

UNIVERSITY OF FORT HARE

ADVANCED MARKETING MANAGEMENT

BEC 513E

FINAL EXAMINATION

2023

Time: 3 hours
Subject: BEC 513 E
Marks: 75

This paper consists of 15 pages including the cover page

Internal Examiners

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INSTRUCTIONS

1. Ensure you write the correct subject name and the correct date on the cover page.
2. Ensure that your name is clearly indicated on the cover page.
3. Clearly number each question within your paper.
4. Please attempt to write as neatly as possible as illegible handwriting cannot be marked.
5. Please attempt to answer your questions in the correct order, leave space for questions you wish to answer at a later stage in the examination.

PAPER SPECIFIC INSTRUCTIONS TO CANDIDATES:

ANSWER ALL QUESTIONS BASED ON THE CASE STUDY PROVIDED IN APPENDIX A.

QUESTION ONE

[25]

- 1.1 Referring to each of FNB's consumer products and services, critically evaluate the company's customer segmentation strategy in terms of the five major bases that are traditionally used for segmenting markets. (15)
- 1.2 Critically evaluate FNB's electronic communication strategy including its use of social media. (10)

AND

QUESTION TWO

[25]

- 2.1 Use Porter's Five Forces Model to identify, as specifically as possible, the competitive forces within the banking industry, as well as the overall attractiveness of the industry. Draw on your knowledge of the South African banking industry and make relevant assumptions where necessary. (15)
- 2.2 2.3 Explain how Porter's generic strategy of *differentiation* can serve as an effective defence against each of the five forces that drive competition in any industry. (5)
- 2.3 2.4 Explain how Porter's generic strategy of *low cost* can serve as an effective defence against each of the five forces that drive competition in any industry. (5)

AND

QUESTION THREE

[25]

- 3.1 Discuss the various sources of sustainable competitive advantages. Indicate what type of sustainable competitive advantage you believe that FNB

possesses and the competitive advantage strategy that you believe that the company follows. (15)

3.2 Critically evaluate the effectiveness of FNB's rewards program in respect of influencing loyalty. (10)

Appendix A:

“Innovation at First National Bank (FNB)” Case Study

Overview

Modern organisations are increasingly confronted by an environment that demands adaptation and change. The banking sector is no different as customers are increasingly expecting more technology-enabled banking solutions. Gone are the days of physical, tangible products, as banks now find themselves providing financial solutions through digital channels. As banking services become more technology-enabled, the focus on customer relationships (making use of social media) is providing new opportunities for banking institutions to be innovative and contribute positively to the customer’s experience.

This case study focuses on innovations that have taken place within First National Bank (FNB) in the last century. First National Bank (FNB) is the third-largest bank in South Africa with a history that dates back to 1838. FNB has stayed competitive by developing new products and services to meet the needs of its customers.

FNB’s background

FNB’s origins date back to 1838 when the Eastern Province Bank was established in Grahamstown, effectively making FNB one of the oldest banks in South Africa. The Eastern Province Bank financed the wool export boom in the province. When the recession hit in 1874, the bank was acquired by the Oriental Bank Corporation. Five years later, in 1879, the Bank of Africa took over the Oriental Bank Corporation’s business interests in South Africa when it encountered financial difficulties. Due to another recession in 1912, the Bank of Africa was bought by the National Bank, the largest bank in South Africa at that time.

In the 1920s, the National Bank also succumbed to bad debt and merged with the Anglo-Egyptian Bank and the Colonial Bank to form Barclays Bank. However, due to the South African Government’s apartheid policies, Barclays National Bank Limited sold their interests in 1986. Subsequently, in 1987, the bank was renamed First National Bank of Southern Africa Limited.

In 1998, the First Rand Limited group was formed after the financial services interests of Rand Merchant Bank Holdings and Anglo-American Cooperation were merged. A year later, the banking interests of FirstRand Limited formally amalgamated into a single entity to form First Rand Bank. FNB, together with WesBank and Rand Merchant Bank (RMB), trades as a division of First Rand Bank Limited.

Today, FNB is the third-largest bank in South Africa, providing personal, commercial, and corporate banking services to more than six million customers. The bank has a physical presence in seven African countries—Namibia, Botswana, Swaziland, Lesotho, Mozambique, Zambia, and Tanzania. In addition, FNB has also established platforms in key financial centres that provide cross-border investment opportunities in Europe, Africa and Asia.

Company structure

FirstRand Limited is listed on the Johannesburg Stock Exchange and the Namibian Stock Exchange. The group owns FirstRand Bank Limited which was formed in 1998 through the amalgamation of Rand Merchant Bank Holdings' and Anglo American's financial interests. Today, the group has increased its financial footprint in sub-Saharan Africa with subsidiary banks in Zambia, Mozambique, Lesotho, Swaziland, Botswana, and Namibia. The bank also has future plans to expand into Angola, Ghana, Nigeria, Kenya, Rwanda and Uganda.

FirstRand Bank Limited is the holding company for a portfolio of leading franchises. These include the retail and commercial bank, First National Bank (FNB), the corporate and investment bank, Rand Merchant Bank (RMB), and the instalment finance WesBank. In addition, FirstRand Bank Limited also owns the newly established investment management business, Ashburton Investment.

FNB boast a fully integrated services portfolio of products which includes a full range of banking products and services to individuals. The bank also offers a diverse set of financial products and services to retail, corporate, parastatal and government entities.

Mission and vision

FNB's strategy for the future is to be the predominant financial services provider in South Africa while growing its interest in African markets. In line with this, FNB has adopted the

vision to 'be a great business which can help to create a better world'. This vision guides the bank on how to interact with stakeholders and provides valuable insight into where it needs to focus its attention in accomplishing its long term strategy.

A mission statement is a written declaration of an organisation's core purpose. FNB's mission statement reads as follows: "FNB's mission is to move from good to great by building enduring, rewarding relationships supported by people, innovation and efficiencies". This mission statement demonstrates that FNB's strategic core values revolve around the retention of existing customers and the acquisition of new customers with a strong emphasis on maximising customer value and changing customer behaviour towards electronic banking channels.

FNB has positioned itself as a values-based company with the slogan 'How can we help you?' The values which guide FNB's actions and behaviours include pride, respect, accountability, innovation, and *ubuntu*. To put these values into practice, FNB supports and encourages growth in Sports and Art by sponsoring the FNB Stadium in Soweto, Whiskey Live, and the JHB Art Fair.

FNB's business and marketing strategy

"Innovation at FNB is not simply a slogan; it is a primary way of working in the bank. It challenges ideas and seeks new ways of banking. Our key driver is to find ideas that are beneficial to our customers, will attract new customers to FNB and will enhance their overall experience when engaging with the bank," concludes S'onqoba Maseko, Head of FNB Innovators.

It was Dr Michael Jordaan who led FNB into this innovative era. At the age of 26, at the commencement of his PhD studies, Jordaan accepted a job at Rand Merchant Bank. Ten years later he was named CEO of FNB, and what followed from there was a brand transformation for FNB. 'MJ' as he was known to many, engaged and joked with almost '30|000' followers on a regular basis while he was CEO, and it was his all-encompassing enthusiasm and drive that led FNB to where it is today. Jordaan was recently replaced as CEO by Jacques Celliers (41), who graduated as an engineer from the University of Stellenbosch and has been working for FNB for the past twelve years.

The business strategy that FNB uses to maintain its competitive edge is four fold. Firstly, FNB is considered to be the cheapest bank in South Africa as their pricing strategy for products and services is consistently below the official inflation rate. In addition, the FNB business model includes an array of rewards and services that returns value to their customers. These rewards include eBucks, fuel cashback rewards, and data rewards. The second business strategy focuses on increasing the customer pool by switching customers from other banks to FNB making use of a process that is simple and hassle free for the customer.

The third strategy has to do with FNB's attempts to use social media to position their brand in innovation and technology. Social media has become part of the overall brand and communications strategy at FNB with involvement in micromedia (Twitter and MXit) and forums/blogs such as Facebook. These platforms are used to monitor customer complaints and an average of 15|000 conversations are conducted with existing and potential customers every month. FNB's involvement in social media sites humanises the brand and helps customers to feel like they are talking to a real person. FNB's fourth (and arguably most successful) strategy has been their deliberate attempt to promote electronic banking solutions to their customers. FNB was recognised as the bank with the best reputation and strongest brand in South Africa in 2012, 2013 and 2014 (Brand Finance).

FNB's philosophy of innovation in banking was recognised at the 2012 BAI-Finacle Global Banking Innovation Awards where it was named the world's most innovative bank of the year. Nominees were chosen from more than 150 entries in 30 countries, with the ultimate winner being rewarded "for breakthrough innovations that positively impact banks and their customers". One of the achievements noted by the panel of judges included the innovative culture in FNB, which creates an ethos of creativity by means of an internal competition that encourages and supports innovation within the different business units.

The FNB Innovators Programme celebrated a decade of innovation in 2014 and has resulted in over 9|000 innovations being implemented in the bank. One of the most prominent thus far was the eWallet, which allows customers to send money to anyone in South Africa with a valid mobile phone number. "Innovation helps improve banking processes and helps re-invent products, processes and services. We're continually pushing the limits, searching for solutions that will make people's lives easier—not just being different for the sake of it, but really

striving to live up to our promise of helpfulness,” say S’onqoba Maseko. This philosophy of innovation led Systems Logic to award FNB the title of most innovative bank in South Africa from 2007–2013.

Products, services, rewards and pricing

FNB offers a diverse set of financial products and services to various market segments in South Africa. These segments include consumers, small businesses, agricultural, medium corporates, parastatals and government entities. The products that FNB offer their customers include mortgage loans, credit and debit cards, personal loans and investment products. Services include transactions and deposit taking, card acquiring, credit facilities and distribution channels (namely, the branch network, ATMs, call centres, cellphone and internet).

In accordance with FNB’s vision and mission statement, the bank is committed to providing customers with the most effective, innovative, and relevant banking solutions. While FNB does provide traditional banking channels, it also encourages customers to make use of electronic channels. These eChannels consist of FNB ATM’s, online banking (including the FNB banking app for smartphones and tablets) and cellphone banking. As part of the bank’s strategy to move to electronic banking channels FNB provides customers with free services when they use Cellphone Banking, Online Banking and the FNB Banking App to check balances, pay for goods and withdraw money.

Consumer products and services

FNB prides itself on being able to provide banking products to a diverse population in South Africa. These products accommodate different religions and customers with various socio-economic backgrounds. The various products are listed below:

- Easy account is an entry level product which allows for day-to-day transacting with no extra benefits and no hidden costs.
- Smart Account provides more flexibility and rewards to the customer at a low monthly fee.
- Islamic Accounts is a Shari'ah compliant Islamic Finance Account.
- Youth Account teaches young children and teens how to save and bank wisely.

- Student account helps students to manage their finances while studying. For graduates, FNB offers graduate or medical professional packages.
- Non-resident accounts allow South Africans who have emigrated to manage their affairs within South Africa.
- Encore products are tailored for pensioners and provide a collection of financial and short-term insurance products and services for customers over 55.
- Loans products include short-term overdrafts, temporary loans, and revolving loans where customers have access to the funds in the loan once 15% of the original loan amount has been repaid. Long-term loans available to FNB customers include home loans, student loans, and vehicle finance through their subsidiary, WesBank.
- Forex allows FNB customers to buy foreign notes before they travel abroad.

There are several savings and investment products on offer to individual customers. These include traditional savings and investment accounts, tax-free savings accounts, and unit trusts. In addition, FNB Securities, which is able to transact across various asset classes in the financial markets, allows customers to invest in shares, Kruger coins, and stocks .

Individual customers can choose between two types of pricing options on their accounts. The first option is that of unlimited pricing where the customer pays a fixed monthly fee, while the Pay-As-You-Use pricing option suits customers that make use of a combination of electronic and manual transactions, but want to pay for the transactions separately. This option will suit customers whose transactions vary from month-to-month.

Consumer reward programmes

FNB's first business strategy includes an array of rewards and services accessed through their traditional cheque or business accounts, that return value to their customers. These value-adds provide the customer with 'more value for buck' when they transact on their accounts. Some of the rewards targeted at individual consumers include:

- eBucks is a rewards programme that provides qualifying FNB customers with the ability to earn up to 15% back on fuel card purchases and 2.5% on cheque card purchases.
- InContact is provided free of charge and notifies customers of any transactions on their accounts via SMS.

- SLOW Lounge Access allows customers waiting for flights at OR Tambo, King Shaka, and Cape Town International Airports, access to special areas.
- Free comprehensive global travel insurance is offered to customers travelling internationally.
- FNB offers free monthly 3G Data or discounted ADSL Data subscriptions.
- Savings Pocket is a free savings account linked to a cheque account which allows customers to keep their savings separate from their day-to-day banking.

Business products and services

FNB serves a diverse commercial and retail market segment in South Africa. It must therefore provide an array of specialised products to suit the needs of these individual sectors. FNB provides various products (cash solutions, overdraft facilities, leveraged finance, debtor finance, selective invoice discounting, collateralised trade finance and credit cards) to business customers. Credit and loans products include credit cards, overdraft facilities, loans, vehicle and asset finance and commercial property finance. For companies that have international obligations, FNB provides import and export solutions, global payments, and travel products.

The pricing options for business customers are similar to those for individuals. The first is a single fee pricing option where a service fee is charged upfront and the business owner does not have to keep track of their transaction fees every month (See Table 1). The second is a Pay-As-You-Use pricing option where the owner pays for each transaction conducted during the month. This option is more appropriate for small business owners who perform a limited number of transactions per month.

Table 1 FNB's pricing and package options for business banking

Description	Option 1	Option 2	Option 3
Monthly fee	R200	R300	R450
Electronic debit transactions	30 Transactions	50 Transactions	75 Transactions
Cash deposits at FNB terminals only	10 transactions per month to a total of R20 000 cash deposited	15 transactions per month to a total of R50 000 cash deposited	20 transactions per month to a total of R100 000 cash deposited

Point of Sale card purchases	Unlimited	Unlimited	Unlimited
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Source: First National Bank Pricing Guide

Business reward programmes

Customers with business accounts are entitled to the rewards and services mentioned above, but in addition, also qualify for the following services specially designed for commercial customers:

- Business Banking App for Online Banking Enterprise allows customers to access online banking enterprise on a tablet in order to make banking more convenient, accessible, and safe.
- Instant Payroll can prepare a business's monthly payroll, generate payslips automatically and ensure compliance with current SARS requirements.
- Instant Accounting is a unique, online accounting solution that can generate financial statements and reports, including income statements, balance sheets, and cash flow statements from electronic bank statements.
- eWallet Pro allows business owners to pay employees without bank accounts safely. The only requirement is that the employee has a valid South African cell phone number.

Distribution

FNB has the smallest footprint of branches and ATM's among major banks in South Africa (ABSA, Standard Bank, and Nedbank). There are approximately 734 FNB branches in South Africa, with nearly 30|000 employees. In addition, there are 5|530 ATMs and retail and mini ATMs around the country.

The decision not to compete with the physical infrastructure of other banks has allowed FNB to make the change from traditional to electronic banking channels, which are more cost effective to both bank and customer. Once the decision had been made to promote electronic channels, the bank's primary challenge was changing customer behaviour and getting customers to accept these channels. In order to do so, FNB provided a differentiated value proposition to their customers—electronic banking not only decreases the bank's cost to

revenue ratios, it also provides customers with an innovative, convenient, and efficient way of banking.

Promotional mix

The four major banks' (ABSA, Nedbank, FNB and Standard Bank) advertising spend doubled from R845 million in the year ending 2009 to R1.85 billion in the year ending 2014. The biggest spender in this category was FNB, having forked out over R 550 million. Standard Bank followed with R 498 million. Nedbank was in third place and ABSA in fourth place in terms of advertising spend.

It has been said that survival in the banking world is based on a banks ability to innovate. Social media is considered to be a critical part of FNB's promotional mix. It allows FNB to build relationships with existing and potential customers. However, it has also been noted that social media advertising is not simply a case of creating a Facebook or Twitter profile—this media needs time and attention!

Social media @ FNB

FNB has led the banking sector in SA in terms of being most responsive to customer's social media demands. Today's consumers no longer want to call 0800 numbers and be kept waiting for twenty minutes; they want instantaneous responses to queries and complaints. FNB's previous CEO, Michael Jordaan, was of the opinion, "you cannot hope to have a successful social media strategy without putting in the time, energy and resources required to continue the two-way conversation that customers want from a bank". When asked about FNB's social media strategy, Jordaan indicated that they "don't have one" and it is just an "amazing way of connecting with customers".

FNB has viewed social media as a complimentary channel to those already in operation (call centres, mobile banking and branches). Lana Strydom, FNB's Digital Marketing and Media head, indicates that there are three types of social media in the customer service environment, namely, micromedia (Twitter & Mxit), Facebook or Hellopeter.com and mainstream media such as online news sites. FNB has a dedicated team of social media experts who focus purely on social media. FNB has between 40 and 50% 'share of voice' against competitors which results in a huge competitive advantage with ABSA being the nearest competitor at 26%.

Strydom believes that social media is all about the speed of response to communications but consumers need to realise that not many brands can be available for comment 24/7. FNB is currently available on social media fourteen hours a day with a Twitter following of nearly 40|000 people and Facebook posts that reach over 450|000 people.

FNB commenced with their social media strategy several years ago with the 'invention' of the FNB 'guy' who goes by the name 'RB Jacobs'. 'RB Jacobs' is an online persona that was developed to interact with customers online, specifically via Twitter, LinkedIn, and Facebook. RB Jacobs has become a highly credible and approachable representation of the FNB brand and has allowed the brand to maintain a single style and tone of voice that has become synonymous with FNB's social media presence. RB Jacobs has allowed FNB to humanise the brand and help customers to feel like they are talking to a real person. The account is managed by as many as twenty people at any given time.

In turn, social media has allowed FNB to collect a magnitude of data on customer segments and their corresponding needs, thus allowing FNB to communicate more effectively with target segments and meet their needs more fully in terms of product improvements and developments. Twitter specifically, has become a rich, informative window into virtual conversations and an important gauge of what consumers are thinking.

What has RB Jacobs on Twitter taught FNB?

- Twitter never sleeps.
- Be open and honest in acknowledging problems.
- Be fast.
- Keep it real and human.
- Use discretion.
- Be committed.
- Think before you tweet.
- Staff representing the brand on social media need to be media trained and need to understand the medium.
- Do not be afraid to learn from mistakes.
- Do not underestimate Twitter or those using it.
- Twitter is not a game or a passing fad.

Social media gone wrong??

It all started with the ‘Steve’ campaign in which FNB’s focus was to make banking simpler, and this translated into ‘unSteving your business’ thus connoting ‘do not make the mistakes the average person makes and bank with FNB’. From there, the Advertising Standards Authority ruled that FNB needed to remove any reference to ‘Steve’ from their advertising campaigns as people named ‘Steve’ had taken offence to the campaign. The campaign implied that people named Steve were either stupid or financially declined. Despite FNB’s protests that some of their most valued clients “are named Steve” and that Steve was simply a persona that the average person could identify with, Steve had to go. FNB complied and removed the ‘Steve’ campaign, however it did not end there ...

The general public began asking FNB, via Facebook and Twitter, ‘where Steve was?’ In an unfortunate incident, the following response to this question was tweeted from RB Jacobs; ‘He’s some where (sic) in Afghanistan, putting a bomb under a WHEELCHAIR and telling a cripple to run for it!’ On the same day, FNB confirmed that their Twitter account had not been hacked and that an employee had been responsible for this insensitive tweet. The offensive tweet was promptly removed and an apology was tweeted from FNB almost immediately, but this appeared to have been too little, too late as the tweet went viral and FNB had quite a bit to answer for during this time.

Following this incident, FNB sent out a statement saying that they found the tweet “distasteful and in conflict with their corporate values”. They also indicated that “the matter was being investigated and the appropriate disciplinary action was being taken”. Today FNB hosts blogs on social media etiquette with social media experts directing consumers to “be safe, be informed and be respectful” as this is “the right thing to do” on social media sights.

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