PRODUCT STRATEGY IN THE MARKETING OF FINANCIAL SERVICES: A SURVEY OF THE COMMERCIAL BANKING SECTOR IN KENYA

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By:

Kimani P. K.

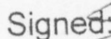
Student Number: D/61/P/7932/97

A management research project submitted in partial fulfillment of the requirement for the award of the Degree in Master of Business and Administration, Faculty of Commerce, University of Nairobi

Date: 13 November 2003

DECLARATION:

This management project is my original work and has not been presented for a degree in any other University.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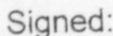
P. K. Kimani

Admission No.: D/61/P/7932/97

This management project has been submitted for examination with my approval as University supervisor.


Signed: ______________________   Date: 18th/11/2003

Dr. Martin Ogutu
Faculty of Commerce,
Department of Business Administration,
University of Nairobi

DEDICATION:

This project is dedicated to my wife, Nyambura, for her undying patience, support and encouragement and my four and a half year old daughter, Waruguru, for her concern and understanding.

ACKNOWLEDGEMENT:

I would like to express my sincere gratitude to everybody who contributed to the successful completion of this research project.

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ABSTRACT:

This study was conducted between April and July 2003. It focused on one of the 4P's of the marketing mix, namely, the product and studied how the product strategy was used in the marketing of financial services by commercial banks in Kenya. A survey study was done. The population of interest was 41 banks. The research instrument used was a questionnaire, which was used to collect data through the drop and pick later method. A response rate of 46.3% was attained.

In relation to objective number one, whose aim was to determine the extent to which the five levels of a product are used in the marketing of financial services in commercial banks, it was established that value added products like electronic banking are increasingly becoming a common feature of the banking industry. These findings were explained by the competition for market share among the various banks through the use of high-value products that were not easily imitated. The findings also revealed that a cumulative total of 73.3% of the banks that responded use modern technology as a service delivery medium at levels ranging from high- to a great-extent This could be explained by the observation that technology is of prime importance as a tool for delivering high quality service, which is attained through the development of value added products.

The second research objective was aimed at determining the rate of product innovation. It was addressed by findings that revolved around activities concerning the product line strategies of line stretching, modernization and filling. On the measurement scale used, these three scored the highest mean. Product width had valid percentages of 33.3% and 38.9% with product widths of 10-15 and 5-10 respectively. Only 27.8% had product widths of less than 5. 16.7% of the banks had product lengths of 20-30 compared to 44.4% with lengths of less than 10. Product innovation was seen to take place on a monthly, quarterly, half-yearly and annual basis where the distribution of respondents engaged in innovation for the different periods was seen to be fairly evenly distributed.

The product line strategy and product width findings are indicators of continual change of the product mix. This occurs with a frequency ranging from monthly to annually. It can be safely concluded that the rate of product innovation is high and involves a moderate turnover of individual product items on offer. The bigger majority of banks have small product lengths, which can be explained by the need to focus on niches. Given the generally large size of product width in the industry, it can be concluded that these few products are highly differentiated, an observation that can be explained by the fact that most of our local banks focus on market niches and offer selective services and products.

With respect to the third objective, that is the kind of product innovations, 30.4% of the responses were those centered along development of completely new concepts in banking with 26.2% responding as being engaged in developing new basic products. This can be explained by a shift in competition to the higher value added items in the market, motivated by the urge to differentiate, the basic items being saturated in the market.

The product strategy is thus prominent in the marketing of financial services locally. In particular, the five levels product concept has also gained wide credence among banks seeking to market their services in an increasingly crowded marketplace. This supports the literature review observation that particular financial service products may have a range of features, which are used as a differentiation strategy to appeal to given consumer segments.

Recommendations for further research:

1. The product strategy is only one element of the four P's of marketing. Other elements that would need to be investigated include price and place. Despite earlier researches done, promotion is also a possible avenue for a prospecting researcher since the earlier researches done

date back to 1992 and in view of the recognition that a lot of things have changed since then, now would be ideal to conduct a parallel research.

2. This research is specific to commercial banks only. It would be interesting to observe the kind of results that would be obtained if one expanded the population to cover Non Bank Financial Institutions (NBFI's) as well such as building societies and so on.

CHAPTER ONE

INTRODUCTION

1.1 Background

The last twenty years of the twentieth century culminated in major changes in the commercial banking sector globally. The globalization of financial markets meant that banks belonging to a given country faced stiffer competition for market share from foreign owned banks. Competition squeezed profits from traditional activities like lending and deposit taking, creating the need for profits from other sources. Interest rate volatility also led to an unstable investment environment, which resulted in irregular returns and consequently higher risk. Alongside this, there was a general upsurge in market rates. This implied that alternative investments, which offered higher returns, were now available to depositors of funds to commercial banks, prompting them to withdraw their funds in search of higher returns elsewhere. Technology compounded the issue as well, with direct financial markets permitting the sale of securities straight to the public instead of through banks.

Consequently, declining profits owing to loss of their best markets prompted banks to lend to higher risk markets, leading to widespread failures, which in turn prompted regulatory authorities to impose stringent new regulations to monitor banking operations.

In sub-Saharan Africa, similar problems were being experienced, compounded by other issues such as political interference, poor credit risk management, inadequate or inefficient bank supervision and a host of other maladies.
In Kenya, financial sector reforms in the banking sector resulted in higher capitalization requirements, stringent reporting/accounting standards, careful monitoring of loans, stricter criteria for loan classification, limiting bank exposure

to large borrowers and so on. Reserve and liquidity requirements were also better enforced (for instance, the paid-up capital for local banks will stand at Kenya Shillings 500 million by end of the year 2002).

On the one hand, reforms enhanced overall capability of indigenous banks as evidenced by a marked relaxation or elimination of credit ceilings, directed or subsidized lending and market determined interest and exchange rates. On the other hand, some aspects of reforms such as high capital ratio requirements eroded bank's lending capacity.

Mergers were one consequence of financial sector reforms, for instance, to attain the increased Central Bank cash ratio requirements. Thygerson (1995) notes that mergers result in increased customer franchise value, enhanced growth, lower costs due to increased economies of scale and increased market power. Downsizing, aimed at creating leaner, more efficient organizations, was another response to a more demanding regulatory environment. Pearce and Robinson (1997) note that downsizing was occasioned by the arrival of a global marketplace, information technology and intense competition which caused many companies to re-evaluate activities to determine what value was being added to the company's product and services. This led to job cuts particularly at middle management level, where no or little value was seen to be added. This has been the case in the local banking sector.

Of particular relevance to this research was the adoption of new and innovative marketing approaches to combat the adverse effects of declining market share, falling profits, competition and so fourth. Emphasis will be placed on those growth opportunities, which Kotler (1997) refers to as intensive growth opportunities. These include market penetration, market development, product development and diversification strategies.

In the 1990's, the banking industry in Kenya faced many business issues. Increased consumer awareness of their needs and wants resulted in a critical evaluation of the industry's product offering. In the retail sector, for instance, questions arose as to the viability of depositing money, which does not attract any interest, as idle balances in bank accounts in form of minimum balance requirements. Such funds cannot be withdrawn without attracting penalty charges. Retail depositors thus sought alternative investment opportunities such as asset purchases (like plots), informal finance (merry-go-rounds) and so on leading to a reduction in banks' deposit base.

The growth of micro finance institutions such as K-REP Bank, also heralded heavy competition for market share. Micro finance Institutions offered customized financial services to the informal sector, which was constrained by lack of access to capital due to the high cost of bank loans. Thus, investors who fell under the mandate defined by micro finance moved their liabilities away from the large commercial banks resulting in a leaner deposit base for banks. Building societies also began offering deposit facilities at friendly rates. Competition among the banks themselves resulted in little or no differentiation among their products owing to product imitation. Thus no bank could claim a substantive edge over the others.

As a response to the changing conditions and needs in the marketplace, the mid-nineties (1995-1997) witnessed a wave of business rationalization that was pioneered by Standard Chartered Bank. After an initial rush to acquire recent banking technology, occasioned by retrenchments and cost-cutting measures, Standard Bank quickly repositioned its product offering against the market using superior technology as the cutting edge. This occasioned a "product war" as other banks moved in to close the gap.

To counter the threat of the micro finance industry, certain banks developed product alternatives tailored to suit the informal sector needs. In 1998, for

instance, Co-operative bank, in conjunction with the Kenya Management Assistance Program (K-MAP) and the United States Agency for International Development (USAID), developed a loan portfolio guarantee (LPG) program whose objective was to promote economic development for qualifying small- and micro-businesses by extending credit to those unable to access adequate financing due to lack of collateral.

1.2 Statement Of The Problem.

We have thus witnessed how banks meet their objectives of increased market share through formulation of technologically enhanced products and services. Kotler (1997) notes that the customers will judge the market offering by among other factors, the product features and quality. He also points out that product is the first and most important element of the marketing mix. It is what the customer buys. All the advertising and promotion in the world (indeed all-marketing communications) will not sell a product if people do not like it. Our banks were therefore focused in the right direction by employing the product strategy approach as a competitive tool.

Thus, if any of the above four intensive growth strategies are to work, commercial banks were obliged to design the right products and channel their offering(s) through the right combinations of services all possessing a high-perceived quality. It is also important to note how significant the right product decisions would be in determining how a business will shape in both the short- and the long-term. Therefore the challenge ahead will at least in part, be determined by how well commercial banks are able to design product's and tailor them to suit target market requirements.

Based on the aforesaid, the purpose to this research was to determine the extent to which the product strategy had been used by commercial banks in Kenya, as a means of marketing their financial services through product innovation and differentiation.

Bii (1992) conducted a survey to determine the use of the promotion mix elements as marketing tools in commercial banks in Kenya. However, this research did not cover the role played by the product element in marketing of banking services locally. Thus, the current research attempted to fill this gap.

1.3 Objectives Of The Study.

The study had as its objectives, the following:

1. To determine the extent to which the concept of the five levels of a product, as espoused by Kotler (1997), are used in the marketing of financial services in the commercial banking sector in Kenya today.
2. To determine the rate of product innovation.
3. To determine what kind of product innovation exists in the market.

1.4 Importance Of The Study.

1. The study will be of help to commercial bank's management in identifying and understanding how the product strategy can be used/adapted to secure increased market share and business advantage.

2. Consumers who utilize banking facilities will benefit from the study by being able to understand the rationale behind the wide range of products on offer. They can then match their consumption objectives accordingly.

3. Investors to the banking sector will be able to determine the best investment alternatives to choose from based on correlations between investor objectives and given product marketing strategies.

1.5 Definition of terms:

Bank.

The banking act of 1968 cap 488 defines a bank in Kenya as any company carrying out a banking business. Banking business in this clause is further defined as any business, which includes the acceptance of deposits of money from the public, payable on demand and after a fixed period of notice.

Consumer/Retail/Personal Banking.

These terms all refer to those aspects of banking which serve the personal financial needs of individuals.

Corporate Banking.

This refers to that kind of banking dealing with organizations.

CHAPTER TWO

LITERATURE REVIEW

The literature review section gives an overview of micro- and macro-environmental factors that are relevant in the process of formulating which growth and competitive strategies to use, identifies strategies in question and and gives an overview of the marketing mix as applied to financial services.

2.1 Overview Of Bank Marketing Strategy.

In order for banks to effectively exploit the four growth and competitive strategies enumerated in page three, they need to conduct a marketing audit whose purpose is to review and analyze all the business conditions affecting their operations.

The audit will involve:

2.1.1 Environmental Analysis.

Economic Elements: For example inflation, interest rates and employment levels. Demand for financial services is usually derived from the demand for other products and services (derived demand), which are themselves affected by economic conditions.

Demographics: the changing age distribution of the population and how increased education affects peoples financial service needs.

Social And Cultural Factors: Changing lifestyles and public opinion have a number of effects, for example traditional values with respect to thrift and the stigma of credit are disappearing with the emergence of a credit culture and

the consequent changes in attitude and behavior with regard to spending and the use of a wide range of credit services. In addition, consumer attitudes towards technology based bank services continue to become more favorable and consumers are more discerning with respect to expectations of service quality and the quality of service actually received.

Technological Developments: These are evident in the operations and management of banks and have emerged as important considerations in product design, delivery channels and promoting individual products and overall corporate image.

Competition: This will be evident in terms of the level of competition from existing banks, new banks (new entrants) in form of foreign-owned subsidiaries and new market entrants such as building societies, retailers and other current and potential providers of financial services. Competitor analysis will include not only identification of key organizations/sectors but also their position and coverage in their market and their image.

Market Analysis: The objective here is to monitor trends relating to size and market share, competitive position and growth potential, investigating customer profiles, needs and market segments and to consider influences on the consumer decision making process in relation to buying financial services.

2.1.2 Internal Analysis.

A bank also needs to audit its internal resources such as its human resource, production capacity, financial/investment capabilities and management expertise together with its product range, branch network and delivery systems. Consequently, the bank should be in a position to identify its internal strengths and weaknesses and to match its strengths to the opportunities in the environment and market.

2.2 Growth And Competitive Strategies.

Bank's marketing strategies will follow from their broader strategies towards growth and competitiveness. Of relevance here is the product/market mix from which the product strategy will derive.

Kotler (1997, as reported in Ansoff, 1965) proposed a useful framework for detecting new intensive growth opportunities called a product/market expansion grid. The main intensive growth strategies that can be derived from this grid are:

2.2.1 Market Penetration.

Focus here is to increase sales of present products/services in present markets by means of increased and/or more effective positioning and targeting, delivery and promotional activities. This can be achieved through:

Selling present services to new customers by for instance, persuading competitor clients to switch banks, new bank users (for example students or weekly cash-paid workers) typically targeted for current accounts, self-employed individuals who need tax advice and planning, pension plans and so fourth.

When communicating with potential customers in these categories, a major emphasis will be to promote a competitive advantage or superiority over other banks and financial service providers with respect to products, price and delivery systems and may include promotional gifts.

Selling more service to present customers. The idea here is to cultivate customer relationships that enable the bank marketer to cross-sell other services for instance, promoting savings accounts to people with bank mortgages. This is an important growth strategy. For it to succeed, there is need for banks to be efficient and effective with respect to segmenting present markets and determining customer needs for further services, advertising and promotion including direct mail and telephone selling in order to reach customers, personal selling, at branch level and/or via account representatives.

Encouraging increased product/service usage. This can be through increased savings/deposit levels encouraged by high yields, competitive pricing or exceptional service quality.

Customer retention through discouraging account switching. Customer loyalty can be enhanced through giving appropriate attention to customer service and service quality and by establishing procedures to deal with customer problems and complaints.

2.2.2 Market Development.

This involves developing sales of present products/services to new markets. The rural market is a particularly feasible area for this purpose. International market expansion is also a feasible alternative.

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2.2.3 Product Development.

The objective here is to introduce and develop sales of new products/services in present markets. Product development may involve a modification of existing bank products for example interest on current accounts, advancements in delivery systems like remote Automated Teller Machines or expansion into financial services like financial advice, tax services and so on.

2.2.4 Diversification.

Diversification is an attempt to grow by simultaneously focusing on new services and new markets the aim being to pursue 'newness' outside the mainstream of present business for example agency business activities by linking with pension or insurance brokers.

In addition to the various growth strategies, banks also use competitive strategies like:

Market Leader: With an emphasis on market share and/or service quality and so fourth.

Market challenger: Also with an emphasis on market share (or other key attribute) but this time combined with aggressive pricing, delivery and promotional tactics.

Market follower: Attempting to maintain or build a market share and profitability; and focusing on cautious market tactics.

Market nicher: Focusing on selected markets and offering a limited range of products and services.

2.3 Marketing Of Financial Services.

2.3.1 Understanding Consumers And Markets.

Kotler (1997) defines marketing as a social and a managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others. In order for an organization to be able to successfully serve its customers, there must first be an understanding by the management of what value is to the customer. Management must first understand target customer's needs and motivations as well as their purchase decision process. Ennew (1990) and colleagues note that this knowledge is crucial to the development of suitable marketing strategies, where by a competitive advantage for an organization in its chosen markets is identified, built and maintained.

Consumer behavior varies widely across different buying situations. The existence of different groups or segments of consumers in the target market occasion these differences. Thus, essential to understanding buyer behavior is an understanding of market segmentation.

2.3.2 Market Segmentation.

Willkie (1990) defines market segmentation as a managerial strategy that adapts a firm's marketing mix to best fit the various consumer demand curves existing in a market. Segmentation is an adaptive strategy that seeks to obtain competitive advantage by doing a better job of satisfying customer requirements.
He further points out three basic criteria that a useful segment must satisfy:

Group Identity: This refers to the fact that members of a segment must be similar to other consumers in the same segment (homogeneity) and that the

members of a given segment must be different from consumers who are in other segments (heterogeneity).

Systematic Behaviors: Members of a given segment should behave in a similar manner and be likely to react similarly to a particular marketing mix. Conversely, members of different segments should behave differently and react differently to a given marketing mix.

Marketing mix efficiency potential: This asks the practical question of whether or not a marketing mix can be developed to reach efficiently and appeal differentially to the possible segment grouping.

Wilkie (1990) also points out three basic criteria used for segmentation namely: personal characteristics, benefits sought and behavioral measures.

2.3.3 Segmentation By Personal Characteristics or Demographic Segmentation.

This is segmentation by age, sex, ethnicity or race. From a banks perspective, age profiling as a basis for segmenting a market is important as it determines the types of products bought and price sensitivity. Thus, newly employed and young working class individuals form a bigger proportion of those customers who prefer those investments that are short-term in nature, with higher liquidity prospects and of course, a high risk, for example, bank loans. Kotler (1997) points out that on average, the Japanese save about 18 per cent of income earned but Americans save only 6 per cent. This means that savings based consumer bank products will be more popular in Japan.

Demographic profiling does thus yield objective evidence for market segmentation and product positioning. Care should however be exercised on basing segmentation solely on a univariate base such as demographics.

Ennew (1990, as reported in Haley, 1968) and colleagues have observed that from research, demographics are poor predictors of behavior for a wide range of products since they are descriptive rather than causal factors.

2.3.4 Segmentation by Consumer Psychographics.

Wilkie (1990) contends that segmentation by consumer psychographics is focused on creating new forms of measures that would focus more on consumption and less on other aspects of a person. Kotler (1997) notes that psychographic segmentation divides buyers into different groups based on lifestyle and/or personality. Thus, automated teller machines are associated with people living trendy lifestyles. So are card-based payment systems. Personality is captured in those products and features associated with individuality.

2.3.5 Geographic Segmentation.

According to Kotler (1997), geographic segmentation is about dividing markets into different geographical units such as nations or regions. A company can decide to operate in one or a few geographic areas or in all but pay attention to local variations in geographic needs and preferences. Wilkie (1990) observes that such segmentation can be used in three primary ways. First, direct marketing can be crafted to appeal to a given segment's consumers. Secondly, decisions on where to locate branches or subsidiaries can be guided by this data. Thirdly, information concerning product adoption and response to different pricing approaches can be transferred across similar clusters.

2.3.6 Benefit Segmentation.

Benefit segmentation involves creating segments based on benefits sought from a product or service and then evaluating these segments for differences on both personal characteristics and purchasing behavior. Wilkie (1990) observes that

benefit segmentation is particularly suited for product, pricing or service design decisions. It yields information that can be used to suggest marketing mix strategies.

2.3.7 Behavioral Measures Segmentation.

This type of segmentation initially involves the creation of groups of consumers who behave similarly or who hold similar purchase predispositions. Wilkie (1990) identifies three types, that is, attitudinal segmentation, heavy-user segmentation and direct-response segmentation.

Of particular interest is the heavy-user segmentation used locally by some banks. It has its derivation in the so-called "80-20 rule"-that 80 percent of an organization's business comes from only 20 percent of its customers. Though not always the case, it is true that the heavy users segment provides a surprisingly high percentage of total product sales and that marketers do search to discover exactly who these heavy users are.

Certain local banks classify their customers into categories determined by factors such as product diversity and utilization among others. Pricing and the emphasis on service quality level are then modulated accordingly. Heavy-user segmentation is ideal, as it is easy to effect from data obtained from the customer and public records in the case of the institutional banking market.

2.4 The Financial Services Marketing Mix.

McCarthy (1996) popularized a four-factor classification of the four marketing mix elements namely: product, place, price and promotion. In many senses, the marketing mix provides a bridge between marketing strategy and tactics. The aim of marketing strategy is to establish a match between an organizations skills and capabilities and the needs of the target market. Marketing tactics, in contrast, are more closely concerned with decisions about how to deliver the product or service offer, which reflects this matching process.

The marketing mix has both strategic and tactical dimensions. The strategic dimension of the marketing mix is primarily concerned with decisions about the relative importance of the mix elements for a particular product-market combination. The tactical dimension of the marketing mix works within the framework created by decisions regarding the balance of the mix and is concerned primarily with the specification of precise details for each element in the mix.

To develop an effective marketing mix requires a clear understanding of the chosen product position and of the way in which consumers are likely to respond to the individual mix elements.

2.4.1 The Nature Of The Financial Services Marketing Mix.

The traditional concept of the marketing mix as comprising product, price, promotion and place was developed largely on the basis of empirical work undertaken in relation to the manufacturing industry. Ennew (1990, as reported in Cowell, 1984) and others found that there is no comparable empirical basis for the analysis of service marketing mixes.

The extent to which service marketing differs from the marketing of physical goods is subject to considerable debate. Services possess four unique characteristics that make them different to market from goods. Namely intangibility, inseparability, variability and perishability. In many respects, the most fundamental distinction between service and goods marketing arises due to the intangibility of services.

Ennew (1990, as reported in Bateson, 1977) and others point out that intangibility has essentially two meanings. At one level, it is concerned with the fact that services are impalpable in the sense that they have no physical form, but it also recognizes that many services are intangible from a conceptual point of view in that they are not easily defined and may be difficult to understand. Many services will display both aspects of intangibility and the problem is particularly acute with many professional and financial services (Donnelly, Berry and Thompson, 1985). Bowen and Schneider (1988) observe that some schools of thought actually view customers as quasi- or partial- employees.

Variability or heterogeneity of a service arises because of the high dependence of service quality on personal interactions. Service quality will be affected in turn by the fact that different frontline personnel have different abilities. Even the same service provider has good and bad days, or may be less focused at different times along the day.

Perishability of services arises because services cannot be inventoried. Idle capacity during service delivery represents revenue-earning potential lost.

Ennew (1990) and others observe that to a large extent, the qualities of inseparability and heterogeneity arise because of the intangible nature of services. They go on to point out that the characterization of services as an act rather than as an object leads to an emphasis on the individuals providing the service and their interaction with the organization's customers.

An additional feature of financial services is fiduciary responsibility. This refers to the implicit responsibility, which financial service organizations have in relation to the management of funds and the financial advice they supply to their customers. Although every business has a responsibility to its consumers in terms of the quality, reliability and safety of the products it supplies, this responsibility is much greater in the case of the financial services organization. Ennew (1990) and others observe that this could be due to the fact that consumers of financial services find the precise details of the services difficult to comprehend and are therefore placing their trust in the organization with which they deal.

In Kenya, the banking code helps to create an informationally level playing field, as it formally binds the bank with the responsibility of informing the customer about decisions the bank makes that impact on the customer in most aspects of the bank-client relationship. The customer is also informed about what to expect from his or her banker(s). Information asymmetry, in this case on the part of the customer in relation to banking activity, is thus reduced or altogether removed. The code is legally binding, ensuring this eventuality.

Retracting to the controversy surrounding the applicability of the '4P's' concept to service marketing, it is instructive to note that major differences between goods and service marketing occur at the tactical level. The reason for this is that at the tactical level, marketing must be more tailored to the distinguishing features of specific products and markets. In the context of the marketing mix, this suggests that in the case of services, the composition of that mix and the management of its elements can be quite distinctive.

According to Gronroos (1990), the traditional marketing mix applied to service marketing is over simplistic and likely to misguide both academics and practitioners because it does not fully cover all aspects of the relationship between the customer and the service provider. Thus the popularization of three

further "P's" namely people, process and physical evidence as part of the service marketing mix.

Ennew (1990) and others however insist that these additional "P's" can be incorporated within the existing framework of product, price, promotion and place, particularly if the importance of the augmented product rather than the simple core or generic product is recognized. They contend that physical evidence and the characteristics of individuals involved in the provision of the service can be encompassed within product and promotional issues, while the importance attached to processes can easily be seen as falling within the remit of service distribution.

This line of thought considers people, processes and physical evidence as themes that should be emphasized only when dealing with the services marketing mix. Thus, they should not be treated as separate elements of the marketing mix but rather, as important responses to the particular features of service products.

The approach used in this research is to emphasize only on the product strategy. Therefore, the controversy surrounding the services marketing mix, as detailed above, will not impact in the research findings.

2.5 The Product Strategy

Perreault and McCarthy (1996) define the product as the need satisfying offering of a firm. Kotler (1997) promotes the existence of five levels of a product. Each level adds more customer value and the five levels constitute a customer value hierarchy:

First is the core benefit level, which is the fundamental service or benefit the customer is really buying. A bank customer will for instance be buying "security" or "investment opportunity" when opening an account.

Next is the basic product. Thus, a bank will offer different accounts like current and savings accounts.

At the third level, we have the expected product, a set of attributes and conditions that buyers normally expect and agree to when they purchase this product. Thus, the different accounts will have different terms and conditions for example different interest rates, modes of operation, etcetera.

The fourth level is the augmented product that meets the customer's desires beyond their wildest expectations. Therefore, we have card-based payment systems that go with the various accounts.

The potential product is the fifth level that encompasses all the augmentations and transformations that the product might ultimately undergo in the future. Such could be the advent of a seamless banking network where customers for a given bank can access their account from any other bank's branch.

As we move up from the core product to the augmented product, various attributes become evident which serve to both differentiate it from the competition and tailor it more specifically to the needs of target consumers. Such attributes

will include quality, style, features and so on. Thus, in financial services marketing, a core service benefit for instance, money transmission will be phased through the various product levels by the addition of various features such as checks, debit and credit cards and so on.

A key issue when developing service products is the attempt to overcome the problems posed by intangibility, inseparability and variability. Ennew (1990) and others note that a common strategy is to develop a tangible representation of a product in form of either peripheral evidence (that which can be possessed by the consumer but has little intrinsic value) or essential evidence (that which cannot be possessed by the consumer but which has value) or both. The branch environment in which service is delivered is an example of essential evidence. Credit cards and check-cards are examples of peripheral evidence, which provide tangible representations of money transmission and credit facilities.

Particular financial service products may have a range of features, which are used as a differentiation strategy to appeal to given consumer segments. Thus, a current account will have different minimum balance requirements, different conditions as regarding interest applicable, overdraft benefits and so on. These different products are then branded and marketed to the suitable segments.

However, the range of actual distinct features that can be attached to a particular financial service is limited and may not provide a long-term basis for differentiation since such features are easily copied.

Quality is regarded as an increasingly important product feature and refers to the ability of a product to perform its intended task. Lehtinen and Lehtinen (1991) point out that customer's assessment of service quality may be based on both functional (process) and technical (outcome) aspects. The technical or outcome aspect relates to the extent to which a product conforms to specifications and issues emanating from this will be for example, whether a deposit account

provides an acceptable interest rate. The functional or process component is concerned with the manner of service delivery such as the way staff behave towards customers and so on.

Branding is another concept that is common in financial services product strategy. Kotler (1997) defines a brand as a name, term, symbol, sign or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Branding as a strategy enables the seller to attract a loyal and profitable set of customers. This loyalty gives the seller some protection from competition. Branding also helps the seller to segment markets. Strong brands help to build the corporate image and help expedite the consumer adoption process for new brands.

Howcroft and Lavis (1987) identify corporate image as the most important type of branding available in the financial services sector. This was the case when most products were identified by the organization's name. Of late, there has been a gradual move from company trade name branding to individual product branding.

Saunders and Watters (1993) suggest the below brand hierarchy for brands in financial services.

Corporate dominant: The main element in the brand is the name of the organization itself or a division of the organization. This approach is generally very effective when the organization's products are closely related and the generic image of the organization is then seen to be applicable to all its products.

Dual branding: Dual branding involves combined brand names or combinations of product-brand and corporate-brand with the product-brand rather more dominant. Approaches such as this are typically used when an

organization wishes to use aspects of its own established brand or image without losing the benefits of being associated with another established brand.

Brand dominant: Brand dominant associations generally de-emphasize corporate associations and concentrate on products. This approach has not been entirely successful in financial services partly because of the difficulty of divorcing the product from the provider.

As a conclusion, branding in financial services is commonplace and is a means of conveying information regarding quality, differentiating the product from the competition and encouraging customer loyalty.

Product Modification:

This refers to the various changes that will occur along a products life cycle as a response to changing customer needs. It is often pursued in the maturity stage of the life cycle to attract new customers and differentiate the product from the competition.

In financial services, product modification may be done with an intent of making the service easier to use or monitor (like introducing fixed annuity repayments on an outstanding loan), improving service quality (relationship managers designated to specific corporate accounts), improving the delivery system (mobile telephone banking), or adding additional features (ability to use bank debit cards at supermarket chain outlets). Product modification will affect an organization's product mix and associated product concepts, that is, product line, product length and product depth.

Kotler (1997) defines product line as a group of products that are closely related because they perform a similar function, are sold to the same customer groups,

are marketed through the same channels or fall within given price ranges. Product line stretching or proliferation entails adding new services to an existing service line and has traditionally accounted for much of the new product development activity in commercial banks. Line stretching permits further differentiation of existing products in order to appeal to more specific market segments.

Product length refers to the total number of items an organization offers (Kotler 1997). The length of an organization's product mix will in part reflect the size and/or diversity of its target market as well as the intensity of marketing activity within the organization.

The depth of a product mix refers to how many variants are offered for each product in the line (Kotler 1997). Thus there are many different kinds of current accounts offering different interest terms and so on.

2.6 The Scope Of Commercial Banking In Kenya Today.

The commercial banking sector in Kenya witnessed a proliferation of banks over the years since independence. As of the time of conducting the above research, there were a total of 41 fully operational commercial banks. In 1980, there were only 17 registered banks operating in Kenya. Thus, a major growth in this sector occurred over the last twenty years, seeing the establishment of 24 additional commercial banks.

The Central Bank of Kenya is the regulatory authority charged with the task of monitoring and supervising the operations of commercial banks. Owing to past incidences of bank failure, new regulations were enacted which established strict reserve capital guidelines. These required commercial banks to increase their non-interest earning, non-operational deposits to KSh 500 million by the end of the year 2002. However, owing to tighter regulatory, fiscal and monetary policies (and enforcement of the same) occasioned by the coming to power of a new regime, this cash ratio requirement was lowered to KSh 250 million in the budget for the financial year starting from June 2003. Nonetheless, this economic benefit of was outweighed by the re-introduction of laws whose objective was to control among other items, interest rates and bank charges that for long had been left to market forces to determine. This was however a positive development as the banks had always justified their high charges and interest rates partly on the erosion of trading capital due to the high reserve requirements.

The Banks are classified according to the size of their net assets with the largest falling under peer group one and so fourth. The year 2002 was marked by the exit of ABN AMRO bank, a Dutch multinational, from the Africa region (except South Africa), and the acquiring of its assets by Citibank N. A. This effectively placed Citibank as the fourth largest bank in Kenya in terms of market share, behind Kenya Commercial Bank, Barclays Bank and Standard Chartered Bank in that order.

CHAPTER THREE

METHODOLOGY

This chapter describes the procedures that were followed in conducting the research.

3.1 Research Design.

An exploratory survey design was used for the purpose of this research.

3.2 Population.

The population of interest was composed of all banks registered in the Banking and Financial Institutions Directory as at 20th June 2002. As appears in Appendix 3, this was a total of 46 banks. However, at the time of conducting the actual research, Delphis Bank, Daima Bank, Akiba Bank and Euro Bank had all been placed under Central Bank of Kenya statutory management and effective 31st December 2002, Biashara Bank was acquired by Investments and Mortgages Bank. These five were thus eliminated from the sample and the effective population was comprised of 41 banks. Since the total population was small, a census study was employed.

3.3 Data Collection Method.

Data was collected by means of a questionnaire (see appendix 2), which consisted of open-ended questions, closed-ended questions and five point Likert scales. The questionnaires were administered to senior management in the concerned institutions working in the marketing divisions/functions.

3.4 Data Analysis Technique.

Data analysis was conducted using descriptive statistics, which included frequency distributions, percentages and measures of central tendency.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

In this section, the data from the completed questionnaires was summarized and tabulated in the form of percentages, frequencies and mean scores. Standard deviations were computed for selected data to enhance comparison and interpretation. The analysis was presented in four parts. The first part was aimed at presenting the findings of the overview captured by section A of the questionnaire. The summary findings are tabulated in Appendix 4. The other three parts were aimed at answering the objectives of the research. It was noted that some responses had two sets of findings, one set based on the overall response rate (19 banks or 46.3% of the population total) and the other set based on a valid response rate that is computed based on the total number of banks that actually responded to specific questions. This is so since not all questions received a 100% response.

Analysis of the response rates (see Appendix 4) revealed that out of a total of 41 questionnaires distributed to all the banks, only 19 were completed and received back. The overall response rate was thus 46.3%. This was considered adequate for the study given that the researcher encountered a deliberate refusal to respond from a section of the population under investigation. These were mainly those banks whose majority shareholding was from local Asian investors. Such constituted 17 banks or 41.5% of the population. This left only 24 banks or 58.5 % of the overall population to draw data from. The valid response rate could therefore be concluded to be 19 out of 24 or 79.2%.

On classification by ownership (see Appendix 4), out of the 19 banks, 21.1 % were foreign owned, 42.1 % were locally owned, 21.1 % had ownership that was partly foreign and partly local and only 5.3 % were locally owned. For this question, only 17 banks actually gave a response. The valid percentages

representing ownership are thus 23.5% foreign owned, 47.1% locally owned, 23.5% having joint foreign and local ownership and 5.9% being government owned.

On classification by existence or absence of a marketing department (see Appendix 4), out of the 19 responses, 68.4% had a Marketing department and 26.3% did not. Only 18 banks actually responded to this question, thus the valid percentages were 72.2% and 27.8% respectively.

Analysis of data relevant to the extent of top management involvement in marketing activity (see Appendix 4), showed that 15.8% of the total population recorded a very high extent, 52.6% a high extent and 5.3% responded same as for other areas. The corresponding valid percentages were 21.4%, 71.4% and 7.1% respectively.

Product Concept In The Marketing Of Financial Services:

This subsection of the analysis took into consideration those findings which addressed objective number one, that is, the extent to which the concept of the five levels of a product are used in the marketing of financial services.

Table 1 below relates to the extent of offer of value added products/services. We see that ordinary current, savings and deposit accounts had the highest mean score of 4. Their standard deviations of 1.114, 1.425 and 1.410 were relatively low implying a consistently high score on all. Electronic/Internet banking, Telephone banking, Local Electronic Funds Transfers and Offshore banking followed in terms of extent of use with a mean score of 3 (fairly high extent). Standard deviations of 1.546, 1.2, 1.682 and 1.046 respectively also indicated fairly high clustering around the mean score. Lastly, ATMS, debit cards and credit cards were least used with a mean score of 2 (mild extent of usage). Standard deviations of 1.427, 1.305 and 1.654 were comparatively high relative to this mean.

Table 1: Illustration of the five levels of a product

Product Level	Products	No. Of Respondents	Mean	Std Error	S.D.
Level 1	Ordinary Current Accounts	18	4	0.26	1.114
Level 1	Ordinary Savings Accounts	19	4	0.33	1.425
Level 1	Ordinary Deposit Accounts	19	4	0.32	1.41
Level 2	Debit Cards	18	2	0.31	1.305
Level 2	Credit Cards	18	2	0.39	1.654
Level 3	Automated Teller Machines	19	2	0.33	1.427
Level 3	Local Electronic Funds Transfers	16	3	0.42	1.682
Level 4	Telephone Banking	17	3	0.29	1.2
Level 5	Electronic/Internet Banking	17	3	0.37	1.546
Level 5	Offshore Banking Service	19	3	0.24	1.046
	Valid N (List wise)	13			

Table 2 tabulates the result on the extent of use of technology as a service delivery medium. Of the total 19 banks, 21.1% used it to a fairly high extent, 26.3% to a high extent and 31.6% to a great extent

Table 2: Extent of use of technology as a service delivery medium

	Frequency	Percentage
A fairly high extent	4	21.1
A high extent	5	26.3
A great extent	6	31.6
Sub-total	15	78.9
Missing	4	21.1
Total	19	100

To Determine The Rate Of Product Innovation:

This section dealt with the analysis of findings that were aimed at addressing the second objective of this research, namely, to determine the rate of product innovation.

Table 13 (appendix 4) gives us the tabulated frequencies and percentages data appertaining to the extent of use of different product line strategies. Further, Table 3 below tabulates the mean scores and their standard deviations. Of the different product line strategies, we see that line stretching, modernization, filling and featuring were the most common product line strategies with a mean score of 3. Correspondingly low standard deviations of 1.072, 1.004, 0.75 and 0.961 indicate low variability and a high incidence of occurrence. Line pruning had the lowest mean score of 2 and was the least common.

Table 3: Product line strategies as used by banks

	No. Of respondents	Mean	Std. Error	S.D.
Line stretching	14	3	0.29	1.072
Line modernization	17	3	0.24	1.004
Line filling	16	3	0.19	0.75
Line featuring	15	3	0.25	0.961
Line pruning	16	2	0.24	0.957
Valid N (list wise)	13			

Table 4: Illustration of the different product lines on offer

	Frequency	Percentage
Less than 5	5	26.3
Between 5 and 10	7	36.8
Between 10 and 15	6	31.6
Sub-total	18	94.7
Missing	1	5.3
Total	19	100

Frequency table 4 above illustrates how many different product lines/account groups are on offer (product width). With respect to product width, out of 19 banks 26.3% of the respondents had less than 5, 36.8% had between 5 and 10 and 31.6% had between 10 and 15. The corresponding valid percentages (based of the actual 18 respondents) were 27.8%, 38.9% and 33.3% respectively.

Table 5: Illustration of the distribution of products/accounts findings

	Frequency	Percentage
Less than 10	8	42.1
Between 10 and 20	7	36.8
Between 20 and 30	3	15.8
Sub-total	18	94.7
Missing	1	5.3
Total	19	100

In relation to product length (table 5 above), 42.1% of the banks had less than 10, 36.8% between 10 and 20 and 15.8% between 20 and 30.

Table 6: Frequency of development of different product variations

	Frequency	Percentage
Monthly	5	26.3
Quarterly	4	21.1
Half-yearly	4	21.1
Annually	5	26.3
Sub-total	18	94.7
Missing	1	5.3
Total	19	100

The table above lists the findings with respect to product depth (how often the companies develop different variations of products/accounts). 26.3% varied their products on a monthly basis, 21.1% on a quarterly basis, 21.1% on a half-yearly basis and 26.3% on an annual basis.

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Table 7: Kinds of product innovations

ACTIVITY	COUNT	% OF RESPONSES
Developing new basic products	6	26.2
Improving on the basic offer by adding accessories like checkbooks	5	21.7
High value added services such as online banking services	5	21.7
That which is tailored along completely new concepts in banking such as internet banking	7	30.4
TOTAL	**23**	**100**

In table 7, count represents the number of banks that responded to each option. Percentage of responses is a percentage out of the total number of counts that each option commands. From the findings above, 26.2% of the responses engage in product innovation by developing new basic products, 21.7% by improving on the basic offer by adding accessories like checkbooks, 21.7% by developing high value added services and 30.4% along completely new concepts in banking such as internet banking.

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS.

5.1 Summary, Discussions and Conclusions:

This last chapter was dedicated to discussing the findings of the research and drawing conclusions in relation to the objectives of the research. The stated objectives of this study was to determine the extent to which the concept of the five levels of a product are used in the marketing of financial services in the commercial banking sector in Kenya today, to determine the rate of product innovation and to determine what kind of product innovation exists in the marketplace.

In order to attain these objectives, a survey study was conducted. The research instrument used was a six-page questionnaire, which was dropped and picked up later from the population under consideration. 19 out of 41 banks completed and returned the questionnaire. This is 46.3% of the total population to whom the questionnaire was completed.

The data was then analyzed using tables, frequency distributions, percentages and descriptive statistics.

In relation to objective number one, whose aim was to determine the extent to which the five levels of a product are used in the marketing of financial services in commercial banks, the summary of key findings were as follows:

Value added products are increasingly becoming a common feature of the banking industry. Level 5 products like electronic/internet banking and offshore banking services had a mean score of 3 on a scale where the basic product offerings had a maximum score of 4.

The findings also revealed that 40% of the banks that responded use technology as a service delivery medium to a great extent and 33.3% to a high extent both of which constitutes a cumulative total of 73.3%.

These findings could be explained by the competition for market share among the various banks through the use of high-value products that are not easily imitated. This could be explained by the observation that technology is of prime importance as a tool for delivering high quality service, which in a competitive environment can be attained through the development of value added products.

Research objective number two was aimed at determining the rate of product innovation. It was addressed by findings that revolved around activities concerning the product line strategies of line stretching, modernization and filling. These three scored a mean of 3 on a scale where the highest mean score was also 3. Product width had valid percentages of 33.3% and 38.9% with product widths of 10-15 and 5-10 respectively. Only 27.8% had product widths of less than 5. 16.7% of the banks had product lengths of 20-30 compared to 44.4% with lengths of less than 10. Product innovation was seen to take place on a monthly, quarterly, half-yearly and annual basis where the distribution of respondents engaged in innovation for the different periods was seen to be fairly evenly distributed.

The product line strategy and product width findings are indicators of continual change involving the product mix. This occurs with a frequency that ranges from monthly to annually. It can be safely concluded that the rate of product innovation is high and involves a moderate turnover of individual product items on offer. The bigger majority of banks have small product lengths, which can be explained by the need to focus on given niches. Given the generally large size of product width in the industry, it can be concluded that these few products are highly differentiated, an observation that can be explained by the fact that a large

number of our local banks are market nichers, that is, they focus on selected markets and offer a limited range of services and products.

With respect to the third objective, that is the kind of product innovations, 30.4% of the responses were those centered along development of completely new concepts in banking with 26.2% responding as being engaged in developing new basic products. This can be explained by a shift in competition by banks to the higher value added items in the market, motivated by the urge to differentiate, the basic items being saturated in the market.

5.2 Limitations of the research:

Only 19 out of a total of 41 banks responded. 22 did not respond. The drawback here is that valuable information was not obtained, as it is not possible to predict how these banks would have responded. Naturally, this affected the quality of the findings. The time allocated to the research was also inadequate to permit further pursuit of non–respondents. In addition, classification of the respondents into groups based on the size of their deposit base was not possible as most did not give any answer to those questions in the questionnaires that were aimed at obtaining results to assist in such classification, namely questions 1 and 7 in section A of the questionnaire. Such classifications would have been useful in developing valuable conclusions about the three objectives based on the sizes of the banks.

Recommendations for further research:

3. The product strategy is only one element of the four P's of marketing. Other elements that would need to be investigated include price and place. Despite earlier researches done, promotion is also a possible avenue for a prospecting researcher since the earlier researches done

date back to 1992 and in view of the recognition that a lot of things have changed since then, now would be ideal to conduct a parallel research.

4. This research is specific to commercial banks only. It would be interesting to observe the kind of results that would be obtained if one expanded the population to cover Non Bank Financial Institutions (NBFI's) as well such as building societies and so on.

Overall Conclusion:

The product strategy is thus prominent in the marketing of financial services locally. In particular, the five levels product concept has also gained wide credence among banks seeking to market their services in an increasingly crowded marketplace. This supports the literature review observation that particular financial service products may have a range of features, which are used as a differentiation strategy to appeal to given consumer segments.

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APPENDIX 1:

COMPLIMENTARY LETTER TO THE RESPONDENT.

University of Nairobi

Faculty of Commerce

Department of Business and Administration

P. O. Box 30197

Nairobi

16 April 2004

Dear Sir/Madam,

I am a graduate student at the Faculty of Commerce, University of Nairobi. In fulfillment of the requirements for attaining my degree, I am currently conducting a management research whose theme is to determine how the product strategy is used in the marketing of financial services by commercial banks in Kenya today.

To this end, I kindly request you to fill out the attached questionnaire to the best of your knowledge as soon as you can to facilitate this research.

I would like to assure you that all information provided will be used solely for the purpose of this research; be treated with the utmost confidence and in no way will the name of your institution be implicated in the research findings.

Your cooperation is highly appreciated. Thanking you in advance.

Yours respectfully,

P. K. Kimani:____________________

Dr Martin Ogutu (Supervisor): ________________________

APPENDIX 2:

Questionnaire:

Part One.

Section A:

Q1) Please indicate the name of your bank.

____

Q2) Below, indicate the ownership composition of your bank.

Foreign Owned	( )
Locally Owned	( )
Partly local and partly foreign owned	( )
Government Owned	( )

Q3) How many branches do you have? ____________________.

Q4) Do you have a Marketing Department?

Yes ( )	Go to Question 6.
No ( )	Go to Question 7.

Q5) In your opinion, what is the extent of top management involvement in marketing activity?

Very High	( )
High	( )
Same as for other areas	( )
Low	( )
None	( )

Q6) Indicate the official title(s) of the person(s) who perform Marketing activity such as product development and pricing in your bank.

____.

Q7) Please indicate the approximate size of your deposit base (in shillings).

____

Section B:

Q1). To what extent does your organization offer the following value-added banking services/products?

Key: 1 = no extent at all; 2 = a mild extent; 3 = a fairly high extent; 4 = a high extent; 5 =a great extent.

	1	2	3	4	5
Automated Teller Machines	( )	( )	( )	( )	( )
Electronic/Internet Banking	( )	( )	( )	( )	( )
Telephone Banking	( )	( )	( )	( )	( )
Local Electronic Fund Transfers	( )	( )	( )	( )	( )
Debit cards	( )	( )	( )	( )	( )
Credit cards	( )	( )	( )	( )	( )
Ordinary current accounts	( )	( )	( )	( )	( )
Ordinary savings accounts	( )	( )	( )	( )	( )
Ordinary deposit accounts	( )	( )	( )	( )	( )
Offshore banking service	( )	( )	( )	( )	( )

Q2) Choose the answer below that best represents the current extent of the use of modern technology as a service delivery medium in your organization.

Key : 1 = no extent at all; 2 = mild extent; 3 = fairly high extent;
4 = high extent; 5 = a great extent

Q3) Approximately what proportion of your total product mix is branded?

(A brand is a special name or symbol that uniquely identifies a given product or products).

________________________ percent of the products are branded.

Q4) With respect to your products, how often does your bank:

	Monthly	Quarterly	Half Yearly	Annually
A. Develop new products for new markets	( )	( )	( )	( )
B. Shop for new customers for existing offerings	( )	( )	( )	( )
C. Develop new offerings for it's current customers.	( )	( )	( )	( )
D. Encourage increased usage/ cross-selling .	( )	( )	( )	( )
E. Conduct product test marketing.	( )	( )	( )	( )

Q5) Choose the answer below that best represents your opinion of the extent to which your bank uses the following product line strategies.

Key A: 1 = no extent at all; 2 = mild extent; 3 = fairly high extent; 4 = high extent; 5 = a great extent

		Frequency of Use				
		1	2	3	4	5
Product Line Strategy	Line Stretching					
	Line Modernization					
	Line Filling					
	Line Featuring					
	Line Pruning					

Key B:

Product Line: Groups of products/accounts that are closely related via price, function, target market, distribution channels etcetera.

Line stretching: Increasing the length of a product line beyond its current range.

Line Modernization: Product upgrades to fit current tastes.

Line Filling: Adding more items within a product lines present range.

Line Featuring: Using a given product/account as a "flagship" or "crown jewel".

Line pruning: Dropping non-performing products/accounts.

Q6) Choose the answer below that best represents how many different product lines/account groups are on offer (the product width).

a) Less than 5. ( )
b) Between 5 and 10. ( )
c) Between 10 and 15. ( )
d) Between 15 and 20. ( )
e) Above 20. ( )

Q7) Choose the answer below that best represents the total number of individual products/accounts on offer (product length).

a) Less than 10. ( )
b) Between 10 and 20. ( )
c) Between 20 and 30. ( )
d) Between 30 and 40. ( )
e) Above 40. ( )

Q8) Choose the answer below that best describes how often your company develops different variations of a given product/account (product depth).

a) Monthly ( )
b) Quarterly ( )
c) Half Yearly ( )
d) Annually ( )
e) Never ( )

Q9) From the below list, tick those choices that best represent what kind of product innovation is prevalent in your company.

a) Developing new basic products (for instance, Jumbo Junior for children).

b) Improving on the basic offer by adding accessories like checkbooks.

c) High value added services such as online banking services.

d) That which is tailored along completely new concepts in banking such as internet banking

Others (specify):

____

____

____

____

____

____

____

____

APPENDIX 3:

LIST OF COMMERCIAL BANKS IN KENYA AS AT 20TH JUNE 2002

	NAME OF INSTITUTION	PEER GROUP CODE	NOTES
1	African Banking Corp. Ltd	3	
2	Akiba Bank Ltd	3	
3	Bank Of Baroda (K) Ltd	3	
4	Bank Of India	3	
5	Barclays Bank (K) Ltd	1	
6	Biashara Bank (K) Ltd	4	
7	Cfc Bank (K) Ltd	1	converted to commercial bank in 1995
8	Chase Bank (K) Ltd	4	changed name from United Bank w.e.f 15/11/95
9	Charterhouse Bank Ltd	4	changed name from Middle East Bank (K) finance w.e.f 11/11/96 and became a bank w.e.f 01/10/98
10	Citibank N. A.	1	
11	City Finance Bank Ltd	4	
12	Commercial Bank Of Africa Ltd	1	
13	Consolidated Bank Of Kenya Ltd	2	
14	Co-Operative Bank Of Kenya Ltd	1	
15	Co-Operative Merchant Bank	3	
16	Credit Agricole Indosuez	2	previously Bank Indosuez-converted on 05/08/97
17	Credit Bank Ltd	4	
18	Daima Bank Ltd	4	
19	Development Bank Of Kenya Ltd	3	
20	Diamond Trust Bank (K) Ltd	2	
21	Dubai Bank (K) Ltd	5	
22	Equatorial Commercial Bank Ltd	4	
23	Euro Bank Ltd	4	
24	Fidelity Commercial Bank Ltd	4	
25	Fina Bank Ltd	2	
26	First American Bank Of Kenya Ltd	2	
27	Guardian Bank Ltd	3	merger with First National Fin. Bank-app. on 24/11/98 merger with Guilder Int. Bank-app. on 31/12/99

28	Giro Commercial Bank	2	merger with Commerce Bank w.e.f 11/12/98
29	Habib Bank A. G. Zurich	3	merger with Habib African Ltd app. On 31/12/99
30	Habib Bank Ltd	3	
31	Imperial Bank Ltd	3	
32	Industrial Development Bank Ltd	4	converted to commercial bank in 10/09/98
33	Investments & Mortgages Bank Ltd	2	
34	Kenya Commercial Bank Ltd	1	
35	K-Rep Bank Ltd	4	
36	Middle East Bank (K) Ltd	2	
37	National Bank Of Kenya Ltd	1	merged with KENYAC w.e.f 25/05/99
38	National Industrial Credit Bank	2	
39	Paramount Universal Bank Ltd	4	merger of Paramount with Universal Bank
40	Prime Bank Ltd	3	
41	Southern Credit Banking Corp. Ltd	4	merged with Bullion Bank
42	Stanbic Bank Kenya Ltd	2	changed name from Grindlays w.e.f 01/07/93
43	Standard Chartered Bank (K) Ltd	1	
44	The Delphis Bank Ltd	3	under CBK Mgt
45	Trans-National Bank Ltd	4	
46	Victoria Commercial Bank Ltd	3	

Key:

Peer Group Codes used are as follows:

Group	Description
0	Unrated
1	Assets over KShs. 10,000 million
2	Assets between KShs. 5000-9999.9 million
3	Assets between KShs. 3000-4999.9 million
4	Assets between KShs. 1000-2999.9 million
5	Assets between KShs. 0-999.9 million

APPENDIX 4

TABLES OF FINDINGS

Table 8: Overall Response Rate.

	Number	Percentage
Questionnaires Received	19	46.3
Questionnaires Not Received	22	53.7
Total Questionnaires Distributed	41	100

Table 9: Ownership Composition Of The Banks.

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Foreign Owned	4	21.1	23.5	23.5
Locally Owned	8	42.1	47.1	70.6
Partly local and Partly foreign owned	4	21.1	23.5	94.1
Government Owned	1	5.3	5.9	100
Sub-total	17	89.5	100	
Missing	2	10.5		
Total	19	100		

Table 10: Existence Or Absence Of A Marketing Department.

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Yes	13	68.4	72.2	72.2
No	5	26.3	27.8	100.0
Sub-total	18	94.7	100.0	
Missing	1	5.3		
Total	19	100.0		

Table 11: Number of branches / Extent of branding.

	Valid Number of Responses	Minimum	Maximum	Mean	S.D.
Number of branches	18	1	60	12.06	18.873
Proportion of total product mix that is branded	18	38	80	57.1	15.088

Table 12: Extent Of Top Management Involvement In Marketing Activity.

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Very high	3	15.8	21.4	21.4
High	10	52.6	71.4	92.9
Same as for other areas	1	5.3	7.1	100
Sub-total	14	73.7	100	
Missing	5	26.3		
Total	19	100		

Table 13: Product Line Strategies Practiced By Banks:

PRODUCT STRATEGY		No extent	Mild extent	Fairly high extent	High extent	Great extent	SUB TOTAL	NON RESPONSE	TOTAL
Line Stretching	Frequency	0	5	5	2	2	14	5	19
	Percent	0	26.3	26.3	10.5	10.5	73.7	26.4	100
	Valid Percentage	0	35.7	35.7	14.3	14.3	100		
	Cumulative Valid Percentage	0	35.7	71.4	85.7	100			
Line Modernization	Frequency	0	4	4	7	2	17	2	19
	Percent	0	21.1	21.1	36.8	10.5	89.5	10.5	100
	Valid Percentage	.0	23.5	23.5	41.2	11.8	100		
	Cumulative Valid Percentage	0	23.5	47	88.2	100			
Line Filling	Frequency	0	6	7	3	0	16	3	19
	Percent	0	31.6	36.8	15.8	0	84.2	15.8	100
	Valid Percentage	0	37.5	43.8	18.7	0	100		
	Cumulative Valid Percentage	0	37.5	81.3	100				
Line Featuring	Frequency	1	4	5	5	0	15	4	19
	Percent	5.3	21.1	26.3	26.3	0	78.9	21	100
	Valid Percentage	6.7	26.7	33.3	33.3	0	100		
	Cumulative Valid Percentage	6.7	33.3	66.7	100				
Line Pruning	Frequency	1	11	2	1	1	16	3	19
	Percent	5.3	57.9	10.5	5.3	5.3	84.2	15.7	100
	Valid Percentage	6.3	68.8	12.5	6.2	6.2	100		
	Cumulative Valid Percentage	6.3	75.1	87.5	93.8	100			

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