skills are areas that the Bank might want to stress on. In all areas of the Bank's operations, performance depends mainly on the quality and training of the firm's personnel. The requisite financial technologies and the development of client contacts are mostly embodied in people. Therefore, the Bank must strive to recruit superior talent and emphasize on training and interpersonal skills notwithstanding the requisite remuneration and rewards. The improvement of both quantity and quality of human resources for productivity improvement and efficiency of operations is of the utmost importance if the Bank is to achieve excellence in its undertakings.

Information Technology

The Bank should continue its efforts with information technology (IT). IT enables efficient communication with customers and competitors, deliver financial services, simplify record keeping, process transactions, monitor exposures, design and deliver new products, and help manage the business. Overall, IT will contribute to the expansion of business volume and scope of business without a proportionate increase in personnel force. Thus, operational efficiency will be increased. IT can also be adopted to help the Bank focus on building and protecting market position. Such efforts entail the integrating of customer business profiles for marketing purposes,

INTERNET marketing, credit evaluation and strategic planning. A related issue is that of computer security. Safety measures and security features must be the mainstay of any IT solutions that the Bank wishes to undertake.

Financial Management

In its quest for excellence, the bank must not forget prudent financial risk management, namely credit, liquidity and interest rate risk management; asset and liability management; and the need for having a strong and balanced credit process. For instance, new opportunities might arise where medium-sized firms may constitute an increasingly important and large part of the overall loan portfolio. This implies an increase in risk profiles. Hence, prudent risk assessment and cultivation of dynamic medium-sized corporate customers will become increasingly important as their quantum and diversity of financial requirements grow. Thus, formal decision making mechanisms such as an asset and liability management committee (ALCO) and a risk management committee should be the mainstays in the workings of the Bank.

Credit Rating

The bank should consider seeking a favourable rating from RAM as soon as possible. This will no doubt complement the bank's offerings of a complete range of merchant banking services. In short, a favourable rating will enhance the Bank's credit standing and allow the Bank to issue guarantees of a higher quality. PDSs issued will be ranked automatically according to the bank's ratings. Further, it will open up new opportunities for participation in loan syndications and consortiums. The ranking itself also serves as a public testament of a reputable financial institution. The

institutions with RAM long term and short term ratings respectively and their award date are as follows:

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|------------|---------|-------------------|
| 1. DCB | A1 ; P1 | 13 September 1994 |
| 2. AMMB | A1 ; P1 | 12 December 1994 |
| 3. CIMB | A1 ; P1 | 21 June 1995 |
| 4. BMBB | A1 ; P1 | 13 September 1995 |
| 5. MIMB | A2 ; P1 | 13 September 1995 |
| 6. ASEAM | A1 ; P1 | 12 December 1995 |
| 7. PERMATA | A2 ; P1 | 29 December 1995 |

Corporate Culture

It has been suggested that an open culture and strong shared values are fundamental characteristics of today's excellent banks. The Bank should cultivate an open culture as a foundation for extensive vertical and horizontal communication. This in turn would form the basis of sound and effective decision making in a large and complex organisation and no doubt, help resolve any conflicts that arise. The Bank as an Asian company can fuse the best of Western management practices with the best of Asian values. Trust and relationships being the bedrock of those values can be adapted and aligned with the Bank's core competencies.

In conclusion, it is felt that the Bank has great potential and determination to succeed. However, a good strategy without effective implementation or follow through will remain just another gameplan. The key would be a strong and consistent leadership

that never compromises in knowing exactly who the Bank is, its business and where it is heading.