International Journal of Bank Marketing

Marketing of consumer credit services in a developing country: a status report

Zeynep Bilgin, Ugur Yavas,

Marketing of consumer credit services in a developing country: a status report

Zeynep Bilgin and Ugur Yavas

Looks at the status of consumer credit services marketing in Turkey

Introduction

Lending consumers money for non-commercial purposes to enable them to buy goods and services costing beyond their means has a long tradition in the Western banking world. In fact, the emergence of mass markets for consumer goods and the attainment of high standards of living by Western consumers are often attributed to the widespread availability of consumer credit (Beares, 1987). Much is known about the marketing of consumer credit services in Western countries. Yet, undoubtedly owing to its recent introduction into the retail banking scene, very little is published on this topic in the context of developing countries.

The purpose of this article is to fill in this void partially by describing the status of consumer credit services in Turkey. It should be noted that, while credit cards as a form of consumer credit have been around for a little over two decades in Turkey (Barker and Sekerkaya, 1992), the banking practice of lending money directly to consumers for personal use dates back only to 1988. The scope of this article is restricted to the latter type of consumer credit with a very short history in that country. The article provides an overview of developments in the Turkish banking sector with a focus on consumer credit services. Then it presents the findings of a survey conducted by the authors among officers of banks offering consumer credit services.

Background

The history of the banking sector in Turkey can conveniently be divided into three eras. The beginnings of the first era, the pre-republic period, can be traced to the lending activities of Galata bankers during the days of the Ottoman Empire. The first bank in Turkey, Banque de Constantinople, was established in 1847 through the joint efforts of these bankers. The opening of Banque de Constantinople was soon followed by the establishments of Banki Osmani (1856), Banki Osmani Sahane (1863) and Ziraat Bankasi (1863). By 1910, 15 banks operated in Turkey. The activities of all these banks were strictly restricted to commercial lending (Alkin, 1980).

Major developments in the Turkish banking sector started in the republic era around 1923. By 1940, 48 banks including the Central Bank (established in 1930) were in operation. The dominant banks of this earlier period were the state-owned banks (Ciller and Cizakca, 1989). The 1940s witnessed the establishment of such private banks as Yapi ve Kredi Bankasi, Garanti Bankasi and Akbank, which are among the major players in today's Turkish banking sector. The primary missions of the state-owned banks established before and shortly after the Second World War were to finance the activities of state economic enterprises which were formed to fuel Turkey's economic development. Over time, however, these banks started to operate as universal commercial banks also emphasizing retail banking. From 1949 on, paralleling the rise of share of deposit accounts in their portfolios, private Turkish banks as well started to turn their attention to retail banking while still concentrating their efforts on their traditional wholesale customers. In 1958 new articles were added to the banking law to facilitate and enhance retail banking operations (Alkin, 1980).

As described by Kumcu and Karafakioglu (1985), to gain market share and to stimulate the demand for their services Turkish banks followed a two-pronged approach in their retail operations: branch expansion and promotion. In an economy characterized by scarce financial resources, banks targeted the mass market for deposits with basically undifferentiated services. They have considered cash security as their primary service. Because the government has controlled the deposit and loan rates and service fees, they could not use pricing as a

International Journal of Bank Marketing, Vol. 13 No. 5, 1995, pp. 31-36

marketing tool. Instead, the banks turned their attention to such non-price competition tools as advertising, sales promotion, personal selling and publicity. In a highly regulated industry with an oligopolistic structure, banks relied heavily on advertisement to attract deposits. This was to the extent that the banking industry accounted for 30 to 50 per cent of the total advertising expenditures in the country (Kumcu and Karafakioglu, 1985). Undoubtedly owing to lack of differential services to advertise and their imitative nature, banks' advertising efforts, however, have been ineffective. In fact, a study by Yavas *et al.* (1977) showed clearly that even the banks with the most aggressive advertising campaigns had limited success (measured by the correct recall rate of their slogans) among the public.

Sales/marketing training had to take a back seat

Turkish organizations have long been characterized as neglecting marketing (Yavas, 1981). This certainly appears to be true for the banks of this period. A study by Kumcu (1985) shows that marketing departments in Turkish banks did not exist until 1983 and lack of marketing orientation permeated among the banks. Several banks were not aware of the concept of market segmentation. Identification and satisfaction of customer needs received very low priority. Furthermore, many bankers interviewed in Kumcu's (1985) study admitted that their service offerings were identical to those of their competitors. Lack of trained personnel is often considered to be a culprit in the resistance to adoption of marketing orientation in Turkey (Yavas, 1981). The study by Kumcu (1985) indicates that banks of this period were not concerned about alleviating the problem. Their training priority was transaction-oriented training and sales/marketing training had to take a back seat in the priority list of training areas.

During this period, the appearance of Diners Club in 1969 and Eurocard in 1975 on the Turkish scene signalled the beginnings of consumer credit services in the country (Barker and Sekerkaya, 1992). The impact of these cards on the average consumer's purchasing power, however, was negligible since they were honoured only at better hotels and upscale retailers.

Dramatic developments in retail banking started to take place in the mid-1980s following the liberalization policies instituted by the late President Turgut Ozal. This revitalization period has witnessed introduction of automated teller machining (ATMs), proliferation of credit cards and influx of many banks, mostly of foreign origin, into the Turkish banking sector. Throughout the years, to import advanced marketing know-how into the country, Turkish government has encouraged foreign companies including banks to invest and operate in Turkey (Kumcu and Karafakioglu, 1985; Yavas, 1982). Although, their activities are restricted largely to wholesale operations, it appears that foreign banks have been instrumental in bringing about a heightened awareness of customer orientation and service quality issues in the Turkish banking circles (Yavas *et al.*, 1994).

Owing partially to the example set by the foreign banks and partially to their desires to offer reliable and speedy services to their customers, Turkish banks now incorporate recent technology into their operations. These include installation of on-line systems by Pamukbank, Is Bankasi, Garanti Bankasi and Yapi ve Kredi Bankasi to link their branches and headquarters and replacement of manual bookkeeping by electronic data processing by numerous banks. One private Turkish bank, Yapi ve Kredi Bankasi, now offers telephone banking whereby customers can not only do their basic banking transactions but also pay their utility bills and obtain all kinds of financial information at the touch of a button. A visible effect of the liberalization policies on the banks' marketing operations is on the growing emphasis they place on internal marketing and employee training. According to experts interviewed by the authors, training of bank employees is one of the "growth" sectors in Turkey.

Consumer credit

Today, in Turkey, there are 58 commercial banks, 12 investment and development banks and four special finance houses (*Quarterly Bulletin 1992 IV*, 1993). The offering of consumer credit services by a Turkish bank for the first time in 1988 is perhaps the most significant service innovation of this revitalization period. Prior to this date, banks only used indirect lending to finance consumer purchases, in that banks loaned the money to manufacturers and/or dealers who in turn financed consumers at annual interest rates ranging from 90 to 125 per cent.

In the latter part of the 1980s, in an economy characterized by high inflation, banks were paying up to 85 per cent interest rates on consumer time deposits. To overcome difficulties faced in marketing these deposits, generated at such a high cost to commercial borrowers, and to spread the inherent risk in short-term loans, banks recognized the need to diversify into consumer credit services. The ultimate goal of Turkish banks to play an active role in the European Economic Community also fuelled this movement (Erzen, 1991). In 1988 the first bank to offer consumer credit services was Yapi ve Kredi Bankasi. This bank was followed by Tobank, Garanti Bankasi, Halkbank, Pamukbank, Is Bankasi, Ziraat Bankasi, Vakifbank, Emlak Bankasi and Imar Bankasi, all of which started their services in 1989. Soon several other banks joined the band-wagon and today 20 of the 58 commercial banks offer consumer credit services. Although Turkish banking regulations do not prohibit banks of foreign origin from engaging in consumer credit activities, none of the foreign banks offers this service. This is because consumer credit services require branch banking. However, foreign banks which have been drawn to Turkey, owing partially to the full convertibility of the Turkish Lira, operate with a very limited number of branches and concentrate their efforts on commercial banking.

As shown in Table I, since its inception consumer credit utilization has experienced a dramatic growth in Turkey with the number of customers increasing more than ten-fold from 1989 to 1992. During the same period, despite a slight decrease in 1990 caused by the Gulf War, the volume of consumer credit utilization in real terms (after adjusting for inflation) also recorded a remarkable growth. This growth undoubtedly is due to the changes in the social fabric of Turkish society and the lifestyles of Turkish people. The liberalization policies of the early 1980s opened the Turkish market to imports. The increasing number of TV channels established during the 1980s beamed an ever increasing number of Western-based programmes into Turkish homes further exposing Turkish people to Western lifestyles. This demonstration effect coupled with the availability of consumer goods had a visible effect on the consumption desires of the people. Having lived through the economic crisis period of the 1970s where the shortages of consumer goods prevailed, Turkish people were prepared to improve their material well-being. However, because of spiralling inflation, people's wages and incomes experienced a decline in real terms. Hence, consumer credit was seen as a salvation by those who wanted to attain higher material standards of living but could not afford it on their incomes alone.

Data compiled by the authors from the Turkish Banking Association Consolidated Consumer Reports indicate that salary/wage earners comprise about 60 per cent of the customers of consumer credit services and account for about 36 per cent of the consumer credit extended by the banks. This group is followed by self-employed people whose credit utilization has almost doubled from 19.6 per cent to 35.5 per cent during the 1992-1993 period. According to the most recent figures, consumer credit customers are primarily between the ages of 26 and 45 (66.6 per cent), college-educated (43.8 per cent) and earn more than 3 million TL (56.6 per cent). While the American expression, "A man's worth is measured not by how much he owns but by how much he owes" is still far from describing the Turkish consumers, from these figures it appears that the "first save, then buy" philosophy in Turkey is being replaced with "buy first, pay later" mentality at least among some consumers.

Turkish people were prepared to improve their material well-being

As can be gleaned from Table II, between 1989 and the first quarter of 1993, close to half of all consumer credits extended by the banks were to finance purchase of cars. This was followed by white goods/electrical appliances credits and direct cash. However, in terms of number of consumers utilizing consumer credit, white goods and cash lead the pack with furniture being a close third.

At a time where consumer credit services is at its infancy in Turkey, what are the selected marketing strategies used by the lending institutions? What are the problems and prospects of marketing consumer credit in Turkey? To address these issues, a survey was undertaken by the authors. The next section describes the method and findings of this research effort.

Table I. *Trends in utilization of consumer credits*

Year	Number of customers	Growth rate (%)	Volume	Real CC stock	Real growth rate
1989	195,312	–	261,569	92,232	–
1990	1,132,954	480.0	3,105,718	683,176	641.0
1991	1,603,981	41.6	4,116,311	545,568	–20.1
1992	2,488,104	55.1	11,366,992	885,901	62.4

Source: Compiled by the authors from various issues of the Turkish Banking Association Consolidated Consumer Credit Reports and Central Bank records.

Table II. *Breakdown of credit types by number of customers and volume*

Credit types	1989 Amount (%)	1989 Customers (%)	1990 Amount (%)	1990 Customers (%)	1991 Amount (%)	1991 Customers (%)	1992 Amount (%)	1992 Customers (%)	1993[a] Amount (%)	1993[a] Customers (%)
Automobile	58.6	16.4	28.4	9.2	33.0	10.2	43.5	14.1	45.3	14.9
Cash	6.5	17.4	19.0	24.1	14.1	25.4	21.3	28.2	18.4	27.8
White goods/ electrical appliances	19.2	29.8	27.2	27.3	19.0	28.1	13.8	25.5	14.5	25.6
Furniture	11.1	28.4	14.6	25.9	24.3	25.2	10.2	20.6	10.1	20.3
Mortgage	1.8	3.2	7.3	5.6	6.4	4.8	7.4	3.9	7.8	4.2
Other (education,	2.9	4.8	3.5	7.9	3.2	6.3	3.8	7.7	3.9	7.2
holidays, fuel, food, clothing)	2.9	4.8	3.5	7.9	3.2	6.3	3.8	7.7	3.9	7.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note:
[a]As of 31 March 1993

Source: Compiled by the authors from various issues of the Turkish Banking Association Consolidated Consumer Credit Reports.

Study

Method

To collect the data for the study, initially the top executives of all 20 banks granting consumer credits were contacted to obtain permission to interview the key informant in their banks. The key informant for the purposes of this study was designated as that official who heads the consumer credit department or the manager who is primarily in charge of consumer credit activities in that bank. Although permission was secured from all the banks, only 14 key informants agreed to be interviewed. Interview forms consisting of both close and open-ended questions were utilized in personally interviewing these key informants.

Credit services and terms

As shown in Table III, all but one of the banks studied offered automobile credit. This was followed by cash (12 banks), white goods (eight banks) and furniture (seven banks). Five banks provided loans for home mortgage, vacation and education respectively. Results in Table III indicate that the relative importance of consumer credit as a ratio of total short-term loans varies widely among the banks ranging from less than 5 per cent to 31-40 per cent.

In terms of loan payment methods, six banks employed declining balance, five banks equal instalment and three banks both methods. The loan pay-back periods utilized by Turkish banks are much shorter than the periods used by their Western counterparts. This is to the extent that no bank, for instance, extends home mortgages beyond five years. Cash credits are offered for the most part up to one year and auto and other loans up to two years. The monthly interest rates charged by the banks were typically in the 6 to 7 per cent range (see Table III). However, paralleling the volatility in the Turkish Lira and the increasing inflationary pressures, the interest rates have been going up and, in May 1994, the rates quoted by banks ranged from 6 per cent to 15 per cent per month (Dedehayir, 1994).

Promotion methods

All the banks used advertising and seven banks personal selling in promoting their consumer credit services. However, only one bank had a comprehensive promotion plan. The most frequently employed advertising media by the banks were point of purchase displays/brochures/ posters (11 banks) and direct mail (nine banks). TV, radio commercials and print media advertising were used by seven banks. Some banks also had co-operative arrangements with retailers mainly for cars and white goods. For instance, Tutunbank and Disbank had co-operative campaigns with Mazda, Isbank with Tofas cars, Mazda and Metro washing-machines. In direct mail, banks typically targeted their own preferred customers. However, one bank also sent personalized letters to a group of customers whose list it had obtained from a databank (mailing list) company.

The type of information included in various advertising media was restricted to interest rate and prepayment

Table III. *Credit services and terms of payment*

	Number of banks
Type of credit	
Automobile	13
Cash	12
White goods/electrical appliances	8
Furniture	7
Mortgage	5
Vacation	5
Education	5
Professional	3
Share of consumer credit in total short-term loans (%)	
1 to 5	3
5 - 10	3
11 - 20	3
21 - 30	3
31 - 40	1
Method of payment	
Declining balance	6
Equal instalments	5
Both	3
Monthly interest rates charged (%)	
0 - 6.0	3
6.1 - 6.5	4
6.6 - 7.0	4
over 7.0	3

penalty. In their advertisements, few banks mentioned the total principal and interest amounts to be paid by the customers. Also absent in those messages were the methods of calculating monthly payments, taxes and other charges on the loan amounts. In personal selling banks relied solely on cross-selling.

Creditworthiness and guarantees

Qualifying applicants for credit through various scoring systems or via sophisticated multivariate tools such as discriminant analysis has a long tradition in the West. The Turkish banks studied by the authors, however, without exception relied primarily on judgemental methods in screening their applicants. Four banks also used crude grading systems to supplement their judgement-based decisions. The interviews revealed that the criteria used by the banks matched closely the traditional five Cs of credit risk evaluation. These were capacity (14 banks), character (10 banks), capital (five banks), collateral (five banks), and conditions (four banks). At the time of the interviews, one bank was in the process of implementing a computerized scoring system, an adaption of the Fair Isaac International Score Card System.

To minimize risks, banks required various forms of guarantees from their customers. These were surety (13 banks), pawn (eight banks), sequestration (seven banks), bond (three banks), and insurance (two banks). Banks did not perceive bad debt as a major problem. In fact, officials of seven banks indicated that less than 1 per cent of their accounts had defaulted on their payments. For the remaining banks the default rate was a little over 1 per cent. Contributing to low default rates are the banks' rather conservative customer qualifying practices and the fact that they primarily target upscale Turkish consumers (Alpergin, 1990). The bank officers, however, were also quick to point out that the conservative approach, while effective in reducing bad debts, also meant losing out on potential earnings as a result of denying credit to a wider customer base.

Conclusions

On the basis of available secondary data and personal interviews conducted with 14 bank officers, this article provided an initial glimpse into the status of credit services marketing in Turkey. Our observations suggest that actions on several fronts are in order further to entrench consumer credit services in Turkey.

Foremost of these is utilization of computerized credit scoring systems. At the present, banks play it very safe in screening their applicants. While a credit-scoring system cannot totally eliminate risk and uncertainty, it nevertheless can identify potential customers which banks now consider uncreditworthy. A prerequisite to a credit-scoring system is availability of data on customers. It appears that this will be less of a problem in Turkey in the near future. According to a decree published in the 16 September 1993 issue of the *Official Gazette*, Turkish banks are in the process of establishing a clearing-house to share customer information. This will facilitate not only institution of credit-scoring systems but also follow-ups on bad debts.

Second, qualitative insights obtained from the consumers throughout this study showed that many consumers complained about lack of information in the advertisements and some found them evasive. While banks do provide much of the requested information to consumers who visit a branch personally, the vague nature of current advertisements leads to a problem of "distrust" and many consumers lose interest in the service. Hence, there is a definite need for banks to design more informative campaigns not only to alleviate current consumer concerns but also to bring more potential customers to the bank.

Third, at the present, personal selling by the banks is limited to cross-selling to consumers who visit the bank. While reliance on cross-selling certainly represents an improvement over the days where this marketing tool was virtually ignored by the Turkish banks (Kumcu and Karafakioglu, 1985), they can nevertheless benefit from more aggressive selling tactics. For instance, they can send their representatives to companies, government offices or public schools and can introduce their services to groups of potential customers during their lunch breaks. Such "promotional" meetings can be particularly effective shortly before the religious holidays or the bonus distribution dates.

Finally, there is room for innovative services and market segmentation. Given the very young nature of the Turkish population, any effort aimed at young consumers can certainly enhance banks' targeting efforts. Services such as travel credit to college students, cash credit for honeymoons or wedding/engagement parties are some of the innovative services which are not currently tapped.

As a closing note it should be noted that, while the Turkish banks have yet to reach the market analysis, planning and control or for that matter the positioning stages discussed by Kotler (1980), they certainly have made some significant strides within the past decade or so. If the trends observed in the West are any indications, more progress, albeit gradually, is certainly to follow.

References

Alkin, E. (1980), "Para, kredi, banka: Turkiyede bankaciligin gelisimi", in *Cumhuriyet Donemi Turkiye Ekonomisi*, Akbank Kultur Yayini, Istanbul.

Alpergin, P. (1990), *Bireysel Bankacilik*, Turkiye Bankalar Birligi, Ankara.

Barker, T. and Sekerkaya, A. (1992), "Globalization of credit card usage: the case of a developing economy", *International Journal of Bank Marketing*, Vol. 10 No. 6, pp. 27-31.

Beares, P. (1987), *Consumer Lending*, American Bankers Association, Washington, DC.

Ciller, T. and Cizakca, M. (1989), *Turk Finans Kesiminde Sorunlar ve Reform Onerileri*, Yenilik Basimevi, Istanbul.

Dedehayir, F. (1994), "Artik pasta kredisi veren yok!", *Milliyet*, 26 May.

Erzen, U.A. (1991), "Otomotiv sektorunde Tuketici finansmani ve gelecegi", in *Turkiye' de Tuketici Finansmani ve Ferdi Kredi*, Yapi ve Kredi Bankasi, Istanbul.

Kotler, P. (1980), *Marketing Management*, Prentice-Hall, Englewood Cliffs, NJ.

Kumcu, E. (1985), "Universal marketing myopia or banks' rational behaviour? An empirical study of bank marketing in Turkey", *International Journal of Bank Marketing*, Vol. 3 No. 2, pp. 36-47.

Kumcu, E. and Karafakioglu, M. (1985), "The marketing of bank services in Turkey", *International Journal of Bank Marketing*, Vol. 3 No. 1, pp. 22-34.

Quarterly Bulletin 1992 IV (1993), The Central Bank of the Republic of Turkey, Ankara.

Yavas, U. (1981), "The Turkish marketing scene", *Journal of International Marketing and Marketing Research*, Vol. 6 No. 3, pp. 111-26.

Yavas, U. (1982), "Transferability of marketing know-how to a developing country", *Der Markt*, Vol. 21 No. 2/3, pp. 69-74.

Yavas, U., Arsan, N. and Dilber, M. (1994), "Organizational gaps in delivering banking services: a study of bank employees", working paper, East Tennessee State University.

Yavas, U., Ziyal ,T. and Turner, M. (1977), "Banka reklamlarinin etkinliginin olculmesi: bir arastirma", *Banka ve Ekonomik Yorumlar*, Vol. 14 No. 6, pp. 53-9.

Zeynep Bilgin is Assistant Professor of Marketing, Marmara University, Istanbul, Turkey, and Ugur Yavas is Professor of Marketing, East Tennessee State University, Tennessee, USA.

This article has been cited by:

1. Musa Pinar, Tulay Girard, Zeliha Eser. 2011. An Exploratory Study of Consumer-Based Brand Equity in Turkish Banking Industry. *Services Marketing Quarterly* **32**:4, 282-301. [CrossRef]
2. Dr Madhav SinhaHatice Camgöz AkdagManagement Department, Kadir Has University, Istanbul, Turkey Mosad ZineldinSchool of Business and Economics, Linnaeus University, Växjö, Sweden. 2011. Strategic positioning and quality determinants in banking service. *The TQM Journal* **23**:4, 446-457. [Abstract] [Full Text] [PDF]
3. Musa Pinar, Zeliha Eser, Sandy Strasser. 2009. Using Mystery Shopping to Compare the Service Quality of Banks in Turkey. *Services Marketing Quarterly* **31**:1, 1-26. [CrossRef]
4. Robert Ankomah Opoku, Nana Atuobi-Yiadom, Cathryn Serwaah Chong, Russell Abratt. 2009. The impact of internal marketing on the perception of service quality in retail banking: A Ghanaian case. *Journal of Financial Services Marketing* **13**:4, 317-329. [CrossRef]
5. Guoliang Luo, Yuanmin Zhang, Rui WeiStudy on Credit Evaluation of Power Consumer Based on the Clustering Analysis and AHP Method 5142-5145. [CrossRef]
6. Osman M. KaratepeSchool of Tourism and Hospitality Management, Eastern Mediterranean University, Gazimagusa, Turkish Republic of Northern Cyprus, Turkey Mehmet TekinkusDepartment of Business Administration, Faculty of Economic and Administrative Sciences, Gaziantep University, Gaziantep, Turkey. 2006. The effects of work-family conflict, emotional exhaustion, and intrinsic motivation on job outcomes of front-line employees. *International Journal of Bank Marketing* **24**:3, 173-193. [Abstract] [Full Text] [PDF]
7. Kamel Mellahi, Fayeza Eyuboglu. 2001. Critical factors for successful total quality management implementation in Turkey: Evidence from the banking sector. *Total Quality Management* **12**:6, 745-756. [CrossRef]
8. Ugur YavasProfessor of Marketing, East Tennessee State University, Tennessee Zeynep BilginAssociate Professor of Marketing Marmara University, Istanbul, Turkey Donald J. ShemwellAssistant Professor of Marketing, East Tennessee State University, Johnson City, Tennessee. 1997. Service quality in the banking sector in an emerging economy: a consumer survey. *International Journal of Bank Marketing* **15**:6, 217-223. [Abstract] [Full Text] [PDF]