Direct Sales Strategy Applied by Commercial Banks in Kenya

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Abstract

The purpose of this study was to gain a deeper understanding of the contribution of direct sales strategy towards attainment of competitive advantage among commercial banks in Kenya. It further sought to establish the direct sales strategy approaches adopted by commercial banks and their impact on the bank's competitive advantage. The study revealed that although majority of the banks are predominantly local, the number of foreign owned banks is high and intense competition exists between the locally-owned and foreign-owned banks. Banks have embraced direct sales strategy as a competitive tool. Direct selling stands out among all the other strategies for competitive advantage. The study recommends banks to open regional branches spread throughout the country to enhance customer reach and market presence, increase the size of the direct sales force to enhance customer awareness and market penetration and regular sales campaigns to excite the market.

Key Words: Strategy, Bank, Sales, Competitive advantage, Market, Customer, Product

1. Introduction

The last five years have witnessed a drastic change in the Kenyan banking sector with the conversion of many Non-Banking financial institutions (NBFI) and building societies into fully fledged banks. The increase in the number of commercial banks in Kenya has brought about a variety of banking products and services targeting various customer segments and income groups. There are products for the high, medium and low income earners which come with unique features and characteristics. Despite the increase in the number of commercial banks in Kenya, 80% of the Kenyan population is still un-banked. Only 20% of the population operates bank accounts in the various banks. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. The tactics used to try and edge out competition and consolidate their economic strength include: Mergers (in the case of Cfc-Stanbic bank), coming up with specific gender-based products-the case of Grace loans from Kenya Commercial bank and converting the bank as a one-stop shop-in the case of equity which has acquired a stock broking license and is offering stock broking services, insurance services and Mpesa services.

1.1 The Concept of Strategy

The importance of this concept has been underscored by various leading management scholars and practitioners such as (Porter, 1980), (Ansoff, 1987) and (Harvey-Jones, 1987) among others. Different authors have defined strategy in different ways. Some authors define the concept broadly to include both goals and means to achieve them, such authors are (Chandler, 1962), (Andrews, 1971) and (Chaffee, 1985). Others define strategy narrowly by including only the means to achieve the goals e.g. Ansoff (1965), Hoffer and Schendel (1978), Gluek and Juach (1984). Drucker (1954) viewed strategy as defining the business of a Company. Chandler (1962) added to the view taken by Drucker (1954) and defined strategy as, "the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals".

Chandler considered strategy as a means of establishing the purpose of a company by specifying its long-term goals and objectives, action plans and resource allocation patterns to achieve the set goals and objectives.

The aim of strategy is to establish a sustainable and profitable position against the forces that determine industry competition. Gluek and Juach (1984) defined strategy as, "a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization".

Mintzberg (1987) describes a strategy as a plan, a ploy, a pattern, a position and a perspective. As a plan, strategy specifies consciously intended course of action of a company. The strategy is designed in advance of actions and is developed purposefully. As a ploy, strategy is seen as a pattern emerging in a stream of actions. Here, strategy is seen as a consistency in behavior. The strategy develops or emerges in the absence of intentions. As a position, strategy is a means of locating an organization in its environment.

A strategy is a long term plan of action designed to achieve a particular goal, most often "winning" (Thompson et al 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed. Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton, 1997).

1.2 Direct Sales Strategy

Strategy in general can be defined as the establishment of the long-term goals and objectives of an organization, including the taking of actions and allocation of resources for achieving these goals (Chandler, 1962). Direct Selling is the sale of a consumer product or service, person-to-person, away from a fixed retail location. Depending on the company, the salespeople may be called distributors, representatives, consultants or various other titles. Products are sold primarily through in-home product demonstrations, parties and one-on-one selling.

A direct sales strategy is the sales technique used most of the time. It is the frontal assault on the enemy's position (The enemy in our case is the status quo or your competitor, not the customer). A direct sales strategy means going head to head, feature for feature against your competition. A direct sales strategy is a hard way to sell, unless your have clear superiority over your competition (Brown, 2009).

1.3 Competitive Advantage

Competitive advantage is a condition which enables a company to operate in a more efficient or otherwise higher-quality manner than the companies it competes with, and which results in benefits accruing to that company. A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

As an organization's environment changes, it is necessary that the firm continuously adapt its activities and internal configurations to reflect the new external situation. Failure to do this endangers the future success of the organization (Aosa 1998). In particular, firms constantly take offensive and defensive strategic actions vis-a –vis competitors Baum and Korn (1996) thus modifying the competitive environment. Competition exerts pressure on firms to be proactive and to formulate successful response strategies to changes in the competitive environment, all in the effort to gain competitive advantage.

Thus competitive advantage enables a firm to create superior value for its customers and superior value for itself (Porter, 1996). The principle determining whether a firm should perform an activity or compete in a business is whether or not the firm possesses resources that provide a competitive advantage in that activity or business. The first determination of the firm's scope is simply whether or not the firm's resources create a competitive advantage in each business or activity. If they do, the firm should consider competing there. If they do not then the firm should not be active in that business unless other competing reasons require it (Williamson, 1991).

1.4 Global Trends in Banking

Trends affecting banks comprise privatization, regulation and supervision, demographic factors, technological innovations, Keasey (2003). The privatization of banks is high on the agenda in France, Germany and Italy.

As the influence of government wanes, competitive relationship in the financial sector and in the banking industry particularly will undergo considerable change. Development in regulation and supervision influence the banking industry via various channels. White (1998) argues that technological developments fundamentally alter the cost structure, output mix and distribution channels of banks, he goes further to say that the developments in information technology are the most fundamental forces for change in the financial sector.

There is increased competition among banks and other new financial intermediaries. In order to stay competitive and achieve their goals and objectives, banks are periodically re-evaluating their strategies. Most banks strive towards achieving an integrated banking business which is operationally efficient (Pearce, 2004). Generally, banks aim to achieve strong organic revenue growth, improve customer loyalty, improve productivity and realize growth in retail market share and corporate banking market share (Pearce, 2004).

1.5 Commercial Banks in Kenya

The banking system in Kenya is regulated by the Central Bank of Kenya (CBK) Act Cap 491 and the Banking Act Cap 488. These Acts are intended primarily to facilitate the development and maintenance of a sound monetary policy (GoK, 1989). The industry comprises of financial institutions, among them commercial banks. Others are either non-bank financial institutions (NBFIs) or Mortgage finance companies.

According to the Commercial Banks Directory (2007), Kenya has a well developed financial sector, particularly for the region, but it is vulnerable to government influence and inadequate supervision. The central issue of interest by the central bank to the commercial banks is how best to promote access to the financial system by a wider segment of the Kenyan populace. Commercial banks' expansionary strategy targets Small and Medium enterprises (SME's). The future of the industry looks promising with financial and legal sector restructuring (CBK, 2005). According to the Commercial Banks Directory of 2007 provided by the Central Bank of Kenya, the peer grouping of this sector has been categorized into small, medium and large banks. The various banks compete for customers and as service providers direct selling forms an integral part of their day to day marketing activities geared towards attainment of superior financial performance, market share growth and customer retention.

1.6 Statement of the Problem

The increase in the number of banks has seen an equal increase in the number of banking products and services from the various industry players. Among the strategies banks pursue towards meeting their broad goals and objectives is the adoption of direct sales strategy. In this strategy, banks employ a large and competent sales force which is charged with the responsibility of selling the various bank products and services. The study was intended to bridge the knowledge gap and provide answers to the following research questions: which are the direct sales approaches adopted by commercial banks in Kenya? and how has the adoption of direct sales strategy contributed to the profitability and competitiveness of the various commercial banks in Kenya?

1.7 Research Objectives

The objectives of the study were:

i. To establish the direct sales strategy approaches adopted by commercial banks in Kenya.
ii. To determine the impact of direct sales strategy on the banks' competitive advantage.

1.8 Importance of the Study

Sales Managers**:** The findings from this study will help the sales managers better understand how to manage their sales force with a view to improving their productivity.

Human Resource Managers**:** The findings from this study will enable the human resource managers make critical recruitment decisions-direct sales representatives are usually employed on contract basis and their pay is pegged on their performance. They do not enjoy most of the fringe benefits as the permanent and pensionable employees. An organization can decide to increase the number of direct sales staff who will deliver more value and sales volumes for the organization at minimum cost as compared to having many permanent employees.

Other Companies**:** The findings from this study can be used by other firms to enhance their competitive advantage. The Direct sales strategy have been adopted by many other firms namely insurance companies, Media houses, FMCG companies, pharmaceutical companies, security firms-all these firms have employed competent sales personnel charged with the responsibility of driving sales volumes and creating product awareness.

2. *Literature Review*

2.1 Personal Selling and the Selling Concept

Academically, selling is thought of as a part of marketing (Kotler, 2008) and (Armstrong, 1996). However, the two disciplines are completely different. Sales often form a separate grouping in a corporate structure, employing separate specialist operatives known as salespeople (singular: salesperson). Selling is considered by many to be a sort of persuading "art". Contrary to popular belief, the methodological approach of selling refers to a “systematic process of repetitive and measurable milestones, by which a salesperson relates his or her offering of a product or service in return enabling the buyer to achieve their goal in an economic way”.

Personal selling refers to the presentation of goods before the potential buyers and persuading them to purchase it. It involves face-to-face interaction and physical verification of the goods to be purchased. The objective is not only just to sell the product to a person but also to make him/her a permanent customer (Jobber and Geoff, 2000). According to Armstrong and Porter (1996), direct sales is a form of personal selling since it involves the presentation of goods and services before the customers and convincing or persuading them to buy the products or services. The personal selling process consists of several steps/stages which the sales person must master-the stages focus on the goal of getting new customers and obtaining orders from them.

2.2 Direct Sales Strategy

Direct Selling is a retail channel for the distribution of goods and services. At a basic level, it may be defined as marketing and selling products direct to consumers away from a fixed retail location. Sales are typically made through party plan, one to one demonstrations, and other personal contact arrangements. Direct sales involve the direct personal presentation, demonstration, and sale of products and services to consumers, usually in their homes or at their jobs (Michael et al, 2006) and (Xardel, 1993).

Glenn (2009), argues that direct selling provides important benefits to individuals who desire an opportunity to earn an income and build a business of their own; to consumers who enjoy an alternative to shopping centers, department stores or the like; and to the consumer products market. It offers an alternative to traditional employment for those who desire a flexible income earning opportunity to supplement their household income, or whose responsibilities or circumstances do not allow for regular part-time or full time employment.

2.3 Benefits of Direct Selling

Research shows some of the most popular reasons people choose direct selling are: direct selling is a good way to meet and socialize with people, it offers flexible work schedules, it is a good way to earn extra income, it is also a good way to own a business and earnings are in proportion to efforts (DSA, 1996-2009). It should be noted that anyone can do personal selling since there are no required levels of education, experience, financial resources or physical condition. People from all ages and from all backgrounds have succeeded in direct selling.

2.4 Direct Sales Approaches

This refers to the direct sales strategy tactics applied by organizations in ensuring that their sales and marketing efforts are successful and for enhancing competitive advantage. Steve, (2007) has come up with the following four direct sales strategy approaches:

2.4.1 Direct Sales Force Approach

This is about demonstrating how a direct sales channel is internal and is focused on signing new customers. The advantages to this approach is that it allows a company to focus resources like account managers and bonus them based on achievable and measurable goals. The disadvantage is the overheads entailed with managing a direct sales force and waiting for them to produce. One way to make this approach succeed is to find more experienced sales managers who have sold in a respective industry and for entry level sales people to be trained and molded to sell your product(s). You also need to discuss compensation which includes possibly a base salary and a bonus based on performance. You should show growth numbers and plans to leverage that increase in staff.

2.4.2 Indirect Sales Channel Approach

Related to the direct approach is the indirect sales channel approach. This is really focused on the various sales channels you can leverage to increase your sales success. For example, this could be resellers, franchise partners and licensed partners. You will want to discuss the type of partners, how many and the regions you will leverage and the growth strategy attached to the revenues you expect these indirect channels to produce.

2.4.3 Sales Prospecting Approach

Once you have defined your sales channels it will be time to craft the proper processes to do prospecting. This sales prospecting approach will be supported by a direct force, indirect sales channels and supported by direct mail, web advertising, and search engine placement. To build the sales prospects to a quality level, one strategy is to offer free access or use to the first group of clients (10 or 100) that sign with you. You should identify how you will create these lists of prospects for example by use of trade show lists, member-get-member approach among others.

2.4.4 Sales Campaign Strategy

Finally, you will connect the dots of how you will utilize your direct sales force, indirect channels and prospecting processes to run campaigns that are effective and meet the numbers set in the financial projections. This sales campaign approach is designed to lay out a clear direction in which to maximize all resources at your disposal with clear campaign ideas, messages and target markets/customer groups. Barclays bank of Kenya Limited has over the years been running many sales campaigns targeting their various products and these campaigns have greatly assisted the bank to meet and surpass its financial objectives.

2.5 The Concept of Competitive Advantage

Competitive advantage is what firms need to win industry wars. This important concept can be understood by looking at a firm in terms of discrete activities it performs in designing, producing, marketing, delivery and supporting its products (Porter, 1980). A firm that performs the discrete activities better and in a more effective and efficient manner has a chance to out perform its rivals through lower costs or differentiation.

Competitive advantage is concerned with firm's ability to deliver superior customer value better than competition. Aaker (2002) defines competitive advantage as the value proposition delivered to a well defined set of customers by a given brand. A brand value proposition is a statement of the functional, emotional and self-expressiveness delivered by the brand that provides value to the customer.

3. Methodology

A census survey design was used to facilitate comparison of data from the broad category of respondents. The population of study was all the commercial banks registered by the Central Bank of Kenya. According to the current Central bank directory, there are 42 commercial banks in Kenya and 2 mortgage finance companies. The study used primary data collected through semi-structured questionnaire. The questionnaire targeted one respondent per bank preferably the sales/marketing manager or the equivalent. According to Mugenda and Mugenda (1999), primary data is facts, assumptions or premises obtained directly from the field. On the other hand, secondary data is applied facts, assumptions and premises contained in documentary sources. Content analysis of the forty two (42) commercial banks served to enhance reliability, representativeness and validity of the information collected. Once the questionnaires were administered, numerical codes were assigned to the various closed responses. Descriptive statistic techniques were widely used to analyze the collected data.

4. *Results and Discussion*

The study found out that many banks in Kenya have embraced the direct sales strategy, a good indicator that the direct sales strategy is increasingly becoming a popular strategy among the various commercial banks. The size of the direct sales teams employed by banks is however small and thus the direct sales force in majority of the banks is not sufficient enough to ensure thorough market coverage and customers reach. 71% of the commercial banks in Kenya are predominantly local while 23.7 % are predominantly foreign while 5.3% are balanced between foreign and local ownership. Majority of the banks (31.6%) have between 11 and 20 branches throughout the country while 7 banks have less than 5 branches. Only 9 out of the 38 banks investigated have more than 20 branches. This is a clear indication that majority of the banks have not made their presence felt in most parts of the country.

Customer referrals, market activation programs, and media promotional campaigns emerged to be the factors with the greatest impact in enhancing direct sales strategy implementation. Competitive advantage arising from the implementation of the direct sales strategy is sustainable to a great extent. It is clear that the direct sales strategy enhances the opening of many accounts, profitability, and increase in market and reduces fraud significantly.

Its adoption also leads to enhanced customer awareness, product penetration, reduced customer complaints and low operating costs. The study found out that direct selling stands out as the strategy that contributes most towards attainment of competitive advantage followed by media campaigns, product promotions and competitive pricing. As evidenced by the results of the study, direct sales strategy contributes immensely towards attainment of competitive advantage in the various commercial banks in Kenya.

5. Conclusion

A majority of the banks (57.9%) have embraced the direct sales strategy for competitive advantage. product knowledge is the greatest factor that affects the productivity of the direct sales people. The direct sales personnel are the ambassadors of the bank and should be well equipped with proper product information. Customer referrals have the greatest impact in enhancing direct sales strategy implementation whereas media promotional campaigns have the least impact. Direct sales strategy enhances bank growth, promotes customer awareness and it is a vital tool for competitive advantage.

6. Recommendation

On the basis of the results of this study, it is recommended that banks should consider opening more branches within the country to ensure adequate regional presence and reduce the number of the unbanked population. The banks should endeavor to employ large direct sales force and other direct sales strategies to enhance their reach and market presence. The direct sales personnel should be adequately trained and equipped with relevant product and market knowledge since they are the face of the bank. Regular sales campaigns should be conducted to excite the market and enhance customer awareness.

7. *Limitations of the study*

Finally, two limitations of this study are discussed. First, the study has investigated a subset of competitive market focused strategies adopted by banks. There may be other business and environmental derived strategies that influence and determine the competitiveness of banks. One such dominant external factor is government control and regulation of the banking sector.

Second, the field study and survey approach is not without potential limitations. The major limitation was the unwillingness of the respondents to objectively articulate the situation of the bank due to stiff competition in the industry and the fear that information could be used for competitive advantage by their rivals.

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