CHAPTER ONE

INTRODUCTION
Introduction

Marketing is an enterprise-spanning process, which consists of organisational activities that facilitate and expedite satisfying exchange relationship in a dynamic environment through the creation, pricing, promotion and distribution of goods, services and ideas. Organisations the world over move heaven and earth to develop successful and innovative marketing programmes and strategies to create, win and keep customers. In this globalised and highly turbulent economic environment, traditional marketing management philosophies are found to be inadequate to attain the marketing goals of maximising consumption, consumer satisfaction, product variety and life quality. Marketing affects so many people in so many ways that, it inevitably stirs controversy. Some people intensely dislike modern marketing activity, charging it with ruining the environment, bombarding the people with senseless advertisement, creating unnecessary wants, teaching greeds to youngsters and committing several other sins (Kotler, 1992).

Thus, the task of developing, improving and implementing competitive marketing strategies has been emerged as the foremost problem of business organisations. In this context, business organisations have been in a dilemma, since they have to reconcile a number of incongruous forces to design an effective marketing strategy to throw down the gauntlet in the highly competitive and dynamic marketing environment. Organisations are under tremendous pressure to design successful and result-oriented marketing strategies and also updating them in tune with the latest developments in
marketing to deliver the desired requirements more effectively and efficiently than competitors in a way that maintains and improves the customer's and society's well-being. Thus, the task of designing a well-planned and effective marketing programme and infusing modern approach and innovations in it become a major challenge of all types of business organisations.

This research study attempts to analyse the market segmentation approach by financial institutions in the light of the fact that mass marketing, which targets all potential customers with the same marketing programme, is ineffective in the fast changing modern consumer-oriented financial market to lure customers who are increasingly conscious of their rights and strength.

Socio-economic transformation and explosive developments in the globalised world market, forced financial institutions to change their lethargic policy of "take it or leave it." to a dynamic approach to sense, serve and satisfy the needs of customers in a well-understood target market. Today FIs realise that if they continue with mass marketing in all marketing situations, they will have to pay heavy price for this apathetic marketing programme. These practical experiences force FIs to recognise the fact that market segmentation is one of the essential requirements to meet the challenge of formulating effective and innovative marketing programme to satisfy customers in a better way.

A broad scan of literature and the practical experiences of FIs in marketing shows that market segmentation has been accepted as a result-oriented and dynamic approach to attain organisational goals by providing maximum satisfaction to customers. In market segmentation FIs tailor their products and marketing mixes to groups or segments of narrowly defined geographic, demographic, psychographic or benefit segments to satisfy their specific financial needs, wants and requirements. The ultimate form of marketing
is customised marketing wherein FIs design their marketing programmes and financial offerings, which meet specific financial needs of each customer.

As the activities of different categories of FIs viz., contractual, depository and investment intermediaries have been growing in terms of turnover, profit, marketing network by leaps and bounds in the globalisation scenario, there is tremendous pressures on FIs for more effective and successful segmentation approach to face the challenges of liberalisation. Customer-focussed and dynamic approach in market segmentation is becoming the need of the hour in the present financial market especially in respect of customers belonging to household sector who exhibit heterogeneity in demographic, geographic, psychographic and behaviouristic characteristics.

The likely future direction in the financial marketing will be customer specific micromarketing in which product differentiation, responsiveness, empathy and specific market segmentation appeal will assume greater importance. The luxury of broad and homogeneous appeal and large captive market seems to be a thing of the past.

Thus the implications for market segmentation are very clear and far-reaching; the traditional mass marketing approach is ineffective in the context of technology-based financial marketing. The emerging trend in the financial market is to offer ‘any time and anywhere banking’ seven days a week, technology-based banking which need investigations into dynamics of customer behaviour to formulate effective strategies for successful market segmentation approach.

According to Meidan (1996) the marketing approach of financial institutions refers basically to four steps: (1) identification of customer segment’s financial needs and wants (2) development of suitable financial products to meet the needs identified (3) development of other elements of
Marketing mix suitable for different segments (4) combining elements of marketing mix (5) developing suitable marketing mixes for various segments and (6) forecasting future financial needs of different segments.

Marketing mix, in this context, is used to describe a blending of decisions about product, price policies, place, promotion, process, people and provision of customer service. The marketing approach by financial institutions is depicted in Figure 1.1 in a circular form. As presented in the figure, it starts and concludes with identifying and satisfying financial needs of different customer segments. Steps 2-5 of this process represent the marketing mix dimension, which is of special importance to any marketing programme of FIs, especially when they follow segmentation approach in marketing financial products.

Figure 1.1
Major steps in marketing approach by financial institutions
Financial institutions should formulate and manage different combinations of marketing mixes because they market a collection of customer-satisfying services to diverse target segments. They have to create appropriate marketing programme to attract valuable savings of the investors through appropriate financial products and convert these funds into other customer satisfying-products i.e. credit product, which attract customers who are in need of fund. Thus financial institutions have dual marketing task of mobilisation of savings of customers having surplus fund through savings product and distribution of fund to customer who are in need of money, through credit products.

Figure 1.2
Financial institutions' dual marketing task

Thus, products of financial institutions consist of savings products and credit instruments and separate marketing programmes should be designed to market different product categories viz., savings and credit products.
The main focus of this research study is to examine the market segmentation approach of financial institutions in marketing financial products meant for saving mobilisation.

Research studies by Ennew et al., (1989) on the role of marketing in financial products indicate that, over the last few years, a number of external and internal factors have been influencing the marketing activities of financial institutions. Among them, change in the customer behaviour, acute competition, market segmentation and multiple-service customer-relationship, deregulation and government intervention etc. are the dominant ones.

Some studies by Capon (1994) and Burnett (1990) suggest that longer life expectancy, modern consumerism, new life styles, influence of electronic media, higher income and better standard of living have all contributed to the dramatic change in customer behaviour in the context of marketing of financial products by financial institutions. In the present financial marketing scenario, customers are very sophisticated, more demanding and have better financial exposure. They have been becoming increasingly savings conscious, more risk tolerant, less afraid of debts and credit cards and this situation offers vast opportunities and challenges to the financial institutions in marketing.

Deregulation of financial laws and government intervention is another important emerging trend in the financial market. Government and financial regulatory bodies initiated a number of measures to infuse necessary autonomy and dynamism to the financial market. These measures have some prejudicial effects in the form of frequent scams and the exploitation of customers belonging to the household sector. These negative events force the government to interfere in the financial market at periodic intervals to safeguard the financial system from unscrupulous fellows who frequently derail the system to further their self-interest.
Technological innovations also have revolutionised the financial market which offer tremendous opportunities to financial institutions to serve their customers more reliably, speedily and accurately with advanced electronic gadgets and tools (Ho and Ng, 1994). They should improve the quality and suitability of their offerings to different segments of customers by using Automated Teller Machines (ATMs), Electronic Banking, Internet Banks, Tele Banking etc.

Market segmentation and multiple service customer relationship are another major development in the marketing of financial product, which indeed hold the key to sustainable competitive advantages to financial institutions. The major task of FIs in marketing financial product is to attract, maintain and enhance customer relationship by satisfying the totality of segment's specific financial needs and expectations. With the recognition of the fact that customers are demographically, psychographically and culturally different, financial institutions realise that, effective marketing of financial products need analysis of customer behaviour and diagnosing divergent wants and requirements of different customer segment and developing suitable marketing mixes to satisfy these wants and requirements.

Thus, in a diversified financial market having numerous customers with divergent financial needs, market segmentation has been identified as an important task and challenges for financial institutions. As a matter of fact, some other emerging trends in the financial market also are instrumental in making the market segmentation more complex and challenging. More research studies on this topic may be useful to investigate various problems on this issue and solve them with the help of the research findings.

Only in the late 1950s, that a few FIs realised the importance of marketing research for better and effective marketing of financial products.
Even though certain banks and investment intermediaries create marketing research departments, the personnel in the department were not professional marketing researchers but were mainly operational researchers and statisticians without any research background.

Marketing research in financial market essentially deals with marketing problem solving with a focus on customer segments profile and preferences. Concept-testing new financial products is a major area in marketing research which deals with (a) how to market a financial package being offered to different customer segments and (b) which market strategy should be adopted for each segment. Marketing research can be fruitfully employed to collect vital information on market and customer behaviour for better product design, advertising programmes, pricing policies etc.

Marketing research basically concerned with market related problems and the problems always have their origin in the marketing activities of FIs. Marketing research helps the FIs to create a formal and structural communication channel between the market and FIs in which valuable and meaningful marketing data on customers can be assimilated to the financial institutions. Smith et al., (1989) in their study clearly show the superiority in the marketing performance of FIs, which have sound and effective feedback system in the market segmentation programme. The role and significance of marketing research in the financial market segmentation is exhibited in Figure 1.3.
The knowledge of FIs about market and various customer segments will be considerably enhanced through various activities furnished at the top of the completed circle in Figure 1.3. It may be instrumental in motivating customers belonging to household sector to move up the purchase ladder to select a particular FI for dealings.

Rothwell (1978) identifies the market segmentation as the first and primary task to be performed in marketing research. The endeavour here is to describe the market in terms of common denominations that are prevalent in marketing today and to diagnose segment specific wants and needs.

Mercedes (2000) who have conducted an in-depth study on FIs segmentation, say that market segmentation has now emerged as an effective marketing tool for leading FIs and are taking the next step in
reaching a multicultural customer segments. They have established multicultural marketing units and have graduated to searching for new assets with marketing campaigns created in different languages and reflective of the life style patterns of ethnic customers.

In market segmentation studies, a number of market segmentation technique are employed to segment customers. Among these, cluster analysis, factor analysis, determinant attribute analysis, linear regression etc. are some of the popular segmentation techniques employed by FIs. Figure 1.4 depicts alternative segmentation techniques and processes for market segmentation by FIs.

**Figure 1.4**
The processes and techniques of market segmentation
In cluster analysis technique, homogeneous group of customers are created on the basis of similarity in demographic, psychographic, behavioural and socio-economic characteristics of customers. The basic issue in cluster analysis is the identification of two set variables, which are highly correlated with one another to formulate different clusters. Other sub-variables that correlate with two major variables are also identified to reflect the topology of customers belonging to different clusters or segments.

In this study, cluster analysis technique is adopted for segmenting customers of three categories of FIs viz., depository, contractual and investment intermediaries.

An investigation of studies on the marketing research in the financial market reveals the importance given to market segmentation by well-known researchers in this area. Study by Anderson et al., (1976) involving determinant attribute analysis of bank selection criteria beautifully portrays the usefulness of various attributes as a criterion for financial market segmentation and design of patronage appeals. Research by Robertson (1977) on classification of customers on the basis of six major set of characteristics by application of cluster analysis, an outstanding study by Rajshekhar (1999) on life cycle segmentation approach for effective marketing of financial product by FIs, deserve special attention of researchers on account of the authenticity and novelty of the approaches in these studies on market segmentation by FIs.

Dupoy et al., (1976) very clearly reveal the decision process of different customer segments for the selection FIs and criticise the traditional segmentation approach followed by FIs. The importance and relevance of market segmentation in financial market and how it influences customers in developing a positive attitude towards the financial institutions are the main
aspects of different studies reported on market segmentation. Marshall (1985) who emphasised the need for consumer orientation in financial marketing. Wong (1991) who elaborately presents certain result-oriented marketing strategies in the marketing of financial products; Pottruck (1988) who empirically proves the worth of information on market and customer behaviour etc. are very good studies in market segmentation. In a way, marketing researchers formulated the above studies within the structural framework of market segmentation. Problems investigated in a large number of studies are directly or indirectly related to various dimensions on market segmentation. That is why Julie Williams, the first senior deputy comptroller and chief counsel for currency, USA, in the D.C. conference on 'cyber banking' at Washington on 1st February 2001 rightly observes, "in a financial world overwhelmingly influenced by technological revolution, one of the most interesting and potentially far reaching developments in the financial market today is its ability to segment products, services and operations into component parts or processes that can then be provided or obtained separately.

It is an accepted fact that market segmentation approach is one of the most important prerequisites for success in marketing financial products because product-differentiation, specific customer-segmentation-appeal, individualised attention etc. are very important for customers belonging to household segments. It seems likely that the competitive dynamics of the current financial market forces FIs to adopt segmentation approach to develop a customer friendly culture in the organisation. As reported by Lynch (1995) in his illustrious study, customers frequently seek distinctive benefits from FIs. Understanding what tangible and intangible benefits can be offered and which customers are more likely to seek and appreciate such benefits are crucial to market segmentation approach by FIs.
The above discussions clearly suggest that there is no such thing as a short cut to success in marketing. The real success comes from supplying higher-value-financial-offerings for specific market niches. Studies by Beadle (1988) on the importance of lifestyle-research in marketing, Elliehausen et al. (1992) on the behavioural patterns of household in financial market, Marshall et al., (1988) on motivation of different customer segment on the use of electronic banking, Marc (2001) on demographic segmentation clearly show that successful FIs follow a market segmentation approach, in which they design and offer a superior marketing-mix earnestly sought after by all customer segments.

Need for and significance of the study

An overall study of views of academicians, researchers and practitioners related to the present research problem, supported an importunate need for further research in this area. It was found that even though there were excellent studies on the topic, the studies in this area could not adequately cover certain aspects of market segmentation by financial institutions, and these areas need more attention and exploration. Some studies and prevailing beliefs in the area were unsymmetrical highlighting only certain aspects of the problem, and many important dimensions of the problems need to be investigated further.

Examination of available research studies and theoretical literature on segmentation by FIs in the financial market suggests certain research gaps in the field. The relevance and significance of demographic, psychographic and behaviouristic and socio-economic variables in market segmentation, psychological judgment of customer segment in the purchase decisions, financial product studies, sociographic segmentation, customers risk perceptions, segmentation competitiveness of FIs, influence of segmentation
variables on customer behaviour, cluster analysis and segmentation gaps/deficiencies are certain areas in market segmentation wherein certain research gaps are found and the main attempt of this study is to examine the above research gaps.

Literature review showed that there was a dearth of comprehensive research studies on the above-mentioned aspects of market segmentation by financial institutions for mobilisation of savings. It demonstrated that a serious research problem which could bring about fruitful results in strengthening financial system of countries did not get adequate attention of researchers and the academic community.

In this context it is very appropriate to note that developing countries and economies in transition like India in the liberalised and globalised world may fall short of economic progress unless there is a substantial increase in the rate of Gross Domestic Savings. It is doubtful whether the estimated increase in the domestic demand for investment in developing countries may be matched with likely increase in domestic savings rate. Faced with the drastic decline in output and irregular and unreliable inflow of foreign funds since the mid 1990's, these economies have little option but to intensify their efforts to mobilise domestic financial resources for economic development. Experiences of Asian economics especially of the so called ‘Asian Tigers’ showed that over-dependence on foreign funds is dangerous and high rate of domestic savings-especially that of household sector—is very crucial for sustained and robust economic growth.

Financial institutions have to play a dominant role in savings mobilisation of customers belonging to the household sector through innovative and effective market segmentation approach. As per the official estimate, the rate of savings in India is below 25% of GDP which is very low
compared to the savings rate range of 35-40% in other developed and fast developing economies. Since household customer's savings constitute about 80% of the GDP in developing countries, a prognostic and consistent effort by FIs is inevitable to rejuvenate and accelerate the rate of savings of household segments.

Market segmentation which is recognised as one of the most powerful and innovative marketing approaches may be effectively applied by financial institutions to collect vast and valuable savings of customers belonging to household sector by designing and marketing attractive financial products. Success of financial institutions in mobilisation of savings to a great extent hinges on identifying the right segment and framing the most appropriate marketing programmes to attract target segments. The market segmentation helps financial institutions to analyse different financial wants and needs of diverse market segments and to design suitable marketing mixes that satisfy their specific requirements. Therefore, a research study to explore and diagnose various dimensions of market segmentation by financial institutions and its impacts may be useful for strengthening financial market and accelerating savings mobilisation.

Traditional customer surveys are inadequate to provide insights and necessary customer feedback to understand the dynamics of customer behaviour, attitude and perception. Similarly, customer surveys which do not enquire into the prominent behavioural characteristics and attitude of customers cannot divulge vital information on customer behaviour which is very important in designing effective market segmentation approach. Therefore, research studies on market segmentation with a clear focus on customer behaviour should be conducted to bring out practical clues in reshaping and strengthening the existing market segmentation approach and also in discarding obsolete segmentation philosophies.
Importance of the study

The research problem selected for this study is one of the important issues in the field of financial market and its marketing dimensions on which researchers and academicians encourage more research studies. This research study may be relevant considering its significance in terms of some possible findings which may be useful to FIs in framing successful market segmentation approach to turn their dissatisfied and ‘merely’ satisfied customers into ‘delighted’ customers, which in turn can result in better savings mobilisation. The household segments may also be benefited from the research findings if they bring about an attitudinal change in their savings behaviour. The importance of the study may be briefly highlighted in the following points.

- The research study could examine existing theories on market segmentation by FIs and the findings might supplement the existing theories on this topic.
- The study may bring to light certain clues to strengthen market segmentation approach of FIs.
- The study may throw light on the existing beliefs and perceptions on customer behaviour which may be useful in effecting some positive changes in market segmentation approach by FIs.
- The study could suggest certain relationship between market segmentation variables and customer behaviour in the context of marketing of financial products by FIs.
- The study may supplement the existing knowledge on different dimension of market segmentation in the financial market which might encourage future research in the field.
- Findings of the study may help customers to view financial matters more seriously and to create suitable portfolios by combining different financial products in the right proportion.
Statement of the problem

Political leadership, financial regulatory bodies, economic advisors and administrators of financial institutions have unanimous opinion on the need for effective marketing approach by financial institutions to accelerate the rate of savings mobilisation. However, there is some sort of confusion and lack of direction in the financial services market in identifying effective marketing programmes for successful marketing of financial products. According to Guptha (1987) financial intermediation and marketing programmes of financial institutions lack innovation and dynamism which has an adverse impact on the savings mobilisation of household segments. Similarly, Angus (1989) has also observed that effective marketing of financial product by financial institutions need diagnosis and analysis of savings behaviour of customers belonging to household sector and satisfying their specific financial needs. Thus the relevance of market segmentation in the context of marketing of financial product by financial institutions is now being increasingly recognised.

According to Payne (1996) the problem of recognising, defining, understanding and segmenting market has emerged as the most important problem in the marketing of financial product. However, certain FIs with traditional marketing approach still believe that mass marketing is the suitable approach in the marketing of financial product since these products are difficult to differentiate and the segmentation of customers does not result in the improvement of the marketing performance. Anyway, financial institutions, by and large, have been following the market segmentation approach in the marketing of financial products and a study on market segmentation may be appropriate and useful for these institutions and the society at large. Therefore, this study was framed to critically examine certain issues of market segmentation by financial institutions identified for the research study.
Does market segmentation have any relevance in the marketing of saving products by financial institutions?

How do demographic, psychographic, behaviouristic and socio-economic factors affect market segmentation approach by financial institutions and different customer segments?

Can these customer segments be identified by a set of common characteristics and attributes?

Is segmentation competitiveness a measure of financial institutions’ ability to satisfy the needs of different segments relative to competitors?

To what extent is the existing segmentation approach adequate/effective in marketing financial products?

The present study endeavours to examine the important issues on market segmentation mentioned above within the framework of specific objective as detailed below

**Objectives of the study**

1. To identify major segmentation variables employed by different categories of financial institutions and to analyse the relevance and relationship of these variables in market segmentation by financial institutions.

2. To measure and analyse segmentation competitiveness of financial institutions and its relationship with post purchase customer behaviour.

3. To diagnose various clusters/segments of customers focused by financial institutions and to examine the distinctiveness of these clusters in terms of certain common characteristics and attributes.
4. To analyse the financial products of financial institutions targeting different customer segments, in terms of product features, benefits, objectives, portfolio strategies and customer perceptions.

5. To pinpoint gaps/deficiencies in segmentation approach of various categories of financial institutions in terms of segmentation attributes.

Hypotheses

The following null hypotheses have been formulated for the study with regard to the objectives mentioned above.

1. \( H_0 \): There is no multiple correlation between behaviouristic variable and demographic variables are significant.

2. \( H_0 \): The mean risk tolerance of different customer segment is equal.

3. \( H_0 \): The mean degree of influence of different savings motives on purchase decision of customers with regard to financial products is the same.

4. \( H_0 \): The mean market segmentation competitiveness of different financial institutions is equal.

5. \( H_0 \): There is no significant correlation between market segmentation competitiveness and post purchase customer behaviour.

Scope of the study

The scope of the study is limited to the specific aspects of market segmentation approach of FIs mentioned in the objectives of the study. Further, it mainly focuses on the market segmentation approach with regard to the marketing of financial products meant for saving mobilisation. For this purpose, six FIs namely, LIC, UTI, SBI, FBL, KPMF, NSS have been
selected from depository, contractual and investment intermediaries. Also, the place of the study is limited to the northern, central and southern regions of the State of Kerala.

**An overview of methodology**

An appropriate methodology was formulated to examine the objectives identified for the study. Both primary and secondary data had been collected for the present study. The primary data for the study had been collected by conducting a sample survey by administering questionnaire on customers of FIs belonging to household sector who constituted the population of the study. Interviews with executives of financial institutions were also conducted to elicit information on segmentation approaches of financial institutions. Secondary data had been collected from reports on customer survey conducted by financial institutions, dissertations, research journals, CD Roms, books, financial dailies and magazines.

In this study, the sample consisting of 300 respondents who were selected from a list of customers furnished by marketing departments of FIs and stratified sampling method had been followed for the selection of sample units with due representation of customers belonging to northern, central and southern areas of the State of Kerala.

Financial institutions under different categories were selected after considering the reputation, track-record, network, ownership and segmentation approaches. State Bank of India, Federal Bank Limited, National Saving Schemes from depositories, Life Insurance Corporation from contractual intermediaries and Unit Trust of India and Kothari Pioneer Mutual Fund from investment intermediaries were the financial institutions selected for the study.
In the analysis design, appropriate measures were employed in respect of various objectives of the study. In statistical analysis, mean, standard deviation, correlation, t-test etc. were the measures employed.

**Limitations of the study**

1. The methodological assumption of the representativeness of sample may not be practically true. This limitation may restrict the scope for generalisation of the results of the study.

2. In this study, customer's responses are not measured in two time periods. A longitudinal study on customer behaviour is more appropriate to derive more accurate results.

3. The study mainly depends on interval level data, derived from customer responses to various variables, to carry out statistical test, which may not be as accurate as the results derived from ratio level data.

4. In this study, the new generation FLs are not included to be examined for their market segmentation approach and this limits the scope of the study to the existing FLs in the financial market only.

5. The tools and techniques of analysing customer behaviour may lack precision and on account of this limitation, a high degree of accuracy may not be achieved in the analysis of customer behaviour.

**Organisation of the Thesis**

The thesis is organised in five chapters including introductory chapter that contains importance of the study, statement of the problem, objectives of the study and hypotheses.
The second chapter, ‘Literature Review’ describes theoretical literature on the topic and major research studies relating to the present study.

The third chapter explains the research methodology

The fourth chapter, ‘Findings and Discussion’ presents a detailed analysis of the data in respect of the objectives of the study.

The last chapter provides a summary of findings, major conclusions and gives some suggestions based on the findings of the study

In the detailed discussion of theoretical literature and conceptual framework of the research study, explanation of the terms and concepts mentioned in the study are discussed in detail.