RETAIL MARKETING STRATEGIES ADOPTED BY COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

I declare that, this project proposal is my own original work and has not been presented for award of any degree in any university.

Signed: ______________________ 18/10/06

Masika Mukule (Reg. No. D61/P/ 7762/01) Date

This research has been submitted for examination with my approval as the University supervisor.

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DEDICATION

To my wife Jackie and daughter Raissa.

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First to the almighty God who's grace has been sufficient for me since I was born and through out the period of my study for this programme.

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ABSTRACT

The purpose of this study was to gain a deeper understanding of the various strategies adopted by commercial banks in Kenya with particular focus to retail banking marketing strategy. The objectives of the study were to establish the adoption of retail marketing strategies by commercial banks in Kenya and to determine whether the retail banking strategies have led to sustainable competitive advantage for the commercial banks in Kenya.

A descriptive research design was used in this study. The population of interest was all commercial banks in Kenya. A census study was done. Descriptive research design was chosen because the study objectives aimed at determining the what, when and how of a phenomenon which was the concern of the study.

Primary data was collected using semi-structured questionnaires. The questionnaires were dropped and picked later. For the purpose of showing the relationship among various variables, quantitative analysis was done using descriptive statistics, mainly frequencies, percentages, mean scores, standard deviations. The findings from the study were presented in tables.

The research found that commercial banks in Kenya pursue several strategies as part of the wider retail banking marketing strategies. The most pursued strategies are marketing segmentation, product strategies, distribution, pricing, marketing relationship and promotions.

From the study, it is recommended that commercial banks in Kenya should pursue retail marketing strategies because it enhances competitive advantage. The major limitation of the study was difficulty in obtaining information from most banks. This led to fair response rate which left out the much desired information from banks which did not respond.

CHAPTER ONE
INTRODUCTION

1.1 Background

The environment in which financial services organizations operate is constantly changing with different factors exerting influence in the organization. It is vital that organizations constantly scan their environment and are aware of what is happening; only then can strategies be developed that fit both the internal capability of the organization and its environment. Johnson and Scholes, (1999) proposes that uncertainty increases when environmental conditions are more complex and dynamic. The Le Pest & Co. mnemonic categorizes factors influencing the business environment under the headings legal, ethical, political, economic, social, technological and competitive environment. Factors within each of these dimensions can affect the business strategy and performance, and ultimate management policies directly or indirectly

Today's customers are becoming more and more knowledgeable, their taste, preferences and quality expectations continue to change and this puts pressure on organizations which seek to meet these changing customer needs. Peck et. al (1990) observes that time-based competition has enabled knowledgeable customers to buy products and services from anywhere in the world. This means that it no longer matters to some customers where they are getting their products and services as long as it meets their expectations, they will get it from anywhere in the world. This is why some Kenyans operate bank accounts with foreign banks located in other continents of the world; the reason is that they perceive those banks as being able to serve their interest well. Cowley and Domb (1997) say that at any level of the organization, it is important that the needs and satisfaction level of external customers be dealt with first because they "pay the bills" and therefore should be given top priority.

1.1.1 The Concept of retail banking

Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use, Cox and Brittain (2000). Davison et. al (1984) defines retailing as the final part of the marketing process in which various functions of the seller, usually a store or a service establishment, and the buyer, an individual consumer, are primarily oriented to accomplishing the exchange of economic goods and services, for purposes of personal, family or household use. Davidson et. al (1984) further observe that consumers expect that retailers will accomplish three task that are required in an advanced economy as we see today, these are; creating product and service assortment that anticipate and fulfill consumers needs and wants ; offering products and services in quantities small enough for individual or family consumption; providing for ready exchange of value through efficient handling of transactions, convenient hours and location, information that is useful in making choices and competitive prices. Davidson et. al also view that for a firm to achieve its market objectives, it must design a marketing program that will make a strong and precise appeal to a selected group of consumers. According to Kotler (1999) , retailing includes all activities involved in selling goods or services directly to final consumers for personal nonbusiness use, He further adds that any organization selling to final consumers- whether a manufacturer, wholesaler or retailer-is doing retailing. It does not matter how the goods or services are sold (by person, mail, telephone, vending machine, or internet) or where they are sold (in a store, or the street or the consumers' home). Thus retailing involves more than selling tangible products to also selling services.

A bank can be defined as a company, which carries on, or purposes to carry on banking business, (Banking Act, Cap 488). A bank is thus an institution that deals largely with money. It collects deposits from savers and pays interest to the depositors and on the other hand uses the savers deposits to grant loans to borrowers who in turn pay interest and fees. Banking in Kenya started with British colonialist. and few Indian traders towards the end of the 1900 Century. According to Wagacha and Ngugi (1999), the first bank to start in Kenya was the National Bank of India now called the Kenya Commercial

Bank in 1896, followed by the standard bank in 1910. The banking sector has been changing steadily since 1960's in a number of areas such as asset base, target customers, marketing strategies, competitive strategies, information technology and their role in the economy. Up to the 1980's, regulation in the financial services was mainly of restriction on both the range of products that a bank could offer and the nature and volume of contracts in the geographical area in which the services could be offered. The banking sector was liberalized in 1995.

Liberalization of banking in Kenya in 1995 has brought about most of the changes, which has impacted on the banking business both positively and negatively. One major positive change is the lifting of foreign exchange control. The most biting change is the increased intensity of competition. As a result, organizations are made to change their ways of doing business so often and almost constantly in some environments. According to the Central Bank of Kenya, there were 42 commercial Banks in Kenya as at 1st July 2006. These commercial banks offer both corporate and retail banking services. Licensing of financial institutions in Kenya is done by the Minister of Finance, through the Central Bank of Kenya. The companies Act, the Banking Act, the Central Bank of Kenya, govern the banking industry. The banks have come together under the Kenya Bankers Association, which serves as a lobby for the banks interest and also addresses issues affecting its members. Ideally financial reforms and free market should spur the adoption of innovations that improve efficiency and provide a healthy balance between lending and deposit rates.

Rose and Watkins (1997) define retailing in financial services as sales to individuals and not corporate market. Retail banking can therefore be defined as a typical mass-market banking where individual customers use local branches of large commercial banks, services offered under retail banking includes saving and checking account, mortgages, personal loans, debit cards, credit cards. Banks operate in an increasingly competitive environment. Customers' needs are becoming more sophisticated and diversified. Banks which intend to attract, satisfy and retain retail clients must come up with game plans that meet this objective. Rose and Watkins (1997) observe that the key elements of changes within the financial services sector are diversification, customers and technology. The purchase of a service such as a bank service is also a retail transaction. Personal banking (Retail banking) refers to those banking services offered to individuals, whether small or high net worth individuals. This means that banks have two different kinds of clients, corporate clients and retail clients. Ngahu (2000) defines Corporate Banking as Multinationals with headquarters in the developed world such as USA, Europe, with turnover of 250 Million and above and borrowing of 150 Million and above. Ngahu (2000) also defines Business Banking as those banking services given to businesses, which operate within the Kenyan borders with turnover less than 50 million and borrowings less than 5 million.

1.1.2 Retail Banking Marketing Strategies

In order to address the environmental challenges such as competition, legal and technological, banks have adopted different ways. Banks are evaluating their retail banking services with an aim of coming up with more focused strategies that help them meet their unit and company wide objectives. Most of the banks are working towards coherent strategies on how to differentiate and add value to retail customers. One of the most crucial strategic issues is marketing, for banks to grow their business, it is extremely important that they adequately address marketing issues. Banks are thus pursuing different marketing strategies to not only win and grow their businesses but to also stay a head of the competition, towards this end; the most commonly pursued marketing strategies are; segmentation, product, distribution, pricing, relationship marketing and promotion strategies. Another adoption is the growing attempt by banks to commit to their strategy with consistent leadership and higher degree of focus. Other banks have adopted other approaches such as service delivery options which include the use of telephone and internet, Lovelock (1996).

1.2 Statement of the problem

The banking sector in Kenya plays a crucial role of providing a forum in which supplier of funds and demanders of funds can transact business. People and organizations in need of funds are brought together by commercial banks. The banks collect funds from savers and avail the same funds to borrowers who invest or consume the borrowed funds. The development of banking in Kenya started in the 1890s and has been experiencing changes since then. The liberalization of the banking sector in Kenya in 1995 has brought about a lot of changes. One of the major changes is the stiff competition that has forced many banks to pursue strategies that enable them to compete favorably in the increasingly turbulent business environment. As observed by McNealy (1994), customer service is the key strategic weapon in the new millennium for any strategic organization.

Today banks are competing not just on a national arena, but increasingly at international and global level. With 42 banks operating in Kenya, the financial services markets seems oversupplied and margins for many banks are being depressed in a highly competitive market place. Profitability will be determined by the extent to which organizations develop appropriate strategies to 'combat' the growing competitive forces. Among the strategies banks pursue towards meeting their broad goals and objectives is the adoption of retail banking strategy. In this strategy, banks are trying to woe individual customers and also meet their expectation with an aim of retaining them through quality service and fair bank charges.

Studies in the banking sector by Mazrui (2003), Kamanu (2004), Musa (2004) and Ohaga (2004) mainly focused on marketing strategies used by managers to address customer service challenges in banking in Kenya, the extent to which commercial banks in Kenya have adopted and implemented integrated marketing, the responses by commercial banks operating in Kenya to changes in the environment, A case of National Bank of Kenya respectively. No known study to the researcher has been done on strategies adopted by commercials banks in Kenya towards retail banking, the researcher sought to close the information gap by seeking responses to the following research questions;

i. To what extent have banks in Kenya adopted retail banking strategies?
ii. What factors have influenced banks to adopt the retail banking strategies?
iii. Has the adoption of these strategies led to the sustainable competitive advantage?

1.3 Research objectives

The objectives of the study were:-

i. To establish the adoption of retail marketing strategies by commercial banks in Kenya.
ii. To determine whether the retail banking strategies have led to sustainable competitive advantage for the commercial banks in Kenya.

1.4 Importance of the study

It is anticipated that the study will be of benefit to the following group of people;

First, the study will be of benefit to the bank managers in articulating deliberate strategies that are targeted at winning and retaining retail customers.

Secondly, the study will help the customer understand the interventions banks have implemented in addressing service challenges that affect them as clients.

Finally it will contribute to the existing body of knowledge in the area of strategic responses by commercial banks as a result of changing environmental conditions. It will also inspire future researchers to carry out further research in the same or related field.

CHAPTER TWO
LITERATURE REVIEW

2.1 The concept of strategy

One of the concepts, which have developed and is useful to management, is strategy. The importance of this concept has been underscored by various leading management scholars and practitioners such as Porter (1980), Ansoff (1987), and Harvey-Jones (1987) and many others. Different authors have defined strategy in different ways. Some authors define the concept broadly to include both goals and means to achieve them, such authors are Chandler (1962), Andrews (1971), Chaffee (1985). Others define strategy narrowly by including only the means to achieve the goals e.g. Ansoff (1965), Hofer and Schendel (1978), Gluek and Juach (1984). The various definitions suggested that the authors gave selective attention to aspects of strategy, which are all relevant to our understanding of the concept.

Drucker (1954) was among the earliest authors to address the strategy issue. He viewed strategy as defining the business of a company. Chandler (1962) added to the view taken by Drucker (1954) and defined strategy as, "the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals". Chandler considered strategy as a means of establishing the purpose of a company by specifying its long-term goals and objectives action plans and resource allocation patterns to achieve the set goals and objectives.

Andrews (1971) brought together the views of both Drucker and Chandler in defining strategy. To him, strategy was; "the pattern of major objectives, purposes or goals and essential policies and plans for achieving these, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be". In this definition, Andrews brings in an additional dimension that strategy deals with the definition of the competitive domain of the company. This strategy should specify the competitive posture of the company in the market place. This view of strategy was later amplified by Porter (1980). Porter argued that strategy is the central vehicle for achieving competitive advantage in the market place. The aim of strategy is to establish a sustainable and profitable position against the forces that determine industry competition.

Gluek and Juach (1984) defined strategy as; "a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization". Gluek and Juach (1984) bring in the added dimension that strategy is a consistent unifying and integrative plan for the whole organization. It is meant to provide guidance and direction for the activities of the organization. This idea of strategy may be seen as an amplification of an earlier view by Ansoff (1965) who saw strategy as the, "common thread" among organization activities. Gluek and Juach (1984) also view strategy as a company's response to the external environment given the resources the company possesses. Chaffe (1985) directly introduced the element of stakeholder in her interpretative definition of strategy. She viewed strategy as an organizations attraction of individuals in a social contract or a collection of co-operative agreements. Strategy here is seen as a guideline that helps enhance or elicit co-operation from the various stakeholders of the company. Such cooperation is essential for achieving company success.

Mintzberg (1987) argued that we could not afford to rely on a single definition of strategy despite our tendency to want to do so. He proposed five definitions of strategy. To him, strategy could be seen as a plan, a ploy, a pattern, a position and a perspective. As a plan, strategy specifies consciously intended course of action of a company. The strategy is designed in advance of actions and is developed purposefully. As a ploy, strategy is seen as a pattern emerging in a stream of actions. Here strategy is seen as a consistency in behavior. The strategy develops or emerges in the absence of intentions. As a position, strategy is a means of locating an organization in its environment. Lastly, as perspective, strategy consists of a position and of an ingrained way of perceiving the world. It gives the company an identity or personality. The multiplicity of definitions given on strategy suggested that strategy is a multidimensional concept.

No one definition can be said to capture explicitly all the dimensions of strategy. As Mintzberg (1987) argues, in some ways these definitions compete in the sense that they can substitute each other. As such, their complementary nature provides additional insights that facilitate our understanding of strategy. Advances in behavioral thinking were in view that organizations are made up of people and so behavior has always been an important factor in management. However, there has been a tendency to emphasize analytical aspects of strategic management almost to the exclusion of behavioral and political factors. Some of the writers who have drawn our attention to the importance of behavioral aspects of strategy are Mumford and Pettigrew (1975), Kotter (1982), Quinn (1978) and Giles (1991). In recognizing these complementary natures of the various views on strategy, Hax and Majluf (1998) have suggested a comprehensive definition of strategy. To them, strategy is a coherent, unifying and integrative pattern of decisions which determines and reveals the organizational purpose in terms of long-term objectives, action programmes and resource priorities. They also view that strategy selects the business the organization is in or should be in and defines the kind of economic and human organizations the company is or intends to be in. This comprehensive definition is useful to the extent that it brings together the different dimensions of strategy that other authors had identified.

In the study for corporate Strategy for Mexican Banks, and Market contestability theory, Lazo and wood, (1999) argue that bank competitive Strategy is useful in pursuing growth opportunities. They see growth opportunity as being external to banks and are adapted by the most economic analysis. Walter, (1997) maintain that the strategic response of commercial banks in Western Europe in light of changes in the growth opportunity originally from the external environment during the 1980s was to adopt two main general strategies or types of organizational designs. One set of banks adopted the widespread diversity in their geographic product market and customer group portfolios. Another set followed a rather focused strategy by specializing in one or all of these.

2.2 Global trends in banking

The operating environment facing the banking sector has been characterized by rapid changes. Environmental changes have been catalyzed by worldwide factors including but not limited to: global capital markets activities; interest rates and currency value fluctuations; industry and worldwide economic and statutory development; the effects of competition in the geographic and business areas in which they operate Binks et. al (1988).

Trends affecting banks comprise privatization, regulation and supervision, demographic factors, technological innovations, McDonnell and Keasey (2003). The privatization of banks is high on the agenda in France, Germany and Italy. As the influence of government wanes, competitive relationship in the financial sector and in the banking industry particularly will undergo considerable change. Development in regulation and supervision influence the banking industry via various channels. Firstly, deregulation of the financial sector will further erode the obstacles that deny access to the market for new providers of financial products. On the other hand, we see an increase in national regulation, especially in the area of consumer protection. White (1998), argues that technological developments fundamentally alter the cost structure, output mix and distribution channels of banks, he goes further to say that the development in information Technology are the most fundamental forces for change in the financial sector. The growing importance of sustainable banking is a trend that cannot be denied. Banks are judged and selected in their visible social and environmental responsibility by customers as well as investors, Bouma (2001).

All these driving forces behind the structural changes in global banking not only have an independent effect on the structure of the market but also interact and can therefore reinforce each other. These factors have far reaching implications for the market structure; which encompasses features like: concentration, capacity, competition, efficiency and profitability, Groeneveld (1999). There will be intensified competition among banks and other new financial intermediaries. In order to stay competitive and achieve goals and objectives, banks are periodically re-evaluating their strategies. Most banks strive towards achieving an integrated banking business which is operationally efficient Pearce (2004). Generally banks aim to achieve strong organic revenue growth, improve customer loyalty, improve productivity, and realize growth in retail market share and corporate banking market share, Pearce (2004).

2.3 Retailing strategies in banks

Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use, Cox and Brittain (2000). Rose and Watkins (1997) define retailing in financial services as sales to individuals and not corporate market. Retail banking can therefore be defined as a typical mass-market banking where individual customers use local branches of large commercial banks, services offered under retail banking includes saving and checking account, mortgages, personal loans, debit cards, credit cards. Banks operate in an increasingly competitive environment. Customers' needs are becoming more sophisticated and diversified. Banks which intend to attract, satisfy and retain retail clients must come up with game plans that meet this objective. Rose and Watkins (1997) observe that the key elements of changes within the financial services sector are diversification, customers and technology.

Stanger (1990) argues that bankers must be flexible in their attitudes, structures, management and approach to personal customers. He argues further that bankers must welcome the views and advice of their customers. Global changes are making banks to become more customer led. Banks have moved away from the attitude that retail customers are in someway second class citizens: a mass market that can be relied upon to accept whatever service the banks choose to offer. The declining margins in a competitive banking environment are making commercial banks pursue different strategies in order to achieve their objectives. The main strategies pursued by banks are discussed in the sections below.

2.3.1 Market segmentation

There is no single way to segment the market, but according to Kotler (2003) segmentation should be measurable, accessible and substantial. Market segmentation helps a firm to design an appropriate marketing mix and marketing program that will satisfy the targeted market needs. There are a number of variables that can be used to segment a market. Generally, those variables can be grouped into two broad categories; customer characteristics and buying situations. The traditional bases for segmentation have been classified as geographic, demographic, psychographic and behavioral. Financial services organizations have a great advantage over many other companies in that the very nature of their business entails holding a large amount of data about a customer.

The segmented life stages as used by banks are; children, younger singles, independent adults, young families, better off established families, high net worth older couples and pensioners. Rose and Watkins (1997). A further possible segmentation is by attitude. Here a customer is classified according to their attitude or behavior when faced with a particular situation. Classifying customers into groups based on psychographic segmentation can help an organization to develop a better understanding of the customer's desires, needs, anxieties and possible behavior and therefore to enable the presentation of tailored offers to address these issues for example by developing group accounts for individuals who wish to conduct their business in a group such as self help women groups.

2.3.2 Product strategy

The product can be argued to be the most important element of the retailing mix, as only with reasonable products will the effort put into such things as pricing and promotions reap any rewards, Rose and Watkins (1997). In terms of financial services, the term 'product' is commonly used to cover all the offerings from a bank. Deregulation has resulted in a welcome improvement in the quality and range of basic current and deposit account products, Eaglesham (1990). Successful product management relies on a well planned and executed product strategy and product range strategy. Product strategy is mostly influenced by competition and customer needs. Commercial banks have pursued product management in three main ways; these are through new product development, modification of existing products and eliminating unwanted products.

2.3.3 Distribution

Most financial services organizations use a range of distribution channels in order to reach the maximum possible number of customers. Banks no longer limit themselves to their existing distribution network but pursue many other alternative distribution options. The multi-distribution options pursued by the banks are; selling products and services of clients with different channels such as branches, Automated Teller Machines, telephone and internet. Mobile banking allow customers to access such information such as bank balance and the last three transactions, internet banking allow clients to access account information, give instructions to the bank and transfer funds. This allow customers to choose how and when contact with the bank is wanted, it also accommodates many clients as different channels appeal to different types of customers, this is also cost saving as the virtual channels are relatively cheap. The disadvantage is that customers become more anonymous and can switch more easily between banks; it also means high investment in Information Communication Technology systems and complexity of control.

Banks also distribute products produced by another financial institution to provide larger product offers for customers and reduce the need for customers to switch to other banks. Banks are also linking two or more brands for the selling of one or group of products, these products are sold through the network of partners, for example post bank and the western Union money transfer. Rose and Watkinson (1997) observe that most banks are now moving their branches to areas of high pedestrian flow and aims to maintain effectiveness of branch network. Automated Teller Machines networks have also been improved to give customers access to withdrawals, balance enquiries 24 hours in a day. Banks have also introduced debit cards to allow customers to utilize balances in their accounts and credit cards to allow use credit facilities where and when required.

2.3.4 Pricing

Consumers are becoming more increasingly price sensitive, Eaglesham (1990). Competition is giving consumers a choice in terms of the interest and fees they will pay or be paid, however there is effectively no choice about the cost paid for ancillary services which cannot be obtained elsewhere, such as stopping a cheque. The trend is towards more explicit pricing; possibly resulting in 'tiers' of banking services, analogous to the 'classes' of service offered by the aviation industry, Eagle (1990). There is an increasing need to provide comprehensive and accurate information to customers so that the market operates freely; in particular, the cost of each element of the account 'package' needs to be explicit so that true comparison can be made. If banking is to become increasingly tailored to individual market segments, it is essential that the information provided become similarly detailed.

Pricing of banking services takes the form of deciding on a fee structure for accounts. Although the public may not understand how the charge for a product is arrived at, they frequently make direct comparisons between rival institutions when looking at its cost. The price of savings account is essentially the difference between the interest rate that could be paid if no cost were involved and the interest rate that the bank actually pays. Factors that banks have to consider while pricing are costs, competitor's prices, and customer's willingness to pay. Pricing of deposits and savings, shares and mutual funds, mortgages and loans, credit cards must therefore be done competitively. Other banks reduce their prices to penetrate targeted markets, others maintain to sustain current markets and some increase to lock out undesired category of clients.

In order to bring the prices down, banks pursue various cost reducing strategies such as regular slim downs, multichanneling and out-in-and co-sourcing. Slim downs refer to bank's assessment of ways to improve their internal cost structure and increase efficiency. This occurs when economic circumstances are unfavourable and happens every few years. Changing customer preferences offers a great opportunity to reduce the costs of the relatively expensive branch-network. Many banks are therefore currently re-examining their distribution process.

2.3.5 Relationship Marketing

Relationship marketing is a process of collecting data relating to customers, to grasp future of customers and to apply those qualities in specific marketing activities, Swift (2001). Relationship marketing focuses on leveraging and exploiting interactions with the customer to maximize customer satisfaction, ensure return business and ultimately enhance customer profitability. The consumption of a service is process consumption rather than outcome consumption, Gronroos (1998). The consumer or user perceives the service production process as part of service consumption and not only the outcome of a process of as in traditional consumer packaged goods marketing. Three areas that are vital for the successful execution of a relationship strategy are: the interaction process as the core of relationship marketing, the planned communication process supporting the development and enhancement of relationship and the value process as the output of relationship marketing. According to Kotler (1991), the focus of marketing effort are shifting from marketing mix manipulation for the purpose of immediate exchange transactions to those that focus on longer term exchange relationship. Rose and Watkinson (1997) observe that another strategy banks use is the development of marketing plans for branches. Marketing plans ensure better coordination between activities and individuals whose actions are interrelated over time. The position of the branch is often felt to be the most important factor.

2.3.6 Promotion

Promotional mix comprise of a number of different elements. Each element exhibits certain strengths and weaknesses. The development of a successful promotional mix demands the careful integration of each of the following elements; situation analysis, developing objectives, designing messages, selecting channels, preparing budget, choosing mix and evaluating. In situation analysis, banks are assessing the current position of customer features, the competitive situation and the environment. While assessing the target audience, banks look at the demographics and lifestyles, life stages, usage levels, understanding and perception of services and the organization and the buying process of the targets. While designing advertising messages, banks use emotional and moral appeal, there is also use of rational messages and humour, one danger is that a wrongly chosen promotional strategy can bring negative reaction, an example was the use of dancing robot by Barclays which received a lot of criticism because the advert was seen as immoral by most Kenyan parents and the elderly people.

We have different types of promotions; these are advertising, public relations, sponsorship for instance the yearly standard marathon race, sales promotion and direct marketing. Sponsorship contributes to the building of the brand/product and corporate image. Sales promotion is one of the principal tools being currently used by banks to encourage trial and thereby generate brand changing. Direct marketing is an interactive system of marketing which uses one or more advertising media agencies to effect a measurable response and / or transactions at any location, Betts and York (1994), it aims to create and exploit the dialogue between the service provider and the customer and offer several potential benefits such as targeting precision, testing the market, providing new distribution channels and support existing ones, it also leads to cost effective advertising.

2.4 Factors influencing the choice of retail banking marketing strategies

Retail banking strategy is influenced by many factors. Some of the factors influencing retail banking strategy are discussed below.

More recently, in addition to the entrants, individual organizations have increased the services they offer. Banks now offer mortgage business on similar terms to building societies and many building societies now offer services that were previously seen as banking products. Some building societies are converting to bank status in order to extend the services they are able to provide. A recent example is the Housing Finance Company of Kenya. These changes are generating extremely fierce competition for business.

Financial services customer are becoming more financially aware and sophisticated in how they choose to do business. Many are willing to shop around for the best deal when they buy financial products. They demand much more in the way of service and value for money. The industry has experienced an increase in the number of women taking responsibility for their own finances. Providers must now, therefore consider women as serious segment of the market, Rose and Watkinson (1997).

The number of people willing to purchase financial services and products with the use of technology is increasing. The use of Automated teller machine is now common practice, as is the purchase of home and car insurance cover over the phone. Another growth area is the Internet: many institutions operate websites, and with the internet attracting new users' everyday, its use must be a consideration for a marketer.

One of the key forces for change in the way banks operate has been the increase in competition. The nature of competition in the banking sector can be characterized by existing players who provide similar services, niche players offering a more restricted range of products, but which are strong competitors in their specialist field, new entrants including non financial services organizations who have diversified into the financial services arena. According to Ms Koros, the Chief Executive of Faulu Kenya, a leading Micro Financial Institution in Kenya as quoted in the (Standard Newspaper of February 2006), at the beginning of last year, Faulu Kenya's loan book had 21,000 borrowers and by the close of the same year, the number of borrowers had increased to more than 40,000. She observed that the 100 per cent increase in demand for loans from the Micro Financial Institutions was as a result of commercial banks inability to service demand for loans in the economy. This means that Micro Financial institutions are posing a serious competition to commercial banks.

2.5 Retailing strategy and sustainable competitive advantage

Pearce and Robinson (2005) define competitive advantage as that advantage gained by the first firm among competitors to achieve appropriate strategy-structure fit. However this advantage disappears as the firm's competitors also attain such a fit. Bank managers must evaluate and choose strategies that they think will make their business successful. Pearce and Robinson (2005) comment that businesses become successful because they posses some advantage relative to their competitors.

Retail banking strategy helps a bank to achieve cost advantage. This reduces the likelihood of pricing pressure from consumers of bank services. When key competitors cannot match prices from the low-cost leader, customers pressuring the leaders risk establishing a price level that drives alternate sources out of business. Truly sustained low-cost advantages may push rivals into other areas lessening price competition. Retail banking strategy also helps a bank to exploit differentiation opportunities. Differentiation requires that business have sustainable advantages that allow it to provide buyers with something uniquely valuable to them. A successful differentiation strategy allows a bank to provide services of perceived higher value to buyers at "a differentiation cost" below the "value premium" to the buyers. Pearce and Robinson (2005) observe that differentiation usually arise from one or more activities in the value chain that create a unique value important to buyers.

Retail banking strategy helps a bank evaluate market focus. Pearce and Robinson (2005) observe that small companies usually thrive by serving narrow market niches. Focus allows some banks to compete on the basis of low cost, differentiation, and rapid response against much larger businesses with greater resources. Focus lets a bank learn its target customers- their needs, special consideration they want accommodated- and establish personal relationships in ways that "differentiate" a bank and make it more valuable to target customers.

2.6 Summary

This literature review chapter tried to shed light in the meaning of the concept of strategy and how the concept has been viewed by different authors, it has emerged that there is no formally agreed meaning of this concept as different scholars have given it different approaches. It also addressed the meaning and existing retail banking strategies. Factors influencing the choice of retail banking strategies were also addressed in this chapter, the most outstanding factors being increased competition and the changing customer needs. The contribution of retail banking strategy towards sustainable competitive advantage has also been examined in this chapter, it has emerged that it leads to cost leadership position and differentiation opportunities, it also help the bank evaluate market focus.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

This was a descriptive census study aimed at determining retail banking strategies pursued by commercial banks in Kenya. According to Cooper (1996), a descriptive study is concerned with finding out who, what, where and how of a phenomenon which is the concern of this study, Njoroge (2003), Mazrui (2003) and Kamanu (2004), have used descriptive study in related studies.

3.2 The Population

The population of interest in this study was all commercial banks in Kenya. According to the Central Bank of Kenya report as at 1st July 2006, there were 42 commercial banks in Kenya (see appendix 3). A census study will be conducted due to small size of the population.

3.3 Data collection

Primary data was collected using semi-structured questionnaires (see appendix 2). The questionnaires was dropped at the respective banks headquarters in Nairobi and collected later. One respondent who was either the head of retail/ personal banking or equivalent was studied in each bank. The questionnaire had both closed and open-ended questions. The questionnaire was divided into three sections. Section one consisted of questions on general information. Section two had questions on the extent of adoption of retail banking strategy and on factors that influence strategy adoption. Section three contained questions that addressed the sustainable competitive advantage of retail banking. The questionnaires used likert scales, on the scales of 1-5. (Njoroge, 2003), (Mazrui, 2003) and (Kamanu, 2004) used likert scales in related studies.

3.4 Operationalization retail banking strategies

In order to address the research objectives, the variables were operationalised as shown in the table below. The main variables as contained in the table were market segmentation, product, distribution, pricing, relationship marketing and the competitive advantage of retail banking.

Dimensions required in identifying the operationalization of the retail banking strategies.

Broad dimensions of retail banking	Expanded dimensions	Relevant issues to retail banking	Relevant questions
Market segmentation	Geographic	Reach out to urban and rural individual customers	11a,11b & 11c
	Demographic	Targeting life stage, children, teenage, independent adults, pensioners	11e to 11i
	Behavior	Targeting usage- light users, medium users or high retail customer users	11j & 11k
Product	Quality/ Value for money	Modifying products, new products	11l & 11m
Distribution	Convenience to customers	Provision of ATM's, branch network, mobile banking, internet, debit cards , credit cards, telephone banking	12a to 12f
Pricing	Cost convenience to customers	Fee structures for products to individual customers	13
Relationship Marketing	Bank to customer communication	Bank to customer interactions ; advising and updating customers	15
Competitive advantage of retail banking	Sustainable competitive advantage through retail banking	Current benefits being enjoyed; performance in growth	18, 19 & 20

3.5 Data analysis

Descriptive statistics was used to analyze the data. Data on section one was analyzed using frequencies and percentages. Section two was analyzed using frequencies and percentages, mean scores and standard deviation while section three was analyzed using frequencies, percentages, mean score tabulations and standard deviation. Output of the data analysis was presented in tables.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter contains analysis and findings from the study with the possible interpretations. The chapter is divided into three sections. The fist section analyses the general information of the commercial banks. The second section analyses the adoption of retail marketing strategies by commercial banks in Kenya while the third section analyses the sustainable competitive advantages of retail banking strategy. The findings presented in this chapter are based on data collected from the respondents. Out of the 42 commercial banks targeted, 25 responded giving a response rate of 60 per cent. The sample respondents were representative of the target population so and hence the result is valid. For the purpose of showing the relationship among various variables, quantitative analysis was done using descriptive statistics. The findings from the study were presented in tables.

4.2 General information on commercial banks

This section generally covered the general information on commercial banks as analyzed from commercial banks which responded. The specific information that is covered includes ownership, years in operation, the number of branches, segment served and the percentage of business which come from personal banking.

4.2.1 Ownership

This section aimed to determine the ownership structure of the commercial banks. The findings are presented in table 1 below.

Table 1: Ownership

Responses	Frequency	Percent
Predominantly Local (51% or more)	13	52
Predominantly foreign (51% or more)	7	28
Balanced between foreign and local (50/50)	2	4
Non Response	3	12
Total	25	100

Source: Research data

As indicated in the table 1 above, 52 per cent of the commercial banks are predominantly local, 28 per cent are predominantly foreign while only 4 per cent are balanced between local and foreign. The presence of foreign commercial banks supports the fact that competition does not only exist in the local scene alone but also in the international arena.

4.2.2 Years in operation

Under this section, the study sought to establish the number of years in which the banks have been in operation. The findings are presented in the table 2 below.

Table 2: Years in operation

Response	Frequency	Percentage
10- 20 Years	3	12
21- 30 Years	7	28
31- 40 Years	3	12
41- Years and above	9	45
Non Response	3	12
Total	25	100

Source: Research data

From the analysis, 45 per cent of the banks have been in operation for more than 41 years. Only 12 per cent had operated for a period between 10-20 years. This means that most of the banks had gone through the marketing challenges over time and could understand the consequences of not realigning their strategies in line with the existing trends.

4.2.3 Number of branches

This section aimed to establish the number of branches the banks operate in Kenya. The findings are as contained in table 3 below.

Table 3: Number of branches

Responses	Frequency	Percent
Less than 5	6	24
Between 5- 10	8	32
Above 20	11	44
Total	25	100

Source: Research data

From the table 3 above, 44 per cent of the commercial banks had more than 20 branches countrywide. This means the banks are big enough to stretch the distribution of their services to many places.

4.2.4 Segment served

This section sought to establish the market segments the commercial banks served. The result of this analysis is contained in table 4 below.

Table 4: Segment served

Responses	Frequency	Percent
Business	1	4
Both business and Personal	24	96
Total	**25**	**100**

Source: Research data

From the findings, 96 per cent of the banks served both business and personal clients. Only Citi Bank does not serve individual clients.

4.2.5 Percentage of businesses coming from personal banking

The objective of this section was to determine the percentage of businesses coming to each of the commercial banks from retail customers. The findings of this analysis are presented in the table 5 below.

Table 5: Percentage of businesses coming from personal banking

Responses	Frequency	Percent
Bellow 20%	6	24
Between 21- 40%	6	24
Between 41- 60%	11	44
Between 61- 80%	2	8
Total	**25**	**100**

Source: Research data

4.3 Adoption of retail marketing strategies by commercial banks in Kenya

This research objective sought to establish whether there is adoption of retail marketing strategies by commercial banks in Kenya. The data was captured using a questionnaire with both structured and unstructured questions in the month of August 2006. Participating banks were given opportunity to explain their retail banking strategy practices. The findings related to this research objective are presented in tables and figures below.

4.3.1 Product strategies

This section sought to establish the product strategies pursued by commercial banks in Kenya. The findings were classified as commercial banks modifying products to maintain their clients and introduction of new products for individuals. The findings are detailed here below.

4.3.1.1. Modification of products

The research also sought to establish whether the commercial banks in Kenya modify their products for personal customers. The result of the analysis is presented in table 6 below.

Table 6: Modification of Products to maintain clients

Response	Frequency	Percent
To some extent	10	40
To a large extent	5	20
To a very large extent	10	40
Total	**25**	**100**

Source: Research data

The analysis reveals that 40 % of the commercial banks modify their product to some extent to maintain their client, 20 % modify to a large extent and 40 % to a very large extent. It can be concluded that all commercial banks modify their products in order to maintain their clients. This means that product modification as a product strategy is pursued by all commercial banks in Kenya.

4.3.1.2. Introduction of new products for individual

This section sought to determine to what extent the commercial banks have introduced new products as a strategy. Table 7 below contains the details.

Table 7: Introduction of new products for personal clients

Responses	Frequency	Percent
To no extent	1	4
To a small extent	1	4
To some extent	6	24
To a large extent	7	28
To a very large extent	10	40
Total	**25**	**100**

Source: Research data

Analysis of introduction of new products for individuals by commercial banks show that 4% do not introduce new products for individuals, 4% introduce new products for individuals to a small extent, 24% of the commercial banks interviewed introduce new products to some extent, 28% introduce new products for individuals to a large extent and remaining 40% represent commercial banks that introduce new products to a very large extent. This means that all commercial banks pursue introduction of a new product as a strategy but in different degrees.

From the analysis, it can be concluded that all commercial banks in Kenya pursue product strategy as part of their wider retail banking strategy.

4.3.2 Distribution strategy

This section sought to establish the distribution strategies pursued by commercial banks in Kenya. The findings are contained in table 8 below.

Table 8: Extent of pursuing distribution strategies

Responses	Frequency	Percent
To no extent	1	4
To a small extent	5	20
To some extent	7	35
To a large extent	7	35
To a very large extent	5	20
Total	**25**	**100**

Source: Research data

The study reveals that 96 per cent of the commercial banks pursue distribution as a strategy to winning personal customers. These banks have both rural and urban branch networks.

From the study, it can be concluded that most commercial banks aggressively pursue distribution strategies to make their services available to as many prospective customers as possible.

4.3.3 Pricing strategy

All the banks which responded indicated that they pursued different pricing strategies to different extent. The study revealed that commercial banks in Kenya pursue three major pricing strategies; these are discussed here below;

4.3.3.1 Flat fee Charge

Table 9: Flat fee charge pricing strategy

Responses	Frequency	Percent
To no extent	7	28
To a small extent	4	16
To some extent	6	24
To a very large extent	8	32
Total	**25**	**100**

Source: Research data

Of the 25 commercial banks interviewed, 72 per cent offer a flat fee charge while 28 per cent do not offer flat fee charge. This means that flat fee charge is the preferred pricing strategy by commercial banks in Kenya. The finding of this pricing strategy is contained in table 9 above.

4.3.3.2 Zero minimum balance accounts

The findings on zero minimum balance accounts are contained in table 10 below.

Table 10: Zero minimum balance account

Responses	Frequency	Percent
To no extent	14	56
To a small extent	2	8
To some extent	4	16
To a very large extent	5	20
Total	**25**	**100**

Source: Research data

The findings from the study indicate that only 44 per cent of the commercial banks do offer zero minimum balance accounts while the remaining 56 per cent do not. This therefore means that zero minimum balance accounts are an averagely pursued pricing strategy.

4.3.3.3 Structured maintenance/service fee

Banks which pursue structured /service fees to the extent contained in table 11 below

Table 11: Structured maintenance fee

Response	Frequency	Percent
To no extent	4	16
To a small extent	2	8
To some extent	7	28
To a large extent	6	24
To a very large extent	6	24
Total	**25**	**100**

Source: Research data

From the findings of the study, 84 per cent of the commercial banks in Kenya pursue structured maintenance fee. This means that it is the most preferred pricing strategy by the commercial banks in Kenya.

From the above analysis, it can be concluded that the most pursued pricing strategy by the commercial banks in Kenya is the structured maintenance fee charge, followed by the flat fee pricing while zero minimum balance accounts is the least pursued pricing strategy.

4.3.4 Relationship marketing

In this section, the study sought to determine the extent to which commercial banks in Kenya pursue relationship marketing. The findings are detailed in table 12 below.

Table 12: Extent of relationship marketing

Responses	Frequency	Percent
To no extent	1	4
To a small extent	1	4
To some extent	5	20
To a large extent	6	24
To a very large extent	12	48
Total	**25**	**100**

Source: Research data

The study revealed that 96 per cent of the commercial banks pursue relationship marketing.

4.3.5 Staff motivation

In this section, the research sought to establish to what extent the commercial banks pursue staff motivation as a strategy. Staff motivation practices by commercial banks were sought using question 16. This was measured in a way of a five-point likert scale, where respondents were required to indicate to what extent they applied staff motivation. The range was 'Very large extent', 'large extent', 'some extent' and 'to no extent'. The scores of 'No extent 'and 'small extent' have been taken to represent a variable which is practiced to a small extent (S.E) and to be equivalent to mean score of 0 to 2.5 on the continuous likert scale i.e. ($0 \leq$ S.E< 2.5). The scores 'To Some Extent' have been taken to represent a variable that is practiced to moderate extent (M.E) by the commercial banks and to be equivalent to a mean score of 2.5 to 3.5mean on the continuous likert scale i.e. ($2.5 \leq$ M.E. < 3.5). The score of both 'Large Extent' and 'Very Large Extent' (L.E.) to be taken to represent a variable that is practiced to a greater extent and to mean an equivalent mean score of 3.5 to 5.0 on the continuous likert scale i.e.($3.5 \leq$ L.E.< 5.0). A standard deviation of > 1 implies a significant difference in the extent to which the variable is practiced by commercial banks. The result of analysis of the extent to which the variables are practiced by the commercial banks is presented in table 13 below.

Table 13 Motivation practices by commercial banks

Variables	Mean	Std. Deviation
Staff survey	4.000	0.816
Training	4.333	0.767
Involved in decision making	3.500	0.924
Recognized and rewarded	3.722	1.018
Efficiency of internal communication	3.778	0.878

Source: Research data

The overall results indicate that all banks which responded practice staff motivation to a large extent for all motivation variables. The mean score of the variables range from between 3.50 to 4.33. Training was indicated to be the greatest practice with the mean score of 433 followed by staff survey (4.00), then efficiency of internal communication (3.78), then recognition and reward (3.72) and the least was involvement in decision making with a mean score of 3.5. There were no significant differences in among the commercial banks except in recognition and reward which had 1.018. It may be concluded that staff motivation is an important component of retail banking. This could have been due to the understanding that well motivated staffs are more productive

From the research findings above, it can be concluded that commercial banks in Kenya pursue several strategies as part of the wider retail banking strategies. The most pursued strategies are marketing segmentation, product strategies, distribution, pricing, marketing relationship, promotions and staff motivation.

The most pursued strategies being products and promotions at 100 per cent each, followed by relationship marketing and distribution at 96 per cent.

4.4 Sustainable competitive advantages of retail banking strategy

This research objective sought to determine if retail banking strategy pursued by commercial banks have yielded any competitive advantage for the commercial banks. Respondents were therefore asked to indicate the extent to which they have realized competitive advantage arising out of retail banking strategies pursued. The researcher categorized the variables into broad categories of rating of command of successful market niche, enjoy low operating cost, development of strong marketing, reputation in service quality, growth in retail deposit, reduced migration to substitutes and aligned retail performance measure. The particular competitive advantages enjoyed by the commercial banks are discussed here below.

4.4.1. Rating of competitive advantages arising out of retail banking strategies

The study sought to establish whether there exist sustainable competitive advantages a rising from the retail banking strategies. The findings are contained in table 14 below.

Table 14: Rating of competitive advantages

Response	Frequency	Percent
To no extent	4	16
To low extent	10	40
To moderate extent	7	28
To a large extent	4	16
Total	**25**	**100**

Source: Research data

The analysis revealed that 84 per cent of the banks admit that they have experienced competitive advantage arising from retail banking strategies. Out of the 84 per cent of the banks who experienced competitive advantage, 40 per cent said that they experienced it to a low extent, 28 per cent said that they experience it to a moderate extent while 16 per cent said that they experienced it to a larger extent. Only 16 per cent of the banks interviewed said that they did not experience any competitive advantage a rising out of retail banking strategies.

From the above analysis, it can be concluded that retail banking strategy leads to sustainable competitive advantage of commercial banks in Kenya.

4.4.2. Competitive advantage

This research objective sought to establish specific ways of how retail banking strategy leads to sustainable competitive advantage. Analysis was done on the following variables.

4.4.2.1 Command of successful market niche

In this section, the study sought to establish the command of successful market niche by the commercial banks, the findings are detailed in the table below

Table 15: Command of market niche

Response	Frequency	Percent
To no extent	4	16
To a small extent	2	8
To some extent	6	24
To a large extent	9	36
To a very large extent	4	16
Total	**25**	**100**

Source: Research data

The objective of this analysis was to determine the extent of success in commanding the market niche by commercial banks. The analysis reveals that 84 per cent of the commercial banks in Kenya admit that retail banking strategy has helped them succeed in commanding a market niche. Out of the 84 per cent, 8 per cent say that they have succeeded to a small extent, 24 per cent to some extent, 36 per cent to large extent and 16 per cent to a very large extent. Only 16 per cent of the banks interviewed said that they have not succeeded in commanding a market share.

4.4.2.2 Enjoy low operating cost

This analysis sought to determine the extent to which commercial banks in Kenya enjoy low operating cost. The findings are contained in table 16 below.

Table 16: Enjoy low operating cost

Response	Frequency	Percent
To no extent	3	12
To a small extent	7	28
To some extent	11	44
To a large extent	3	12
To a very large extent	1	4
Total	**25**	**100**

Source: Research data

This analysis revealed that 88 per cent of the commercial banks interviewed enjoy low operating cost as a result of retail banking strategy. Out of the 88 per cent of the banks, 28 per cent enjoy low operating cost to a small extent, 44 per cent some extent, 12 per cent to large extent while 4 per cent to a very large extent.

From the above analysis, it can be concluded that retail banking strategy help commercial banks in Kenya to enjoy low operating cost.

4.4.2.3 Development of strong marketing

In this analysis, the study sought to determine whether retail banking strategies have helped commercial banks in Kenya to develop strong marketing ability. The findings are presented in table 17 below.

Table 17: Development of marketing

Response	Frequency	Percent
To no extent	3	12
To a small extent	3	12
To some extent	4	16
To a large extent	13	52
To a very large extent	2	8
Total	**25**	**100**

Source: Research data

From the study it was established that 88 per cent of the commercial banks interviewed admit that the adoption of retail banking strategies has helped them develop strong marketing ability. Only 12 per cent of the commercial banks said that they have not realized any development of marketing capability associated with retail banking strategy.

4.4.2.4 Reputation in service quality

The study also sought to establish whether retail banking strategy has lead to reputation of service quality by commercial banks in Kenya. The findings are presented in table 18 below.

Table 18: Reputation in service quality

Response	Frequency	Percent
To no extent	1	4
To a small extent	1	4
To some extent	7	28
To a large extent	9	36
To a very large extent	7	28
Total	**25**	**100**

Source: Research data

The result of this analysis indicate that 96 per cent of the commercial banks interviewed admit that retail banking strategy increased their reputation in service quality. Out of the 96 per cent, 28 per cent said retail banking strategy had contributed to a very large extent in improving their reputation in service quality.

4.4.2.5 Growth in Retail deposits

The study also sought to determine the extent to which retail banking strategy has led to growth in retail deposits. The detailed result is contained in table 19 below.

Table 19: Growth in retail deposits

Response	Frequency	Percent
To no extent	1	4
To a small extent	1	4
To some extent	8	32
To a large extent	11	44
To a very large extent	4	16
Total	**25**	**100**

Source: Research data

The analysis revealed that 96 per cent of the banks admit that retail banking strategy has helped them grow their retail deposits. Out of the 96 per cent of the commercial banks which experienced growth in retail deposit as a result of retail banking strategy, 16 per cent confirmed that they experienced growth in retail deposit to a very large extent.

4.4.2.6 Reduced migration to substitutes and aligned retail performance measure

The analysis sought to establish whether retail banking strategy has reduced the migration to substitutes.

Table 20: Reduced migration to substitutes and aligned retail performance

Variable	Mean	Std. Deviation
Have reduced migration to substitutes	3.353	0.931
Have an aligned retail performance measure	3.278	1.227

The revealed that commercial banks have experienced reduction of migration to substitutes to a moderate extent with a mean score of 3.353.the standard deviation of 0.931 means that there was no significant differences on the reduction of migration to substitutes experienced by the commercial banks.

4.4.2.7 Aligned retail performance measure

This analysis sought to determine whether commercial banks have aligned retail performance measure. From the analysis result displayed in table 20 above, the means score on the extent to which commercial banks in Kenya have aligned their retail performance measure is 3.278, meaning that they have aligned their retail performance measure to a moderate extent. Standard deviation of 1.227 means that there exist a significant differences in the extent to which commercial banks in Kenya have aligned their retail performance measure.

CHAPTER FIVE
DISCUSSION, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

This chapter offers inferences from the study by discussing the findings gathered from the analysis as well as conclusion reached. The chapter contains five sections. Section 5.1 presents the introduction. Section 5.2 contains the discussions. Section 5.3 contains conclusion. Section 5.4 contains recommendations of the study. Section 5.5 contains limitations of the study while section 5.6 contains suggestion for future research.

5.2 Discussions

The aim of the study was to determine retail marketing strategies adopted by commercial banks in Kenya. From the analysis, 52 per cent of commercial banks in Kenya are predominantly local while 28 per cent are predominantly foreign. This means that competition is experienced at the national and global level. Majority of the banks (45%) have been in operation for more than 41 years. Only 12 per cent of the banks have been in operation for less than 20 years. Of all the commercial banks which responded, 44 per cent have more than 20 branches within the country compared to 24 per cent with less than 5 branches. The study has also revealed that 96 per cent of the commercial banks which responded serve both business and personal customers while only 4 per cent serve business clients only, this means that the commercial banks pursue segmentation to a greater extent. The study also revealed that 44 per cent of the banks said that 41 per cent to 60 per cent of their businesses come from personal banking.

When it comes to strategies pursued by the commercial banks in Kenya, 100 per cent of the banks which responded pursue product modification strategy and 96 per cent pursue introduction of new products as a strategy. 96 per cent of the banks pursue distribution as a strategy. The banks pursue different pricing strategies to different extents. The most pursued pricing strategy being structured maintenance fee at 84 per cent followed by flat fee charge at 72 per cent and the least pursued is zero minimum balance at 44 per cent. 96 per cent of the banks pursue relationship marketing. 100 per cent of the banks which responded pursue promotion as a strategy. The study further reveals that the commercial banks pursue staff motivation as a strategy to a great extent with mean score ranges from 3.50-4.33 out of 5.

On competitive advantages, 84 per cent of the commercial banks which responded confirmed that they have experienced competitive advantages as a result of the adoption of retail banking strategies. 84 per cent said that they have commanded market niche. 88 per cent said that they have enjoyed low operating cost. 88 per cent of the banks have experienced development of strong marketing ability. 96 per cent of the banks have experienced increase in service quality while growth in retail deposits has been experienced by 96 per cent of the commercial banks. The commercial banks have experienced reduced migration to a moderate extent with a mean score of 3.353 out of 5. The commercial banks which responded have also aligned retail performance to a moderate extent with a mean score of 3.278.

5.3 Conclusion

There are a number of issues that can be concluded from this research, they relate to the general information concerning the commercial banks in Kenya, adoption of retail banking strategies and the competitive advantages of adopting retail banking strategies.

It can be concluded that commercial banks in Kenya pursue several strategies as part of the wider retail banking strategies. The most pursued strategies are marketing segmentation, product strategies, distribution, pricing, marketing relationship and promotions.

From the above analysis, it can be concluded that retail banking strategy lead to sustainable competitive advantage. The particular competitive advantages are command of successful market niche, enjoy low operating cost, development of strong marketing ability, reputation in service quality, growth in retail deposits, reduced migration to substitutes and aligning of retail performance measure.

5.4 Recommendations

On the basis of the result of this study, it is recommended that commercial banks in Kenya should pursue retail banking strategies. The strategies pursued should be carefully considered because each contributes differently to sustainable competitive advantage especially in the dynamic and competitive business environment.

5.5 Limitations of the study

The major limitation of the study was difficulty in obtaining information from some banks. This lead to fair response rate which left out the much desired information from banks which did not respond.

5.6 Suggestions for future research

This study was done in Kenya only. The study should therefore be replicated in other countries of the world. Future studies could include other emerging retail banking strategies that have not been used before.

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APPENDICES

Appendix 1: Letter of introduction

May 2006

Dear Respondent

REF: REQUEST FOR RESEARCH DATA

I am a Master of Business Administration (M.B.A.) student at the University of Nairobi. I am required to submit as part of my course work assessment a research project report on **"A survey of the adoption of retail banking marketing strategies by commercial banks in Kenya".** To achieve this, your organization is one of those selected for the study. I kindly request you to fill the attached questionnaire to generate data required for this study. This information will be used purely for academic purpose and your name will not be mentioned in the report. Findings of the study, shall upon request, be availed to you.

Your assistance and cooperation will be highly appreciated.

Thank you in advance.

Masika Mukule.
M.B.A. Student- Researcher
Nairobi

Ms Margaret Ombok
Supervisor
University of Nairobi

Appendix 2

QUESTIONAIRE

SECTION ONE: GENERAL INFORMATION

1. Name Of company____

2. Name of interviewee ____

3. Please state your position in the Bank____________________________

4. Please indicate the ownership of the bank using the categories below (please tick one)

   a) Predominantly local (51% or more) [ ]

   b) Predominantly foreign (51% or more) [ ]

   c) Balanced between foreign and local (50/50) [ ]

5. Using the categories below please indicate how long your bank has been in operation.

   10-20 Years [ ]

   21-30 Years [ ]

   31-40 Years [ ]

   41 and above years [ ]

6. Is your bank listed in the Nairobi stock exchange?

   Yes [ ] No [ ]

7. Using the categories below, please indicate the number of branches you have in Kenya

   Less than 5 [ ]

   Between 5-10 [ ]

   Between 11-20 [ ]

   Above 20 [ ]

8. Please indicate your customer base by ticking any of the categories below.

Less than 10,000	[ ]
Between 10,001 and 50,000	[ ]
Between 50,001 and 100,000	[ ]
More than 100,001	[ ]

9. Which market segment does your bank serve? please tick as is appropriate.

Business	[ ]
Personal	[ ]
Both Business and Personal	[ ]

10. Using categories below, please tick the percentage of your business which come from personal banking.

Below 20 per cent	[ ]
Between 21 and 40 per cent	[ ]
Between 41 and 60 per cent	[ ]
Between 61 and 80 per cent	[ ]
Above 80 per cent	[ ]

SECTION TWO: EXTENT OF ADOPTION OF RETAIL BANKING STRATEGY

11. Please indicate to which extent your bank has done the following in pursuit of the adoption of retail banking strategy using a scale of 1-5 below, in which;

5- To a very large extent.

4- To a large extent.

3- To some Extent.

2- To a small extent.

1- To no extent.

	1	2	3	4	5
a) Branch network rural only	[ ]	[ ]	[ ]	[ ]	[ ]
b) Branch net work urban only	[ ]	[ ]	[ ]	[ ]	[ ]
c) Branch network both rural and urban	[ ]	[ ]	[ ]	[ ]	[ ]
d) Have current accounts for individuals	[ ]	[ ]	[ ]	[ ]	[ ]
e) Have children accounts	[ ]	[ ]	[ ]	[ ]	[ ]
f) Have accounts for teenagers	[ ]	[ ]	[ ]	[ ]	[ ]
g) Have accounts for young adults	[ ]	[ ]	[ ]	[ ]	[ ]
i) Have accounts for pensioners	[ ]	[ ]	[ ]	[ ]	[ ]
j) Have accounts for high income earners	[ ]	[ ]	[ ]	[ ]	[ ]
k) Have accounts for low income earners	[ ]	[ ]	[ ]	[ ]	[ ]
l) Modified products to maintain clients	[ ]	[ ]	[ ]	[ ]	[ ]
m) Introduced new products for individuals	[ ]	[ ]	[ ]	[ ]	[ ]
n) Offer personal loans based on salary	[ ]	[ ]	[ ]	[ ]	[ ]

12. Please indicate to which extent your bank has done the following in order to make accessing accounts more convenient to retail customers; using a scale of 1-5 below, in which;

5- To a very large extent.
4- To a large extent.
3- To some Extent.
2- To a small extent.
1- To no extent.

	1	2	3	4	5
a) Have ATM's on- site	[ ]	[ ]	[ ]	[ ]	[ ]
b) Have off-site ATM's	[ ]	[ ]	[ ]	[ ]	[ ]
c) Offer debit cards	[ ]	[ ]	[ ]	[ ]	[ ]
d) Offer credit cards	[ ]	[ ]	[ ]	[ ]	[ ]
e) Offer access to account on internet	[ ]	[ ]	[ ]	[ ]	[ ]
f) Access to accounts through cell phone	[ ]	[ ]	[ ]	[ ]	[ ]

13. Please indicate to which extent your bank has done the following as a way of making bank charges competitive to retail customers; using a scale of 1-5 below, in which;

5- To a very large extent.
4- To a large extent.
3- To some Extent.
2- To a small extent.
1- To no extent.

	1	2	3	4	5
a) Offer a flat fee charge	[ ]	[ ]	[ ]	[ ]	[ ]
b) Offer zero minimum balance accounts	[ ]	[ ]	[ ]	[ ]	[ ]
c) Offer structured maintenance/ service fee	[ ]	[ ]	[ ]	[ ]	[ ]

d) Range of interest rate on loans	1	2	3	4	5
below 10%	[ ]	[ ]	[ ]	[ ]	[ ]
11% – 14%	[ ]	[ ]	[ ]	[ ]	[ ]
15% - 18%	[ ]	[ ]	[ ]	[ ]	[ ]
18% - 24%	[ ]	[ ]	[ ]	[ ]	[ ]
Above 25 %	[ ]	[ ]	[ ]	[ ]	[ ]

14. Indicate the options you have on the following transactions/ products using the two categories of free and charge.

	Free	Charge
a) Current account maintenance fee	[ ]	[ ]
b) Issue of cheque book	[ ]	[ ]
c) Issuance of ATM cards	[ ]	[ ]
d) Standing order(internal transfer)	[ ]	[ ]
e) Standing order(External)	[ ]	[ ]
f) Issuance of Bank cheques	[ ]	[ ]
g) Issuance of foreign draft	[ ]	[ ]
h) Loan facility negotiation fees	[ ]	[ ]

15. Please indicate to which extent your bank has done the following in pursuit of the adoption of retail banking strategy using a scale of 1-5 below, in which;

5- To a very large extent.

4- To a large extent.

3- To some Extent.

2- To a small extent.

1- To no extent.

	1	2	3	4	5
a) Have a customer care help desk/centre	[ ]	[ ]	[ ]	[ ]	[ ]
b) Have a customer care officer	[ ]	[ ]	[ ]	[ ]	[ ]
c) Effective of queue management practice	[ ]	[ ]	[ ]	[ ]	[ ]
d) Have spacious banking halls	[ ]	[ ]	[ ]	[ ]	[ ]
e) Have a personal banker in the branch	[ ]	[ ]	[ ]	[ ]	[ ]

16. Using the likert scale 1-5 below, indicate to what extent the following have been done to your staff.

5- To a very large extent.

4- To a large extent.

3- To some Extent.

2- To a small extent.

1- To no extent.

	1	2	3	4	5
a). Staff survey	[ ]	[ ]	[ ]	[ ]	[ ]
b) Training	[ ]	[ ]	[ ]	[ ]	[ ]
c). Involved in decision making	[ ]	[ ]	[ ]	[ ]	[ ]
d). Recognized and rewarded	[ ]	[ ]	[ ]	[ ]	[ ]
e). Efficiency of internal communication	[ ]	[ ]	[ ]	[ ]	[ ]

17. Using the categories below, please tick the situation that best describes when your organization did a retail banking consumer research.

Within the last two years [ ]

Between 2 to 4 years ago [ ]

More than five years ago [ ]

Has never done [ ]

SECTION THREE: COMPETITIVE ADVANTAGE OF RETAIL BANKING

18. To what extent do you agree with the following statements concerning competitive advantage you enjoy out of adoption of retail banking strategy? Please tick as is appropriate.

5- To a very large extent.

4- To a large extent.

3- To some Extent.

2- To a small extent.

1- To no extent.

	1	2	3	4	5
a) We command a successful market niche	[ ]	[ ]	[ ]	[ ]	[ ]
b) We enjoy relatively low operating costs	[ ]	[ ]	[ ]	[ ]	[ ]
c) We have developed strong marketing ability	[ ]	[ ]	[ ]	[ ]	[ ]
d) Have reputation in service quality	[ ]	[ ]	[ ]	[ ]	[ ]
e) Growth in retail asset book	[ ]	[ ]	[ ]	[ ]	[ ]
f) Growth in retail deposits	[ ]	[ ]	[ ]	[ ]	[ ]
g) Have reduced migration to substitutes	[ ]	[ ]	[ ]	[ ]	[ ]
h) Have an aligned retail performance measure	[ ]	[ ]	[ ]	[ ]	[ ]

19. Generally, how would you rate the competitive advantage of your bank in retail banking as compared to other banks in Kenya?

a) Very good [ ]

b) Good [ ]

c) Average [ ]

d) Below average [ ]

e) Poor [ ]

20. To what extent do you rate sustainability of the competitive advantage arising out of your retail banking strategy; please use the scale below to indicate.

a) Very large extent [ ]

b) Large extent [ ]

c) Moderate Extent [ ]

d) To low extent [ ]

e) To no extent [ ]

Appendix 3

1. African Banking Corporation
2. Akiba Bank
3. Bank of Baroda
4. Bank of India, Nairobi (foreign owned)
5. Barclays Bank of Kenya, Nairobi (listed on NSE)
6. CFC Bank, Nairobi (listed on NSE)
7. Charterhouse Bank Ltd, Nairobi
8. Chase Bank Ltd, Nairobi
9. Citibank, Nairobi (foreign owned)
10. City Finance Bank, Nairobi
11. Co-operative Bank of Kenya, Nairobi
12. Commercial Bank of Africa
13. Consolidated Bank of Kenya Ltd, Nairobi (gov)
14. Delphis Bank, Nairobi
15. Development Bank of Kenya, Nairobi
16. Diamond Trust Bank, Nairobi
17. Dubai Bank Kenya Ltd, Nairobi
18. Equatorial Commercial Bank Ltd, Nairobi
19. Fidelity Commercial Bank Ltd, Nairobi
20. Fina Bank Ltd, Nairobi
21. Giro Commercial Bank Ltd, Nairobi
22. Guardian Bank, Nairobi
23. Habib Bank A.G. Zurich, Nairobi (foreign owned)
24. Habib Bank Ltd, Nairobi (foreign owned)
25. Housing Finance Co. Ltd, Nairobi (gov) (listed on NSE)
26. Imperial Bank, Nairobi
27. Industrial Development Bank, Nairobi (gov)
28. Investment & Mortgages Bank Ltd, Nairobi
29. K-Rep Bank Ltd, Nairobi
30. Kenya Commercial Bank Ltd, Nairobi (gov) (listed on NSE)
31. Middle East Bank, Nairobi
32. National Bank of Kenya, Nairobi (gov)
33. National Industrial Credit Bank Ltd, Nairobi (listed on NSE)
34. Oriental Commercial Bank Ltd, Nairobi
35. Paramount Universal Bank Ltd, Nairobi
36. Prime Bank Ltd, Nairobi
37. Prime Capital and Credit Ltd, Nairobi
38. Southern Credit Banking Corp. Ltd, Nairobi
39. Stanbic Bank Kenya Ltd, Nairobi (gov)
40. Standard Chartered Bank, Nairobi (listed on NSE)
41. Trans-National Bank Ltd, Nairobi
42. Victoria Commercial Bank Ltd, Nairobi