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Market Segmentation by Commercial Banks in Kenya

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Abstract
The current study has examined the market segmentation practices of the commercial banks in Kenya by commercial banks in Kenya. The study was guided by the following specific objectives: to analyze the extent to which market segmentation strategy is used in service provision by the commercial banks in Kenya; to assess the factors that influence market segmentation by commercial banks in Kenya; and to evaluate challenges to effective implementation of market segmentation. A descriptive design was used to undertake the current study. In this case, it was possible for the researcher to administer the data collection tools to the respondents in their workstations, which was relatively easy, with high likelihood of increasing the response rate. The population of interest in this study was all the commercial banks in Kenya. According to the Central Bank of Kenya report as at 30th June 2008, there were 42 commercial banks in Kenya. A census was considered for the study owing to the fact the all the commercial banks have their offices strategically located within the Nairobi Central Business District and its environs. The study respondents from each of the banks were the heads of business development or their equivalent since they are the people charged with the responsibility of spearheading the strategic direction of their organization's business. Primary data was collected from the respondents using Semi-structured questionnaires. The researcher used interview schedules with open questions, aimed at meeting the objectives of the study. For purposes of the current study, the data was analyzed by employing descriptive statistics such as percentages, mean scores and standard deviations. Descriptive statistics was used to describe the basic features of the data in the study. Descriptive Statistics is used to present quantitative descriptions in a manageable form and aid in simplifying large amounts of data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary. For purposes of presentation, frequency tables, charts and bar graphs were used. Findings of the study show that the segmentation used by commercial banks in Kenya include behavioral, demographic, psychographic/Lifestyle, benefits, usage, loyalty, image, situation and geographic. The factors that influence adoption of market segmentation by commercial banks in Kenya includes; changing customer preferences, competition and technological Changes. Other influencing factors include; customer retention and quality services. Challenges to effective implementation of market segmentation include political factors, technological factors, legal factors, resource constrains, competition, different customer social backgrounds, religious background, and different customer preferences.
Keywords: Market segmentation, Commercial banks, Changing customer preferences, Competition, Technological changes, Customer retention, Quality services

1.0 INTRODUCTION

1.1 Background of the Study

Financial institutions typically compete in broad markets with numerous customers that may be geographically dispersed and whom seek a variety of different service benefits (Minhas & Jacobs, 1996). Recognizing that limited resources prevent banks from serving all customers in the market effectively, banks are increasingly developing marketing strategies that target a specific segment that provides the bank with the greatest opportunity for success. Strategic questions such as: Which criteria or characteristics should be used to segment the market? Which segment(s) provides our bank with the greatest opportunity? What combination of benefits and costs provide the targeted segment the greatest value relative to competitive offerings?, in addition to operational decisions pertaining to pricing, promoting, distributing and product design can be addressed by understanding the market structure in which the bank chooses to compete. Market structure can be viewed as a profile of the market showing consumers' perceptions of different banks on important attributes.

Concept of Market Segmentation

Wilkie & Cohen (1994), define market segmentation as the process by which the total heterogeneous market for a product is divided into several sub-markets or segments and each segment is homogeneous in all major aspects and is different from the other. Wilkie and Cohen assert that the need for market segmentation arises because a company with its limited resources cannot cater for the demand of the total market. In view of this, it has to identify the segments where its product would be most suitable and market that would be most profitable. Hiam & Schewe (1993), argue that there are several benefits of market segmentation. It helps in designing products that match with the market demand. A company could determine the most effective promotional strategy and position its promotional efforts to synchronize with the period when the consumer's response is likely to be the maximum.

The underlying aims of market segmentation is to group customers with similar needs and buying

behaviour into segments, so that each segment can be reached with a distinct marketing programme. The concept attempts to bridge the gap between diverse customer needs and limited company resources, by encouraging distinct product and marketing offerings to be developed to suit the requirements of different customer segments (Assael & Roscoe, 1976; Blattberg & Sen, 1976; Wind, 1978). The marketing literature suggests that segmentation leads to more satisfied customers because it offers the practitioner a number of clear benefits: improved understanding of customer needs, more appropriate resource allocation, clearer identification of market opportunities, and better tuned and positioned marketing programmes (Kotler, 1994; Wind, 1978).

Despite the advantages which segmentation can bring, financial institutions have been slower to capitalize on its potential than some other industries (McKechnie & Harrison, 1995). However, as the regulatory situation has changed, competitive pressures have increased and profits have been squeezed, so that many institutions are now looking for ways to direct their resources at the most lucrative customer groups. The concept of market segmentation was first introduced by Wendell Smith in 1956 (Smith, 1956). The most basic advantage offered by market segmentation is that it provides a structured means of viewing the marketplace confronting the firm (Wilkie, 1994). The present intensely competitive situation in the banking sector in Kenya has stimulated financial service providers to search for untapped market segments. Hence, segmentation has become an extremely important strategy for the banking sector.

"One of the most important strategic concepts contributed by the marketing discipline to business firms and other types of organizations is that of market segmentation" (Myers, 1996). Segmentation involves a three-step process (Kotler *et al.,* 1999). The first step in this process is market segmentation, dividing a market into distinct groups of buyers who might require separate products and/or marketing mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. One of the most frequently used methods for segmenting a market has been demographic segmentation. Demographic segmentation consists of dividing the market into groups based on demographic variables such as age, gender, family life cycle, income, occupation, education, religion, race, and nationality. One reason for the popularity of this method is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Other variables can be used to segment markets. For example, geographic, psychographic and behaviouristic variables are other common segmentation variables.

The consumerism movement has also made the financial services industry more sensitive to previously unrecognized consumer needs. This interest has focused attention on improved market segmentation and segmentation strategy. With increasingly competitive markets, the banking sector has sought untapped segments to gain an advantage over the other. Increasingly, success in the battle for market share will be determined by how well managers deal with the challenges of segmentation. More effective and efficient market segmentation is crucial in the new competitive environment. The current study seeks to examine the factors that influence the adoption of market segmentation strategy and barriers to implementation of the same in commercial banks in Kenya.

Commercial banks in Kenya

There were 42 commercial Banks in Kenya as at June 2008 (Central Bank of Kenya 2008). These commercial banks offer both corporate and retail banking services. Licensing of financial institutions in Kenya is done by the minister for finance, through the central bank of Kenya. The companies Act, the Banking Act, the Central Bank of Kenya, govern the banking industry. The banks have come together under the Kenya Bankers Association, which serves as a lobby for the banks interest and also addresses issues affecting its members. Ideally financial reforms and free market should spur the adoption of innovations that improve efficiency and provide a healthy balance between lending and deposit rates. (Banking Act Cap 488, pp 6, 10-12).

More specifically, increased competition, technological developments, changes in customer preferences and the growth of the various institutions have significantly altered the environment in which banks operate (Orlow & Wenninger, 2004). At the same time, many banking activities are now performed by non-banking institutions. In reality, banking institutions in developed countries have started to lose their market shares, while technology has minimized transaction costs and the number of competitors is continuously increasing (Avery *et al,* 2003). Legislative liberalization has strengthened competition not only among banking institutions but also among other non-banking organizations (Krishnan *et al,* 2003).

1.2 Statement of the Problem

Market segmentation is widely regarded as a panacea for a variety of marketing ailments. Yet research in the financial services market highlights a number of significant barriers to the implementation of segmentation schemes. These barriers range from weaknesses in customer data and inappropriate organizational structure, to lack of marketing orientation and difficulties in obtaining a fit within the existing distribution structure. While the marketing literature acknowledges that these difficulties exist, there has been little formal analysis to capture the characteristics of these barriers. This problem is compounded by the considerable size and diversity of the

sector which make it difficult to generalize about the implementation problems.

Academic research in the financial services sector, as in other industries, has sought to identify appropriate segmentation approaches. For example, Speed & Smith (1992), who have undertaken a review of financial services segmentation, suggest that a priori segmentation, which charges the researcher with determining the size and character of segments (Green, 1977) is the most widely used approach. The use of demographic variables, such as age and social class, are especially popular (for example, Burnett & Wilkes, 1985; Mathews & Slocum, 1969; Yorke and Hayes, 1982). Post hoc segmentation is less widely used. This entails the grouping of respondents according to their responses to particular variables. Multivariate techniques may be applied in post hoc research, such as cluster analysis, factor analysis or multidimensional scaling.

Despite the attention which the literature has given to the application of segmentation in financial services, the implementation aspect and problems associated with it have been identified as key areas for further research (Speed & Smith, 1992). Similar sentiments are expressed in other areas of the marketing literature, especially with the apparent prevalence of implementation problems. For example, in the industrial marketing literature, Blattberg *et al.* (1978) and Yankelovich (1964) express concerns about the managerial usefulness and practical ramifications associated with segmentation. More recently, Brown *et al.* (1989) identified missed opportunities resulting from unsystematic and inappropriate grouping of customers, a concern which is echoed by Wind & Cardoza (1974). Although these concerns originate in a different part of the literature, the links with issues raised by Speed & Smith (1992) seem almost uncanny. These sentiments also arise in work by Doyle *et al*. (1986), who express concerns about the degree to which many managers understand and implement the segmentation concept.

When taken as a whole, the literature seems to indicate that there may be a number of barriers which inhibit the successful implementation of the market segmentation process. For example, existing distribution systems, unsuitable organizational structure and existing relationships with suppliers and intermediaries may all make modified or new segmentation approaches difficult to implement. The consensus seems to be that success is more likely when segmentation programmes are implemented which are sympathetic to organizational characteristics, deal realistically with the current market situation, and yield easy to interpret segments (Garda, 1981; Webster, 1991).

This study attempted to bridge the knowledge gap by seeking answers to the following research question:- (i) To what extent has market segmentation been used in service provision by the commercial banks in Kenya?; (ii) What are the factors that influence market segmentation by commercial banks in Kenya? And; (iii) What are the challenges to effective implementation of market segmentation and what possible interventions could be employed to enhance effectiveness of market segmentation strategy in commercial banks in Kenya?

1.3 Objectives of the Study

The study was guided by the following specific objectives:-

(i) To analyze the extent to which market segmentation strategy is used in service provision by the commercial banks in Kenya.
(ii) To assess the factors that influence market segmentation by commercial banks in Kenya
(iii) To evaluate challenges to effective implementation of market segmentation.

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the specific objectives in order to ensure relevance to the research problem. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis and dissertations.

2.2 Segmenting Markets

Market segmentation aims to divide markets comprised of individuals into groups whose characteristics are relatively homogeneous within each set or segment and heterogeneous between segments, based on an identified set of variables (Kara & Kaynak, 1997). Marketing academics and practitioners have adopted the concept of market segmentation enthusiastically. The benefits have been seen to include an ability to gain a fuller understanding of a particular market, improved techniques to predict consumer behaviour, and an improved ability to identify and exploit new market opportunities for commercial benefit (Heok, Gendall and Esslemont, 1996). A capacity to divide markets into distinct groups of buyers, or prospective buyers, who respond differently to changes in marketing mix variables is likely to prove particularly beneficial to those attempting to influence consumer demand for a particular product or service.

As outlined by Kotler, Brown, Adam & Armstrong (2001), segmentation effectiveness depends on

arriving at segments which are measurable, accessible, substantial, actionable and differentiable. Kotler *et al.* refers to a measurable segment as one where the size of the segment and the related purchasing power can be quantified. For a segment to be accessible it must be able to be reached and served effectively by the marketing entity. Further, the segment must be substantial in that it is large and profitable enough to warrant the marketing entity to design marketing mix strategies that are differentiated from strategies that target other segments. The segment must also be actionable in that the marketing entity can design effective marketing strategies to attract and serve the segment and for the segments to be differentiable, they must respond differently to different marketing stimuli.

Hoek, Gendall & Esslemont (1996) have argued that at an intuitive level, market segmentation appears worthwhile in terms of increasing sales and revenue. For example, vendors of yacht fittings would appear to increase their chances of making sales if they target yacht owners rather than a broad market that has not been segmented. However, market segmentation strategies go beyond such clearly rational judgments aiming to gain a competitive advantage by identifying and serving the needs of customers more effectively than competitors. Complex segmentation exercises use a wide number of consumer variables as the basis for segmenting markets and then adopt sophisticated statistical analysis to group customers together based on these variables. The dilemma facing such segmentation studies is how to actually segment the market from a myriad of possible approaches and how to choose the statistical technique likely to prove most suitable in providing the information required to aid market segmentation.

The literature discusses two principal approaches to segmentation. They are; a-priori and post-hoc or data driven (Dolnicar, 2004; Kara & Kaynak, 1997, Wind, 1978). A-priori segmentation requires the researcher to first choose variables of interest and then classify buyers according to that designation (Wind, 1978). While an a-priori approach may guarantee within segment similarity by ensuring, for example, that all segment members come from similar geographic regions and income ranges, this does not necessarily mean that all segment members will respond in the same way to marketing stimuli (Hoek, Gendall & Esslemont, 1996). For example, consumers with similar demographic characteristics may respond in a similar way to a change in pricing strategy but may have very different reactions to a promotional theme. Further, the selection of variables in an a-priori study, to some degree, reflect underlying assumptions concerning the market and about which variables are most likely to respond to marketing stimuli. Such assumptions are likely to influence the findings and marketing strategies that ensue.

The second approach is to segment markets on a post-hoc basis where the researcher chooses a range of interrelated variables and then clusters buyers into groups whose average within-group similarity is high and whose between group similarity is low (Wind, 1978). This approach may result in segments that are not necessarily internally consistent. Even if researchers can identify groups with similar attitudes or usage habits, members often posses different demographic characteristics making marketing decisions such as media buying, difficult to action (Hoek, Gendall & Esslemont, 1996). Indeed Young *et.al* (1978), suggest that a common reason segmentation studies fail in the implementation stage is that marketing research is too preoccupied with the methods and techniques of segmentation, and fails to consider the competitive structure of the market and general marketing environment.

Hoek, Gendall & Esslemont (1996) have argued that despite sophisticated approaches to market segmentation, the selection of variables on which such studies are based involves subjective judgments. For example, researchers using consumption benefits as a segmentation basis must determine which benefits to measure and select appropriate means of assessing their relative importance to respondents. It needs to be recognized that this process may have a significant impact on the research outcome. Everitt (1974: 48) argues that 'the initial choice of variables is itself a categorization of the data which has no mathematical or statistical guidelines and which reflects the investigator's judgment of relevance for the purpose of the classification.'

However, the subjective decisions and assumptions inherent in segmentation studies do not preclude the studies from being potentially useful to gaining an improved understanding of the key factors influencing the choice of a tourism destination. However, such assumptions need to be made explicit and transparent so that users of the models understand the limitations of any findings. While numerous segmentation studies have been undertaken within the realm of tourism destination marketing, few of these studies make clear the subjective elements of the research

2.3 Segmentation Theory

Market segmentation would seem to serve a number of closely interrelated purposes. It is seen as a means of predicting future behaviour (Riquier *et al.,* 1997), a method of detecting, evaluating and selecting homogeneous groups (Sarabia, 1996) and a way of identifying a target market for which a competitive strategy can be formulated (Cahill, 1997). More generally, it allows the company to identify key consumer groups, evaluate the importance of each segment to the business and communicate and target products and resources more effectively (Bickert, 1997; Dibb, 1998). The outcomes that stem from a successful segmentation strategy are varied and

include a reduction in competitive rivalry, pricing stability, protection against substitution and an opportunity to build differentiation.

The credibility attached to a market segmentation strategy is predicated upon two key assumptions: (1) consumers can be grouped into segments that display homogeneous preferences relative to other segments; and (2) returns are likely to be greater if companies match their products and marketing mixes to particular segments within the market (Green and Krieger, 1991). Owing to the increasing variety of consumer products available on the market, variations in demographic characteristics and the growing number of advertising media, many organizations have accepted such assumptions and used segmentation as a method of categorizing consumers into discrete and manageable classifications (Bickert, 1997).

There are two major types of segmentation. A priori segmentation is based on the identification of broad based easily identifiable segments that are classed at the macro level. The objective of using this approach is to disaggregate a large market into a series of sub-groups (Rao & Wang, 1995). While categories such as age, gender, geographic location and account size are widely used to formulate segmentation strategies, Harrison (1994) notes the limitations of using such criteria. For example, the type and number of the segments are determined by the researcher independently of the data collected with no presumed link between the segment and the behaviour of the individuals within it. The second approach to segmentation aggregates individuals into groups based on managerially relevant “micro-segments” (Rao and Wang, 1995). The objective here is to cluster individual customers into homogeneous groups based on their responses to attitudinal or behavioural data (Woo, 1998).

While acknowledging the alternative approaches to segmentation, Kotler (1991) maintains that to be successful a segment has to meet four criteria: (i) it has to be measurable, i.e. the size and the purchasing power of each segment need to be quantifiable; (ii) it must be accessible and therefore marketable in a cost-effective manner; (iii) it must be substantial enough in terms of profit or revenue to merit the allocation of marketing resources; and (iv) it must be actionable (this refers to the capability of the company to effectively target its chosen segment within its own budgetary and resource constraints).

Sarabia (1996) highlights a method for identifying consumer segments. The process begins with the search and selection of information, followed by detailed segment descriptions and an accompanying evaluation. The objective is to determine whether any of the segments meet the needs of the individual organization. Once a segment has been selected then the task of how to position the organization and which marketing mix variables to use can be determined. Until the 1970s, market segmentation remained limited to product-specific systems; however, the development of cluster analysis and the VALS demographic/attitudinal questionnaire represented a catalyst for the development of behavioral segmentation studies. Since that time, there have been a plethora of single use segmentation schemes (Cahill, 1997) using a variety of analytical techniques such as conjoint analysis and discrete choice modelling (Riquier *et al.,* 1997). The use of multi-dimensional models has attempted to move away from the a priori method of segmentation and incorporate a more behavioral approach. Categorical systems such as the Luscher colour test and the Myers-Briggs type indicator have allowed consumers to be categorized into anything from four to 108 different classifications (Bickert, 1997).

A review of the literature reveals how such techniques have been applied. There are varied attempts to segment consumers by life-stage (Moschis *et al.,* 1997; Silvers, 1997), by patronage activity (Larrew, 1998), by birth order (Claston, 1995), by ethnic origin (Kinra, 1997) and by sector (Harrison, 1994). In addition, the role of segmentation in industrial markets has attracted considerable academic attention (Bonoma & Shapiro, 1983; Choffray & Lilien, 1978; Plank, 1985; Hlavacek and Reddy, 1986; Rao & Wang, 1995). Sarabia (1996), however, maintains that much of the work has focused upon the different methods and techniques used in segmentation rather than upon the evaluation and selection of coherent market segments. Segment selection is therefore often limited to identifying the sales potential or attractiveness of a market group.

A similar point was made by Garda (1981), who maintained that the process of segment selection had not been studied in depth. As a consequence, many attempts at market segmentation remain poorly conceived and fail to produce identifiable differences between groups (see also Dibb, 1998). More fundamentally, Wright (1996) argued that the main weaknesses of segmentation lay in the assumptions that underpin its theoretical base, i.e. that segments are associated with specific sets of preferences and that a segmentation strategy provides a better return than other marketing strategies. Many studies are therefore based upon a series of dubious assumptions that fail to examine either the reliability or the stability of the segment (Riquier *et al.,* 1997). Wright (1996) further maintains that segments are frequently not robust enough to withstand even small changes in their composition. The opportunity to develop coherent long-term marketing strategies based upon consumer segmentation is therefore limited.

2.4 Bases of Market Segmentation

The range of a priori approaches used to segment markets has received significant attention within the marketing literature (Sirgy, 1982; Blattberg *et al.,* 1976; Myers, 1976; Alpert, 1972). Early approaches to segmentation

included the use of demographic, geographic and behavioral characteristics of consumers (Blattberg *et al.,* 1976). However, there is evidence of changing consumer behavior within contemporary affluent societies, including an increased emphasis on the personalization of consumer behavior patterns, which are not well explained by socio-demographic and economic criteria (Gonzalez & Bello, 2002). There has therefore, been a growing emphasis in marketing on the human behavioral sciences which has led to segmentation approaches seeking to measure less tangible consumer characteristics such as lifestyle, personality, image and benefits (Alpert, 1972; Myers, 1976; Sirgy, 1982).

The earlier work of Wind (1978) argued that the selection of variables to form the basis of a segmentation model needs to relate to specific management objectives and be informed by the current state of knowledge concerning the relevance of marketing and consumer behavior variables as bases for, and descriptors of, market segments. Wind's typology shows a strong preference for what has become known as 'the benefit sought approach'. The benefit segmentation approach is based upon the belief that it is possible to measure consumer value systems in detail, together with consumer thoughts about various brands in the product category of interest (Haley, 1968). Grouping customers based on the benefits sought from consumption will lead to multiple segments each with a number of benefits sought. Some benefits will appear in multiple segments. It is however, the total configuration of benefits sought which differentiates one segment from another. Indeed Haley (1968) argues it is likely all segments will seek multiple benefits. It is the relative importance each segment assigns to a particular benefit that is likely to show differentiation between segments. A summary of the main approaches to market segmentation within marketing and consumer behavior literature are summarized and discussed below

Geographical basis of segmentation: Dividing a market based on geographical locations (Kotler *et al.,* 1991 Kelly and Nankervis, 2001).

Demographic basis of segmentation: Dividing a market based on demographic variables such as age, gender, family size, family life-cycle, income, occupation, education, religion or nationality (Blattberg *et al.* 1976).

Psychographic/Lifestyle: Dividing markets based on consumer values, attitudes, interests, opinions (Alpert, 1972; Frank *et al.* 1972 Pessemier *et. al,* 1967; Lazer, 1963 Plummer, 1974; Yankelovich, 1964).

Benefits basis of segmentation: Dividing the market into groups according to the different benefits that consumers seek from the product or service (Haley 1968; Myers, 1976).

Usage basis of segmentation: Dividing markets based on usage patterns such as non-user, ex-user, potential user, first-time user, regular user, high volume user (Twedt, 1964; Young *et.al,* 1978).

Loyalty basis of segmentation: Dividing markets based on brand loyalty, store loyalty, or purchase situation loyalty (Grover & Srinivasan, 1989).

Image basis of segmentation: Dividing markets based on the affective associations relating to brand image (Evans, 1959 Sirgy, 1982 Leisen, 2001).

Situation basis of segmentation: Related to usage segmentation, situation segmentation divides markets on the basis of the consumption or purchase situation of consumers. The beer market is segmented in this way some consumers will drink different brands depending on where and with whom they are drinking (Dickson, 1982).

Behavioral basis of segmentation: Dividing markets based on consumer's knowledge of, attitude toward, uses for and responses to a product (Kotler *et.al.* 1991).

The primary advantage of the benefit sought approach is the causal rather than descriptive nature of the data, making this approaches a more effective tool for developing marketing strategy (Young *et.al,* 1978; Haley, 1968). Haley (1968) for example, argues that true market segments are based on the causal relationship between the benefits sought from consumption and future purchasing behavior. Forms of segmentation including geographic, demographic and psychographic tools provide only descriptive data based on 'after the fact' characteristics of consumers. Such approaches are therefore not necessarily seen to be successful predictors of consumer choice (Wind, 1978; Minhas & Jacobs, 1996; Botchsen, Thelen & Peiters, 1999).

A key advantage of using benefit segmentation is seen to arise from the fact that outcomes can then be acted upon, producing segments which will react differently to altered marketing mix variables. Botschen, Thelen & Pieters (1999) argue that benefit segmentation has become the preferred technique for successful product positioning, new product introduction, pricing, and advertising. It should be noted that benefit segmentation is seen as the first stage in the segmentation process. Characteristics such as age, income, lifestyle and media habits are then included in the process to enable marketers to develop strategies to reach and communicate effectively with each segment.

Botschen, Thelen &Pieters describe the typical benefit segmentation study as adopting a common approach, commencing with the analysis of secondary data and/or conducting in-depth interviews and focus groups to identify relevant attributes and benefits sought. From this initial data a measure of the importance of attributes /benefits is developed and pre-tested prior to the data collection. Generally, responses are given on a

scale representing low to high importance and/or variability. The data is then analyzed using factor and cluster analysis to identify benefit segments. However, while Botschen, Thelen & Pieters acknowledge that benefit segmentation is a powerful tool for predicting consumer preference and behavior, they also point out that many of the empirical studies undertaken in this area have not differentiated adequately between product attributes and the benefits sought by consumers. They argue that the means-end chain theory of cognitive structures holds that consumer behavior is driven by the true benefits sought which in turn drives the desire or preference for certain attributes. If the focus of a segmentation study is on the level of preferred attributes the underlying benefits sought by customers will not be clearly identified (Botschen *et al,* 1999).

Means-end theory holds that a product, service or behavior is stored in memory as a chain of hierarchically related elements. The chain commences with the product or service attribute and establishes a sequence of links with personal values through the perceived consequences or benefits produced by certain attributes of the product. Product attributes are the means by which consumers satisfy the desired consequences of consumption. The argument, that consumers purchase goods and services to provide satisfaction to the consumer at both a functional and emotional level, is a basic premise of marketing (Kotler *et.al*, 2001). Therefore, market segmentation strategies which group customers together based on the benefits they seek from consumption provides a powerful diagnostic tool whereby manipulation of elements of the marketing mix can influence consumer behavior by better matching the market offering with the desired consumption outcome (Botschen, Thelen & Pieters 1999).

In practice, most commercial segmentation studies seek to classify respondents into segments using some form of cluster analysis (Hoek, Gendall & Esslemont, 1996). Clustering techniques can be divided into two major types; those which build up clusters, a bottom-up approach and those which break down a market into clusters, a top-down approach. Analysis based on cluster techniques often fails to make explicit the fact that different clustering techniques may produce different solutions. It is even possible that the same technique may produce a different result for the same set of data, if the technique requires subjective input from the researcher at various stages of the analysis (Esselmont & Ward, 1989). For example, in addition to deciding whether or not to transform or standardize the variables, analysts must select an algorithm and impose constraints on the extent of the data divisions. Given the large number of clustering and pattern recognition techniques available, there is little prescriptive literature as to the appropriateness of different approaches for a specific research requirement. This often results in researchers using the tools with which they are most familiar and which are cost effective, rather than selecting the tools most appropriate for a particular objective.

Additional subjective decisions imbedded in the segmentation process include the number and composition of the segments. With the objective of increasing cluster homogeneity as well as creating viable, accessible clusters, researchers seek solutions that give compact but widely separated segments. It is unlikely that segments fall neatly into these patterns and therefore researchers must make decisions on the number of clusters to include (Hoek, Gendall & Esslemont, 1996). In making such decisions researchers implicitly decide how to allocate cases to segments, particularly in regard to outliers which may fit equally into more than one segment. The continuous segmentation approach developed by Rust (1990) goes someway to addressing this problem by producing a density map rather than discrete segments, thereby acknowledging that segments may merge and eliminating the need to categorize outliers. This method implicitly assumes that the areas of greatest density are similar to discrete segments, though they have fuzzy boundaries.

Approaches to market segmentation each have merit depending on the objectives of the study and the resources available. Regardless of the approach a number of subjective decisions are implicit in the process. Such subjectivity is likely to influence the results of a segmentation study and must be clearly stated in research findings.

2.5 Bank Market Segmentation

Market segmentation has become one of the most dominant concepts in both marketing theory and practice. In banking industry, like any other service industries, segmentation is considered as a major way of operationalizing the marketing concept, and providing guidelines for a bank's marketing strategy and resource allocation among markets and services (Dickson & Ginter, 1987; Rao & Wang, 1995; Wind, 1978). As theory, market segmentation is the process of dividing a market into distinct groups of individuals, or organizations, who share one or more similar responses to some elements of the marketing mix (Pride & Ferrell, 1987). The segmentation process calls for dividing the total market into homogeneous segments, selecting the target segments, and creating separate marketing programmes to meet the needs and wants of these selected segments (Frank *et al.,* 1972; Henry & Massy, 1968; Lilien & Kotler, 1983). As strategy, market segmentation is the allocation of marketing resources, given a heterogeneous market. The identification of segments, heterogeneous in response, allows the evaluation and refinement of a bank's marketing strategy. The effectiveness of the segmentation process and strategy depends on identifying segments that are measurable, accessible, stable, substantial, and actionable (Day, 1990; Lilien & Kotler, 1983; Raaij & Verhallen, 1994).

The literature of market segmentation indicates that there are two schools of thought. Firstly, the behaviorally-oriented school which is concerned with the identification and documentation of generalizable differences among buyer groups. These differences can lead to insights about the basic process of consumer behavior (Assael and Roscoe, 1976; Frank *et al.,* 1972; Lessing and Tollefson, 1971). Second, the decision-oriented school which focuses not so much on why there are differences among consumers as on how these differences can be exploited to increase the productivity of the bank's marketing programmes (Dhalla & Mahatoo, 1976; Frank *et al.,* 1972). In practice, these two approaches are not mutually exclusive; indeed they overlap in many segmentation studies. For instances, research that aims at contributing to behaviorist theory is often motivated by a normative problem. Conversely, a decision-oriented study may end up by contributing to general knowledge about market segments.

Referring to the bank marketing literature, many studies have been conducted on individual customer segmentation using both the behavior and decision-oriented approaches (Boyd *et al.,* 1994; Chebat *et al.,* 1988; Denton & Chan, 1991; Kaynak *et al.,* 1991; Laroche *et al.,* 1986; Ruddick, 1986, Stanley et al., 1985; Tan & Chua, 1986; Yavas, 1988, Yue & Tom, 1994-95). Similarly, both the behavioral and decision orientations would be very useful and productive for any segmentation strategy of a bank's business-customer market. In the latter case, bank management should focus on differences between its customers (their selection behavior of a bank, or their perceptions of the service quality provided), as well as the impact of such identifiable differences on their response to the various elements of the bank marketing programme.

Therefore, the segmentation strategy and analysis adopted in this study are based on both the behavior and decision-oriented approaches. The study seeks to identify the main differences among the customers of the commercial banks in Kenya in their perceptions of the relative importance of the banking services provided, and their bank selection behavior. In addition, the study attempts to show how such possible differences would affect the marketing strategies of commercial banks in Kenya.

2.6 Customer Segmentation in Bank Marketing

Companies try to segment their customers by identifying groups of persons with need structures that are as homogeneous as possible within each group and significantly heterogeneous between groups (Smith, 1956). These groups can then be addressed with a specially designed but also standardised strategy (Kotler, 1980). The goal is to solve the conflict between the intentions to satisfy customer needs as individually as possible but also to allocate marketing resources as economically as possible (Wind, 1978).

Traditional methods of customer segmentation

Customer segmentation by banks is still largely limited to categories of corporate and retail customers as traditionally defined. Corporate customers are distinguished by their geographic range of activities (regional versus international) or by their sector affiliation. In personal retail banking, externally observed demographic or economic criteria such as profession, age, income or wealth are often the preferred dimensions for segmentation (Meidan, 1984; Harrison, 1994). Such a procedure where segments of a customer population are chosen and, through research, the unique characteristics are evaluated is called a priori segmentation (Green, 1977).

A priori segmentation presumes that a significant correlation between the external characteristics of customers and their needs exists. However, demographic and economic criteria are only rough indicators for the need structures and the reaction patterns of retail customers. If a bank takes the criterion "professional status" as the basis for a standardized marketing policy, it may not be able to deliver information and service individually according to different personalities within this group of persons. For example, a private doctor could be a person who is prepared to use a computer to carry out his bank settlements, who is well informed about the security standards of the Internet, who prefers foreign high risk securities and consciously decides not to safeguard his future by any means. Nevertheless, a doctor could also be one who prefers the personal contact with a bank clerk in a branch, who is skeptical towards modern technologies, who prefers to buy low risk bank savings bonds and secures his retirement financially through life insurance.

Similarly, in using a so-called life-stage approach, i.e. supposing that the financial needs of customers differ as they pass through life, a bank leaves out of consideration the psychological feeling towards age, which may differ from biological age. (Speed & Smith, 1992) and (Stanley *et al,* 1985) provide an empirical study of this segmentation criterion.

By using this kind of segmentation approach, there is high probability that standard service packages are offered to customers, which do not suit them well. Thus, low satisfaction and possible migration to competitors are to be expected. However, it should be the aim of a bank to gain customer loyalty by many positive experiences in order to build a successful business relationship.

Modern approaches to bank customer segmentation

Modern approaches to segmentation define customer segments post hoc. Thus, a heterogeneous population is surveyed and segments are determined on the basis of homogeneous response patterns from within the population. The researcher seeks measures that cluster consumers into potentially profitable but unique groups

within the population (Gwin and Lindgren, 1982). Some studies in this area use customer responses related to questions on product features or product usage. For example, Burnett and Chonko (1984) used factor analysis to identify four customer segments with similar product usage frequency patterns. Accordingly the segment labels – "traditional", "convenience", "investment" and "debt" – were derived from characteristics of the preferred products within these segments.

A number of other studies using post hoc segmentation approaches are orientated towards the psychological determinants of customers in that they refer to psychographic segmentation or benefit segmentation (for an overview, see Beane & Ennis, 1987). In psychographic segmentation, personality characteristics, values, beliefs, and lifestyle are considered (for an early, but still relevant, discussion of this notion, see Ziff, 1971). In benefit segmentation, potential customers are grouped according to their desired or expected utility from consuming a product (Haley, 1968). Benefit segmentation has proved its usefulness in consumer markets (Haley, 1968; Myers, 1976), in markets for industrial goods (Moriarty & Reibstein, 1986) and also in services markets (Calantone & Sawyer, 1978; Soutar & McNeil, 1991).

A qualitative example of psychographic segmentation is presented by Harrison (1994) who uses variables such as the individuals' own perceived knowledge and understanding of financial services, the perceived confidence and ability in dealing with financial matters and the expressed level of interest (involvement) in financial services. With this study four distinct customer segments based on the level of knowledge and on the degree of the customers' financial maturity could be identified. The segments are labeled "financially confused", "apathetic minimalists", "cautious investors" and "capital accumulators" and are hence characterized by particular attitudes towards financial services.

McDougall & Levesque (1994) conducted a study of benefit segmentation in using service quality dimensions of retail banking. By cluster analysis they identified two customer segments: a performance segment and a convenience segment. For customers in the performance segment it is important that a bank performs services right the first time and that it has obviously competent employees providing the services. Customers in the convenience segment most appreciate convenient opening hours, convenient branch locations and the existence of automated teller machines. This study identified distinct groups with quite different service needs but the observed groups would not have emerged had the authors relied on demographic characteristics only. In our study the analysis is also based on different attitudes towards financial services. Several attitudinal variables are an expression of the customers' expected benefits from bank relationships. Thus, the resulting segmentation is to be characterized by a combination of attitudes and expected benefits. Special attention was paid to attitudes towards and expected benefits from information services and information technology because nowadays the customers of banks differ more and more with regard to the amount of information needed for structuring their asset portfolios and with regard to the flexibility and cost saving involved in using modern online banking services. The latter fact can be concluded from the growing number of newly established direct banks, which rely solely on communication by phone or Internet and the broadening of the traditional banks' product line to include such forms of transactions. The readiness to use cheap transaction banking services even for buying and selling securities, often connected with a renunciation of personal consulting by a bank clerk, gives a further hint to the willingness of the customers to make their portfolio decisions on the basis of their own information analysis. Thus for some segments the demand for consulting has been converted into a demand for access to information sources which can be provided by banks.

Attitudes and expected benefits as measures of the subjective evaluation of bank service

Attitudes towards various aspects of the customer-bank relationship result from the goals and the knowledge or experiences of customers. They can be defined as the person's evaluation of any psychological object (stimulus object) that may lead this person to affective, cognitive and conative responses towards that object (Ajzen and Fishbein, 1980, pp. 19-20; Rosenberg and Hovland, 1960). In this study, we refer to different attitudinal dimensions concerning the customer-bank relationship. Some of these attitudinal dimensions are directly linked to expected benefits; others result in expected benefits if the segmentation approach used by the bank considers customer attitudes sufficiently. Therefore, the segmentation approach used here can be seen as a form of benefit segmentation.

It would have been desirable to transfer all the different forms of the attitudinal dimensions into benefit values to create a total utility of the customer from a bank relationship. But finding a measure to weight the different attitudinal dimensions and to sum them up in an aggregate value would have gone beyond the scope of the questionnaire. Therefore, attitudes towards the different dimensions of bank service will have to be dealt with separately. However, the use of ordinal measures for the different attitudinal dimensions allows a graphic identification of the different customer profiles with the different attitudinal dimensions on the abscissa and their ordinal values on the ordinate.

2.7 Challenges to effective implementation of market segmentation

The underlying aim of market segmentation is to group customers with similar needs and buying behavior into

segments, so that each segment can be reached with a distinct marketing programme. The concept attempts to bridge the gap between diverse customer needs and limited company resources, by encouraging distinct product and marketing offerings to be developed to suit the requirements of different customer segments (Assael & Roscoe, 1976; Blattberg & Sen, 1976; Wind, 1978). The marketing literature suggests that segmentation leads to more satisfied customers, because it offers the practitioner a number of clear benefits: improved understanding of customer needs, more appropriate resource allocation, clearer identification of market opportunities, and better tuned and positioned marketing programmes (Kotler, 1994; Wind, 1978).

Despite the attention which the literature has given to the application of segmentation in financial services, the implementation aspect and problems associated with it have been identified as key areas for further research (Speed & Smith, 1992). Similar sentiments are expressed in other areas of the marketing literature, especially with the apparent prevalence of implementation problems. For example, in the industrial marketing literature, Blattberg *et al.* (1978) and Yankelovich (1964) express concerns about the managerial usefulness and practical ramifications associated with segmentation. More recently, Brown *et al. (*1989) identify missed opportunities resulting from unsystematic and inappropriate grouping of customers, a concern which is echoed by Wind & Cardoza (1974). Although these concerns originate in a different part of the literature, the links with issues raised by Speed & Smith (1992) seem almost uncanny. These sentiments also arise in work by Doyle *et al.* (1986), who express concerns about the degree to which many managers understand and implement the segmentation concept.

When taken as a whole, the literature seems to indicate that there may be a number of barriers which inhibit the successful implementation of the market segmentation process. For example, existing distribution systems, unsuitable organizational structure and existing relationships with suppliers and intermediaries may all make modified or new segmentation approaches difficult to implement. The consensus seems to be that success is more likely when segmentation programmes are implemented which are sympathetic to organizational characteristics, deal realistically with the current market situation, and yield easy to interpret segments (Garda, 1981; Webster, 1991).

The concept of segmentation in marketing recognizes that consumers differ not only in the price they will pay, but also in a wide range of benefits they expect from the product (or service), and its method of delivery (Doyle, 1987). In this regard, there are limitations in the traditional approaches to segmentation, especially with respect to financial services. Geographic segmentation calls for dividing the market into different geographical units such as local town, region or country as a whole. However, the nature of the financial services industry is such that banks, building societies and insurance companies cannot discriminate in terms of locality or region. For one thing, under the influence of technological innovation, definitions of market boundaries keep on changing. For example, by using a plastic card or telephone banking, one can transact business from anywhere in the country, and in many cases from anywhere in the world, without visiting a branch office. Moreover, differences in preference and purchase patterns for financial products/services do not appear to emerge along regional lines, thereby removing the usefulness of geographic segmentation (Chee & Harris, 1993).

Demographic and socio-economic segmentation, based on age, sex, marital status, income, occupation, education, religion, social class and so on, assumes these variables have an influence on consumer behavior, and that they can therefore be used as proxies for direct needs analysis. Demography refers to the vital and measurable statistics of a population (Schiffman & Kanuk, 1994). It helps to locate the target segment. However, there has been much discussion in recent years about the role of such variables as determinants or even correlates of consumption behavior. A number of researchers have expressed skepticism that such variables can be used effectively (Bieda & Kassarjian, 1969; Evans, 1959; Koponen, 1960). According to these authors, there are some undeniable demographic patterns to purchasing, such as that razor blades are purchased mainly for men (but not always by them). However, except for specific products aimed directly at specific socio-demographic groups, evidence indicates that demographic measures, outside of education, are not an accurate predictor of consumer behavior. These findings are backed up by the research of Frank (1968), Rich & Jain (1968), and Jacobs (1983).

Psychographic segmentation can be based on social class, lifestyle, or personality variables (Kotler, 1994). Social class segmentation, which often determines social class simply by averaging the person’s position on several status dimensions (Loudon & Della Bitta, 1993), ignores the inconsistencies which arise from an individual ranking high on one dimension (such as income), but low on another (such as education). Also, the assumption that a person’s social class is stable ignores the effects of mobility (Dominguez & Page, 1981; Haug, 1973; Zaltman & Wallendorf, 1979). Moreover, the further supposition that an individual identifies only with the social class in which he/she is categorized ignores reference group effects from other classes. The common practice of measuring the social class of an entire family via the characteristics of the adult male wage earner alone overlooks characteristics of other family members, particularly the employment and education of the adult female. Opinions differ concerning which procedures are best for identifying social classes. Indeed, social class may not always be a relevant consideration in segmentation. But when it is, it can be more effective when used in conjunction with other approaches (Dhalla & Mahatoo, 1976).

Lifestyle segmentation divides the market into segments based on activities, interests, and opinions (Plummer, 1974). However, in contrast to demographics, where it is possible to define characteristics, there are no fixed definitions for lifestyle. Moreover, identified lifestyle characteristics must be related to specific product categories if they are to be useful to marketers (a segment identified as fashion conscious or community-minded would seem not to be particularly relevant for marketing financial services). Personality variables have been used in market segmentation by endowing products with brand personalities that attempt to correspond to consumer personalities. However, the overwhelming majority of studies suggest that, if a relationship between personality and aspects of consumer behavior exists, it is so weak that it is of little practical value to marketers (Kassarjian & Sheffet, 1991).

The approaches to market segmentation discussed so far are useful to locate and describe target segments. However, they suffer from the underlying disadvantage that all are based on an ex post_facto analysis of the kinds of people who make up specific segments of a market. With these methods, we never find out what causes the segments to develop, nor does buying behavior determine membership of a segment. We first identify the segments, and then look at the segment members' behavior, instead of first identifying a certain kind of behavior, and then finding out what kind of people are grouped in the segment. Clearly, the way we go about the task will determine the nature and content of the segments identified, and will influence our marketing strategy.

The disadvantages of other methods can be overcome by using benefit segmentation, a form of behavioral segmentation. Its proponents argue that the benefits that people seek constitute the basic reason for purchase, and therefore form the proper basis for market segmentation (Assael, 1995; Haley, 1968). Kotler (1994) goes so far as to call it a "powerful form" of segmentation. Marketing and advertising executives constantly attempt to isolate the particular benefit or benefits that they should communicate to consumers, for example, Merrill Lynch's concentration on financial security. Merrill Lynch's pioneering Cash Management Account, launched in 1978 and integrating brokerage, credit/debit card, and banking with the aid of a sophisticated computer system, still retained market leadership in 1985. Knowing consumers' level of interest in alternative benefits is important in shaping, and perhaps changing, a company's product portfolio. Moreover, such knowledge is helpful in predicting the attention that will be paid to advertising copy developed around those benefits. Thus, benefit segmentation can be used not only to develop new products and reposition or discontinue old products, but also to facilitate a two-way communication process between the consumers and the company.

The main strength of benefit segmentation is that the benefits sought have a causal relationship to future behavior. However, difficulties can arise in choosing the correct benefits to be emphasized and making certain that consumers' stated motives are their real motives. Failure to understand the benefits which consumers may be seeking can prevent market success (Young *et al.,* 1978). Keeping those caveats in mind, our research has centered on the task of applying benefit segmentation to the financial services market, using the specific example of building societies.

2.8 Conclusion

Commercial banks in Kenya today face intense competition inside and outside the country. This in turn has forced these banks to be more oriented towards their customers. The main focus of this study is on the perceived relative importance of services offered by Kenyan banks to the needs of both personal and business customers which represent a large segment in the Kenyan bank market.

As revealed in the review of the literature, the actual determinants of bank selection decisions are more likely to be a function of both the perceived importance of bank attributes and the differences among commercial banks in Kenya with regard to each of these attributes. The study adopted this practical approach to find out the key determinant factors of bank selection decisions made by financial services customers in Kenya. The review findings indicate that these determinants involve size of bank assets, efficiency of staff, help in financial emergencies, bank experience, friendliness of staff, reputation, communication with staff, knowledge about the firm's activities, prompt provision of services, and availability of branches countrywide. Wills (1985) argues that a major condition for successful segmentation is that the segmentation criteria must be relevant to the purchase criteria of customers. It is precisely the linking of customer groups with the benefits they seek that makes benefit segmentation such a useful and dynamic marketing technique.

By examining their strengths, commercial banks and other financial institutions can pinpoint those benefit markets they are most likely to appeal to. By noting and, if so desired, overcoming their weaknesses, they can develop benefits to appeal to previously unreachable markets. By operating in this manner, other financial institutions should be able to market more effectively and efficiently to one or more groups of customers than is possible using more traditional methods of market segmentation.

3.0 METHODOLOGY

3.1 Introduction

This chapter covers a description of the study design, target population, sample design, data collection methods,

research Procedures and data analysis and presentation.

3.2 Research design

A descriptive design was used to undertake the current study. This is a scientific study done to describe a phenomena or an object. In this case the study phenomenon was market segmentation. This kind of study involves a rigorous research planning and execution and often involves answering research questions. It involves an extensive well-focused literature review and identification of the existing knowledge gap. The method is preferred as it permits gathering of data from the respondents in natural settings. In this case, it was possible for the researcher to administer the data collection tools to the respondents in their workstations, which was relatively easy, with high likelihood of increasing the response rate.

3.3 Population of the Study

The population of interest in this study was all the commercial banks in Kenya. According to the Central Bank of Kenya report as at 30th June 2008, there were 42 commercial banks in Kenya (see appendix II). A census was considered for the study owing to the fact the all the commercial banks have their offices strategically located within the Nairobi Central Business District and its environs. The study respondents from each of the banks were the heads of business development or their equivalent since they are the people charged with the responsibility of spearheading the strategic direction of their organization's business.

3.4 Data Collection

Primary data was collected from the respondents using Semi-structured questionnaires The questionnaire consisted of two sections, Section I and section II. Section I consisted of items pertaining to profile of the respondents while section II consisted of items pertaining to the area of study. The researcher used interview schedules with open questions, aimed at meeting the objectives of the study. The sets of questionnaires and interview guides were pre-tested on a few banks in order to make them more suitable and minimize bias in responses. The procedure that was used in collecting data was through distribution of the questionnaires that is, dropping and picking questionnaires from respondents at their most convenient time that was agreeable to both parties. Since all the commercial banks have their head office in Nairobi, the researcher administered the questionnaires by hand delivery. In addition, the researcher made telephone calls to the respective respondents to further explain the purpose of the study and set a time frame for the completion of the questionnaires.

Once completed, the researcher personally collected the questionnaires. This gave her the opportunity to clarify certain issues arising from the various responses. In addition, personal interviews were conducted with ten of the respondents selected at random, aided by an interview schedule. In this case the researcher was able to obtain additional information to corroborate findings from the questionnaire.

3.5 Data analysis and Presentation

For purposes of the current study, the data was analyzed by employing descriptive statistics such as percentages, mean scores and standard deviations. Descriptive statistics were used to describe the basic features of the data in the study. Descriptive Statistics are used to present quantitative descriptions in a manageable form and aided in simplifying large amounts of data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. The researcher used Statistical Package for Social Sciences (SPSS) to undertake the data analysis. SPSS is preferred because of its ability to cover a wide range of the most common statistical and graphical data analysis. For purposes of presentation, frequency tables, charts and bar graphs were used.

4.0 FINDINGS AND DISCUSSIONS

4.1 Introduction

The current study sought to examine the factors that influence the adoption of market segmentation strategy and barriers to implementation of the same in commercial banks in Kenya. A combination of both quantitative and qualitative techniques was used in data collection. Out of the 42 questionnaires that were sent out, 36 were returned completed (86%) response rate. The high response rate could be attributed to the personal efforts of the researcher, who made a follow up of every questionnaire sent out. The data pertaining to the profile of respondents was analyzed by employing content analysis while descriptive statistics were used to analyze data pertaining to the first and second objectives of the study. Computation of frequencies and percentages, standard deviations and mean were used in data presentation. The information is presented and discussed as per the objectives and research objectives of the study.

The chapter covers information obtained using a semi- structured questionnaire. The information covers two areas, the demographic information and information pertaining to the objectives of the study.

Demographic information presented include period of operation the banks have been in operation in Kenya, bank ownership, number of full time employees and period the employees have worked in their respective organizations. Data pertaining to market segmentation by commercial banks in Kenya covers the extent to which market segmentation strategy is used in service provision by the commercial banks, the factors that influence market segmentation by commercial banks and the challenges to effective implementation of market segmentation by commercial banks in Kenya.

4.2 Profile of respondents and their respective organizations

The profile of respondents and their respective organizations is summarized and presented in table 4.1 below.

Table 4.1: Profile of respondents and their respective organizations

Demographic data	Alternative response	Percent	Mean	Standard deviation
Period of operation of respondent bank in Kenya	1 – 5 years	5.4		
	6 – 10 years	10.9		
	11 – 15 years	37.8		
	16 years and above	45.9	4.25	0.87
Bank ownership	Predominantly local (51% or more)	51.4		
	Predominantly foreign (51% or more)	32.4		
	Balanced between foreign and local (50/50)	16.2	1.61	0.73
Number of full time employees	26 to 50	16.7		
	51 to 75	25.0		
	76 to 100	25.0		
	101 and above	33.3	3.75	1.11
Number of years respondent has worked in the current organization	Less than 1 year	5.4		
	1 to 5 years	10.8		
	6 to 10 years	18.9		
	11 to 15 years	37.8		
	16 years and above	27.0	3.67	1.15
N = 37				

4.3 Market Segmentation by Commercial Banks in Kenya

In order to meet the first objective of the study, "to analyze the extent to which market segmentation strategy is used in service provision by commercial banks in Kenya," the respondents were first asked to indicate the extent to which their respective organizations had used market segmentation by ticking as appropriate against given alternatives. Data was collected with the aid of a closed question with a five point scale, along which the extent of usage of market segmentation was to be located as appropriate. The collected data was summarized in terms of frequencies, percentages, mean scores and standard deviation. *Where:* Not at all = (1); A little extent = (2); Moderate extent = (3); Great extent = (4); and Very great extent = (5). The responses are summarized and presented in table 4.2 below.

Table 4.2: Extent to which market segmentation strategy is used in service provision by commercial banks in Kenya

Extent to which market segmentation strategy is used in service provision by commercial banks in Kenya	Response (%)					Mean	Std. Dev
	1	2	3	4	5		
	5.6	16.7	33.3	27.8	16.7	3.33	1.12

Secondly, the research sought to determine the bases of segmentation that were used by the commercial banks in Kenya. A listing of some of the possible bases of segmentation were listed and respondents asked to indicate the bases used by ticking against two possible responses "yes" and "no". The data collected was summarized and presented in the form of frequencies, percentages, means and standard deviations. Table 4.3 below presents a summary of usage of the basis of segmentation in order of extent of usage.

Table 4.3: Extent of usage of basis of segmentation by commercial banks in Kenya

Bases of segmentation used by commercial banks	Commercial banks		Mean score	Standard deviation
	Frequency	Percentage		
Behavioral	31	86	1.14	0.35
Image	30	83	1.17	038
Benefits	30	83	1.17	0.38
Geographic	29	81	1.19	040
Demographic	28	78	1.22	042
Situation	28	78	1.22	0.42
Psychographic	24	67	1.33	048
Usage	19	53	1.47	0.51
Loyalty	19	53	1.47	0.51

The above findings show that whereas all the listed basis of segmentation is used by the commercial banks in Kenya, the extent of usage varies. The findings show that while behavioral basis of segmentation was used by majority of the commercial banks (86%), the least used are usage and loyalty, as indicated by 53% of the respondents.

In order to meet the second objective of the study, "to assess the factors that influence market segmentation by commercial banks in Kenya" the respondents were provided with a list of possible factors indicating market segmentation and asked to indicated the extent to which each of the factors had motivated market segmentation in their respective organizations by ticking as appropriated along a five-point scale. The responses were analyzed using descriptive statistics such as frequencies, standard deviations and mean scores. *Where:* Not at all = (1); A little extent = (2); Moderate extent = (3); Great extent = (4); and Very great extent = (5). The findings are summarized and presented in table 4.4 below.

Table 4.4: Assessment of extent to which various factors influence market segmentation by commercial banks in Kenya

Factors that influence market segmentation by commercial banks in Kenya	Mean	Std. Dev	Ranking
Extent to which changing customer preferences has motivated market segmentation in Commercial Banks	3.53	1.08	3
Extent to which Technological Changes has motivated market segmentation in Commercial Banks	3.83	1.07	1
Extent to which Competition has motivated market segmentation in Commercial Banks	3.67	1.17	2
N = 37			

It can be concluded that adoption of market segmentation was motivated by changing customer preferences, technological changes and competition. Though each of the factors motivated adoption of market segmentation, each of the factors influenced the adoption to a varying extent. The findings indicate that technological changes are the factor that influenced the commercial banks most to adopt market segmentation. Further the respondents were asked to list and briefly explain any other motivating factors for segmentation in their respective organizations. Multiple responses were allowed. The responses are summarized and presented in table 4.5.

Table 4.5: Other Motivating factors for segmentation in commercial banks in Kenya

Other motivating factor for segmentation	Response	
	Frequency	Percentage
Customer retention- The need to retain customers has forces organizations to carry out segmentation.	32	89
Quality services- In effort to provide quality services to various customers, a need arose to segment the market.	34	94
N = 37		

In order to meet the third objective of the study, "to evaluate challenges to effective implementation of market segmentation", the respondents were asked to indicate the extent to which listed external and internal factors affected implementation of market segmentation in their respective organizations. Firstly, the respondents were asked to indicate the extent to which listed external factors affected market segmentation by ticking as appropriate against listed factors along a five-point likert scale. The responses were analyzed using descriptive statistics such as frequencies, means and standard deviations. *Where:* Not at all = (1); A little extent = (2); Moderate extent = (3); Great extent = (4); Very great extent = (5). The responses are summarized and presented in table 4.6 below.

Table 4.6: External challenges to effective implementation of market segmentation

External challenges to effective implementation of market segmentation	Mean	Standard deviation	Ranking
Political factors	2.44	1.13	7
Technological changes	3.14	1.22	5
Legal factors	2.75	1.27	6
Economic factors	3.56	1.32	3
Changing customer preferences	3.78	1.05	1
Customer social backgrounds	3.22	1.20	4
Religious Backgrounds	2.28	1.21	8
Competition	3.58	1.27	2
N = 37			

The findings show that the economic factors affected market segmentation strategies of the various commercial banks most, while the factors least affecting market segmentation by commercial banks were religious backgrounds of the customers. Further the respondents were asked to indicate the extent to which internal factors affected implementation of market segmentation in their respective banks. A listing of possible internal challenges was provided and the respondents asked to tick as appropriate the extent of effect along a five point scale. The data collected was analyzed using descriptive statistics. *Where:* Not at all = (1); A little extent = (2); Moderate extent = (3); Great extent = (4); Very great extent = (5). The responses are summarized and presented in table 4.7 below.

Table 4.7: Internal challenges to implementation of market segmentation

Internal challenges to effective implementation of market segmentation	Mean	Standard deviation	Ranking
Unsuitable organizational structure that is not supportive of market segmentation	3.28	1.26	6
The existing distribution systems are not supportive of market segmentation	3.69	1.21	1
The degree to which managers understand and implement segmentation concept is low	3.67	1.17	2
Unsystematic and inappropriate grouping of customers	3.64	1.10	3
Lack of top management support for market segmentation	3.47	1.18	4
Differences in preference and purchase patters for financial services do not appear to emerge along regional lines, thereby removing the usefulness of geographic segmentation	3.42	1.30	5
N = 37			

Further, the respondents were asked to indicate any other challenges that their respective challenges organizations faced in implementation of market segmentation strategy. Multiple responses were allowed. The responses were captured, summarized and analyzed using content analysis. The responses are summarized and presented in table 4.8 below.

Table 4.8: Other challenges facing implementation of market segmentation strategy

Other challenges facing implementation of market segmentation strategy	Response	
	Frequency	Percentage
The lack of sufficient knowledge by the junior staff in adopting market segmentation and its importance in the organization	33	92
Lack of practical guidance on what elements are necessary for a successful market segmentation strategy	30	84
Lack of evaluation criterion for market segmentation strategy (no way to determine effectiveness, measure benefits, or success)	32	89
Obtaining data, or data quality (customers resistant to share information)	27	75
Expensive and/or time consuming	30	84
Benefits to a market segmentation strategy are unclear/not proven	31	87
Inability to tailor bundles to fit individual market segments	28	78
Limited access to marketing expertise to develop and/or execute a market segmentation strategy	33	92
Inexperienced managers (lack expertise incorporating market segmentation strategy into the firm's marketing/strategic plan)	36	100
Resistance to change (sales staff and sales managers)	32	89
Too much variation across market for any market segmentation strategy to work	30	84
Rapidly changing market environment (market segments become obsolete quickly)	31	87
N = 37		

The respondents were further asked to indicate possible interventions that could be employed to enhance effectiveness of market segmentation strategy, in their respective organizations and multiple responses were allowed. The suggested interventions are summarized ad presented in table 4.9 below.

Table 4.9: Interventions to enhance effectiveness of market segmentation strategy

Interventions to enhance market segmentation strategy	Response (%)
Staff awareness programs to be instituted clearly stipulating the gains inherent in the organization by undertaking segmentation	92
There is need to develop and institutionalize an effective evaluation criterion for market segmentation strategy (no way to determine effectiveness, measure benefits, or success)	95
Customers should be sensitized on the importance of sharing information with the commercial banks, upon which informed decisions can be made with regards to market segmentation.	84
Appropriate budgetary allocations to facilitate implementation of market segmentation strategies	98

Appropriate budgetary allocations to facilitate implementation of market segmentation strategies is a possible intervention that mentioned by majority of the respondents (98%), followed by the need to develop and institutionalize an effective evaluation criterion for market segmentation strategy (no way to determine effectiveness, measure benefits, or success), as indicated by 95% of the respondents.

5.0 SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

This chapter presents a summary of the findings, discussions and conclusions drawn from the research findings and the recommendations for practice and for further studies.

5.2 Summary, Discussions and Conclusions

The study findings show that the factors motivating market segmentation include competition, changing customer preferences and technological changes, which confirm the findings by Orlow, *et al.* (2004). The underlying aim of market segmentation is to group customers with similar needs and buying behavior into segments, so that each segment can be reached with a distinct marketing programme. The concept attempts to bridge the gap between diverse customer needs and limited company resources, by encouraging distinct product and marketing offerings to be developed to suit the requirements of different customer segments.

Findings of the study indicate that segmentation leads to more satisfied customers, because it offers the practitioner a number of clear benefits, including improved understanding of customer needs, more appropriate resource allocation, clearer identification of market opportunities, and better tuned and positioned marketing programmes. Despite the advantages which segmentation can bring, financial institutions have been slower to capitalize on its potential than some other industries. However, as the regulatory situation has changed,

competitive pressures have increased and profits have been squeezed, so that many institutions are now looking for ways to direct their resources at the most lucrative customer groups.

According to Wills (1985), a major condition for successful segmentation is that the segmentation criteria must be relevant to the purchase criteria of customers. It is precisely the linking of customer groups with the benefits they seek that makes benefit segmentation such a useful and dynamic marketing technique. By examining their strengths, financial institutions can pinpoint those benefit markets they are most likely to appeal to. By noting and, if so desired, overcoming their weaknesses, they can develop benefits to appeal to previously unreachable markets. By operating in this manner, financial institutions should be able to market more effectively and efficiently to one or more groups of customers than is possible using more traditional methods of market segmentation.

The findings further indicate that the benefits of segmentation, management teams wishing to determine and action revised segmentation strategies often encounter practical problems. Difficulties sometimes arise when strategies and marketing programs have been devised with little or poorly structured background marketing analysis. Even where the background analysis is thorough, the strategies devised may not translate into modified marketing programs. Altered segmentation strategy may require far-reaching organization and marketing changes, which are difficult to undertake and which may not be attractive to sales and marketing executives. Overcoming these implementation problems is vital to the success of market segmentation, so it is important that potential barriers are removed.

In view of the findings, it may be concluded that market segmentation arises because it is necessary to balance diverse customer needs with the capabilities and resources of competing organizations in the marketplace. In most markets the breadth of customer requirements is too extreme to allow single organizations to satisfy all customer product and service needs all of the time. Companies are more likely to achieve a match between their particular assets and the diversity of needs by concentrating efforts on customer groups with fairly homogeneous requirements.

5.3 Recommendations for Further Study

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: Whereas the current study focused on the responses from the management of commercial banks, future studies should focus on responses from customers of the commercial banks in Kenya; and the findings of the study should be replicated to other sectors of the economy. In addition, despite the attention that the literature has given to the application of segmentation in financial services, the implementation aspect and problems associated with it have been identified as key areas for further research.

5.4 Recommendations for Policy and Practice

In view of the findings of the study, the following recommendations are made:

In order to be implementable, segmentation programs must be in sympathy with organizational characteristics and cater realistically for the existing market situation. In order to overcome the following challenges: the lack of sufficient knowledge by the junior staff in adopting market segmentation and its importance in the organization ; inexperienced managers (lack expertise incorporating market segmentation strategy into the firm's marketing/strategic plan); and lack of practical guidance on what elements are necessary for a successful market segmentation strategy, there is need to develop and institutionalize staff awareness programs, clearly stipulating the gains inherent in the organization by undertaking segmentation.

In order to overcome the challenges of obtaining data, or data quality (customers resistant to share information); and inability to tailor bundles to fit individual market segments, there is need to sensitize the customers on the importance of sharing information with the commercial banks, upon which informed decisions can be made with regards to market segmentation.

Implementation of market segmentation strategies has a cost implementation, which requires appropriate budgetary allocations to facilitate implementation of market segmentation strategies.

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APPENDIX I: LIST OF COMMERCIAL BANKS IN KENYA

1	African Banking Corporation ltd
2	Bank of Africa ltd
3	Bank of Baroda ltd
4	Bank of India ltd, Nairobi
5	Barclays Bank of Kenya ltd, Nairobi
6	CFC Stanbic Bank ltd, Nairobi (listed on NSE)
7	Charterhouse Bank Ltd, Nairobi
8	Chase Bank Ltd, Nairobi
9	Citibank ltd, Nairobi (foreign owned)
10	City Finance Bank ltd, Nairobi
11	Commercial Bank of Africa ltd
12	Consolidated Bank of Kenya Ltd, Nairobi
13	Co-operative Bank of Kenya ltd, Nairobi
14	Credit bank ltd
15	Development Bank of Kenya ltd, Nairobi
16	Diamond Trust Bank ltd, Nairobi
17	Dubai Bank Kenya Ltd, Nairobi
18	Equatorial Commercial Bank Ltd, Nairobi
19	EABS Bank/Ecobank ltd
20	Equity Bank ltd
21	Family Bank ltd
22	Fidelity Commercial Bank Ltd, Nairobi
23	Fina Bank Ltd, Nairobi
24	Giro Commercial Bank Ltd, Nairobi
25	Gulf African Bank ltd
26	Guardian Bank ltd, Nairobi
27	Habib Bank A.G. Zurich ltd, Nairobi
28	Habib Bank Ltd, Nairobi (foreign owned)
29	Imperial Bank ltd, Nairobi
30	Investment & Mortgages Bank Ltd, Nairobi
31	Kenya Commercial Bank Ltd, Nairobi
32	K-Rep Bank Ltd, Nairobi
33	Middle East Bank ltd, Nairobi
34	National Bank of Kenya ltd, Nairobi
35	National Industrial Credit Bank Ltd, Nairobi
36	Oriental Commercial Bank Ltd, Nairobi
37	Paramount Universal Bank Ltd, Nairobi
38	Prime Bank Ltd, Nairobi
39	Southern Credit Banking Corp. Ltd, Nairobi
40	Standard Chartered Bank ltd, Nairobi
41	Trans-National Bank Ltd, Nairobi
42	Victoria Commercial Bank Ltd, Nairobi

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