AN EVALUATION OF PRODUCTS INNOVATION AMONG NIGERIAN COMMERCIAL BANKS

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ABSTRACT

The product innovation product process is a concept that banks are gradually adopting in order to outwit one another in the market place. This paper therefore analysis this process among Nigerian banks, the different functions carried out by the banks, the innovation process, the various products and services offered by the banks and also the reason why a bank has to be innovative in its service rendering process.

It concludes by recommending amongst other measures that a bank has to constantly come up with innovative products to be able to compete better in today's ever changing business and technologically driven environment.

INTRODUCTION

A bank is a financial intermediary whose core activity is to provide loans to borrowers and to collect deposits from savers. (Bolarinwa 2004). This function as noted is the primary function of any bank while other functions includes but are not limited to pooling of savings, payment services, foreign trade finance, safe custody of valuables and trust Services.

From the above discussion therefore, it is important to note that Banks play an important role in the process of growth and development of an economy through the performance of functions such as;

- Acceptance of deposits
- Pooling of funds from surplus units to deficit units

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- Investment, pension and insurance services
- E-banking facilities

In trying to do this, a bank has to ensure that it remains in business by being solvent and maximizing returns amidst competition from other banks that are in the same business, performing the same functions and offering such to the same targeted market in the economy. Banks must therefore distinguish itself from other competitors by the various products it offers and ensure that it is able to meet the needs of the intended market and customers because Banking is a service oriented enterprise.

This is why Casu, Girardone & Molyneux (2006) observed that the most typical innovation in modern day banking are in the payments systems which include the use of wide range of automated channels for supplying and delivering various banking services and activities. Common examples of such are;

- Developments in the use of debit and credit cards
- Standing orders and direct debit
- Automated Teller Machines (ATM)
- Electronic funds transfer at the point of sale terminals
- Internet and PC banking
- Telephone / Mobile banking

Therefore banking institutions in Nigeria today are at a crisis in their service offerings as new realities disrupt the status quo due to the ever increasing economic activity which in turn is escalating the consumers' expectations of banking services. (Asekun 2005)

Traditionally the Banking System in Nigeria was not known for innovation during the armchair banking era because there were few banks with a larger customer base and less competition, however, the present day commercial banks are facing intense competition in today's market place meaning that it is time for Banks to adopt proactive measures to gain additional customers and this explains why financial institutions need to be innovative in their business dealings.

The pre consolidation era witnessed a situation where there were more banks with very little or fewer financial products. The consolidation exercise however reduced the number of banks to 24 with very stiff competition and as a result, the banks became more aggressive in service delivery, marketing and productivity. This led to the introduction of series of financial products by these banks while trying to meet the demands of the customers and also to remain in business.

Having established the need for the banks to grow in the midst of growing competition with similar services and products, it becomes imperative that a bank must continue to be innovative by the introduction of new products to the target market. Product innovation drives growth as this process is crucial to business success and thus deserves the highest quality attention, leadership support from business leaders at all levels. Innovation distinguishes a leader from a follower.

It is should be pointed out that developing new products is of the highest importance for the survival of a business however this process is not exclusive to new products but includes modification of existing products. The new product may be an extension of the old ones that leverages on the deficiencies of the old product.

Therefore it is pertinent to note that Banks in Nigeria offer the same products and services with slight variations which could be in terms of price, tenure, accessibility, presentation etc. Hence for any of the banks to stay on the top of the ladder and

improve on its bottom line, as such, there is the need for such bank to come up with innovative products that it can effectively meet the desires of the intended market group.

The intent of this paper therefore is to analyze the various product innovation process in commercial banks, highlight some examples of the innovated products, make recommendations on why the banks have to innovative in their products offerings amongst others amidst the tight competition for the existing available customers in the market.

CONCEPTUAL ISSUES: PRODUCT INNOVATION AND BANK MARKETING

A Bank as defined by Ekezie (1997) is simply put "an institution which accepts deposits from the public and in turn advances loans by creating credit."

A bank is likewise defined as a commercial institution that keeps money in accounts for individuals or organizations, makes loan, exchanges currencies, provides credit to business and offers other financial services. (Bnet dictionary)

It can thus be deduced that the forms in which this services are carried out is what is referred to as the product of a bank.

Kotler (1996) defines a product as anything that can be offered to a market acquisition, use, or consumption that might satisfy a need or want. Thus a product may be a physical good, person, service or idea and with regards to this paper, products refers to the various services rendered by the banks.

However, (Kotelnikov 2008) observed that product innovation is the result of bringing to life, a new way to solve the customer's problem that eventually benefits both the customer and the banks.

In the views of Patterson & Fenoglio, (1999), a competitive new product innovation requires the right balance among three principal business assets which forms the basis of the fundamental principles of the innovative engine and these are;

a. an excellent product innovation process

b. an effective leadership from high level management

c. a supportive work environment.

He also opined that the innovative engine is made up of four main processes namely

i. The strategic and planning portfolio management process which accumulates knowledge about trends in markets, customer's needs and technologies and then develops the wisdom to excel in the business particular to the enterprises. Product strategies guide the flow and direction of new product investment and then applies due diligence to assure that those investments are well managed and yield expected results.

ii. Opportunities that arise from the strategic and planning process are then identified and developed upon to further evaluate the expected result of the product should in case it is developed.

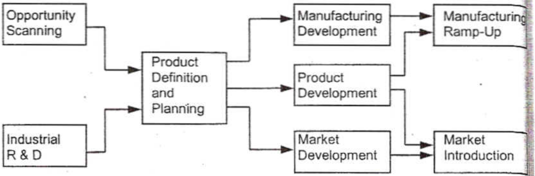
iii. After the identification of the opportunities, the idea is executed into a product form and introduced to the market through the various marketing channels available.

iv. The 4th stage is where opportunities not utilized are discarded.

Product innovation includes both background work and processes that are executed in conjunction with a specific new product.

The above process can also be further illustrated as in the boxes below,

Fig. 1 The Process of Product Innovation



Source: Patterson, M. and Fenoglio, A. (1999).

Works by Frances, Patrick and Larry (1998) showed that marketing amongst other factors drives the product innovation process in commercial banks. This however is dependent on the concept employed by the Bank towards its marketing which is focused on the need of the customer. The concept is premised on the philosophy of business organizations taking their orientation from the market place (Petu 2000).

Where new products are successfully introduced and marketed, the feedback from the market enables the bank to determine if there is need for further innovation on the newly introduced product.

It is also important to know that innovation in bank product marketing is found in virtually all the web sites of the banks where all the products offered by the bank are found on each bank's portal.

EMPIRICAL ANALYSIS OF INNOVATED PRODUCTS AMONGST COMMERCIAL BANKS

Casu et al (2006), categorized the various aspects of product innovation in Banks as;

- The introduction of new credit,
- deposit,
- insurance,
- leasing,
- hire purchase,
- derivatives and
- other financial products such as e-banking, investment and retail banking.

He averred that these products are introduced to respond better to changes in market demand or to improve efficiency. The ultimate aim however is to present to customers, a wide range of services and products that will improve upon the bank customer relationship and provide value to its clients.

A fast-growing developing or third world country like Nigeria, with all the associated demand for financial services, is a banker's ultimate dream. Sophisticated clients including HNI's (High Networth Individual) expect diverse products ranging from

- project (asset-based) financing
- structured trade finance
- venture capital as many firms seek to raise private equity/debt to fund expansion
- hedging of exposures to commodities
- foreign exchange and interest rates
- corporate advisory (including fiduciary/custodian services)
- underwriting for initial public offerings (IPO's)
- innovative consumer products
- assets management for high-net-worth-individuals (HNIs) and public/private institutions.

As mentioned earlier on in this study, most of the products of the banks are similar in nature and offered in the same way, serving the same target market and the major distinguishing factor remains the brand name.

For example, United Bank for Africa Plc, as part of its product innovation strategies launched the "Freedom Savings Account," with the aim of attracting those potential customers who could not have access to banking services in the country as a result of prohibitive initial deposit requirements.

This initiative seems to have alerted other banks, who responded by offering no deposit account opening facilities or reduced the minimum deposit required to open an account, this is also to attract more customers. With the large proportion of the population outside the formal banking sectors, often classified as 'unbanked', the innovation has been a good omen for many because quite a lot have benefited from the scheme.

Again the Car acquisition finance is another form of innovation ,though virtually all the banks in the country now have the product, it was started by First Bank Plc where it's repayment period was a maximum of 36 months and a 20% borrowers contribution and termed car purchase. The customer's application is likewise processed at the branch of the bank and has to wait a few days or weeks before knowing whether the application is rejected or approved. But with innovation and different banks offering the product, the maximum repayment period is now 60 months with 30% borrower's contribution and application is processed online. Customer knows the status of his application within the hour (Access Bank Plc). Access Bank calls it auto-online.

In the area of distributive channel, electronic card service has also come a long way in the innovation process. This has evolved from the era of cheque guarantee payments to the present day period of Automated Teller Machines (ATM) cards which can be denominated either in local (various bank cards) or foreign currency or dual currency. Example of such includes Mastercard of Intercontinental Bank Plc and Visacard of Access Bank plc.

The innovation in products can also be seen in the international money transfer process which started with First Bank Plc's Western Union Money Transfer usually paid out in Naira and United Bank for Africa Plc's Moneygram also paid out in Naira. These two products are now being offered by various banks and are paid out in Dollars. Example of such Banks includes Bank PHB, Oceanic Bank and Zenith Bank Plc.

The local money transfer has also transformed from the process of transferring money from one account to another account to products such as Money Manager whereby various Naira denominated scratch cards are purchased and the personal identification numbers on the card sent to the beneficiary. The money is then collected from any branch of the bank from where the card was purchased by the recipient.

All the above mentioned are all means of attracting customers through product innovation by various Banks in the midst of stiff competition to outwit one another

CONCLUSION AND RECOMMENDATIONS

Whilst innovative products can often provide cutting edge solution to long term success, it is equally important for Banks to produce a constant stream of innovations so that gains are consistent and repeatable. Industry analysts predict that the future success in the banking industry will be based upon the industries ability to react quickly and effectively to external forces.

Therefore, what will separate the winners from the losers will be the ability to react to and embrace change in order to face up to the competitive challenge from new and existing market players. Banks must therefore strengthen their awareness of developing intelligent banking products, focus more on innovative marketing & sales techniques and look at long-term strategic planning trends.

It is recommended that top level management be highly involved in the innovation process to support and give encouragement to the units responsible for developing the products.

For the banks that are into online banking services, the challenge is to develop services that will allow users to obtain information and initiate seamless transactions for multiple products and services. They also need to continue to develop and be innovative in the web offerings.

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