

UNIVERSITY OF KWA-ZULU NATAL

**AN EVALUATION OF NEDBANK'S HOME LOAN OFFERING IN
RELATION TO ITS MARKET SHARE (Case Study of KZN)**

by

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the degree of
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Declaration

I, Troy Oakley, declare that

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Troy N Oakley

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Abstract

Nedbank has intentionally allowed its home loan market share to fall over the past 3 years. The focus has been on cleaning up its existing book and selectively lending to low risk clients. The focuses of the study was to determine the revenue that will be generated by increasing market share, understand the risk appetite in relation to competitors, to evaluate home loan competencies and knowledge of bankers and finally identified growth nodes with regards to home loans. Due to the fact that simple narrow questions will form the basis of the questionnaire, my approach was one of quantitative research where mathematical theory and models could be used as data was presented as statistic or percentages. The numbers have yielded an unbiased result which can be seen as a true indication of the population. The method of data collection was gathered from primary and secondary sources. There were 190 questionnaires sent out with a response rate of 121. Advantage to this type of data collection is that anonymity is high and can be administered electronically and avoids interviewer bias. The target audiences were Nedbank bank officials at different seniority levels but are actively participating in the home loan market. Some of the salient findings from the research covered understanding demographics we operate our business in and market segmentation that can be identified in marketing when segmenting the target market. If the bank wants to grow its market share it would need to adjust one if not more of the four elements in the marketing mix. Less income would be generated for the bank if we allowed medium risk clients not to have access to credit. Many value-conscious consumers will buy products on the basis of price rather than other attributes, it is important to keep ones price strategy in line with competitors. The use of technology has been used as an enabler for Nedbank through its Digital channel. Nedbank can grow revenue through improved customer targeting. Provide real time transactional updates. Provide consistent customer experience across channels and provide information based services. It is recommended that the Nedbank should use three strategies to grow its home loan market share. Firstly use acquisition as a vehicle of growth, secondly take market share away from competitors and make it very difficult for new entrants to enter the market. Lastly is to get existing clients to use the home loan product or increase the value initially taken out on their home loan. Innovation continues to be a key differentiator.

Table of Content

Description	Page
Title page	i
Declaration	ii
Acknowledgements	iii
Abstract	iv
Table of Contents	v
List of Figures	x
List of Tables	xi

CHAPTER ONE

1.1	Introduction	1
1.2	Research problem	1
1.3	Rationale for the research	1
1.4	The business problem	2
1.5	Benefits of the study	2
1.6	Aim and objective	3
1.7	Methods of data collection	3
	1.7.1 Primary data collection	3
	1.7.2 Secondary data collection	4
1.8	Research method	4
	1.8.1 Quantitative research	4
	1.8.2 The Sample size	5
	1.8.3 The sampling technique	5
1.9	Thesis structure	6
1.10	Conclusion	6

CHAPTER TWO

2.1	Introduction	7
2.1.1	South Africa's economic bubble	7
2.1.2	What does interest rate mean?	8
2.1.3	How low interest rates have fuelled a property boom in South Africa	9
2.1.4	South African banking sector	11
2.2	Competitor Landscape currently in home loans	13
2.2.1	Extract from bank results / analyst presentation	15
2.2.1.1	ABSA / Barclays extract	15
2.2.1.2	Standard Bank (SBSA)	15
2.2.1.3	First National bank (FNB)	16
2.2.1.4	Nedbank Ltd	16
2.3	Regulation	16
2.3.1	The consumer protection act	17
2.3.2	National credit act (NCA) of 2005	17
2.3.3	Basel III	17
2.4	Credit risk and compliance in the financial sector	18
2.5	Profitability and market share	20
2.5.1	Definition of market share	20
2.5.2	Definition of profitable	21
2.5.3	The relationship between profitability and market share	21
2.5.4	Reasons to increase market share	24
2.5.5	Ways to increase market share	24
2.5.5.1	The market share	25
2.5.5.2	Grab more market share by Ross Shafer (2001)	26
2.5.5.3	Gibson strategy to increase market share	27
2.5.5.4	Boston matrix	28
2.5.6	Reasons not to increase market share	31

2.6 Strategic planning process	31
2.7 Marketing mix	33
2.7.1 McCarthy (1960) 4P's	33
2.7.2 The 7Ps of service marketing	36
2.7.3 Four C's	37
2.7.4 Four C's, A's and O's in the marketing mix	38
2.8 Market segmentation	40
2.8.1 Why is market segmentation important?	40
2.8.2 Major segmentation variables for consumer markets identified by Kotler and Keller (2012)	40
2.8.3 Needs based marketing segmentation process	41
2.8.4 Michael Porters five forces	42
2.9 Consumer decision-making process is influence by marketing	43
2.9.1 Product influences	43
2.9.2 Price influences	43
2.9.3 Promotion influences	43
2.9.4 Place influences	44
2.9.5 Psychological influences on consumer decision-making	44
2.9.6 Product knowledge	44
2.9.7 Product involvement	44
2.10 Pricing strategy	45
2.11 Total quality management (TQM)	46
2.12 Market growth	47
2.13 Staff as an enabler	47
2.14 Summary	48
 CHAPTER THREE	
3.1 Introduction	50
3.2 Aim and objectives for the empirical study	51
3.3 Participants and location of the study	51

3.4 Research approach and design	51
3.4.1 Sampling plan and design	53
3.4.2 Questionnaire	55
3.4.3 The questionnaire design	55
3.4.4 The sampling frame for the questionnaire	55
3.4.5 Questionnaire survey instrument design considerations	56
3.4.6 Measuring instrument	56
3.5 The method of data collection	57
3.5.1 Primary data	57
3.5.2 Secondary data	57
3.6 Data analysis	57
3.6.1 Editing and coding	58
3.6.2 Descriptive data analysis techniques	58
3.7 Conclusion	59

CHAPTER FOUR

4.1 Introduction	60
4.2 Analysis of the questionnaire	60
4.2.1 To determine the revenue that will be generated by increasing market share	65
4.2.2 To determine the risk appetite in relation to competitors	67
4.2.3 To evaluate home loan competencies and knowledge of bankers	69
4.2.4 To identify the growth nodes with regards to home loans	74
4.3 Du Pont analysis	78
4.3.1 Competitor rankings (June 2015)	80
4.3.2 New business	81
4.3.3 Bank loyalty	82
4.3.4 New business quality	83
4.3.3.1 Experian	84
4.3.3.2 Lightstone	84

4.3.4 Risk quality grade (RQG)	84
4.3.5 Collections	86
4.4 Summary	86
CHAPTER FIVE	
5.1 Introduction	88
5.2 Findings	88
5.2.1 To determine the revenue that will be generated by increasing market share	88
5.2.2 To determine the risk appetite in relation to competitors	89
5.2.3 To evaluate home loan competencies and knowledge of bankers	89
5.2.4 To identify the growth nodes with regards to home loans	89
5.3 Recommendations	89
5.3.1 To determine the revenue that will be generated by increasing market share	89
5.3.2 To determine the risk appetite in relation to competitors	91
5.3.3 To evaluate home loan competencies and knowledge of bankers	91
5.3.4 To identify the growth nodes with regards to home loans	92
5.3 Summary	94
Bibliography	95
Appendix 1 Introductory letter	100
Appendix 2 Informed Consent letter	101
Appendix 3 Questionnaire	102
Appendix 4 Ethical clearance	106
Appendix 5 Turnitin report	108

LIST OF TABLES

Table 2.1: The 4C's, A's, O's, and P's	39
Table 2.2: External influence on pricing strategies	46
Table 3.1: The research process that will be followed by Gilbert and Churchill	50
Table 4.1: Association between Job title, Experience in the bank, Last sold Nedbank Home loan, and recommending Nedbank	71
Table 4.2: Association between job title and capturing application for a Home loan on the Nedbank system	73
Table 4.3: Association between marital status and reason for taking Home loan from Nedbank	77
Table 4.4: Association between years of experience in the bank and rate of interest rate charged by the bank	77

LIST OF FIGURES

Figure 2.1: House price percentages change over a year	10
Figure 2.2: Asset split in the South African banking sector	12
Figure 2.3: Bruce Henderson's growth/sales matrix	29
Figure 2.4: The marketing planning process by Beamish and Ashford	32
Figure 2.5: 4P's marketing mix	34
Figure 4.1: Distribution of gender	61
Figure 4.2: Age distribution	61
Figure 4.3: Marital status of the participants	62
Figure 4.4: Participants current job title	63
Figure 4.5: Years of experience at Nedbank	63
Figure 4.6: levels of education	64
Figure 4.7: Number of department worked in the bank	64
Figure 4.8: Credit decisions are fair and based on the clients risk	65
Figure 4.9: Rate the Interest rates charged by Nedbank	66
Figure 4.10: Rate the processing fees of Nedbank	66
Figure 4.11: You are overall satisfied with Nedbank Home Loans	67
Figure 4.12: Rate the support received from the home loan support teams	68
Figure 4.13: Nedbank's home loan offer represents good value for money	68
Figure 4.14: Rate the documentation procedure of Nedbank	69
Figure 4.15: Last sold a Nedbank Home loan	70
Figure 4.16: Capturing an application for a Home loan on the Nedbank system	72
Figure 4.17: Last attended formal training for home loans	74
Figure 4.18: The digital application (innovation) has increased effectiveness	75
Figure 4.19: Nedbank's home loan product is well marketed in the media	76
Figure 4.20: Reason for taking Home Loan from Nedbank Bank	76
Figure 4.21: You would recommend Nedbank to friends and family	78
Figure 4.22: Properties in possession	86

CHAPTER ONE

INTRODUCTION

1.1 Introduction

All banks survival is based on making strong returns for their shareholders. Secure lending has always been a stable source of revenue. Since the financial crisis South African banks have adapted new and less risky strategies in their approach to secure lending to avoid the losses they took in the past. Nedbank is currently faced with a slowly declining home loan book which could have a negative impact on the bank's financial results. The purpose of this study is to discover if an increase in market share will have a positive spin on revenue keeping in mind profitability, risk and compliance as well as staff's ability to deliver on client's expectations. The focus of the study is to understand how much revenue if any will be generated by increasing the bank's market share. Get an understanding of the skill and knowledge level of Nedbank staff. Identify the growth node opportunities available to the bank with regards to home loans. In this chapter we will try to understand what the actual problem is and the reasons behind the rationale for the research. We will also identify methods of data collection and possible benefits to Nedbank.

1.2 Research problem

An Evaluation of Nedbank's home loan offering in relation to its market share (using KZN as a case study). If Nedbank was to increase its market share in the property mortgage market, would it have a positive spin off by increasing the banks revenue and does Nedbank have the right resources, processes and expertise to manage the increase in market share.

1.3 Rationale for the research

Nedbank has intentionally allowed its home loan market share to fall over the past 3 years. The rationale for this is that the bank has been trying to grow its primary bank client book and the focus has not been on growing the secured lending book which has resulted in Nedbank's home loan market share to fall.

The reason for the focus on primary bank client focus is that it is believed the quality of those finance applications will be of a better quality as the bank has been able to build up a history of those clients credit behaviour and ultimately will reduce risk when they are looking for mortgage finance.

Due to the financial losses in the financial crisis the bank has also spent a lot of time cleaning up its existing book and selectively lending to low risk clients. By doing this the bank has been able to reduce its credit risk and its exposure levels in the market.

Now that Nedbank has got its home loan book more managed a decision has been made to maintain its market share level and grow the book through profitable business and continue to use credit risk measures as an enabler to marginalize risk and potential defaults. There are numerous reasons why the bank needs to stay relevant in the property market. As one of the big 4 banks in South Africa it is expected that Nedbank be in a position to offer all retail products like its competitors, failure to do so would see it as not been a fully serviced retail bank. Secured lending offers profitable return to shareholders and it's the bank's social responsibility to make sure the citizens of the country have access to affordable credit.

1.4 The business problem

The focus is on understanding if Nedbank's systems, staff knowledge and capability, processes and product offering are all key competitive factors in gaining profitable market share. The study is primarily to understand the effect of an increase in home loan market share and its subsequent impact on the banks revenue and profitability of the home loan book. An in depth review of different points of view have been examined with regards to increasing market share, customer value proposition, product positioning and overall staff competency. In order for banks to be sustainable they need to manage risk and offer products at the right price based on their risk potential.

1.5 Benefits of the study

The study has given us some very key data with regards to increased revenue and increasing market share and key to note is that selective market share is more important than just market share growth.

The Profit Impact of Marketing Strategies (PIMS) study by Buzzell, Gale and Sultan has revealed a positive association between profitability and market share.

The study relies on Return on Investment (ROI) as a key criterion for strategy choice. Growing profitable market share as part of marketing strategies is important in the competitive banking industry. Management needs to understand the economic value of building products; pricing models which manage the banks risk within the realm of compliance and offer a good return to shareholders by reducing risk.

“Retention of profitable customers is not negotiable, as all institutions and niche banks want this share of the market. Banks need to own the relationship with the client and use this as a competitive advantage over other banks” argues Abratt and Russell (1999).

1.6 Aim and objective

The primary aim of the study was to understand whether or not an increase in market share would increase the profits to the bank and can the bank increase its market share by managing its risk ratios to very low levels. Market share is often associated with profitability therefore companies seek to increase market share. If industry is stagnant; companies can still grow sales through increasing market share. Key aim is to identify market segments which illustrate lower risk but substantial volumes and geographical areas with high grow which could result in elevated profits for the bank. Increase the rate of return on marketing initiatives. To make sure the bank retains and attracts the right quantity and quality of clients it believes this approach would increase its profitable market share. The bank needs to fulfil the consumer’s needs with the right offer at the right time and place. The bank should have retention tactics in place to hold onto these valuable clients and offer them a range of banking services.

The objective of the study was to review the four following objectives

- a) To determine the revenue that would be generated by increasing market share
- b) To determine the risk appetite in relation to competitors
- c) To evaluate home loan competencies and knowledge of bankers
- d) To identify the growth nodes with regards to home loans

1.7 Methods of data collection

1.7.1 Primary data collection

An electronic questionnaire/survey was sent out. The purpose of this was to reduce costs and a wide geographical area could be covered in the province. These questionnaire can be completed anywhere by the respondents.

A concern is that the return rate of this type of questionnaire is low. A 60% return rate is considered acceptable. The questionnaire was accurate and not open for interpretation as there was no interviewer to clarify questions. The target audience was Nedbank bank officials who are expected to sell home loans. There are currently 100 branches, 100 management, 200 team leaders and bankers as well as 30 dedicated home loan consultants in KZN. Between these groups it would constitute an adequate sample size for the research to be conducted effectively. Advantage to this type of data collection is that anonymity is high and can be administered electronically and avoids interviewer bias. Unobtrusive measures were used which does not involve people. Light stone and deeds office data on property market. Nedbank's internal data base on profitable business and research, raw data to be reviewed by me.

1.7.2 Secondary data collection

The following data collection methods was used, internet, journals, research reports, websites, organization research, data extract from research done by Nedbank. Internal journals and in-house publications by Nedbank were used.

1.8 Research method

1.8.1 Quantitative research

Due to the fact that simple narrow questions form the basis of the questionnaire, my approach was one of quantitative research were mathematical theory and models could be used as data was presented as statistic or percentages.

By using this method the numbers have yielded an unbiased result which can be seen as a true indication of the population. Quantitative research is also more widely used in social science such as economics.

The research was conducted over a wide area and distance did not present a restriction. Interviewer bias was avoided as the questionnaires were self-administered and offered anonymity.

1.8.2 The sample size

The sample size was 190 which was combination of, the management team of KZN, home loans consultants and bankers who deal with the home loan product.

The target population consisted of 430 staff. 121 responses, all of whom have a direct impact on revenue growth, profitability and retention.

1.8.3 The sampling technique

Sampling methods can be classified into those that yield probability samples and those that yield non probability samples. Probability sampling is a simple random sampling method as each individual has an equal, non zero, chance of being included and all possible combinations can occur.

Stratified random, is the process by which the sample is constructed to include elements from each of the segments (Cooper 2003). According to Cooper, there are three reasons why a researcher chooses a stratified random sample.

- To increase a sample's statistical efficiency
- To provide adequate data for analysing the various sub-populations
- To enable different research methods and procedures to be used in different strata.

Stratified random sampling was utilized. Stratification is usually more efficient than simple random sampling, which necessitated for the selection of this technique. The ideal stratification aims to have each stratum homogeneous internally and heterogeneous with other strata.

Given that this study has several important variables about which conclusions need to be drawn. In this study the dependent variable (Home Loan) is appositely related to the consumer behaviour, consequently it was decided to stratify the sample.

1.9 Thesis structure

The structure of this thesis is as follows:

- The first chapter presents an introduction to the study and includes the motivation and focus of the study.
- The second chapter presents a review of the literature where the main areas of theoretical relevance are discussed and evaluated.
- Chapter three is concerned with the research methodology used. Here, the different steps of the process of investigation are explained and justified. This illustrates a thoughtful and critical research design, where all the decisions made have been carefully considered, taking into account both their advantages and disadvantages.
- Chapter four has analysed the data and discuss the important findings so that a clear understanding will be formed and debated before recommendations can be made.
- Chapter five, has numerous recommendations, that has directly addressed the objectives of the study as set out in chapter one.

1.10 Conclusion

This chapter highlights the researcher's proposal and problem statement which needs to be investigated. In this chapter it is clearly outlined what process of data collection and interpretation will be followed. It has also given reasons for the study covering objectives as well as the aim. Through the research supported by academic literature it was established that the study will benefit a number of Nedbank stakeholders. It is very clearly outlined the flow of the research document.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Since the World Financial crisis in 2007/08 and the gradual recovery in 2009, South African Banks have changed their home loan strategies completely and are not just simply giving away mortgage loans at sub-prime lending. The Banks are treading a little more carefully and seem to be favouring giving loans to their own well known client base. Mortgage loans do contribute significantly to the banks overall profit however risky lending can see the banks lose a lot of money resulting in actual losses for the home loan product line, this was the case in 2007/08 which took them a considerable amount of time to recover from these bad loans and losses they incurred from the global financial crisis.

Since the crises Banks have had to make sure the information they are using and the risk they are taking on-board matches the returns they want to achieve. So the question been asked is how well do we know our clients and how do we remain client centric while guarding the bank's risk.

The focus of this chapter is to understand what academic models can be applied to Nedbank so that Nedbank can increase its revenue through an increase in its home loan market share. How best can Nedbank managing risk. Best practise for managing staff knowledge and competencies as well as identify the growth nodes with regards to home loans.

2.1.1 South Africa's economic bubble

An article on Money Web website, Colombo (2014) gives us a very good understanding of what has happened and what is happening in the South African Economy and why it is happening. The article highlights the issues that surround South Africa and how we as a country are positioned. The article challenges if in fact market share growth is the right strategy and is it profitable.

South Africa falls under the emerging markets and is currently seen by foreign investors as the gateway into Africa. The Economic bubble in South Africa has been directly influenced by China who in 2009 embarked on an ambitious credit-driven, infrastructure-based growth plan to boost its economy during the Global Financial Crisis. In short investors used currency advantage to move out of first world investments into emerging markets which led to a bond bubble and low borrowing costs (Colombo 2014).

This emerging bond bubble helped push South Africa's government bond yield down to record low of 5.77%. South Africa's short-term interest rates continued to drop after the financial crisis as well. Late 2014 and into 2015 has seen economic pressure and a struggling currency move interest rates up.

Credit is inflated in low interest rate environments. This is evident in South Africa over the past decade. South Africa has experienced two low interest rate periods in the last ten years 2004 to 2006 periods and again from 2010 to current. In both these periods credit growth has exceeded the rate of economic growth.

According to Nedbank's guide to the economy (2015) the following key factors were highlighted. Recent indicators suggest that the economic growth slowed even further in the 2nd quarter after an already sluggish start to the year. The following factors contributed to this slow growth, unconducive global environment, electricity constraints, unemployment rate low investments and inflation starting to climb on the back of the low oil price forcing interest rates to continue upward trend despite the weak domestic environment. It is still believed a 2% growth is achievable in 2015 given a low base in 2014 caused by strike action, but 2016 is likely to see further weakness.

2.1.2 What does interest rate mean?

Financial Dictionary website (2015) defines interest rate as the rate charged by lenders expressed as a percentage of the total borrowing charged to borrowers. Interest rates are normally quoted on an annualised basis. Banks pay their customers interest on money their clients put into their accounts and charge other clients for lending money, the difference between the two rates is known as the banks margin (profit).

2.1.3 How low interest rates have fuelled a property boom in South Africa

ABSA House Price Index Report (2014) revealed the following that house prices from 2000-2002 rose at 15% annual rate, when interest rates were aggressively lowered in 2003 house prices rose to 21% and continued to rise to 32% in 2004, 22% in 2005 and came back to 15% in 2006 and 2007. In 2008 - 2010 house prices did have negative growth. House price started to recover when interest rates started to drop in the last quarter of 2009. House prices reported improved growth from 2011 up to 2013. In 2014 against a toughening economic slowdown house prices saw 8.8% growth up to November. However when adjusted for inflation the real growth was only 2.8%. It is evident from the above information that the lower the interest rate the more people are prepared to invest in the property market however caution needs to be taken when other factors in the market are negative. These factors include inflation rate, increased consumer debt as well as the price of petrol. Nedbank bank should be positioning its appetite to grow market share in home loans around the consideration of the above elements in the market.

Figure 2.1 is an indication of house price percentage change over a year earlier



	Q1	Q2	Q3	Q4
2015	0.65	0.60		
2014	2.57	1.05	2.50	1.36
2013	0.02	0.58	0.63	2.63
2012	0.72	2.36	3.22	2.62
2011	0.44	2.13	0.80	-2.30
2010	3.62	-0.84	-1.31	0.88
2009	-1.96	-1.40	0.63	3.13
2008	-0.16	0.24	0.45	-1.02
2007	14.10	4.12	2.88	1.36
2006		3.66	1.99	2.92

Source: ABSA House Price Index Report (2014)

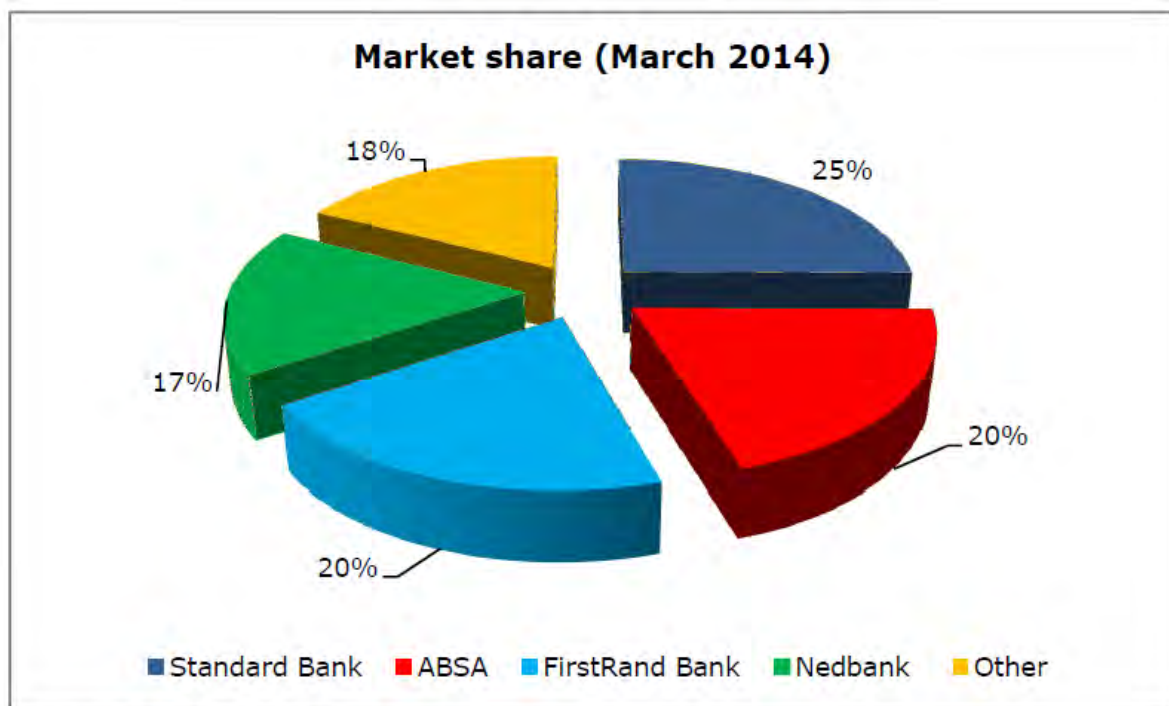
Figure 2.1: House price percentages change over a year

Since 2013 the rate of mortgage loan growth has slowed to less than 5 percent. South Africa’s housing boom of the past decade was predicated on low interest rates, which makes it vulnerable to rising interest rates. Which currently we are seeing an increase in the market. In addition, stagnant economic growth and heavily-indebted consumers are concerns for South Africa’s housing market into the future.

2.1.4 South African banking sector

According to the Banking Association South Africa (2014) the South African finance service sector is very complex, as there is many products and services been added and legislation changing the landscape continuously. South Africa has a well-developed and regulated banking system which compare favourably in the global stage. In the World Economic Forum Global Competitiveness Survey of 2013/14 South African banking sector was ranked 3rd out of 148 countries. There are 17 registered banks in SA, 2 mutual banks, 14 local branches of foreign banks, 2 cooperative banks and 43 foreign banks with approved local representative offices. Total Assets of the South African Banking Sector amount to 3.9 trillion as at March 2014 according to data provided by the SA Reserve Bank. The composition of advances and loans in the market are broken up according and displayed in the diagram below. The overall market share of assets is largely controlled by the 4 major players. They constitute 83% of total banking assets. Lead by Standard bank at 25% followed by Absa, FNB at 20% and Nedbank at 17% respectively.

Figure 2.2 Illustrates the asset split in the South African Banking Sector amongst the 4 major banks and others.



Source: SA Reserve Bank

Figure 2.2: Asset split in the South African banking sector

The introduction of the National Credit Act to mention one which has changed the way banks view contractual debt and the serviceability by the consumer to service the debt has changed banking. The SA finance sector is seeing investment from overseas banks buying in to local banks for example the purchase of controlling share of ABSA by Barclays. Technology improvements on an ongoing basis has seen Nedbank launch the first digital home loan application in the market giving consumers more freedom to engage Nedbank. This innovation allows new purchase the opportunity to apply for finance 24/7 at their leisure. “Global organizations are entering Africa via the South African market, with competition coming mainly in the form of mergers, take-overs and the purchase of shareholdings in local companies. International banks were among the first of the multinationals to arrive after the 1994 general election, lured by deregulation of the JSE and the imminence of exchange control relaxation. While many entered through stock broking, they quickly diversified into corporate finance and advisory services” Banking Journal (2011).

2.2 Competitor landscape currently in home loans



The above diagram represents a very brief look at the 4 major banks key strategic intentions in the property market in 2015.



Standard Bank has the largest residential mortgage book with

- market share of 34.1% (losing 0.1% since Jun'14) and
- YoY (Jun'15) growth of 1.94% vs. 2.25% for market

R297bn Home

Loan book

34.1% Market

Share

Extract from 2014 full year FY annual results: "Mortgage lending grew earnings by 14% to R1 935 million. Although net asset growth was muted as prepayments increased, the income growth of 12% was supported by higher new business registrations and disciplined new business pricing. Credit impairments and the credit loss ratio were flat relative to 2013."



ABSA has the second largest residential mortgage book with

- market share of 25.7% (losing 0.9% since Jun'14) and
- YoY (Jun'15) decrease of 1.03% vs. market growth of 2.25%

R228bn Home

Loan book

25.7% Market

Share

Extract from 2014 full year FY annual results. "ABSAs mortgage book decreased [by 2%] in part due to lower NPLs given strong collections" Wessels (2015). ABSA has been writing business well within their risk appetite while focusing on collections efforts. "Mortgage NPLs fell 24% or by R3,2bn to 4,5% of gross loans. NPL cover in mortgages decreased to 25,3% from 27,8%, due to the 31% reduction in the legal book to R7,0bn" Wessels (2015).

Note: ABSA made reporting changes during 2014 Full Year, increasing average assets (see appendix)



FNB has the third largest residential mortgage book with

- market share of 19.7% (gaining 0.1% since Jun'14) and
- YoY (Jun'15) increase of 2.60% vs. market growth of 2.25%

R175bn Home

Loan Book

19.7% Market

Share

Extract from 2014 Interim results. "FNB benefited from its proactive workout strategy in residential mortgages, resulting in lower NPLs, together with good advances growth in line with property price [5%] increases and reprising benefits" Wessels (2015). FNB is doing business within their risk appetite, evident from the Lightstone report on quality of properties and the risk of consumers.



Nedbank has the fourth largest residential mortgage book with

- market share of 14.6% (maintained since Jun'14) and
- YoY (Jun '15) increase of 2.04% vs. market growth of 2.25%

R130bn Home

Loan book

14.6% Market
Share

Nedbank Financial Results Extract from 2014 full year FY annual results. “While Nedbank has the smallest residential-mortgage portfolio among the local peer group at 14,5%, the contribution of these advances as a percentage of total gross loans and advances was still substantial at 22,0% in 2014 (2013: 23,0%). The focus since 2009 in Home Loans is on lending through our own channels and much less, compared with the industry, through mortgage originators. This enables a better quality risk profile, more appropriate risk-based pricing and therefore more appropriate returns, with a client-centric approach” Wessels (2015).

2.2.1 Extract from bank results / analyst presentation

2.2.1.1 ABSA / Barclays extract

Retail Mortgages gross loans in SA continue to decrease. ABSA attributes its growth in the rest of Africa to the creation of a mortgage centre (targeting Home Loans and Personal Loans).

2.2.1.2 Standard Bank (SBSA)

Standard bank financial results (2014) revealed that mortgage impairments remained flat, portfolio coverage calculated at 0.27%. Early arrears trend shows positive signs of decreasing. Headline Earnings growth of 14% with income growth of 12%. Notes increased prepayments, increased new business registrations and “disciplined” new business pricing – due to “increased proportion of higher margin vintages”. Re-default rate in restructures improved. Number of loan applications decreased by 1%, with increased new business LTV. Standard Bank obtains more than half of new home loan business through mortgage originators according to Wessels (2015).

2.2.1.3 First National bank (FNB)

Remains conservative, focusing on low risk FNB clients; with more growth focus within affordable housing (16% growth in AFH vs. 5% in FNB Home Loans). Quotes workout strategies and disciplined origination for low NPL.

States lower margins within Residential mortgages due to increase in term funding and liquidity costs. FNB believes LTV is an important metric, but more emphasis is placed on counterparty creditworthiness than the underlying security. Overall book distribution showing increases in 91-100% LTV lending, indicating that new business lending in the 91-100% LTV bucket must be very high. NPL vintages are at record lows. Arrear vintages are showing a downward trending, but first few months of the year show increased strain.

2.2.1.4 Nedbank Ltd

Nedbank prefers to dominant market share in commercial mortgages. Also tends towards preferring its internal channels in the retail home loan market and less through mortgage originators (79% originated through internal channels, 10% through digital). Asset pay-outs increased in H2 of 2014 – however margin on new business lower. Client base of 326k, a third primary banked. 19% return on home loan (HL) front book accounts vs. 6% return on back book accounts. New home loan business average pricing: 60 bps above prime. Holds R210m (increased by R55m in 2014) additional provision for accounts with exposure to unsecured.

Accredits improved Retail margins due to improved HL margins (risk based pricing) and lower overall mix contribution as a result of HL slowdown (as HL is slower yielding than the cluster).

2.3 Regulation

It has been well established that the SA banking sector is well regulated to ensure our economy is supported by a health world class financial sector. There are numerous legislations affecting the banking sector but the most important ones in line with the topic of discussion are:

2.3.1 The consumer protection act

The Consumer Protection Act, 2008, (No 68 of 2008) was signed into law on 24 April 2009. The purpose of the act is to set out the minimum requirements to ensure the consumer of South Africa was protected.

All companies who supply goods and services will need to comply with the act's requirements. The Consumer Protection Act , 2008 came into effect on 31 March 2011.

2.3.2 National credit act (NCA) of 2005

To promote a fair and non-discriminatory access to consumer credit as well as improve the standard of consumer information to remain compliant with the general regulation of consumer credit. The Act also protects against and prohibits certain unfair credit and credit-marketing practices. The Act is about promoting responsible credit granting and prohibiting reckless lending as well as to provide for debt re-organisation in cases of over-indebtedness. Through the Act it can regulate credit information; to provide for registration of credit bureaux, credit providers and debt counselling services by doing this it can establish national norms and standards relating to consumer credit

2.3.3 Basel III

Basel III is an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations. The Basel accords are a series of recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BSBS). 1 January 2013 South Africa implemented Basel III to enhance and address bank specific and broader systemic risk. This was achieved by the following measures been introduced. Raising the quality and quantity of capital to ensure banks are able to absorb losses. Improve the risk coverage of the regulatory framework; introduce capital buffers so they can be drawn down during times of stress. Raising the standard of supervision, risk management and public disclosure is important to Basel II success. The changes of Basel III will be phased in over a period and expected completion in January 2019.

2.4 Credit risk and compliance in the financial sector

An article by Mckinsey & company (August 2014) illustrated the importance of building a robust risk and control framework in the mortgage lending sector.

Banks are under massive pressure to make sure they manage risk, protect investors and are not caught fowl of reckless lending. The regulators are scrutinising the banks and are issuing out hefty fines when found guilty of non-compliance. In the article Mckinsey talks about not creating more layers of complexity to manage risk exposure but should identify a framework that allows you to identify your highest risk and prioritise. By doing so organisations are able to get to the root cause of defects. Mckinsey (August 2014) in the article believes they have identified and developed a framework which will assist financial institutions to implement strong and effective controls and oversight of risk well still keeping the mortgage operation profitable.

One may ask one's self why has this become so important in business today and why have the regulators become so strict. The answer is quite simple during and after the financial crisis home loan mortgage defaults grew dramatically and the regulators needed to protect not only the consumer from reckless lending but protect the investor's money. Prior to the crisis South Africa regulators felt that the South African consumer was over in debited and started passing laws to protect the consumer. Such laws are the National credit Act, Basel I,II and III as well as the Consumer Protection Act, No 68 of 2008

Concern for the financial sector under such tight regulations is the complexity and cost of controls. According to Mckinsey (2008) most financial service providers do not know how to identify major issues and how they occur despite numerous controls and audits undertaken. Some banks believe risk is not effectively controlled and to manage it they increase the lines of checkers to control it instead of addressing root cause if defects. Mckinsey (2008) also felt that accountability of first and second lines was defined but gaps and overlaps where evident at individual level of risk. It was also discovered that technology investments in compliance automation where also not effective.

Mckinsey (2008) believed by designing and building a mortgage risk framework in line with the regulatory challenges would result in high pay off for the organization.

The framework was to be built on six elements.

- a) Prioritized inventory of critical risk, this must be done across the organisation. There are approximately 70 regulatory and investor risks associated with mortgage lending. Well focusing on the top priority risk does not mean that no focus on the lessor risk it merely means put risk in order of exposure from the greatest.
- b) Risk tied to specific process breaking points by doing this one is able to identify actionable controls, creating effective quality assurance and allowing one to remediate risk that falls outside of tolerance levels.
- c) Objective key risk indicators (KRI), to assess the level of residual exposure through KRI and tolerance levels. The sole purpose is to identify those risks that have a defect rate that exceeds the banks risk appetite. Through these KRI management is able to see how each individual process breakpoint is performing.
- d) Optimise responsibilities of lines of defence at the individual risk level. Banks need to define the roles in each line of defence so as to avoid overlaps and rework and to ensure comprehensive coverage of high risk areas. By using tools at their disposal such as process re-engineering, automation, staff training and performance management the first line of defence is able to keep risk in the prescribe tolerance level. By validating KRIs and setting standards through regular testing the second line of defence is able to confirm risk inventory is complete and wit in regulatory standards.
- e) Transparency into risk exposure. It is imperative that a scorecard is used to track overall risk exposure and measure each KPI by doing so the scorecard will pinpoint high error rates that need attention. The scorecard will be a good tool for continues management tracking.
- f) Root causes. It is in the banks interest to identify root causes and illuminate them through automation, redesign and process change.

Mckinsey (2008) believed by tackling these issues and developing a framework banks would reduce their risk and operating costs and meet their regulatory requirements. The benefits of following such a framework would give full transparency into critical risks, allowing management to priorities remedy actions and automate. This would also show regulators that risks are measured, managed and controlled. It would also free up the organisations resources by focusing on 50 to 70 critical risks rather than 100s of process controls.

A saving in the control function of efficiency of 30 to 50 percent could also be expected. By finding the root cause could see an improvement in productivity of over 50 percent.

2.5 Profitability and market share

It is assumed that the more goods you sell and the more volumes you drive the more profitable your organisation will be. The old saying bigger is not always greater comes to mind. Real costs in an organisation are also affected when producing more which could result in the organisation not been as profitable as it could be.

2.5.1 Definition of market share

The Economic Times website (2015) defines market share as the total number of purchases on a specific product or service that a customer makes, what percentage of those purchases goes to your company defines your market share. It also makes a distinction that market share can be value or volume based.

Market share is a measure of the consumer's preference of a product over similar products on offer in the market. Higher market share means greater sales less effort to sell and a form of barrier to prevent new entrants into the market. It is not a good idea to have 100% market share as you bare all the risk and consumer preferences do change and smaller oppositions could move the market. Most companies set a market share percentage based on going beyond a certain percentage the costs associated out way the profit gains.

2.5.2 Definition of profitable

According to Business Dictionary.com website (2015), profitability is normally measured by price to earnings ratio and is defined as a condition of yielding a financial profit or gain.

2.5.3 The relationship between profitability and market share

Marketing Talker website (2015) has revealed that the Profit Impact of Marketing Strategies (PIMS) has a positive association between profitability and market share. The study relies on Return on Investment (ROI) as a key criterion for strategy choice. Some of the key findings from the study is that high market share leads to high profitability. The model also reported a correlation between product quality, investment intensity and service quality with profitability.

Changing Minds.org website (2015) has detail supports this theory through the Experience Curve Effect formulated by Boston Consulting Group (BCG). In summarizing this theory works well when one is enabling cost leadership strategy. The sole aim of this strategy is to produce a product and/or service cheaper than your competitors and pass the savings on directly to the consumer. This would see demand for your product/service increase and market share growth would follow. Limitations of this are that competitors can also follow low cost strategies and maybe in a position to reduce cost further than you can. Improvements in technology by competitors could make them more competitive and able to reduce cost further resulting in pressure on your existing client base.

On the Harvard Business Review Website, Woo and Cooper (1982) did a Harvard business review article on Surprising Case for Low Market Share, they study 40 successful companies with low market shares proving that long-run competitive success is feasible despite a low market share position. The competitive strategies of these companies where very similar, there was a strong focus tailored to difference in the market environment, reputation for delivering high quality, lower prices than competitors and low total costs. Most of these companies where from stable environments sharing common characteristics.

According to Kotler and Keller (2012), Porter's five forces model is used to evaluate the external market and analysis what is need to be competitive. His generic strategy is used by the bank to position them in the banking sector in an effort to sustain or improve their competitive advantage. Porter's generic strategy has been known to work in a traditional business environment of bricks-and-mortar. A study by Stimpert (2004) revealed that the generic strategy is still usable in the internet age of e-business with a few modifications to make it more relevant.

The main advantage of the generic strategy is that it is not company or industry dependent. Porter's generic strategy talks to how a company pursues competitive advantage across its chosen markets. The 3 main strategies are lower cost, differentiated and focus. Porter (1985) believed that a company should chose only one generic strategy to follow or face been stuck in the middle. Kim (2004) argued that a combination of elements from more than one of the strategies would result in the company performing better in the e-business age. This thinking was support by Stimpert (2004). Due to the size of the property market in South Africa it is a very broad industry which would make following a focus strategy very difficult. We would need to deep dive into Nedbank and see which of the generic would best work. The Cost Leader Strategy means we would need to be able to get home loans to market cheaper than competitors.

If we charged the same price as our competitors we would make a higher profit providing we could reduce our costs lower than competitors and if we were to offer a reduced price we would gain market share. In the event of a price war as long as we could produce the service the cheapest we would survive it. So of the ways Nedbank can acquire cost advantage is by improving on process efficiencies, outsourcing and vertical integration decisions or avoiding certain cost all together.

If Nedbank was to follow a differentiation strategy we would need to develop a product or service in the mortgage bond market that offers unique attributes that are valued by customers and that customers perceive to be better than competitor products. If the value add is seen to have a high value we could even charge a premium for the use of the service or product thus way costs could be off set against the premium or used to increase market share by offering the service at market related price.

Looking at the complexity of the property market and product offering a combination of the generic strategies would work more effectively for Nedbank. The five forces and generic strategy are very tightly related and a change in the 5 forces would mean a review of the generic strategy in an attempt to keep a competitive advantage.

As technology improves and the internet continues to dominate causing innovation changes to business there are schools of thought that believe traditional approaches to strategy and strategic management are no longer good enough like Davenport (2006). He proposed a new strategic management approach and described it as "Poised Strategy to manage multiple business models for sustaining and disruptive value innovation in collaborative business networks". Davenport believed by using the poised strategy companies would be able to continue to create innovative value from multiple business models available to them. Davenport's poised strategy encourages companies to diversify into multiple industries like a business ecosystem.

This concept of business ecosystem was introduced by James Moore in 1993, his definition of a business ecosystem is: "An economic community supported by a foundation of interacting organizations and individuals - the organisms of the business world. This economic community produces goods and services of value to customer, who themselves are members of the ecosystem. The member organisms also include suppliers, lead producers, competitors and other stakeholders.

Over time, they coevolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments and to find mutually supportive roles."

Through the collective effort of members in the network the business ecosystem can create superior products or services due to the power of synergy and the collective whole is better than a single effort. This business ecosystem is very similar to Porter's Value Chain model such as the suppliers and buyers concept however the business ecosystem is designed for a fast changing environment.

In this model what is important is the client involvement as they know exactly what they want and all stakeholders collaborate to co-evolve. Any member in the network can simultaneously give input. (eg. Fragidis et al. 2010, Davenport 2006). Good business strategy should be consumer-oriented and customer participation is imperative (Fragidis 2010).

Powers and Hahn (2004) in their research revealed the following relationship between generic strategies, competitive methods and a company's performance. It was found that banks that used a cost leadership strategy had a significant performance advantage over banks that were stuck in the middle and those banks that chose a broad differentiation, customer service differentiation or focus strategy where unable to get a performance advantage over banks that where stuck in the middle. In closing their study suggests it is very difficult to generate superior returns in the banking sector using a differentiation or focus strategy.

Rumelt and Wensley argue that it is important to look at long term profits and subtract the costs of gaining market share from current returns. Thy also believed that previous work on this topic was based on the fact that competitors where stupid and underinvested in market share to get it cheaper.

2.5.4 Reasons to increase market share

Due to the fact that market share is often associated with profitability companies seek to increase market share. Economies of scale, higher volumes can be instrumental in developing a cost advantage. Sales growth in the industry is stagnant; companies can still grow sales through increasing market share.

Market power, market leader have clout which they can use to their advantage. Their size allows them to bargain more effectively in turn increasing bargaining power allows the firm more power when negotiating with suppliers and channel partners to get goods at lower prices than competitors. This allows the firm to realize higher prices for a particular product

2.5.5 Ways to increase market share

Through innovation, strengthening customer relationships, smart hiring practices and acquiring competitors, companies are able to increase their market share.

When a company brings new technology to the market through innovation and its competitors are still to develop it, consumers tend to want to purchase it and will move away from their existing relationships to acquire it thus resulting in increased market share for the firm.

Companies are also able to protect and grow clients through strengthening customer relationships. A satisfied customer will always speak positively of his experience and through word of mouth new clients will be able to be on boarded which in turn will grow market share.

Companies who have an employee centred culture in the 21st century are able to successfully recruit the best employees by offering competitive salaries and benefits as well as flexible schedules and casual work environments. The spin off for the company is that they can reduce expenses related to turnover and training, and enables them to devote more resources to focusing on their core competencies.

Acquiring a competitor is assuring way to increase market share and reduce the number of competitors in the market. The firm immediately has access to the acquired firm's client base and is able to combine the strengths of both firms to compete more effectively in the market.

2.5.5.1 The market share

The market share of a product can be model according to Socrates Media (2006).

Share of Market = Share of Preferences x Share of Voice x Share of Distribution.

According to this model there are 3 drivers of market share:

- Share of preference which can be increased through price, promotion, product, and place. Making sure the client value proposition is aligned to each market segment that Nedbank wants to do business with. Nedbank wants to be in a position where it promotes the right product at the right price in the right place to the right consumer.
- Share of voice can be increased by increasing advertising spend as well as initiating marketing drives to increase product awareness in the market space. Currently Nedbank home loans are on a drive to dominate the share of voice in the market through its media campaign in 2014 and 2015.

Not only Radio and TV show but also dominating the outdoor space through billboards and street pole advertising.

- Share of distribution can be increased by increasing the channels where the client can engage the organization, for example in Nedbank's case would be increased branch outlets, ATM, Internet accessibility and functionality, mobile banking, call centre, personal bankers and mobile sales consultants etc.

2.5.5.2 Grab more market share by Ross Shafer (2001)

According to Shafer (2001) companies can grow even when the economy growth is declining, is slowly recovering or even when the economy is stagnant. He believes the only way to do it is to remain reactive to the market's needs and slowly take away competitors market share. He highlights 5 ways one should steal away market share from lazy competitors. Currently with interest rates on the rise and credit tightening Nedbank will need to find ways to grow market share well above the property expected growth rate.

- **Stay relevant through innovation**

By spotting new trends before competitors one is able to be the first mover in the market and gain market share. The key to this is to build a culture that embraces ideas and learnings and allows employees to share ideas and views without fear of ridicule. Be open to new ideas through listening to many different sources of information. Always be open to ways technology can change your industry.

- **Respond to customers -- fast**

Customers today want their problems resolved quickly and the faster the better, when they have a need they want it satisfied immediately. Research the opposition and understand how quickly they respond to their customers' needs then aim to respond quicker than they do. Customer loyalty has seen a shift to firms who are able to resolve customer needs efficiently and effectively in a quick turnaround time. Technology and social media has brought business and consumers closer than ever before and provided the platform for instant communication.

- **Use customers' ideas**

Have an open channel where customer can share their ideas and thoughts with your company. By doing this you may find your latest product innovation. Companies such as Treadles who have put their customers at the center of their business and allowed them to design their own T-shirts have thrived. With Nedbank firmly engaged in social media, customers are able to communicate their ideas and concerns with the organisation. Allow your client to help you develop products they want and service levels they expect. Don't allow their suggestions to go cold.

- **Snap up competitors**

Keep an eye out for competitors who may be up for sale. Simply buying customers may be the easiest way to get new clients on boarded. Baron Rothschild's famous quote, "The time to buy is when there is blood in the streets." Solidify your business's position by capitalize on today's economic chaos.

- **Be more flexible**

Companies that seem to be more flexible with regard to employees such as work hours seem to be able to recruit better staff. Understand what the competition is offering and simply improve on their offer, you will more than likely attract their best employees.

2.5.5.3 Gibson Strategy to increase market share

Rests on the fact that you need to understand everything about your market in terms of size and composition. Need to understand what it is worth, how many customers and competitors there are?

What distribution channels are available and is the market emerging or mature. Do you know what your current market share is? Gibson strategy believed through market segmentation we would be able to understand more fully the behaviour, attitudes and needs of our customers and give us a better understanding how different segments operate in the market.

They believed by segmentation we would be able to:

- Prioritise customers who gave us the best profitable growth opportunity. Nedbank needs to know which clients are the most profitable and how to engage them through value analytics Nedbank would be able to extract this data.
- Through market segmentation Nedbank will be able to align groups of clients into different groups and be in a better position to understand their needs. Develop differentiated propositions and be more focused in our segments
- Through market research Nedbank would be in a position to meet the needs of our customers and tailor make sales and marketing messages.
- Nedbank needs to review all processes in home loans and align our business to meet the client's needs through client service and admin support.
- Through Nedbank recognition programmes client service/client satisfaction we will be able to create loyalty and client retention.
- Identify future growth areas and new opportunities.

2.5.5.4 Boston matrix

Also known as the Growth/Sales Matrix is a method used to classify products based on their current value (measured by market share) and future value (measured by market growth). The premise here is that there is two ways to grow revenue.

Sustain market share in growing market or increase market share. The model was created by Bruce Henderson in 1970 for Boston Consulting Group.

Figure 2.3 Illustrates Bruce Henderson's growth/sales matrix

Market Growth	High	<u>Star</u> High Market Growth High Market Share Cash Neutral Hold	<u>Problem Child (Question Marks)</u> High Market Growth Low Market Share Cash Absorbing Build
	Low	<u>Cash Cow</u> Low Market Growth High Market Share Cash Generating Harvest or Milk	<u>Dog</u> Low Market Growth Low Market Share Cash Neutral Divest
		High	Low

Market Share

Figure 2.3: Bruce Henderson’s growth/sales matrix (1970)

Dogs are where your product market share and market growth are both low. A decision need to be made do you leave the product as is or terminate it. They are worth keeping if they give high profits and low cost.

Some other important reasons for keeping them are:

- The product is used by important customer who spends a lot in other areas
- They are a part of a product line
- There is increased market share potential
- Market might grow for this product

Cash Cows are the profitable products. The company has good market share and the market is conditions are stable. Very little money needs to be spent on these products in way of Research and development as well as marketing. They have a very strong revenue stream. Profits from these products are used to create new products and assist other lines with their development.

Stars are the new products which are promising growth and profits and take a lot of focus in the organisation.

These are very interesting for the customer and the company as they see fast growing market and health market shares. The major concern with stars is that they take up a lot of time, resources and funding and remove attention off other lines. These products can also not be independently profitable yet. It is also important to note that stars maybe in a small market, so it is important to understand the size of the market and what the growth potential maybe. The idea of stars is to convert them into cash cows but market size and profitability need to be considered before investing in stars.

Problem Child or Question Marks products are very hard to manage. The company is faced with low market share and high growth in the market. As with everything it can't last for ever so these products either develop into stars and then to cash cows or become dogs. Organisations need to make difficult decisions around these problem child products. The decision makers need to decide if they should invest their profits to grow market share or not.

The matrix makes a series of key assumptions.

- It is believed by investing in the market share will be gained.
- Cash surplus will always be generated by market share gains.
- When the product reaches its maturity stage of the product life cycle it will generate cash surplus.
- It is believed the best time to build a dominant position is during a growth phase.

The main reasons to use the Boston Matrix include:

- Product portfolio decisions can be analysed by using this tool.
- It is only a snapshot of the current market and product in the market position.
- The model does have very little or no predictive value.
- Environmental factors are not taken into account.
- The matrix is based on assumptions and flaws will flow from these assumptions.

2.5.6 Reasons not to increase market share

An increase in market share may not always be desirable. If we are at our full capacity usage we may need to add capacity to cope with additional demand resulting in an investment in additional capacity which if not fully utilized will drive costs up.

Overall profits may decline due to increase in advertising spend or pricing reduction to gain market share.

A price war might ensue as competitors want to gain back their lost market share.

In some cases it may be advantageous to lose market share were Nedbank would like to get rid of non-profitable clients and make its-self more profitable.

2.6 Strategic planning process

Organisations should do certain market analysis at different stages in its strategic planning process. According to Doyle and Stern (2006) there are variables that are present in the marketing mix which are directly influenced by the market environment.

Figure 2.4 illustrates the marketing planning process by Beamish and Ashford (2008)

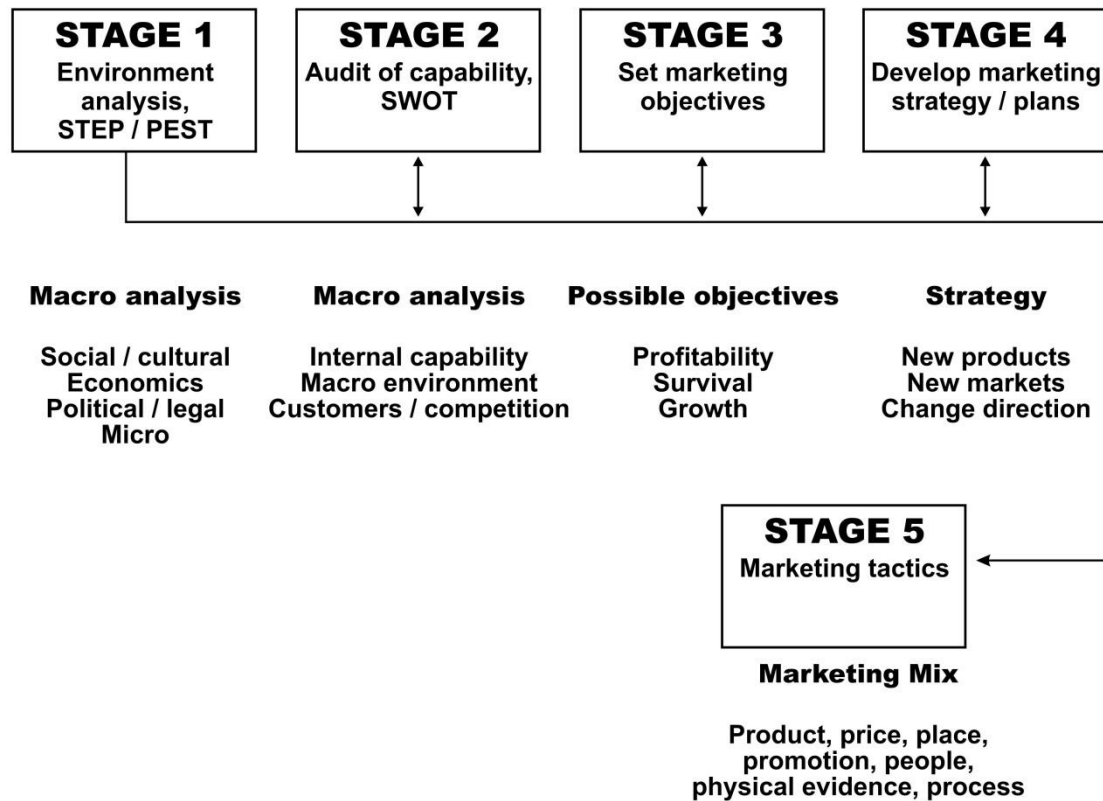


Figure 2.4: The marketing planning process by Beamish and Ashford (2008)

Five stages are identified in the illustration above in the planning process namely: environment analysis, SWOT analysis, marketing objectives, marketing strategy and marketing tactics.

Stage one: would be a comprehensive PEST analysis as there are several external factors which will influence marketing mix decisions, such as political, economic, technology, legal, competitive, social and cultural. These factors are also referred to as macro-factors of the market environment.

Stage two: is a SWOT analysis (strengths, weakness, opportunities and threats) of the market place. This analysis covers all internal factors within the organisation, external factors of the environment as well as consumers and competition.

A SWOT analysis is an audit of the organisations capability and identifies all factors which can affect the organisation.

Stage three: is setting marketing objectives which are aligned to the marketing planning process as it will give an overview of the organisations objectives; things like survival, profitability and growth are covered.

Stage four: is about setting the marketing strategies when doing so several factors need to be considered. Decisions like introducing new products, new markets or a change in direction of the marketing strategy would be discussed.

Stage five: is about identifying and reviewing marketing tactics. Marketing tactics look at the product, price, place, promotion, people, physical evidence and process that can be changed relatively quickly.

For the successful implementation of the strategic planning process support from different functions such as production, finance, distribution, and the likes are required.

The chosen strategies should be aligned with the product offering and other resources that are available to the organisation. The purpose is to attract new consumers; understand and collect information about changing consumers patterns; develop products that satisfy consumer needs; determine the product, price, promotion and; and build relationships with consumers which allow feedback loops and meet consumer expectations according to Doyle and Stern (2006).

2.7 Marketing mix

2.7.1 McCarthy (1960) 4Ps

The first author that used the 4p's is McCarthy (1960), Neil H Borden in 1964 first introduced the term marketing mix in his article "the concept of marketing mix". And the concept has been used and improved since then.

By changing the variables of the marketing mix we are able to increase market share. Marketing Mix consists of four decisions that need to be made before launching a new product; these 4 decisions are commonly known as the 4P's.

It is important to note that any change in one of these 4P's has an influence on the other ones. These variables are not constant and may change with time. Diagram 2.5 (McCarthy 1960) illustrates how the 4P's are inter related and have an effect on each other.

4 Ps MARKETING MIX

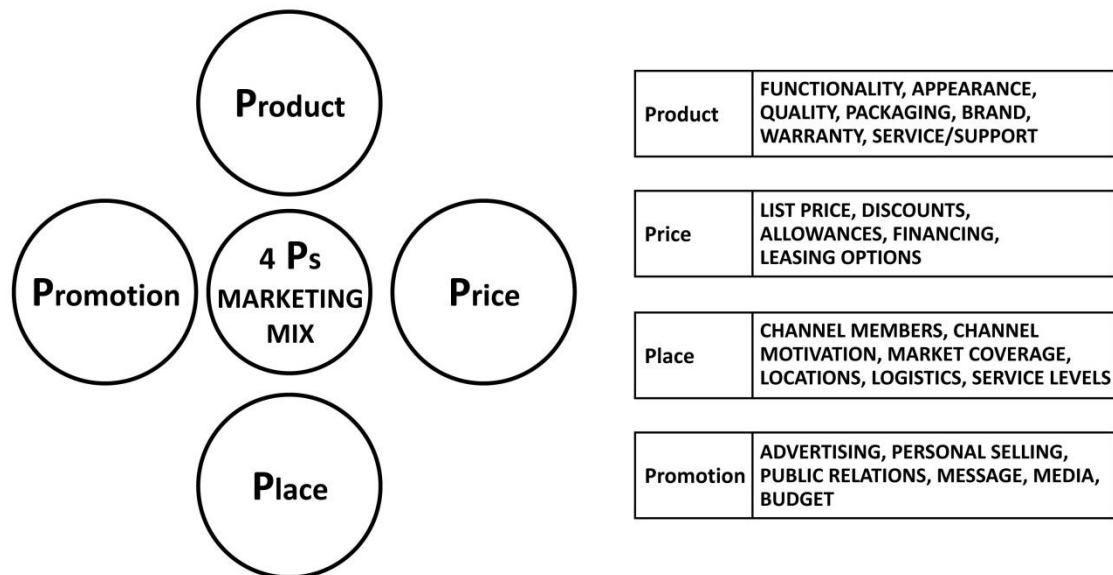


Figure 2.5: 4P's marketing mix

For example an increase in Price may cause a reduction in demand for a product resulting in less distribution points. One uses the 4ps when referring from a business point of view and not a customer viewpoint.

The marketing mix plays a very important part of deciding an organisation's strategy. The marketing mix has a direct impact on the segmentation, targeting and positioning decision. The set of tactical marketing tools (4Ps) that a business blends to produce the response it wants in the target market is defined as the marketing mix. (Kotler & Armstrong, 2014)

Product is referring to the range of products or services your company has to sell. It covers characteristics like variety, quality, design, features, durability as well as the packaging and brand name. In today's competitive environment it also looks at backup service and after sales service.

Price refers to the amount you as a business wants for the product and the price a consumer is willing to pay for it. It is important to understand discounts that will be allowed as well as payment period and credit terms were applicable.

Place covers all the channels, location where your product can be accessible to clients to purchase. Distribution and logistics need to be taken into account and location of branches, call centers etc. It is important that your product or service is easy accessible to your clients.

Promotion is the way you as an organization promote your product to your potential clients. Which marketing channels will be used to promote your service or product?

The concept of 4Ps has been criticised as being a production-oriented definition of marketing, and not a customer-oriented (Popovic, 2006). It is widely believed that marketing mix should also be seen from a consumer's perspective. This was achieved by converting product into customer solution, price into cost to the customer, place into convenience, and promotion into communication, or the 4C's.

Möller (2006) highlighted 3 key criticisms against the Marketing Mix framework 4Ps:

- The Market Mix is internally orientated and does not consider customer behaviour.
- The Marketing Mix does not allow interaction and cannot capture relationships it sees the customer as passive.
- The Marketing Mix works primarily as a simplistic device focusing the attention of management.

A review of another article, "Revision: Reviewing the Marketing Mix" (Fakeideas, 2008) found that:

- The unique elements of services marketing was not take into consideration.
- Most companies do not sell a product in isolation but product is stated in the singular.
- In the mind of the consumer brands are all interconnected.
- Relationship building which has become a major marketing focus has not been mentioned in the marketing mix.

2.7.2 The 7Ps of service marketing

Due to the fact that Nedbank works in the service industry I felt it more relevant to extend on the traditional marketing mix (4Ps). The first four remain the same but however, given the unique nature of services; the implications of these are slightly different in case of services.

An article on Management study guide (2015) website revealed the following:

1. Product: Nedbank been in the service industry is in a position to customize the home loan offering to segments of the market however , too much customization would compromise the service delivery as well as impact on costs.
2. Pricing: There are many complexities when it comes to pricing services. Nedbank would need to apply cost models to make sure all factors are taken into account when pricing there service, thus allowing for the correct margins.
3. Place: Nedbank is able to offer home loans to clients almost anywhere in South Africa. Clients are able to access via numerous digital channels, comfort of their homes, face to face with a product specialist or go into any service outlet. It is important that Nedbank continues to think of places where the organization can engage the client.
4. Promotion: Nedbank's 2014 marketing budget for home loans advertising was bigger than any of its competitors this was followed up in 2015 with a substantial budget and a very aggressive marketing campaign across all Medias. Since a service offering can be easily replicated promotion becomes crucial in differentiating a service offering in the mind of the consumer.
5. People: Are a defining factor in a service delivery process, since a service is inseparable from the person providing it. Nedbank's HR policies and staff training initiatives need to be centred on customer service training. Employees in the organization are key differentiators in a service market. It cannot be overstated the importance of employee knowledge, expertise and a customer centric approach.
6. Process: The process of service delivery is crucial since it ensures that the same standard of service is repeatedly delivered to the customers. Nedbank Homeloans needs to continuously look at its process flow charts and uncover more efficient ways to deliver to the customer. Currently Nedbank needs to define its sales and service scripts to be used by the service staff.

7. Physical Evidence: Since services are intangible in nature most service providers strive to incorporate certain tangible elements into their offering to enhance customer experience. Nedbank has currently started its journey of branch of the future where clients have access to tablets and electronic media to make the time spent waiting in the branches more enjoyable and allowing the client to feel more productive.

2.7.3 Four C's

The 4C's is another part of the marketing mix. The 4C's are seen as the customer centric approach rather than the business approach followed by the 4P's. The 4C's correlate with the 4P's. The 4C's are customer solution/value, customer cost, convenience, and communication (Kotler & Armstrong, 2014).

- Customer Value

Companies need to know who will buy their goods and services. They also need to know what those consumers' needs are. Customers are buying value and solutions to problems, business sell products. (Kotler & Armstrong, 2014)

- Cost

Customers have the wallet and they not only are concerned with the price of acquiring the product but the overall cost of buying using and disposing of the product. (Kotler & Armstrong, 2014)

- Convenience

Consumers will buy products and services when, where and if it is convenient for them to do so. It is best if the product is convenient for a client to purchase. (Kotler & Armstrong, 2014) On-line shopping is a great alternative to store location where the consumer may not be able to get there.

- Communication

In today's markets consumers are looking for relationships with business and two way communication rather than 30 second adverts on TV and radio.

Consumers want to be engaged and feel a sense of being part of business. (Kotler & Armstrong, 2014).

2.7.4 Four C's, A's and O's in the marketing mix

The four C's, A's and O's are a more in-depth way at looking at the marketing mix of the 4Ps. When reviewing them all together you get a better understanding on how to align the company's offering with the need and desires of the consumer wants, where he want it and how he wants it. Through this you have a more detail marketing mix strategy.

Table 2.1: The 4 C's, A's, O's, and P's

4P's	4C's	4A's	4O's
Product	<p>Customer needs</p> <p>What does the customer need to solve a problem? For example, people don't have time to cook - we offer the solution of frozen dinners.</p> <p>The company must identify customer needs so that products that meet these needs can be developed (see Units 10-11)</p>	<p>Acceptability</p> <p>How acceptable is the product, and do people approve of the product?</p> <p>Is it socially acceptable - fashionable and attractive?</p> <p>Does the product respect the laws of the country - is it legally acceptable?</p>	<p>Objects</p> <p>What do you sell?</p> <p>How is it manufactured, or made?</p> <p>Is it a high quality (or excellent) product, or is it bottom end?</p>
Price	<p>Cost to user</p> <p>Does the customer perceive the cost of the product as fair, or is it too expensive?</p>	<p>Affordability</p> <p>Does the customer have enough money to buy the product - can he / she afford the product?</p>	<p>Objectives</p> <p>Revenue objectives concern the income you want to generate.</p> <p>Price objectives concern the price you want to sell at.</p>
Place	<p>Convenience</p> <p>How convenient is it to find your product? Is it easy, or does the customer have to make an effort?</p>	<p>Accessibility</p> <p>Is the product easy to access?</p> <p>Is the product accessible people with disabilities?</p>	<p>Organization</p> <p>How should you organize the sale and distribution of your product?</p> <p>Which distribution methods (see Unit 26) will work best?</p>
Promotion	<p>Communication</p> <p>How should you communicate with your customers?</p>	<p>Awareness</p> <p>How many people know about, or are aware of the product?</p> <p>Is awareness high?</p>	<p>Operations</p> <p>Which kind of promotional operations, such as direct mail, will work best for the product? (Use Units 32-43)</p>

Source: Kotler 2004

It is prudent that organisations look at the above table and identify customers in the various segments and determine where they fit in. As tabulated the four Ps of the marketing mix requires that customers have accessibility, affordability, convenience and price. This simply means that the customer is attended to at the right place, at the right time, and with the right price.

2.8 Market segmentation

Is a marketing concept which divides the overall market up into smaller sub markets based on certain characteristics of the consumer for example demand, similar taste and preference. The market segments are very distinctive from one another as the segments react differently to change in the market (Kotler and Keller, 2012).

2.8.1 Why is market segmentation important?

When Market segmentation is done correctly you are able to meet customer needs better and retain more customers. It also puts the company in a position to determine a target market and communicate with the target market more effectively. It gives the company an opportunity to dominate the market segment and enables a better return on marketing expenditures. Through segmentation opportunities and threats are can be identified a lot quicker and the company can adapt faster to the change. It also allows the company to differentiate itself from competitors. The Marketing mix can also be customised to suite the segment the company is targeting.

2.8.2 Major segmentation variables for consumer markets identified by Kotler and Keller (2012)

There are 4 major market segmentations that can be identified in marketing when segmenting the target market.

- **Geographic:** Country, Region, Province, the size of the cities (population). The density of the area if it is urban, rural or suburban. What is the climate of the region and is it Northern or Southern.
- **Demographic classification:** this will cover things like demographic age, family size, gender, Income (LSM), occupation, education, religion, race, generation, social class and nationality.

- Psychological differences like psychographic lifestyle how people where orientated where they culture-orientated, sports-orientated outdoor-orientated. Similar in personality traits like compulsive, ambitious, etc.
- Behavioural covers thing like behaviour occasions (special occasions), user status, usage rate, and loyalty status. Attitude towards product or service are they positive, enthusiastic, indifferent negative or hostile. Benefits they may derive from the service or product like efficiency, quality and economy of speed. Lastly the readiness of the consumer for the product or service.

2.8.3 Needs based marketing segmentation process

Steps followed in the Needs Based Marketing Segmentation Process (Roger 2004). "Market-Based Management", 3rd edition. Market segmentation strategy is an adaptive strategy.

- 1) Needs Based Segmentation is about solving a particular consumption problem by putting groups of customers into segments based on needs and benefits.
- 2) Segment Identification is when you can determine which demographic, behavioural, psychological, lifestyle and usage behaviour makes the segment distinctive and identifiable.
- 3) Segment attractiveness is determining the overall attractiveness of each segment by using criteria such as market growth, competition intensity and market access.
- 4) Segment Profitability determines how profitable the segment is.
- 5) Segment Positioning is achieved by creating a value proposition and price position strategy for each segment based on the characteristics and needs of those customers.
- 6) Segment "Acid Test" is when you test the attractive positioning of each segments strategy.
- 7) Marketing-Mix strategy is an expansion of the segment positioning strategy so that it includes the 4Ps (price, promotion, place, product).

2.8.4 Michael Porters five forces

Through Porters 5 Forces one is able to determine the long-term attractiveness of a market or market segment. The following is a breakdown of these 5 forces which pose a threat

1. Threat of intense segment rivalry.

A segment becomes very unattractive if there is already intense rivalry of strong competitors. It is even less attractive if that market is stable or declining and requires large amounts of fixed cost and exit barriers are high. These types of conditions will always lead to price wars, new products been introduced high advertising costs etc.

2. Threat of new Entrants.

The most attractive segment is one with high entry barriers and low exit barriers. These results in few firms entering and non performing firms can exist the market easily. When both entry and exit barriers are high profits are good but poor performing firms can't leave and stay and fight it out causing disruption in the segment. If Entry and Exit barriers are low more firms enter and leave resulting in lower but stable profits.

3. Threat of substitute products.

The segment is unattractive the more substitute products there are as it has an overall impact on prices of goods and profits.

4. Threat of buyers growing bargaining power

Segments where buyers have strong bargaining power are unattractive as buyers switching cost to other suppliers is low. It is important to market to buyers that have the least power to switch. Sellers should make their offering unique and superior to potential buyers so as to stop them from switching

5. Threat of suppliers growing bargaining power

Segments become unattractive if suppliers are able to control prices, quality and quantity supplied. Suppliers become stronger when there are fewer competitive suppliers and the cost to switch becomes too high. It is always a good idea to build mutually beneficial relationships with suppliers or have multiple suppliers.

2.9 Consumer decision-making process is influence by marketing

When Consumer decision making is influenced by marketing strategies the net result is a profitable exchange. Consumers are influenced in different ways by each marketing mix (Peter & Donnelly,2004).

2.9.1 Product influences

Consumer behaviour is influence by several attributes of an organisation's products, including brand name, quality, newness and complexity.

Doyle & Stern (2006) believed one of the key tasks of marketers is to differentiate their products from other competitors and create consumer perception that the product has consumer value over competitor products.

2.9.2 Price influences

Consumers are often influenced by product price and services when making a decision to purchase. Consumers will compare competitive offerings before selecting which product or service to buy. Pick 'n Pay is a good example of where consumers believe and perceive that they charge lower prices and are able to attract consumers based on this fact. Even though some consumers will pay a higher price as they believe the product quality is better and more prestigious. Many value-conscious consumers will buy products on the basis of price rather than other attributes according to Peter and Donnelly (2004).

2.9.3 Promotion influences

Advertising, sales promotions, salespeople and publicity are all tools used to influence consumer's perceptions of products.

It is important for a company's marketing to make sure communication with clients offer a consistent message about the product offering and is placed in media channels where the target consumers are going to see it. Marketing communications play a key role in informing consumers about products and services including how and where consumers can purchase them (Doyle and Stern, 2006).

2.9.4 Place influences

Doyle and Stern (2006) believed Companies need to make sure that their offering is easy and convenient to buy in a variety of touch points. If our products are sold in exclusive places consumer may perceive the product to be more expensive due to its exclusivity. Products sold using modern technology such as internet are seen as innovative, exclusive, or tailored for specific target.

2.9.5 Psychological influences on consumer decision-making

Peter and Donnelley (2004) believed that the two most important psychological factors are product knowledge and product involvement.

2.9.6 Product knowledge

The amount of information that a consumer remembers about a certain product and its features and ways to acquire the product is known as product knowledge. Initial level of product knowledge is influenced by group marketing and situational influences. Pride and Ferrell (2010) believe that product knowledge has a direct influence on how quickly the consumer goes through the decision-making process. For example if the consumer has limited knowledge more time is needed to make a decision.

2.9.7 Product involvement

For example, Harley-Davidson motorcycle owners are highly involved in the purchase and use of the product. A consumer buying a hair brush would likely have a low involvement in the purchase. Pride and Ferrell believed product involvement influences consumer decision making in two ways.

Firstly, if consumers are likely to develop a high degree of product knowledge if the purchase requires a high product involvement by doing so they can be confident that they have purchased the right item. Secondly a high degree of product involvement encourages extensive decision-making process.

2.10 Pricing strategy

Pricing is key critical to any business as it directly affects turnover. There is a balance between cutting costs and maximising profits. A company needs to pay attention to as it has a direct impact on volume of business (Kotler, 1999). The supply and demand relationship should be reflected in the price (Kotler and Armstrong, 1996).

There are several pricing strategies that can be implemented when planning the price of the company's product.

Kotler (2003) identified three primary pricing strategies which are involved when pricing a product.

- a. **Skimming:** By charging higher prices a company makes more money. The company starts by setting a higher price and over time the price reduces which makes the product appealing to a bigger target market. Normally implemented in the high-technological market when a new product is launched.
- b. **Penetration:** Price lower and gain market share. In an attempt to gain market share and grow sales volumes a company can use this strategy however it could be risky as competitors can reduce prices as well and the company may end up losing market share.
- c. **Neutral:** Be competitive with competition. When a company does not want to undersell then it sets a price similar to its competitors this allows the consumer to make a decision based on perceived value to price (Kotler and Armstrong, 2008).

Table 2.2: External influence on pricing strategies (Kotler and Armstrong 2008)

	COSTS	CONSUMERS	COMPETITION
SKIMMING	Low costs margin Low volumes Changes in unit price drive profit Large break even sales Changes at or near capacity	Low price sensitivity - Reference price effect - Price quality effect - Difficult comparison effect	Limited threat of opportunism Limited opportunity for scale economies Sustainable differentiation Low threat brands
PENETRATION	High cost margins High volume drive profitability Small break even sales Changes excess capacity	High price sensitivity - Total expend effect - Large part of end benefit - Little differentiation	Sustainable cost and resource advantage Competitors not willing to retaliate Financial strength Aggressive small share brands
NEUTRAL	Costs similar to competitors Sufficient cost margin to finance advantage Little excess capacity Incremental capacity is expensive	Consumers are more sensitive to other elements of the marketing mix	Avoid threat of retaliation Large share brands with a lot to lose Sustainable marketing mix advantages Oligopolies

Kotler and Armstrong (2008) also spoke about other forms of pricing which companies could adopt.

- a. Product line pricing, is when you set steps between product line items.
- b. Bundle pricing is when you bundle numerous products together and set one price for the bundle
- c. Psychological pricing is when price is set that makes the consumer believe there is more than what actually there is.
- d. Optional pricing is when accessories are sold separately with the main product

These pricing strategies are reliant on the company's objectives they want to achieve (Kotler and Armstrong, 2008).

2.11 Total quality management (TQM)

Maybe be defined as the process to manage the entire business so that it excels in every aspect of service and product which meets the expectation of your clients.

TQM has two fundamental operational goals and that is one to deliver on the design of the product or service and two make sure the organisations systems can continuously produce the design. To achieve outstanding quality you need the buy in from senior management, committed and involved workforce and an organisation which is customer focused. Through continuous analysis of the processes the organisation is able to continually improve their systems (Jacobs and Chase 2008).

Kotler (2003) “defines Total Quality Management (TQM) as an organizational approach which aims to continuously improve the quality of all processes in an organization, products and services.”

According to the American Society for Quality Control, quality is, “the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs” (Kotler, 2003). Through every member of the organisations commitment to total quality (TQ) the real value creation and customer satisfaction can be achieved.

2.12 Market growth

Market growth is a measure of a company’s future value in terms of a larger market position. Even if a company does not grow its market share a larger market gives rise to increased sales volumes. For most companies the ideal position is to gain market share in a growing market. It is not always easy to thrive and grow in a growing market as the cost for doing business and reaching new clients is high as well as the competitor’s strategies as the fight to survive and grow. Markets cannot grow for ever and eventually reach a saturation point where new sales are reduced and companies are reliant on re-purchases this in turn makes growing market share more difficult. Sometimes accepting ones market share is better than starting a competitor war.

2.13 Staff as an enabler

Product knowledge is vital to a salesperson’s effectiveness. Clients buy into people and without product knowledge the salesperson lacks confidence and credibility to win the client and the sale.

“Employees are a company's greatest asset - they're your competitive advantage. You want to attract and retain the best; provide them with encouragement, stimulus, and make them feel that they are an integral part of the company's mission” Anne M. Mulcahy.

Primary aim of any human resource department is to acquire and sustain good employees who contribute to the organisations goals. It is said a company's most valuable resource is its employees. An organisation has to make sure it keeps its employees motivated, engaged and offers competitive benefits.

Gratton (1997) shows that most companies value human resource as a competitive edge over financial or technology resources. Wilson (1995) believed a competitive advantage was achieved through Job Analysis, Job Description and Job Evaluation. Barney (1991) and Wright (1994) believed that an employee's knowledge, skills and ability can add value to the firm and cannot be imitated then an organisation has a true competitive advantage.

Pfeffer (1994) argues that if reliance is on the work force for competitive advantage then organisations need to choose the right people in the right way. Organisations then need to understand what they are looking for in an employee

- Employees with more competencies
- Employees who self-develop without the need for company training
- Employees who have more ideas that are implemented
- Employees that have a lower error rate, number of discipline incidents and absenteeism rate
- Employees that require "low maintenance" from managers
- Employees that stay longer before quitting
- Employees that have a higher customer satisfaction, higher performance appraisal scores, bonus rates and promotion rates
- Employees who produce more return for every rand of salary paid to them

2.14 Summary

This chapter gave a brief explanation about the different theoretical aspects of the study.

There are quite a few opinions on the subject so it was important to take the most up to date and successful models and literature to be in a position to investigate this topic. This chapter gave an in-depth review of the South African Financial Service Sector, its regulation and credit risk and compliance.

The information given on the South African Banking Sector as well as the South African Economy analysis was done to highlight the current situation which is faced by the financial sector and by Nedbank when they want to grow their mortgage book and also to give the researcher a holistic view of the financial sector and its challenges.

Theoretical topics around profitability and market share, strategic planning, marketing concepts such as marketing mix, segmentation where covered. The biggest challenge for Nedbank since the financial crisis like most other banks is how do we review risk and price risk according. The next chapter introduces research methods and the methodology that will be used for this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this chapter is to discuss, the research method employed in obtaining the results of the study. This includes a discussion on the basic research design, the sampling and the data collection as well as the statistical techniques used to analyze the results. The research design chosen acknowledges that this subject industry Home Loans is in a mature phase in the context of the South African Economy and home loan market. The degree with which the research question has been presented requires a comprehensive understanding of consumer behavioral trends and market trends in order to determine if profitability is associated with market share growth for Nedbank Ltd. With reference to this study we need to understand theoretical research methodology issues that may influence this study.

Table 3.1: The research process that was followed by Gilbert and Churchill, (1996)

Step 1	Formulate the Problem
Step 2	Determine the research design
Step 3	Develop the data collection method
Step 4	Design the data collection approach
Step 5	Design the sample and collect data
Step 6	Analyse and interpret the data
Step 7	Prepare the research report

Tale 3.1 represents the research process that was followed as suggested by Gilbert and Churchill, (1996)

3.2 Aim and objectives for the empirical study

The primary aim of the study is to understand whether or not an increase in market share will increase the profits to the bank. Can the bank increase its market share by managing its risk ratios to very low levels? Market share is often associated with profitability therefore companies seek to increase market share. Companies can still grow in a stagnant market by simply growing market share through increased sales. Key aim is to identify market segments which illustrate lower risk but substantial volumes and geographical areas with high grow which will result in elevated profits for the bank. To make sure the bank retains and attracts the right quantity and quality of clients we need to make sure the right product and the right sales force are in place to achieve greater profitability. Customer needs have been met with the right offer at the right time and place.

3.3 Participants and location of the study

The study will be conduct in Kwa Zulu Natal and all internal banking data and research will be used and taken from national database as well as provincial databases. The Participants in the questionnaire will be all internal Nedbank staff members who have a key role to play in the KZN home loan market. The participants will all complete the same survey and a sample size of around 190 participants will be invited

3.4 Research approach and design

There are three research methods that can be used in marketing research, namely: quantitative, qualitative and mixed methods. Galliers (1993) states that the “distinction between quantitative and qualitative research is important to be able to identify and understand the research approach underlying any given study because the selection of a research approach influences the questions asked, the methods chosen, the statistical analyses used, the inferences made, and the ultimate goal of the research”. Research design is dictated to by the research problem.

Qualitative research is structured by words and uses open ended questions. Qualitative research methods require the researcher's observation playing a big role and data tends to be verbal or behavioral in nature. Qualitative research data consisted of non-numeric information such as descriptions of behavior or the content of people's responses to interview questions. Quantitative research is structured by numbers and uses closed ended questions. Quantitative method is based on meaning from numbers. The data is collected and the collection results in numerical and standardized data. The analysis is conducted through the use of diagrams and statistics according to Creswell (2009).

Based on the research problem of the study, which was to investigate an evaluation of Nedbank's home loan offering in relation to its market share, the appropriate research design was exploratory using the quantitative method.

Quantitative method is based on meaning from numbers. The data is collected and the collection results in numerical and standardized data. The analysis is conducted through the use of diagrams and statistics (Salkin, 2000).

Pilot Study is a research study done prior to the intended study and are done on a smaller scale. Pilot study cannot eliminate all systematic errors but can reduce the likelihood of making a Type I or Type II error. These errors would make the main study a waste of time, effort and money. Main reason to do a pilot study is to test how possible the design is in reality.

Validity is described as the degree to which a research study measures what it intends to measure. Two Types of validity. Internal validity refers to the validity of the measurement and test itself, whereas external validity refers to the ability to generalise the findings to the target population. Both are very important in analysing the appropriateness, meaningfulness and usefulness of a research study.

Joppe (2000) defines reliability as "The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable."

In research Ethical consideration are critical. Ethics are the norms or standards for conduct that distinguish between right and wrong. They help to determine the behavior of the researcher and if his behavior is acceptable or unacceptable. By adhering to ethical principles the integrity, reliability and validity of the research findings is unquestionable. It is important to the public and all that read the article that the researcher followed the appropriate guidelines.

3.4.1 Sampling plan and design

It is not always possible to study the entire population so a study of the subset or sample of the population is used and the results and finding are inferred to the entire population. The main objective is to be able to generalise the result of the sample to the whole population.

It is often impossible to test the entire population due to time and money constraints. The sampling plan involves choosing the type of sampling method to be followed as well as defining the population and the sampling frame. Salkind (2000) explains that the theory behind sampling goes something like this: If you can select a sample that is as close as possible to being representative of the population, then any observation you can make regarding that sample should also be true for the population. The researcher needs to evaluate the different sampling options based on their strengths and weaknesses as well as their practicality. The choice between the two main types of sampling techniques is based on randomization.

The two basic types of sampling design exist – probability and non-probability sampling. In probability sampling, the likelihood of any one member of the population being selected is known (Salkind, 2000).

In non-probability sampling the likelihood of selecting any one member of the population is not known and some may not even have a chance.

With probability sampling, Cooper (2003) indicates that simple random sampling is often impractical due the difficulty or impossibility of obtaining a population list (sampling frame) among other things. A more efficient sample in a statistical sense is one that provides a given precision (standard error of the mean or proportion) with a smaller sample size (Cooper, 2003).

Cooper (2003) describes four alternatives probability-sampling approaches:

- Systematic sampling has a large sample size and a list of the elements are conveniently place and accessible. This would offer the advantage of developing the sample quickly.
- Stratified sampling used when differential information is needed regarding various strata within the population which are known to differ in their parameters.
- Cluster sampling is used when you are studying a heterogeneous group at one time.
- Double sampling at minimal additional expenditure this design added information.

Only stratified random sampling was discussed here. Stratified random, is the process by which the sample is constructed to include elements from each of the segments (Cooper 2003). According to Cooper, there are three reasons why a researcher chooses a stratified random sample.

- To increase a sample's statistical efficiency
- To provide adequate data for analyzing the various sub-populations
- To enable different research methods and procedures to be used in different strata.

Stratified random sampling was utilized. Stratification is usually more efficient than simple random sampling, which necessitated for the selection of this technique. The ideal stratification aims to have each stratum homogeneous internally and heterogeneous with other strata. Given that this study has several important variables about which conclusions need to be drawn. In this study the dependent variable (Home Loan) is appositely related to the consumer behaviour, consequently it was decided to stratify the sample.

3.4.2 Questionnaire

Questionnaire-based surveys are one of the most commonly used tools to establish consumer behavior and consumer preference. Poor designed questionnaires can be misleading and result in meaningless data. It is very important that the right techniques of questionnaire designs are applied.

3.4.3 The questionnaire design

Smith, Thorpe and Lowe, (1991) believe, the main decisions to be made in questionnaire design relate to the type of questions to be included and the overall format of the questionnaire. Malhotra, (2011), states “The greatest weakness of questionnaire design is lack of theory. Because there is no scientific principles that guarantee an optimal or ideal questionnaire, questionnaire design is a skill acquired through experience.” In an effort to improve the validity of the questionnaire, all questions are clearly worded, using familiar terms. A Likert scale was used to determine the respondent’s perceptions about certain statements. According to Saunders, Lewis and Thornhill, (2003) “a Likert scale refers to a scaling technique, where a large number of items, which are statements of beliefs, are revealed.”

3.4.4 The sampling frame for the questionnaire

Sampling was done based on a non-probability method referred to as convenience sampling. The questionnaire was administered to persons whom the researcher made arrangements with to be able and willing to complete the survey. The survey was administered over a period of time.

The bankers appear to fit this profile they are of the desired age group, who can be assumed to be reasonably computer literate, who have internet access at work. To capture a broad range of Bankers across as many branches as possible in the Kwa Zulu Natal region, and line management up to area manager level. The reason for choosing the questionnaire route is that is feasible and highly economical to gather large amounts of data. More control over the research is possible by the researcher (Saunders 2003). Survey includes cross-sectional and longitudinal studies.

The intent is to use characteristics of a population based on a smaller sample from that population. The word “survey” is commonly used today to describe a method of gathering information from a sample of individuals. According to Peil (1995) a sample is a fraction of the population being studied. Questions can be asked impersonally through a questionnaire. Survey can be used as useful tools to understand a population’s attitudes and behaviour.

3.4.5 Questionnaire survey instrument design considerations

It should be noted that self-administered surveys suffer from low response rates. A covering letter therefore was provided to offer the respondents insight into objectives of the study. Anonymity was assured to respondents and no personal details were called for in the survey. A deadline date of 5 November 2015 was set for the return of questionnaire.

3.4.6 Measuring instrument

To identify consumer behaviour trends in the Home Loan Market.

- a) To determine the revenue that will be generated by increasing market share.
- b) To determine the risk appetite in relation to competitors.
- c) To evaluate home loan competencies and knowledge of bankers.
- d) To identify the growth nodes with regards to home loans.

The questionnaire consisted of three sections:

Section one was to obtain demographic information of importance such as gender, income, age, educational level and marital status.

The second section was more information seeking questions relating to competencies and knowledge of bankers. A third section was to determine client satisfaction and address revenue that has been generated by an increase in market share.

3.5 The method of data collection

Data will be gathered from primary and secondary sources.

3.5.1 Primary data

Primary data is data which is obtained by the researcher on the variables of interest for the specific purpose of this study. An electronic questionnaire/survey was sent out. The purpose of this was to reduce costs and a wide geographical area could be covered in the province. These questionnaire can be completed anywhere by the respondents. The one concern is that the return rate of this type of questionnaire is low. A 30% return rate is considered acceptable. The questionnaire is accurate and not open for interpretation as there was no interviewer to clarify questions. The target audiences were Nedbank bank officials at different seniority levels but are actively participating in the home loan market. There were 190 questionnaires sent out which would constitute an adequate sample size for the research to be conducted effectively. Advantage to this type of data collection is that anonymity is high and can be administered electronically and avoids interviewer bias. Unobtrusive measures was used which does not involve people. Light stone and deeds office data on property market. Nedbank's internal data base on profitable business and research, raw data to be reviewed by the researcher.

3.5.2 Secondary data

Secondary data is information gathered from sources which already exist. The following data collection methods where used, internet, journals, research reports, websites, organization research, data extract from research done by Nedbank. Internal journals and in-house publications by Nedbank were used.

3.6 Data Analysis

Malhotra (2011) describes the process of data analysis as the collection of data and transforming it into meaningful results. According to him, descriptive analysis is, "a type of conclusive research which has as its major objective the description of something – usually market characteristics or functions."

He further suggests that descriptive research assumes that the researcher has some prior knowledge about the problem situation.

3.6.1 Editing and coding

Malhotra (1993), describes editing as a review of the questionnaires with the objective of increasing accuracy and precision. According to him, it consists of screening questionnaires to identify illegible, incomplete, inconsistent and ambiguous responses. In the event that a respondent has provided two answers to a particular closed question, the answer will be ignored. Depending on the importance of the question, the entire question may be ignored or the researcher will assign missing values to unsatisfactory responses. After editing, the questionnaires will then be coded. Malhotra (1995) refers to coding as the process of assigning a number to each possible response in each question. An example of such coding is 1 for yes and 2 for no. It is important that all codes are allocated before any field work is conducted.

3.6.2 Descriptive data analysis techniques

Basic data analysis provides valuable insights and guides the rest of the data analysis as well as the interpretation of the results, according to (Malhotra, 1993). Saunders, Lewis and Thornhill (2003) believed that by using a table (frequency distribution) was the easiest way of summarizing data for individual variables so that specific values can be read. According to Malhotra, (1993) “a frequency distribution is a mathematical distribution whose objective is to obtain a count of the number of responses associated with different values of one variable and to express these counts in percentages”. Graphs were used in the descriptive analysis discussion. Saunders, Lewis and Thornhill (2003), recommend the use of pie charts. According to them, “it is the most frequently used diagram to emphasise the proportion or share of occurrences.”

The following simplified measures will be used:

- The Median - Lind, Marchal and Wathen (2005), defines the median as the

- Midpoint of the values after they have been ordered from the smallest to the largest or from the largest to the smallest. They further state that the median is unique in that there is only one median for a set of data.
- The Mean - Lind, Marchal and Wathen (2005), state that the sample mean is equal to the sum of the values in the sample divided by the number of values in the sample. The mean will be calculated to determine the average value of a variable.
- The Mode – is defined by Lind, Marchal and Wathen (2005) as the value of the observation that appears most frequently in the sample. The use of the mean, mode and medium of the frequency distribution will be used to measure the central tendency of the results. Further analyses will be done to determine the relationship among the variables. The analyses will be done with the following measurement.
- Standard Deviation – The calculations, which will be used to determine the variation, is called the standard deviation. Tull and Hawkins (1993), state that the standard deviation measures how “spread out” the data is. It follows therefore that the smaller the deviation, the more the observations will cluster around the mean and thus little variability will exist among the responses.
- The correlation coefficient – The correlation coefficient will be used to determine the relationship between two variables, which were stated in the questionnaire.

3.7 Conclusion

In this chapter the research method employed in obtaining the results of the study have been discussed. This included a discussion on the basic research design, the sampling and the data collection as well as the statistical techniques used to analyze the results. The research question has been designed to gain a comprehensive understanding of consumer buying behaviour and reasons for adoption or not of home loan product. This is a statistical study that attempts to describe the likely characteristics of the population by making inferences from the sample characteristics.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF THE RESULTS

4.1 Introduction

This chapter provides a discussion of the research findings. It explores the objectives stated in Chapter One and makes recommendations. The objectives stated in Chapter One covers the four main issues:

- a) To determine the revenue that will be generated by increasing market share.
- b) To determine the risk appetite in relation to competitors.
- c) To evaluate home loan competencies and knowledge of bankers.
- d) To identify the growth nodes with regards to home loans.

4.2 Analysis of the questionnaire

A total of 121 participants completed the questionnaire. Results showed that about two-thirds of the participants were female (64%) (fig 1), 68% were between the ages of 30 years and 50 years (fig 2). It is indicative of the research to understand what demographic we operate in and this finding is further supported by Kotler and Keller (2012) where they have identified 4 major market segmentations that can be identified in marketing when segmenting the target market.

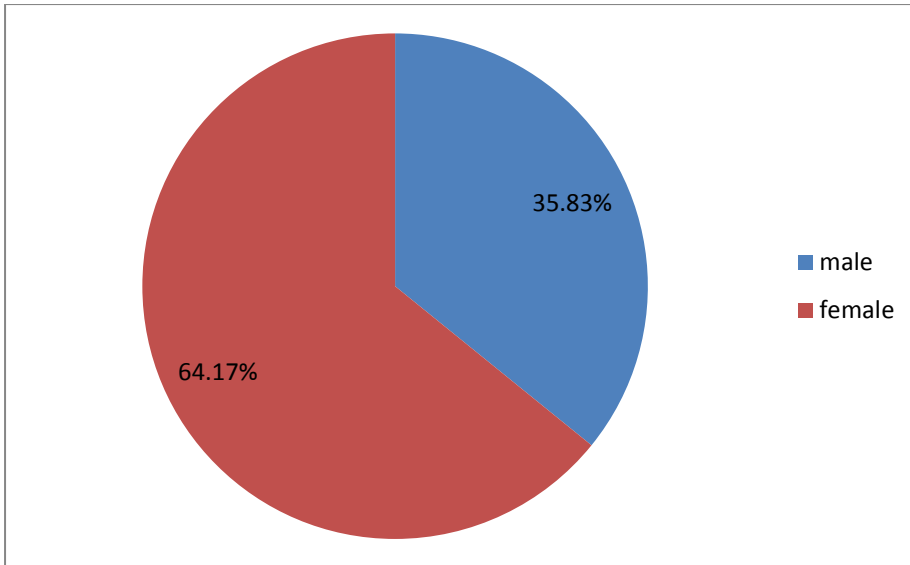


Figure 4.1: Distribution of gender

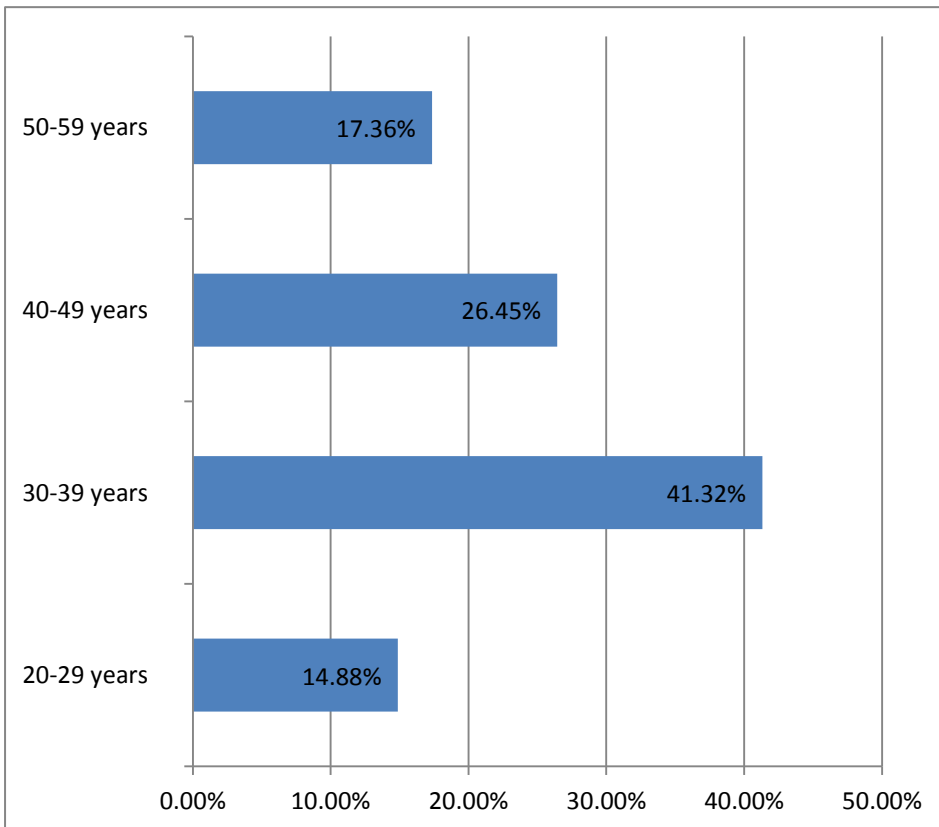


Figure 4.2: Age distribution

With regards to marital status, 60% were married followed by 22.41% were single (fig 4.3).

This leads us to believe that the market under review is one of stability due to the high response rate of participants who are married. Kotler and Keller (2012) support the view that one of the major segmentations is demographic classification: this will cover things like demographic age, family size, gender, Income (LSM), occupation, education, religion, race, generation, social class and nationality.

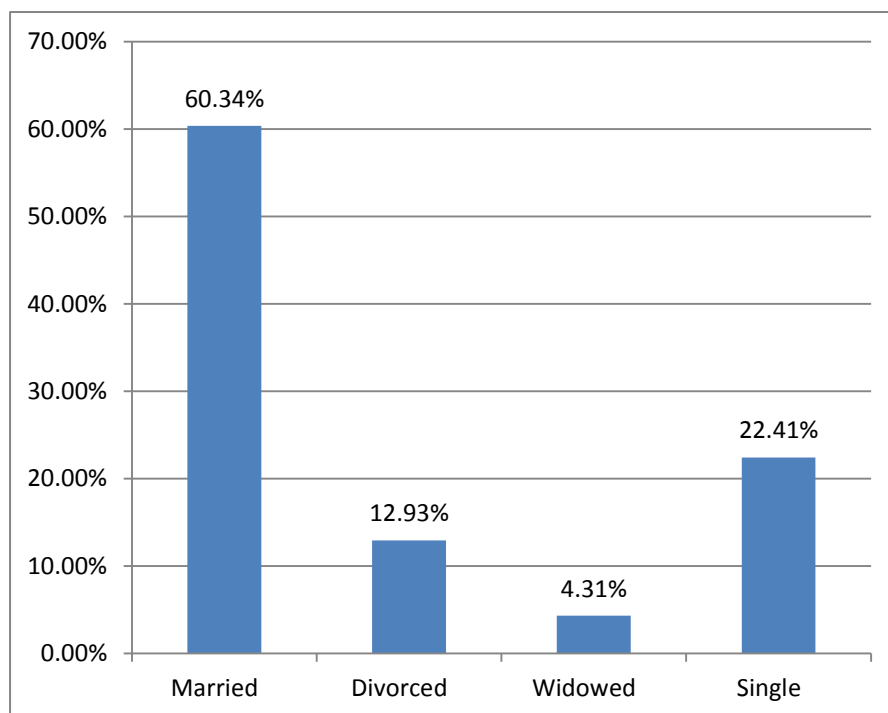


Figure 4.3: Marital status of the participants

It was found that 42% of the participants were sales consultant followed by 38% were branch manager/Team leader (fig 4.4).

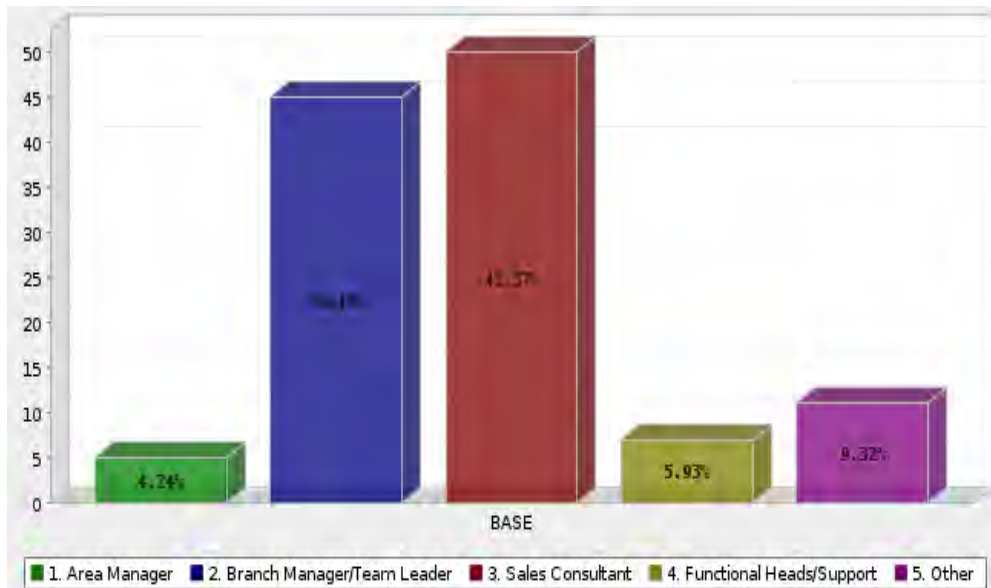


Figure 4.4: Participants current job title

Figure 4.5 shows that more than a third of the participants were working in the bank between 5 years and 9 years (36%) and another 35% were working for more than 15 years (fig 4.5).

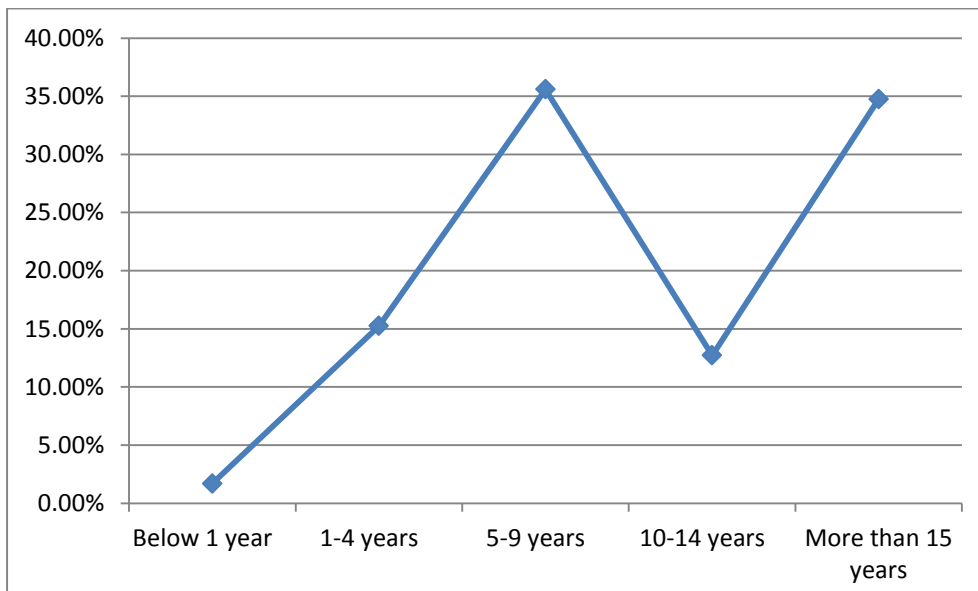


Figure 4.5: Years of experience at Nedbank

With regards to participants' education, it was found that 35% had grade 9-12 qualification followed by 25% had Diploma qualification (fig 4.6).

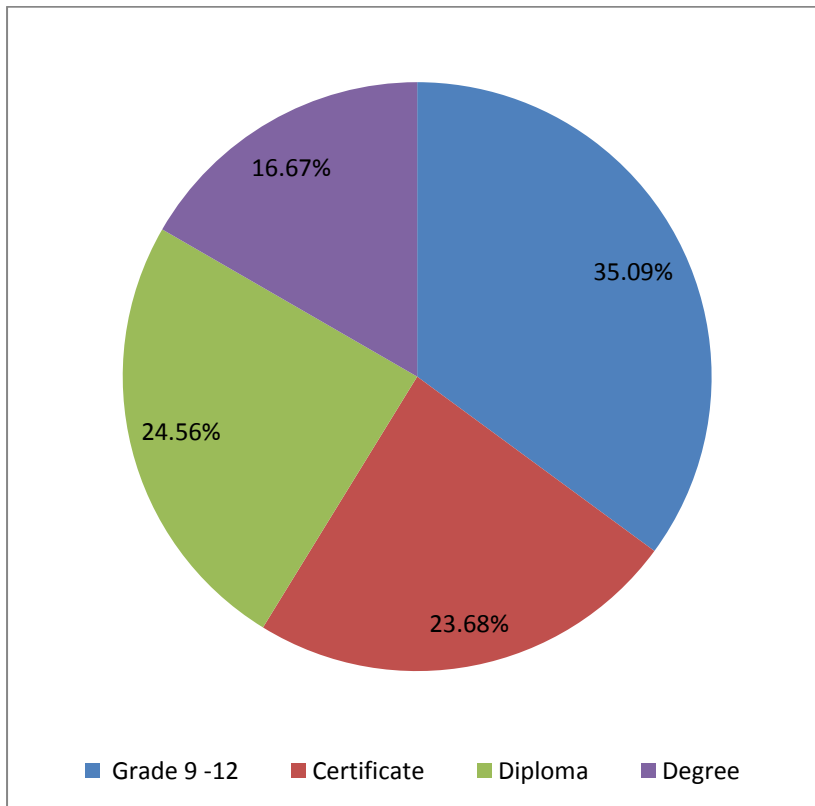


Figure 4.6: levels of education

Half of the participants (50%) reported that they worked more than four departments in the bank (fig 4.7).

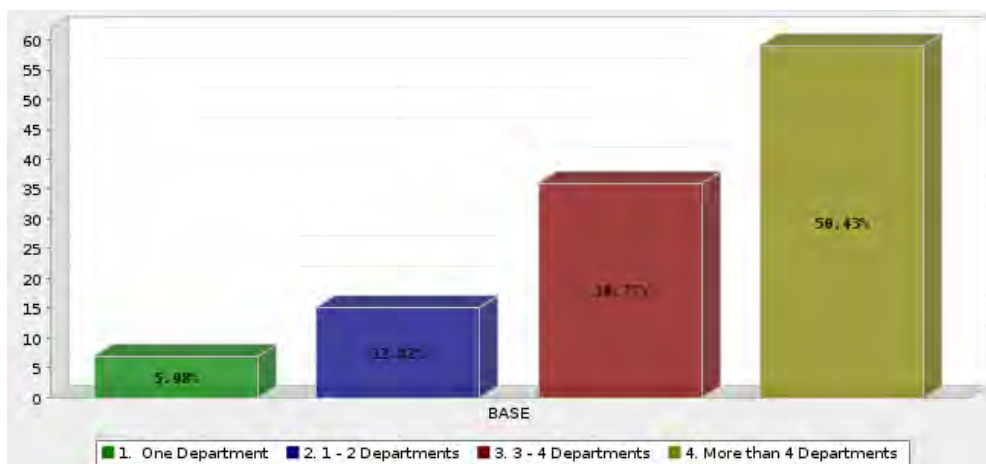


Figure 4.7: Number of department worked in the bank

4.2.1 To determine the revenue that will be generated by increasing market share

Only 9% of the participants strongly agreed that credit decisions are fair and based on the clients risk (fig 13). The bulk of the sample group where neutral to the way credit approves or declines deals. This would result in less income for the bank if we allowed medium risk clients not to have access to credit. Mckinsey (2008) support the fact that the bank should design and build a mortgage risk framework in line with the regulatory challenges, the result of this would be higher pay offs for the organization.

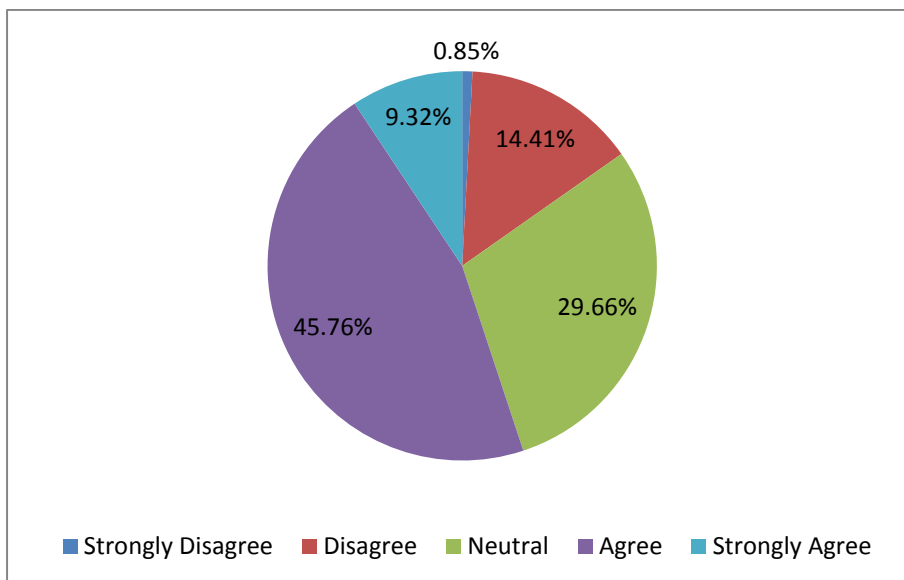


Figure 4.8: Credit decisions are fair and based on the clients risk

About a quarter of the participants (24%) were not satisfied with the interest rate charged (fig 17) and a further 28.07% where neutral. If a client does not feel he is getting value for money he is inclined not to take up the product offer with your organisation. Pricing ones product is important to growing sales. Many value-conscious consumers will buy products on the basis of price rather than other attributes according to Peter and Donnelly (2004). This is further supported by Kotler and Armstrong (1996) in their belief that the supply and demand relationship should be reflected in the price. Kotler (1999) further believes there is balance between cutting costs and maximising profits.

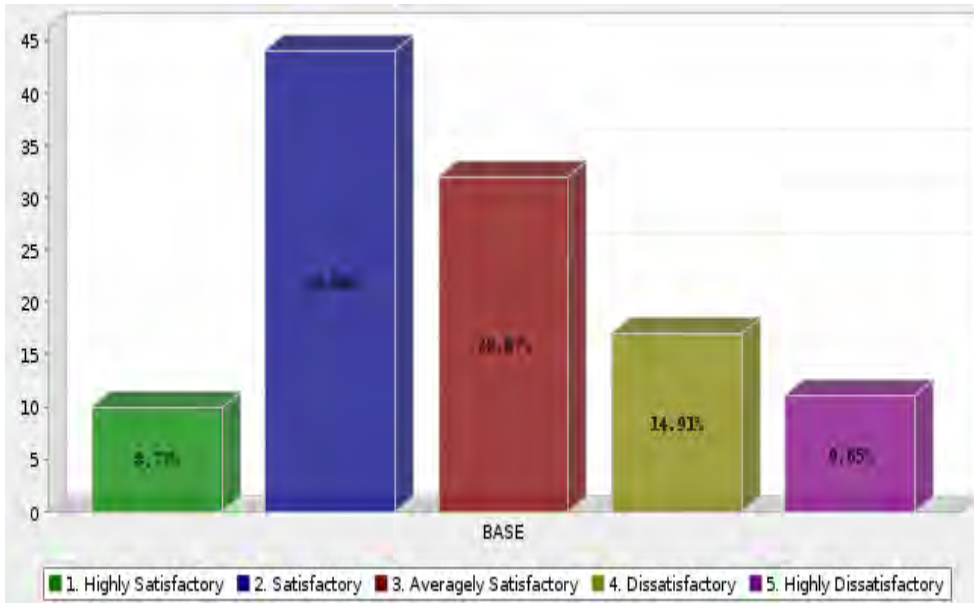


Figure 4.9: Rate the Interest rates charged by Nedbank

When asked to rate the processing fee at the bank, 67% reported satisfactory (fig 4.10). Bulk of the sample group believed Nedbank's processing fee was in line with the rest of the market. This area was felt to be in line and should be reviewed annually. Kotler and Armstrong (2008) support this approach in their belief that when a company does not want to undersell then it sets a price similar to its competitors this allows the consumer to make a decision based on perceived value to price.

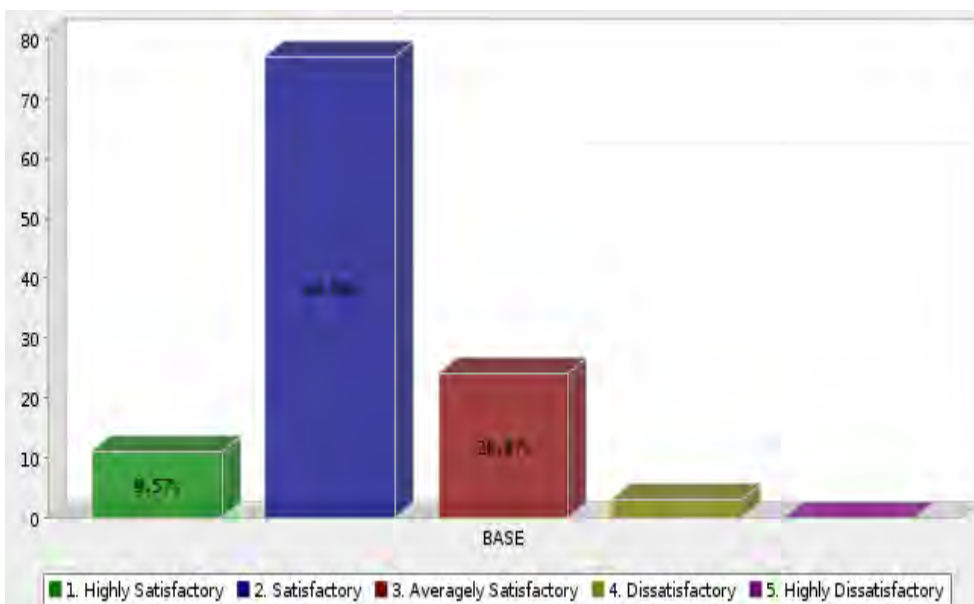


Figure 4.10: Rate the processing fees of Nedbank

It was found that the majority of the participants (92%) were satisfied with Nedbank home loans (fig 4.11). Even though the bulk of the respondents were happy with the offer by Nedbank, if the bank wants to grow its market share it would need to adjust one if not more of the four elements in the marketing mix. This view is supported by Kotler and Armstrong (2014) who believed the marketing mix has a direct impact on the segmentation, targeting and positioning decision. The set of tactical marketing tools (4Ps) that a business blends to produce the response it wants in the target market is defined as the marketing mix. By changing the variables of the marketing mix we are able to increase market share.

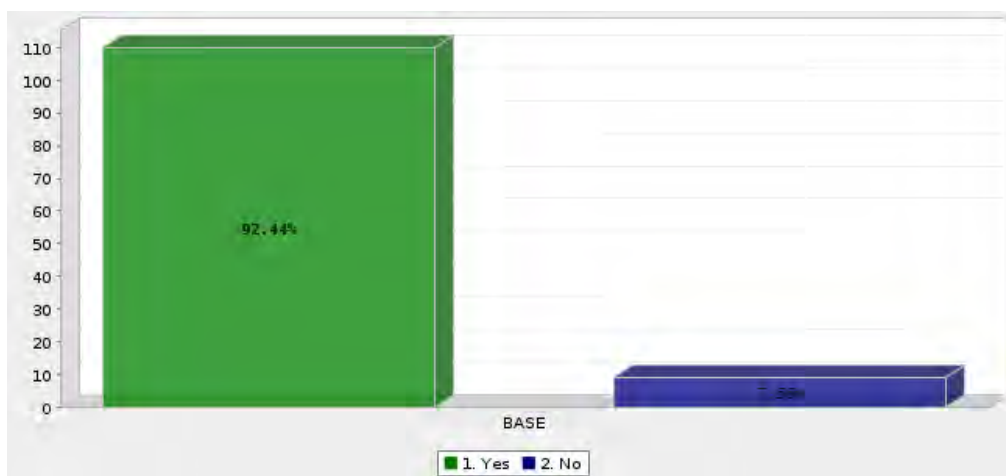


Figure 4.11: You are overall satisfied with Nedbank Home Loans

4.2.2 To determine the risk appetite in relation to competitors

With regards to receiving support from the home loan support team, the majority were very satisfied (89%) (fig 12). It is believed that Nedbank should continue to drive the support to its sales force and maintain this strong advantage however continuous improvement in the support must be monitor and reviewed for more effective ways to do things in an effort to reduce costs. This view is supported by Kotler (2003) “defines Total Quality Management (TQM) as an organizational approach which aims to continuously improve the quality of all processes in an organization, products and services.” Jacobs and Chase (2008) believe through continuous analysis of the processes the organisation is able to continually improve their systems.

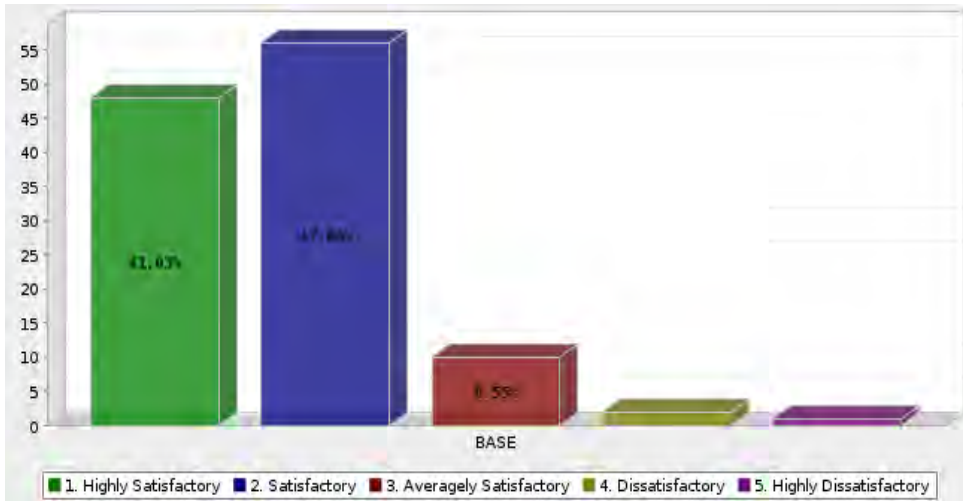


Figure 4.12: Rate the support received from the home loan support teams

More than three-quarters of the participants (79%) answered positively that Nedbank's home loan offer represents good value for money (fig 4.13). According to the American Society for Quality Control, quality is, "the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs" (Kotler, 2003).

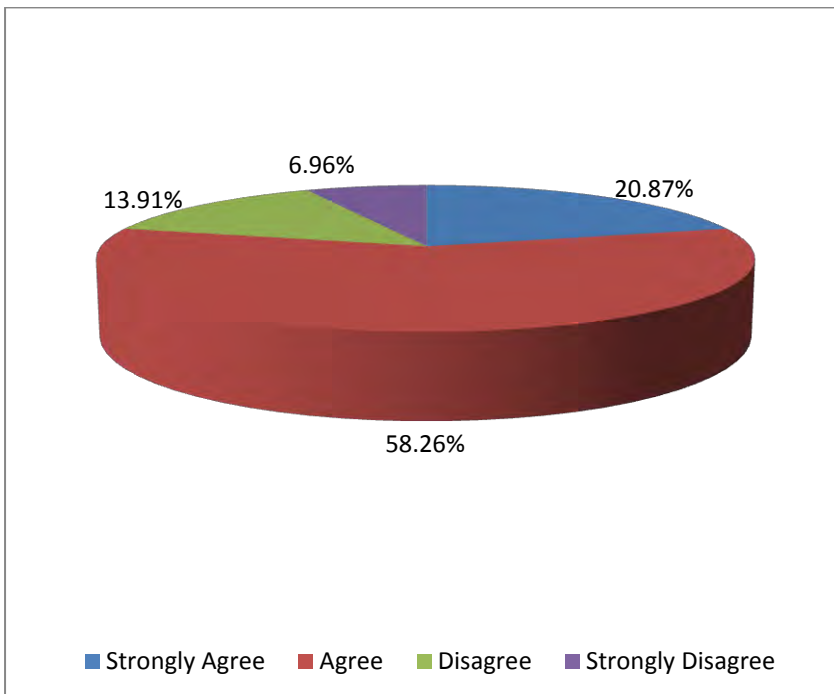


Figure 4.13: Nedbank's home loan offer represents good value for money

With regards to documentation Procedure of Nedbank Bank, 64% were satisfied (fig 4.14). Pricing strategies are reliant on the company's objectives they want to achieve (Kotler and Armstrong, 2008). Fruhan cited numerous cases where trying to gain market share was very costly and one would need deep financial pockets if one entered a fight for market share.

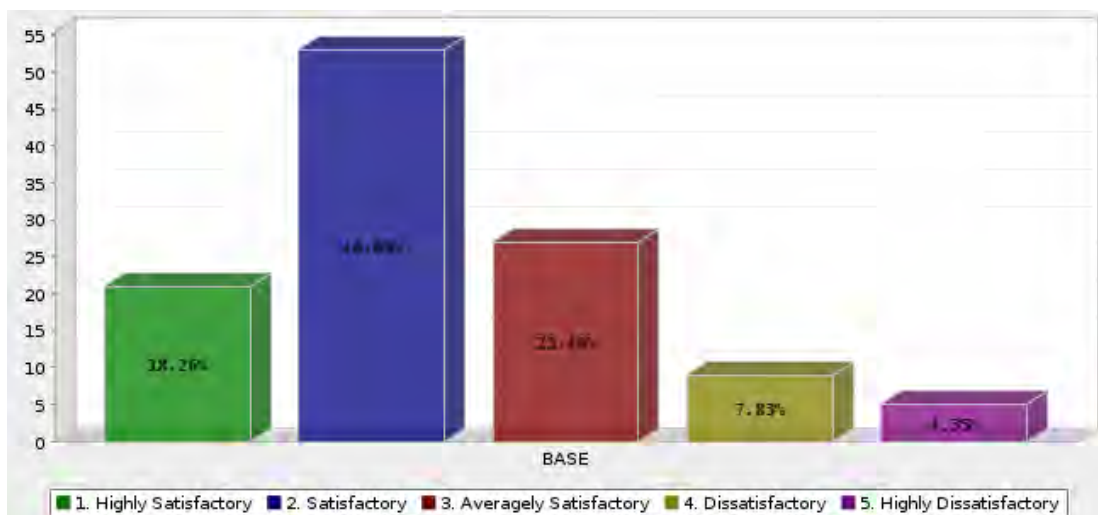


Figure 4.14: Rate the documentation procedure of Nedbank

4.2.3 To evaluate home loan competencies and knowledge of bankers

Result showed that 61% of the participants sold a Nedbank Home loan within the last three months but 25% indicated that they did not sell any for the last 18 months (fig 4.14). Result highlighted that job title and last sold a Nedbank home loan were significantly associated.

The majority of the 60.5% who sold a home loan in less than 3 months were in a sales roll. The 25% of respondents who have not sold a home loan in over 18 months were in managerial and supportive roles. The concern arising is the number of bankers (sales personal) who have not sold in the last 3 to 18 months. According to Schafer companies that seem to be more flexible with regard to employees such as work hours seem to be able to recruit better staff. Understand what the competition is offering and simply improve on their offer, you will more than likely attract their best employees.

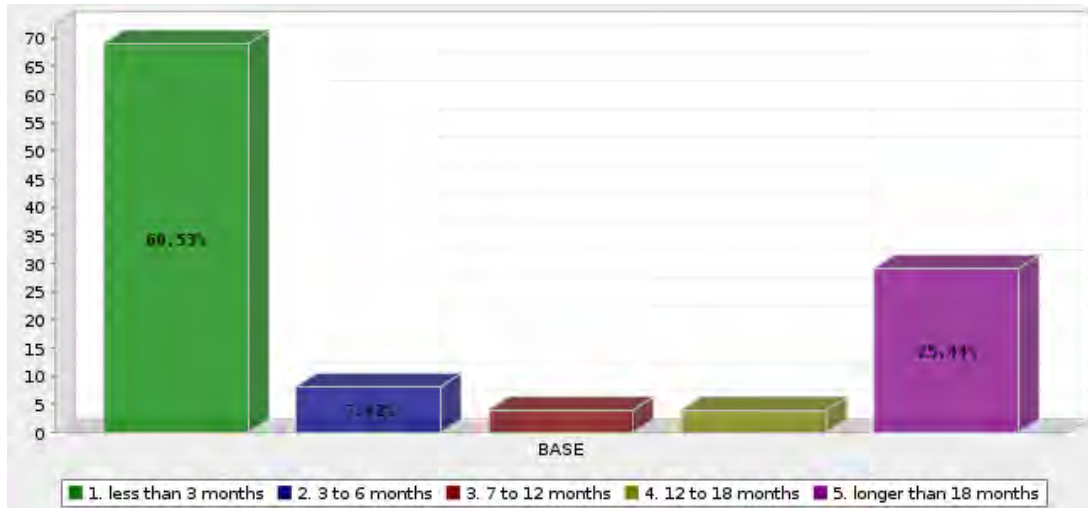


Figure 4.15: Last sold a Nedbank Home loan

Results highlighted that Job title, Experience in the bank, and last sold a Nedbank Home loan were significantly associated with recommending Nedbank to their friend or family (Table 4.1). It meant that functional head support staff, working in many departments, selling home loan longer than 18 month were more likely to recommend Nedbank to their family or friend compared to other groups.

Table 4.1: Association between Job title, Experience in the bank, Last sold a Nedbank Home loan, and recommending Nedbank

Variables		Recommend Nedbank to friends and family					Chi-square	p-value
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree		
Job title	Area Manager	0	1	0	4	0	34.05	0.005
	Branch Manager	4	0	1	20	18		
	Team Leader							
	Sales Consultant	0	0	4	29	16		
	Functional Heads Support	0	0	0	4	3		
Other	1	0	1	5	4			
Experience in the bank	One Department	1	0	1	2	3	21.366	0.045
	1 - 2 Departments	0	1	2	7	4		
	3 - 4 Departments	3	0	2	20	10		
	More than 4 Departments	1	0	0	33	24		
Last sold a Nedbank Home loan	less than 3 months	4	0	4	33	27	42.627	<0.001
	3 to 6 months	1	0	0	5	2		
	7 to 12 months	0	0	0	3	1		
	12 to 18 months	0	1	0	1	1		
	longer than 18 months	0	0	2	18	9		

The majority of the participants (81%) positively reported that it was a seamless process to capture an application for a Home loan on the Nedbank system (fig 4.16). The development of Nedbank’s digital application has made the process of capturing a Nedbank Home Loan very easy as the use of technology has been used as an enabler. This is not a major concern as per the high positive response by the sample group. Recommendation is to continue to maintain and manage this process.

Tippins and Sohi (2003) believe that a firm’s information needs are satisfied through information technology and the resources needed in managing information about markets and customers.

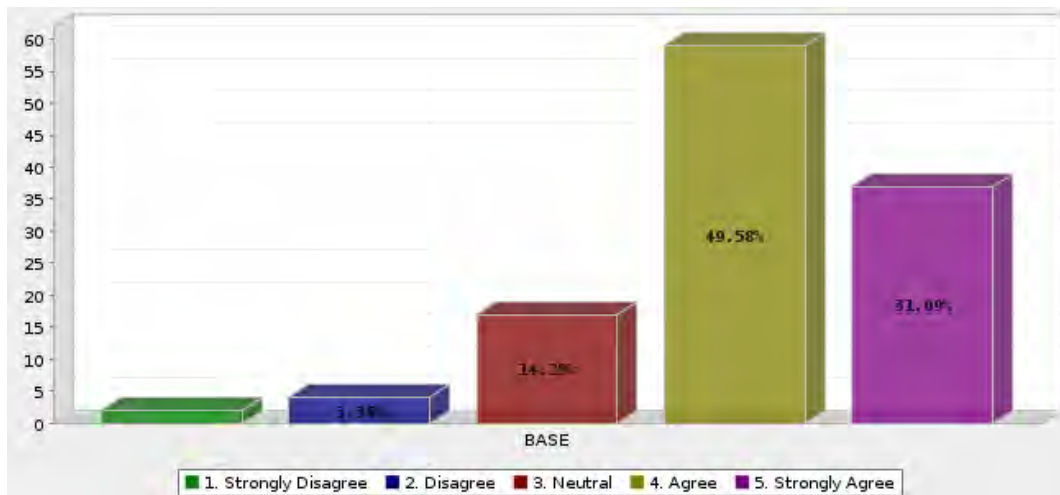


Figure 4.16: Capturing an application for a Home loan on the Nedbank system was it a seamless process

Results indicated that there was an association between participants current position at work and agreement regarding process of capturing home loan application ($p = 0.017$). This meant that more sales consultants agreed or strongly agreed to the statement compared to other groups.

Table 4.2: Association between job title and capturing application for a Home loan on the Nedbank system

Variables		Job title					Chi-Square	p-value
		Area Manager	Branch Manager /Team Leader	Sales Consultant	Functional Heads Support	Other		
Seamless process for capturing application for a Home loan on the Nedbank system	Strongly Disagree	0	1	1	0	0	30.241	.017
	Disagree	1	3	0	0	0		
	Neutral	1	9	0	3	3		
	Agree	3	20	25	3	6		
	Strongly Agree	0	10	23	1	2		

Result highlighted that a third of the participants (32%) last went for home loan training was more than three years ago (fig 4.17). A bigger concern is that only 26.27% of front line sales staff has attended formal home loan training in the last year. Banker knowledge and competency is seen as an enabler to grow ones customer base, this is supported by Pride and Ferrell (2010) who believe that product knowledge has a direct influence on how quickly the consumer goes through the decision-making process.

For example if the consumer has limited knowledge more time is needed to make a decision. This was also supported by Peter and Donnelley (2004) they believed that the two most important psychological factors are product knowledge and product involvement.

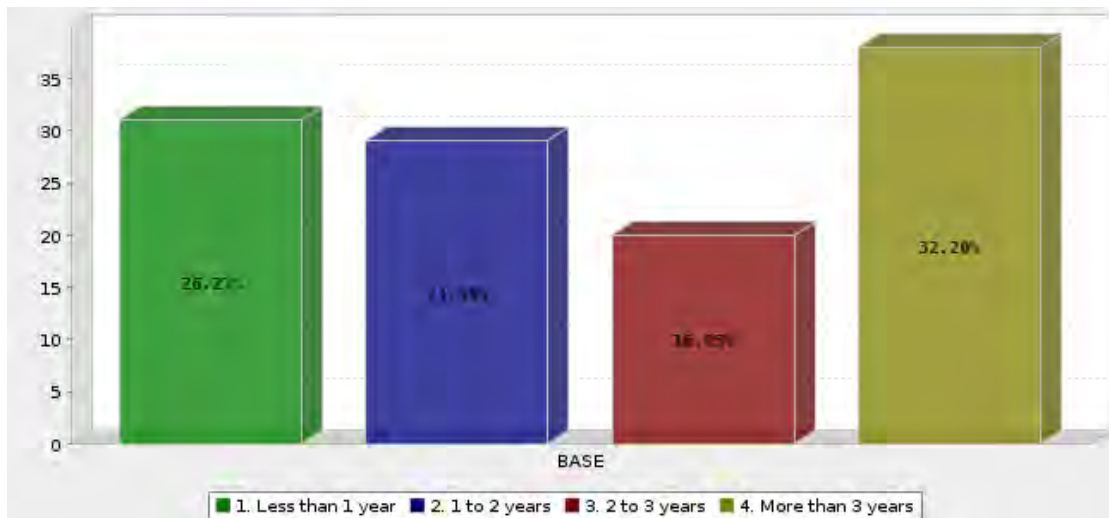


Figure 4.17: Last attended formal training for home loans

4.2.4 To identify the growth nodes with regards to home loans

Almost all the participants (86%) agreed that the digital application (innovation) had increased their effectiveness (fig 4.18). Schafer believed by spotting new trends before competitors one is able to be the first mover in the market and gain market share. The key to this is to build a culture that embraces ideas and learnings and allows employees to share ideas and views without fear of ridicule. Be open to new ideas through listening to many different sources of information. Always be open to ways technology can change your industry. Nedbank currently was the first bank to offer a fully digital home loan application.

Good business strategy should be consumer-oriented and customer participation is imperative (Fragidis 2010). As technology improves and the internet continues to dominate causing innovation changes to business there are schools of thought that believe traditional approaches to strategy and strategic management are no longer good enough like Davenport (2006).

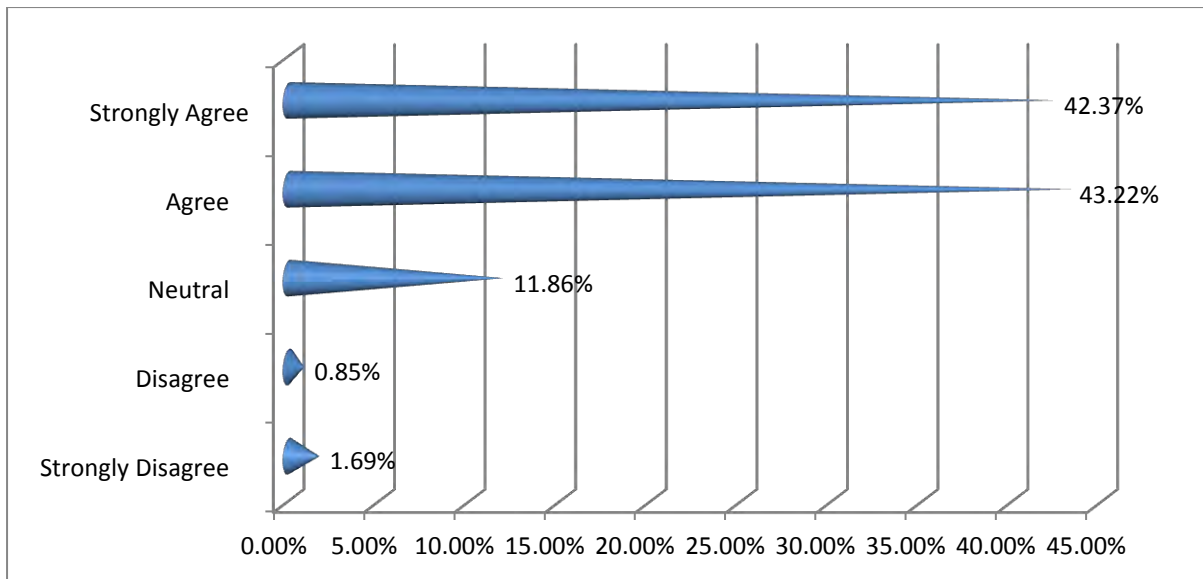


Figure 4.18: The digital application (innovation) has increased effectiveness

More than one fifth of the participants negatively reported that Nedbank's home loan product was well marketed in the media (fig 4.19).

To be relevant in the market it is important to make sure your clients are aware of your product and that your offer is communicated to all potential clients. Companies need to know who have and want to buy their goods and services. They also need to know what those consumers' needs are.

Customers are buying value and solutions to problems, business sell products. In today's markets consumers are looking for relationships with business and two way communication rather than 30 second adverts on TV and radio. Consumers want to be engaged and feel a sense of being part of business (Kotler & Armstrong, 2014).

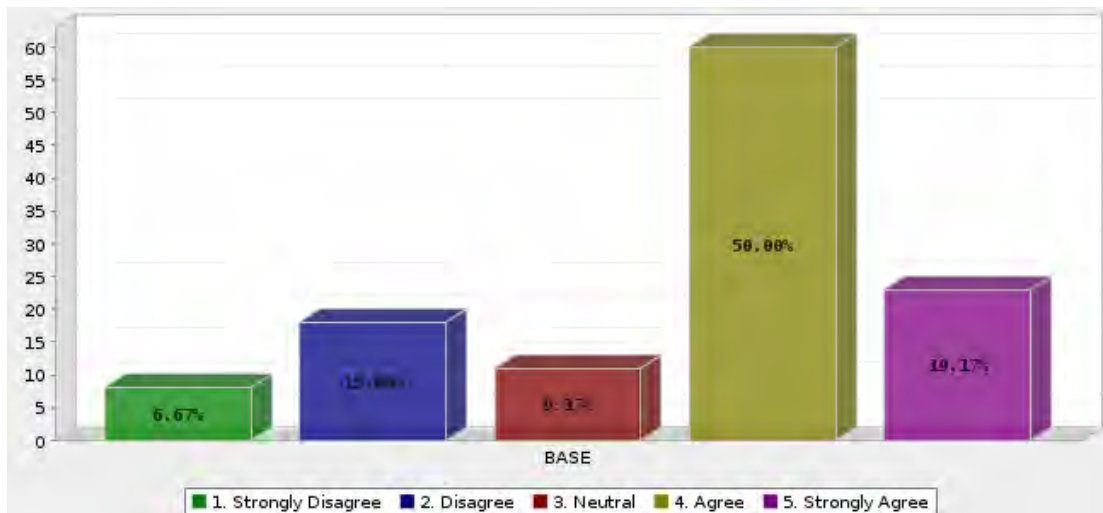


Figure 4.19: Nedbank's home loan product is well marketed in the media

Participants were asked to provide reasons for taking Home Loan from Nedbank Bank. It was found that interest rate was the main reason (36%) followed by staff knowledge (21%) and faster processing (18%) respectively (fig 4.20). Peter & Donnelly (2004) believe that when consumer decision making is influenced by marketing strategies the net result is a profitable exchange. Consumers are influenced in different ways by each marketing mix. Customers have the wallet and they not only are concerned with the price of acquiring the product but the overall cost of buying using and disposing of the product. (Kotler & Armstrong, 2014)

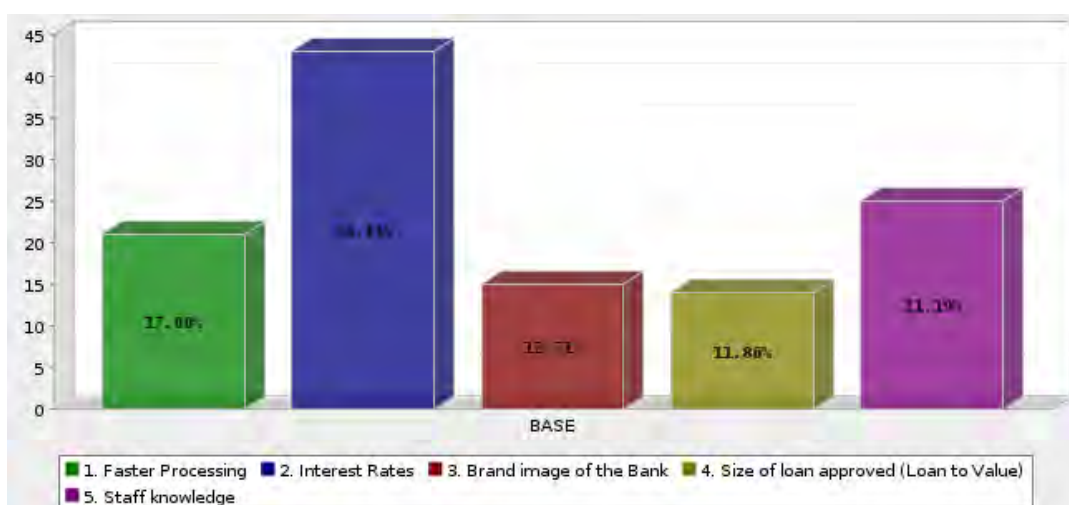


Figure 4.20: Reason for taking Home Loan from Nedbank Bank

Marital status of the respondents were significantly associated with the reasons for taking home loan from Nedbank ($p = 0.032$). Married people's first choice was interest rates whereas widowed indicated size of the loan.

Table 4.3: Association between marital status and reason for taking Home Loan from Nedbank Bank

Variables		Marital status				Chi-Square	p-value
		Married	Divorced	Widowed	Single		
Reason for taking Home Loan from Nedbank Bank	Faster Processing	13	0	2	5	22.513	0.032
	Interest Rates	28	6	0	8		
	Brand image of the Bank	9	2	0	3		
	Size of loan approved Loan to Value	7	1	3	2		
	Staff knowledge	11	5	0	8		

Years of experience at the bank was associated with perception regarding rate the Interest rates charged by Ned Bank ($p = 0.023$). Older staffs were in favour of the interest rate charged by the bank compared to their younger counterparts.

Table 4.4: Association between years of experience in the bank and rate of interest rate charged by the bank

Variables		Years of experience in the bank					Chi-Square	p-value
		Below 1 year	1 – 4 years	5 - 9 years	10 - 14 years	More than 15 years		
Rate the Interest rates charged by Nedbank	Highly Satisfactory	0	1	3	3	3	29.121	0.023
	Satisfactory	0	5	13	5	20		
	Averagely Satisfactory	0	6	14	2	9		
	Dissatisfactory	0	4	4	2	7		
	Highly Dissatisfactory	2	1	5	1	2		

Participants were asked if they would recommend Nedbank to friends or family. Almost all of the participants (90%) agreed or strongly agreed to the statement (fig 20). Gibson strategy believed through market segmentation we would be able to understand more fully the behaviour, attitudes and needs of our customers and give us a better understanding how different segments operate in the market. Doyle & Stern (2006) believed one of the key tasks of marketers is to differentiate their products from other competitors and create consumer perception that the product has consumer value over competitor products.

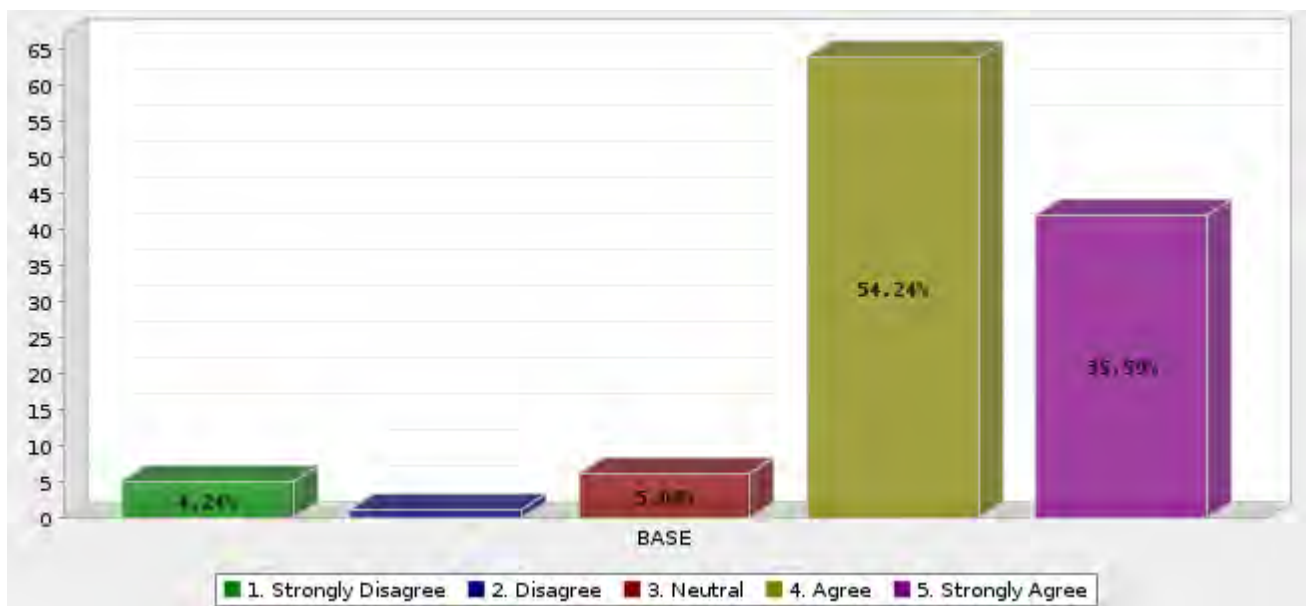


Figure 4.21: You would recommend Nedbank to friends and family

4.3 Du Pont Analysis

A financial review of Nedbank's financial position and capabilities was conducted against the other three major competitors to get a financial overview. Everything is the rand amount for the year divided by the average book value of the year.

	Jun-15				Dec-14				Jun-14			
	NED	ABSA	SBSA	FNB	NED	ABSA	SBSA	FNB	NED	ABSA	SBSA	FNB
Net Interest Income	1.76%	1.91%	2.21%	2.06%	1.77%	1.88%	2.13%	1.93%	1.77%	1.84%	2.09%	1.96%
Impairments	-1.04%	-1.25%	-0.80%	-0.06%	-0.13%	-0.38%	-0.77%	-0.07%	-0.22%	-0.47%	-0.82%	-0.09%
Income from lending	1.72%	1.66%	1.41%	2.00%	1.64%	1.50%	1.36%	1.85%	1.55%	1.37%	1.27%	1.87%
Non Interest Revenue	0.29%	0.15%	0.09%	0.28%	0.26%	0.16%	0.08%	0.31%	0.23%	0.16%	0.07%	0.36%
Operating Income	2.01%	1.81%	1.50%	2.29%	1.89%	1.66%	1.44%	2.16%	1.78%	1.53%	1.34%	2.22%
Expenses	-1.10%	-0.67%	-0.64%	-0.96%	-1.06%	-0.54%	-0.64%	-0.92%	-1.06%	-0.65%	-0.60%	-0.92%
Profit/(Loss) from Operations	0.91%	1.14%	0.87%	1.33%	0.83%	1.12%	0.81%	1.24%	0.72%	0.88%	0.74%	1.30%
Taxation	-0.26%	-0.32%	-0.21%	-0.39%	-0.23%	-0.31%	-0.20%	-0.36%	-0.20%	-0.25%	-0.17%	-0.38%
Headline Earnings	0.65%	0.82%	0.66%	0.94%	0.60%	0.81%	0.61%	0.88%	0.52%	0.63%	0.58%	0.93%
Credit Loss Ratio	0.04%	0.25%	0.80%	0.06%	0.13%	0.38%	0.77%	0.07%	0.22%	0.47%	0.82%	0.09%
Efficiency	53.71%	32.32%	27.58%	40.80%	52.65%	26.29%	28.71%	41.27%	52.87%	32.70%	27.64%	39.79%
Non Performing Loans	4.93%	4.14%	4.75%	2.54%	4.81%	4.59%	4.40%	2.88%	5.34%	5.15%	4.90%	3.30%
Coverage	24.14%	23.43%	26.09%	20.10%	26.40%	25.30%	26.00%	20.30%	27.20%	26.20%	27.00%	19.90%
CLR + Cost to Asset Ratio	1.15%	0.92%	1.44%	1.02%	1.19%	0.92%	1.41%	0.99%	1.27%	1.12%	1.41%	1.01%
Cost to Income (NII+NIR)	53.70%	32.30%	27.60%	40.80%	52.70%	26.30%	28.70%	41.30%	52.90%	32.70%	27.60%	39.80%

Source: HL Finance/HL Value Analytics/Bank's Financial Reports, Competitor Pack 2015

























Nedbank and FNB maintained very low Credit Loss Ratios (CLRs) (below 10bps) while Standard Bank's CLR has remained well above the rest of the market yet constant between 75 and 85 bps.

Net Interest Income (NII) is the interest we receive (almost all based on client premiums) minus PRP which is the interest we pay on the debt we had to borrow to lend out plus endowment (capital interest ratio). Nedbank has the lowest NII of the banks which could be caused by two reasons. It could be due to higher interest paid on our debt or a very poorly priced back book where we earn sub-optimal interest on accounts booked prior to proper pricing post 2010. Impairments: These are our impairment charges and write offs, this is a very good indication of risk. You'll see every bank has come down except Standard Bank this would indicate SBSA is taking on a lot of risk that the other banks are not. Ours has come down nicely, which is a factor of good risk new business as well as clearing out the bad risk business of the past. Non Interest Revenue (NIR) is our admin fees and the initiation fees we charge and in our world is not a massive component. This becomes a bigger metric in your card and transactional businesses. Expenses are our operating expenses (salaries, buildings etc.) and you can see that Nedbank is the worst off of the 4.

This is due to our size and where the big players like SBSA and ABSA have an almost 50bps advantage on us and they can use that in their pricing etc. This also relates to our Efficiency ratio Cost / (NIR + NII) which reflects we are the worst of the four banks.

Nedbank needs to get its NII in line with the other banks and its Expenses % down. The expenses (rand value) for the 4 banks for 2015 were Ned = R442m, ABSA = R757m, SBSA = R1,006m and FNB = R851m but our size makes it difficult. So we need to get more business on book, keep it without sacrificing NII (pricing etc.) because there we are already the lowest; also impairments is most likely at the lowest levels it will be and will start going up again.

4.3.1 Competitor rankings (June 2015)

	1	2	3	4
Headline Earnings	 ⁺ R1,037m	 ⁺ R935m	 R837m R1,587m	 R261m (R324m)
Market Share	 34.1%	 25.7%	 19.7%	 9.1% (14.6%)
CLR	 ⁺ 4 bps (2 bps)	 ⁺ 6 bps	 25 bps	 80 bps
NPL %	 2.54%	 ⁺ ⁺ 4.10%	 ⁺ 4.70%	 ⁺ 4.93% (4.59%)
ROE (at 4.89% capital)	 19.26%	 16.81%	 13.39%	 13.34% (12.8%)
Cost to Income	 ⁺ 27.6%	 ⁺ 32.3%	 40.8%	 53.7% (53.1%)



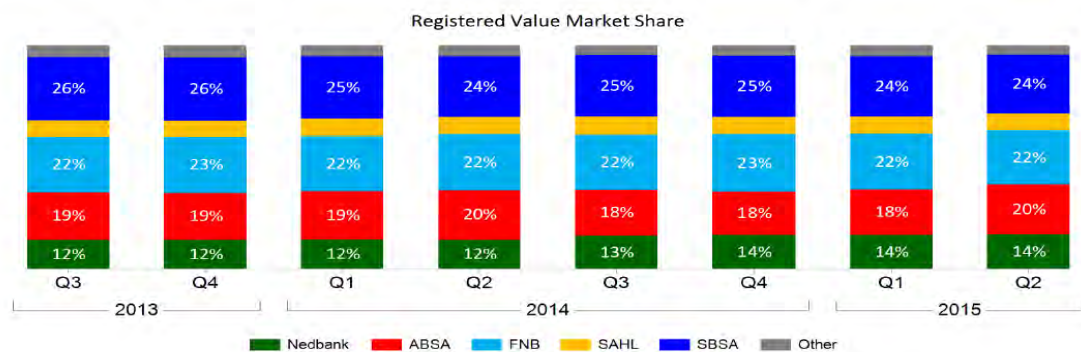
Up one position since Dec'14



Down one position since Dec'14

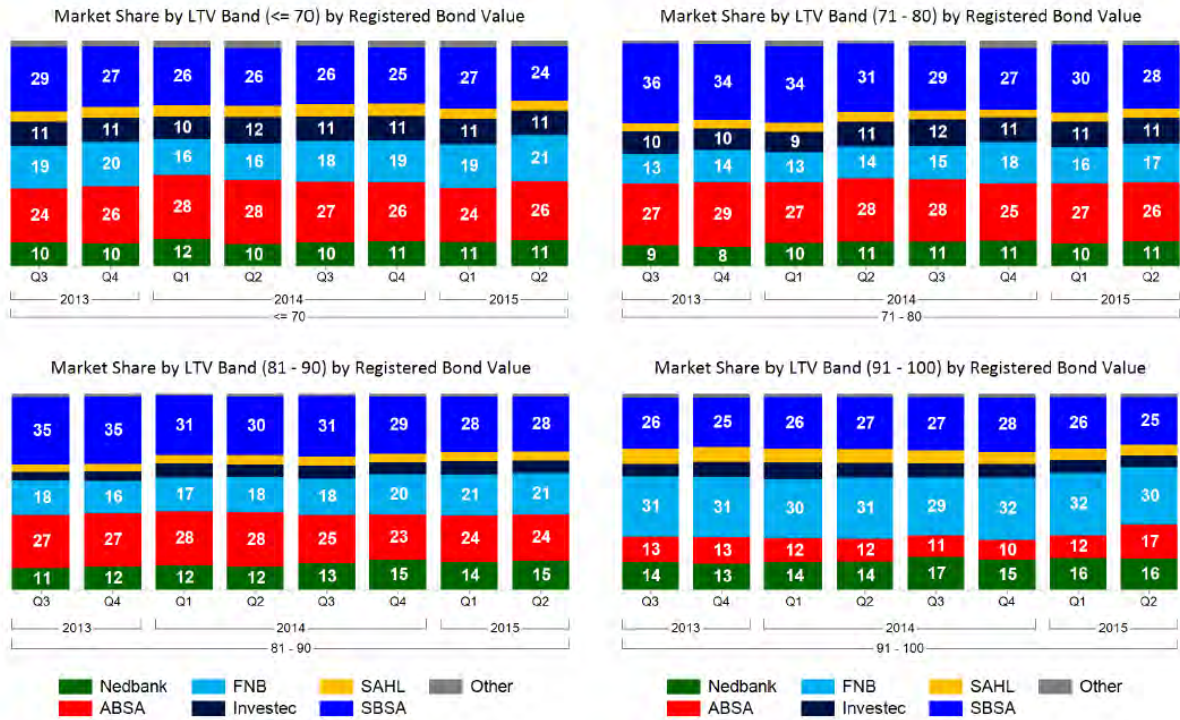
Source: HL Finance / VA Analytics Nedbank without brackets: Product line
Nedbank with brackets: HL Total Rankings based on Product line vs. other banks

4.3.2 New business



Nedbank has increased its new business market share since Q3 2014 while ABSA started to increase marginally since the start of 2015 with FNB and Standard Bank have maintaining theirs. ABSA, who previously had been writing business well within their risk appetite with regards strict Loan To Value (LTV), has shown a marked increase in the high LTV segment (at 18%, though still lower than their overall new business market share of 22%). FNB and Nedbank both still show higher new business market share in the (91-100%) LTV segment compared to their overall market share, though FNB is significantly more aggressive within this segment. Standard Bank and ABSA have the highest market share in the low LTV buckets whereas FNB and Nedbank's market share seems notably lower in the (< 70%) LTV and (71%-80%) LTV buckets.

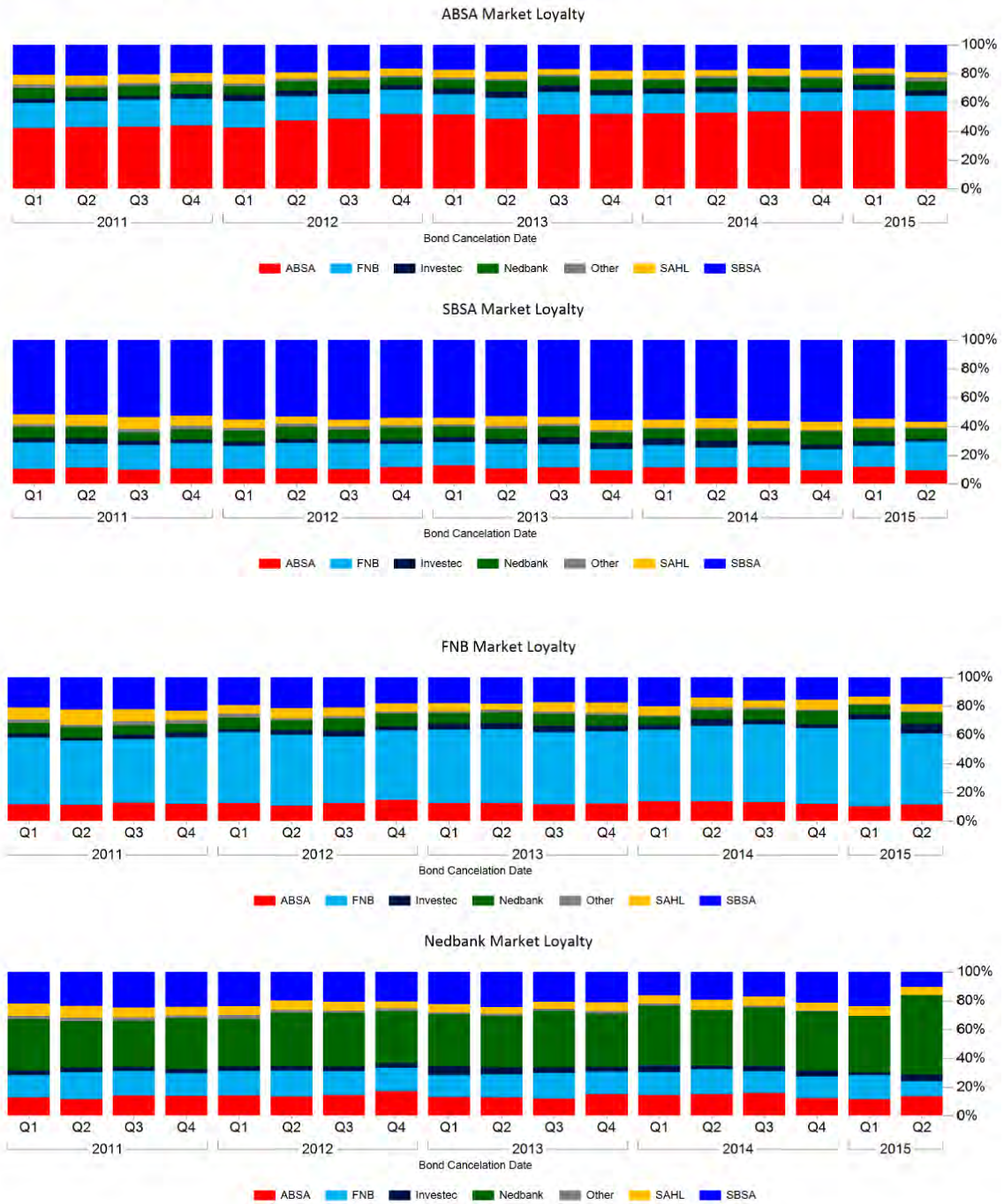
Market share by LTV Ranges



4.3.3 Bank loyalty

Bank loyalty (measured by Lightstone) is defined as where clients rebond their mortgages (given a client chooses to rebond). ABSA, Standard Bank and FNB currently rebond 55% to 60% of their clients, whereas Nedbank rebonds 40% to 45% of their clients (apart from the Q2 2015 where loyalty increased). The remaining 55% to 60% of Nedbank clients that rebond with other institutions do not show a preference as to which institution they rebond with.

Where does a bank's mortgage customer rebond?



4.3.4 New business quality

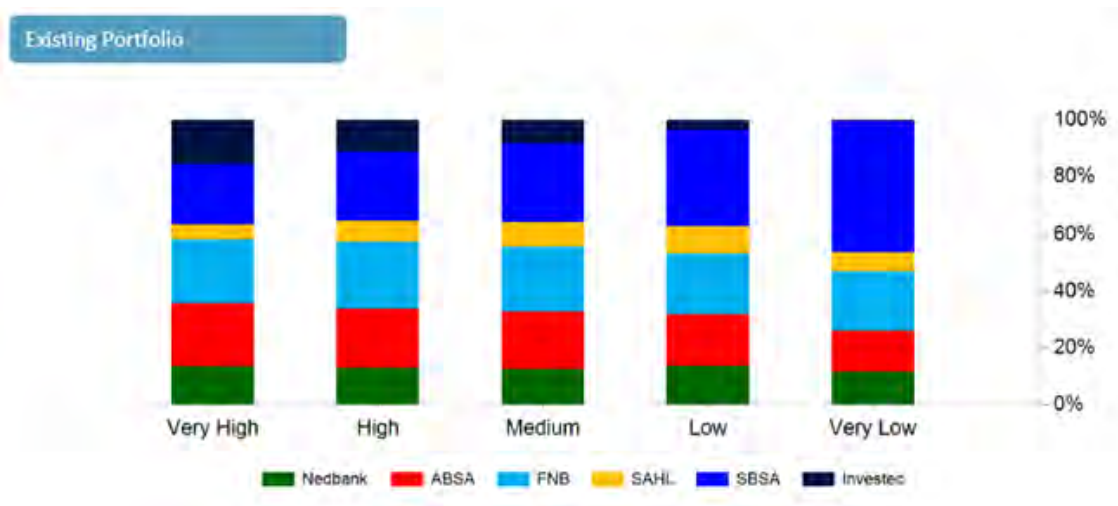
Delphi is the credit score of an individual. The Delphi used here is in the new business Delphi. New Delphi score is calculated by Experian, derived by Lightstone.

4.3.3.1 Experian

Experian is an organisation that is able to provide information solutions to companies and consumers. Through the use of their extensive credit history database, scoring expertise and software that gives a true holistic view to South African credit granting industry.

4.3.3.2 Lightstone

Lightstone is a company who provides information, valuations and market intelligence on properties in South Africa.

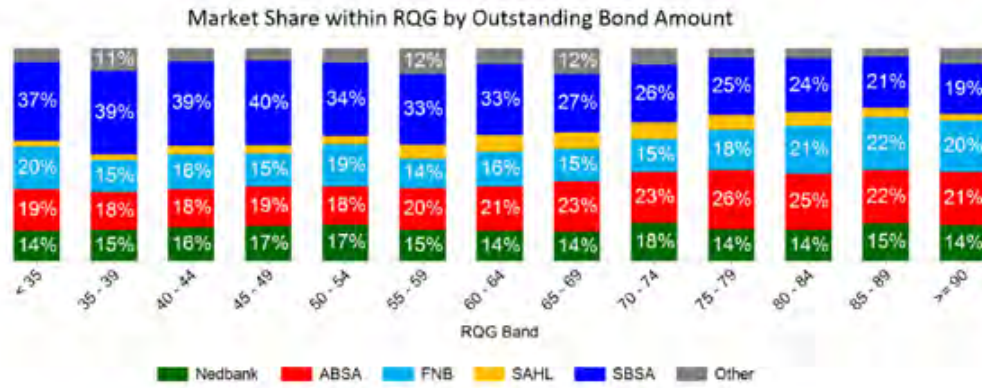


Standard Bank's portfolio remains weighted towards the high risk, low Delphi business whereas Investec has almost zero exposure within this market – most likely due to the fact that Standard Bank is dominant within the Affordable Housing market whereas Investec is absent within this market. FNB seem to have a more even spread across all weightings. Absa and Nedbank are inclined to favour a Higher Delphi.

4.3.4 Risk quality grade (RQG)

Risk Quality Grade (RQG) is a comprehensive measure of risk comprising the following four weighted components: Inflation, Churn, Distressed Sales Factor and Delphi Scores

Existing Portfolio



With regards to total book portfolios, FNB and ABSA’s have the highest proportion within the high quality suburbs whereas Standard Bank’s book is heavily weighted towards the low quality suburbs. Nedbank’s book is equally distributed across all RQG ranges.

New business metrics by RQG show that Nedbank, ABSA and FNB book above their overall market share in high quality suburbs (previously it was predominantly only Nedbank and FNB); Standard Bank still continue more business within the lower RQG buckets (i.e. high risk suburbs) –this is likely mostly driven by their dominance within the Affordable Housing market.

4.3.5 Collections

Properties in Possession (PIPs) - Stock

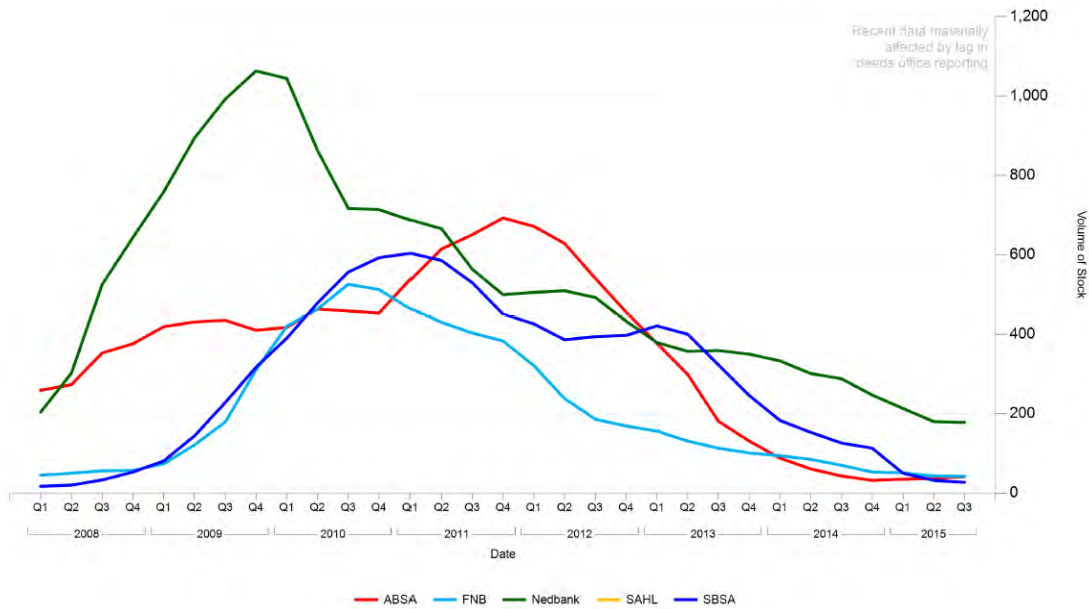


Figure 4.22: Properties in possession

Nedbank has the largest PIP book by a significant portion, followed by Standard Bank, FNB and ABSA. However, Nedbank remains the most active in the PIP market, buying in and selling the most compared to the other three large banks and attaining significantly better prices when reselling PIPs. ABSA seems to lose the most value as their selling prices are the lowest at auction and when reselling PIPs, yet buyers of their properties are able to sell ABSA properties for approx. 90%+ vs. market value. Nedbank also has the quickest resell time (for PIPs) across most value bands.

4.4 Summary

The results from the survey, as reflected in this chapter, as well as previous studies discussed in the literature review support the view that understanding your environment and customer needs results in profitable returns for the organisation and elevated market share. The research reflects that customers that have a sense of belonging to the organisations brand and product experience a higher level of customer satisfaction.

Doyle and Stern (2006) believe that product involvement is the consumer's perception of the importance of the personal relevance of an item. It is also noted that clients purchase products for numerous reasons but price still weighs heavily on the consumers' decision. Pricing is key critical to any business as it directly affects turnover. There is a balance between cutting costs and maximising profits. A company needs to pay attention to it as it has a direct impact on volume of business (Kotler, 1999). The following chapter 5 has covered findings and recommendations.

CHAPETER 5

RECOMMENDATIONS

5.1 Introduction

As discussed in the previous chapter, the analysis and findings have been completed and concerns have been identified in the analysis of the survey and the financial analysis. The recommendations were based on the academic literature as well as the business case. It is agreed for Nedbank to grow returns for stakeholders it needs to grow profitable market share and not just market share. The recommendations talk about the importance of growing profitable market share to Nedbank. The study found that although Nedbank was getting things right there where gaps that need to be closed. The strategy adaptation findings to the Marketing mix elements found that Nedbank effectively adapted its marketing strategy to generate profits but also highlighted opportunities for them to increase clients and revenue alike.

5.2 Findings

The key findings that have come out of the analysis against our objectives is as follows:

5.2.1 Revenue that will be generated by increasing market share

- It is indicative of the researcher to understand what demographic his client operates in and market segments can be identified when segmenting the target market.
- If we allowed medium risk clients not to have access to credit this would result in less income for the bank.
- Pricing ones product correctly is important to growing sales
- Even though the bulk of the respondents where happy with the offer by Nedbank, if the bank wants to grow its market share it would need to adjust one if not more of the four elements in the marketing mix.

5.2.2 Determine the risk appetite in relation to competitors

- Nedbank should continue to drive the support to its sales force and maintain this strong advantage however continuous improvement in the support must be monitor and reviewed for more effective ways to do things in an effort to reduce costs.
- Nedbank Home Loan offer represents good value for money

5.2.3 Evaluate competencies and knowledge of bankers

- The concern arising is the number of bankers (sales personal) who have not sold in the last 3 to 18 months
- The development of Nedbank's digital application has made the process of capturing a Nedbank Home Loan very easy as the use of technology has been used as an enabler.
- Staff training and development was a concern. Banker knowledge and competency are enablers to grow ones client base.

5.2.4 Identify the growth nodes with regards to home loans

- Nedbank currently was the first bank to offer a fully digital home loan application. The Nedbank digital application (innovation0 had increased effectiveness
- More than one fifth of the participants negatively reported that Nedbank home loan product was well marketed in the media
- Participants would recommend Nedbank home loan however the offering would have to stay competitive with a balance between, rate, staff expertise, faster processing, brand image and size of loan.

5.3 Recommendations

5.3.1 To determine the revenue that will be generated by increasing market share

Grow revenue through improved customer targeting. Provide real time transactional updates. Provide consistent customer experience across channels and provide information based services, such like alerts, on where the client's application is in the process. Research has identified that leading institutions have and are adopting client centric models as opposed to product centric models.

The benefits of client centric models is that clients no longer need to complete redundant forms which in turn speeds up processing times and enhances customer experience. Loyalty program should be created to keep clients refinancing with the organisation, the benefit is that the client already has a relationship with the bank so credit lending decisions are made easier. Bank needs to have a single credit underwriting process to access all clients' credit requirements.

Reduce costs through reducing system maintenance cost. Continue to drive processing and overhead costs down. Decrease acquisition integration costs and complexity. Focus and support optimised pricing strategies. Operational and product lines are measured independently and managed as such that the organisational silos are only concerned with their products. Banking channels are administered separately and there is little understanding how to manage the customer overall experience. Numerous IT systems are in use by the different product lines giving very different information. Integrating these systems is very expensive. It is believed by the researcher that by overcoming these barriers it has reduced operating costs, offsetting some of the lost revenue and increased cost from new regulatory requirements. Both front and back office should be assessed for cost saving opportunities (on going). This has also strengthened the customer relationship. It is important to target back office efficiencies and front end profitability.

It is evident that different demographic factors such as marital status, age, job position etc. have different needs and specifications when it comes to wanting a home loan. For example married clients are more sensitive to rate were divorced clients need higher loan to values. By understanding life cycle segmentation we are able to apply our knowledge in making sure the client gets the right product at the right time.

By using life cycle segmentation Nedbank can create more revenue-generating opportunities, build long-term profitable relationships and even increase cross sell opportunities for the organisation as a whole, this has also discourage attrition. There is a predictable pattern that emerges of investable assets and debt over a client's life cycle.

It is important as Nedbank to define their customer segments, understand who the most profitable customers are and what costs are involved to serve them. It is also advisable to have a relationship management process in place.

5.3.2 To determine the risk appetite in relation to competitors

An article by Mckinsey & Company (August 2014) illustrated the importance of building a robust risk and control framework in the mortgage lending sector. Banks are under massive pressure to make sure they manage risk, protect investors and are not caught fowl of reckless lending. Risk needs to be managed by integrating regulatory compliance needs and manage organisational changes.

All concerns need to be identified, escalated and managed timeously to avoid losses. It is also imperative that Nedbank addresses global implementation risks. Nedbank home loans team needs to reduce risk by avoiding costly manual workaround, limit manual handling of exceptions with straight through processing. Reporting systems need to be managed accurately on the backdrop of an ever growing regulatory compliance environment. Home loans division needs to optimise business strategy within the context of current regulatory, capital and risk management considerations. Ongoing examination of risk processes (excessive documents) on customer experience and streamline where possible.

5.3.3 To evaluate home loan competencies and knowledge of bankers

Based on the survey it was evident that position held and when last sold a home loan was significantly associated and there where a significant number of banker who had not sold a home loan in the last 3 to 18 months, It is recommended that all front line staff are assessed on their knowledge of the home loan product to make sure that all front line staff have the desired knowledge, training, incentives to build customer relationships and sell home loans to the right customer at the right time. Due to costs and geographic size sometimes formal training is expensive and does not yield the returns. It is believed by the researcher that an increase reliance on online training course and relevant memberships of local associations is needed to keep bankers abreast of local trends in the market.

Due to the low participation by managers and team leaders in selling home loans it is recommended based on a pilot workshop success for managers and team leaders done in Newton that we roll out the Manager / Team Leader Workshop programme. The material includes case studies, quality application, credit appeal criteria, staff management, feedback loops, reduce rework and manual applications. Purpose is to reduce rework and increase the approval rate of formal grants.

It is recommended that bankers who have not attended formal training in last three years attend a formal refresher course (3 days). An online questionnaire will be done prior to the course to assess gaps.

All front line staff is required to complete online training within six months. The online training will cover product knowledge and application processing.

On completion of the training an assessment will be done to evaluate success. A one day formal training will be held for those who are able to attend.

Training facilitators to host a product quiz at high home loan volume branches to identify training needs and on the job support. Trainers need to evaluate and support bankers with their understanding and processing of quality applications. Driving Nedbank's "First Time Right" approach to improve client experience, quality of application and reduce costs through rework. On the job observation to identify gaps and advise on gaps thus improving product knowledge and sales techniques.

Branch Champions to be identified and skilled to increase staff sales techniques and product and process knowledge. Matrix to be implemented to hold branch accountable for increased client experience, product knowledge and ultimately a lift in sales volumes.

5.3.4 To identify the growth nodes with regards to home loans

Most consumers in South Africa already have a relationship with a bank so this in itself makes growing ones "share of wallet" even harder. It is recommended that the Nedbank should use three strategies to grow its home loan market share. Firstly use acquisition as a vehicle of growth, secondly take market share away from competitors and make it very difficult for new entrants to enter the market.

Lastly is to get existing clients to use the home loan product or increase the value initially taken out on their home loan.

Innovation is a key differentiator and the survey results have revealed that the digital application has improved bankers efficiency; 86% believed that it has made an impact to their current work flow. It is important to continue to develop the application making it standardised but also able to keep it customised to different client's needs without creating too much back-end complexity by doing so it allows the bank to adapt to ever changing customer needs and preferences. Systematic product development process enables different functional departments as well as product houses to work collaboratively together and allows for quick response to the changing market's needs. Continue to enhance digital / mobile banking so as to allow customer to engage at any time which is convenient for him.

It was found that the respondents to the survey were conscious of cost and felt interest paid played a key role in their selection of which bank to take a home loan with. It is recommended that the pricing function becomes a strategic tool for pricing clients to maximise potential profits. Nedbank needs to analysis customer segment data to get an understanding what is the maximum price each segment is willing to pay for a given product. Nedbank needs to have a dedicated team whose function is to analysis current and targeted client data. It is recommended that the current pricing model needs to be adapted to include input from risk, value analytics, marketing and sales. It is responsibility of value analytics (IT) to implement back end interface. We need to have more than just a few optimisations in our pricing model such as geographic and competitor data alone.

Although Nedbank's marketing media campaign is known in the market, clients have not felt that they are part of the brand and have not been engaged by the brand. Consumers want to be engaged and feel a sense of being part of business (Kotler & Armstrong, 2014). Recommendation is that Nedbank should be more creative on social media to build a bridge to their potential clients and build up stronger relationships. An example of such an activity is a regional Midwestern bank in the USA used YouTube to build brand awareness through launching a series of financial educational videos to students.

Nedbank needs to promote the online game Houzit more as it is an interactive way to inform clients about the property market and open dialogue. Design a “voice of the customer” program to formalise a process to obtain and positively react to customer feedback. Create a customer satisfaction scorecard in an effort to meet client needs and wants.

5.4 Summary

In conclusion Nedbank has a very specific strategy they are following to gain profitable market share in the home loans market in South Africa. Currently they are more cautious than their competitors but have got some very key differentiators which can set them apart from the completion. By improving on the items in the recommendations the research believes Nedbank will grow profitable market share through aligning themselves and their clients more closely. Continued improvement of all aspects of the business will lead to greater returns and customer satisfaction.

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Appendix 1 Introductory letter

Troy Oakley
Graduate School of Business & Leadership,
University of KwaZulu-Natal,
Westville Campus

Dear Respondent, I, Troy Oakley (Student Number: 213572005), am a MBA student, conducting research on a project entitled:

The evaluation of Nedbank banker competencies with the view to increase home loan market share..

In this survey, approximately 200 people will be asked to complete a survey that asks questions about the product offering and banker understanding of the home loan product. It will take approximately [10] minutes to complete the questionnaire. Your participation in this study is completely voluntary. There are no foreseeable risks associated with this project. However, if you feel uncomfortable answering any questions, you can withdraw from the survey at any point. It is very important for us to learn your opinions. Your survey responses will be strictly confidential and data from this research will be reported only in the aggregate. Your information will be coded and will remain confidential. Data from this survey will only be reported in the aggregate and is therefore important for us to learn from your opinions. The fate of the data and stored samples will be stored for 5 years and thereafter deleted. Any hardcopies of the data will also be shredded after 5 years. Results of the data in aggregate will be published in the researcher's dissertation and may be published on a public domain. If you have questions or problems at any time about the survey or the procedures, you may contact the researcher or the UKZN Humanities and Social Sciences Research Ethics Committee, contact details as follows: Govan Mbeki Building Private Bag X 54001 Durban 4000 KwaZulu-Natal, SOUTH AFRICA Tel: 27 31 2604557 - Fax: 27 31 2604609 Email: HSSREC@ukzn.ac.za

I can be contacted at: Email: troyo@nedbank.co.za Cell: +27 82 8050652

My supervisor is Dr A Kader. Contact details: email: abdullak@nedbank.co.za Phone number: +27 82 901 02 25
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Thank you for your contribution to this research.

Sincerely

Troy Oakley

Date: 10/11/2015

Appendix 2 Informed Consent letter

**UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

MBA Research Project
Researcher: Troy Oakley 082 8050652
Supervisor: Dr Abdulla Kader 082-9010225
Research Office: Mariette Snyman 031-260-3093

CONSENT

I, Troy Oakley hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

SIGNATURE OF PARTICIPANT

DATE

.....

Appendix 3 Questionnaire

Thank you very much for your time and support. Please start with the survey now by clicking on the Continue button

I Agree

What is your Sex?

- male
- female

What is your age?

- Below 20 years
- 20-29 years
- 30-39 years
- 40-49 years
- 50-59 years
- 60 years and over

What is your marital status?

<https://www.questionpro.com/api/loadResponse.do?editMode=true&print=true>

1/5

- Married
- Divorced
- Widowed
- Single

What is your job title?

- Area Manager
- Branch Manager/Team Leader
- Sales Consultant
- Functional/Trade/Support
- Other

How long have you been working in Redbank?

- Below 1 year
- 1-2 years
- 3-5 years
- 6-10 years
- More than 15 years

What is your level of Education?

- Grade 9 - 12
- Certificate
- Diploma
- Degree

What is your experience?

- One Department
- 1 - 2 Departments
- 3 - 4 Departments
- More than 4 Departments

How long has it been since you sold a Redbank Home Loan

- Less than 3 months
- 3 to 6 months
- 7 to 11 months
- 12 to 18 months
- More than 18 months

When you capture an application for a Home Loan on the Redbank system was it a seamless process?

- Completely Seamless
- Challenged
- Frustrated
- Agreed

- Strongly Agree

Has the digital application (Innovation) increased your effectiveness?

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

When last did you attend formal training for home loans?

- Less than 1 year
- 1 to 2 years
- 2 to 3 years
- More than 3 years

How would you rate the support you received from the home loan support teams?

- Highly Satisfactory
- Satisfactory
- Averagely Satisfactory
- Dissatisfactory
- Highly Dissatisfactory

Do you feel that credit decisions are fair and based on the clients risk

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

How much do you agree or disagree with the following statement, Nedbank's home loan offer represents good value for money.

- Strongly Agree
- Agree
- Neither Agree nor Disagree
- Strongly Disagree

How much do you agree or disagree with the following statement, Nedbank's home loan product is well marketed in the media

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

Appendix 4 Ethical clearance



28 October 2015

Mr Troy Oakley (213572005)
Graduate School of Business & Leadership
Westville Campus

Dear Mr Oakley,

Protocol reference number: HSS/1550/015M

Project title: An evaluation of Medibank's home loan offering in relation to its market share (using KZN as a case study)

Full Approval – Expedited Application

In response to your application received on 20 October 2015, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Dr Sheruka Singh (Chair)

/ms

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Confirmation of Intention To Submit Thesis

(This Form Is To Be Completed 3 Months before Submission of Masters Thesis & 6 Months before Submission of PHD Thesis/Coursework, form is to be Handed to the supervisor/s for there signature and then a copy is to be sent to the PostGrad Office. Original is kept by the school)

NAME OF STUDENT: Troy Nigel Oakley

STUDENT NUMBER: 213572005

DEGREE: MASTER OF BUSINESS ADMINISTRATION

SCHOOL: GRADUATE SCHOOL OF BUSINESS & LEADERSHIP

TITLE OF THESIS: An Evaluation of Nedbank's Home Loan offering in relation to its market share (using KZN as a case study).

NAME OF SUPERVISOR: Abdul Dawood Kader

SUPERVISOR SIGNATURE: 

DATE OF INTENTION TO SUBMIT: November 2015

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DATE: 7 September 2015

Appendix 5 Turnitin report

Turnitin Originality Report

Homeloans Market share by Troy Oakley

From Homeloans Market Growth (Troy Oakley)



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Chapter One Introduction 1.1 Introduction All banks survival is based on making strong returns for their shareholders. Secure lending has always been a stable source of revenue. Since the financial crisis South African banks have adapted new and less risky strategies in their approach to secure lending to avoid the losses they took in the past. Nedbank is currently faced with a slowly declining home loan book which could