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An overview of the Influence of Customer Segmentation Strategy on Performance of Commercial Banks in Kenya

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Abstract: **Commercial banks in Kenya and globally have in the recent past faced a myriad of challenges which have eaten into their performance. As a consequence, most have been forced to reduce their work force, reduce their areas of operation or exit completely form the market. To survive, the commercial firms like any other players in a highly competitive marketing environment, have to segment their markets in order to achieve proper targeting. This paper seeks to critically review the influence of customer segmentation strategy on performance of commercial banks with a specific focus to banks in Kenyan market. Kenya has a total of 42 commercial banks, 12 microfinance banks, one mortgage finance company, eight representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers as well as three credit reference bureaus. With all these financial institutions in Kenya, can we then comfortably say that Kenya is saturated with banks. Some financial experts say that Kenya is over-banked. With a population of 44 million and a total of 42 banks, the competition for customer base must be very high and this explains the disparity in terms of interest rates from one bank to the other.**

Keywords: **Commercial banks, customer segmentation, competitive marketing.**

1. INTRODUCTION

Commercial banks are financial institutions that offer a varied of financial services to both individuals and other organizations. Financial services offered by commercial banks range from accepting deposits from individuals and corporations, provision of bank loans, overdrafts, investment advice and others.

Financial institutions play important role in facilitating the accumulation and allocation of capital resource by way of channeling individual savings into loans to government, private businesses and individual requirements. The future of retail banking reveals a state of worry that raises the question of whether future bank customers will still require retail banking services, traditional or non-traditional banking services. The era of new technology has ushered into modern business where non-financial businesses are providing new options of managing customers finances. Therefore, survival of banks will only be guaranteed through provision of better customer services that avoids customer switching (IBM, Corporation, 2012).

Financial institutions worldwide, face several social and strategic challenges that have facilitated towards their business stagnation. Some of the serious challenges facing banks and other financial institutions include; increasing competition from financial technology firms, loss making, high level of customer expectations and increase in regulatory requirements from financial regulatory bodies (Schubert, 2015).Kenya has a total of 42 commercial banks, 12 microfinance banks, one mortgage finance company, eight representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers as well as three credit reference bureau.With all these financial institutions in Kenya, can we then comfortably say that Kenya is saturated with banks. Some financial experts say that Kenya is over-banked. With a

population of 44 million and a total of 42 banks, the competition for customer base must be very high and this explains the disparity in terms of interest rates from one bank to the other.Despite the recent governments role to cap the interest rates, customers still feel various commercial banks are better than others depending on the needs of each customer segment.

Most studies carried out, on customer segmentation strategy focused only on isolated customer segmentation strategy at a time and how it influences firm performance. However, information on how multiple customer segmentation strategies influence firm performance remains unknown.

2. GLOBAL BANKING SECTOR

Worldwide financial institutions have experienced dramatic changes and are faced with several challenges such as; increased completion, raising financial expense's, market saturation, reduced profit margins, ever-changing customers service expectations and deregulation of the financial sector.These challenges are likely to reoccur in the coming decade and this require banks to adopt appropriate marketing strategies such as customer segmentation that ensure sustainable competitive advantage.Thomas (2006), asserts that intense competition in the banking sector worldwide, reduces profit margins for each and every individual bank. This therefore, makes commercial banks have limited financial capacity to meet their short-term and long-term obligations. He further notes that, unfortunately the actions that reduce competition in banking sector hurt consumers by raising costs and reducing the quality of bank services to the customers. This underscores and is why this study is to be carried out on customer segmentation approaches on customer service and performance of commercial banks in Kenya, as a strategy of managing competition and ensuring delivery of quality customer service.

Brooks (1989) argues that financial institution sector has undergone dramatic changes in the last decades as a result of deregulation, introducing building societies in 1980's, which compete directly with banks for the same customers. As a result of relaxation of legal restrictions, the financial sector has experienced product proliferation or mushrooming of banking services, targeting same customer base. Further, argued that in the 1990's financial sector faced rising costs, reduced consumer spending, market saturation, increased competition and the world economic recession. These challenges are likely to re-occur, that require the banking sector to rethink of better strategies to build competitiveness. Tina (1994), agrees that driven by changes in the regulatory environment and pressure on product profitability, market segmentation is increasing in importance, as a competitive weapon that financial institutions need to embrace.

Allred and Adams (2002), note that the techniques employed to render banking services to customers in an effort to achieve competitive advantage are many. With existence of high transaction costs, lack of confidence by customers in banking services, unreliability, failure to keep promises by the banks, has facilitated to the tendency of customers to shift from one bank to another.In this case, continuous customer segmentation will make banks keep track of the ever-changing customers' needs and provide quality customer value in an effort to ensure customer retention.

The Kenyan Banking Sector:

The banking industry in Kenya was liberalized in 1995 and exchange controls lifted. The Central bank of Kenya, which falls under the minister for finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The Kenya Bankers Association is an umbrella body which creates forum for the Kenyan banks to share information regarding issues affecting the banking industry. Both the Central Bank of Kenya and Kenya Bankers' Association agree that the banking industry is experiencing upward growth, which as a result of liberalization, as attracted registration of new players which has led to intense competition in banking sector (The Central Bank of Kenya, 2010, Kenya Bankers' Association, 2008). Howcraft (2005), notes that competition in the Kenyan banking industry has risen so much that even international banks like Barclays and Ecobank have been hawking their services. Auka (2012), notes that the banking sector in Kenya has experienced dramatic changes that have resulted in deregulation and liberalization, declining interest margins, due to customer pressure, increased demand for non-traditional service including the automation of a large number of services and emphasis towards customer service rather than products and other players. In summary therefore, the worldwide challenges experienced in the financial sector like, deregulation, introduction of building societies, deposit accepting cooperative societies, rising costs, increased competition and liberalization are also felt in Kenyan banking industry.

According to the Central Bank of Kenya Annual Report (2015), there are 42, licensed commercial banks operating in Kenya, but of which, 25 banks are locally owned, 3 are public owned. Thus, the remaining 14 banks are foreign owned.

Most of these banks have branches in the 43 counties in Kenya. Note that as by 30th June, 2014, Central Bank of Kenya had authorized 15, Commercial Banks to offer banking services through third parties (i.e. agents). This therefore, reflects a growing stiff competition in the banking sector in Kenya. As such, to optimize on returns banks need to understand the ever-changing customers' attitudes, perceptions, opinions, emotions and beliefs towards banking services, as a way of retaining them. This implies that through effective customer segmentation approaches, banks would be in a better position to identify andCustomers are highly fragmented in terms of their social, cultural, demographics, economic, politico-legal and technological perspectives. These make them behave differently as pertains to making decisions to purchase goods and services for consumption. Therefore, Strategic Marketers need to practice one-to-one marketing as a driving force towards understanding the varying customers' tastes and preferences, and be able to design and develop different marketing mix offerings which enhance high quality customer value. This is basically the strategic concept of customer segmentation, that all businesses need to embrace in a highly competitive market, as a tool towards growth and sustainability (The Chartered Institute of Marketing, 1998). Rockbridge (2015), argues that customers are never the same in terms of their needs and wants. However, they vary in terms of their needs and wants, based on their attitudes, beliefs, behaviour and demographics. As such, understanding the varied needs of customers will make organizations know how to deal more effectively and efficiently with; new, growing, mature and declining accounts, in pursuit to produce and sell goods and services to enhance customer satisfaction.

Customer segmentation and performance of banks:

Customer segmentation is a strategic management technique of creating groups of customers, who have similar traits that would be important to marketing practice in terms of age, gender, location, interests and purchasing power. This mapping of customers with similar tastes and preferences enable marketers to create groups of customers and target them with different goods and services, along with customized promotional campaigns (Ambarish, Kumar&Verma, 2012). Hawkins and Mothersbaugh (2010), argue that segmenting customers on the basis of their most important product attributes is one way of defining customer needs for a given product or service. Thus, firms which embrace the concept of customer segmentation will be able to design and develop separate marketing mix programmes for selected customer segments. As such, in Kenya, the commercial banks need to recognize that existence of diverse needs and wants of customers on the market, and adopt different marketing approaches as a step towards attaining sustainable competitive advantage.

Customers are highly fragmented in terms of their social, cultural, demographics, economic, politico-legal and technological perspectives. These make them behave differently as pertains to making decisions to purchase goods and services for consumption. Therefore, Strategic Marketers need to practice one-to-one marketing as a driving force towards understanding the varying customers' tastes and preferences, and be able to design and develop different marketing mix offerings which enhance high quality customer value. This is basically the strategic concept of customer segmentation, that all businesses need to embrace in a highly competitive market, as a tool towards growth and sustainability (The Chartered Institute of Marketing, 1998). Rockbridge (2015), argues that customers are never the same in terms of their needs and wants. However, they vary in terms of their needs and wants, based on their attitudes, beliefs, behavior and demographics. As such, understanding the varied needs of customers will make organizations know how to deal more effectively and efficiently with; new, growing, mature and declining accounts, in pursuit to produce and sell goods and services to enhance customer satisfaction.

Several authors assert that market segmentation is a cornerstone of sound marketing planning and decision making in an organization. Further they argue that segmentation could be very useful for selecting advertising copy of message, media commercial length, product packaging and new product designs and provision of leverage for the organizations' marketing resources on more productive customer groups. Other writers argue that due to the dynamic nature of consumer needs, market segmentation should be undertaken periodically by organizations so as to be at par with customers' attitudes, perceptions, and emotions about products. However, segmenting customers on the basis of their preferred banking services would be a more desired strategy to counter competition since it would recognize that customers' needs and wants differ and develop services that suit each and every identified set of similar customer needs. Modern customers are becoming more complicated, sophisticated and fragmented in their requirements and are always demanding better services than before (Peter& Donnelly, 2007, Saxema, 2006, Hawkins &Mothersbaugh, 2010,& Payne,2003).

Most authors content that grouping customers with similar needs and wants together, before designing and developing appropriate marketing offerings to satisfy them, is based on customers' lifestyle, geographic distribution, demography, benefits sought and usage rate (Kotler, 2000, Crawford and Benedetto, 2006, Hawkins and Mothersbaugh, 2010, Saxema,

2006, Peter & Donnelly, 2007). Peter and Donnelly, (2007), assert that customer segmentation is the cornerstone of sound marketing planning and decision making in an organization. Other scholars conducted separate studies on customer segmentation approaches based only on the information and communication technology (ICT) in the financial sector in different countries (Hermes, hensink and Measters, 2009, Dargupta Paul and Fuloria, 2011, Kent and Jan, 1996, Agboola 2007). However, the literature did not consider technology as a variable for segmenting customer alongside other approaches i. e. lifestyle, Geographic distribution, Demography, benefits sought and usage rate. Other scholars content that influence of customer segmentation on organizational performance is positive, with segmentation enhancing customer retention and improving profitability (Hawkins &Mothersbaugh, 2010, Kotler, 2000, Peter and Donnelly, 2007).

Alfansi and Sergeant (2000), conducted a study on the relationship between demographics and desired customer benefitsamong banks in Indonesia..The study found out that using benefit segmentation for customers' retention is always relatively straight forward, since banking institution can easily research the needs of their existing customers to monitor their behavior. These findings agree with those of Machauer&Morgner, 2001, who conducted a study on segmentation of bank customers by expected benefits and attitudes in German Banking Industry. Other studies found out that banks can use technological advancement as a tool of segmenting their customers (Gil-Saura& Ruiz-Molina,2009, Yen &Gwinner, 2003, Craig, 2009, Mathur&Moschis, 1994, Chen, Zheng, Hu & Fu, 2007, Ivatury& Mas, 2008).Vyncke(2002),conducted a study on lifestyle segmentation; from attitudes, interests and opinions, to values, aesthetic style, life visions and media preferences in Belgium. The result of this study was that; values, aesthetic style and life visions-either alone or in combination can lead to very balanced and meaningful lifestyle typologies. Kaj (1997),conducted a study on segmentation based on customer profitability - retrospective analysis of retail bank customer bases in the Nordic countries. The result of the study indicated that all retail banks in Nordic countries have employed volume based segmentation and developed banking offerings based on this analysis. Dasgupta Paul and Fuloria (2011), conducted a study on the factors affecting behavioral intentions towards mobile banking usage in India. The results of this study showed that apart from traditional variables like, perceived usefulness and perceived ease of use, factors like perceived image, perceived value, self-efficacy, perceived credibility and traditional all significantly affect behavioral intentions towards mobile banking usage.Ivatury and Mas (2008), in their study on experience with branchless banking in the United States of America banking sector concluded that geographical segmentation is likely to capture the greatest market share among the local population.

A study by; Onyia and Tag (2011), on the effect of demographic factors on bank customer's attitudes and intentions towards internet banking in Nigeria. The results of this study showed that gender, level of education, employment status are the major demographic influencers of Nigerian banking customers' attitudes towards use of internet banking. However, a study by Marous(2013), found out that while demographics can explain customers behavioural pattern' they play a weak role in explaining bank services brand preferences, service purchase innovation adoption and use of bank channels.Agboola (2007), conducted a study on a comprehensive appraisal of the response of Nigerian commercial banks to the adoption of Information and Communication Technology (ICT).The study showed that banks that had adopted technology had better performance.

Afande (2015), in his study on market segmentation practices adopted by commercial banks in Kenya,showed that segmentation practices used by commercial banks in Kenya include;behavioral,demographic, psychographic, benefits, usage , loyalty, image, situation and geographic variables. Kasmani (2014), examined factors influencing the growth of Islamic banks in Kenya. This study was conducted in Nairobi, the capital city of Kenya..The study found out that religious considerations contributed to the growth of Islamic banking and that is one reason why customers opened and operated accounts with the banks. Other scholars conducted studies on customer segmentation amongst commercial banks in Kenya and found out that banks have adopted geographical and technological segmentation of their customers. Thus facilitating to better performance (Lilly &Juma, 2014; Mugo, Wanjau&Ayodo, 2012).Barazaand Mwirigi (2013), carried out a study on the benefits of agency banking in Kenya as a geographical distribution network. The study concluded that agency banking has played a pivotal role in enhancing the penetration of banking services in unbanked markets to the access of the full-range of banking products.

However, all these previous studies on customer segmentation were carried out using isolated customer segmentation strategy at a time and how it influences commercial banks' specific performance. Further, status on how multiple customer segmentation strategies influence commercial banks performance in Kenya, remains unknown. In an ideal situation, customer segmentation strategies are applied together to achieve better firm performance. Commercial banks'

whether small, medium or large have to apply multiple customer segmentation strategies, since customers' tastes and preferences differ psychologically, economically and socially.

3. CONCLUSIONS

Due to turbulent business environment and dynamism in customers tastes and preferences, customer segmentation research should be ongoing, as a way of establishing the emerging markets and new customers' preferences. Thus be able to design and develop better marketing offerings for the target markets.

4. RECOMMENDATIONS

Previous studies have shown that financial sector, both globally and locally have experienced serious challenges such as; high customer expectations, increased competition, advancement in technology, ever-changing customers' needs and increased demand for non-traditional banking services. This has contributed to loss of customers and profit margins amongst banks. This canbe attributed to poor marketing strategies.Further, previous studies on customer segmentation strategy were conducted using isolated customer segmentation strategy at a time and how it influences bank performance. Therefore, status on how multiple customer segmentation strategy influence commercial banks performance in Kenya, remains unknown. Therefore, there is need for further research into marketing strategies, especially customer segmentation strategy and how it affects firm performance.

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