THE EXTENT TO WHICH MARKET SEGMENTATION ENHANCES COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

By

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DECLARATION

This research project is my original work and to the best of my knowledge it has not been submitted for a degree in any other university

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DEDICATION

This research project is dedicated to my family who have stood by me through thick and thin.

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ABSTRACT

The banking industry has remained relatively constant over the past several decades; however liberalized domestic regulation, intensified internal competition, rapid innovations in new financial instrument, the growth in information technology and a change in customer needs and preferences has increased pressure on managers and workers to dramatically improve productivity and financial services. The banks compete mainly on products and pricing. Superior customer service coupled with product segmentation is deemed to create a competitive advantage in which a product whose attributes differs significantly from rival products. The research used a survey design of commercial banks in Kenya to establish the extent to which market segmentation enhances competitive advantage of commercial banks in Kenya. The target populations were the marketing managers of the various commercial banks. The data was collected through questionnaires administered through drop and pick later method. Data collected was analyzed and presented in the form of frequency distribution, percentage tables, pie charts, bar graphs amongst others.

The research established that the banks in Kenya were mainly involved in money transfer, deposit and payment facilitation and lending where they faced stiff competition from other players like mobile banking and other financial institutions who offered similar services. The study also found out that the majority of the clients for the banks were individuals account holders and institutions with diverse financial needs. The researcher further revealed that banks used market segmentation as a marketing strategy to enhance their competitive advantage. The banks accrued various benefits derived from market segmentation, which included banks gaining a competitive edge, achievement of customer satisfaction, customer retention and increased profitability respectively.

The study also found out that the segmentation strategy being used by various banks was an effective strategy as majority of the respondents were satisfied with it. In addition, banks experienced problems while segmenting its client base which included lack of expertise, lack of adequate resources and market volatility. The research further established that most of institutions used low cost services as their competitive strategy while the rest adopted differentiation strategy and focus strategy respectively. Among the banks that employed low cost competitive strategy,

adoption of a broad scope, serving many clients and achieving economies of scale through provision of high volumes of standardized services were the most significant aspects of low cost competitive strategy. On the other hand among banks that relied on differentiation strategy, the research found out that the firms' differentiation was based on the understanding of unique customer needs and seeking to meet them was the most significant variable on differentiation strategy. Among the banks that used focus strategy, the company strived to meet the needs of our niche market by tailoring their marketing mix to these specialized markets. The study finally established that improved customer satisfaction and increased customer base were the most significant benefits from adopting the competitive strategy.

The research concluded that the banks in Kenya were mainly involved in money transfer and payment facilitation services where they faced stiff competition from other players like mobile banking and other financial institutions who offered similar services hence the need for market segmentation to gain a competitive edge. The study also concluded that the majority of the clients for the banks were individuals account holders and institutions with diverse financial needs hence segmentation is important to fulfill their unique need to achieve customer retention. The researcher further concluded that banks used market segmentation as a marketing strategy to enhance their competitive advantage. The banks accrued various benefits derived from market segmentation, which included banks gaining a competitive edge, achievement of customer satisfaction, customer retention and increased profitability respectively.

The study also concluded that the segmentation strategy being used by various banks was effective strategy as majority of the respondents were satisfied with it. In addition, banks experienced problems while segmenting its client base which included lack of expertise, lack of adequate resources and market volatility. The research concluded that most of institutions used low cost services as their competitive strategy while the rest adopted differentiation strategy and focus strategy respectively. Among the banks that employed low cost competitive strategy, adoption of a broad scope, serving many clients and achieving economies of scale through providing high volumes of standardized services were the most significant aspects of low cost competitive strategy. On the other hand among banks that relied on differentiation strategy, the research concluded that firms' differentiation was based on the understanding of unique customer needs and seeking to meet them was the most significant variable on differentiation

Strategy. Among the banks that used focus strategy, meeting the needs of their niche market by tailoring their marketing mix to these specialized markets was the most important variables on focus strategy. The study finally concluded that improved customer satisfaction and increased customer base were the most significant benefits from adopting the competitive strategy.

The study recommended that banks should always segment their client base to fulfill the unique need of the clients to enhance their competitive advantage in the industry. The study further recommended that banks should regularly review their segmentation strategies in order to accommodate the changes in the banking sector which is very dynamic in nature and highly competitive. The study finally recommended that the banking institutions should formulate policies to guide their market segmentation strategies in order to enhance their competitive advantage in the banking sector.

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CHAPTER ONE: INTRODUCTION

1.1 Background of The Study

Bankers frequently preferred the simplistic assumption that the market was homogeneous and that relatively little risk was associated with treating all customers the same. Today, there is a growing body of evidence suggesting that customers are very diverse. Thus, the heterogeneous nature of the market is a fundamental reality and the idea of recognizing a heterogeneous market rather than a homogeneous market is not insignificant. Banks can therefore capitalize on this heterogeneity to obtain detailed knowledge of their customers' preferences. By doing so they can be able to develop products that are clearly differentiated from competition and offer superior value to their customers. The purpose of this study is to argue and prove that there exists a relationship between market segmentation and competitive advantage of a commercial bank. The argument shall be validated through literature review on the Banking sector and contemporary management strategies and, solidified through the results of the field study.

1.1.1 Market Segmentation

Market Segmentation is the division of markets into homogenous groups of customers, each of the segments reacting differently to promotion, communication, pricing and other variables of the marketing mix (Kotlcr, 1998). Market segments should be formed in a way that differences between buyers within each segment are as small as possible. Thus, every segment can be addressed with an individually targeted marketing mix. Kalakota and Whinston (1993) argue that the importance of market segmentation results from the fact that the buyers of a product or a service are no homogenous group. Every buyer has individual needs, preferences, resources and behaviors. Since it is virtually impossible to cater for every customer's individual characteristics, marketers group customers to market segments by variables they have in common. These common characteristics allow developing a standardized marketing mix for all customers in this segment (Dickson & Ginter, 1997).

1.1.2 Competitive Advantage

According to Scholes and Johnson (2002), a firm is said to have a competitive advantage when it has the capabilities or means to push out its rivals in striving for the favour of customers. This applies internationally or locally as well as to both services and products. Thus, a sustainable competitive advantage is the persistence the firm applies despite efforts by competitors or potential entrants to imitate or overtake it. Porter (1990) states that, though not all nations are in the forefront of competition, the home nation which shapes the competitive advantage is the starting point for a firm's competitive advantage and also from which it must be sustained. However, in whatever field of endeavor, competitive advantage creation must be a choice of management and it must really fit to achieve results.

Barney (1991) argues that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. The firm must have resources and capabilities that are superior to those of its competitors (Scholes & Johnson, 2002). Competitive strategy is one of the ways in which a business relates to its environment by competing with other firms who are also trying to adapt within the operating environment. It is with this aspect- the competitive strategy which if appropriately chosen and implemented appropriately gives the firm a competitive advantage over its rivals (Thompson & Strickland, 1998).

Porter (1980) emphasizes the need to select an appropriate generic strategy to position the business unit in its competitive environment. He argues that the environment poses threats and brings opportunities. The environment can be analyzed using the five forces analysis to identify the issues which affect the level of competition in an industry; after which a strategy is formulated to combat it. Barney (1997) points out that a business could position itself as offering a low cost product at a standard price. Costs are reduced at every element of the value chain. It could also offer a product that was different from that offered by rivals by adopting a differentiation strategy. This allows companies to make prices less sensitive and focus on value that generates a comparatively higher price and a better margin.

The business can also focus on a small but well-defined part of the market, for instance a particular buying group or product area or geographical area. This is also known as focus strategy and is usually suitable for small companies. Scholes and Johnson (1999) define generic competitive strategy as the basis on which a strategic business unit might achieve or counter competitive advantage in its market. Organizations achieve competitive advantage by providing their customers with what they want, or need better or more effectively than competitors and making it difficult for competitors to imitate. Thus, generic competitive strategies are the fundamental activities on which a strategic business unit seeks to achieve a lasting advantageous position in its environment and gaining the favor of stakeholders by meeting the expectations of buyers, users and other stakeholders

1.1.3 Competitive Advantage and Market Segmentation

Market segmentation is defined by Kotler and Armstrong (2001) as dividing a market into distinct groups of buyers on the basis of needs, characteristics or behavior. These needs, characteristics, and behavioral factors, which signify different demands, come from a multitude of different reasons. The main profilers used to segment the consumer markets are Geographic, Demographic, Behavioral and Fsychographic factors. Ultimately segmenting the market is the first step to giving the firm the ability to better match the customer needs, enhance profits, enhance opportunities for growth, retain customers and target communications (Kotler, 2001).According to Lesser and Hughes (1986) having segmented the market the strategist is faced with a series of decisions on the amount of and which segments to approach. The strategist's main concern is choosing a target would be profitable (Kotler, 2001). The three factors considered are the size and growth potential of each segment, their structural attractiveness and the organization's objectives and resources in coming to a final decision on which segments to target. (Wilson & Gilligan, 1997). By identifying their core competences, firms are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Porter, 1980).

Finally once the market has been segmented and a segment or segments targeted by the company, a positioning concept is identified and developed. (Trout, 1969). The company then builds a position for itself from its competitors by building on its core competencies. According to Scholes and Johnson (1999), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains. Kotler and Armstrong (2001) have identified three steps to be followed by a company when building a position for itself. These include identification of a set of possible competitive advantages upon which to build a position, choosing the right competitive advantages, and selecting the overall positioning strategy. By consistently delivering on its positioning strategy, the product will probably be best known and recalled for this benefit. Well known products generally hold a distinctive position in the consumers' minds making it difficult for a competitor to claim this position (Porter, 1985).

1.1.4 Commercial Banks in Kenya

Banking has increasingly gained popularity in Kenya due to various changes in the market. According to the Central Bank of Kenya, there were forty four commercial banks licensed to carry out banking business in Kenya as at 31" December 2010. Thirty-five of the commercial banks, most of which are small to medium sized, are locally owned. A few large banks most of which are foreign-owned, though some are partially locally owned, dominate the industry. The deregulation of the financial services markets in the 1980s, and in particular the growing focus of both consumers and producers on quality, has created a process of structural change in the banking industry (Muchiraju, 2008).

By the late 1990s, the mainstream banks started restructuring their services towards wealthier people, consequently banking services became sufficiently expensive that even middle-income people sought cheaper alternatives. From the year 2002, there has been renewed interest from the banks in reaching the mass of middle-income salaried individuals such as teachers and civil servants and this market segment has become quite competitive (Johnson, 2004).In the last four years there has been increased competition from new entrants into the banking industry, forcing banks to cut costs and improve efficiency through automation and price rationalization.

There has also been increasing internal and political pressure on banks to expand their products and services to the un-banked and under-banked. (Bitner, Brown & Meuter, 2000). Due to the competitiveness of the banking industry many banks which concentrated on corporate banking changed partially or completely to retail banking. This is evident from a lot of advertisements made by banks using various forms and also by use of sales people, who have tried to convince many individuals to open accounts. (Banking supervision Annual Report, 2005).

Retail banking has been undergoing dramatic operational transformation in the recent years. Mergers and acquisitions, increased competition, and new regulatory requirements have driven banks to rethink their retail strategies. It has become important for retail banks to leverage technology, manage distribution channels, and streamline operations to acquire, satisfy, and thereby retain customers. (Chen, 1999) The retail finance sector is currently one of the most competitive in the banking industry. Financial institutions that are interested in tapping underserved households need new strategies to segment the large under banked market.

1.2 The Research Problem

Today's market for banking and financial services demonstrates increased diversity in terms of product interests, sensitivity rate, delivery preferences and media communication. Bankers have asserted the argument of equal service for everyone and have extended this argument beyond its reasonable limit. The logical extension is that all customers will not only be satisfied with the same quality of service, but that they can all be satisfied with one set of products and one marketing strategy. Commercial Banks must recognize differences in customer wants, needs and interest and develop products and programs that capitalize on a clear understanding of those differences (Westerfield, 1996).

Previous studies have attempted to address issues such as competitive advantage through differentiation in markets (Kibiru,1999) and market segmentation strategies used by commercial banks in Kenya (Wamalwa,2008).However the researcher has not found studies that have been done on the relationship of market segmentation and competitive advantage. This study therefore sought to establish the extent to which market segmentation enhances the competitive advantage of a commercial bank. It was guided by the following research questions:

i. What are the segmentation bases used by commercial banks in Kenya?

ii. What are the competitive strategies that commercial banks in Kenya adopt in gaining competitive advantage?

iii. To what extent has market segmentation enhanced the competitive advantage of a commercial bank?

1J The Research Objectives

The objectives of this study were as follows:

i To establish the segmentation bases used by commercial banks in Kenya.

ii. To determine the competitive strategies adopted by commercial banks in gaining competitive advantage.

in To establish the extent to which market segmentation enhances competitive advantage of a commercial bank in Kenya.

1.4 Value of the Study

This study aimed to contribute to theory on market segmentation and competitive advantage by making a case for applicability. It may help the management of commercial Banks to establish the right information to seek for effective market segmentation. By acquiring the relevant information about their customers and prospective customers, the management may know how to develop the appropriate products to suit the various segments available which are critical to improved profitability and customer retention. The study may also be useful to marketers when designing promotional campaigns to boost sales and attract buyer purchase. The marketers may be able to develop delivery systems and promotional programs that work for the Banks and make sense for the customers.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Within the context of an ever-increasingly competitive business environment and highly stringent consumer requirements, the predominant goal of every company is to gain competitive advantage over its rivals by dynamically responding to consumer needs and shifting market patterns (Barney, 1997). It is therefore important to understand why customers and their preferences need to be divided into different segments. Market segmentation is seen as an opportunity for a company to focus its products on customers of a particular segment therefore translating to competitive advantage to the company by serving its customers well. This chapter outlines the concept of market segmentation and competitive advantage and articulates on how market segmentation leads to competitive advantage.

2.2 Market Segmentation

Thurau and Hansen (2000) argue that market segmentation makes it possible to satisfy a variety of customer needs with a limited product range by using different forms, bundles, incentives and promotional activities. It also enables organizations achieve higher profits by developing premium segments in which customers accept a higher price level. According to Trout (1969), by segmenting markets, organizations can create their own niche products and thus attract additional customer groups and consequently achieve higher profits. Swenson (1990) points out that organization that serve different segments along a customer's life cycle can guide their customers from stage to stage by always offering them a special solution for their particular needs.

Customers change their preferences and patterns of behavior over time. Segmentation provides information about smaller units in the total market that share particular needs. The identification of these needs enables a planned development of new or improved products that better meet the needs of these customer groups (Schewe & Alexander, 1992). Kalakota and Whinston (1990) perceive segmentation as the basis for offering superior value to particular customer groups and thus for developing a stable and profitable market position. Opportunities in marketing increase when segmented groups of clients and customers with varying needs and wants are recognized.

The bases for segmenting consumer markets are demographical bases which include age, family size life cycle and occupation, geographical bases which includes states, regions, and countries, behavioral bases which include product knowledge, usage, attitudes and responses, psychographic bases which includes lifestyle, values and personalities. A business must analyze the needs and wants of different market segments before determining their own niche.

2J Benefits **of Market Segmentation**

There are several important reasons for engaging in market segmentation. Customer needs differ. Kotler and Armstrong (2001) have pointed out that through segmentation; a company can better understand and match customers' needs and wants. Since all customers have differing needs, they must be handled in different ways. Segmentation enables identification of the different customer segments and their preferences. A solution can then be customized for each segment using the company's products or services. Customer circumstances change, for example they grow older, form families, change jobs or get promoted, change their buying patterns By identifying these changes, solutions can be provided to customers throughout their life cycle by adopting the product or service to the segment's needs. This is a great way to retain customers as they change their behaviors over time (Macdonald & Dunbar, 2004).

Wedel and Wagner (2000) argue that consumers have different disposable incomes hence different price sensitivities so by segmenting the market, different prices can be charged to extract the most consumer surplus. In doing this, profits are increased. Segmentation supports niche strategies, highly attractive segments can be identified and market leadership can be achieved. A competitive position results from this position in the market. Relationships are improved and the brand is strengthened.

Competitive production and decreased marketing costs are associated with segmentation. Kotler and Armstrong (2001) have pointed out that segmentation provides opportunities for growth for businesses. It enables identification of potential customers who wouldn't normally buy a product. By segmenting the market, a company can create its own niche and attract customers who normally would look for alternative sources for a solution to their problem. Segmentation provides opportunities for growth for businesses. If these unique problems are identified.

companies can adjust their product offering to provide a solution. Segmentation can also increase sales as customers are introduced to new versions and upgrades of the current product.

Kalakota and Whinston (1993) argue that a marketing message needs to target specific customer segments for it to be effective. Since customers have different needs and wants, solutions to each segment need to be communicated separately. Mass marketing causes some target customers to miss the intended message. In addition too much money is spent on advertising to customers who will never purchase the product. Through segmentation, customers can be reached with a specific marketing message that is designed to solve their individual problems, which is less costly for the company (Shapiro & Varian, 1998). With segmentation, smaller segments in the market that have similar needs and wants can be identified. Identifying new needs can stimulate innovative ideas to solve new problems. With newly developed products and services to meet these needs, problems, premium prices can be charged and the advantage in the market can be sustained (Trout, 1969).

2.4 Bases of Market Segmentation

Opportunities in marketing increase when segmented groups of clients and customers with varying needs and wants are recognized. Markets can be segmented or targeted using various variables. Schewe and Alexander (1992) have identified the major bases for segmenting consumer markets as geographic, demographic, psychographic and behavioural segmentation. In Demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality and social class. Demographic variables are the most popular bases for distinguishing customer groups. One reason is that customer wants, preferences, and usage rates are often associated with demographic variables. Secondly, demographic variables are easier to measure.

Geographic segmentation involves dividing the market into different geographical units such as nations, states, regions, counties, cities and neighborhoods. The company can operate in one or a few geographic areas, or operate in all but pay attention to local variables. This particular type of background information about customers can be used to identify the most likely locations the customers in each of the segments may be found and, therefore, further help in determination of how to reach them (Berrigan & Finkbeiner, 1992).

Smith (1956) defines psychographic segmentation as dividing customers or potential customers into different groups on the basis of lifestyle or personality or values. Lifestyles are shaped partly by whether consumers are time-constrained or money constrained. Companies aiming to serve time constrained consumers will create convenient services for this group and lower cost products and services to serve the money-constrained consumers. Behavioral segmentation involves dividing buyers into groups on the basis of their knowledge, attitude, use of a product or response to a product. Behavioral variables such as occasions, benefits, user status, usage rate, loyalty status and attitude are the best starting points for constructing market segments (Rangan, Moriarty & Swartz, 1992).

2.5 The Concept Of Competitive Advantage

Ansoff (1987) emphasizes that a competitive advantage exists when a firm is able to deliver the same benefits as competitors but at a lower cost, or deliver benefits that exceed those of competing products and services. Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself (Lamb, 1984). In order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear (Barney, 1991a, 1991b).

According to Sadler (1993) the resource-based view of strategy emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. Resources are the firm-specific assets useful for creating a cost or differentiation advantage and few competitors can acquirc these resources easily. These resources include patents, trademarks, proprietary know-how, brand equity and reputation of the firm. Capabilities refer to the firm's ability to utilize its resources effectively. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate (Porter, 1990). The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage (Scholes and Johnson, 1999).

Porter (1980) suggested four generic business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of a business' activities are narrow versus broad and the extent to which a business seeks to differentiate its products. The differentiation and cost leadership strategies seek competitive advantage in a broad ramie of market or industry segments. Barney (1997) emphasizes that the differentiation focus and cost focus strategies are adopted in a narrow market or industry-. Differentiation strategy involves selecting one or more criteria used by buyers in a market and then positioning the business uniquely to meet those criteria. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products. The objective of cost leadership strategy' is to become the lowest-cost producer in the industry. This strategy is usually associated with large-scale businesses offering products with relatively little differentiation that are perfectly acceptable to the majority of customers (Miller, 1992).

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. Porter (1990) argues that the important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants and that existing competitor product are not meeting those needs and wants. A business adopting a cost focus strategy seeks a lower-cost advantage in just on or a small number of market segments. The product will be basic perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers (Barney, 1991).

A company's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance (Morden, 2007). However, there is a disagreement between scholars on this aspect of the analysis. Kay (1993) and Miller (1992) have cited empirical examples of successful companies like Toyota and

Benetton, which have adopted more than one generic strategy. Both these companies used the generic strategies of differentiation and low cost simultaneously, which led to the success of the companies.

2.6 Sources of Competitive Advantage

Scholes and Johnson (2002) have pointed out that information strategies can have a profound influence on creating core competencies that enhance competitive advantage. The enhanced capabilities of IT are already enabling organizations to provide products and service features that are valued by customers. These include lower prices through reduced costs particularly where a product is information such as in financial services. There is also improved pre-purchase information such as website browsing and easier and faster purchasing processes such as online ordering.

Driven by more demanding customers, global competition, and slow-growth economies and industries, many organizations search for new ways to achieve and retain a competitive advantage. Past attempts have largely looked internally within the organization for improvement, such as reflected by quality management, reengineering, downsizing, and restructuring. The next major source for competitive advantage likely will come from more outward orientation toward customers, as indicated by the many calls for organizations to compete on superior customer value delivery (Hamel & Prahalad, 1996).

Lamb (1984) argues that for an organization to gain competitive advantage through people, there must be activities to ensure the maintenance of competitiveness. This is about ensuring that that people are able to support the strategies of an organization in the short term for example goal setting, performance appraisal, rewards and training. Simultaneously, Lawler (2008) argues that there must be activities to provide a platform on which new strategies can be built in the longer term for example leadership, culture, competencies and organizational development. The management of these longer-term issues might create opportunities for significant transformation in strategy and competitiveness. Morden (2007) points out that it is necessary that the two cycles of activities must be linked and connected to a particular strategy. This way the feedback processes and redirection of both business and people-related issues can occur. Organizations that are competent in managing these processes are likely to gain competitive advantage.

Attaining a competitive advantage in the free marketplace is key to the existence and sustainability of firms in today's global economy. In recent years, the perceived source of a firm's competitive advantage has shifted from tangible economic assets to knowledge or intellectual capital (Murmann, Galambos & Jones, 2003). A focus on knowledge as competitive advantage highlights changes to formal organizational hierarchies and the emergence of intra- and interorganizational knowledge networks (Barney, 1986b). Moreover, it is proposed that potential constraints may hinder a firm's ability to compete in a knowledge-based economy. Such constraints include, but are not limited to, the need for a common language and prior-related knowledge as a function of the limited cognitive abilities of employees and firms, and cultural variability within and across firms.

Knowledge has been described as a key driver to sustaining competitive advantage in today's global economy (Chakravarthy, McEvily, Doz, & Rau, 2003). It has been argued that knowledge is a primary component of both the inputs and outputs of production (Grant, 1996). With roots in organizational learning and the behavioral theory of the firm scholars have begun investigating a variety of research topics, such as how organizations create knowledge (Nonaka & Takeuchi, 1995), how to optimally manage organizational knowledge (Davenport & Prusak, 1998), and reconceptualizing the theory of the firm to account for the challenge of integrating the intellectual capital of human resources (Grant, 1996). Competitive advantage through low prices can be achieved by an organization through driving down of costs throughout the value chain. It can also adopt a low cost structure or use its finances to fund short to medium term losses with the aim of driving out competitors in the longer term. In addition organizations can choose to focus on market segments where customers particularly value low price (Sadler, 1993).

2.7 Competitive Advantage and Market Segmentation

In evaluating different segments a firm must look at segment size and growth, segment structural attractiveness, and company objectives and resources. However having the right size and growth is a relative matter. This is because the largest, fastest-growing segments are not always the most attractive for every company (Steenkamp & Hofstede, 2002). Smaller companies may lack the skills and resources needed to serve the larger segments or may find these segments too competitive. Such companies may select segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them (Xavier, 1999).

The company also needs to examine major structural factors that affect long-run segment attractiveness. For example, a segment is less attractive if it already contains many strong and aggressive competitors. The existence of many actual or potential substitute products or services may limit prices and the profits that can be earned in a segment. Wedel and Wagner (2000) argues that the relative power of buyers also affects segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services, and set competitors against one another all at the expense of sellers' profitability.

Finally, a segment may be less attractive if it contains powerful suppliers who can control prices or reduce the quality or quantity of ordered goods and services. A segment may have the right size and growth and may be structurally attractive; however the company must consider its own objectives and resources in relation to that segment. Some attractive segments could be dismissed quickly because they do not mesh with the company's long-run objectives. A segment may also fit the company's objectives; however the company must consider whether it possesses the skills and resources needed to succeed in that segment. If the company lacks the strengths needed to compete successfully in a segment and cannot readily obtain them, it should not enter the segment. If the company possesses the required strengths, it needs to employ skills and resources superior to those of the competition in order to really win in a market segment (Wilson & Gilligan, 1997).

The company should enter only segments in which it can offer superior value and gain advantages over competitors. By targeting specific segments companies become more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers since companies reach specific groups of consumers with offers carefully tailored to satisfy their needs (Ries & Trout, 1981). Once a company has decided which segments of the market it will enter, it must decide what position it will occupy in those segments.

Trout and Rivkin (1996) argue that a product's position is the way the product is defined by consumers on important attributes. It is the place the product occupies in consumers' minds relative to competing products. Positioning involves implanting the brand's unique benefits and differentiation in customers' minds. Consumers are overloaded with information about products and services. They cannot re-evaluate products every time they make a buying decision. To simplify the buying process, consumers organize products into categories. They position products, services, and companies in their minds. Companies must therefore plan positions that will give their products the greatest advantage in selected market segment (Xavier, 1999).

Some firms find it easy to choose their positioning strategy. For example, a firm well known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position (Berrigan & Finkbeiner, 1992). Each firm must differentiate its offer by building a unique bundle of benefits which appeals to a substantial group within the segment. Kotler (2001) identifies three steps in process of positioning. Foremost identifying a set of possible competitive advantages upon which to build a position. The key to winning and keeping customers is to understand their needs and buying processes better than competitors do and to deliver more value. If a company can position itself as providing superior value to selected market segment, then it gains competitive advantage.

Thus, positioning begins with actually differentiating the company's offer so that it will give consumers more value than competitors' offers do. A company or market offer can be differentiated along the lines of product, services, channels, people, or image. Secondly, choosing the right competitive advantages. If a company is fortunate enough to discover several potential competitive advantages, it must choose the specific advantages on which it will build its positioning strategy. It must decide how many differences to promote and which specific ones (Kotler, 1998).

Thirdly, selecting an overall positioning strategy. Consumers typically choose products and services that give them the greatest value. Thus, companies must position their brands on the key benefits that they offer relative to competing brands. Lastly, communicating and delivering the chosen position. Once the company has chosen a position, the company must take strong steps to deliver and communicate this position to target consumers (Kotler & Armstrong, 2001). All the company's marketing mix efforts must support the positioning strategy. Establishing a position or changing one usually takes a long time. In contrast, positions that have taken years to build can quickly be lost. Once a company has built the desired position, it must take care to maintain this position through consistent performance and communication. It must closely monitor and adapt the position over time to match changes in consumer needs and competitors' strategies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 introduction

This chapter aims to provide an overview of the methodological approach and research design selected for this study. It discusses the research design, target population, data collection and data analysis procedures that will be used in this study.

3.2 Research Design

The research was carried out by a survey design. Cooper and Schindler (2001) argue that a survey is most appropriate when conducting comparative research as it can be used to determine **the** relationship between two or more variables under study. In this study a survey was used to establish the relationship between market segmentation and competitive advantage of a commercial bank. Survey as a research design has also been used by other researchers, for example Wamalwa (2008) conducted a survey on market segmentation strategies used by commercial banks in Kenya and Herin (2004) conducted a survey on the responses by commercial banks operating in Kenya to changes in the environment.

3.3 Target Population

The target population for this study was all the commercial banks in Kenya. According to the Central Bank of Kenya, there were Forty Four licensed commercial banks in Kenya as at 31^{SI} December 2010 (See Appendix). Since the number was not very large, a census study was done. At least 50% response rate was expected.

3.4 Data Collection

Primary data was collected through the use of questionnaires given out to respondents. The target respondents of the research were the marketing managers of the commercial Banks. The questionnaire was divided into three sections. The first section was used to obtain general information about the respondent's bank. The second section was used to identify the segmentation bases adopted by the banks. The third section was used to collect data on the competitive strategy adopted by the respondent bank and the benefit of adopting the competitive strategy. The questionnaire contained structured and unstructured questions and was filled through personal interviews with the respondents where possible and where not possible was delivered to the respondent's office or sent via electronic mail for filling and a collection date agreed upon.

3.5 Data Analysis

The data collected was both quantitative and qualitative in nature. The study employed descriptive statistics to analyze the data. Once the data was collected, it was checked for completeness and consistency before it was ready for analysis. The data from section one was analyzed using percentages and tables to summarize the demographic profile of the commercial banks. Data in the second section was analyzed using the standard deviation, frequencies, percentages and mean score tabulations to determine the preferred segmentation base. The third section was analyzed using mean score tabulations, standard deviation, frequencies, percentages to determine the preferred competitive strategy. Wamalwa (2008) used the above tools of analysis in a related study. The findings were presented in tables and figures while explanations were given in prose.

CHAPTER FOUR: ANALYSIS, INTERPRETATION OF RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results were presented on the extent to which market segmentation enhances competitive advantage of commercial banks in Kenya. The study targeted a total of 44 respondents out of which 30 responded and returned their questionnaires contributing to 68.2% response rate. This response rate was excellent and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This commendable response rate was due to extra efforts that were made via personal calls and visits to remind the respondent to fill-in and return the questionnaires. The chapter covers the demographic information, and the findings based on the objectives.

4.2 Organizations' profile

The study sought to establish whether the respondent bank has a marketing department. From the findings, the study established that the majority of the banks had a marketing department as shown by 83.3%, while 16.7% of the respondents indicated that their banks did not have a marketing department. This means that the banks heavily depend on their marketing departments to gain their market share in the highly competitive banking industry.

Table 4.1 Whether the bank has a marketing department

	Frequency	Percent
Yes	25	83.30%
No	5	16.70%
Total	30	100

The respondents were also asked to state whether the bank they work for has a strategy department. The study found that the majority of the respondents (77%) stated that their respective banks had a functional strategy department while 23% of the respondents posited that their respective banks never had a strategy department. This shows that majority of banks in Kenya were well aware of the great value strategy plays for organizations to gain a competitive advantage.

Table 4.2 Whether the bank has a strategy department

	Frequency	Percent
Yes	23	76.70%
No	7	23.30%
Total	30	100

The study also sought to establish the kinds of activities that the firm surveyed were involved in and the findings are as shown in table 4.3 below.

Table 4.3 Banking services offered by firms

	Frequency	Percent
Deposit Mobilization	5	16.70%
Money Transfer	11	36.70%
Payment Facilitation	7	23.30%
Financial Consultancy / advisory	4	13.30%
Others	3	10%
Total	30	100

According to the findings, most of firms (36.7%) were involved in money transfer, 23.3% in payment facilitation, and 16.7% in deposit mobilization while 13.3% were involved in financial consultancy/advisory. This information shows that the banks in Kenya mainly concentrated in money transfer and payment facilitation services where they faced stiff competition from other industries like mobile banking and other financial institutions who offered similar services hence the need for market segmentation to gain a competitive edge. The respondents further disclosed that money transfer, payment facilitation services and deposit mobilization were the core functions that they were involved in.

The respondents were asked to state the nature of clients that they served and the results are as shown in table 4.4.

Table 4.4 Nature of clients served

	Frequency	Pcrcent
Corporate Clients	4	13.30%
Small business (SMEs)	5	16.70%
Individual savers	12	40.00%
Institutions	7	23.30%
Others	2	6.70%
Total	30	100

The response tabulated above show that most of the respondents (40%) were individual savers, 23% were institutions, 17% were SMEs while 13.30% were corporate clients. This shows that majority of the clients were individuals and institutions with diverse financial needs which required banks to segment them to serve their unique need to achieve customer retention.

4J Market segmentation

The study also sought to establish whether banks used market segmentation as a marketing strategy From the findings, 76.7% of the respondents reported that their respective banks used market segmentation as a marketing strategy while 23.3% of the banks did not. This depicts that market segmentation is a key strategy adopted and implemented by banks to enhance their competitive advantage.

The respondents were asked to indicate the benefits their firms had derived from market segmentation. As shown in table 4.5, most of the banks (43.3%) gained a competitive edge, 20% achieved customer satisfaction, 16.7% achieved improved customer retention while 13.3% obtained increased profits. This illustrates that market segmentation enhanced the firms competitive advantage and also helped the firms improve on customer satisfaction and customer retention.

Table 4.5 Benefits derived from market segmentation

	Frequency	**Percent**
Increased profits	4	13.30%
Customer satisfaction	6	20.00%
Improved customer retention	5	16.70%
Gained competitive edge	13	43.30%
Better allocation of resources	2	6.70%
Total	**30**	**100**

The respondents were asked to rate the various types of market segmentations employed by the banks they worked for. From the study findings, psychographic segmentation and behavioral segmentation were rated as the most widely employed methods market segmentations as shown by a mean score of 4.4082 and 3.9286 respectively while demographic and geographical segmentations were not very widely employed as shown by a mean score of 3.4694 and 3.1837 respectively. This shows that psychographic segmentation and behavioral segmentation are the most effective methods of market segmentation in the banking industry.

Table 4.6 Types of market segmentation

Types of market segmentation	Mean	Std Dcv
Demographic segmentation (Age, Gender, Generation and Social class)	3.4694	1.05717
Behavioral segmentation (Benefits, User status and Occasion)	3.9286	4.32268
Geographical segmentation (Nations, States and Religion)	3.1837	1.17839
Psychographic segmentation (Lifestyle, Personality and Values)	4.4082	0.75760

The respondents were also requested to indicate the extent to which they are satisfied with the current segmentation variables that their respective banks were using.

Table 4.7 Extent to which respondents were satisfied with the current segmentation variables

	Frequency	Percent
Very satisfied	7	23.30%
Satisfied	14	46.70%
Neutral	4	13.30%
Unsatisfied	3	10.00%
Very unsatisfied	2	6.70%
Total	30	100

From the results of the study, most of the respondents (43%) were satisfied with the current segmentation variables that their respective banks were using, 23% were very satisfied while 13% were neutral. This implies that the segmentation strategy being used by various banks was effective and promoted their efforts to acquire their market share of the clients despite stiff competition from other financial institutions.

The study also wanted to establish whether banks experienced problems while segmenting its customers and the findings are as shown in figure 4.8 below.

Table 4.8 Whether bank experiences problems while segmenting its customers

	Frequency	Percent
Yes	14	46.70%
No	16	53.30%
Total	30	100

Majority of the respondents (60%) concurred that banks experienced problems while segmenting its customers while 40% indicated that banks never experienced problems while segmenting its customers. These challenges included lack of expertise, lack of adequate resources and market volatility. This depicts that market segmentation requires highly qualified personnel with vast experience to mitigate and cope with challenges that hinder effective marketing segmentation.

4.4 Competitive advantage

The study also required the respondents to indicate the competitive strategy adopted by their respective institutions. According to the responses given, most of the respondents (46.7%) reported that their respective institutions used low cost services as their competitive strategy, 30% provided a unique service and charged a premium for them while 23.3% focused on a niche market and served it only. This depicts that low cost services is the most effective competitive strategy for firms to enhance their competitive advantage.

Table 4.9 Aspects of competitive strategy

	Frequency	Percent
We offer low cost services	14	46.70%
"W^provide a unique service and charge a premium for it	9	30.00%
"We focus on a niche market and serve it only	7	23.30%
Total	**30**	**100**

The study also wanted to establish the low cost competitive strategy using various variables as shown in table 4.10 below.

Table 4.10 Low cost competitive strategy

Variables on Low Cost	Mean	Std Dev
Our company is the low cost leader in the Industry	2.0	1.80
Our Company adopts a broad scope and serves many clients	3.4	1.73
We achieve our economies of scale through providing high volumes of standardized services.	3.3	1.72
We maintain our strategy by constantly searching for cost reduction avenues.	2.9	1.61
Our low cost strategy has enabled us to attain a large market share.	2.3	1.44
We have been able to meet our target clientele using our low cost strategy	2.5	1.52

According to the study, the company adopts a broad scope and serves many clients and the firms achieve economies of scale through providing high volumes of standardized services were the most significant aspects of low cost competitive strategy as shown by mean of 3.4 and 3.3

respectively. Other aspects of low cost competitive strategy included the company maintains its strategy by constantly searching for cost reduction avenues, the firm has been able to meet its target clientele using low cost strategy and the company's low cost strategy has led to the attainment of a large market share as shown by means of 2.9,2.5 and 2.3 respectively.

The study also inquired on the variables on differentiation Strategy and the findings are as shown in table 4.11 below.

Table 4.11 Competitive strategy through providing a unique service and charging a premium

Variables on differentiation Strategy	**Mean**	**Std Dev**
Our Company has designed services perceived as unique by our clientele	3.09	1.16
Our profitability is pegged on our ability to offer a unique service and charge a premium for it.	3.67	1.60
We maintain our differentiation strategy by constantly looking for ways of charging a premium that exceeds the cost of differentiation.	2.09	1.55
Our differentiation is based on the understanding of unique customer needs and seeking to meet them.	3.89	1.07
Through differentiation, our unique product features provide superior value for our customers.	2.49	0.94
We always strive to differentiate our services in such a way that our competitors cannot imitate us.	3.47	1.16

From the results of the study, firms' differentiation is based on the understanding of unique customer needs and seeking to meet them was the most significant variable on differentiation strategy as shown by a mean of 3.89. Other variables on differentiation strategy in order of significance were "Our profitability is pegged on our ability to offer a unique service and charge a premium for it', [4]we always strive to differentiate our services in such a way that our competitors cannot imitate us' and 'our Company has designed services perceived as unique by our clientele' as shown by mean of 3.67, 3.47, 3.09 respectively.

The company strives to meet the needs of its niche market by tailoring its marketing mix to these specialized markets was the most important variable on Focus Strategy as shown by a mean of

4.47. Other variables included Through our differentiation focus we exploit the special needs of buyers in specific segments' and 'the company concentrates on a specific/niche market' as shown by mean of 3.16 and 2.80 respectively.

Table 4.12 Competitive advantage through focus strategy

Variables on Focus Strategy	Mean	Std Dev
Our Company concentrates on a specific/niche market	2.80	1.37698
We strive to meet the needs of our niche market by tailoring our marketing mix to these specialized markets.	4.47	0.96912
Through our differentiation focus we exploit the special needs of buyers in specific segments.	3.16	1.36747

The study also sought to establish the extent to which the organization benefited from adopting the competitive strategy. Improved customer satisfaction and increased customer base were the most significant benefits from adopting the competitive strategy as shown by means of 2.96,1.91 respectively. Other benefits included increased profitability and improved market share as shown by means of 0.938 and 0.891 respectively.

Table 4.13 Extent to which the organization benefited from adopting the competitive strategy

	Mean	Std Dev
Improved market share	0.891	0.085
Increased profitability	0.938	0.090
Improved customer satisfaction	2.96	1.009
Increased customer base	1.91	0.998

4.5 Discussion of the Findings

4.5.1 Market segmentation

The research established that the banks in Kenya mainly concentrated in money transfer and payment facilitation services where they faced stiff competition from other industries like mobile banking and other financial institutions who offered similar services hence the need for market segmentation to gain a competitive edge. The study also found out that majority of the clients was individuals and institutions with diverse financial needs which required banks to segment them to serve their unique need to achieve customer retention. The majority of the respondents reported that their respective banks used market segmentation as a marketing strategy to enhance their competitive advantage.

Among benefits their firms had derived from market segmentation, banks gained a competitive edge, achieved customer satisfaction, achieved improved customer retention and obtained increased profits. The psychographic segmentation and behavioral segmentation were the most widely employed methods market segmentations in the banking industry.

From the results of the study, majority of the respondents were satisfied with the current segmentation variables that their respective banks were using. This implies that the segmentation being used by various banks was effective strategy which promoted their efforts to acquire their market share of the clients despite stiff competition from other financial institutions.

In addition, majority of the respondents reported that banks experienced problems while segmenting its client base which included lack of expertise, lack of adequate resources and market volatility as market segmentation requires highly qualified personnel with vast experience to mitigate and cope with challenges that hinder effective marketing segmentation.

4.5.2 Competitive advantage

The research established that most of the respondents reported that their respective institutions used low cost services as their competitive strategy, while the rest employed provision of unique service and charging a premium for them and focusing on a niche market and serve it only. Among the banks that employed low cost competitive strategy, the company adopts a broad scope and serves many clients and the firms achieve our economies of scale through providing high volumes of standardized services were the most significant aspects of low cost competitive strategy.

On the other hand among banks that relied on differentiation Strategy, the research found out that firms' differentiation is based on the understanding of unique customer needs and seeking to meet them was the most significant variable on differentiation Strategy. Other variables on differentiation strategy in order of significance were profitability is pegged on our ability to offer a unique service and charge a premium for it', 'the company strive to differentiate our services in such a way that our competitors cannot imitate us' and 'the company has designed services perceived as unique by our clientele respectively. On the other hand, among the banks that used focus strategy, the company strived to meet the needs of our niche market by tailoring our marketing mix to these specialized markets was the most important variables on focus strategy.

From the study, improved customer satisfaction and increased customer base were the most significant benefits from adopting the competitive strategy.

4.5.3 Market Segmentation and Competitive Advantage

From the results of the study, majority of the respondents reported that the benefits their firms had derived from market segmentation included gaining a competitive edge, achieving customer satisfaction, improved customer retention and increased profits. This confirms that despite the various segmentation bases being adopted by different banks, market segmentation was an effective strategy which aided firms in gaining competitive advantage.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the research findings, conclusion and recommendations. In this chapter, the researcher gives a summary on the extent to which market segmentation enhances competitive advantage of commercial banks in Kenya.

5.2 Summary of Findings

The aim of this study was to find out the extent to which market segmentation enhances competitive advantage of commercial banks in Kenya. The specific objectives of the study included to establish the segmentation bases used by commercial banks in Kenya; to determine the competitive strategies adopted by commercial banks in gaining competitive advantage and to establish the extent to which market segmentation enhances competitive advantage of a commercial bank in Kenya. The questionnaires were designed in line with the specific objectives of the study. The questionnaires were used to collect quantitative data. To enhance the quality of data obtained, structured type questions were included whereby respondents indicated the extent to which the variables were practiced. Frequency distribution tables were used to present data while percentages, mean scores and standard deviation were used to discuss the findings. Highlights of the findings were: different banks adopt various segmentation bases when segmenting markets and majority of the respondents were satisfied with the segmentation bases that their organizations were using; benefits derived from market segmentation, included banks gaining a competitive edge, achievement of customer satisfaction, customer retention and increased profitability respectively; different banks have adopted a low cost differentiation or focus strategy as a competitive strategy.

5.3 Conclusion

The research concluded that the banks in Kenya were mainly involved in money transfer and payment facilitation services where they faced stiff competition from other players like mobile banking and other financial institutions who offered similar services hence the need for market segmentation to gain a competitive edge. The study also concluded that the majority of the clients for the banks were individuals account holders and institutions with diverse financial needs hence segmentation is important to fulfill their unique need to achieve customer retention.

Although different banks adopt various segmentation bases when segmenting markets, the study-concluded that regardless of segmentation base, it was an effective strategy as majority of the respondents were satisfied with it. In addition, banks experienced problems while segmenting its client base which included lack of expertise, lack of adequate resources and market volatility.

The banks accrued various benefits derived from market segmentation, which included banks gaining a competitive edge, achievement of customer satisfaction, customer retention and increased profitability respectively. The researcher further concluded that banks used market segmentation as a marketing strategy to enhance their competitive advantage.

The research concluded that most of institutions used low cost services as their competitive strategy-while the rest adopted differentiation strategy and focus strategy respectively. Among the banks that employed low cost competitive strategy, adoption of a broad scope and serving many clients and the firms achieved economies of scale through providing high volumes of standardized services were the most significant aspects of low cost competitive strategy. On the other hand among banks that relied on differentiation strategy, the research concluded that firms' differentiation was based on the understanding of unique customer needs and seeking to meet them was the most significant variable on differentiation Strategy. Among the banks that used focus strategy, the company strived to meet the needs of our niche market by tailoring our marketing mix to these specialized markets was the most important variables on focus strategy. The researcher further concluded that improved customer satisfaction and increased customer base were the most significant benefits from adopting the competitive strategy.

5.4 Recommendations

5.4.1 Recommendations with Policy Implications

i. This study found that market segmentation is significant towards enhancing competitive advantage in commercial banks therefore this study recommends that banks should always segment their client base to fulfill the unique need of the clients to enhance their competitive advantage in the industry.

ii. This study found that regular review of segmentation strategies is essential for banks to attain competitive advantage therefore it is recommended that banks should regularly review their segmentation strategies in order to accommodate the changes in the banking sector which is very dynamic in nature and highly competitive.

iii. This study found that policy formulation enhances competitive advantage therefore it is recommended that the banking institutions should formulate policies to guide their market segmentation strategies in order to enhance their competitive advantage in the banking sector.

5.4.2 Recommendation for further research

Since this study explored the extent to which market segmentation enhances competitive advantage of commercial banks in Kenya, it is therefore recommended that;

i. Similar study should be done on other industries for comparison purposes and to allow for generalization of findings on the extent to which market segmentation enhances competitive advantage.

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APPENDICES

APPENDIX A: INTRODUCTION LETTER

P.O. Box 26536-00504

Nairobi.

Dear Sir/Madam,

RE: REQUEST FOR RESEARCH DATA

T am a final year postgraduate student pursuing a Masters degree in Business Administration. I am undertaking a research on the extent to which market segmentation enhances competitive advantage of Commercial Banks in Kenya.

In order to undertake the research, you have been selected to form part of my study. This is therefore to request your assistance in filling the attached questionnaire.

The information required is solely for the purpose of the research and will be treated with strict confidentiality. A copy of the findings can be availed to the respondent banks on request.

Your assistance and co-operation will be highly appreciated.

Claire Obwana

APPENDIX B: QUESTIONNAIRE

Please fill the following questions as applicable to you. Your participation is highly appreciated.

SECTION A: GENERAL INFORMATION

1. Name of Organization_

2. Do you have a marketing department?

   Yes ( ) No [ )

3. Do you have a strategy department?

   Yes ( ) No ( )

4. What activities is your firm involved in?(Tick as appropriate)

   (a) Deposit Mobilization (}

   (b) Money Transfer (}

   (c) Payment Facilitation ( )

   (d) Financial Consultancy / advisory ( )

   (f) Others Specify

   Which of the above do you consider your core business?

5. Please indicate the nature of your clients by ticking the appropriate boxes

(a) Corporate Clients ( )

(b) Small business (less than 30 employees) ( )

(c) Individual savers ( )

(d) Institutions ( )

(e) Others specify ( )

SECTION B: MARKET SEGMENTATION

6. Does your firm use market segmentation as a marketing strategy?

Yes ( ) No ( )

If the answer is Yes, go to Question 9, if No go to Question 7.

7. Why doesn't your firm use market segmentation as a strategic tool for marketing?

8. What other alternative strategies does the firm use in the absence of market segmentation to achieve its objectives.

9. Please indicate the benefits your firm has derived from market segmentation.(Tick the appropriate boxes)

(a) Increased profits ( )

(b) Customer satisfaction ( )

(c) Improved customer retention ( )

(d) Gained competitive edge ( )

(e) Better allocation of resources ( )

(0 Any other specify_

10. Use a five (5) point scale where 1- To no extent,2- To a small extent,3- To moderate extent,4-To a great extent and 5-To a very great extent to answer the following question.

To what extent has your firm used the following bases to segment the market?

Types of market segmentation	**1**	**2**	**3**	**4**	**5**
Demographic segmentation (Age, Gender, Gener Social class)					
Behavioral segmentation (Benefits, User status and Occasion)					
Geographical segmentation (Nations, States and Religion)					
Psychographic segmentation (Lifestyle, Personality and Values)					

11. To what extent are you satisfied with the current segmentation variables your bank is using?

(a) Very satisfied I J

(b) Satisfied '

(c) Neutral

(d) Unsatisfied *

(e) Very unsatisfied I J

12. Does the bank experience any problems while segmenting its customers. If yes, which ones?

(a)

SECTION C: COMPETITIVE ADVANTAGE

13. Which of the following best describes your competitive strategy?

( )

(a) We offer low cost services

(b) We provide a unique service and charge a premium for it ^ ^

(c) We focus on a niche market and serve it only ( )

If your answer in No. 13 was (a) i.e. offering low cost services, using a five (5) point scale where 1- To no extent,2- To a small extent,3- To moderate extent,4-To a great extent and 5-To a very great extent, respond to the following statements that describe low cost competitive strategy.

Variables on Low Cost	1	2	3	4	5
Our Company is the low cost leader in the Industry					
Our Company adopts a broad scope and serves many clients					
We achieve our economies of scale through providing high volumes of standardized services.					
We maintain our strategy by constantly searching for cost reduction avenues.					
Our low cost strategy has enabled us to attain a large market share.					
We have been able to meet our target clientele using our low cost strategy					

14. If your answer in No. 13 above was (b) i.e. providing a unique service and charging a premium for it, kindly respond to the following statements that describe differentiation strategy where 1- To no extent,2- To a small extent,3- To moderate extent,4-To a great extent and 5-To a very great extent.

Variables on differentiation Strategy	1	2	3	4	5
Our Company has designed services perceived as unique by our clientele					
Our profitability is pegged on our ability to offer a unique service and charge a premium for it.					
We maintain our differentiation strategy by constantly looking for ways of charging a premium that exceeds the cost of differentiation.					
Our differentiation is based on the understanding of unique customer needs and seeking to meet them.					
Through differentiation, our unique product features provide superior value for our customers.					
We always strive to differentiate our services in such a way that our competitors cannot imitate us.					

15. If your answer in No. 13 was (c) i.e. focus on a niche market and serve it only, kindly respond to the following statements that describe focus strategy where 1- To no extend- To a small extent,3- To moderate extent,4-To a great extent and 5-To a very great extent

Variables on Focus Strategy	1	2	3	4	5
Our Company concentrates on a specific/niche market					
We strive to meet the needs of our nichc market by tailoring our marketing mix to these specialized markets.					
Through our differentiation focus we exploit the special needs of buyers in specific segments.					

Use a five (5) point scale where 1- To no extent,2- To a small extent,3- To moderate extent,4-To a great extent and 5-To a very great extent to answer the following question.

16. To what extent has your organization benefited from adopting the competitive strategy?

	1	2	3	4	5
Improved market share					
Increased profitability					
Improved customer satisfaction					
Increased customer base					
Other(please specify)					

Thank you for your co-operation.

APPENDIX C: LIST OF COMMERCIAL BANKS IN KENYA

ABC Bank

Bank of Africa

Bank of Baroda

Bank of India

Barclays bank

CFC-Stanbic Bank

Charterhouse Bank

Chase Bank

Citibank

City Finance Bank

Co-operative Bank of Kenya

Commercial Bank of Africa

Consolidated Bank of Kenya

Credit Bank

Development Bank of Kenya

Diamond Trust Bank

Dubai Bank

Ecobank

Equatorial Commercial Bank

Equity Bank

Family Bank

Fidelity Commercial Bank

Fina Bank

Giro Commercial Bank

Guardian Bank

Habib Bank

Habib Bank A G Zurich

Housing Finance

Imperial Bank

Investment & Mortgages Bank

K-Rep Bank

Kenya Commercial Bank

Middle East Bank

National Bank of Kenya

NIC Bank

Oriental Commercial Bank

Paramount Universal Bank

Prime Bank

Prime Capital and Credit Finance Bank

Southern Credit Banking Corporation

Standard Chartered Bank

Transnational Bank

United Bank for Africa

Victoria Commercial Bank

Source: Central Bank of Kenya