

MARKETING OF FINANCIAL SERVICES

Lecture Four

Identifying and Targeting Financial Services Consumer

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WEEK FOUR

4.1 Introduction

Welcome to week four of our lecture. We have now covered a quarter of course work and hope the remaining part will be more interesting. In the last class we examined consumer behavior in the context of financial services marketing. We identified both internal and external factors that influence consumer behavior as well as the steps followed in consumption decision process. In this class we turn our focus to how marketers' segment, target, and position themselves in their markets

4.2 Intended Learning Outcomes

At the end of this lecture, you will be able to

- a) Describe market segmentation process
- b) Discuss market targeting for financial service
- c) Discuss positioning strategies used by financial institutions

4.3 Financial services market segmentation

Financial services consumers are not homogeneous. They vary in several characteristics such as income, access, age, literacy levels and lifestyle among others. It is this understanding that necessitate financial services providers to subdivide markets into subsection that they can serve effectively. This is the philosophy of market segmentation. Market segmentation is the "actual process of identifying segments of the market and the process of dividing a broad customer base into sub-groups of consumers consisting of existing and prospective customers (Camilleri 2018)". This is particularly useful in financial services marketing where a variety of clientele exist. In developing countries like Kenya where there is poor distribution of wealth and income, a marketer will do well to subdivide the market as there are extremes on side of high- and low-income earners yet all requiring different types of financial services.

Tina (2000) elucidates that there are many benefits of segmenting a financial services market. First segmentation enables a firm to have a clear definition of its target market in terms of income, purchasing power, needs and wants among others. This will enable financial service provider to offer more relevant services and meet his objective of customer satisfaction. Secondly, the firm can allocate its resources to the segments that are more promising making it more efficient and effective in its marketing strategy. Third, the financial services provider can analyze his competitors more effectively and develop appropriate strategies to counteract competition. Fourth, the financial service provider can determine the changing needs and preferences of his customers more easily and identify new segments that may require a different strategy. Other benefits include more effective planning which leads to cost reduction as well as increased customer retention.

4.4 Bases for financial service market segmentation

For financial services marketers to segment a market more effectively they need to identify basis for doing this. A *segmentation basis* is the characteristic or groups of characteristics of consumers used to assign consumers to segments Kotler (1997). Several bases of segmenting a market have been identified by marketers such geography, demographic, socio-economic, geodemographics and psychographic bases. Each of these variables is discussed briefly below.

a) Geographic bases

This is traditionally the oldest variable to be used in market segmentation. It implies dividing the market based on geography. The assumption made is that the people living in the same geographical region have similar needs and can be served by the same products or services. For financial services marketers, may be people living in upper market region might require similar products and those living in lower market the same. In a country like Kenya, small scale farmers dealing with coffee or tea, or horticultural products could be targeted by accounts and credit facilities in line with growth of such crops. This variable works well where there are diverse geographical regions. It is however, important to note that technology advances have made this variable less effective as customers can be targeted from very diverse geographical regions.

b) Demographic bases

Demographics refers to descriptive elements of people in a society. They may include gender, age, family size, and family life cycle. The marketer is expected to identify the segments that exist in a society and tailor products for them. The demographic variables are the most popular in financial services marketing and are easily identified by consumers. In Kenya for instance, most banks have accounts called Diva accounts for ladies only. There are also junior accounts for children only. Saccos have savings plans for kids whereby they are expected to start saving at an early age as a way of inculcating saving culture in them. There are hundreds of financial products targeting the youth in Kenya from banks and from government funds such as youth fund.

c) Socio-economic bases

This is segmentation based on education background, occupation, and income. There are many credit facilities today in Kenyan market aimed at people have formal employment. They are usually given loans which they repay using a salary check-off system. There are also many products aimed at those with high income such as prestige accounts. Some banks in Kenya target only high-income earners only and do not accept deposits from middle- and low-income earners.

d) Geodemographics

This is segmentation based on a combination of geographic and demographic factors. The market will for instance target people living in certain geographic region but who also earn a certain level of income. The marketer will come up with tailor-made product to ensure he satisfies needs. In

Kenya pastoralist living in certain rural areas but who also keep certain number of animals are often offered insurance products. Combining several variables helps to overcome certain weaknesses of one variable and capitalize on the strength of the other. It is however more complex, and many financial services providers do not use it.

e) Psychographic bases

This is segmentation based on psychographic factors such as attitude, personality, and lifestyles. Lifestyle segmentation has become popular in recent past especially with growing middle class income earners. There are now travel products, holiday products, mortgage facilities and insurance products targeting these groups. It is important for marketers to identify the best variable to use for marketing segmentation for a particular product or services

f) Behavioral variables

This is segmentation are based on factors such as *benefits sought, usage rate, response, and attitudes* to a product. *Segmentation by benefits* is where the financial services provider considers quality, price, status, among others. The status of the user can be non-user, ex-user, regular user, and first-user or potential user. Similarly, on usage rate the financial marketer would have light user, heavy or medium user while loyalty status can be hard-core loyal, soft-core, shifting loyal or switchers.

4.5 Criteria for effective market segmentation

Effective market segmentation requires the marketer to base it on certain criteria. These include measurability, substantiality, accessibility, actionability, differentially, stability. Measurability implies that there must be a way of measuring that criterion. There must be clear boundaries between one segment and the other. For example, if we base a segment on income, we could easily divide segment on earning criteria for those earning 0-1000 dollars monthly, 1001-10000 dollars monthly, 10001 to 50,000 dollars and so on. The segment can therefore be measured based on that variable and we can easily constitute the market potential for that segment. We can also determine what is our market share in that segment and see how much our competitors have taken. This could inform our marketing strategy either as market leaders, challengers, or followers.

Substantiality measures how big a segment is. For any market segment to warrant action from the marketer it must be big enough to justify investing into it. The marketer will only commit himself to a segment large enough and one that has high potential of growth. The growing middle-income class has very large potential and therefore any marketer in Kenya will do well to invest in it.

Accessibility is another significant variable informing market segmentation. The marketer is interested in the way of reaching out to his potential clients through marketing communication. A segment can only be considered if it is accessible through promotion means such as advertising, sales promotion, personal selling, direct marketing among others. It is through promotion that the marketer will create awareness of his financial product and expect response from financial services provider.

Actionability implies that the segment warrants some action. The segment must be large enough and one where a marketing strategy can be crafted. The points of action would be in areas of pricing, promotion, distribution, personnel requirement and technology.

The other factor is differentially. The implication here is that for a segment to be considered it must be different from the others in responding to marketing activities. It could be aligned to promotion activities, price sensitive or located in certain distribution locations. The marketer must therefore see the segment as different from others and serve it in that manner.

4.6 Market Targeting

Targeting is the process of identifying the market segment that the marketer wants to serve and the ones he will not. After identifying the various segment, the marketer must choose the ones to target based on his capacity. Kotler (1997) identified five different strategies for the selection and targeting of market segments.

- (i) *Single-segment concentration*: this will occur when the financial institution targets just one segment to the exclusion of all others. All the institution marketing effort is aimed solely at this one segment. For instance, Citibank in Kenya targets corporates at the exclusion of individual customers.
- (ii) *Selective specialization*: also known as multi-segment coverage occurs when a firm chooses several segments. For most financial institution they target low- and middle-income segments but again not everyone.
- (iii) *Product specialization*: occurs when a firm concentrates on marketing a certain product to several segments. The financial products are modified to suit different segments and their preference. Mortgage firms offer housing product to different categories of their clients.
- (iv) *Market specialization*: is when a firm concentrates on serving the many needs of a particular customer group. For example, Saccos are offering several credit facilities to their clients. They offer emergency loans, development loans, education loans, weekend loans etc. Firms will carry an array of products to satisfy the needs of the target markets.
- (v) *Full market coverage* is when a firm attempts to serve all customer groups with all the products that they might need within the range of the company. This is also called mass marketing. This works for large companies which have the necessary resources.

4.7 Market Positioning

Positioning is the act of designing a company's offering and image to occupy a distinctive place in the mind of the target market (Kotler 1997). It is an attempt to distinguish one's offering to the

market from competitors. No company can meet all the needs of a customer, but it is possible to create a competitive position as the preferred product or brand provider. Positioning involves implementation of targeting.

The formulation of a positioning strategy moves along a sequence of steps (Kotabe and Helsen, 2004). These include:

- (i) Identify the relevant set of competing products or brands. What is the competitive frame?
- (ii) Determine current perception held by consumers about your product/brand and the competition.
- (iii) Develop possible positioning themes.
- (iv) Screen the positioning alternatives and select the most appealing one.
- (v) Develop a marketing mix strategy that will implement the chosen positioning strategy.
- (vi) Over time, monitor the effectiveness of your positioning strategy. If it is not working, check whether its failure is due to bad execution or an ill-conceived strategy.

Kotabe and Helsen (2004) further alludes that the following positioning themes appeal to consumers anywhere in the world, regardless of their cultural background. These may include

- a) Specific product features/attributes
- b) Product benefit (rational or emotional), solutions for problems.
- c) User category
- d) User application
- e) Lifestyle

Schiffman and Kanuk (2004) proposes that marketers can position their product and services through branding, and logo development. Brands convey certain message, and we can use the name and logo to convey the relevant message. He further alludes to the fact we can position based on price, quality, and competition. The financial services marketer therefore determines the most appropriate positioning theme depending on the target market

4.8 Review questions

1. Define market segmentation and describe its importance to a marketer
2. Citing relevant examples, describe bases used by financial institution in segmenting markets in your country
3. Discuss commonly used segmentation strategies applied by financial institution in your country.
4. Evaluate criteria for market segmentation
5. Discuss market positioning strategies used by financial institutions in your country
6. Critically examine positioning themes used by microfinance institutions in your country

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