

DIGITAL CHALLENGES FOR RETAIL BANK MARKETING STRATEGIES IN BULGARIA

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Abstract: Digital marketing is a natural evolutionary development of traditional marketing, aided by the rapid development of technology and e-commerce. This digital evolution is permanently changing the way of life and business, creating increasingly effective ways to meet the goals of customers and banks. The process is extremely important for banks because it is a crucial step for their survival in global markets. The application of new technologies leads to automation of processes, reduction of the risk of errors, increase of efficiency and improved customer experience. Due to the structural role of the banking sector for the country's economy and the emphasized public interest as a distributor of capital, the digitalization of banks in Bulgaria is a priority strategic task.

The purpose of this paper is twofold. The first aim is to identify market positions of Bulgarian banks in terms of customer satisfaction and awareness level. The second aim is to explore customer attitudes toward digital performance of Bulgarian banks, based on their perceptions and experience. The main research questions are related to the changes in retail banking services caused by the digital transformation which are necessary to be done to react to the customer behavioral patterns, expectations and preferences. Results indicate that banks should pay special attention to the personal needs of customers throughout the customer journey, given its influence on customer satisfaction and loyalty.

Both desk and field research are employed in this study. Based on desk research bank performance in terms of customer satisfaction measured by NPS is presented. The main aim of the field research is to collect data about customer perceptions and attitudes toward banks and their services with a focus on their digital performance. Data are collected through online survey. The following metrics and indicators are measured and evaluated: frequency of use of bank services, importance of the factors affecting the choice of bank, awareness level measured by unaided recall (SoM), customer perceptions of the functionalities of bank websites.

Six critical points to be addressed by the banks and reflected in their digital marketing strategies are presented as a conclusion: implementation of new technologies, development of digital applications and services, development of a consistent model of digital communication with the customers focusing on instant interaction through variety of digital channels, utilizing integrated customization of large data sets for personalized banking, implementation of loyalty and retention programs focusing on digital channels, customer experience as the core of the digital marketing strategy.

Keywords: digital challenges, retail banks, bank performance, marketing strategies

1. INTRODUCTION

The functioning of banks in the post-crisis conditions of global instability and uncertainty provokes the need for a thorough review and rethinking of banking and the basic models on the basis of which banks operate (Accenture, 2019). In the conditions of intensive competition and strict regulations for capital adequacy, risk management, information security and intensive competition on the part of non-banking institutions, a clear tendency of reorientation towards personalization of both banking services and interaction with consumers is formed (BCG, 2020). This, in turn, makes the activities of building sustainable relationships with consumers a priority of banks' marketing strategies. In order to be successful, the personalization of banking services should be based on digital customer journey as a part of the digital marketing strategies of banks.

Retail banking can be characterized on the basis of two key criteria: 1/ scope of customers served and volume of banking services provided and 2/ specifics of customers served and services offered. Regarding the first criterion, retail banking is associated with serving a large number of customers, accounts and transactions, a variety of products and services, a high level of implementation of modern technologies and a significant intensity of interaction between the bank and its customers (Croxford et al., 2005). With regard to the second criterion, retail banking is defined as a set of products and services that banks provide to individual customers and small businesses through bank branches, the Internet and other channels (Clark, Dick, Hirtle, Stiroh & Williams, 2007).

2. DIGITAL CHALLENGE

There has been a lot of talk in the last few years about omnichannels in financial services. With them, users use a variety of channels, including digital and offline, and seamlessly switch from one to another. Although omnichannel is one of the key strategies of most banks and financial institutions, the behavior of new digital customers is largely influenced by the convenience, innovation, accessibility and easy-to-use platforms provided by fintech companies and GAFA (Haigh, 2020, p.9). These new market players are looking for ways to participate and create value without strictly adhering to accounting laws, providing a fully digital experience for a growing group of customers who are familiar with the quality, personalization and affordability guaranteed by such companies. According to PWC research (Le Lab, 2018), 46% of the global banking customer base is becoming omnichannel customers, prompting the banks and other financial institutions to adopt digital-first strategies to cater to this growing segment (Sharma, 2020). A recent global survey by CGN Research & Advisory Group estimated that 68% of banking customers will convert to omni-digital consumers by the end of this year. In fact, banks and financial institutions are dealing with an unknown territory when it comes to attracting and retaining new digital customers. A new set of omnichannel customers are emerging in the wake of the ongoing Covid-19 situation.

According to the results of research conducted by Mastercard (Schmitz-Engels, 2019) 84% of respondents regularly use digital banking, with 63% using mobile banking applications from traditional banks and one in five only from digital banks. Nearly two-thirds of respondents said that they expect an increase in demand for digital banking solutions. More than half of the respondents (54%) said they would consider switching to a digital bank. In Hungary, 28% of respondents said they would consider switching their current bank to digital within a year, at an average of 13% for Europe. Nearly one in 10 people surveyed is already a customer of a digital bank.

Table 1. Use of digital channels in Europe during the COVID-19 pandemic by bank services, % of respondents, net change

Channel	Italy	Spain	Portugal	UK	Germany	France
Online banking	7	15	19	11	11	1
Mobile banking	7	16	16	9	7	-1
Phone call with branch advisor or branch staff	-7	1	4	-6	-4	-5
Video chat with branch advisor or staff	-4	-2	-2	-1	-3	-5
Meeting with the financial advisor in the branch	-11	-7	-8	-8	-5	-7

Note: Net change is calculated by subtracting the % of respondents stating they used less than before from the % of respondents stating they used more than before..

Source: Lemerle, M., Patnaik, D., Ring, I., Sayama, H., & Sieberer, M. (2020). No going back: New imperatives for European banking. Report, McKinsey&Company, May 2020, p.7.

In just a couple of months during Covid-19 pandemic, customers' adoption of digital banking has leapt forward by a couple of years. Data provided in Table 1 displays a 10 to 20 percent rise in digital banking use across Europe in April 2020. Such a jump in adoption opens the door for banks to turn digital channels into real sales channels, not just convenient self-service tools. Banks have shown during the lockdown what is possible in terms of speed and innovation and there is no going back. Now is the time for banking executives to reimagine how their institutions operate (Azad et al., 2020).

3. METHODOLOGY

According to the BNB annual report (BNB, 2020) as of 31 December 2019 Bulgarian banking system profit remained close to that reported in 2018. In 2019 banking sector consolidation continued with the acquisition of Société Générale Expressbank by DSK Bank and Piraeus Bank Bulgaria AD by Eurobank Bulgaria AD. In 2019 banking system assets increased by BGN 8.8 billion (8.3 per cent) to BGN 114.3 billion, their growth rate rising by 8.0 per cent or BGN 7.8 billion on 2018. Loans and advances also grew to reach 65.7 per cent of total banking assets. The asset share of the five largest banks accounted for 60.0 per cent by end-September. EU subsidiaries held 72.7 per cent of banking assets, while domestic banks occupied 21.1 per cent. Non-EU banks and EU bank branches occupied 3.0 per cent. The share of non-EU bank branches was 0.1 per cent. The sustainable leadership position of UniCredit Bulbank is evidenced by the steady increase of the Bank's assets over the last 5 years. Unicredit Bulbank defines itself as a leader in the banking services market in Bulgaria.

The structure of Bulgarian banking market coincides with the region-specific financial and banking structure of Central and Eastern Europe. The concentration of the assets in the top 10 banks (by market share) is quite typical for these markets. Despite the concentration (Table 2), Bulgarian banking market could be considered to be a competitive marketplace since the value of HHI lies quite below 1500 (876 in 2015; 745 in 2014).

Table 2. Classification of Bulgarian banks by assets

Group I	Group II	Group III
UniCredit Bulbank	Raiffeisenbank (Bulgaria)	Citibank Europe – Bulgaria Branch
DSK Bank	Expressbank	ING Bank N.V. – Sofia Branch
United Bulgarian Bank	Central Cooperative Bank	BNP Parisbas S.A. – Sofia Branch
First Investment Bank	Allianz Bank Bulgaria	BNP Parisbas Personal Finance S.A. BG Branch
Eurobank Bulgaria	Piraeus Bank Bulgaria	T.C. Ziraat Bank – Sofia Branch
	Bulgarian Development Bank	
	ProCredit Bank (Bulgaria)	
	Municipal Bank	
	Investbank	
	International Asset Bank	
	Bulgarian-American Credit Bank	
	D Commerce Bank	
	TBI Bank	
	Tokuda Bank	
	Texim Bank	

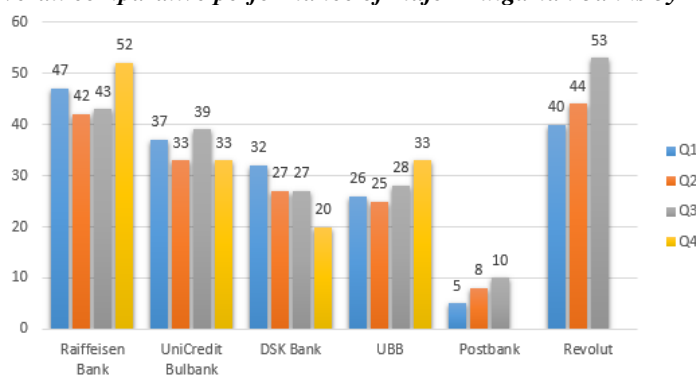
Source: BNB (2020: 245); Postbank is legally known as Eurobank Bulgaria AD (former legal name Eurobank EFG Bulgaria AD, date of change 11/1/2013)

Both desk and field research are employed in this study. Secondary research includes Unicredit Bulbank (UCB), DSK Bank, Raiffeisen Bank, UBB, Postbank and Revolut as a main fintech competitor. The performance of the banks is evaluated by the level of customer satisfaction which is measured by NPS. The main aim of the field research is to collect data about customer perceptions and attitudes toward banks and their services with a focus on their digital performance. The sample (n = 380) is drawn from a population within the age interval from 20 to 55 years in cities with more than 50000 inhabitants. Quota sampling by gender and age is used. Data are collected through online survey. The following metrics and indicators are measured and evaluated: frequency of use of bank services, importance of the factors affecting the choice of bank, awareness level measured by unaided recall (SoM), customer perceptions of the functionalities of bank websites.

4. RESULTS AND DISCUSSIONS

The overall comparative performance of Bulgarian banks by level of customer satisfaction is measured by NPS (Figure 1).

Figure 1. Overall comparative performance of major Bulgarian banks by NPS, %, 2020



Note: Revolut is a fintech company and its performance is used as a benchmark

Based on provided results we can suggest that customers are loyal to Revolut (used as a benchmark in this study) followed by Raiffeisen Bank (RBB). NPS is considered to be monodimensional metric of customer loyalty determined by the willingness to recommend. Three groups of banks could be distinguished by their NPS performance. The performance of the banks from the first group is characterized by NPS above 40% (RBB, UCB, and Revolut). Banks from the second group display NPS scores within the range 20 to 30% (DSK Bank and UBB). The scores of NPS below 20% present the worst performance (Postbank). Comparing the NPS scores by quarters we can conclude that they vary slightly with the exception of RBB and Revolut which NPS scores increased by 9% in Q4.

Figure 2. Focused comparative performance of major Bulgarian banks by NPS, %, 2020



With a more focused analysis we can reveal that customers are not quite satisfied with the quality of bank services provided on site. These results directly correspond to the following attributes of bank services: competence and politeness of the staff and speed of service which are ranked as the most important by the respondents in the field survey. The results from the field survey are presented below. Regarding the frequency of use of bank services we can put forward the following results.

Thirty percent of the respondents search for online information from the bank websites. More than half of them (55%) conduct online transfers and payments several times a week. Half of the respondents make online purchases several times a month. Cash withdrawal from a bank office execute 40% of the respondents. Approximately 85% of the respondents use their debit and/or credit cards for different activities and purposes at least once a month. Fifteen percent of the respondents communicate online with the bank on a daily basis. As for the trusted information sources on managing money half of the respondents pointed out banks, followed by friends or family members (13%).

The choice of certain bank is affected by several factors which are ranked as follows: 1/ Competence of the bank employees (mean = 3.85)¹, 2/ Speed of service at the bank offices, and politeness of the staff (mean = 3.75), 3/ Taxes and expenditures (mean = 3.7). All factors are proved to be statistically significant using t-test. The validity of the scales is tested with the Cronbach coefficient α and the Spearman-Brown coefficient which values are 0.788 and 0.584, respectively, confirming the validity of the scales.

The preferred way of receiving information from the respondents excludes analogue channels such as brochures and advertising materials. The most important channel is the Internet (65% of the respondents). The second most important way of communication is considered a meeting with a bank specialist on site at the bank branch (55% of the respondents). The channel through the call center remains underestimated. Approximately 20% of respondents rely on WOM communication.

The bank website, as a main marketing communication channel, enjoys considerable attention from the respondents, half of whom visit it several times a week. Such behavioral habit provides banks an opportunities to establish and to maintain frequent contacts with their customers, to develop and to offer customized or even personalized products and services. The online visits to the bank website is more intensive than the visits to the branch network.

¹ Scale from 1 = not important to 4 = very important

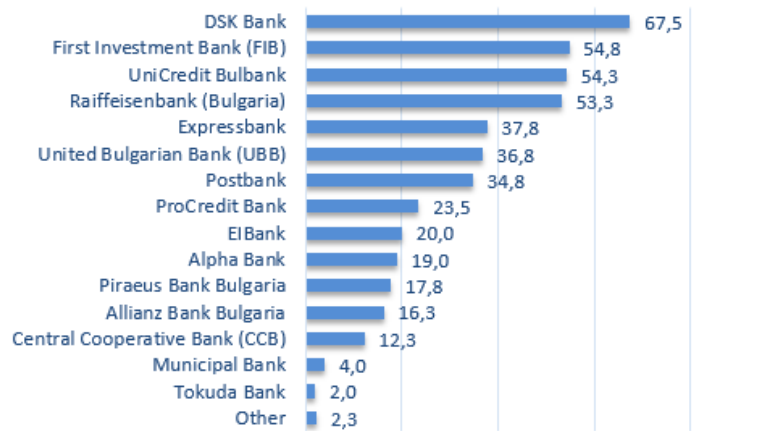
Table 3. Perceived customer experiences based on the interactions with the operating bank website

Statement	Mean
The website allows real-time conversation such as chat, connection to a call center, operator, etc.	2.50
The website facilitates two-way communication between the visitor and the site.	2.85
It is easy for the visitor to make feedback to the site, i.e. to make a suggestion, comment, to express an opinion, etc.	2.85
The website feels fully designed to reflect the views of its visitors.	2.35
The site processes the information and commands I give very quickly.	3.00
I was able to find my way around the site very quickly and get the information I needed.	3.30
The site responds very quickly to my inquiries.	2.90
While I was on the site, I was free to choose what I wanted to see without any problems.	3.30
While I was on the site, I had an idea of where I was all the time.	3.30
While I was on the site, I had an orientation all the time about where I was going.	3.25
I had the feeling that I could control everything I did.	3.10

Note: Scale from 1 = Strongly disagree to 4 = Strongly agree

Regarding the customer satisfaction with the corporate websites of the banks, we can conclude that their interactivity and functionality are evaluated by the customers above the average. This confirms our suggestion that banks should plan to include digital innovation and content optimization into their digital strategies.

Figure 3. Unaided recall (Share-of-Mind, SoM), %



The obtained results make it possible to distinguish three segments of banks according to SoM, namely: Segment A - recall level above 50%; Segment B - recall level from 30 to 50%; Segment C - recall level below 30%. The above results confirm the leadership position of the Segment A banks, which are also part of the Group I banks (market leaders according to the size of assets). Regarding perceptions of banks' advertising activities, one-third of the respondents noticed an advertisement of their operating bank during the week of the survey. This relatively high result can be explained by the intense broadcasting of bank commercials and banking services on TV. coefficient α and the Spearman-Brown coefficient, whose values were 0.931 and 0.867, respectively.

5. CONCLUSIONS

The main goal of digital marketing strategies of banks should be focused on gaining and sustaining a competitive advantage in a market where everyone offers the same or very similar products and services with identical interest rates and prices. Practically, all banks offer similar products and services at comparable prices. In most cases, the quality of service, speed and simplicity of the processes make the added value for the customer. Taking into account the changes in customer behavioral patterns banks should target both their existing customer base and should attract new customers but in a new way. The new entrants like fintech brands pose another challenge to traditional banking services, as they are more aligned to modern customer expectations about instant omnichannel and multi-platform services.

There are six critical points to be addressed by the banks which should be further reflected in their digital marketing strategies. First, implementation of new technologies. The use of the latest technologies and innovations provide a

solid background to sustain competitive positions. Second, development of digital applications and services. Approximately 62% of Bulgarian population possess a mobile smart device. That is why, it is quite easy for the active clients of the banks to switch to the digital form of bank service, ignoring the previously common model of 'physical' service. Digital bank service is perceived as easy to handle and relatively faster. Third, development of a consistent model of digital communication with the customers focusing on instant interaction through variety of digital channels such as mobile apps, website, stand-alone digital communication devices or those built into self-service machines (kiosks), social media and blogging. As an added value to this type of communication, banks can offer online educational courses in financial literacy, online security, etc. These activities aim to support future sales and long-term relationships with customers based on trust building. Fourth, utilizing integrated customization of large data sets for personalized banking. The bank can offer pre-approved individual proposals to its customers and can effectively manage the prices of offered products and services in line with those of the competition, so it will not be necessary for the customer to check the conditions in another bank. Fifth, implementation of loyalty and retention programs focusing on digital channels: card payments, promoting the use of self-service machines, mobile apps, real-time feedback, online application for credit products, etc. Sixth, customer experience to be regarded as the core of the digital marketing strategy. This will not be able to be achieved through the traditional branch network. Voice of the customer, customer journey, customer satisfaction should be the cornerstones of the digital marketing strategy.

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