A SURVEY OF THE SEGMENTATION PRACTICES OF MICROFINANCE INSTITUTIONS IN NAIROBI

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University

Signed.. Date..17/10/.. 2002

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This research project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

In the memory of

My late grandmother Trizah Kangai Obadia

She foresaw the future and prepared well for it

but never lived to harvest the

fruits of her hard work.

In my heart you will forever be a friend.

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LIST OF ABBREVIATIONS

MFIs	Microfinance Institutions
CBK	Central Bank of Kenya
MSE	Micro and Small Enterprise
K-REP	Kenya Rural Enterprise Program.
NGOs	Non Governmental Organizations
AMFI	Association of Microfinance Institutions
ROSCAs	Rotating savings and credit Associations
SACCOs	Savings and Credit Co-operative Societies
NBIs	Non Banking Institutions
KWFT	Kenya Women Finance Trust.
GOK	Government of Kenya
SSE	Small Scale Enterprise
ILO	International Labor Organization
SMEs	Small and Medium Enterprises
CBE	Community Based Enterprise
SBDs	Small Business Development
SHG	Small-Help Groups
KCB	Kenya Commercial Bank

ABSTRACT

Market segmentation is acclaimed as the heart and soul of marketing and unless a company spends time on it, driven from the board downwards, it is virtually impossible for the company to be market driven. The study sought to establish the segmentation practices by microfinance institutions in Nairobi. The specific objectives of the study were: to *identify the segmentation criteria commonly used by Microfinance institutions in Kenya, to identify variables used by Microfinance institutions in segmentation process and to determine the stages in segmentation process used by Microfinance institutions in Kenya.*

The study used primary data that was collected by use of a questionnaire and mode of collection was by personal interviews. The data was obtained from all the forty institutions forming the population of interest. It was then analyzed using descriptive statistics. Findings of the study reveal that Microfinance institutions have different segmentation practices, which are segmentation criteria, requirements for effective segmentation, and the segmentation practices.

In view of the study's findings, the following recommendations have been made:

The Micro and small enterprise (MSE) sector is very important for the development of this country, currently, and thus a lot of effort should be put in assisting the owners of these businesses to acquire more of the working capital, investment capital and other tools for their business. They therefore require all the support they can get form the Microfinance institutions and other capital providers. On the other hand, the Microfinance institutions are very important in assisting the MSEs. The use of market segmentation may help the Microfinance institutions to develop products, which will satisfy their customers needs, and this will increase the productivity of the MSE'S. It is documented that the main constraint to MSE development is capital

accessibility. The microfinance institutions should therefore be at a position to have a deep understanding of the market, and have creative segmentation and selection criteria.

The microfinance advisors should train their clients on market segmentation practices. The variables commonly used by Microfinance institutions in the market segmentation were found to be: the nature of the industry, the location of the enterprise, cash-flow of the enterprise, client capability in terms of ability to repay the credit, the purpose which is either investment capital or working capital, size of the credit facility, the lender-borrower similarity, character of the proprietor, as well as material payment mode by the enterprise which could either be by cash or credit.

The commonly used criteria by the microfinance institutions is that: a good market segment is measurable, identifiable, actionable, responsive, substantive, stable, substantial, compatible and differentiable.

A market segmentation process should involve a clear identification of needs by the potential clients and should go through three main stages namely: survey stage, analysis stage and profiling stage.

Microfinance institutions that are contemplating market segmentation can benefit from these findings. Still, each firm should carefully analyze its individual objectives, constraints, strengths, weaknesses and resources to determine its segmentation strategy. Policy makers should focus on the commonly used segmentation variables, criteria and process in order to develop the Microfinance institutions and attain industrialization by the year 2020. The development of this sector is very important to the government. Scholars should put more emphasis on the segmentation criteria, variables and process in the Microfinance institutions so as to add more to the existing knowledge.

The study was only done for the Microfinance institutions in Nairobi while we have other urban areas in Kenya. The results of these findings are therefore applicable to the Microfinance institutions in Nairobi only. Secondly, no secondary data could be found pertaining to the use of market segmentation in Microfinance institutions in Kenya.

This study mainly dwelt on the market segmentation in Microfinance institutions and was mainly interested in establishing the segmentation practices by Microfinance institutions in Kenya, with specific reference to Nairobi. Further studies can be done on Microfinance institutions in rural areas, to identify their market segmentation practices

Also, studies can be done to establish the performance of Microfinance institutions that segment their markets.

CHAPTER ONE

1.0.0 INTRODUCTION

1.1.0 Background

The role of micro and small enterprises (MSEs) in employment-creation and poverty eradication cannot be overemphasised. A key issue now and in the near future in the management of Kenya's economy is the provision of an enabling environment to stimulate sustainable employment in this sector.

The Government of Kenya (GOK) recognizes the importance of this sector in employment creation, income distribution and establishing a rural-urban balance. A number of policy documents have been put in place, including Sessional papers No. 1 of 1986 and No. 2 of 1992, among others. In the context of the 1992 Sessional Paper, donor activity in this sector is recognized and fully acknowledged as a complementary and necessary input into the government's effort in promoting this sector. The immense potential of the small-scale enterprise (SSE) sector (consisting of enterprises employing 50 people and less) for employment creation and income generation is widely recognized (Aleke-Dondo, 1989). It is estimated that two-thirds of all Kenyans of working age are involved in this sector, either on full-time or part-time basis (Government of Kenya, 1992).

It has increasingly become clear that the long-term solution to Kenya's growing problems of limited employment and income generation lies squarely in the small enterprise sector (K'Obonyo, 1999). The Government's concern for the sector was emphasized on Sessional paper No. 1 of 1986 on economic management for renewed growth (Government of Kenya, 1989). This focus on SSEs is justified since the sector was expected to generate 75% of urban jobs and 50% of all rural employment by the year 2000(Government of Kenya ILO, 1989).

However, the expected growth of the small enterprises into medium or big scale enterprises has not occurred despite the support from donor agencies and non-governmental organizations (K' Obonyo, 1999). As Ngahu(1995) points out, this gloomy situation is partly due to the fact that new and small enterprises face unique problems, which militate against their survival and growth, and thus, reduce their capacity to contribute effectively to the growth of national economy.

Major problems these enterprises face result directly from their smallness (size) and newness (age)(K' Obonyo, 1999. Aldrich and Auster, 1986). Enterprise size and failure are inversely related (Aldrich and Auster, 1986), with smaller enterprises facing higher risks of failure than larger ones (Freeman, et. Al. 1983). Probability of failure of small enterprises is high because of the costs they incur in defining roles; and developing relationships of trust with employees, Financiers (wrong products for the target group, in accessibility of funds) and suppliers (Wholey and Brittain, 1986)

At the MSE level, access to credit, particularly to be used as working capital, remains a real constraint on business growth. A national survey of micro and small-scale enterprises sector by Parker and Torres, (1993), found that lack of access to capital is one of the most constraining factors in business. The limited access of MSEs to credit and financial services is often presented as one of the most important constraints facing the sector. The Gemini report of 1993 revealed that MSEs that have benefited from formal credit programmes have a growth rate that is 43% higher than those that have not had access to credit programmes. This seems to suggest that an important role is played by credit in facilitating enterprise growth. While this may be true, it may not be entirely true that credit caused the growth. It could be that credit granters target the most promising enterprises (IDS, 1999).

In the Kenyan context one can generalize that small enterprises have been considered important because they" create job opportunities; promote national productivity, enable the entrepreneur to acquire certain skills, important thereafter for national development; help in expanding national trade; provide materials and components to other industries; promote rural development, hence reducing rural urban migration; and supply goods and services at a reasonable price (Government of Kenya, 1994:15).

Microfinance institutions in Kenya have concentrated mainly in providing financial assistance to Small and medium enterprises (Kitaka, 2001). Their objective is helping the country's economically marginalised communities by allowing them access to finance for development through creating employment and awareness to income generations. This works with core function, which is provision of financial services. Bodie (2000) emphasizes that the key function of MFIs is to provide a way to transfer economic resources through time, across borders and among individuals.

Ironically, many of the clients are driven out not only by inappropriate design of the MFIs loan products, but also wrong targets for their products (Wright, 2001). He observes further that their needs for some services are simply unmet or ignored. Client exit is a significant problem for MFIs. It increases their cost structure, discourages other clients and reduces prospects for sustainability (Hulme, 1999).

1.1.1 Microfinance institutions

Financial institutions

Financial institutions are defined as organizations that provide services that facilitate financial activities in an economy (Kapoor, 1994). According to Mullie and Bokea (1999), the financial sector in Kenya alone is providing 10% of the Gross National Product. They also noted that this sector has been highly segmented with about 17 different types of financial institutions in existence by 1998 which includes, among others 53 commercial Banks, 16 non-bank financial institutions and 39 insurance companies.

With the rapid expansion of the formal banking in Kenya in the recent years, a large number of Kenyans cannot access the financial services because they are poor and considered risky, and not commercially viable (Mullie and Bokea, 1999). The authors observe that MFIs have cropped up in order to facilitate financial services to the majority poor.

1.1.2 Evolution of microfinance.

The history of microfinance backdates to about three decades when in 1976, Muhammed Yunus, who believed to be the founder of formal microfinance, founded Grameen Bank in Bangladesh and begun accessing MF services to poor women in South Asia villages. Grameen is a Bengali name which means village.

Microfinance is a relatively new terminology that has only appeared in the development field in the last 20 or so years. Its evolution, however, dates about 30 or so years from late 1960's with efforts made towards reduction of poverty through the promotion of income earning activities among poor communities. It is thus an up-growth of the small enterprise development initiative.

The small enterprise development initiative from which microfinance has grown has undergone about four major shifts of focus since its inception about twenty or so years ago. These comprise of:

1. The community based enterprise (CBE) or income generating projects-IGP) paradigm-late 1960s-1970s. This focused on assisting groups or communities to generate their own sources of income. This led to small Enterprise Development (Mutua, K.M, 1986)

2. The integrated approach to small business development(SBDs)-1980s

The small business development interventions focused on developing small businesses. It focused on individually owned enterprises as opposed to the groups.

3. The minimalist approach to small and micro enterprise development (MSE) paradigm late 1980s-early 1990s.Begun with a major change in delivery of services. The group approach and focus on credit became a common goal. Transformation and creation of commercial banks became a major institutional strategy. It is on the basis of these new innovations that the current generation model of Microfinance has been developed.

4. The microfinance paradigm(current thinking)

Putting more emphasis on savings as a major intervention in itself, as opposed to being complementary to credit. (Mutesasira, 2000).

It is from the small enterprise development initiative from which microfinance has grown.

After nearly 20 years, Microfinance industry has enjoyed a great deal of success in terms of outreach and sustainability, particularly in certain parts of Latin America and Asia. However, microfinance remains primarily a supply driven endeavor, with limited number of methodologies applied to provide mainly working capital loans to poor micro entrepreneurs. Over the past few years, industry practitioners and experts have increasingly recognized that the poor require a wide range of financial services to manage risk and improve their welfare. Savings services in particular have garnered much interest, especially in Africa where the traditional supply-led credit models have not resulted in the hoped-for massive outreach and sustainability

The impact of microfinance on poverty alleviation has recently gained prominent position on microfinance agenda. Donors, practitioners, and academicians are realizing that microfinance institutions (MFIs) must concern themselves with more than their ability to reach institutional self-sufficiency. The 1999 microfinance summit meeting of Council, for example, set out a hard hitting agenda, with key note papers calling on MFIs to meet the challenge of targeting and reaching the poorest (Simanowitz, et al., 1999) and to develop systems for measuring their impact on their clients (Reeds and Cheston, 1999) According to Central Bank of Kenya (CBK, 2000), MFIs are organizations involved in the provision of thrift, credit and other financial services and products to the small and Microenterprises (SMEs). The Association of Microfinance institutions (AMFI), the MFIs' umbrella body defines Microfinance to include "services such as savings, deposits, insurance services and other financial instruments, and products aimed at the poor or low-income people". Khandker(1995), states that Grameen Bank's objective in providing credit and other services to the poor is to enable them improve their income and employment status entrepreneurial activities.

MFIs operating in Kenya have concentrated mainly in providing financial assistance to SMEs (Economic survey, 2000). Their objective is helping the country's economically marginalised communities by allowing them access to finance for development through creating employment and awareness to income generation. This works in line with core function, which is provision of the financial services. Bodie (2000) emphasizes that the key function of MFIs is to provide a way to transfer economic resources through time, across borders and among individuals.

1.1.3. **Sources of Finance for Microfinance institutions**

The government recognizes that greater access to and sustainable flow of credit to informal sector operations are critical to progress in poverty reduction (Economic survey, 2000). The government channels financial assistance to SMEs through MFIs and other financial institutions in efforts to reduce poverty. In Bangladesh, the scenario is not different. The government has been financing the Grameen Bank. Khandker, (1995) observes that since its establishment as a financial institution by government ordinances in 1983, Grameen Bank has financed its activities with funds obtained at concessionary rates from external and domestic sources, including the Central Bank of Bangladesh.

The donors have also played a vital role in providing finances to MFIs. For the case of Grameen Bank, they provide most of the financial resources as grants and low interest Loans (Khandker, 1995). Most of the donors are non-government organizations (NGOs) who channel funds through MFIs with a focus on social welfare promotions (CBK, 2000). According to the CBK report 2000, commercial banks provide financial services to MFIs in a bit to enable them reach the SMEs. Some well-established Banks have come up with sections which support MFIs: Co-operative Bank, Barclays Bank-Small Business Loans, KCB Special loans are some examples.

According to the CBK (2000), the self-help groups (SHG) provide finances to MFIs through savings. They initiate and start an income-generating venture from which they save the surplus funds with an MFI of their choice. These savings become sources of funds to that MFI. The MFI can then lend at an interest. Several other sources of finance do exist. They include among others: -Savings and Credit Co-operative societies (SACCOs), Kenya post office savings Bank limited and Rotating Savings and credit Associations (ROSCAs).

The role of Microfinance institutions (MFIs) is to provide financial services to the Micro enterprise sector (Ngahu, 2002). Bodie (2000) emphasizes that the key function of MFIs is to provide a way to transfer economic resources through time, across. borders and among individuals.

1.2.0 STATEMENT OF THE PROBLEM

The financial sector has evolved over the years with notable developments being in early 1980s. This saw the birth of saving and credit co-operatives (SACCOs) and Non-Banking Institutions (NBIs) expand rapidly to fill the lending gap that prevailed, but were only useful for the salaried workers who needed them least (Alila and Obando, 1990).

During this period, K-REP and Kenya Women Finance Trust (KWFT) were established. They were heavily subsidized, relied mainly on donor funding and used integrated (credit and training) approach to assist SMEs. Their loans were not tied to collateral. Currently, there are more than 100 institutions involved in Microfinance in Kenya (Kitaka, 2001).

The Microfinance sector in Kenya is expanding at a very high rate (Mullei and Bokea, 1999). Various providers of finance are coming into the sector while others are on their way out (Kitaka, 2001). The level of donor funding has significantly reduced as more and more MFIs become self-sustaining (CBK, 2000). According to Robinson, (2001), Microfinance institutions rarely attempt to explore markets beyond those, which they are familiar with. Perhaps this is because they are not aware of how to go about it. It could be that credit granters only target the most promising enterprises (IDS, 1999). Wright (2001) observes that Microfinance sector is unique. He continues to say that it is probably the only remaining "product driven" business in the world. Typically, retained customers are the ones with extensive credit history and who are accessing larger, higher level loans; whereas new customers require induction training and can often weaken the solidarity of groups. MFIs typically break even on a customer only after the fourth or fifth loan (Brand and Gershick, 2000). And yet, many MFIs worldwide suffer chronic problems with clients leaving their programmes, (Wright, 2001).

According to Hulme, (1999), in East Africa, the rate of client drop out ranges between 25% and 60% per annum. In the words of Hulme, "client exit is a significant problem for MFIs. It increases their cost structure, discourages other clients and reduces prospects for sustainability" (Hulme, 1999).

Careful analysis of the reasons for these 'dropouts' almost invariably points to inappropriately designed products that fail to meet the needs of MFIs' clients (Wright, 2000 and Hulme, 1999). Much of this problem is driven by the attempts to "replicate" models and products from foreign cultures and lands without reference to the economic or social-cultural environment into which they are being imported. Lack of competition and increased demand from MSEs' meant that MFIs could offer almost any product, however client-unfriendly, and there would be demand. Now, with growth of competition amongst MFIs in many of the markets in which they operate, clients have a choice and yet very few MFIs have started developing client responsive, market driven products (Wright, 2001). A business needs to identify market segment it can serve more effectively, (Kotler, 2001).

Kibera and Waruingi, (1988), observes that market segmentation bends supply to meet the will of demand. Thus, products more precisely match each segment's needs and wants and this comes closer to effecting the market concept. A study by Nzyoka, (1993) investigating the extent of market segmentation by commercial Banks in Kenya and its usefulness, concluded that Commercial Banks in Kenya segment their markets to a large extent. Ng'ang'a (1991) concluded his study by observing that medium and large scale manufacturing firms in Kenya segment their markets and aim at particular target groups in production and marketing their products. Salimi, (1989) conducting a study on financial services marketing in Kenya, concluded that the degree of success and profitability of financial institutions depend on its market segmentation capability. As Ngahu, (2002) observes, segmentation research helps managers to gain insights into needs, motivations, attitudes, product usage patterns, and behavior of specific groups of customers

From the literature reviewed, the MFIs are very important for the growth of MSEs, which is the backbone of most Kenyans. The research findings about Microfinance institutions review that they have been offering services not needed by their target customers. This has resulted into high levels of dropouts. Studies conducted on segmentation in Kenya have been on the other industries, which have unique characteristics different from Microfinance institutions. Microfinance institutions are unique (Wright, 2001), and therefore the results cannot be generalized to apply to it. In the Kenyan context, it is not clear whether Microfinance institutions segment their markets; hence the importance to establish segmentation practices before one recommends they carry out market segmentation, which they will benefit from. The study therefore sought to establish segmentation practices by Microfinance institutions in Kenya, with specific reference to Nairobi.

1.3.0 Objectives of study

The study had three main objectives:

1) *To identify the segmentation criteria commonly used by Microfinance institutions in Kenya.*
2) *To identify variables used by Microfinance institutions in segmentation process*
3) *To determine the stages in segmentation process used by Microfinance institutions in Kenya.*

1.4.0 Importance of study.

The findings of the study will be important to Microfinance institutions marketers who will gain some knowledge about the importance of market segmentation and how they can segment their markets in order to gain a competitive advantage and increase the profitability of their businesses.

Micro Finance advisors-will gain knowledge on segmentation variables mostly used by Micro Finance institutions and will thus advise newly established institutions on the importance of market segmentation, and train them on how to segment their markets.

It is hoped that the study will be of importance to the Policy makers-the government has identified Micro Finance as the means by which to attain industrialization by the year 2020, as stipulated in most of its development policy papers. The development of this sector is therefore of prime importance to the government.

Finally, the study will form a foundation for other researchers who would like to pursue a study in the same area. It would in particular be of significance to those who would like to pursue a study on segmentation practices by Microfinance institutions.

CHAPTER TWO

2.0.0 LITERATURE REVIEW

2.1.0 INTRODUCTION

Marketing is the performance of those activities, that attempt to satisfy a given individual's or organizations target group needs and wants for mutual benefits (Kibera and Waruingi, 1998). A market on the other hand can be defined as consisting of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want, (Kotler, 1997)

2.1.1 MEANING OF MARKET SEGMENTATION.

The market segmentation concept is well defined and has been handled by many professionals and academicians. Market segmentation is an important concept in the marketing philosophy of marketing orientation. It is at the very essence of marketing concept itself Kotler, (1997) states:

> The marketing concept holds that the key to achieving organizational goals consists of being more effective than competitors in integrating marketing activities toward determining and satisfying the needs and wants of the target market.

Market segmentation refers to the process of dividing large heterogeneous markets into smaller homogeneous segments. Market segmentation recognizes that buyers differ in their wants, purchasing power, geographical location, buying attitudes and buying habits. A definition given by (Bass and King, 1968)

The strategy of market segmentation is defined as the development and pursuit of different marketing programs by the same firm, for essentially the same product, but for different components of the overall market.

A definition given by Kibera and Waruingi (1998)

The sub-division of a market into smaller homogeneous sub-markets which the organization might successfully satisfy.

Market segmentation, therefore bends supply to meet the will of demand. Thus, products more precisely match each segments' needs and wants and this comes closer to effecting the market concept.

2.1.2. IMPORTANCE OF SEGMENTATION

Since Wendell Smith (1956) seminal article there has been a growing awareness of the concept of market segmentation. Wind (1978), Lazer and Culley (1983) among others contend that market segmentation long has been considered one of the most fundamental concepts of modern marketing. The concept of market segmentation has become one of the dominant concepts in marketing literature and practice. Besides being one of the major strategies used to operationalize the marketing concept, segmentation provides guidelines for firms marketing strategy and resource allocation among marketers, products and services.

A study by Nzyoka, (1993) investigating the extent of market segmentation by commercial Banks in Kenya and its usefulness, concluded that Commercial Banks in Kenya segment their markets to a large extent.

A study by Ng'ang'a (1991) concluded that medium and large scale manufacturing firms in Kenya segment their markets and aim at particular target groups in production and marketing their products.

A study by Salimi(1989) on financial services marketing in Kenya, concluded that the degree of success and profitability of financial institutions depend on its marketing capability.

Market concepts are those concerned with the perspective underlying marketing strategy development. The key market concepts are market segmentation, market targeting and positioning. These concepts are relatively simple but are extremely powerful marketing strategy concepts for the development and growth of SMEs. The effective definition of market segments, the selection of specific target markets and the development of a desired positioning within target segments are important marketing strategies for new ventures and for smaller growth oriented firms. Entrepreneurial firms can achieve key competitive advantages by segmenting markets in unique ways, selecting markets not adequately served by existing competitors and achieving a desired position within these target markets (Hills and La forge, 1992).

East African Banks and MFIs need to go beyond the limited group-based micro-enterprise credit. They need to develop and pilot test new products and strengthen their product development capacity to produce microfinance services that meet client needs and from which the MFI can levy charges that permit sustainability and profitability. In addition this will enable MFIs to increase the breadth and of their outreach. Those that do will be taking risk: those that do not will be history (Hulme, 1999; Maximbali, 1999; Kashangaki, 1999; Mugwanga, 1999).

The marketing discipline is an important resource because the underlying philosophy and orientation of the discipline are attuned to markets and customers needs, which have a direct applicability to small business. This orientation is of obvious importance to new business creation and to seeking and evaluating opportunities.

Wendell Smith introduced the concept of market segmentation in 1956 and since then, it has become a popular concept with many marketers. Many studies have been done in this field as the importance of the concept has unraveled over the years. Market segmentation has been adopted by various organizations throughout the world from producers, wholesalers and service providers.

Market segmentation has become more pervasive in recent years (Rao and Steckel, 1998). This is due to socio-economic and technological trends. Expanding disposable income and higher educational levels have produced consumers with sophisticated (and varied) tastes and lifestyles. Consequently, they have diverse benefit requirements for the goods and services they purchase. Furthermore, new, more focused advertising media (magazines, local radio stations, direct marketing) have emerged, facilitating the implementation of well-defined marketing programs targeted to groups with special interests.

Finally, new technologies such as computer-aided designs and modular assemblies have enabled manufacturers to customize a wide variety of products to meet the requirements of these special interest groups. These trends not only make market segmentation viable, they make it possible to reach smaller distinct segments.

Many marketing theorists and practitioners view market segmentation as one of the most important advances in marketing theory in recent times (Ng'ang'a, 1991). Lazer and Culley (1983), Wind (1978), among others assert that the concept of market segmentation is important in modern marketing.

Kibera (1997), contends that, marketers whether large or small, must make several product or service decisions with respect to market targeting if they are to operate effectively. This means that they must satisfy the needs of the customers. A Firm however, cannot serve all customers in the markets as the customers are too numerous and diverse in their buying requirements. Instead of competing everywhere, the company needs to identify the market segments it can serve effectively (Kotler, 1998).

The strength and value of marketing process hinges on how well a firm handles the process of market segmentation. Get it wrong, and it is likely that there is a 'mismatch' between the organization's offer and the needs of the customers. The concern, therefore, is to seek ways of classifying customers so that whatever the nature of the business, it will be in a position to offer a product or service to them that will enable the firm to differentiate it-self from others. In this way, the firm can increase its profitability. In a study carried out by Peterson (1991), the respondents who indicated that they employed target marketing reported a mean return on invested capital of 17.9% and those who did not reported a mean return of 9.3%.

According to Christopher and McDonalds (1995), the purpose of segmentation is to find the best ways to match the firm's capabilities with groups of customers who share similar needs and thereby gain some competitive advantage. Nariman and Mahatoo (1976), note that market segmentation helps the firm gear a specific product to the likes of requirements of a particular target group. For many companies, it is better to capture bigger prices of fewer markets than to scramble about for a smaller share of every market.

Wendell (1956), contends that due to product competition whereby there has been an expanded array of goods and services competing for the consumers dollar, it is necessary to have a market where a firm maximize its potential and this is made possible through market segmentation.

Johnson (1971) states that in the long run, market segmentation allows management to identify its best profit opportunities and this results in a more efficient allocation of company resources. According to Winter (1984), segmentation is a remedy for a low market share or a position in a low growth market. It redefines the market such that a marketer's market share may now be dominant in a smaller niche; alternatively, certain segments of a low growth market may be growing.

Scarborough and Zimmerer (1996), note that small businesses curve a niche from the mass market, for example, successful restaurants most often appeal to a specific clientele. Rather than compete head-on with larger rivals, many successful small companies choose their niches carefully and defend them fiercely. A niche strategy allows a small company to maximize the advantages of its smallness and compete more effectively even in industries dominated by giants. Peterson (1991) states that when target marketing is well conceived, it can produce stronger customer satisfaction and brand loyalty and give firms an edge against rivals.

Murphy (1996) contends that market segmentation can be useful because it can help the small business owner to make some very crucial decisions about where to direct promotion and which segment of the market they wish to pursue. Segmentation will help to decide which category of customers fall into, that is, socio-economic, age, gender, home location, occupation, stage in family life cycle, credit worthiness, quantity of purchases, usage rate. The MSEs owner can then direct his goods at the most profitable segment.

Dollinger (1995) states that market segmentation is important for marketing strategy because it enables the venture to discriminate among buyers for its own advantage. Effective market segmentation allows the firm to serve some segments of the market extremely well.

In higher education the segmentation variables that were found to be important are income and lifestyle characteristics (Traynor, 1981).

2.2 .0 REQUIREMENTS FOR EFFECTIVE SEGMENTATION.

Due to developments in the market place especially information technology, the concept of market segmentation has been refined. Some sellers however do not segment the market but engage in mass marketing.

Kotler (1998) observes the market segmentation can be carried out at four levels.

Segment marketing – In this, the company recognizes that buyers differ in their wants, purchasing power, buying attitudes, and buying habits. It thus isolates some broad segments that make up a market. Consumers in one segment are similar in their needs and wants but are not identical.

Niche marketing – a niche is a more narrowly defined group, typically a small market whose needs are not being well served. Marketers usually identify niches by dividing a segment into sub-segments or by defining a group with a distinctive set of traits who may seek a special combination of benefits. Niches normally attract smaller companies.

Local marketing – this is tailoring marketing programs according to the needs and wants of local customer groups.

Individual marketing - This is one –to one marketing. In this, the customer participates actively in the design of the product and offer.

Schiffman and Kanuk (1997) give the appropriate criteria for a "good" market segment and Buss and Day (1991) echo this, Kibera and Waruingi (1998).

A good market segment must be:

(i) **Measurable and identifiable.** There must be some basis, some common characteristics that includes or excludes a customer from the group and the characteristic must be measured, which is not always easy. Some segmentation variables such as geographic (location), or demographic (Age of the business from its records), are relatively easy to identify or are observable. Other like income can be determined through a questionnaire. Still, characteristic like benefits sought is difficult to identify.

(ii) **Accessible -** Marketers must be able to reach the market segments and serve them economically. This is in terms of distribution, as well as promotional strategies. How long does it take you to reach the targeted group? Less than or more than two or more hours? Year round access; Communities access; it takes as much time to work with a small village as a large one. The closer the communities are, the easier it will be to service them.

(iii) **Actionable /Responsive/Stability**– unless market segments are willing to react to the marketing variables developed, there is little reason to develop a unique programme for each segment. The consumer segment should be stable, growing, must be easily identifiable, should be interested, committed and capable local leadership, and real potential, eager for the service and easily reached.

(iv) **Substantial/Sufficient** – the segments should be large and profitable enough to serve. A segment should be the largest possible homogenous group worth going after with a tailored marketing program. The number of people here determines the worth of a segment. Census results by the government e in identifying the number of people in a given community or target group.

(v) **Compatibility** with the firms' resources, objectives and image.

(vi) **Differentiable- the** segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If a married and unmarried woman respond similarly to a sale on perfume, they do not constitute separate segments.

2.3 0. BASES/VARIABLESFOR SEGMENTING BUSINESS MARKETS.

Proper bases for segmenting the market have to be identified if market segmentation has to be effective. Different authors have suggested various segmentation variables. Wind (1978), divided these variables into two categories, that is, general customer characteristics (e.g. demographic and socio economic characteristics, personality, lifestyle, attitudes and behavior towards mass media and distribution outlets). The second category is situation specific customer characteristics like product usage, purchase patterns and other responses specific to marketing mix variables.

Business markets can be segmented with some variables employed in consumer market segmentation, such as geography, benefits sought, and usage rate. Yet business marketers can as well use several other variables.

Bonoma and Shapiro, (1983), Kotler (2001), Mc Donald (2001) proposed segmenting the business market with the variables below;

Demographics

Industry: which industry should we serve?

Company size: What size companies should we serve?

Location: what geographical areas should we serve.

Operating variables

Technology: what customer technologies should we focus on?

User or non-user status: should we serve heavy users, medium users, light users?

Customer capabilities: should we serve customers needing many or fewer services?

Situational factors

Urgency: should we serve companies that need quick service?

Specific application: should we focus on certain applications of our product rather than all applications?

Size: should we focus on large or small

Personal characteristics

Buyer-seller similarity: should we serve companies whose people and values are similar to ours?

Attitudes toward risk: should we serve risk-taking or risk-avoiding customers?

Loyalty: should we serve companies that show high loyalty to their suppliers?

Purchasing approaches

Either centralized or decentralized purchasing.

Purchasing-function organization: should we serve companies with highly centralized or decentralized purchasing organizations?

Power structure: should we serve companies that are engineering dominated, financially dominated?

Nature of existing relationships: should we serve companies with which we have strong relationships or simply go after the most desirable companies?

Purchasing criteria: should we serve companies that are seeking quality? Service or price?

Bonama, Mc. Donald and Kotler tend to agree on the above variables and therefore will be used for this study.

2.4.0 MARKET SEGMENTATION PROCESS

According to Kotler (2001), there is a three-step procedure for identifying market segments. Survey, analysis and profiling. Malcolm Mc. Donald (2001) on the other hand identifies the same number of stages. Agar (1999) on the other hand suggests a different approach for segmenting the market. First, the business proprietors have to understand the sort of people buying now. This approach suggests that rather than starts with the whole market and try to segment it and then target particular groups, the MSE should start with the current customers followed by any other groups of customers that it is considering trying to sell to.

Step One: Survey stage.

The researcher conducts exploratory interviews and focus groups to gain insight into consumer motivations, attitudes, and behavior. Then the researcher prepares a questionnaire and collects data on attributes and their importance ratings; brand awareness and brand ratings; product-usage patterns; attitudes towards the product category; and demographics, geographic of the respondents.

According to Mc. Donald, this survey stage involves:

WHO BUYS

1. Recording information about the Decision-makers in terms of which they are - customer profiling. Demographics, operating variables, situational factors, personal characteristics, purchase approach, purchasing function organization.

2. Testing a current segmentation Hypothesis to see if it stacks up -Preliminary Segments.

WHAT IS BOUGHT

1. Listing the features customers Look for in their purchase - what, Where, when and how.

2. Focusing onto those features customers use to select between the alternative offers available - Key Discriminating Features (KDFs)

Step Two: Analysis Stage.

The researcher applies factor analysis to the data to remove highly correlated variables then applies cluster analysis to create a specified number of maximally different segments.

According to Mc. Donald this analysis stage involves two levels:

This stage involves critical analysis of who buys what and why. It involves, among other things:

WHO BUYS WHAT

1. Building a customer 'model' of the market - based on either the different combinations of key discriminating factors (KDFs) customers are known to put together, or derived from the random sample in a research project. Can be constructed by Preliminary Segment. Each customer in the model (sample) is called a micro-segment.

2. Each micro-segment is profiled using information from the data based on the research findings of who buys.

3. Each micro-segment is sized to reflect the value or volume they represent in the market.

WHY CUSTOMERS BUY

1. As customers only seek out features regarded as key because of the benefit(s) these features are seen to offer them, the benefits delivered by each KDF should be listed. For some customers it is only by combining certain KDFs that they attain the benefit(s) they seek - benefits should also be looked at from this perspective.
2. For thoroughness, benefits can be looked at from the perspective of each preliminary segment.
3. Once the CPIs for the market have been developed these benefits are Critical Purchase Influences (CPIs) perspective of each Preliminary Segment. Distributing 100 points between the CPIs assesses their relative importance to each micro-segment.

Step Three: Profiling Stage.

Each cluster is profiled in terms of its distinguishing demographics. Each segment is given a name based on its dominant characteristic.

According to Mc Donald, this stage involves forming segments

FORMING SEGMENTS

1. By attributing a 'score' to all the critical purchase influence (CPIs) for each micro-segment, the similarity between micro segments can be determined.

2. Micro-segments with similar requirements are brought together to form clusters.

3. Clusters are sized by adding the volumes or values represented by each micro-segment.

CONCLUSION: The segmentation process

All the above studies have the following in common:

1. Understand how your market works

2. Identify and list the key discriminating factors.

3. Capture details about decision-makers

4. Identify and list their real needs

5. Search for groups with similar needs

• Not all customers have the same needs.

• Successful market segmentation focuses on customer needs . . . but this isn't easy.

• Once a market is segmented, select a segment and serve it. Do not straddle segments and sit between them.

For the purpose of this study, adoption of Mc Donald's presentation was important, as it is comprehensive and exhaustive.(Refer to appendix 5 for more details on segmentation process)

In looking at the segmentation process, it is important to look at the various segmentation approaches. Segmentation approaches typically fall into one of two categories: a priori approaches or post hoc approaches (Wind, 1978). A priori approaches consist of analytical methods where management decides on a basis for segmentation prior to data collection and analysis. For example, management may decide to segment the market based on product purchase rate, customer loyalty, customer types, or other characteristics. Once the segments are formed, data are collected to profile the segments according to demographic, psychographics or other customer characteristics. Management can then evaluate the size and characteristics of the segment to determine their potential value for the development of marketing strategies.

Post hoc approaches consist of analytical methods where management identifies relevant segmentation variables such as customer benefits, needs or attitudes. Statistical methods like regression and cluster analysis are then used to form and profile the market segments. Post hoc approaches are typically more sophisticated than a priori approaches, due to the use of relatively complex statistical methods.

Entrepreneurs to identify, profile and analyze market segments can use both a priori and post hoc segmentation approaches. These analytical approaches can help entrepreneurs evaluate different market segments to determine the best segments for them to attempt to serve. Selecting appropriate market segments can be a critical aspect of marketing strategy development and growth for new ventures (Hills & La forge, 1999).

2.5.0 Summary of literature review

From the literature reviewed, it has emerged clearly that market segmentation is important to all businesses as it increases profitability, leads to better resource allocation, gives competitive advantage, enables a firm to serve customers better and helps in selecting promotional tools.

Market segmentation can be undertaken to various levels which are segments, niche, local and individual marketing. The criteria for choosing a market segment is that it should be identifiable, accessible, measurable, actionable and substantial. The market segmentation process begins with surveying the market mainly though research. The second stage is analysis. The last one is profiling stage, which involves the known characteristic. The commonly used segmentation variables are demographic (industry, company size, location), operating variables, situational factors, personal characteristics, purchasing approaches, purchasing-function organization.

Market segmentation may also be in existent in a given firm but the terminology used different from the one documented. Also, of importance is that market segmentation alone cannot be taken single handedly as the only strategy for the success of the firm. It must be used in combination with other strategies for profitability and economies of scale.

CHAPTER THREE

3.0.0 RESEARCH METHODOLOGY

3.1 .0 Research design.

The research design used was descriptive. The objective of a descriptive study is to learn the who, what, when, where and how of a topic (Cooper, 1976). This design was used, as the idea was to identify the variables used by Microfinance institutions in market segmentation, identify the criteria commonly used as well as segmentation process. It involved gathering, processing and interpreting data from Microfinance institutions.

3.2 .0 Population

The population of interest comprised of all Microfinance institutions in Nairobi. In total, forty Microfinance institutions that are active in Nairobi were selected. The main reasons for selecting Nairobi were:

1. Most of the Microfinance institutions are in this region and almost all core activities related to this industry, such as marketing take place here.
2. Most of the head offices are located in Nairobi and its environs

3.3.0 Sample frame

The complete list of Microfinance institutions was obtained from a directory of Microfinance development institutions in Kenya (K-REP, 2001). Given that the population size was small, (40 institutions), a census study was conducted.

3.4.0 Respondents

The respondents were the Marketing managers or equivalents from the Microfinance institutions. The marketing managers, by virtue of their work, have knowledge about the marketing activities of their firms.

3.5.0 Data Collection

Primary data for the study was collected by means of the questionnaire. The researcher conducted a personal interview, which was meant to generate as much information as possible from the respondents.

The questionnaire was pre-tested on a representative number to see whether it can be understood.

The questionnaire was divided into four sections.

1. **Part A** was designed to collect general information about the microfinance institution.
2. **Part B** to collect on segmentation criteria commonly used by microfinance institutions in Kenya.
3. **Part C** aimed at identifying variables used by Microfinance institutions in segmentation process
4. **Part D** aimed at generating information on segmentation process by Microfinance institutions.

3.6.0 Data Analysis

The researcher first edited the data in order to check for completeness and consistency of the responses given. Descriptive data was analyzed by means of descriptive statistics.

This includes tables, proportions and mean scores. The mean scores were calculated from the responses, which were rated, on a 5-point likert scale. On this scale, one (1) was taken as the lowest (to no extent) and five (5) was taken as the highest (to a great extent). The first part of the questionnaire contains general questions. In the subsequent parts that deal with segmentation process, the population is 40 respondents less those who do not segment their market. ***Therefore, N will universally refer to the respondents either a total population or those segmenting their market.***

CHAPTER FOUR

4.0.0 DATA ANLYSIS AND FINDINGS

4.1.0. Introduction.

This chapter contains the data extracted from the fully completed questionnaires. Data is summarized and presented for analysis in the form of tables and proportions. It actually documents segmentation practices by microfinance institutions in Nairobi, Kenya.

4.2.0 Characteristics of respondents

This section presents a general overview of all the forty firms that formed the population of study.

4.2.1 The respondents profile.

The respondents were asked to indicate their positions in the Microfinance institutions. The target respondents were mainly the marketing managers of the microfinance institutions or their equivalents. The findings are as summarized below.

TABLE 1: Position of respondent.

Position of respondent	Number	Percentage
Program manager	30	75%
Field co-ordinator.	10	25%
Total	**40**	**100%**

N=40.

From the table above, out of the total of 40 respondents, 75% are referred to as program managers, 25% as field co-ordinators. The different Microfinance institutions have different titles for their officers. Mainly, the researcher found out that they play almost the same role. Size of the institution here could have played a bigger role as well as the capital base, owing to the fact that human resource is expensive.

4.2.2 Name of the institution.

The study sought to find out the names of different microfinance institutions. The results are summarized in the table 2 below.

TABLE 2: Names of the institutions

Respondents	Indication of Name	Percentage
40	40	100%

N=40.

All the respondents indicated their institution's names. The reason could be that it is used as a marketing strategy: word of mouth, which is common to the Microfinance institutions. It is assumed that awareness is created through people talking more of their institutions and operations.

4.2.3 Location of the institution

The survey also sought to determine the location of the microfinance institutions. The results are as tabulated below.

TABLE 3: Location of the Microfinance institution.

Below are the findings

Location	Frequency	Percentage
Urban only	13	32.5
Rural and Urban	27	67.5
Total	40	100

N=40.

Of the 40 respondents, 67.5 have establishments both at the rural and urban areas. This shows a high degree of spread in terms of service delivery. Only 32.5% of the forty respondents have the urban area as the only place of operation. There was a clear indication that most of the institutions have their head offices strategically located in Nairobi, with branches in rural and urban areas. This could be explained by factoring in the capital required for establishment, as well as how accessible the rural areas are their clientele and how profitable those rural establishments are.

4.2.4 Activities by respondents

The respondents were asked to identify activities mainly carried out by their institutions. The table below shows the results of the findings.

TABLE 4: Activities mainly carried out by the Microfinance institutions

	Number of respondents	Percentage
Credit provision	40	100
Training	20	50
Counseling	4	10
Technical assistance	10	25
Research	3	7.5
Savings	3	7.5
Consultancy and advisory	2	5

N=40.

Note: Respondents could tick more than one.

In this study, only 5% of the Microfinance institutions offered consultancy services. Consultancy could involve business growth advice as well as investment criteria. Only 7.5% offered savings and research services respectively. The explanation is that Kenyan law prohibits the institutions from taking deposits, apart from the Banks. Research is offered by other specialized organizations, not necessarily Microfinance institutions. Only 10 % are in counseling services, 25% on technical assistance, and 50 % on training. All the institutions surveyed are 100% providers of credit, which according to them is the main, reason for their establishment, hence their core activities.

4.2.5 The core businesses

The researcher had asked the respondents to indicate which of the businesses listed on the questionnaire they considered as their core. The results of findings were tabulated as below.

TABLE 5: The core businesses by the Microfinance institutions.

Service	Frequency	Percentage %
Credit	40	92.5
Savings and credit	3	7.5

N=40.

Only 7.5% of the microfinance institutions were indifferent about their core business. About 92.5 of the surveyed microfinance institutions have the credit provision as their core business. This indicates that the majority of microfinance institutions are in the business of credit provision. Those quoting both as core, the researcher found out that the two products complement one another. They use the savings proceeds for the purpose of on lending as well as collateral.

4.2.6 Change of product category

The respondents were asked if they had changed their product category in the recent past. The results were as represented in the table below.

TABLE 6: Change of product category

Response	Number	Percentage %
Yes	9	22.5
No	31	77.5
Total	40	100

N=40.

Of the respondents, 22.5% indicated that they had changed their product category. The reason is that it was all in the line of re-alignment with the target market needs. 77.5% of the respondents said that they have never changed their product category but have been improving on it.

4.2.7 Nature of clients businesses

The respondents were asked to indicate the nature of their client's businesses. The respondents were found to be in three main areas namely manufacturing, merchandising and service. Concentration for business was therefore, within the above types of enterprises. These are the main forms of businesses in Nairobi, and the respondents actually justified that these businesses actually exist. What may be understood is that the fact that they were required to indicate the nature of their clients businesses, is not comprehensive as funding for these could be remote, may be one customer in one category after some time.

4.2.8 Nature of the clients

The survey sought to find out the nature of the clients served by microfinance institutions. The summary of the results is as tabulated below.

TABLE 7: Nature of the clients businesses

Nature of client	Number	Percentage
Micro	40	100
Individuals	3	7.5
Groups of people	39	97.5
Small businesses	40	100
Medium	27	67.5
Large	-	-

N=40.

Note: The respondents could tick more than one response.

From the results above, only 7.5% were funding individuals. This could be explained by the fact that the methodology of lending by most of these institutions is group based. Of the respondents, 67.5% were lending to the medium sized businesses. Groups of people composed of 97.5%, which was mainly for on lending. The micro businesses and small businesses took the highest proportions, hence the majority. The above results are in line with their microfinance institutions core business of provision of credit to micro and small enterprises.

4.2.9 Extent of the use of market segmentation

The respondents were asked to indicate if they were segmenting their market or not so as to find out the state of the use of market segmentation. This information was also relevant as it helped sieve out those institutions that were not practicing market segmentation.

TABLE 8: Extent of use of market segmentation

Response	Number	Percentage %
Yes	33	82.5
No	7	17.5

N=33.

The questionnaire defined market segmentation and asked respondents if they were presently using this marketing strategy. Of the forty respondents, 82.5% replied affirmatively, while 17.5% replied negatively. This clearly indicated that market segmentation strategy has penetrated Microfinance institutions to a large extent. An explanation for this outcome is that they may have found it easy to focus on specific segments. It could also be by default as the resources are not enough to serve larger markets. It could also be for simplicity, serving only those segments that are convenient and in a simple manner.

There was an indication that though they are able to finance micro businesses, their capital was limited to serve larger businesses.

From a personal observation by the researcher, 82.5% are the ones who were aware that they were practicing market segmentation. 17.5% who replied negatively, it was noted, were using the strategy but not aware of it. The justification was when a respondent replied that they offer services both at the rural areas and urban, at different terms and conditions and then state categorically that they do not segment the market.

4.2.10 How to identify a good market segment.

The respondents were asked for the criteria to identify a good market segment. This is important for the sake of serving the said markets. The findings are summarized in the table below.

TABLE 9: How to identify a good market.

Criteria	Number	Percentage
A good market segment is Measurable	33	100%
A good market segment is Identifiable	33	100%
A good market segment is Actionable	33	100%
A good market segment is Responsive	33	100%
A good market segment is Substantive	33	100%
A good market segment is Stable	33	100%
A good market segment is Substantial	33	100%
A good market segment is Compatible	33	100%
A good market segment is Differentiable	33	100%

N=33.

Of the 33 respondents who practice market segmentation 100% identified the marketing segmentation criteria. The indication here is that the institutions have an idea of the criteria derived from having used it. There were no major noticeable variations across respondents.

4.2.11 Benefits derived from market segmentation.

The questionnaire was designed with intent of finding out from the respondents what benefits they derived from market segmentation. All the findings were then summarized and presented in the table below. There is no major difference noticed across the respondents, hence the same frequency.

TABLE 10: Benefits from market segmentation.

Benefit	Number	Percentage %
Profitability has increased	33	100%
Better allocation of resources	33	100%
Competitors have been effectively dealt with	33	100%
Satisfying the needs of customers	33	100%
We offer products targeted to our clients	33	100%
We understand our clients well	33	100%

N=33.

The seven firms that are not segmenting the market did not comment on the above. Of those who commented, 100% viewed the practice of market segmentation as beneficial to the firms. The respondents were able to identify the benefits derived from market segmentation.

4.2.12 Commonly used Bases of market segmentation

Those respondents who reported using market segmentation were asked to give the extent to which they use the various segmentation variables given on the questionnaire. This was done in order to identify the variables commonly used by Microfinance institutions. The results are as summarized below.

TABLE 11: Market segmentation variables.

Variable	MEAN SCORE
Industry	4.8
Company size	1.44
Location	4.92
Firm level of technology	2.49
Return on capital	1.53
Collateral	3.14
Cash flow	4.96
Client capability	4.97
Urgency of need	1.1
Purpose	4.93
Size of loan	4.8
Lender borrower similarity	3.92
Loyalty	2.64
Character	4.88
Purchasing criteria	3.1
Sourcing of raw material	1.85
Material payment mode	3.65

From the above table the variables commonly used by microfinance institutions. the nature of the industry is highly used as a variable in segmentation process with a mean score of 4.8. The main reason for consideration here is that the Microfinance institutions consider the legality as well as the products that individual industries are involved in. next in importance was the location of the industry, with a mean score of 4.92 which means Microfinance institutions uses this variable to a great extent. This variable may explain why there are many Microfinance institutions where there is a high concentration of cottage industries. Cash flow with a mean score of 4.96 is also a major variable considered. The argument by the Microfinance institutions is that repayment ability by the clients is pegged on their cash flows. The purpose of the loan with a mean score of 4.93 is also highly considered variable. The researcher found out that the Microfinance institutions put a lot of emphasis on this factor, as they argue that diversion leads to poor repayment of loan facility. Size of the loan with a mean score of 4.8 is also a significant variable. The individual character is important as willingness to repay is pegged on the individual proprietor character.

The variables used by Microfinance institutions to no extent are the firm level of technology, return on capital, urgency of need by an enterprise, how firms source for raw material. Further, in getting the variables commonly used, the mean scale values of the variables were calculated and compared to the midpoint on the scale, which is 3.0.

The variables with greater scale values than the midpoint on the scale were: industry, location, cash flow, client capability, purpose, size of loan, lender borrower similarity, material payment mode and character of the proprietor. The rest of the segmentation variables had mean scale value of less than the midpoint of the scale. These results are shown in table in appendix four. Comparing the above variables with the available literature, they are almost the same variable suggested for industry segmentation.

4.2.13 Level of Satisfaction with segmentation variables in use.

The respondents were asked to provide on a six-point scale (1=very dissatisfied, 6=very satisfied) their evaluation of the segmentation variables they were currently using or had used in past.

TABLE 12: Satisfaction with the segmentation variables currently used.

Response	Number	Percentage
Very dissatisfied	-	-
Dissatisfied	1	3
Somewhat dissatisfied	1	3
Somewhat satisfied	10	30.3
Satisfied	17	51.5
Very satisfied	4	12.1
Total	33	100

N=33.

From the above table, it can be observed that 3% were dissatisfied, 5% were somewhat dissatisfied, 30.3% somewhat satisfied, 51.5 satisfied, and 12.1 very satisfied. The highest number of respondents (51.5%) affirmed their satisfaction this suggests that the respondents were generally satisfied with the methods they are using.

4.2.14 Steps in the Segmentation process

The respondents were asked to indicate the steps they undertake in the segmentation process. The findings are summarized in the table below.

TABLE 13: Steps in segmentation process.

Steps	Number	Percentage
Survey	33	100
Analysis	33	100
Profiling	33	100

N=33.

Of the respondents, 100% affirmed having used all the stages in segmentation process, in coming up with markets to serve.

4.2.15 The segmentation process

The survey sought to find out how the businesses assessed the needs of their customers so as to serve them effectively. The results are as shown below.

TABLE 14: Segmentation process

Process	Number	Percentage
We analyze potential clients	33	100
We often survey customers needs	16	48.4
We produce what customers want	18	54.5
We usually target a particular market	33	100
We assume customers would like our products	10	30.3
Target groups profiled according to common characteristics	33	100
Clients look for us when in need of services	12	36.3
Given our resources, we serve clients effectively	33	100
Clients needs compatible with our objectives	24	72.7
We ensure all groups served are different	33	100
Large enough segments served to generate profits	33	100

N=33.

Note: (Respondents could tick more than one response)

In the segmentation process, of the 33 respondents, 100% indicated that they analyze the potential clients. This is done through a feasibility study, in order to identify the needs of the potential clients. 48.4% often survey the needs of the customer. This being a continuous process, it could be expensive and time consuming, leading to slow adoption.

54.5% produce what their customers need. This being a business venture, there must be profits made at the end of the month, hence the reason why its not easy to offer all that the customers want; cost benefit analysis.

100% usually target a particular market, which is in line with the segmentation strategy. After targeting a particular market, they are able to position themselves and offer value. Marketing concept do not allow an individual to assume that customers would like whatever is produced. 30.3% of the respondents thus assume that customers would like their services. Of the total respondents, 100 % profile their target group according to its distinguishing characteristics. This ensures that there is no duplication of services and also the right people are served at the right time. 36.3 % of the respondents affirmed that clients look for them when in need of a service. Actually, training, consultancy needs are mostly available on request, hence this could have been the reason. 100 % agree that resources constrain them, and are able to serve their clients effectively given their level of resources. 72.7 % indicated that their client's objectives are compatible with their objectives. The objectives of each Microfinance institution are in line with their core businesses. For credit provision, they are able to serve the segments in line with their policies. 100% of the respondents ensure that all the groups served are different, curtailing the duplication of services, as segments that are large enough ensure that they are profitable for continued business delivery. 100 % of the respondents affirmed that they serve large segments in order to generate profits.

4.2.16 Importance of market segmentation process

The respondents were asked to indicate how important they viewed the segmentation process. The results are as shown in the table below.

TABLE 15: Importance of market segmentation process

Importance	Number	Percentage
Not important	7	21.0
Important	11	33.3
Very important	22	66.7

N=33.

In order for a business to embrace any strategy, it has to consider it to be important for its success. Market segmentation process is important to consider when coming up with the target market. It is not involving, only that it considers the target clients and their characteristics. 21.0% of the total respondents viewed the process not important at all. Of the respondents, 33.3% viewed the process as just important. 66.7% of the respondents viewed the process as very important. From the findings, as long as an institution is carrying out market segmentation, the process itself is very important and should be embraced.

4.3.0 Other strategies used by Microfinance institutions that do not segment their market

Of the forty respondents, seven do not practice market segmentation. Of these seven respondents, 60% offer services that are suitable for everyone. 30% felt that provision of high quality services is more important than market segmentation. This is a clear indication that they follow the product concept. Also, all the respondents who do not practice market segmentation affirmed that they follow competitor's innovations, as well as replication. Replication could be from the national players as well as successful microfinance institutions. In the world, the most replicated microfinance model is that of Grameen bank.

Some of the firms argued than they wanted to remain simple in their operations hence no need for more services to diverse markets. Others argued that they were too small and thus could not segment their market, as they needed a mixed clientele. It is important to note that, if the competitors or the replicated microfinance institutions were practicing market segmentation, then these firms were practicing the same strategy though unawares. The terminology, also being new, may not have been understood fully by the microfinance institutions, which also depend on the age of the institution.

From the above responses however, it could be said that those who offer large amounts were targeting large businesses. Those who offer small amounts target the micro businesses. There was also a difference between the cost of borrowing as those who borrowed little paid expensively, while for large amounts, paid lower interest rates.

Therefore, though they may indicate they do not segment the market, it could be because they do not understand the term but in practice, they may be segmenting their markets.

CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 DISCUSSIONS

The discussion is based on the Microfinance institutions that segment their market. According to the research findings, 17.5% of the population of study do not segment their market. The majority, 82.5% therefore are the ones that segment their market.

The first objective of the study was to identify the segmentation criteria commonly used by Microfinance institutions in Kenya. The second objective was to identify variable used by Microfinance institution in segmentation process. The third objective was to determine the stages in segmentation process used by Microfinance institutions in Kenya. As far as these three objectives are concerned, the study has been able to establish the segmentation practices by Microfinance institutions in Kenya

On the criteria commonly used by the Microfinance institutions, the study revealed that there is a common criterion for effective segmentation. The finding is similar to what Mc Donald (2001) found in the segmentation criteria by a fertilizer company. This study on the Microfinance institutions in Kenya has found out that the institutions have realized the importance of segmentation criteria and have embraced it. In her study on the state of market segmentation practices of micro and small-scale furniture manufacturing businesses in Mombasa town, Mshenga (2000) found that the enterprises had to review their marketing strategies in order to beat competition. Similar results were obtained by Nzyoka(1993). In his study on market segmentation in Kenya, a case of commercial banks, Nzyoka found out that the commercial banks had a similar criterion in the segmentation process

As for the variables used by Microfinance institution in the segmentation process, the study found out that more emphasis is laid on the segmentation variables, which form the basis for segmentation process. Such findings were also reported by Ng'ang'a (1991) on the market segmentation by medium and large scale manufacturing firms in Kenya.

Regarding the stages in the segmentation process by the Microfinance institutions in Kenya, the study reveals that the stages are followed in the order of survey stage, analysis stage, and profiling stage. Mc. Donald, (2001), in his study on segmentation process identifies the segmentation process similar to the one identified from the study. This finding corresponds to what Mshenga, (2000) found in her study on the state of market segmentation practices of micro and small-scale businesses.

In a move to respond to the needs of customers and new challenges in the industry, Microfinance institutions have come up with different strategies aimed at improving their offerings. They have also realized that if they are unable to offer value now, then the competitor will. Market segmentation is meant to enable the institutions to reach the right people, the right time profitably.

5.2.0 Conclusion

There was a total population of forty Microfinance institutions and only thirty-three or 82.5% segment their markets. The conclusion is therefore based on the majority of the institutions that segment their market. The study examined the segmentation practices by

Microfinance institutions. Responses of the marketing managers and field co-ordinators provided data from which inferences on market segmentation were made.

5.2.1 Respondents characteristics

The study revealed that 75% of the institutions interviewed have the marketing manager who is in charge of marketing operations. Concerning the location of the institutions, majority, 67.5% have their locations in the urban areas only, while the rest, 32.5% are located in the urban and rural areas.

The main activity by the respondents is credit provision in which 100% of the respondents are involved. This is important to note, as it is the core activity identified by all the respondents.

The nature of the client's business is diverse. This ranges from manufacturing, merchandising to provision of service. The nature of these clients is mainly micro and small businesses. These businesses are important for poverty eradication as well as well-being of the population at large. Thus, the proprietors depend on the enterprises for their survival. The success of their business would improve their standard of living. This being the target market, the microfinance institutions require better marketing strategies in order to increase their sales.

5.2.2 Characteristics of Microfinance institutions.

Of the forty institutions interviewed, 82.5% of them use market segmentation strategy. 17.5% have to undertake vigorous marketing activities to gain market share.

In marketing their services, 100% of the businesses interviewed serve only Micro (Defined as businesses employing ten or less employees) businesses. 7.5% serve individual, 97.5% serve groups of people, 100% serve small businesses while 67.5% serve medium businesses hence been performing their core activities-provision of credit to Micro and small businesses. The study shows that these firms are in close contact with their customers thus easy to communicate with them and can define customer needs from the customer's point of view.

Also in marketing their services, these firms relied heavily on word of mouth confirmed by a high percentage of Microfinance institutions including their names and dates of establishment on the questionnaire. These institutions also affirmed that they produce what is needed by customers, through analyzing potential clients, targeting a particular market, profiling groups according to common characteristics as well as serving different segments to avoid replication.

5.2.3 Extent of the use of market segmentation.

More than two-thirds of the respondents (82.5%) indicated that they were employing this marketing strategy currently. This finding leads to the conclusion that market segmentation has penetrated the ranks of Microfinance institutions in Nairobi. This percentage could be higher since those who responded negatively to the use of market segmentation could be practicing it unconsciously and might not be aware they are doing it.

As noted earlier, the plausible explanation for the use of market segmentation was that these institutions have discovered opportunities in targeting markets, which did not attract the attention of Commercial banks. They may also have found niches and others might be targeting by default by restricting their business to individual customers only or by serving a specific group of customers.

However, the practice was still at the rudimentary stages and is not as sophisticated as done in larger firms like commercial banks.

5.2.4 Requirements for effective market segmentation.

On the requirements for effective market segmentation, the study found that majority of the Microfinance institutions that segment their markets have a criteria in place that is commonly used in identifying the potential customers. They argue that:

The market must be measurable and identifiable. These are some common characteristics that include or exclude a customer from a group. Some of these characteristics range from the income cash flow, location. The market should therefore be estimated in terms of figures to compound the benefits from serving such a market. Some characteristics like income of the individuals within a certain bracket were found to be difficult to identify. According to the respondents, the measurable and identifiable concepts though difficult, are very important in identifying a potential client.

Accessibility: according to the research findings, the marketers must be able to reach the market segments and serve them economically. The closer the target group is from the service provider, the more it is easier to offer service. Research findings reveal that majority of Microfinance institutions are located within the locality in which they offer their services.

Responsive; the study found that the market segments must be willing to react to the marketing variables developed, in order to develop a unique programme for each segment. There must be potential for the sake of sustainability. The results of the study indicate that the consumer segments that are not stable and have no signs of growing end up being closed down or services withdrawn.

Substantial: regarding the size, the study found out that the segment should be large enough and profitable enough to serve. The study found out that the segment should be the largest possible homogenous group worth going after with a tailored marketing program. The study shows that the census results by the government are important in estimating how sufficient the market is.

The study also found out that the segments should be conceptually distinguishable. This ensures that the segments respond differently to different marketing mix elements and programmes.

From the above findings, it is evident that in order to identify a segment to serve, the Microfinance institution should be prepared to identify the above requirements in a given market.

5.2.5 Segmentation variables commonly used by microfinance institutions

From the study, it was found out that the variables commonly used by these institutions were:

The nature of the industry being financed. This refers to the goods and services produced by the given industry. The study found out that most Microfinance institutions finance the informal industries, which are highly neglected by the commercial banks.

Location of an enterprise: The study concludes that the location of an enterprise is important in the segmentation strategy. According to the study, most of the financed businesses of micro nature are located mostly in the slums or residential areas, and focus should be on these areas.

Cash flow: The fact that the microfinance institutions are in business, the study underscores the importance of keen analysis of their cash flow from the financial statements. According to the study, the importance of this is that the enterprises are required to repay the loans after a certain period, and the businesses must be at a position of liquidity. It is evident from the study that enterprises with poor cash flows always suffer from meeting their monthly repayment requirements.

Client capability: Client capability according to the study was pegged on the management. The management must be at a position to manage cash and be able to project to meet their monthly repayments. According to the study, client capability is affected if a portion of the credit facility is misappropriated. The study suggests that this variable is very important as the performance of the business is vested on the management capability.

Purpose of credit: The study also identified purpose of credit as a very important variable. Credit may be required for a number of reasons but mainly working capital and investment. Most of the Microfinance institutions surveyed identified working capital as the greatest requirement by the enterprises. According to the study, in order to come up with a substantial segment, one must cluster a number of enterprises with similar needs. It is therefore important for a microfinance institution to cluster its clients in term of purpose.

Size of the loan: The amount of credit required is also a very important variable. According to the study, this is a key distinguishing factor in that it shows the different levels of businesses, from micro to large. According to the study, most of the Microfinance institutions lend to micro businesses, as their financial requirements are not large. The reason for this is that the Microfinance institutions also suffer from capital shortages.

Character of the proprietor: The study identified this variable as very important. According to the study, the business may be having good cash flow and the proprietor is unable to meet the requirements of monthly repayments. It is therefore imperative for the Microfinance institutions to analyze the character of a given group before clustering.

Material payment mode. Though not with a strong backing from most of the institutions surveyed, material payment mode was identified as one of important variables in market segmentation. According to the study, the enterprises that purchase on credit should be clustered together, while those that purchase by cash together. The reason being that the more overburdened an enterprise is, the more problems it has in meeting its monthly obligations.

5.2.6 Satisfaction with the different segmentation variables.

From the results, 51.5% indicated satisfaction while 12.1% indicated very satisfied with the variables. This suggests therefore that the respondents tended to be satisfied with the methods they were using. It should be noted here with a lot of concern that the percentages above should be appreciated, but cannot be interpreted as completely valid measures of how useful particular methods are to individual firms. The method useful to one firm may not be to another. Also, satisfaction with a method is a product of the inherent value of the method and the manner in which it is used.

5.2.7 Market segmentation process

The study has revealed that majority of Microfinance institutions follow the three steps procedure for identifying business market segments. These are mainly:

Survey stage: This stage involves recording information about decision-makers in terms of whom-profiling. It also involves testing a current segmentation hypothesis to see if it stacks up preliminary segments. This stage, according to the study also involves listing features customers look for in their purchases and focusing onto those features customers use to select between alternative offers available. This stage according to the study is important as it helps the Microfinance institution identify whom the target client is, and what the clients needs may be.

Analysis stage, which involves building a customer "model" of the market, profiling each micro-segment using information from the survey stage and looking at benefits from the perspective of each segment.

Profiling stage: This stage involves forming segments. The study identified this stage as the last one in the segmentation process. According to the study, micro-segments with similar requirements are brought together to form segments. The clusters are sized by adding volumes or values represented by each micro segment.

Majority of the Microfinance institutions surveyed, it was found out that the segmentation process is continuous and sometimes there is no order in which this is done. The research also found out that the segmentation process is not as advanced as that found in other sectors.

From the foregoing discussion, one can conclude that the study was able to identify the segmentation criteria commonly used by Microfinance institutions, the variable used and was also able to identify the segmentation process. Though the respondents who segment were only 82.5% of the total population, the above results can be generalized to apply to all microfinance institutions that segment their markets.

5.3.0 Recommendations

The study has been able to establish the segmentation practices by majority of Microfinance institutions. Recommendations are therefore based on the thirty-three firms that segment their market.

The Micro and small enterprise (MSE) sector is very important for the development of this country, currently, and thus a lot of effort should be put in assisting the owners of these businesses to acquire more of the working capital, investment capital and other tools for their business. They therefore require all the support they can get form the Microfinance institutions and other capital providers. On the other hand, the Microfinance institutions are very important in assisting the MSEs. The use of market segmentation may help the Microfinance institutions to develop products, which will satisfy their customers needs, and this will increase the productivity of the MSE's. It is documented that the main constraint to MSE's development is capital accessibility. The microfinance institutions should therefore be at a position to have a deep understanding of the market, and have creative segmentation and selection criteria.

The microfinance advisors should train their clients on market segmentation practices. Segmentation is the heart and soul of marketing and unless a company spends time on it, driven from the board downwards, it is virtually impossible for the company to be market driven.

The variables commonly used by Microfinance institutions in the market segmentation were found to be: the nature of the industry, the location of the enterprise, cash-flow of the enterprise, client capability in terms of ability to repay the credit, the purpose which is either investment capital or working capital, size of the credit facility, the lender-borrower similarity, character of the proprietor, as well as material payment mode by the enterprise which could either be by cash or credit.

The commonly used criteria by the microfinance institutions is that: a good market segment is measurable, identifiable, actionable, responsive, substantive, stable, substantial, compatible and differentiable. These criteria should therefore be recommended to Microfinance institutions as a way of guiding them on the way forward.

A market segmentation process should involve a clear identification of needs by the potential clients and should go through three main stages namely: survey stage, analysis stage and profiling stage.

Microfinance institutions that are contemplating market segmentation can benefit from these findings. Still, each firm should carefully analyze its individual objectives, constraints, strengths, weaknesses and resources to determine its segmentation strategy. Policy makers should focus on the commonly used segmentation variables, criteria and process in order to develop the Microfinance institutions and attain industrialization by the year 2020. The development of this sector is very important to the government. Scholars should put more emphasis on the segmentation criteria, variables and process in the Microfinance institutions so as to add more to the existing knowledge.

Finally, in a competitive Microfinance business where profound changes are frequently unfolding, all the concerned marketers should strategically be analyzing the environment on a continuous basis. As per the study above, the markets should be analyzed regularly and the identified practices are put into place for competitiveness in the market.

5.4.0 Limitations of study

The study was only done for the Microfinance institutions in Nairobi while we have other urban areas in Kenya. The results of these findings are therefore applicable to the Microfinance institutions in Nairobi only. Secondly, no secondary data could be found pertaining to the use of market segmentation in Microfinance institutions in Kenya.

5.5.0 Suggestions for further research.

This study mainly dwelt on the market segmentation in Microfinance institutions and was mainly interested in establishing the segmentation practices by Microfinance institutions in Kenya, with specific reference to Nairobi. Further studies can be done on Microfinance institutions in rural areas, to identify their market segmentation practices Also, studies can be done to establish the performance of Microfinance institutions that segment their markets.

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APPENDIX ONE: LETTER TO THE RESPONDENT

University of Nairobi,
Faculty of commerce,
Department Of Business Administration,
P.O. Box 30197,
Nairobi.

Dear Sir or Madam:

RE: COLLECTION OF RESEARCH DATA BY KIMANDI F.R. REG. NO. D/61/P/8026/2000, NAIROBI UNIVERSITY.

The above named Gentleman is a postgraduate student in the Faculty of Commerce, at the University of Nairobi. He is conducting a research for his final year project. For this reason, kindly assist him by giving him a few minutes of your time to fill in the blanks in the attached list of questions to the best of your knowledge as they apply to yourself and your Firm.

The information you provide will be treated strictly confidential. Neither your name nor that of your business will be recorded. A copy of the project can be made available to you on request.

Your cooperation will be greatly appreciated.

Thank you in advance.

Yours faithfully,

DR. MARTIN OGUTU

CO-ORDINATOR, MBA PROGRAM

APPENDIX TWO: QUESTIONNAIRE

Your organization has been selected as part of this study, please spare some time and answer the following questions appropriately. Your response will be treated purely for academic purpose. (Tick or state where applicable)

PART A

1. Position of the respondent...............................(Indicate position)

2. Name of the Microfinance institution...

3. Location of the institution ....

4. Number of employees..

5. For how long has your MFI been operating?(Tick one)

   5 years and below( ) 6-10 years ( )

   11-20 year ( ) 20 years and above ( )

6. What activity(s) is your firm involved in ? (Tick the appropriate).

a) Credit provision [ ]
b) Training [ ]
c) Counseling [ ]
d) Technical assistance [ ]
e) Research [ ]
f) Savings [ ]
g) Consultation/advisory [ ]
h) Other, specify............................

7. Which of the above do you consider as your core business?................
   ....

8. Have you changed your main business in the recent past? (Tick one)

a) Yes [ ]
b) No [ ]

If the answer to question above is 'Yes', What reason made you change?
....

....

PART B

Market segmentation is the process of dividing a heterogeneous market into segments which are identifiable for the purpose of designing a product, pricing it appropriately, promoting and distributing it so as to meet the needs of the consumers in the segments attractive to the firm.

9. Do you then segment your market?

Yes [ ]
No [ ]

If the answer is yes, go to section 1. If No, go to section 2.

Section 1

10. What are the benefits of market segmentation? (Kindly, list them down)

a) ....
b) ....
c) ....
d) ....

11. Indicate the nature of your clients business by ticking the appropriate boxes

Manufacturing [ ]
Merchandising [ ]
Service [ ]
Others (State)..
....

12. When segmenting your markets, indicate by ticking the appropriate boxes, the factors you take into account.

A good market segment must be:

a) Measurable [ ]
b) Identifiable [ ]
c) Actionable [ ]
d) Responsive [ ]
e) Stable [ ]

f) Substantial [ ]
g) Compatible [ ]
h) Differentiable [ ]
Others, (specify)…………………………………………………………………………………
……………………………………………………………………………………………………
…………………………………………………………………………………………..

13. Indicate the nature of your clients by ticking the appropriate boxes

a) Micro(Ten and less employees) [ ]
b) Individual borrowers [ ]
c) Groups of people [ ]
d) Small businesses (Less than fifty employees)[ ]
e) Medium(More than fifty, less than 100) [ ]
f) Large(More than 100 employees) [ ]
g) Other…………………………………………..
……………………………………………..

Section 2

14. Why don't you undertake market segmentation? (Tick the relevant ones)

a) The firm is too small [ ]
b) The concept is new hence time to adjust [ ]
c) The market is not identifiable [ ]
d) The market is not accessible [ ]
e) The market is not differentiable [ ]

15. In the absence of formal market segmentation as defined above:

a) How do you make sure that the products you make are suitable for everyone?
……………………………………………………………………………………..
……………………………………………………………………………………..

b) How do you get suitable customers for your services?
……………………………………………………………………………………..
……………………………………………………………………………………..

c) How do you adapt customers to the services you provide?
………………………………………………………………………………………
………………………………………………………………………………………

d) In your opinion, what are the main problems hampering the use of market segmentation in Microfinance institutions?

PART C

16. Please indicate the benefits you have derived from segmenting your market by ticking the relevant benefits.

a) Profitability has improved [ ]
b) Better allocation of resources has resulted [ ]
c) Competitors have been effectively dealt with [ ]
d) Satisfying the needs of our customers [ ]
e) We offer products targeted to our clients [ ]
f) We understand our clients well [ ]
g) Any other (please specify ....
....
....

17. To what extent has your firm used the following variables to segment the market? (Tick the applicable variables to your business)

5. To a very great extent
4. To a great extent
3. To a moderate extent
2. To a small extent
1. To no extent

Dimensions (variables)	[5]	[4]	[3]	[2]	[1]
DEMOGRAPHICS					
Industry (Nature of business)	[ ]	[ ]	[ ]	[ ]	[ ]
Company size	[ ]	[ ]	[ ]	[ ]	[ ]
Location (rural or urban)	[ ]	[ ]	[ ]	[ ]	[ ]
OPERATING VARIABLES					
Level of technology of Firm	[ ]	[ ]	[ ]	[ ]	[ ]
Return on capital	[ ]	[ ]	[ ]	[ ]	[ ]
Collateral	[ ]	[ ]	[ ]	[ ]	[ ]
Cash flow	[ ]	[ ]	[ ]	[ ]	[ ]
Client capability	[ ]	[ ]	[ ]	[ ]	[ ]
SITUATIONAL FACTORS					
Urgency of need	[ ]	[ ]	[ ]	[ ]	[ ]
Purpose	[ ]	[ ]	[ ]	[ ]	[ ]
Size of the loan	[ ]	[ ]	[ ]	[ ]	[ ]

Dimensions (variables)	[5]	[4]	[3]	[2]	[1]
PERSONAL CHARACTERISTICS					
Lender Borrower Similarities	[ ]	[ ]	[ ]	[ ]	[ ]
Attitude towards Risk	[ ]	[ ]	[ ]	[ ]	[ ]
Loyalty	[ ]	[ ]	[ ]	[ ]	[ ]
Character of the proprietor	[ ]	[ ]	[ ]	[ ]	[ ]
PURCHASING FUNCTION ORGANISATION					
Purchasing criteria	[ ]	[ ]	[ ]	[ ]	[ ]
Sourcing of Raw material	[ ]	[ ]	[ ]	[ ]	[ ]
Mode of payment for raw material	[ ]	[ ]	[ ]	[ ]	[ ]

19. Indicate the extent to which you are satisfied with the current segmentation variables you are using? (Tick one)

a) Very dissatisfied [ ]
b) Dissatisfied [ ]
c) Somewhat dissatisfied [ ]
d) Somewhat satisfied [ ]
e) Satisfied [ ]
f) Very satisfied [ ]

20. What problems do you experience when segmenting markets?
a) ....
b) ....
c) ....
d) ....
e) ....

PART: D

21. In the market segmentation process, a number of steps are undertaken. Which are applicable to your firm?

1. Survey stage [ ]
2. Analysis stage [ ]
3. Profiling [ ]

22. In the segmentation process, it is important to understand your potential clients for the purpose of coming up with services focused to that segment. In

coming up with your services, which of the following apply to your firm? (Respond by ticking the appropriate box)

a) We usually analyze our potential clients [ ]

b)

c) We often survey the needs of our customers [ ]

d) We produce what our customers want [ ]

e) We usually target a particular market [ ]

f) We assume customers would like our product [ ]

g) Each target group is profiled according to its distinguishing Characteristics [ ]

h) Our clients look for us when in need of our services [ ]

i) We serve our clients effectively given our resources [ ]

j) Clients needs are compatible with our objectives [ ]

k) We ensure all groups served are different [ ]

l) Large enough Segments served to generate profits [ ]

23. Activities in question 22 above are important in the Segmentation process. How important is this process to your firm?

1. Not important [ ]
2. Important [ ]
3. Very important [ ]

THANK YOU FOR YOUR COOPERATION

APPENDIX THREE

DIRECTORY OF MICR0FINANCE DEVELOPMENT INSTITUTIONS IN KENYA. NAIROBI REGION

1. Action Aid Kenya
2. Adventist Development And Relief Agency
3. African Community Development Centre
4. Barclays Bank Of Kenya, Small Business Unit
5. Care Kenya
6. Catholic Relief Services
7. Christian Children Fund
8. Christian Health Association Of Kenya
9. Christian Industrial Training Centre
10. Co-Operative Bank Of Kenya Ltd
11. Dandora Catholic Church
12. Daraja Trust
13. Faulu Kenya
14. Improve Your Business
15. Industrial And Commercial Development Corporation
16. Informal Business Advisory Agency Center
17. Initiatives Of The Marianists To Assist The Needy To Be Independent
18. Kenya Commercial Bank Ltd
19. Kenya Ecumenical Church Loan Fund
20. Kenya Gatsby Charitable Trust
21. Kenya Industrial Estates
22. K-Rep Holdings Ltd
23. Kenya Small Traders And Entrepreneurs Society
24. Kenya Women Finance Trust
25. Kenya Organisation Of Micro , Small And Medium Enterprises
26. Ministry Of Finance, Rural Enterprises Fund
27. National Bank Of Kenya
28. National Council Of Churches Of Kenya
29. Partnership For Productivity
30. Pcea Bahati Community Center
31. Redeemed Gospel Church Inc
32. Rural Enterprise As Community Help
33. Rural Initiatives Development Enterprise
34. Small Enterprise Credit Association
35. Small Enterprise Finance Company
36. St. John Community Center
37. Standard Chartered Bank
38. Undugu Society Of Kenya
39. Vintage Management Consultants
40. Young Women Christian Association

APPENDIX FOUR.

MEAN SCALE VALUES ON THE EXTENT OF USE OF VARIOUS SEGMENTATION VARIABLES.

Variable	N	MIN	MAX	MEAN
Industry	33	1	5	4.8
Company size	33	1	5	1.44
Location	33	1	5	4.92
Firm level of technology	33	1	5	2.49
Return on capital	33	1	5	1.53
Collateral	33	1	5	3.14
Cash flow	33	1	5	4.96
Client capability	33	1	5	4.97
Urgency of need	33	1	5	1.1
Purpose	33	1	5	4.93
Size of loan	33	1	5	4.8
Lender borrower similarity	33	1	5	3.92
Loyalty	33	1	5	2.64
Character	33	1	5	4.88
Purchasing criteria	33	1	5	3.1
Sourcing of raw material	33	1	5	1.85
Material payment mode	33	1	5	3.65

APPENDIX 5

MARKET SEGMENTATION PROCESS

MARKET MAPPING

1. Market definition - 'A customer need that can be satisfied by the products or services seen as alternatives'. It is based around what the customers perceive as distinct activities or needs they have which using alternative products or services.
2. The distribution and value added chain that exists for the defined market.
3. The decision makers in that market and the amount of product or service they are responsible for in their decision making.

WHO BUYS

1. Recording information about the Decision makers in terms of whom they are - customer profiling. Demographics, operating variables, situational factors, personal characteristics, purchase approach, purchasing function organization.

2. Testing a current segmentation Hypothesis to see if it stacks up - Preliminary Segments.

WHAT IS BOUGHT

1. Listing the features customers Look for in their purchase - what, Where, when and how.
2. Focusing onto those features customers use to select between the alternative offers available - Key Discriminating Features KDFs

WHO BUYS WHAT

1. Building a customer 'model' of the market - based on either the different combinations of KDFs customers are known to put together, or derived from the random sample in a research project. Can be constructed by Preliminary Segment. Each customer in the model (sample) is called a micro-segment.
2. Each micro-segment is profiled using information from the data listed in 'Who Buys'.
3. Each micro-segment is sized to reflect the value or volume they represent in the market.

WHY

1. As customers only seek out features regarded as key because of the benefit(s) these features are seen to offer them, the benefits delivered by each KDF should be listed. For some customers it is only by combining certain KDFs that they attain the benefit(s) they seek - benefits should also be looked at from this perspective.
2. For thoroughness, benefits can be looked at from the perspective of each preliminary segment.
3. Once the CPIs for the market have been developed These benefits are Critical Purchase Influences CPIs.
Perspective of each Preliminary Segment
their relative importance to each micro-segment is assessed (by distributing 100 points between the CPIs)

Forming Segments

1. By attributing a 'score' to all the CPIs for each micro-segment, the similarity between micro segments can be determined.
2. Micro-segments with similar requirements are brought together to form clusters.
3. Clusters are sized by adding the Volumes or values represented by each micro-segment.

SEGMENT CHECKLIST

1. Is each cluster big enough to justify a distinct marketing strategy?
2. Is the offer required by each cluster sufficiently different?
3. Is it clear which customers appear in each cluster

If all 'yes', clusters = segments.

4. Will the company change and adopt a segment focus?

ADOPTED FROM Malcolm Mc. Donald, (2001). An introduction to Market segmentation, CranField University, School of management.