

MARKETING AS A BEHAVIORAL SYSTEM:

An Illustration of Retail Loans

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Abstract

Marketing management, which has elevated the position of marketing to a strategic level in institutions, is generally executed within complex systems. These complex marketing systems are inherently not only “open” but also “behavioral” paradigms, which continuously and overtly interact with their environment and adjust themselves accordingly. Taking the open and behavioral aspects of systems approach into consideration, this paper analyzes the marketing management practice of consumer loans in the marketing system perspective and combines marketing theory with practice. The interactions among system elements are also reviewed and analyzed to provide additional insights about the dynamics of marketing system interactions. Since the behavioral aspect of the system will be taken into consideration, certain concepts from behavioral finance and comments from practical experience will be integrated to provide explanations for the psychological factors that are influential in the working of the system. The major aim of this exploratory study is to combine marketing theory with practice by using theoretical approach as a base and the retail loans for exemplification and illustration.

Keywords: theory –practice interaction; banking; consumer loans; behavioral; system

1. Introduction

Retail banking is one of the most dynamic business areas in the financial world -where Turkey is no exception. It is basically an open system, which continuously interacts with different stakeholders in its external environment through its internal elements. Besides, since the open system of retail banking evolves via the decisions and actions of its internal elements, it is also behavioral. In this paper, the behavioral aspects of retail banking will be reviewed through the retail (consumer) loan example. Consumer loans system constitutes an open and behavioral marketing system as it alters its decisions and actions to adapt itself to the rapidly changing dynamics of the external environment. Taking the open and behavioral aspects of retail loan system into consideration, authors will illustrate a symbolic retail loans marketing department of a privately owned bank, and study the department's marketing system within the perspective of marketing management. Thus, the major aim of this paper is to combine marketing theory with practice by using theoretical approach as a base and the retail loans for exemplification and illustration.

2. The Emergence and Evolution of Open & Behavioral Systems Thinking

Towards mid-1950's, marketing discipline has shifted from "traditional approach philosophy" to "modern schools doctrine" and Marketing Management, Marketing Systems, Consumer Behavior, Macromarketing, and Themes of Exchange became the predominant thoughts in the field. Among those thoughts, Systems School of Marketing carved a distinctive place for itself given that it had a substantial body of knowledge; its thoughts have affected a large number of scholars over an extended period of time (Shaw and Jones 2005).

Although the Systems Approach and its general concepts like *systems*, *vitalism* and *life force* may even go back to the works of legendary German philosopher Hegel in 18th century (Kast & Rosenzweig 1972), the Systems School of Marketing basically takes its roots from the pioneering works of biologist Von Bertalanffy (1951) who founded the General Systems Theory as "a new approach to a unity of science" (Shaw & Jones 2005). Later on, the economist and interdisciplinary philosopher Boulding (1956) related the General Systems Theory of Von Bertalanffy (1951) with marketing and asserted that the relationships between production, marketing and consumption can be organized into a unified perspective using the analytical framework of systems (Sheth et al. 1988, p.162).

The first marketing scholar who used systems terminology in marketing happened to be Alderson (1957) who discussed 'organized behavior systems', 'survival and growth of systems', and 'input – output systems' (Shaw & Jones, 2005). In his functional theory of

marketing, Alderson has viewed firms as ecological systems (Wooliscroft, Tamilia, and Shapiro, 2006), and developed a robust paradigm for the relationship between the marketing system of the firm and its environment (Brown 2005). Alderson has also argued that these organized behavior systems engage in negotiations to maintain a continuous adjustment to their unstable environment in order to sustain self-stability (Smalley and Fraedrich, 1995).

Building on Alderson's work, Forrester (1958) described the company as a dynamic system and assessed that companies that are aware of the importance of interrelationships among different company functions and between the company and its markets will be more advantageous than their competitors.

In their highly influencing theoretical framework, which used certain concepts from Alderson's work, Katz and Kahn (1966) defined organizations as systems that imported energy from the environment and exported products as output to the environment. The cyclic pattern of events, and the concepts like entropy and homeostasis were the elements that the authors used to explain organizational systems as complex, open and behavioral (Sheth et al. 1988, p.163-164). Following Katz and Kahn, Fisk (1967) suggested marketing problems to be viewed in a systems context, so that it would be possible for the decision-makers to find a solution to their problems by referring to already existing solutions in similar systems as problems might have common properties (Sheth et al. 1988, p.163). Dixon (1967) took a macro perspective and depicted how the marketing system was integrated into the broader society of which it is a part. Layton (2007) who also focused on the macro perspective defined the causal processes underlying adaptive change in marketing systems and indicated that as marketing systems form, grow, and change, they become part of their immediate environment. At the other end of the spectrum, Lazer (1971) took a micro perspective and used a systems approach to analyze marketing management. Bucklin (1970) unified the macro and micro approaches and explained the economics of channels as systems in his 'Vertical Marketing Systems' phenomenon (Shaw and Jones 2005). Thus through various different arguments and analysis, prior research indicate and agree that marketing systems are open systems and should interact with their environment to be adaptive.

Yet, marketing systems are not only open, they are also behavioral. They grow and progress through the decisions and actions of their elements which interact with and respond to the developments in the external environment. This interaction and response of elements, which actually foster adaptation of the marketing system to its environment, is reflected in Stern's (1969) work which focuses on the behavioral dimensions of the marketing theory and behavioral processes in distribution systems. In addition to Stern's (1969) work, Visser

(2010) has introduced the “impossibility not to communicate” concept in relationships. Viser’s “impossibility not to communicate” is actually a reciprocal influencing phenomenon, which is inherently inevitable when people meet in a social context. Since organizations and marketing systems are composed of human beings, “impossibility not to communicate” is also a valid assumption for marketing systems, whether they are sole individuals or organizations. Consequently, these “reciprocal influencing” and/or “impossibility of not to communicate” phenomena render the market systems behavioral. Hence, market systems are required to adopt behavioral strategies to be effective. Greve (2013) indicates that behavioral strategies provide guidance in the decision making processes and thus can be interpreted as showing the degree of rationality level in organizational actions. He further argues that behavioral strategies have a distinctive role in management. Thus a marketing system, which is inherently behavioral, is more likely to be effective in adapting to its environment, if it adopts behavioral strategies for managing the actions and decisions of its elements.

Since the marketing system under question is open and behavioral, it is also important to understand and integrate the behavioral aspects of the customers -who are an integral part of the external environment- into the analysis, which can best be achieved by behavioral finance theory. Although impact of emotions in finance had been addressed by the legendary economist Keynes in mid-20th century, it is generally accepted that behavioral finance studies started with the Prospect Theory of Kahneman and Tversky (1979) which focused on decision-making behavior under uncertain circumstances (Widger and Crosby, 2014). Kahneman and Tversky’s Prospect Theory postulates that certain psychological factors affect the actual decision-making process. The theory predicts that financial actors, hence the consumer loan users, will simplify their decision processes by certain behavioral heuristics which may end up in satisfactory choices - rather than maximized or optimized ones. Since “*what customers actually do*” is more important than “*what customers should do*” to be able to remain competitive, marketing systems should consider customers’ psychological factors as it has been proven by many studies that financial consumer do not act in line with the assumptions of traditional finance theories or models (Kaufmann 2011). Thus, open and behavioral marketing systems, should integrate the possible sub-rational or sub-optimal decisions and behaviors of the consumers into their processes to remain competitive.

3. Behavioral Systems Thinking in Retail Banking Paradigm

Retail banking basically deals with the financial needs of individuals which can be met in three major product and service categories; namely, Wealth Management (Investment)

Products, Cards, and Lending Products. This paper will adopt the systems perspective and focus on the lending products which basically consist of consumer loans and will use the *retail banking marketing department* to indicate the “unit” that is responsible for the marketing of consumer loans. “Consumer loan” is the generic name of all kinds of retail loans - including personal loans, automobile loans, mortgages and overdraft accounts.

As mentioned above, marketing systems adapt to their environments or change with the environmental influences as postulated by General Systems Theory (Dowling 1983). Likewise, as an open and behavioral system, retail loans marketing systems also adapt to changes in their environment by the actions and behaviors of their elements.

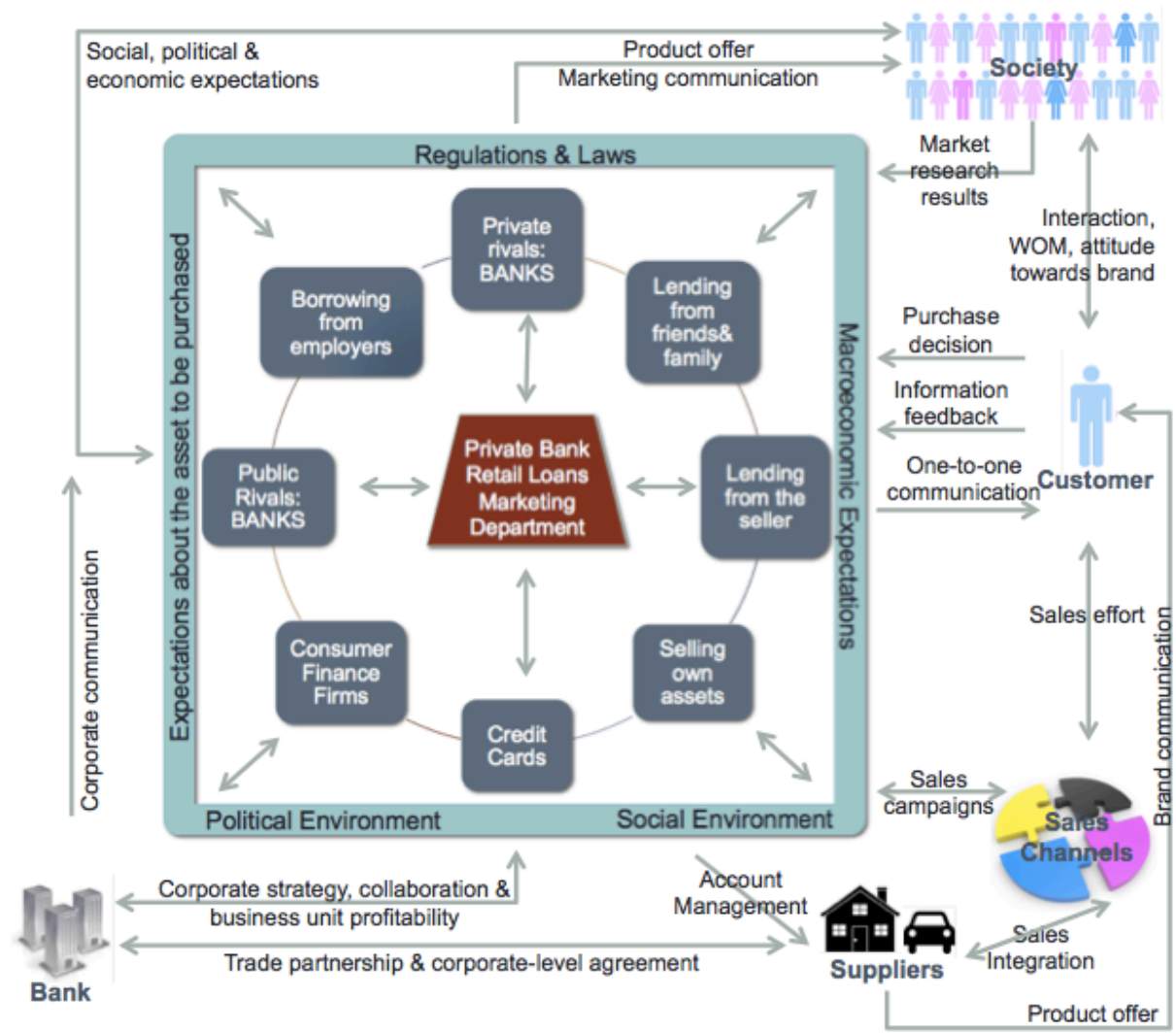
Buttle (1998) argues that open social systems can change form, goals and strategies not only to ensure their survival but also to further develop and progress. In order to ensure its survival and development of within the bank, retail marketing department imports consumer feedback, human resources, innovative ideas, additional funds, third party contracts, environmental conditions, third party systems and turns all these into certain throughputs within its organization. After the coding of relevant information and the selection of the relevant inputs, retail marketing department’s system offers products that are aligned with its general marketing strategy of the bank. These are exported to the environment and communicated to the society and consumers. This process shows an exact correspondence with Katz & Kahn’s systems paradigm of marketing (Katz & Kahn, 1966) in which the system imports energy from the environment and export products to the environment.

Retail marketing department outputs are exported to the environment by its elements, i.e. system’s components, which make their own decisions and act accordingly. In this aspect, all elements of the retail marketing department are subject to behavioral actions. Meanwhile as Visser (2010) argues, the behaviors should not be regarded as discrete events (with causation flowing in one direction only), but as interconnected events that are both cause and effect and, ultimately, their own cause. This interconnection is also valid for the actions of the retail marketing department’s elements, as all of the system’s elements have a potential to support a multi-dimension flow. Moreover, these interactions follow a cyclical pattern, because all elements of the system and the environment are taking actions following each other.

This whole marketing system for consumer loans, which actually operates in a strategic environment composed of different systems, subsystems, organizations and individuals (namely, the bank as the whole organization, the society, sales channels,

consumers and the merchants as the supply-side agents) is summarized and illustrated in Figure 1.¹

Figure 1: Marketing System for Consumer Loans



Source: Authors' conceptualization

3.1. System's Core and the Subsystem of Competition

Retail loans marketing department is the *core* of the marketing system as it produces the marketing strategy by determining the product portfolio, adjusting the general pricing level, coordinating the communication activities, preparing the sales scenarios/volume forecasts, ensuring end-to-end product processes and managing the spending budget of products. Thus, this component functions at the system's center and remains in a continuous interaction with the other elements of the system.

¹ The retail marketing department exemplified in Figure 1 is depicted from a marketing management perspective and in order to simplify the analysis, market tiers that are formed according to market share of banks are ignored.

The *subsystem of competition* consists of the elements that serve as substitutes for the products offered by the marketing department. The *first subsystem of competition* is the rival banks, whether public² or private, with which the marketing department, i.e. the core, interacts continuously. Through this continuous interaction, core adjusts its actions to remain competitive. For example although the campaigns are planned on an annual basis, the core may decide to implement reactive campaigns and offer product bundles as a response to their rivals. The *second subsystem of competition* is the consumer finance firms which may have more flexible allocation policies, lower interest rates, and may require less documentation from customers. Moreover they may be located in stores and merchants, providing instant credit solutions and almost making the loan seeking processes unnecessary. Given their different structure, the reaction of the core will be different to this subsystem when compared to subsystem of rival banks. Apart from those institutional lenders the consumer can use its social network especially for smaller amounts of funds. In this respect, consumers' employers constitute the *third subsystem of competition* which can provide financing in the form of advance payments or personnel credits. Another social network, namely friends and relatives are the *fourth subsystem of competition* which is actually an interest-free option and is attractive for many people because of its convenience and lower risk. The *fifth subsystem of competition* is the assets of the consumers as they may choose to liquidate those assets instead of applying for a loan. The *sixth subsystem of competition* is the credit cards which can cannibalize the small ticket-sized personal loans as the consumers use cash advance option of credit cards as a convenient way for their urgent financial needs. The *seventh subsystem of competition* is securing financing from the sellers (merchants) at the point of sales, which is the common practice for a wide range of products.

3.2. The Environmental Elements and the Corporate Headquarters

Governmental regulations, laws and controls; macroeconomic expectations; social and political environment are the major environmental elements that set boundaries and limits on the marketing activities, products and processes. While the governmental regulations exert a direct influence on the competitive environment, marketing strategies and the society's attitudes; macroeconomic expectations about the interest rates, foreign exchange rates, unemployment and growth rates affect not only the marketing strategy to be used but also the consumers' purchase decisions. Moreover social trends, environmental issues and social responsibility projects directly influence the marketing department in terms of expanding or

² Public sector banks are classified as a different category because of their different characteristics like relatively larger branch networks, huge payroll customer base within the public sector and strong funding capacity.

limiting marketing budgets, sales and volume scenarios. The future expectations about political stability and asset to be purchased also affect the consumer loans market directly - as for instance, if consumers anticipate a future threat against real estate values due to political instability, the demand for mortgages significantly decline.

At the corporate level, marketing department operates within its organization in interaction with other departments. Among the system elements, corporate headquarters have the greatest power over the marketing department, because of its gatekeeper and control role over the marketing strategies. Marketing department must manage its relationship with the other departments in an organized and well-structured way to remain effective.

3.3. Suppliers & Sales Channels Consisting of Third Parties

This component is separated from in-house sales channels because third parties require special management strategies and account management. These agents include car dealers, merchants, house construction companies, web affiliates, e-commerce companies and real estate agencies. There is an ongoing interaction among these channels, consumers and the marketing team. These channels also interact with the bank as a whole and the legal environment.³

3.4. The Consumer and the Society

Consumers are the targets of the marketing department, which tries to create value *for* and *from* them. Marketing department interacts with consumers via sales channels, and receive information as feedback. Consumers make buying decisions within their psychological and social environment and subject to their individual constraints - like personal budget, available time, involvement level, information processing capacity, etc. Consumers and society transform attitudes toward the products to each other, creating a dynamic word of mouth mechanism and also construction of beliefs and attitudes toward the brand.

4. Combining the Theory with Marketing Practice

4.1. Simplifying buying effort: The importance of branches

As the purchase of financial services constitutes a considerable risk for the consumers, the perceived risk becomes rather important in explaining the behaviors of retail loan consumers (Guseman & Bateson's study, as cited in Howcroft et al. 2003). In order to

³ Since the marketing team coordinates all related issues under the general header of "account management" these interactions are not shown in Figure 1 in details.

decrease the risk perception, banks can focus on consulting services. Moreover, banks can intervene with additional services to decrease cognitive dissonance, which is high mainly in high-priced purchases like mortgages and car loans. For example, some selected branches, which are located in appropriate places, can be turned into realty specialty centers. Consumers can take consultancy and specialized service for mortgage; such as relationship managers allocating adequate time in order to give detailed information about mortgage procedures and simulation of alternative installment plans. In practice, some banks have implemented similar branding and positioning activities, constructed special mortgage branches and focused on mortgage communication but a sustainable realty-specialty and consultancy center has not yet been put into practice. However, this implementation necessitates a special budget and priority allocated to mortgage, because mortgage is the least profitable product for banks, in terms of its relatively lower net interest income.

Howard and Sheth state that consumers try to simplify their buying effort and prefer simple processes to complex choice situations (Sheth et al. 1988, p.118). Since financial lending products are generally perceived as complex and risky, consumers usually prioritize trust instead of favorable pricing –an attitude totally in line with the axioms of behavioral finance theory. In the last decade, there was a strong belief in the sector that branches would become obsolete and the majority of the retail banking transactions would be executed electronically. The narrowness of this view became obvious by experience very soon. Parallel to behavioral finance postulations, scientific research also revealed that customers’ acquisition of financial products varied according to the nature of the product; customers preferred to get a loan by visiting a branch, rather than using phone or internet channels (Howcroft et al. 2003). Consequently, as depicted in Table 1, the majority of the banks are continuously expanding their branch network, instead of shrinking. Moreover, regular bank customers even form a quasi-friendship with their relationship managers (Petruzzellis et al. 2010) which influence their choices and preferences. The combination of the behavioral marketing systems, behavioral finance theory and experience states that marketing department must focus on the quality and sustainability of their branch personnel extensively.

Table 1: Number of branches of public and private banks in Turkish banking sector

	<i>December 2010</i>		<i>December 2012</i>		<i>December 2014</i>	
	<i>Banks</i>	<i>Branches</i>	<i>Banks</i>	<i>Branches</i>	<i>Banks</i>	<i>Branches</i>
<i>Public banks</i>	3	2,744	3	3,079	3	3,500
<i>Private banks</i>	11	4,582	12	5,100	11	5,455

Source: www.tbb.org.tr (The Banks Association of Turkey- official website)

4.2. Loyal customers: Customer relations, pricing and brand communication

Given its importance in consumer behavior, several scholars in marketing -like Jacoby, Speller and Kohn (1974), Wright (1973) and Bettman (1979)- focused on information processing capacity of consumers (as cited in Sheth et al 1988, p.122). Banking has a complicated information domain in terms of product complexity for the majority and the consumers can become worse off with too much information. Marketing department can pursue strategies to improve brand loyalty in order to cope with this complexity problem. If satisfied, consumers have a tendency to continue to borrow from the same bank and to remain loyal to their branch and relationship manager. Marketing management can support this attitude with loyalty pricing campaigns, which will enhance the emotional bondage between the brand and the customers and improve the customer satisfaction.

Howard & Sheth's buyer behavior model states that information from social and neutral sources is perceptually filtered less than the information from commercial sources (Sheth et al. 1988, p.118). Banks usually engage in mass communication activities for consumer loans - especially in the high seasons.⁴ However, consumers may rely more on their friends' advices and imitate the financial brand choices of their trusted social network as social connections have turned out to be the strongest source of influence in selection of banking services (Petruzzellis et al. 2010). Thus, marketing managers may prefer more targeted and product-specific communication activities with smaller budget and also apply mass communication campaigns for corporate image communication.

5. Conclusion

Consumer loans can be examined within a dynamic, open and behavioral marketing system in which system elements are interacting with each other in a cyclical pattern. Retail marketing management must anticipate the relations within the marketing system and adapt fast to the rapidly changing dynamics of the system, in order to remain competitive and ensure sustainable development. The aim of this paper is to combine marketing theory with practice by using theoretical approach as a base and retail loan example as application. Consequently, this paper may lead the way to future research which wish to focus on the argument that the Banks with a rational analytical marketing management philosophy based on holistic and open behavioral systems are more likely to have competitive advantage over their competitors in gaining and retaining market share in retail loans.

⁴ Typical high seasons: September (back to school period), June (holiday period) and end-of-year (December and new year) campaigns.

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