

Literature Review

In literature review, a detailed discussion of theoretical literature and research studies on the topic specifying major concepts and variables and critical assessment on previous research studies and their relationship to this research study are included.

Review of literature consisted of three phases. The first phase was a broad scan of the literature by concentrating on research reviews viz., research articles on the topic. The purpose of this broad scan of literature was to identify and formulate research problem. Certain handbooks on research on this topic, back issues of leading journals and computerised database of research centres were used.

Focused review of literature was the second phase of the literature review, which was conducted to get more clarification on the research problem to narrow down the same and to develop a research proposal. Focussed review was accomplished through computerised search of data base available on the internet and CD Rom service, library facilities provided by Institute of Financial Management &Research, Madras and such other research centres.

The third phase of the literature review was a comprehensive critique of the literature, which provided a scholarly foundation for the study. At this stage all the sources mentioned in the first and second phase and CD-Rom service and library facilities of IIM, Bangalore were made use of
The theoretical literature

The theoretical literature on the topic explained abstract principles and practices regarding the research problem, which was reviewed to provide a foundation on theories and principles of the topic of research and for developing a conceptual framework for the research study.

During the review of theoretical literature, a fairly good number of theories and models on the market segmentation by FIs and customer behaviour in respect of savings decisions were found. Since the research problem encompassed analysis of different theoretical concepts on the issue, the theoretical literature covered the following areas.

- Theories on market segmentation by FIs and major market segmentation variables employed by them.
- Theories on different categories of FIs and their resource allocation function in the financial market
- Theories on customer behaviour with regard to purchase of financial products.
- Theories on financial products.
- Other related topics.

Concepts and terms used in the objectives and in various other parts of the study and their conceptual dimensions are explained in the theoretical literature review.

Mass marketing vs market segmentation

Market segmentation has been considered as one of the most effective marketing approaches and philosophies for the marketing of goods
and services. However, in the financial market, especially in the context of marketing of financial products by FIs, this marketing philosophy is generally underutilised with many FIs adopting unsophisticated views on market segmentation. The approach taken is often to wait and see which customers or clients come forward to buy a service or to offer range of services without focussing on the specific needs of identified segment. However FIs have been recognising that they cannot appeal to all customers in the market in the same way since customers are too numerous, widely scattered and too varied in their need, wants and behaviour. FIs can adopt any of the following approaches in marketing financial products.

Mass marketing

For several decades, FIs have been following mass marketing, which is characterised by mass production, mass distribution and mass promotion of one product to all potential customers. This approach was popularised on the basis of the misconcept that FIs can create the largest potential market at the lowest cost through this approach. Mass marketing is a broad and homogeneous approach wherein FIs target all potential customers with the same marketing mix. The heterogeneous characteristics of customers are not seriously considered by FIs in studying the variegated needs and requirements of different customer segments and in designing suitable financial product.
As depicted in Figure 2.1, in mass marketing the focus of FIs is on total market and the same marketing mix is offered to all potential customers without considering the difference in their demographic, behaviouristic and psychographic characteristics.

**Market segmentation**

Market segmentation is the process of splitting customers into different groups or segments within which customers with similar characteristics and similar financial needs are grouped. By doing so each one can be targeted and reached with a distinct marketing mix (McDonald et al., 1995). Here, the organisation identifies market segments, select one or more of them and develop marketing mixes to attract each target segments. Instead of scattering marketing effort (the shotgun approach) FIs can focus on the customers who have greater interest in the product (the rifle approach).
Presently the focus of FIs is on total customer satisfaction through market segmentation in which the approach is to diagnose the heterogeneous characteristics of customers, group them into appropriate homogenous groups or segments and to design suitable financial products to satisfy their specific financial requirements.

Market segmentation can be practiced by FIs for marketing financial products in any one of the following ways viz., concentration strategy or multi segment strategy

Concentration strategy

In concentration segment strategy, organisation directs marketing mix towards a single market segment and concentrates all marketing efforts on a single segment.

**Figure 2.2**

**Concentration strategy**

As presented in Figure 2.2, in concentration strategy, the approach of FIs is to select the most profitable segment from among different customer segments identified and to design a most suitable marketing mix which is very attractive and beneficial to the target segment. This strategy is very
advantageous to Fls since they can concentrate on a single segment and becomes a dominant player in that segment.

**Multi segment strategy**

Under this approach Fls develop marketing mixes for different segments of customers and focus its marketing efforts at two or more segments. Fls using the multi segment strategy may usually effect sales in total market by focussing on more than one segment because its marketing mixes are being aimed at more customers (Engel et al., 1972).

**Figure 2.3**

*Multi segment strategy by Fls*

![Diagram showing multi segment strategy by Fls](image)
As per Figure 2.3, in multi segment strategy Fls select two or more customer segments and design appropriate marketing mixes containing various components which satisfy specific financial requirements of these different customer segments. Fls having substantial financial background and long experience in the market segmentation can follow this strategy for better market penetration and for providing higher customer satisfaction.

Segmentation archetypes in Fls

FIs can practice different types of segmentation archetypes which determine the level of organisational and customer interaction in market segmentation approach. At one extreme is the Fls whose marketing activity is purely customer driven but which takes no explicit account of the organisation's capabilities or structure. In such situations Fls may fail to reach the level of expectation engineered by its marketing departments. At the other extreme is the Fls, which base segmentation on their own capabilities or structure regardless of customer needs. With such an approach the FIS may be able to recognise changes in the market place, which in turn may undermine its extreme marketing strategy. McDonald et al., (1995) in their research paper, summarised segmentation archetype in organisations in the form of a matrix as shown in Figure 2.4.

Figure 2.4
Segmentation archetype
Sales based segmentation

Some Fls would not recognise themselves as having any form of market segmentation as such, but in terms of the fact that they differentiate the way they deal with different customer groups. This is an important form of market segmentation known as sales-based segmentation. Sales based segmentation may have segments, which are based on customer size or particular territories.

Organisational segmentation

Here, the organisational structure defines the segmentation approach. This may be through particular product divisions or particular territory splits based around product designing. This type of segmentation underlines the organisational culture with employees and structures being clearly differentiated by their allegiance to particular components of organisation.

In effect, the marketing effort is segmented, as these separate components of the organisation have their own marketing resources. Customers however, may find themselves having to deal with separate parts of the organisation each practicing its own quite different marketing strategies.

Bolt-on segmentation

This segmentation archetype is generally found in Fls, which have recently discovered the great potential of market segmentation in the financial market. Marketing programmes are very sophisticated with segments developed from both quantitative and qualitative data and often described in psychographic terms. A dominant feature of this type of segmentation is its existence and practice within the framework of marketing function. It is applied at an operational level for advertising campaigns and direct mail programmes. In this segmentation archetype, segmentation is not practiced at the level of
customer service dimensions. The segments developed are often task specific and variable across differing project over time. Consequently this form of segmentation is unlikely to play a major role in product or market development at the strategic level.

In the post liberalisation period, some Fls, practiced this segmentation archetype. Many of them recruited external marketing professionals when marketing was seen as the activity to be pursued with the utmost care and vigilance. Unfortunately, the consumer focussed endeavours of new marketing departments were often thwarted by the insistence of the institutions that their branches could not open their doors at times suited to the needs of their customers or to staff their branches during peak demand (because their staff needed to take lunch-breaks during peak time).

**Strategic segmentation**

In this segmentation, customer driven segments permeate the entire organisation, both in its external marketing activity and in its internal structure. Resources are allocated on the basis of these segments and marketing strategies are formulated on the basis of these groupings. Many multi brand, high street institutions operate their brands as different business with not only distinct retail units but also with separate buying departments and administrative support. This segmentation approach is practiced by Fls which are very proficient and experienced in segmentation with a high degree of professionalism.

**The segmentation process**

Market segmentation consists of a number of sequential processes and the first part of the process covers the essential preliminary steps to develop a segmented structure for the market. The first part contains seven steps and is
applied to whole market where the Fls are operating in, not just to a bit of market segment where it is currently successful. It therefore looks at competitors' products as well as their own. Second part of the process containing steps 8 to 12 looks at how to select those segments Fls may operate in.

**Figure 2.5**

**The process of segmentation**

**Step I**
**Market Map**
Define product, supply chain between Fls and final customers

**Step II**
**Who buys**
Preliminary listing of different buying groups

**Step III**
**What is bought, when, how**
Listing products, distribution channels, method of purchase

**Step IV**
**Who buys, what, where, when, how**
Combining step I & II to formulate a series of micro-segment

**Step V**
**Why is it bought?**
Understanding what each microsegment is trying to achieve with purchase

**Step VI**
**Segmentation Stage I**
Bringing together those microsegments displaying similarities

**Step VII**
**Segmentation Stage II**
Testing the resulting segments measurability, differentiation reachability
Bases of market segmentation

Identification of appropriate and worthwhile segmentation variables for segmenting potential market is not an easy task for FIs. Marketing managers have to put their heads together to analyse different segmentation variables to select suitable variables to be used as the bases for creation of profitable
market segment. Figure 2.7 outlines major segmentation variables generally employed for market segmentation by FIs.

**Figure 2.7**

**Bases for market segmentation**

- **Geographic variables**
  - Region, country, size, density, city size, climate

- **Psychographic variables**
  - Social class, life style, attitude, personality

- **Behaviouristic variables**
  - Purchase occasion, benefit sought, usage rate, loyalty status

- **Demographic variables**
  - Age, sex, family size, life cycle, income, occupation, race, education, religion, nationality

**Geographic segmentation**

Geographic segmentation classifies potential customers according to the location where they live or work and correlate this with some other variable to create various customer segments. Geographic segmentation dimensions are typically grouped into market scope factors and geographic market measures. Though in the pre globalisation and liberalisation period geographic variables were not common in market segmentation by FIs, in the post globalised period, these variables became very dear to globally exposed FIs.
Market scope factors

Location of market to be served on local, national, regional or global level is the consideration when market scope factors form the bases of segmentation. FIIs may target one or a few geographical areas and design marketing mix to satisfy the geographical differences in the needs and wants of customers.

Geographic market measures

Geographic market measures such as population density, climate-related factors and standardised market areas form the bases of market segmentation, when geographic measures are the consideration for market segmentation.

Presently, FIIs have been regionalising their marketing programmes-designing their products, promotion, price and service with regional flavour to meet the specific needs and requirements of individual cities, regions and even neighbourhood. However, even in globalised market some FIIs, are still reluctant to try this approach to design their marketing programmes to attract more customers.

Demographic segmentation

Demographic segmentation divides market on the basis of demographic variables such as age, sex, income, occupation, education family size, family life cycle etc. Demographic variables are the most popular bases for segmenting customers since customers needs, wants and usage rate are generally determined by different demographic variables. Demographic variables and customer behaviour in the context of marketing of financial products show some relationships and thereby FIIs can easily identify specific financial requirements and motives of customers to design suitable marketing mix (McKechnie, 1999).
Psychographic segmentation

Psychographic segmentation groups customers into different segments based on motives, attitudes, life style or personality characteristics. Psychographics are especially useful when other conventional methods of segmentation do not produce clear and useful segments. Rather than being concerned directly with demographic factors, psychographic segmentation is concerned with analysis of customers' way of living, attitude, perception etc. However, very often psychographics are analysed in conjunction with demographic variables to create more dynamic and reliable segments. FIs widely utilise customer lifestyle and personality differences to determine variations in customer demands. FIs market differently to 'Swingers' (Young, unmarried, active, fun-loving etc.) than to 'Plain Joe' (Older, married, home-centred, family centred). It is found that independent, relatively aggressive entrepreneurs respond more quickly to a personal selling approach of FIs, whereas more dependant, less aggressive individuals respond better to a more structured, authoritative sales presentation (Robertson, 1977).

Behaviouristic segmentation

Behaviouristic segmentation divides potential customers according to behaviouralistic pattern such as their preferences, product awareness, readiness stage, user status, benefit sought, loyalty status etc. Behaviouristic variables are widely recognised in the financial market as very adjustable and flexible in multivariable segmentation by FIs.

Benefit-segmentation

It is a popular form of behaviouralistic segmentation which assumes that the benefits that customers seek from a given product are the most influential factors in the purchase of financial product by different customer segments.
Benefit segmentation requires identification of major benefits customers look for in the product class, the kind of customers who look for each benefit and the major brands that deliver each benefit. This differs from psychographic segmentation, which focusses on 'who' will buy a product.

**User-status-segmentation**

It classifies customers into non-users, ex-users, potential users, first time users and regular users of products. Generally FIs having substantial share in the market follow strategies to attract and win potential customers and relatively smaller FIS focus their attention on regular customers. On the contrary, FIs, especially which follow traditional marketing programme, largely depend on regular customers and they are not interested in designing a marketing programme to attract non-users and potential users of financial products (Pottruck, 1988).

**Usage-rate-segmentation**

It divides the customers on the basis of type and extent of usage-rate-pattern such as heavy-users, medium-users, light-users. FIs have particular interest to target heavy-users since they account for a high percentage of total volume of trading, even though they often constitute a small percentage of the total market.

**Loyalty status segmentation**

It categorises customers according to the loyalty they exhibit to a particular FI or financial product being offered. Generally, customers are divided into four categories according to loyalty pattern exhibited by them in their dealings with FIs. **Hard-core loyals** (customers who buy their brands all the time), **soft-core loyals** (who are loyal to two or three brands) **shifting loyals** (who shift from favouring one brand to another) and **switching loyals** (who show
little sustainable loyalty to any one brand) are the loyalty statuses of customers belonging to different segments. Diagnosing the underlying reasons for different patterns of loyalty, needs further investigation and analysis to unearth hidden realities on this mysterious aspect of human behaviour (Fry, 1973). The importance of customer loyalty in the context of Fls lies in the fact that when customers make a decision to patronise a particular Fls, they are strongly influenced by their level of loyalty.

Fls take into account several factors in selecting segmentation variables. The segmentation variables selected for market segmentation are related to customer behaviour and characteristics. Naturally in market segmentation by Fls, variables under consideration reflect a particular dimension of customer behaviour which constitutes the base of market segmentation. Similarly, utmost care should be taken to choose suitable variables because selecting unfit variable restricts the scope for successful approach in market segmentation. Therefore Fls should have indepth knowledge of customer behaviour, attitude and perception which provides valuable insights in formulating effective and successful market segmentation approach.

**Fls and intermediation process**

Conceptual framework of Fls and its intermediation process in the financial system for the management of resource allocative function need a detailed discussion to visualise and understand an important aspect of this study. This research study is formulated to examine the market segmentation approach of Fls in marketing their financial products to customers belonging to household sector. As already discussed in the introductory chapter Fls are the most vital constituent of the economic system which perform the fundamental wealth allocation function of savings mobilisation and its productive investment of surplus funds. A well developed and efficient financial market and a wide network of Fls are inevitable for
storing and transferring the wealth of the economic system through the vehicle of financial assets.

FIIs in a financial market constitute an institutional framework facilitating mobilisation of valuable financial resources of the society through financial products which accelerate rate of capital formation, inculcate saving habits and promote economic self reliance. The structural framework of financial market and various components constituting the system and the significant role of FIIs in the financial intermediation process are clearly presented in the Figure 2.8. The role of FIIs in the financial intermediation process of the system is very crucial because without their participation, the smooth functioning of the financial market is very difficult to achieve.

**Figure 2.8**

Anatomy of financial market and financial intermediation process

- **Financial market**
  - Money market
  - Capital market
  - Market participant: Investors, Speculators, Arbitrators, Hedgers
  - Financial assets: Money, Equity, Debt
  - Financial Institutions: Depository intermediaries, Contractual intermediaries, Investment intermediaries
  - Allocation of financial resources
  - Mobilisation of savings
  - Productive investment
Based on the period of maturity of financial products transacted, financial market is classified into **money market** and **capital market**. Money market deals in short term financial assets (financial products having a maturity period of less than one year) and **capital market** deals in long term financial assets (financial products having a maturity period of more than one year).

**Market participants** are the real players in the financial market who have a finger in every pie in its functioning and provide the necessary dynamism and vitality to the system. Behavioural pattern of participants in the marketing activity is the basis of classification of these participants. **Investors** are very cautious participants who buy financial assets primarily to get income in the form of interest, dividend or capital gain by holding securities for a long period. **Speculators** are basically risk loving participants who conduct frequent trading in financial assets to make profit from the fluctuations in the prices, within a very short period of time. **Hedgers** are also speculative participants who hold two or more financial assets to offset price movement on account of certain memorandum-relationship between them.

**Arbitrarors** are also interested in making speculative profit by the purchase of financial assets from one market and the simultaneous sale in another market at a higher price.

As a matter of fact the same participant assumes different roles and behavioural patterns in his dealings in the financial market depending on the purpose for which he is participating in the financial market operations. The present study concentrates on behavioural pattern of customers belonging to household sector who are generally associated with FIs functioning in the financial market.

In a financial market there are three types of financial assets to facilitate resource allocation function. **Money** is a financial asset which is
widely accepted as a medium of exchange such as currency, coins, cheques, bank drafts etc. **Debts** are financial products which give claims against money income which normally consists of a stream of fixed interest payment and payment of face value on the maturity date. **Equities** are claims against variable income and such income consists of dividend payment and payment of principal amount on the winding up of the company.

**FIIs or financial intermediaries** exist because of the prevalence of frictions and non-competitive blemishes in the financial system. In a frictionless and perfectly competitive financial market, savers and borrowers can conduct lending and borrowing directly without the assistance of FIIs. However the existence of such a financial system is an idealistic concept and FIIs are emerged at the central stage of the financial market to facilitate financial intermediation process especially when the economic liberalisation and globalisation have done away with the regulatory constraints and dull-witted operating procedures of the system. Since market segmentation by FIIs is the major issue of this study, it is very appropriate to include some theoretical literature on FIIs and their role in financial intermediation.

FIIs are classified into three categories viz., depository intermediaries, contractual intermediaries and investment intermediaries. **Depository intermediaries** consist of commercial banks, saving and loan associations and credit unions which issues deposits, normally payable on demand except for time deposit that carry specific maturity dates. **Contractual intermediaries** consist of insurance companies and government pension funds which create credit investments that form a contractual relationship with the customer, such as insurance plans that include savings and loan privileges, annuity or a pension **Investment intermediaries** consist of investment companies that issue shares of ownership in their portfolios of assets, and finance
companies, that hold the portfolio of equities and debts on which they earn their income and they sell financial products to customers to raise funds.

Financial intermediation by FIs facilitates allocation of financial resources in the economy through mobilisation of savings and its productive investment. Thus FIs are the vital link between saving and investment which facilitate the exchange of funds between lenders (savers) and borrowers by centralising the dealings between borrowers and lenders. In this process, FIs, first collect savings of the social units including households by launching attractive savings products and then distribute fund through credit products. Thus, unless FIs succeed in their endeavour of savings mobilisation by effective marketing of savings products, the process of financial intermediation and resource allocation function will collapse. FIs selected for the study and the selection produce are explained in the chapter on methodology.

Customer behaviour

Understanding customer behaviour in market segmentation is an indispensable but a difficult task for FIs, since customers are influenced by a complex set of deep and subtle motives, perception beliefs and attitudes. Behaviour of customers of FIs is more complex considering the influence of certain peculiar factors which become active during the decision making process for purchasing financial products.

Even though researches on customer behaviour have not provided all the knowledge that FIs need, tremendous progress has been made by researchers during the past three decades in bringing to light new vision and insight on this topic. According to Mc Kechnie (1992), customer behaviour in the context of purchase of financial products is influenced by certain peculiar motives and considerations which are almost absent in the purchase decisions in respect of physical products and other services.
Since various segmentation variables are directly related to customer behaviour, a discussion on this topic is given in the following pages.

Figure 2.9

Customer behaviour in the purchase of financial product

Marketing stimuli
- Product, price
- Promotion
- Place, people
- Provision of customer service

Other stimuli
- Economic forces
- Technological forces
- Political forces
- Cultural forces

Customers characteristics

Customers decision process

Customer responses
- Selection of financial institutions
- Selection of financial products
- Amount of saving

The pertinent question which disturbs FIs the world over is the manner in which the customers respond to various marketing stimuli used by them. The FIs having a real knowledge of the customers' response to a particular marketing stimuli used in marketing steal a march over their competitors in winning and retaining valued customers. Marketing stimuli in the context of financial product marketing consist of the seven 'p's of service marketing viz., product, price, place, promotion, process, people and provision of customer service.

Marketing stimuli used by FIs to influence customers' characteristics and customers' decision process produce some positive responses. In addition to marketing stimuli designed by FIs, there are other stimuli such as economic, technological, political and cultural forces also that influence customers' characteristics and decision making process (Howard et al., 1969).
Customers' perception and understanding and their reaction to various marketing stimuli are greatly influenced by their personality characteristics. Different customers react to the same marketing stimuli in different ways on account of the estrangement in their personality characteristics. Personalities are typically described as having one or more of such characteristics such as compulsiveness, ambition, gregariousness, dogmatism, authoritarianism, compulsiveness, introversion, aggressiveness and competitiveness. Marketing researchers in financial market attempt to find the relationship between such characteristics and customer behaviour. Even though few relationships among several personality characteristics and customers' behaviour have been identified, the results of many studies have been inconclusive.

FIIs should create the appropriate market segments and formulate distinctive marketing package for each segment based on the financial requirements of the different customer segments. This approach helps institutions to cultivate in the customer's mind, a perception of "psychological ownership" by the offerings of FIIs. The customer is more likely to have a feeling of exclusiveness and importance when he feels that the given marketing package has been especially designed for persons like him only and not for everybody at large (Seth, 1997).

Thus, theoretical literature on customer behaviour in respect of savings products, clearly emphasises the need and importance of formulation of appropriate marketing stimuli to influence customers positively in their saving-products-purchase-decisions. Since customers' decision process involves commitment of hard earned money and it is comparatively complex in many cases it may not be similar to a routine purchase decision process for buying low cost and frequently purchased commodities. The decision for the purchase of financial products may be either a limited problem solving when
customers confront familiar financial product class, but are not familiar with Fls or extensive problem solving when they are less familiar with financial products class and Fls.

Customers’ decision process

Decision process in respect of purchase of financial products starts when the customer becomes aware of a saving need and senses a difference between the actual and the desired state. The savings need may be triggered by internal stimuli such as saving needs of an employee to save income tax, children’s education or by external stimuli such as direct mail about financial product sent by Fls or proximity to an Fl. If the prospective customer saving need is very strong, the customers is likely to purchase a financial product, which is available within his reach or start information search to collect maximum information on available products offered by different Fls.

Figure 2.10
Customers decision process and possible influences

<table>
<thead>
<tr>
<th>Cultural influences</th>
<th>Social influences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture</td>
<td>Family</td>
</tr>
<tr>
<td>Sub culture</td>
<td>Reference group</td>
</tr>
<tr>
<td>Social class</td>
<td>Roles &amp; status</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal influences</th>
<th>Psychological influences</th>
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<tbody>
<tr>
<td>Age, Life cycle</td>
<td>Motives</td>
</tr>
<tr>
<td>Occupation</td>
<td>Perceptions</td>
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<td>Life style</td>
<td>Attitudes</td>
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<tr>
<td>Income</td>
<td>Beliefs</td>
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</table>
Information search provides the customer a knowledge-base and the customer processes the knowledge-base by evaluation of alternatives. The customer looks for some benefits from purchase of financial products and he evaluates product-attributes to judge the capacity of the product to satisfy his financial needs. Evaluation of alternative financial products helps customer to rank various product brands and form a preference for these brands and most probably the customer purchases the products of the most preferred FIs.

After commitment of money in a particular product brand, the customer-decision-making-process continues with post purchase behaviour and post purchase action. Post-purchase-customer-behaviour depends on customer's expectations and the product's perceived performance. If perceived performance of the product falls short of expectations, the customer is dissatisfied; if its perceived performance is in accordance with customers' expectations, he is satisfied, if it exceeds expectations the customer is delighted.

Post-purchase-customer-action can be ascertained from the customer's intention to continue patronage of the FIs by repeated dealings. All these processes involved in the purchase decision in respect of saving products and various factors affecting this decision process are clearly depicted in Figure 2.10. FIs, which are very enthusiastic in market segmentation, must know the various dimensions of these customer behaviour and possible influences. This knowledge helps the marketers to design the most appropriate market segmentation approach to provide maximum satisfaction to customers.

In the context of the decision-process in respect of purchase of financial products, certain influences, which are exclusively associated with such decisions, need more discussion and analysis. Kapoor et al., (1996)
identified certain psychological influences, which are specifically applicable in the case of financial planning in respect of the purchase of financial products meant for savings mobilisation. Certain motives, which constitute the important components of psychological influences, have tremendous impact on such situations. Income — return from the money used for purchasing saving products, safety — repayment of invested money and payment of return without any default, liquidity — the freedom to convert savings products into cash without difficulty and loss, Risk coverage — protection against possibility of injury, loss and unexpected death, Hedge against Inflation — protection against reduction in the purchasing power of money, Marketability — facility to buy or sell saving products without loss and difficulty and savings in Income tax — are some of the major savings motives of customers. As already mentioned, these motives are not relevant in the purchase decision of customers in respect of non-financial products but these are very significant in the decision-process of customers with respect to purchase of financial products.

In this research study, analysis of these savings-motives and identifying the most influential motive is an important component of the first objective of the study. Findings of this analysis may be very useful in designing the appropriate financial products according to the degree of influence of these saving motives in the selection and purchase of financial products.

Post purchase customer behaviour

Analysis of post purchase behaviour of customers is very essential to know how the customers perceive and feel about various marketing stimuli presented in the form of marketing mix offered by FIs. Postpurchase
behaviour of the customers which continues after the purchase of savings product, is evaluated and measured on the basis of the degree of satisfaction derived by customers from the financial products.

Since customers' decision-process is an intellectual process within the mind of the customers, while measuring satisfaction, perception of customers on attributes of products must be considered and not just "reality." But more than just customers perceptions are important because customers may have emotional responses as well. The FIs are interested in not just knowing how customers perceive attributes but how they feel about them. This depth and intensity of feeling, generally depends on the degree to which the customers perception of various attributes of satisfaction falls short, meets or exceeds what the customers expected and such feelings may be negative (dissatisfaction), mild (satisfaction), or extreme (delight) (Boulding et al., 1993).

The emotional responses of dissatisfaction, satisfaction and delight are strongly influenced by customer's expectations. By 'expectations' behavioural-researchers mean an array of possible outcomes that reflect what might, could, will, should or had better not happen. Figure 2.11 shows a hierarchy of expectations that might exist for a typical customer.

The 'will expectations' is the average level of expectation about attributes that is predicted on the basis of known information and this is the expectation level most often meant by customers and used by researchers.

The 'should expectations' is what the customers feel they deserve from the dealings. Normally, what should happen is better, than what the customer actually thinks will happen.
The 'ideal expectation' is what should happen under the best circumstances. It is the extreme level of expectations and can be considered as the barometer of excellence (Zeithaml et al., 1993).

At the other end of the scale are the minimally acceptable level (the threshold and at which mere satisfaction is achieved) and the worst possible level.

The satisfaction-process

The satisfaction-process can be interpreted by linking elements of satisfaction process, such as expectations, deconformations, reality (actual), perception (customers' perception of reality). The perception of the customer is the result of the customer's interpretation of reality (the actual performance) in terms of his expectations. Expectations have direct effect on perception the higher the expectations the higher will be the perceived performance. Perceived performance is then compared to expectations resulting in a disconfirmation, either positive or negative. If the positive confirmation is very high, it results in delight; if it is average, it results in satisfaction and negative disconfirmation dissatisfy customers. All these components of satisfaction-process are clearly demonstrated in Figure 2.12.
Analysis of customer satisfaction process is very useful in research programme for the measurement of customer satisfaction, because various sub-variables identified in it are powerful indicators to design appropriate measurement instrument. While designing instrument for customer satisfaction the marketing researchers should ensure that it is very effective to elicit most appropriate response from the customers.

**Post-purchase-customer actions**

Post-purchase-action of the customers can be ascertained by analysing their intention to continue the dealings with FIs in future and
word-of-mouth decision. These are the indicators of customers loyalty towards the organisation and continued patronage. A satisfied customer may show continued interest in the FIs by purchasing products from the same institutions and talk favourably about the product and the institutions (positive word of mouth decisions).

Post purchase customer actions of dissatisfied customers is different from the actions of satisfied customers, which may be negative word of mouth decisions and discontinuation of dealings with FIs. FIs should follow a system to measure customer-satisfaction regularly, since it is not advisable to rely on spontaneous lodging of complaints by customers because it is the experience of the FIs that 96 percent of unhappy customers never tell the FIs about their complaints (Singh, 1988).

**Figure 2.13**

*Satisfaction-level and post-purchase customer actions*
Figure 2.13 depicts various dimensions of post-purchase-customer behaviour and consequent post purchase customer actions. As mentioned earlier, post-purchase actions of the customer that depend on the level of satisfaction the customer derived from attributes. For measuring the overall satisfaction, the marketer has to figure out what produces overall satisfaction. The relationship between overall satisfaction to repurchase intention and word-of-mouth decision can be determined by measuring the level repurchase intention and word-of-mouth decisions of the 'dissatisfied' 'satisfied' and 'delighted' categories of customers.

**Conceptual framework for the study**

The objective of the discussion of the above theoretical literature is to highlight various concepts and variables identified for the study and to show how these variables are related to the present study. In this section, an attempt is made to integrate all the concepts and variables to formulate a conceptual framework for this study.

The term 'market segmentation' is the major term used in this study. This concept is studied in the context of marketing of financial products by FIs and its implications and relevance in marketing financial products. As already discussed at the beginning of this chapter, market segmentation is an innovative approach and a philosophy where FIs design appropriate marketing mix that more precisely matches the specific needs and requirements of customers in the selected segment or segments.

Market segmentation is sometimes misinterpreted as a marketing strategy of designing large number of financial products to meet the financial requirements of different segments. However, this is only one of the aspects
of market segmentation and it involves a number of integrated and related processes and procedures. As a matter of fact, designing suitable products according to the requirements of the customers alone does not produce the desired response from the customers.

In market segmentation, all the components of marketing mix should be carefully designed according to the demographic, psychographic, behaviouristic and socio-economic characteristics of customers so that customers may perceive them favourably and produce favourable responses. FIs should study the various cultural, social, personal and psychological characteristics of customers to design suitable marketing stimuli i.e. components of marketing mix, which attract and influence customers to FIs' marketing programme. Eventhough customer's recognition of problem in respect of the need for savings and purchase of financial products may be triggered by environmental or external stimuli such as security at old age, savings in income tax etc., marketing stimuli presented by FIs have a strong impact in triggering savings need and in providing proper clarity and direction in savings problem recognition.

At this problem recognition stage, FIs must have knowledge of the personal characteristics of customers influencing them, to design and present appropriate marketing stimuli (marketing mix is interpreted as stimuli) (Meidan, 1996).

Since different customer segments have variegated attitudes, beliefs and perceptions in respect of savings and financial products, FIs, which are effective in market segmentation, can formulate appropriate and effective marketing stimuli to trigger favourable customer behaviour FIs which are
very competitive in market segmentation have an edge over competitors to understand customers’ diverse needs and characteristics and it can design the right marketing mix to present the most inspiring marketing stimuli so that customers respond to these stimuli very positively. The positive responses may be in the form of preferential selection of FIs, selection of financial products, amount of saving earmarked for the purchase of saving products etc. Therefore Figure 2.14 depicts the conceptual framework of the research study. The first part depicts how FIs appeal to prospective customers through appropriate marketing stimuli to satisfy the requirements of different segments. Since the market segments are formulated from heterogeneous customers after assessing and understanding distinctive characteristics of different customers, FIs can design proper and attractive marketing mix for these segments with a clear visualisation of the characteristics of customers.

Market segmentation approach acknowledges and pinpoints diversified financial needs and characteristics of customer segments and naturally FIs which have more competitiveness in market segmentation are more effective in creating the desired customer responses, post purchase customer behaviour.
Figure 2.14
Conceptual framework of the research study

Demographic influences:
- Sex, age, income,
- occupation, life cycle
- stages etc.

Socio-economic influences:
- Social class, Family
- Roles and statuses etc.

Financial institutions

Marketing Mix I

Marketing Mix II

Marketing Mix III

Segment I

Segment II

Segment III

Customer behaviour
and decision process

Selection of
financial institutions
Selection of
savings products
Amount earmarked for
saving product

Customer's responses

Dissatisfaction
Satisfaction
Delight

Post purchase customer behaviour

Post purchase
customer actions

Repurchase intention
Loyalty and
patronage
Words of
mouth
decisions

Psychological influences:
- motivation, perception,
- attitudes, beliefs etc.

Behavioural influences:
- benefit sought Loyalty
- status, usage rate etc.
As depicted in Figure 2.14, the influence of demographic, socio-economic, behavioural and psychological factors on customer behaviour which are directly related to segmentation variables, is a major aspect of the conceptual framework formulated for this study. Customer's responses towards financial offers have been triggered by the marketing stimuli presented in the form of marketing mix. If the structure of marketing stimuli have the components that are sought by customers there will be very positive responses to marketing mix offered by Fls.

To incorporate the right ingredients in the marketing stimuli, the Fls should know the actual preferences, attitudes and characteristics of customers. Therefore since market segmentation approach identify and understand the exact needs and requirements of customers, it may be very easy to formulate the right marketing stimuli to attract prospective customers. Naturally, Fls with superiority in market segmentation competitiveness may succeed in creating favourable customer’s responses, post purchase customer behaviour and actions.

Analysis of certain segmentation variables affecting the customer behaviour of household segments is an important objective of this study and this aspect is clearly highlighted in the study's conceptual framework.

Customer’s responses to marketing stimuli, post purchase customer behaviour and actions are analysed and measured in this study to examine its implication in market segmentation. Triggering appropriate and desired customer responses are construed as preference for Fls, savings product choice and amount of savings earmarked for purchasing savings products. Post purchase customer behaviour is construed as disconfirmation, which is in the form of dissatisfaction, satisfaction and delight; and post purchase customer actions, are repurchase intention and word-of-mouth decisions and loyalty and patronage.
Analysis and measurement of certain concepts and sub concepts presented in the framework are important aspects of this study and the objectives of the study have a considerable relation with these variables. The significance and relevance of these variables and their relationship are clearly depicted in the conceptual framework of this study.

The way and manner in which customer respond to marketing stimuli and take purchase decision for financial product depend on the degree of influence of the demographic, behavioural, psychological and socio-economic factors. Purchase decision process in respect of the financial product has a strong impact on the financial stability of customers. The customers who have clear vision and understanding in financial planning seek and select FIs offering right financial product which satisfy their specific financial requirements and needs.

**Review of empirical literature**

In this section, various research studies on this topic and their main highlights will be specifically cited and discussed, to make coherent sense of the research studies. While organising the review of empirical literature, special care was taken to include various studies related to all major variables and concepts covered under the present study.

The degree of the coverage of various dimensions of the past studies and the depth of their review depend on the importance of various studies in this research context. Accordingly, all major empirical studies were treated at length, studies of moderate significance were reviewed only in several paragraphs and less important studies were reviewed and discussed briefly in a paragraph or two.
There are seven major areas in marketing by FIs, where marketing research techniques have been successfully applied. These areas are market segmentation and customer behaviour, market segmentation competitiveness of FIs, savings motives of different customer segments, customer loyalty and financial services quality, risk tolerance of various customer segments, customer-satisfaction-measurement-programmes and post-purchase customer behaviour and actions. In this section, of literature reviews of major research studies that are related to the topic are described and discussed.

An outstanding research study that investigated customer-behaviour and market segmentation by FIs was the one conducted by Anderson et al., (1976). Their study elaborately discusses the use of various techniques to segment customers of an FI and enumerates characteristic features of different segments. This study diagnoses and analyses dominant factors influencing customers in their decision making process for the selection of an FI and financial products. The study also evaluates various concepts and approaches for understanding customer better which is the fulcrum on which the entire gamut of marketing activities revolves. This research involves a determinant attribute analysis of the FI-selection-criteria, which is an important aspect of market segmentation. It examines the usefulness and effectiveness of the principal decision-making factors influencing customer as a criterion for market segmentation and design of patronage appeals.

This study is really a pathfinder in the financial-market-segmentation research area since it successfully brings to light many hidden facts in this research field. It presents innovative approaches in market segmentation by FI and discusses the practical application of these approaches in winning and retaining different customer segments. However, this study is formulated and discussed in the context of the marketing of savings products and other
services by depository intermediaries and conclusions and practical suggestions are unsuitable in the market segmentation by other categories of financial intermediaries. This limitation is, to a certain extent, avoided in the present study by incorporating all forms of financial intermediaries in the research framework.

In a classical cluster analysis study by Robertson et al., (1977) in three geographically different areas, they identified six different clusters (segments) of bank customers having variegated financial requirements and needs. The study presented six major sets of characteristics pertinent to each homogeneous group of bank customers on the basis of demographic characteristics, financial attitudes, banking habits, media habits etc. The study analysed and identified the most important factors and also the least important factors in the clusters.

The study proves that for each cluster (segment), that is an homogeneous group of actual or potential respondents (bank customers), a label can be attached that will reflect the topology of the customers in that particular segment. The label is a function of the weight attached by the relevant respondents in the cluster to the various attributes presented to them in the questionnaire.

This research study clearly depicted how customers of an FI can be segmented on the basis of various demographic and psychographic variables. It also highlights the differences in customer behaviour on account of the influence of various personality-characteristics and other related variables. The researcher used appropriate scaling technique to extract the attitude and perception of customers in different segments and to emphasize the need for designing and presenting appropriate marketing stimuli to influence different segments.
Any way, the findings of the study are very useful for researchers in the field and FIs. The research approach and methodology are very innovative and the tools developed in this study are very useful for other researchers and financial consultants.

Yam (1991) conducted a study on customer behaviour with reference to women’s banking behaviour in the United Kingdom. In this research study the cluster analysis technique was employed using SPSS (Statistical package for social sciences). According to the findings of the study, four clusters emerged from the analysis of the various characteristics of customers. The following are the clusters identified in that study.

**Cluster one**, the ‘quality service seekers’ is the representative subgroup of women population with mixed demographic characteristics has the largest cluster membership with most of the mean scores of the selection criteria being above average.

**Cluster two**, the ‘reassurance seekers’ is the youngest and least demanding cluster. They appeared to be the main targets of insurance companies and mutual funds.

**Cluster three**, the ‘perfectionists’ is the oldest and the most demanding cluster. They expect individualised attention and care in their dealings with FIs.

**Cluster four**, the ‘loan seekers’ which is the smallest cluster and it is the target of various genre of loan associations. To attract this segment, FIs follow a flexible loan policy with a variety of repayment-methods.

In this study, segmentation approach is formulated on the basis of life cycle stage, which is a very popular segmentation variable employed by FIs. The study evinces those FIs that realise and anticipate change in the financial
needs of customers in accordance with the changes in their life cycle stage will be able to achieve a solid customer base. The profile of various elastomers of women customers is given in the following table.

**Table 2.1**

<table>
<thead>
<tr>
<th>Clusters/Segments</th>
<th>Benefit sought</th>
<th>Distinguishing characteristics</th>
<th>Demographic characteristics</th>
<th>Size of cluster % of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster I Quality service seekers</td>
<td>Accuracy of transactions, locational convenience, speed of service, knowledge of staff</td>
<td>Specifically demand high quality service from bank staff</td>
<td>Mixed age</td>
<td>42.7%</td>
</tr>
<tr>
<td>Cluster II Reassurance seekers</td>
<td>Speed of service, accuracy of transaction, locational convenience, range of services, convenient hours</td>
<td>Not demanding, rely on recommendations</td>
<td>Young below 25 single</td>
<td>24.4%</td>
</tr>
<tr>
<td>Cluster III Perfectionists</td>
<td>Speed of service, friendliness of staff, convenience of hours, financial strength</td>
<td>Highly demanding in all respects</td>
<td>Relatively older divorced/separated with teenage/post teenage children</td>
<td>21.4%</td>
</tr>
<tr>
<td>Cluster IV Loan seekers</td>
<td>Accuracy of transaction, locational convenience, speed of service, cost of service</td>
<td>Not demanding concerned about interest rate, ability to manage financial matters</td>
<td>Aged between 25-35, married with pre-teenage children</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

The main limitation of this study is that, it is limited to women household customers of FIs. Secondly, the study segmented the women customers on the basis of only one segmentation variable viz., life cycle stages.

Schoenwald (2001) in his research paper mentions that traditional segmentation variables (demographic, behaviouristic) do not provide the depth of understanding needed to identify a well defined portrait of primary target of customers. Therefore FIs begin to employ segmentation variables
such as attitude, self-image and lifestyle for effective segmentation of market and to design suitable marketing mix. He presents various limitations of segmentation approaches and reveals that segmentation is not a panacea, but only a tool for the reparative techniques available to FIIs seeking more understanding of the market place and their customers. He also analyses the problem of relying on macro-segmentation to define targets for specific product or service and examines the effectiveness of category-oriented micro-segmentation and presents basic rules for successful micro-segmentation.

A study by Javalgi et al., (1999) on life cycle segmentation suggests that state-of-the art market segmentation is becoming an important strategic tool in the continuing evolution of the financial services industry and marketers of the FIIs should adopt a life cycle marketing based system to satisfy the specific needs/wants of their customer in a better way. Focussing on a life cycle segmentation approach, it is indicated that the importance attributed to financial choice criteria and FIIs services varies as customers pass through an orderly progression of life cycle stages.

The evidences presented in this study bring to light several momentous implications for marketers and key decision makers of the FIIs. First and foremost, the findings of the study reveal that noticeable differences exist among life cycle segments with respect to the relative importance of FIIs choice criteria, purchase and holding of financial products, financial attitude, perception and savings pattern. The findings provides valuable insights to the marketers of FIIs to study and analyse customer segments for developing the most appropriate marketing mix and to satisfy various customer segment in the most effective way.

The findings of the study clearly suggest that financial product needs vary across life cycle stage. While young married customers with children,
emphasize the mortgage loan and availability of term deposits with loan facility, these specific products are also viewed as important by newly married couples. The study reveals that pricing policy has become a much more challenging task to FIs since they often compete for the same profitable market segment. Price reductions, if perceived as real reductions will increase or improve market share by attracting young married customers with children and older married couples with dependent children. The study also suggests that, regardless of what breadth of products/services are offered at what cost, if there is no location-convenience, FIs, especially depositories, face difficulty in marketing financial products to target group. Location-convenience and accessibility is a multidimensional construct which a common need for customers at all life cycle stages.

The study concludes that, segmenting the market according to life cycle stages offers a better understanding of the consumers' use of choice criteria and financial services. According to this approach, life cycle stage determine the financial needs/wants of customers, and marketing of products should be based on the financial needs of individuals in different stages of life cycle. The FIs that focus on identifying the financial needs of customers in various stages of the life cycle and satisfying these needs will have a competitive advantage in the continuing evolution of financial-services-marketing.

Tung-Zong et al., (1995) in their study on market segmentation by FIs examine various dimensions of benefit segmentation. This approach differs from other segmentation studies, which usually bifurcate customers on the basis of demographic characteristics. This study identified some observed patterns of preferences and behaviour of different benefit segments. Based on the identified preferences and behavioural patterns, factor-analysis is performed to diagnose the underlying common benefits in the patterns.
Then, the relative importance of each factor is computed and standardised by deriving standard factor scores for each subject.

The standardised individual factor scores are used in the subsequent cluster analysis to classify subjects into homogenous groups characterised by similar preference and common benefits. The resulting cross tabulation analysis reveals the characteristics of each group. Thus the approach of this study is innovative and several managerial actions are recommended to identify the characteristics of the selected segments, and make suitable marketing mix decisions.

The study concludes that, financial products such as certificate of deposits, money-market-accounts, mutual funds, savings bonds etc. are characterised by a given combination of three common benefits viz., stability, growth and liquidity sought by household customers. It will be more useful for marketers of FIs to know which segments are more likely to be attracted by the benefits provided by their product, so that appropriate marketing strategies and programmes can be formulated. Thus as per the findings of this study, segmentation by benefits provides a more focussed, direct means for targeting customers and positioning products. Based on the results of the research on benefit segmentation, FIs can focus on one or a few segments, which show a salient preference for the benefits provided by their financial products.

In an illustrious research study on market segmentation in the financial market, Moskowitz (2000) suggests key elements for effective market segmentation and winning marketing strategies. According to the results of the study, a technological approach to marketing research on segmentation provides the right base for FI to implement result-oriented marketing initiative. The study also suggests that optimisation technology, or advanced
conjoint-research, enables FIs to identify key attitude segments, develop segment specific products, and in communicating the most motivating messages and visuals to the customers of the targeted segments. This translates into rapid innovations, long-term savings, solid strategies and targeted communications aimed at the most inspiring members of segments identified by the FI. Optimisation is the systematic selection of the most attractive elements of product, or communication, enabling accelerated concept/product development. Key elements of optimisation identified in this study are market segmentation, product/service optimisation, communication optimisation graphics/ packages/ world wide web design and direct marketing.

The method developed in this research study, looks beyond traditional (demographic and psychographic) segmentation and identifies common attitude, preferences, and individual interests with the segments. By segmenting customers in this way, FIs can develop new products and services that yield positive responses, long-term customer satisfaction and loyalty.

In his renowned research study on market segmentation, Lynch (1995) diagnoses major barrier, adversely affecting effective market segmentation by FIs and suggests measures to be taken to overcome these barriers. According to the results of the study, FIs must develop sophisticated data base capabilities to target individual households in the selected segments with pinpoint accuracy and for this purpose, they must learn to overcome the major barrier which stands in the way of market segmentation. The lack of integration among research, planning and implementation in the market segmentation process is the major barrier identified in this study.

The study recommends certain specific measures to overcome the barrier. The fist step for an FI initiating a segmentation programme is to define what it wants to accomplish, in a way that lends itself to tactical application.
Once objectives have been determined, the next step is to develop the demographic and financial services usage information needed to implement a programme. The next stage in the segmentation process involves developing a coordinated marketing programme, each part of which is selected with regard to the potential to sell new products or acquire new customers. Tactical implementation of the market-segment-programme is the next stage. At this stage, top executives must ensure that the programme is executed according to plans. Review and evaluation of market segmentation programme is the last step, which is a follow-up action in the process. This step is very crucial, since, at this stage actual performance of FLs in respect of market segmentation programme is compared with planned performance to take corrective measures. Practical suggestions given in this research study seem to be very useful for FLs to design and implement successful market segmentation programmes.

A study on market segmentation by McDougall (1994), identifies segments for FLs based on the consumer’s perceived importance of the major dimensions of service quality and other product offerings. Based on important measures that reflect the outcome and process dimensions, the research study identifies two distinct segments. They are:

1. The performance-driven-segment that is primarily interested in having the bank “get it right the first time.
2. A convenience-driven-segment that wants location.

The study also suggests that competitive rate is an important benefit sought by both the segments. Results of the study indicate that the segments differ with respect to evaluation of their main FLs and satisfaction levels. However, the study fails to examine certain important dimensions on characteristics of customers that are very important in the creation of more attractive customer segments.
A study by Harrison (1994) that enquires into the customer segments for personal financial services says that as a result of the relaxation of legal restriction and economic liberalisation, FIs have experienced product proliferation. The number and range of products on offer have increased greatly as FIs are targeting all customer segments in the market without any objective evaluation of their strengths and weaknesses. He analysed the effectiveness of mass marketing in the financial market and says that FIs can no longer be everything to all customers.

The study shows the importance of identifying profitable customer segments and market segmentation strategies and emphasizes the need for satisfying the requirements of homogeneous groups within a larger heterogeneous market. By employing cluster analysis technique the study identifies four customer segments.

a. Financially confused
b. Apathetic minimalists
c. Cautious investors
d. Capital accumulators

The study thoroughly examine the behavioural pattern of different segments and concludes that each segment is characterised by particular attitude towards FIs and marketing mix. The study shows how personal characteristics and savings motives influence customers in the selection of products and FI. The product range of different FIs under the study is presented and it discusses the techniques followed by these institutions for segmentation of market. Empirical analysis of the differences in financial objectives, motivation and perception of different customer segments is really useful to FIs to study the characteristics of their customer segments and to formulate appropriate market segmentation programmes.
File et al., (1991) in their illustrious study examine the product profile and segmentation approach of small to medium enterprise (SME) FIs and analyse the deficiencies in the existing marketing mix and segmentation approach. They demonstrate the utility that a sociographic market segmentation approach can have for small to medium enterprise (SME) FIs. The study clearly shows how profitable segments can be created by scientific application of sociographic segmentation variables in the context of marketing of financial product by SME FIs.

The study obtained sampling frame from a commercial provider of business and industry listing with 1,021, SMEs comprising the ultimate sample size. The main objective of the study is the formulation of certain significant and stable clusters to design and tailor the most appropriate marketing mix. Cluster analysis is the technique employed in the research study to identify sustainable and profitable segments and the following segments were identified.

1. Return seekers
2. Relevance seekers
3. Relationship seekers

Return seekers is the largest segment with 40 per cent of the market and the group most likely to evaluate FIs on the basis of fees charged and relative cost of services.

Relevance seekers who constitute 33 per cent of the market tended to be skeptical and conservative. They have low risk tolerance and buy financial products with low equity components.

Relationship seekers, 27 per cent market seek opinion of others in the investment decision making process and give top priority to the personal referrals of colleagues in the selection of FI and product. The relationship
seekers expect support and institutional responsiveness to fulfill their financial needs. The study recommends some unique marketing strategies to be tailored for each of the generic segment identified. The results of the study show the importance of designing appropriate market segmentation and how a misdirected and despotic approach can adversely affect the customer's satisfaction and loyalty.

A large variety of segmentation approaches are employed by FI, amongst which behaviouristic segmentation is predominant. Soutar (1991) in their study on benefit segmentation approach by FIs probed into the factors of customer perception on the marketing mix attributes. They have identified seven factors of customer perceptions by conducting a sample survey research. As per the result of the study, ego enhancement, location, convenience, pricing, integrity, expertise, philosophy and time-conveniences are factors influencing various segments. They profiled these factors in terms of demographics, financial attitudes, banking habits and media-habits of various customer segments. By employing the determinant-attributes-analysis-technique, which is a widely used technique in market segmentation studies, they find that location-convenience is of primary importance to some market segments such as older blue-collar, lower level white-collar residents and new-to-the area residents.

The upper level white-collar residents look for quality and personal service and hence integrity and ego enhancement factors seem to be very important for this segment. In order to satisfy the customer segments which need fulfillment of 'ego enhancement', FIs should show more personal interest and respect for their customers and there should be a consistent effort to become more co-operative and friendly in dealings. The customer segment which considers 'pricing' as the most important factor, expect fairly good rate of return from financial products, financial incentives, favourable terms of
payment, low service charge and reasonable standards for safe, reliable, honest and trustworthy financial services. The customer segment, which considers expertise as the most prominent factor gives importance to management capability and knowledge in financial matters. Management should be competent to provide expert advice to the customers of this segment so that their satisfaction and loyalty can be enhanced.

There are various FI philosophies seen through the customers’ eye—such as aggressive or traditional approaches. Some customers prefer traditional style of functioning by FI which is characterised by low risk exposure, reputation and maximum safety. On the other hand, the aggressive philosophy is characterised by maximum risk exposure, innovative financial products with maximum equity components and highly customised service. The customer segment, which wants maximum return from the financial products always prefers the aggressive philosophy. As far as the time convenience factor is concerned customers prefer twenty-four-hour service. The results of the study show that almost all segments identified in the study strongly demand the time convenience in financial dealings.

The empirical findings of this outstanding research study are widely acclaimed by experts and intellectuals of the financial markets and by academicians and researchers. The study identifies imperfections in the market segmentation approach of FIs, and emphasizes the need for discarding unattractive product mixes.

A study on market segmentation by banks conducted by Chan (1990), investigated FI selection criteria followed by customer segments. He selected a few banks to investigate this issue. As banks are often perceived to be rather similar to each other, it is of paramount importance to understand which attributes are particularly important to target market segments. Customers feel
a difference amongst banks only through the degree of difference in respect of various attributes and those banks, which excel in respect of these attributes can attract, win and retain customer segments. He identified the following selection criteria considered by customer segments.

1. Convenient location
2. Relationship with bank manager
3. Convenient opening hours
4. Reasonable financial charges
5. Speed of decision
6. Knowledgeable staff
7. Quality of service
8. Image
9. Innovation
10. Provision of advice

The research findings reveal that quality of services, relationship with the bank manager and the speed of decision are of overriding importance to various segments in choosing a bank. The study analyses the areas of weakness of banks where they appear to be failing to match the expectations of selected segments on the basis of performance index calculated for various selection criteria. The results suggest that, the most noticeable areas of weakness are in terms of provision of advice, quality of service and speed of service. The calculation of performance index is very useful for FIs to evaluate their performance in respect of source attributes. Anyway, the findings of the study are practically relevant in the context of marketing of products by FIs, and they can improve considerably by analysing areas of weakness on the basis application of performance evaluation method applied in this study. However, while applying the method, the selection criteria of the respective
segments must be diagnosed before performance evaluation, since different segments have their own perception about various attributes and they give importance to attributes according to their judgment.

Krishnan et al., (1999) in an outstanding study, analyse satisfaction of different customer segments based on a full Bayesian approach. They selected a multichannel FI offering a number of products to different segments and providing services over automated telephone system and other electronic channels. They first identify the characteristics of products and services offered by the FI, under the study, that are perceived as important by different customer segments in determining overall satisfaction with the firm. The research involves several focus groups with customers drawn from the institution's database. The main objective of these focus group is to ascertain various factors that are salient to customers in evaluating firms product offering and delivery of services.

The study reveals that four key factors are very prominent in determining the level of customer satisfaction. These factors include the quality of the products and accounts offered by the FIs, quality of financial reports and account statements, quality of service rendered through automated telephone system and quality of service offered through direct contact with customers at their branch offices. Details of measure of overall satisfaction and other key factors are given below.

**Overall Satisfaction (OVSAT):** Overall satisfaction of customers which depends on the degree of satisfaction in respect of four key factors measured on a 7 point ordinal scale ranging from very satisfied (7) to very dissatisfied (1). As per the result, the customers are distributed on the overall satisfaction scale as follows: 25 per cent very satisfied, 55 per cent satisfied, 15 per cent somewhat satisfied, 3 per cent neutral and 2 per cent dissatisfied.
Branch Service Satisfaction (BRSAT): This key factor measures customer's perception of overall quality satisfaction provided at the branch office.

Automated Telephone Service Satisfaction (AUSAT): This factor captures customers' perception of quality of service provided by the FI's over automated telephone system.

Product Line Satisfaction (PLSAT): This factor measures customers satisfaction with the type of products and account offered by the FI's.

Financial Report Satisfaction (FRSAT): This factor gauges the satisfaction of customers with the account statements and report provided by FI's.

Using the full Bayesian approach, the study estimated the posterior distribution of all the parameters used in the research model. As per the posterior distribution of the effects of the drivers of overall satisfaction, product offerings (PRSAT) exhibit the highest average impact on overall satisfaction. Among the remaining drives of overall satisfaction, the quality of services provided at the branch offices (BRAT) and satisfaction with financial report appear to have a somewhat larger impact than automated telephone system. The study also conducts marginal effect analysis for formulating effective managerial actions to improve overall satisfaction.

The study adopts a hybrid segmentation approach that combined the managers a priori segmentation scheme based on their target criteria, such as asset size, the proportion of these assets that are invested in the FI's and trading behaviour, with empirical classification of customers on the basis of effects of the key factors.

Segment 1 comprises 14 per cent of the sample, has an average of 60 per cent of their investible assets with the FI's and over 30 transactions with the institution in one year. This segment offers potential for fostering customers. Loyalty and FI can capitalise upon advances in information technology for managing customers in this segment.
Customers in segment two also have more than 50 per cent of their assets in the portfolio of the FI. This segment constitutes 13 per cent of the sample and about 23 per cent of the gain in very satisfied customers come from improving the quality of traditional branch services. The customers in this segment rely more on consultation trading and assessment of their portfolio via their branch visit.

Segment three comprises customers with less than 40 per cent of their investable fund in the FI and conducts an average of 36 trading in one year. This segment considers automated telephone service as very important and hence offers considerable growth potential for the firm through investment in information technology.

Segment four has about 30 per cent of the investable asset with the FI. This segment has about 16 trades in a financial year and quality of the product offering is the primary drive of satisfaction for this segment.

In this research study, the researchers provided a framework and approach for translating feedback into managerial actions for improving overall customer satisfaction with FIs services. This model, at the strategic level, allows managers to understand the specific factors that have a significant impact on overall customer satisfaction with FIs services and qualitatively assesses the relative impacts of these factors. This approach is also very helpful to managers to target the right customer segments to obtain the maximum value from addressing each, of these factors. Anyway, this study is a very comprehensive one, highlighting certain major issues in market segmentation by FIS and provides valuable clues for enhancing their performance in market segmentation.

Reddy (1994) in his study makes a comprehensive analysis of marketing programme of LIC of India to market its products to different
segments of customers. He has examined the problem on the basis of evaluation of the perception of different customer's segments in respect of different components of marketing mix that are essential to met the challenges posed by intangibility in service-provider-customer-interaction and customer involvement in service consumption and production.

1. The results of the study suggest that policies with profit plans account for about 90 per cent of the total policies sold and policies without profit plans accounted for about 10 per cent. Segment-wise analysis of preference of policies also suggests that the majority of customers in all segments prefer policies with profit plans.

2. Among the various types of plans, endowment assurance plans account for a very major share (92 per cent) followed by children's plans (5 per cent) and whole life insurance plans and pension plans (3 per cent). Segment-wise analysis also clearly indicates that endowment plans are more popular than other types of insurance plans.

3. Analysis of motives for buying insurance policies indicates that, the risk coverage is the most important motive in the selection of life insurance policies. Savings motive, income tax relief, marriage and education of children, old age protection are perceived to be the other important motives in the order of preference.

4. Segment-wise analysis of motives reveals the following.

   a. The professional and managerial group regard income tax relief as the second important motive followed by savings motive.

   b. Rural and illiterate segment considers saving as the second important motive. They are not fully conscious of the benefit of risk coverage associated with life insurance plans even though it is their primary motive.

   c. Self employed and regular income group considers old age protection as the second important motive and children's marriage and education as third important motive.
5. Some of the insurance plans were hastily introduced without proper planning and research. Consequently LIC incurred heavy loss on account of such short lived plans.

6. While designing new insurance plans by LIC to satisfy the requirements of different segments, systematic and elaborate efforts are not put to generate new product ideas and to examine them thoroughly from various angles.

7 LIC didn’t make any serious attempt to design policies to suit the requirements of rural population and the lower-income group.

8. 78 per cent of the policy holders felt that agent’s services are inevitable for promoting LIC business.

9. Performance rating of the pre-purchase service of agents is very high and in the post-purchase period service performance rate is very poor.

10. Mortality, rate of interest, service and selling expenses are the important factors taken as the basis for determining premium rates.

The study is a valuable contribution in the area of marketing of products by FIs, especially for marketing insurance products. The study identified many lapses in the marketing of life insurance services. In fact, some of the observations of the study point to the fact that product designing, premium fixation and service attributes deserve serious attention of policyholder and management in view of increased competition and socio-economic transformation.

The Insurance Institute of India (1987) conducted comprehensive study on marketing of life insurance to examine the extent of life insurance coverage among different segments of the population and to study awareness, attitude and perceptions of customers on insurance product and other financial products. The following are the important conclusions that emerged from the study.
1. The prevalence of bank deposit as another avenue of investment is less widespread than life insurance in most of the areas among the segments.

2. Government savings schemes are less popular than bank deposits and all segments having dealings with Fls avail of life insurance.

3. Forty per cent of the uninsured household reported that they did not need insurance. Twenty per cent of the respondents did not take insurance policy since insurance people had not approached them. Thirty percent considered insurance as very expensive form of saving schemes.

4. The majority of the members (66 per cent) of all segments of household customers bought life insurance policies to provide security to family and tax relief was the second important motive.

5. Another important and interesting finding was that about one seventh of the policy holders are not sure of the various benefits under life insurance.

6. One third of the respondents have reservations about the LIC sincerity in settling claims promptly.

7. Respondents reported that agents did not maintain regular contact with policy holders.

The findings of this study are very useful in understanding the savings patterns and insurance consciousness of different segments of household segments. Life insurance corporation could streamline their marketing programmes on the basis of the valuable recommendation of this research study so that need-based strategies might be formulated to suit the requirements of all segments.

The planning wing of the Life Insurance Corporation, Divisional Office, Warangal conducted a study to assess the level of customer satisfaction regarding the services of LIC. The overall conclusions that emerged from the above study are:
a) There is an imperative need for keeping up the tempo of maturity claims settlement operations at the present level.

b) It is necessary to verify the policy ledgers every month for omissions in the computer list so that the delays can be reduced and all the claims can be settled before the due date.

The study clearly reveals the satisfaction level of customers with respect to the service rendered by LIC and various lapses of the corporation in the settlement of claims, service of agents and officers, the despatch of discharge forms, reminders and the co-operation and personal attention in the dealings. The study was limited to service-related matters and the drawbacks in the product designs and pricing policies and customers evaluation. However, some vital aspects in life insurance marketing such as impact of promotion, product stimuli on customer behaviour were not covered in this study. The findings of the study are also very useful for improving the quality of other financial services too.

Bandgar (2000) in his study on the preference of middle class customer segments analyses scope, comparative superiority and effectiveness of the different financial products marketed by FIs and show how customers behave while purchasing products. The study throws interesting lights on the nature and trends in the preferences of the middle class household segments, towards financial instruments of different FIs the following are the main highlights of the findings of the study.

The study clearly reveals the demographic characteristics of middle class household segments in Greater Bombay and analyses the influence of some factors in the selection of financial products offered by various FIs. An interesting finding is that the investment pattern and preference for different financial instruments of the middle class segment, which account for the major chunk of domestic savings in India has changed dramatically in the
post-liberalisation period. This change is perceptible from the high preference of these segments for Unit Trust of India and other investment intermediaries in the private sector. However, since the study is restricted to Greater Bombay, it is doubtful whether conclusions can be generalised.

Marg (1994), a leading research agency, conducted a study sponsored by Unit Trust of India to study investment pattern of the customers belonging to household sector by identifying products of different FIs in their portfolio. The objective of the study is to measure satisfaction level of customers in dialing with UTI and to make a comparative analysis of the corporate image of Unit Trust of India with State Bank of India and Life Insurance Corporation of India and to examine other related issues. The study was rather comprehensive, considering the sample size, coverage and other criteria. A brief summary of the findings of the study is mentioned below with an emphasize on the main thrust of the results of the study.

The study clearly demonstrates that it is possible to make a comparative study of the different forms of FIs. Life Insurance Corporation of India (which is a contractual intermediary) and State Bank of India (which is a depository intermediary) were the institutions taken for the comparative study with Unit Trust of India (which an investment intermediary). For the purpose of comparative study of the institutions, the study employs certain common variables which are honesty/integrity related, expertise-related, social development-related and service-related. Thus according to this study comparative studies among different institutions can be made by adopting appropriate measures and tools.

Yasrin et al., (1991) in their study, attempt to suggest statistical quality control techniques in marketing financial products to target customer segments. They have formulated various determinants and measures of
quality with reference to financial product. The study shows that the application of statistical quality control techniques by FI s has a positive impact in enhancing customers quality perception on various attributes of financial products. FI s that have the competence and expertise in applying the quality control techniques in financial services can meet specific requirements according to the expectations of various customer segments. On the whole, the study highlights how imaginative application of statistical quality control techniques for achieving excellence in market segmentation approach through better product design and development result in better competitiveness and better customer-specific-segmentation appeal.

McAlexander et al., (1991) conducted a study on market segmentation to investigate various issues of differentiation of financial products targeting various customer segments. The study indicates that even though intangibility of financial products makes their differentiation a difficult task, through effective product positioning, the distinctiveness of the products can be very well highlighted to target segments. According to him, with competition intensified differentiation of financial products, in market segmentation has been emerging as a major problem since customer segments with variegated characteristics always look for products with real differentiation and innovations. Thus if the products are to be positioned properly in the mind of customers relative to competing products. FI s should resort to different ways to add value to financial products through effective differentiation, which definitely gives a competitive edge to them. Any way, the study brings to light important clues for product differentiation in market segmentation which facilitate a value driven marketing that focuses on developing and delivering superior value to different customer segments.

In an interesting and informative study on market segmentation in financial product marketing Nicholls et al., (1993) probed in to the customer
behaviour to diagnose certain variables that directly influence the level of customer satisfaction. According to them, there are seven elements of customer service that should be investigated in the context of financial product marketing. The study reveals that consumption time, professionalism, waiting time, courtesy, attentiveness, accuracy and ability are the factors that influence the customers in selecting FIs and financial products. They found that among these factors the consumption time is the most influencing factor. They conclude that FIs that study these factors seriously get an in-depth knowledge in customer behaviour and excel over other FIs in creating and maintaining strong and enduring relationships with different customer segments.

Martineau (1958) who conducted studies on market segmentation in financial market and customer behaviour in the early period, in one of his studies explored the behavioural characteristics of customers and identified the factors influencing these customer behaviours. According to this study, external factors, internal factors and customers' decision-making processes are factors influencing customers belonging to different customer segments. The study indicates that external factors arise from influential persons and reference groups. Internal factors emerge from the behavioural and psychological attributes of customers such as motives, attitudes, perception etc. The study shows that these attributes (internal factors) vary from customer to customer depending on geographical location, levels of education, cultural background and so on.

The study also find that customers' decision-making process is also an important factor in analysing customer behaviour. Customers' decision-making process is a series of stages through which a customer goes when contemplating the acquisition of financial products. Customers who are in a cognitive balance or homeostatic position transform to a cognitively imbalanced position when they come to know about financial offers better
than what they have at present. The study is very superior considering its contributions to market segmentation research in financial market. The study provides necessary insights to researchers in this field to pursue studies with more clarity and direction and the findings of the study are still relevant in research studies on market segmentation.

Rothwell (1978) who investigated the differentiated and undifferentiated approaches in market segmentation by FIs examined the effectiveness of these approaches in financial product marketing. According to the study, in the past, FIs have largely pursued a strategy of undifferentiated marketing that aimed at a broad spectrum of customers rather than a specific customer segment.

The study emphasised that a successful differentiated strategy in market segmentation need development of special and distinct marketing mix aimed at a chosen market segment. The promotional programmes should be designed in such a way that only the core of financial offers which are of particular relevance to the target segment are to be communicated to them. Any attempt to communicate the full dimensions of the mix would be self-defeating, as it would dilute the special relevance of the package in the eyes of the target segment.

The study clearly indicates that the undifferentiated approach in market segmentation by FIs results in hyper competition for the large customer segments and inadequate satisfaction for smaller or less profitable segments. Despite the success stories of differentiated approach, the attempt of FIs to create genuinely distinct product offerings to target segments have been at best half-hearted.

To sum up, the study concludes that differentiated approach in market segmentation is instrumental in abandoning irrelevant products and allowing a financial product that has been stripped of irrelevancies to be offered at a highly competitive price to target segments.
Lewis (1987) a learned researcher on financial services marketing conducted an authentic study on technology in financial product marketing and its relevance in market segmentation approach. The study suggests that the electronic revolution have far reading implications in terms of its impact on financial product and in terms of the faster and reliable service to target customer segments.

The study shows that the technological innovations consisting of electronic fund transfer, home banking, branch automation, electronic cash management, automated telling machines etc. have very positive impacts in the form of better service to target customer segments, increase in customer benefits, better market penetration and increase in overall competitiveness in market segmentation.

According to the study reduction in the operating cost on account of electronic banking results in lowering the cost of financial service and naturally customers belonging to different segments derive more satisfaction from their dealing. Reduction in cost of service attracts more customers who have an affiliation to other FIs.

Similarly, innovative use of technology helps FIs to increase product differentiation, which creates a positive impression about the distinctiveness of the financial package in the mind of target customer segments. It provides a unique selling advantage to FIs. Any way, the study reveals the tremendous potential of the use of technology in financial services for better customer satisfaction and effective market segmentation.

The review of the above mentioned studies on market segmentation shows that it has been emerging as one of the most important areas in financial services marketing research. The studies on market segmentation
highlight the importance of creative research in analysing the customer behaviour to diagnose demographic, psychographic behaviouristic and socio-economic characteristics of customers, which is a prerequisite for effective market segmentation. As per the findings of these studies, customer behaviour in the context of the purchase of financial products is influenced by the above-mentioned characteristics, which form the basis of segmentation variables employed by FIs to segment customers. Analysis of these distinctive characteristics of different customer segments through cluster analysis and other segmentation techniques is an important dimension of studies on segmentation reviewed in this section.

In the light of the above studies, analysis of customer behaviour and characteristics, which are not adequately covered in the studies in terms of segmentation variables, constitutes an important part of the present study. The first objective of the study was framed to make a detailed analysis of demographic, behaviouristic, psychographic and socio-economic characteristics of customers belonging to different segments and to examine the relevance and relationship of these variables in market segmentation.

Some important studies on market segmentation reviewed under this review of literature, emphasises the importance of formulating the right components of marketing mixes and blending of these components in the right way to trigger desired responses from the customers. The results of these studies indicate that the market segmentation competitiveness of FIs to a great extent depends on the performance of the FIs in respect of attributes related to marketing mix which are very important from the point of view of customers.
In a way, all these attributes are directly or indirectly related to different components marketing mix designed by FIs. This is a clear indication to the fact that market segmentation competitiveness of FIs depends on the strength of FIs with regard to different attributes that are related to the elements of market mix.

All these substantiate the theoretical literature on market segmentation competitiveness which states that to win business in a particular segment, the FIs has to be relatively more successful in meeting various requirements of the customers with regard to the elements of marketing mix.

Therefore relative segmentation competitiveness of FIs is measured in terms of the requirements of customers with regards to several elements of marketing mix. With this objective in view, this study focuses on the FIs ability to deliver the requirements of customers in respect of various components of marketing mix.

Similarly, the present study also examines the distinctive characteristics of different customer segments of three categories of FIs that are identified through cluster analysis. Variables that are employed in the cluster analysis of various studies reviewed here are also used in the present study so as to diagnose maximum number of clusters.

In product studies, segmentation gaps/deficiencies performed in the study are also framed in the light of the research gaps that are found in the review of literature.