

Competitive Marketing Strategies for Nigerian Banking Industry: a Panacea for Sustainable Development

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Abstract

With the increase of non-performing accounts in the Nigeria banking industry which led to profits of banks getting thinner, the need to develop as well as implement solid competitive strategies has today become an important factor in the banking industry. The objective of the study is to investigate how the problem of Nigeria banks can be solved through competitive marketing strategy. A case study research was adopted. Ecobank, Guaranty Trust Bank, Skye Bank and United Bank for Africa along with their customers in Abuja the Federal Capital Territory of Nigeria were used as the population of the study. A total number of 120 of the respondents were systematically sampled randomly from the population and issued questionnaire out of which 101 were filled and returned. The data collected were presented using frequency distribution tables and processed using statistical method of analysis called T-test. The findings revealed that there is a significant relationship between cost leadership strategy and the Nigerian banking system. The findings also revealed that there is a significant relationship between the use of different strategy and banking success. It was recommended that for banks to remain ahead of their competitors, they must constantly engaged in research ultimately to identify and adjust to changing market trends. Banks should identify areas where they think they can achieve a competitive advantage that will be unique to them and difficult to imitate or adopted by other rival banks.

Keywords: *Bank, Marketing, Strategy, Differentiation, Competitive, Services, Cost Leadership, Products.*

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Background to the Study

Amidst various reform Agenda, policies, development plans and programs, seven point agenda and a host of others, Nigerian leaders have articulated the vision 20:2020, which targets to catapult Nigeria into the league of the first global 20 economics by the year 2020. The need to develop as well as implement solid competitive strategies has today become an important factor that will contribute towards the long-term sustainable success of any business venture. Todaro and Smith (2003) observed that Economic growth results not only from the growth in quantity and quality from social and political structure that is conducive to such change. Economic growth demands a stable but flexible social and political framework which is capable of resolving the inevitable interest of group and sectoral conflicts that accompany such structural change. In his contribution, Ndiaye (1988) stated that, the Nigeria economic performance is deeply rooted in the debt crises as situation that led to lack of economic growth. He also observed that, growth in Nigeria has been on the decline, decline in per capital income, decline in food and agricultural production, physical investment, in trade in utilization of industries and infrastructures too visible to contemplate worsening economic growth and development.

The Nigeria banking system is facing tough competition from global banks. The emergence of new generations banks and other foreign players have also increased the competition among banks. Thus, a clear alignment of the needs and wants of the target group and the marketing strategies of banks is key to revenue generation and also the solution necessary to attain growth and survival. The need for marketing is necessary because of competition, in the economy and to attract customers so as to sell loans to them and buy deposits from them.

Statement of the Problem

The slowdown in the economy has fuelled a high non performing loan rate in the banking system, causing banks to record share decline in their profit for the 2015 financial year and the first quarter of 2016. With the increase of non-performing profits of banks getting thinner, the poor performance of some banks shows that there exists a problem of which these banks need to foster improvement of their services and improve efficiency. Little attempt, if any has been made to explore how competitive strategy can be used to enhance and cope with the challenges.

The Objectives of the Study

Given the above problem the general objective of the study is to investigate how the problem of Nigeria banks can be solved through competitive marketing strategies.

The specific objectives are to:-

- i. Examine the relationship between cost leadership strategy and banking activities.
- ii. Examine the relationship between differentiation strategy and banking success.
- iii. To proffer useful policy recommendation which banks executives will find highly useful, if faithfully implemented.

Statement of Hypothesis

- H_1 : There is no significant relationship between cost leadership strategy and the Nigerian banking system.
- H_2 : There is no significant relationship between the use of differentiation strategy and banking success.

Review of Related Literature

Nigeria Banking Industry: a Brief History

Conventional banking began in Nigeria in 1891 with the establishment of the African Banking Corporation which later become Bank of British West Africa. Little has been done in marketing because the banks were established mainly to serve the foreigners (that is the British) commercial interests that existed then in the Nigeria colony; so they were not interested in developing new banks or clients. In 1899, Bank of Nigeria another foreign bank was established but was absorbed in 1912 by the Bank of British West Africa. In 1925, Barclays Bank got into the Nigeria banking system as a result of the merging of the colonial Bank, the Anglo-Egyptian Bank and the National Bank of South Africa. These banks started operations in localities where the British commercial interests were dominant and did not bother to satisfy the needs of the indigenes Africans because of their foreign commercial interest. This was possible due to the fact that there were no regulations regarding the marketing of banking services then and coupled with the fact that the foreign banks were also not helpful to the African. This culminated in the establishment of indigenous banks to serve the African specifically Nigerians. Unfortunately, due to a lot of unrealistic objectives, fraudulent practices, poor staffing, poor capitalization and the 1952 banking ordinance, many of these indigenes banks were liquidated and foreign banks continued their dominance of the Nigerian banking system. (Uche and Ehikwe, 2001).

The recent re-capitalisation of bank's capital base in 2005 has necessitated an urgent need for banks to take marketing of their product very seriously. Producer and service providers in banks, not only have to satisfy their customer's requirements; they also have to be sensitive to them. Marketing especially in the conservative area of banking involves providing a coherent and well-thought out strategy as well as tactical flexibility and clarity for a complete all round company performance.

Competitive Marketing Strategies

To excel, a firm must determine its critical success factor, which are those things that the organisation must get right in order to stay ahead of other competitors. The need for firms to create distinctive competence, which creates preference for a firm's products or services, and thus achieve competitive advantage is also a challenge for many banking firms today. Competition in an industry continuously works to drive the rate of return on capital employed towards the competitive flow of return. At the macro level. (Porter 1985). Porter defined competitive strategy as the search for favourable competitive position in an industry. Competitive marketing strategy aim at establishing sustainable position against forces which determine industry's a profitable and sustainable industry's a profitable and sustainable position against forces which determine industry and their underlying causes have been diagnosed, the firm is in a position to identify its strength and weakness are the firm's posture vis-à-vis the underlying causes of each competitive force. Kotler (1996) defined strategy as "the broad principles by which the business units expect to achieve its marketing objectives in a target market. It consists of basic decisions on total marketing expenditure, marketing mix and marketing allocation. According to Sobowale (1997) strategy can be looked into from another angle, which is the deployment of human and financial resources against competitors in the pursuit of goals and objectives determined by leaders of business enterprises, organizations, and even nations. He argues further that marketing strategy

embraces decisions that involve the kind of company the organisation want to be and the sort of competitor the company want to compete with. According to Ibidunni (2004), five fundamental steps are involved in formulating a good strategy, they are:-

i. Define the Strategic Objective:- In defining the strategic objectives. The objective (results) to be accomplished is the foundation on which a strategy is formulated. It can be simple, such as restructuring the composition of the firm's working capital, or complex, such as developing product line that counterbalances a strongly seasonal cash flow whose problem can be solved through acquisition in new fields, development of new markets and diversification through internal research.

ii. Identify and Analyze the Strategic Variable:- Once the problem, opportunity or objective is identified, the next step would be to identify and analyze the strategic variable, which means, forecasting the environment in which our strategy would operate. This might either be extra-company or intra-company.

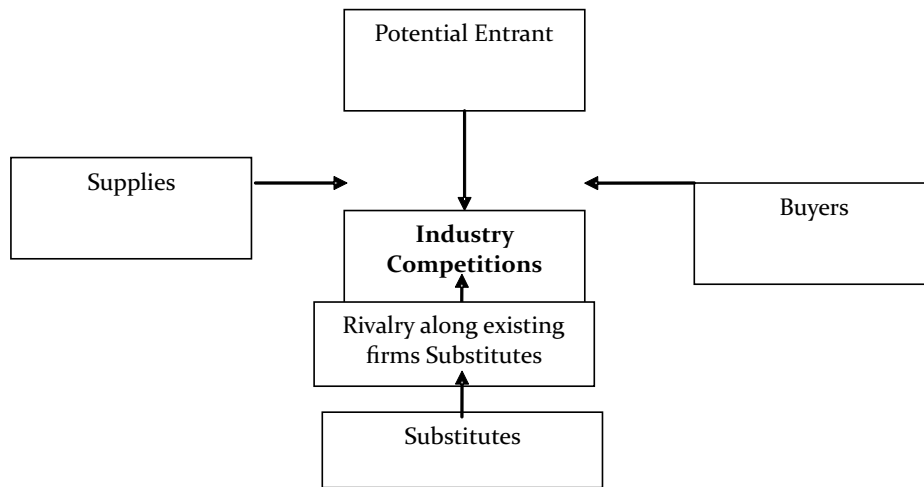
iii. Identify and Analyze the Operating Variables:- This includes; source financing, appointment of management personnel, allocation of management personnel, pricing of products which is usually affected by government regulations, competitor decisions and consumer acceptance of the value offered.

iv. Formulate a Strategic plan from the Variable and Alternatives:- To construct a strategic plan (strategy), timing is critically important. If a strategy is constructed at the wrong time, it may not achieve the desire objective; whatever strategy is taken can be tested to determine their feasibility.

v. Monitor and Modify the Strategy Based on Observation and Feedback:- These involve establishing basis for measurement which is done at the objective setting stage, establishing feedback and analyzing the results coming from operating or executing the strategy and establishing authority for and responsiveness to change.

Corporate strategy concerns the allocation of resources within the organisation to achieve the business direction and scope specified within corporate objectives (Brassington and Pettitt, 2003). Although the marketing department is primarily responsible for responding to perceived marketing opportunities and favourable competitive environments, it cannot act without the involvement of all other areas of the organisation too. Corporate Strategy, therefore, helps to control and coordinate the different areas of the organisation, finance, marketing production, R&D etc, to ensure that they are all working towards the same objectives, and that those objectives are consistent with desired direction of the business as a whole.

Porter (1985) describe five competitive forces that operate in an industry which tend to drive competition. These are shown in the diagram below:



Source: Adapted from Porter M.E (1985) *Competitive Advantage: Creating and Sustaining Superior Performance* (New York, Free Press).

At this point, we now examine each of the variables in the diagram.

- i. **New entrants:-** New or potential entrant to an industry bring new capacity, the desire to gain market share and the possibility to raise the level of competition thereby reducing its attractiveness.
- ii. **Bargaining power of suppliers:-** These are the business that supply materials and other products into the industry. The cost of items bought from suppliers (e.g raw materials, components) can have a significant impact on a company's profitability.
- iii. **Bargaining power of buyers:-** Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other all at the expense of industry profitability. They are the people or organisation who creates demand in the industry.
- iv. **Threat of substitutes:-** Substitutes products that deserves the most attention are those that (a) are subject to trends improving their price performance trade off with the industry's products, or (b) are produced by industry earning high profits. In the latter case, substitutes often come rapidly into play if some development increases competition in their industries and cause price reduction or performance improvement. The presence of substitute's product can lower industry attractiveness and profitability because they limit price levels.
- v. **Intensity of Rivalry:-** The intensity of Rivalry between competitors in an industry depends on a number of factors such as the structure of competition, the structure of the industry costs, switching cost, switching objectives, exist barriers, among others.

Choice of Competitive Strategy:-

According to Porter 1985 as cited by Ibidunni (2004), there are two central questions which underline the choice of competitive strategy for any firm:

1. Is the industry an attractive one as regard long-term profitability?
2. What are the determinants of relative competitive position within the industry?

The aim of any firm should be to develop a distinctive competence greater than its competitors. The generic strategies for achieving a competitive position in the market are, according to Porter (1985):-

i. Cost Leadership:- Here a company seeks a cost advantage over its competitors. This might involve efficiency, derives fight cost control or a preoccupation with low-cost production. It might mean investment in production to achieve production gains, or it might mean investment in marketing to ensure that adequate sales volume is achieved.

ii. Differentiation Strategy:- In order to succeed, an organisation must offer something to the buyers that the buyer values and that are different from those of other competitors in a unique way. This differentiation is usually defined in terms of better performance, better design or a better fit with the customer's needs. The aim is to create an edge over rivals and to have a differentiation package that is sustainable overtime. Source of differentiation can emerge from any area of the market offering:-

1. Product: branding, innovation, quality specification, design, image
2. Price: price positions, price-value combinations.
3. Place: intensive distribution, exclusive distribution, back-up, service support
4. Promotion: creativity, spend.
5. Service: strong trusting relationship with customer, adaptation transaction – specific investments.

iii. Focus Strategy:- This means to deliberately select, and focus on a narrow group of customers, rather an on the whole market. The philosophy is to meet the needs of a clearly defined group far better than anyone else. Although focus in itself might not be enough, however, the organisation might have to combine it with cost leadership or differentiation to build advantage. If a focus strategy is to succeed, the organisation must understand segments thoroughly, however, their needs are changing and what range to offer.

In this regard, the researchers concentrated on cost leadership and differentiation strategy. Banks are established to accomplish their set objectives which includes profit making and for these objectives to be attained competitive marketing strategies must play a significance role. It is important to know that due to the present competition amongst banks there is the need for the present day banks to adapt and be involved in marketing to give them an edge over other banks in the aspect of continuously satisfying their stakeholders.

Research Methodology

A case study research design was adapted; the researchers went to the field and gathered information for the purpose of the study through the use of questionnaire, interview and documentation. A total number of 120 of the respondent were systematically sampled randomly from the population and issued questionnaire out of which 101 were filled and returned. Ecobank, Guaranty Trust Bank, Skye Bank and United Bank for Africa. Along with their customers in Abuja the Federal Capital Territory of Nigeria were used as the population of the Study. They were chosen because of their proximity to the researchers. Each bank has a general manager, an operational manager and not less than four clerks, the clerks were sampled base on the first three, the researchers met. Questions were also administered to the first four customers the researchers met at the bank, some customers willingly filled and returned the questionnaire, while others did not. The data collected through the administration of questionnaire were presented using frequency distribution tables and processed using statistical method of analysis called T-test, the decision rule with using this test is that if the calculated value of the T-test is greater than the tabulated value. The null hypothesis is rejected and if he T-test is less than a tabulated value the null hypothesis is accepted.

Hypotheses Testing

Hypothesis 1

H₀: There is no significant relationship between cost leadership strategy and the Nigerian banking system.

H_A: There is significant relationship between cost leadership strategy and the Nigerian banking system.

Table A: One – Sample Statistics

	N	Means	Std. deviation	Std. Error mean
Does cost leadership strategy has any impact on Nigerian banking system?	101	1.75	.780	.078

Table B: One-sample Test

Test value = 0						
	T	Df	Sig. (2-tailed)	mean difference	95% confidence interval of the difference	
	lower	upper	lower	Upper	lower	upper
Does cost leadership strategy has any impact on Nigerian banking system?	22.585	100	0.000	1.752	1.60	1.91

Interpretation: The second column of the one sample test in the table B above, gives the calculated t-test value as 22.585, the third column gives the degrees of freedom as 100 (101-1 = 100), the fourth column shows the two-tailed significance (the 2-tailed p value) and the fifth column shows a mean difference of 1.752. Using the table of critical t values to determine

critical t with 100 degrees of freedom, level of significance (α) at 5% one-tailed, the critical t is 1.660.

Decision: We determine if we accept the alternative hypothesis or accept the null hypothesis. The decision rule is that if the one-tailed calculated t value is more than the critical t value and the means are in right order we accept alternative hypothesis (H_A). From the table of t values the critical t is 1.660 and the observed t is 22.585 making the observed t higher so then we can reject null hypothesis (H_0) and accept alternative hypothesis H_A . Hence there is a significant relationship between cost leadership strategy and the Nigerian banking system.

Hypotheses 2

Ho: There is no significant relationship between the use of differentiation strategy and banking success.

HA: There is significant relationship between the use of differentiation strategy and banking success.

Table A: One-sample statistics

	N	Means	Std. deviation	Std. Error mean
Introduction of differentiation strategy led to Banking success	101	1.59	.737	.073

Table B: One-sample test

Test value = 0						
	T	Df	Sig. (2-tailed)	mean difference	95% confidence interval of the difference	
	lower	upper	lower	Upper	lower	upper
The introduction of differentiation strategy led to banking success	21.729	100	.000	1.594	1.45	1.74

Interpretation: The second column above gives us the calculated t-test value of 21.729, the third column shows the degree of freedom ($101-1 = 100$), the fourth column gives the two-tailed significance (the 2-tailed p value) of .000 and the fifth column shows a mean difference of 1.594. using the table of critical t values to find out critical t with a level of significance degree of (α) of 5% one-tailed and 100 degrees of freedom, the critical t is 1.660.

Decision: We determine if we should reject the null hypothesis or accept the alternative hypothesis. The decision rule is if the one-tailed critical t value is less than calculated t and the means are in the right order, then the null hypothesis (H_0) is rejected. From table B, the critical t is 1.660 (from the table of critical t values) and calculated t is 21.729 so we reject null hypothesis (H_0) and accept alternative hypothesis H_A . Hence there is a significant relationship between the use of differentiation strategy and banking success.

Findings

Findings revealed that there is a significant relationship between cost leadership strategy and the Nigerian banking system. Bank marketing is needed to identify threats and weakness that the bank is exposed to due to high rate of competition and to also work on them to convert them to opportunities and setting the goals of the bank in line with the present and future profitable segment of the market and the present and future customers' needs.

The findings also revealed that there is a significant relationship between the use of differentiation strategy and banking success. This means that competition is dynamic as it has change overtime and is still changing. This implies that competition at its peak today does not mean it wouldn't change in the nearest future. Competitive marketing strategy should be seen as the search for favourable competitive position in an industry. The formulation and delivery of exceptional competitive strategy is a deliberate and conscious effort to differentiate companies' product from rival competitors, and prospects, the basis for competitive marketing strategies is the differentiation of companies offer to the customers, which must be enough to win the loyalty of customer and likewise attain a larger market share.

Conclusion and Recommendation

In conclusion, looking at the present economic situation in Nigeria, the paper believes that competitive marketing strategies of cost leadership and differentiation strategy are necessary in the banking industry. This will make operators to embark on continuous generation and application of competitive strategies. This competitive strategic nature will make companies to be more innovative, creative and highly dynamic in their operations. The paper believes that more competition should be encouraged by the banking industry regulatory agency and this will make operators to be more responsive and proactive to the need and aspirations of their esteemed customers. Therefore this will generally improve the provision of banking services. Therefore, this study proffers the following recommendation:

- i.** Since competitive marketing strategy is crucial to the long-term survival of a company especially in the banking industry, banks should therefore identify areas where they think they can achieve a competitive advantage that will be unique to them and difficult to imitate or be adopted by other rival banks and can possibly be sustained over a long period of time.
- ii.** Though some of the banks claimed that the disengagement of their staff is in furtherance of a market repositioning exercise designed to strengthen the banks business across all markets where it operates. And their focus is to improve the quality of service as well as their operational efficiency. This paper suggests salary reduction should be consider by banks rather than disengagement of employees.
- iii.** For banks to remain ahead of their competitors, they must constantly engaged in research ultimately to identify and adjust to changing market trends.

- iv. Not only the marketing department of the bank should market the banks' products but all other units should also be involved. This is because in the case of any loss incurred as a result of poor marketing it is not just the marketing unit that will suffer the consequences but all the units of the bank.
- v. Banks should always endeavour to communicate the value of their products to customers, ensure their services are newsworthy and inform the public on the availability of services.
- vi. Banks must be totally committed to the creation of productive investment and not speculative ones while carrying out their marketing activities. Any notice of distress in a bank must be dealt with on time and the supervisory or regulatory agencies of the banking industry should desist from issuing instructions that may endanger the smooth running of banks.
- vii. Government must start rebuilding confidence in the economy to attract FDIs; the parallel forex market should not be allowed to determine the naira value.
- viii. For a competitive advantage to be sustainable, it has to be difficult to copy because it distinguishes a company from its rivals, especially in a situation such as the banking industry where similar services are rendered. Banks should work on the quality of services they provide to their customers because customers expect a high level of quality of the services rendered to them.
- ix. Government must create an enabling environment by ensuring that peace and security prevailed in the country. And Nigerians must learn to live in peace with one another, peace and stability are conditions for business operations.

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