FIRST PRINCIPLES CONSULTING

African Banks’ Existential Branding Crisis

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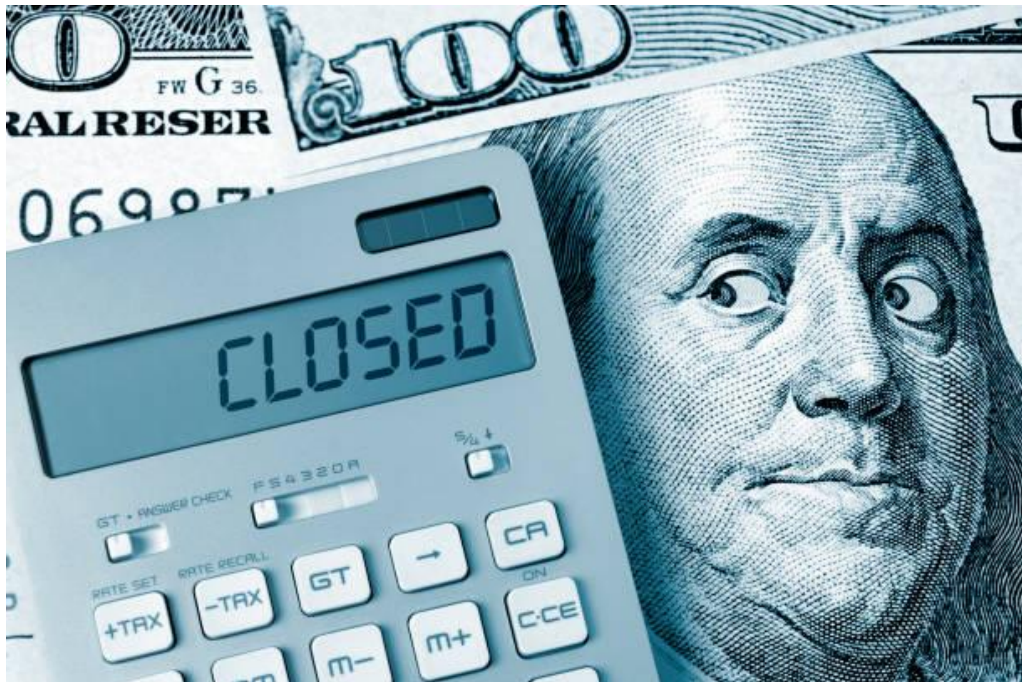

Many African banks face an existential crisis through brands weakened by the rapid evolution in financial technology and digitalisation. To appreciate why this is case, it is important to understand the role that branding plays within the overall strategic marketing framework, the range of typical bank brand drivers, and the impact of the changing financial sector environment. From this analysis, the challenges facing African banks become evident. Once challenges are understood, a range of potential solutions can be surmised. Opinions provided are my own.

PREVIOUSLY

Branding grows successful banks

A bank’s branding strategy attempts to influence market perceptions of the institution. “*Brand positioning is the process of positioning your brand in the mind of your customers. More than a tagline or a fancy logo, brand positioning is the strategy used to set your business apart from the rest*”.

The importance of brand building can be seen through the growth of successful banking brands. In 1996, Equity Building Society was the weakest of 66 regulated financial institutions in Kenya. Today Equity Bank has grown to ‘super-brand’ status. This has been achieved through on-going improvements in products and services, channels, in digitisation, geographic expansion, in profitability and in the development of a group structure with subsidiaries in related areas of technology and financial services. The Equity Group Foundation goes far beyond typical bank CSR programmes to provide financial education, scholarships and other programmes targeting millions of Africans.

Helping banks to be differentiated by the market

Historically major bank brands have been very strong. Market perceptions of these brands helped customers to determine whether these banks were likely to provide the services they needed. For example, Equity – for the Kenyan micro-entrepreneur, Centenary – the Catholic bank in Uganda – the Pope's bank. Standard Chartered Bank, for the wealthy, Prime Bank for the Kenyan Asian community. NIC Bank (now merged with CBA Bank) for asset finance. Juhudi Kilimo, for agricultural finance.

Continuous and focused brand building was required to maintain the brand

Banks, then targeted their brand building strategy through developing appropriate products and services, fair pricing, through processes that were quick and efficient, through developing channels which facilitated service delivery. Services could be specifically targeted for banks' chosen customer base. For the mass retail banking sector, appropriate customer relationship management became a distinguishing characteristic among the most successful banks.

Continuous communications to the market were required

To successfully build the brand, continuous communication to the target market, around brand differentiators stimulated growth by customer selection and considerably magnified the impact of any marketing spend.

TODAY THE NATURE OF SERVICE DELIVERY IS CHANGING

The digital economy is disrupting financial services

Today, banking is undergoing profound changes resulting from digitisation, and increasingly from competition from financial technology. Mobile money and agency channels have brought transactional services to doorsteps. Services are delivered through apps and agents rather than ATMs. Services traditionally provided by banks can now be provided by specialist fintech companies.

Customers relationships are increasingly virtual

Within banks responding to the digital revolution transactions are moving from the banking hall. Equity Bank and KCB Bank in Kenya report 98% of their transactions are now handled outside branches. Increasingly, bank relationships are virtual, between a customer and their mobile phone or computer.

Service delivery is often outsourced through agent and merchant networks

Banks have built their own networks of agents and have interfaced with mobile money providers enabling funds to be transferred to and from bank accounts and mobile wallets. Hundreds of thousands of third-party agents are now delivering transactional financial services across East Africa.

Worse customers are losing visibility of financial services

Not only are financial services increasingly virtual but new institutions are involved. Digital lenders provide loans, and other often unregulated fintechs provide specific services or 'use cases', from e-commerce, to betting, to payments, to remittances, to information services. Services traditionally provided by financial institutions are being disintermediated.

Transparency of these services is often compromised

Transparency in financial services has many facets, but at the most basic level it is the ability of customers to understand the services to delivered, how they are to be delivered, the price of the service, and what to do when things go wrong. The digital revolution has resulted in significant

improvements in service delivery – but sometimes at the cost of transparency, particularly of pricing and in service recovery.

CHALLENGES

The digital revolution is making traditional brand differentiators in banking increasingly irrelevant

Financial institutions traditionally differentiated themselves on the type of services they provide, the customer that they service, the pricing model, the delivery model, and the speed and convenience of service. Today with digital financial services, and digital and agency channels, these differentiators are increasingly irrelevant. The expectation is for rapid, omni channel service with speed and convenience. Differentiators are fast becoming hygiene factors, meaning the absence of speed and convenience will cause a bank to lose customers.

So, how can financial institutions differentiate themselves from the competition?

So, how should financial institutions differentiate themselves? Who should they serve? How should they serve them? What can be added to products and services to differentiate them? These questions are not new to financial institutions, but the answers must be because traditional differentiators have become less relevant.

For some institutions, those struggling to deliver to the new higher standards and expectations, and those unable to differentiate themselves, the likelihood is that they will be absorbed by other financial institutions that already meet market expectations. We're already seeing greater activity in mergers and acquisitions.

Banks must be able to compete digitally

If digital financial services are a given, then banks must be able to compete digitally. The easier aspects of digitisation are being done, this includes, selective interoperability, channel development – the use of apps, the internet, and agents; and back-office automation, which is speeding decision making. However, many banks have legacy systems, siloed data architecture, and limited ability to question and use data for decision making which limits their ability to compete.

Traditional branding channels are losing traction as youth focus on social media

Traditional branding media channels, TV and newspapers are losing traction with the proliferation of TV channels, streaming services, and the growth of social media. A 2020 study by Patrick Kanyi, on the "Social Media Consumption of Kenyans" noted that many Kenyans spend one to three hours a day on social media – notably, Facebook, YouTube, Instagram, and WhatsApp.

Banks must determine what (who) to stand for?

The concept of universal banking, providing everything to everyone is possible for the largest financial institutions – but it may no longer be a realistic objective for smaller, even medium sized financial institutions. This implies specialisation – in terms of what or who to stand for.

This is not as easy as it sounds, as traditional market segments in banking are either large, or lack a common definition. For example, "agriculture", "small and medium enterprise" or "trade finance". However, the advantage of digital finance, is that much narrower, but national segments can be addressed. This is the strategy of many innovative fintechs. For example, Oye, which is laser focused on providing innovative services to boda boda drivers (motorcycle taxis).

ACTION PLANNING

So, when it comes to taking positive steps what can be done?

Revise and review a Strategic Marketing Strategy which reflects the following components.

1. Review the business model - be very aware of where the bank is making money through product and channel costing. Continue to evolve the business model as the strategy develops.

2. Be laser focus on answering questions critical for survival of the business.
    - Understanding our customers at a much deeper level than we did.
    - Who do we serve and what products do they buy.
    - Who should we serve and what products will they want.
    - Where else do they go for financial services (and why).
    - The factors underlying trust amongst potential customers.

3. Continued digitisation: Prioritise, bring in expertise, consider shared platforms that offer small to medium sized institutions access to banking as service solutions.

4. Change the product development paradigm. Carefully consider the customer value proposition and the potential for embedding financial services in lifestyle products.

5. Evolve the ability to use data: Use data to understand your customers, your business, and that of the competition. This ability won't grow overnight – banks are traditionally very poor at using data. However, it starts with the willingness to ask questions. So – ask, frequently! And set the team the challenge of answering. It will likely mean a focus on data cleaning, alternative data sets etc.

6. Work in partnerships: Traditionally banks have struggled to work in partnerships, however, the digital revolution is all about the ability to integrate specialisation, and if the specialisation is not within the bank, the bank has no choice but to work in partnerships, for example, with data aggregators. This means evolving the systems and processes necessary for wider scale outsourcing.

7. Evolve who the financial institution is seen to serve: This is implementing a response to the questions critical for the survival of the business.

8. Determine how these factors create a Unique Selling Proposition that can be communicated to the market, and who and how this communication should happen.

9. Deliberate brand building: Once there is clarity on the Customer Value Proposition and the USP, and the partnerships and products required to do this, it is now possible to rebuild the brand of the bank.

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting. David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.

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