Digital integration during uncertain economic times

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Businesses are again having to search for ways to secure their growth for 2016 and beyond, against a backdrop of sluggish and marginal economic growth in domestic demand – along with all the usual challenges of rising operating costs, diminishing customer loyalty, decreasing levels of differentiation and greater pressures to minimise selling prices.

To add to this, Malta's consumption levels have been 21 per cent below the EU average over the last two years and continue to fall as a possible barometer of lower consumer confidence.

Global analysis confirms the increased preference consumers have for digital media and in particular social media marketing and by inference the potential this offers Maltese businesses to better position, differentiate and commercialise their businesses against larger and more resource-rich rivals, regardless of whether they are local or offshore.

Recently released data from a new survey conducted by Eurostat highlighted the importance of e-commerce, in particular to Maltese business, by revealing that over half the Maltese collective market (53 per cent) made at least one e-purchase during 2015. This figure is only marginally behind that of the EU average and by comparison dwarfs neighbouring nations such as Italy with its modest 26 per cent e-commerce usage during 2015.

Although it is not a universal truth, social media usage domestically has fallen behind that of other markets, both in Europe and globally, and especially in the case of small to medium enterprises (SMEs). However, businesses can with little or no real investment begin to compete effectively in this market arena against their key rivals.

The last 10 years has seen a gradual implication of social media strategy. Marketer Sharon Spiteri has designed a model to demonstrate how the business website remains the central hub of the firms' marketing efforts while the various social media outposts it uses such as Pinterest, Facebook and YouTube, act as platforms for customer engagement, a first step to selectively driving qualified leads to the website where the monetarisation (sales) process occurs via e-commerce.

This is driven through the use of inbound links to the website, where buyer interest can be actioned in a private, secure and effective way.

Traffic can also be driven from one social media site to another to continue the process of customer engagement and provide additional information in different forms until the customer is ready to buy.

In this setting each outpost has a related but different strategic function. For example, YouTube videos help to demonstrate a key product or operation, Pinterest is ideal for highlighting the look of a product line, blogs are the world's leading platforms for providing detailed information by way of daily or weekly posts, and review sites such as Trip Advisor and Urban Spoon provide sought-after product reviews for validation.

Research has universally highlighted the fact that the market has a higher level of trust and confidence in discussions on social media rather than parent sites.

The social media approach not only provides businesses with qualified leads to customers who are motivated to buy but also has the added benefit of driving the businesses' organic ranking in key search engines such as Google and Bing by the use of the inbound links – a key component of search engine algorithms.

With this evolving reliance on digital media, 2016 will be the time for many businesses to take their first measured steps into social media marketing. They will be able to avail themselves of the benefits that appear to be independent of prevailing economic conditions, and to consolidate their positioning, branding and ongoing relationships with their respective target markets.

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Europe's bank rescue rules risk rebounding on governments

Francesco Canepa and **Francesco Guarascio**

New European Union rules on bank rescues, aimed at ending spectacular bailouts with public money, are already facing a political backlash on worries they may end up hurting small, unsophisticated investors.

The EU's Bank Recovery and Resolution Directive, due to become fully effective on Friday, makes shareholders, creditors and even large depositors liable for the losses of a failing bank before any public money is used to save the lender.

The directive was a central part of Europe's response to the global financial crisis, which saw hundreds of billions of euros of public money having to be ploughed into failing lenders, including Britain's Royal Bank of Scotland and Germany's Commerzbank.

Only days before the new rules go live, concerns about the high political and economic cost of imposing losses on small savers have come to the fore, with Italy offering an example of how things can go wrong.

Around 10,000 Italians lost money they had invested in the bonds of four local banks that were rescued last month. One pensioner took his own life after seeing his savings go up in smoke.

Some European policy makers are already calling for the new rules to be phased in more gradually and Italy's central bank governor said they should be applied "reasonably".

The Italian government is looking for ways to compensate savers for a portion of their losses, arguing that some of them might have been missold high-risk products such as subordinated bonds. Holders of such debt are repaid only after senior creditors if a bank gets into difficulty.

"If retail investors are missold subordinated debt, then you have a case to argue the new regime simply shifts the burden from the taxpayers to small savers," said Jonathan Herbst, a partner at law firm Norton Rose Fulbright in London.

Using public money to reimburse such investors would go against the spirit, if not the letter, of the new rules – namely to shield taxpayers – and may set a precedent for future bank rescues.

This would risk leaving governments on the hook again for at least a share of future bank bailouts, reinforcing a vicious circle between private lenders and public finances that worsened the eurozone's crisis. Gunnar Hokmark, a Swedish member of the European Parliament who was instrumental in piloting the new rules, said that no exceptions from bail-in should be allowed for bondholders.

It could also give banks more leeway to misbehave.

> **"The average man on the street possibly losing all his savings"**

"The legislation… is a way of reducing the burden on governments and of forcing owners and investors to be vigilant about the banks they are investing in," said the centre-right politician.

The European Commission said the problems in Italy had been caused by citizens not understanding or not receiving sufficient explanations about the financial products they had bought, not by the new regime.

Italy, where banks have long relied on the big private wealth of households to sell their own debt, is considering banning the sale of junior bonds to retail investors.

Britain already prohibits selling Additional Tier 1 notes, which can be converted into equity under certain conditions, to such customers.

More may be needed to fully protect consumers, though.

Pension funds and other retail-oriented investment managers own vast amounts of assets on behalf of small savers that could be used in bank rescues.

While these positions are taken by professionals, it is open to question whether the final investors are adequately informed about the risks involved and whether they should be exposed to this type of asset at all.

However, restricting the pools of buyers too far could also hurt the economy, as it would push up funding costs for banks, reducing their ability to lend.

"When it's a major retail bank being subject to bail-in… you could end up with a major issue, with the average man on the street possibly losing all his savings," said Frederic Lacroix, a partner at law firm Clifford Chance in Paris.

"Either you prohibit the investment or you increase the transparency and the warnings on those instruments." **(Reuters)**