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**CHALLENGES OF IMPLEMENTING THE SEGMENTATION STRATEGY  
AT THE CO-OPERATIVE BANK OF KENYA LIMITED** 27

BY: MARUTIT MILLICENT CHELANGA

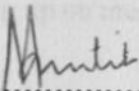
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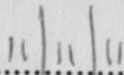
**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS  
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**OCTOBER 2011**

## DECLARATION

This project is my original work and has never been presented for a degree in any other university.

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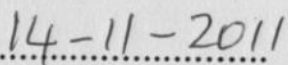
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This project has been submitted for examination with my approval as the University Supervisor.

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Foremost, I am so grateful to God for being gracious and faithful throughout this journey. My gratitude to my dear husband Tonnie, and darling son Donnie for making the sacrifices with me and for me. To my loving mom and queen of my heart, Magdalene Karia, thank you for not giving up on me; you are the wind beneath my wings.

My sincere gratitude to my supervisor Dr. Maalu for your patience, constructive criticism and encouragement, without which I would not have come this far. Special thanks also to my respondents and interviewees - you did not have to but I am grateful that you found time to contribute to my success. I hope the findings of this study will be a chronicle and an eye opener to the "Kingdom Bank".

Last but not least, my gratitude to my dearest friends and colleagues, who challenged me the most on my very last lap and held my hands up when I was too tired. Cineth, Picoty and most of all Janet, you deserve a special mention.

## DEDICATION

To my dear husband Tonnie Mello, what would I do without you?

To my darling son Donnie Mello, may your future shine brighter than the stars.

## ABSTRACT

The study was on the challenges faced by companies in the implementation of the segmentation strategy. The research was undertaken using the case study method with a focus specific to the Co-operative Bank of Kenya Limited. The study covers the basis on which the bank has segmented its target market and the challenges that the management has faced in the process of implementing the segmentation strategy.

Primary data was obtained using the personal interview method and supplemented by secondary data obtained from relevant publications. Analysis of data was done using the content analysis methodology. Presentation of the findings from primary data is in qualitative form and is supported by secondary data presented in quantitative form.

The findings of the study were that the bank has segmented its target market into three broad segments on socio-economic basis. The segmentation is based on type of borrowers specifically focusing on potential borrowing needs and level of social involvement they demand. The three segments are retail banking, corporate banking and SACCO (Co-operatives) banking. Further the study confirms that the implementation phase of strategy is in fact longer and more challenging than the planning phase. The main challenges that were articulated included inadequate resource capacity, increased risk of ignoring potential audiences, resistance from the market, cannibalization of existing markets, inefficient resource utilization and increase in costs.

The findings of the study indicate that it is important for organizations that intend to implement a response strategy to carefully anticipate the effects of implementation of the strategy during the planning stage. This will prepare them for the various ripple effects of

implementation. This notwithstanding, the management should also be aware that there may be effects that emerge as the environment responds to changes in the organization's strategy. Some of these responses by the environment are outside the control of the organization and cannot be accurately anticipated by the management. This will require the organization to be flexible in order to adapt to emerging changes as a result of the interaction between itself and environment.

Nevertheless, implementation of the segmentation strategy has fast-tracked the growth of the company and resulted in measurable benefits such as growth in size, market share and profitability. As such, the management of the organization is vindicated in making the decision to implement the strategy as a response to the changing environment.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

There are various views and perceptions of what strategy really is and various scholars have attempted to describe it. Johnson & Scholes (1999) define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and fulfil stakeholder expectations. This implies that the choice of strategy may be influenced by the speed of change in the environment. Where the changes are gradual, an organization is presented with ample time to formulate response strategies, but where the changes in the operating environment are drastic, the situation may call for a faster response.

In an increasingly competitive environment, organizations must adopt strategies that best fit their capacity in order to ensure not only survival but success of the firm. Ansoff & McDonnell (1990) argue that response strategies involve changes in the firm's behavior and actions in an effort to pursue set goals and objectives. The strategies are necessary ingredients in transforming future environments and ensuring success in the rapidly changing environment. The scholars observe that changes in the environment pose threats as well as create opportunities to the organizations and therefore the organizations react with strategies to counter the threats or to exploit the opportunities.

Market segmentation is one of the possible response strategies to competition. Some authors have attempted to demonstrate the effects of choice of response strategy on organisations over the years. For example, Trethowan and Scullion (1997) found out

that banks in the United Kingdom and the Irish Republic had previously attempted to be “all things to all men” as they embarked on mass marketing campaigns. In their article, they describe how deregulation in the banking industry increased levels of competition in what was a highly protected sector requiring banks to manage their strategic positioning. It was unusual for banks to deal with such large and rapid changes, and recent history shows that many mistakes were made in the strategies they adopted.

### 1.1.1 Segmentation Strategy

The business environment is made up of many buyers with their own unique sets of needs and behavior. Segmentation aims to match groups of purchasers with the same set of needs and buyer behavior into groups known as a 'segments'. Ferrell & Pride (1982) propose that market segmentation is the process of dividing a total market into groups of people with relatively similar needs for the purpose of designing a marketing mix (or mixes) that more precisely matches the needs of individuals in the selected segment(s). Kotler (2008) suggests that market segmentation is an adaptive strategy consisting of the partitioning of the market with the purpose of selecting one or more market segments which the organization can target through the development of specific marketing mixes that adapt to particular market needs.

Since Smith's (1956) influential article there has been a growing awareness of the concept of market segmentation. The author states that market segmentation and brand positioning are distinct forms of analysis. Over time segmentation of markets has become a natural part of strategy in business. It is no longer viewed in isolation but it is a process that is conducted in tandem with other business strategies and

activities of an organization. In fact scholars such as Wind (1978) and Lazer & Culley (1983) among others contend that market segmentation long has been considered one of the most fundamental concepts of modern marketing.

In most markets there is an infinite variety of customers' needs and the concept of segmentation can be useful in identifying similarities and differences between groups of customers. Ferstman & Muller (1993) argue that through market segmentation the firm can provide higher value to customers by developing a market mix that addresses the specific needs and concerns of the selected segment. Implementation of the segmentation strategy will usually require reallocation or development of capacity in terms of different products, skills sets, resources and sometimes infrastructure to match the targeted segments' requirements. Mukulu (2005) as quoted by Kipchillat (2006) proposes that as opposed to the infinite needs in the market resources tend to be limited, making the implementation process challenging to the strategists. Inevitably therefore implementation of the same strategy by different firms will result in varying levels of success owing to the different resource capacities as well as level of resource utilization.

Although segmentation is one of the major studies of market research throughout top-performing companies, it often proves very difficult to get it right. Streeter (2009) identifies three common challenges to segmentation as ignoring potential audiences, forgetting about individuality and sending the wrong message. He explains the risk of ignoring potential audiences as the tendency of a company leaving out certain segments hence not being able to maximize potential. He further asserts that quantitative surveys produce numerous statistically significant segments, but creating

the segment (or segments) for which the company should target is not a simple task. Just as every individual is unique in some way, shape or form, it is hard to classify people into buying-behavior segments. There is also the risk of sending the wrong message to too many segments. This is because inevitably different messages are interpreted differently by each individual resulting in the risk of cannibalization, in which one segment overtakes another so nothing is gained and in the worst case, overall sales or market share is lost.

Although customer segmentation is a very important concept in strategy, it is also one of the most difficult to do well. Sawhney (2008) proposes that some of the issues that strategists must contend with include determination of the scope of segmentation, inbound versus outbound use of segmentation, refresh cycle and stability of segmentation as well as the all-time challenge of segmentation for multiple audiences. On scope of segmentation he proposes that the challenge is how to reconcile the level of depth required by engineering with the breadth required by cross-business alignment. He also explains that it is important to reconcile segmentation variables that are useful for product development decisions (inbound use) versus segmentation variables that are useful for product marketing decisions (outbound use). He points out that other important challenges of segmentation is how to ensure that it remains relevant between the time the product is initially conceptualized, through development and into go-to-market as well as the all time challenge of segmentation for multiple audiences.

### 1.1.2 Banking industry in Kenya

The Banking Act Chapter 488 of the Laws of Kenya defines a bank as a company which carries on or purposes to carry on banking business. A bank collects deposits from savers and pays them interest on the deposits and it grants loans to borrowers who in turn pay interest and fees to the bank. Saunders (2007) explains that commercial banks perform functions similar to those of savings institutions and credit unions by accepting deposits and making loans.

Banking in Kenya started in the colonial era with the British colonialists and a few Indian traders in the late 19<sup>th</sup> Century. According to Wagacha and Ngugi (1999) as quoted by Mukule (2006) the first bank to start in Kenya was the National Bank of India, now called Kenya Commercial Bank in 1896 followed by the Standard Bank in 1910. Over the last few years, the banking sector has continued to grow in assets, deposits, profitability and products offering. Mukulu (2005) as quoted by Kipchillat (2006) proposes that the banking industry plays a critical role in the growth and development of an economy. He emphasizes that it also facilitates world trade and international investment through its connection with other banks globally.

Njoroge (2008) states that the banking industry in Kenya is governed by the Company's Act, Banking Act, Central Bank of Kenya (CBK) Act and the various Prudential Guidelines issued by the CBK. During the period ended June 30<sup>th</sup> 2011, the sector comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 2 credit reference bureaus, 3 representative offices and 124 foreign exchange bureaus. According to the bank's supervisory report in June 2011 the growth of the industry was been underpinned by an industry wide

branch network expansion strategy both in Kenya and in the East Africa community region. The industry's environment has also become increasingly competitive as customers become more aware of their bargaining power. As a result of these changes in the environment the banking sector players have had to find ways to adapt to the environment. After all Ansoff (1988) affirms that for organizations to succeed they must adopt new strategies to match new environmental conditions. (<http://www.centralbank.go.ke/publications/default.aspx>).

### **1.1.3 Co-operative Bank of Kenya Limited**

The Co-operative Bank of Kenya Limited (Co-op Bank) is presently the third largest local bank in Kenya measured by capital base after Equity Bank Limited and Kenya Commercial Bank Limited. The bank was registered as a co-operative society in 1965, and subsequently granted a banking license to operate under the Banking Act in 1968. The Bank was formed at the time with a modest capital contributed by its promoters (who were mainly farmers' co-operative unions) and supplemented by an interest free government loan repayable over 10 years. Despite ridicule and doubts on the viability of a "peasant bank", it has grown to be among the leading financial institutions in Kenya.

The choice of Co-op Bank as a case study is informed by the wide range of clients the bank serves despite its historic background with Savings & Credit Co-operative Societies (SACCOs). The uniqueness of this bank comes about from the very nature of the SACCOs whose primary objectives are to provide its members with financial services such as savings and credit, much like banking services provided by commercial banks. The second uniqueness arises from the fact that the same

SACCOs are the majority shareholders of the bank, owning 64.56% of the company under the umbrella company Co-op Holdings Co-operative Society Limited and they also form the single largest customer base, and they remain the key focal point of the bank's strategy. (<http://www.co-opbank.co.ke/Main-Site/Home/Co-operatives> )

The introduction of other services to new potential clients and existing clients has uniquely necessitated segmentation of markets to enable the bank provide services effectively and efficiently. This segmentation process is complex and interesting in the context of Co-op Bank because of the ownership structure of the organisation and its allegiance to the co-operative movement. The study of this bank therefore offers an opportunity to clearly see the need for segmentation of the market as well as the process of implementing the strategy over a period of time. This study will endeavour to unravel whether the bank has been successful in serving several segments and the challenges of implementing the strategy in the context of limited resources.

## **1.2 Research Problem**

The main reason why a company may want to segment the market is to identify subsets of clients for the purpose of focusing marketing effort. Porter (1985) proposes that market segmentation need not be a purely adaptive strategy, and that the process can also consist of the selection of those segments for which a firm might be particularly well suited to serve by having competitive advantages relative to competitors in the segment, reducing the cost of adaptation in order to gain a niche. Co-op Bank has adopted a multi-segment strategy serving a wide range of client groups who tend to display different characteristics and require different levels of client engagement.

There have been various studies undertaken in relation to the concept of segmentation and implementation of strategies. Mukule (2006) conducted a research to establish the adoption of retail marketing by commercial banks in Kenya and whether the strategies led to sustainable competitive advantages for the commercial banks. Musa (2004) conducted a research to establish the response of National Bank of Kenya (NBK) to the changes in the competitive environment. He found out that NBK had addressed its changing competitive situation by implementing some strategic responses but he did not go into details of how the strategies were implemented or the challenges faced in the implementation of the response strategies.

Awiti (2007) sought to determine the competitive strategies that reproductive health organizations in Kenya are using to cope with increased competition and to determine the challenges faced by these organizations in implementing the competitive strategies. She came to the conclusion that the most commonly used strategies were differentiation and the cost leadership generic strategies and that the main challenges faced in applying the strategies were imitation by competitors and rapid changes in technology. The available studies do not directly address how segmentation strategy may be implemented, but on marketing strategies that emerge after successful segmentation. There is no study known to the researcher that has been undertaken on how a specific bank has actually implemented the segmentation strategy. What then are the actual challenges faced by organizations in implementing the segmentation strategy?



### 1.3 Research Objectives

The study intends to investigate the following:

- i. To establish the basis of market segmentation at the Co-operative Bank of Kenya Limited.
- ii. To establish the challenges faced by the Co-operative Bank of Kenya Limited in implementing the segmentation strategy.

### 1.4 Value of the Study

The findings of the study will be relevant to the bank's top management which is responsible for the overall vision of the company and is the policy making organ of the bank. The research will be specifically useful to them as it will entail investigation of the effectiveness of their segmentation strategy. An objective review of the implementation process and the challenges will provide an opportunity for the management to identify areas of strengths and weaknesses and stir action towards positive improvement.

The findings of the study will also be relevant to other financial institutions and indeed all organisations that have similar models of operation and need to segment their target markets appropriately. They will be of specific interest and importance to other financial institutions who have adopted a similar organization structure. There is no benefit in re-inventing the wheel, and organizations will make economic decisions by learning from the experiences of others and benchmarking where possible.

Lastly, the study will add to the body of knowledge and may stimulate further research in the study of the implementation of other response strategies. It is not

enough for an organization to carefully choose a response strategy, but the implementation of the strategy is just as important as the choice of strategy. In fact Hrebiniak (2006) asserts that although formulating a consistent strategy is a difficult task for any management team, making that strategy work – implementing it throughout the organization – is even more difficult. As such different organizations will register different level of success from the same choice of strategy depending on how they actually perform on the implementation.

### 3.1.1 Strategy

There are many attempts to describe strategy and the definitions are as varied as the strategies themselves. Porter & Scholer (1999) define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through the configuration of resources within a changing environment to meet the needs and fulfill stakeholder expectations. Mintzberg (1999) defines strategy as a plan, pattern, perspective and position. He explains that a plan can be followed and as a plan it can be seen as a move in a game of relative advantage. It is a pattern of consistent behaviour logically thought out and is a unique way of perceiving the world and as a position, it is a means of fitting an organization to its environment.

Although some scholars perceive strategy as a matter of competitive positioning, in recent years managers have been learning to play by a different set of rules. Porter (1999) argues that companies must be flexible to respond rapidly to competition and technological changes. He claims that positioning (once considered the heart of strategy) is not as fool-proof for today's dynamic markets and changing technologies.



## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

Implementation of any strategy is a process rather than an event. Various scholars have studied how different strategies have been implemented and this section will cover past literature related to the implementation of strategies. The researcher's objective in this section is to examine how strategies can be implemented as well as the possible challenges faced by strategists during implementation.

### 2.2 Concept of Strategy

Various scholars have attempted to describe strategy and the definitions are as varied as the perceptions. Johnson & Scholes (1999) define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and fulfil stakeholder expectations. Mintzberg (1999) describes strategy as a plan, ploy, pattern, perspective and position. He explains that as a plan, strategy can be followed and as a ploy it can be seen as a move in a competitive advantage game. It is a pattern of consistent behaviour logically thought out and is a unique way of perceiving the world and as a position, it is a means of locating an organization in its environment.

Although some scholars perceive strategy as a matter of competitive positioning, in the recent years managers have been learning to play by a different set of rules. Porter (1996) argues that companies must be flexible to respond rapidly to competition and market changes. He claims that positioning (once considered the heart of strategy) is rejected as too static for today's dynamic markets and changing technologies.

According to the new dogma, rivals can quickly copy any market position, and competitive advantage is at best temporary. Porter (1996) defines strategy as the creation of a unique and valuable position involving a different set of activities. In agreement, Pearce & Robinson (1997) argue that strategy can be seen as either building defences against competitive forces, or as the finding of positions in the industry where competition forces are weakest.

Some scholars view strategy as a managerial function closely intertwined with planning and control. Rugman (1980) defines strategy as the long term planning which integrates and directs the functional areas into an overall company goal. Migunde (2003) argues that strategy is a game plan that creates a match between a firm's capabilities and the firm's environment. There is therefore no single universally accepted definition of strategy, but it is clear that strategy has to do with how a firm relates to its environment.

### **2.3 Concept of segmentation strategy**

A market segment is a sub-set of a market made up of people or organizations with one or more characteristics that cause them to demand similar products based on specific qualities of those products. Porter (1985) proposes that the fact that segments differ widely in structural attractiveness and their requirements for competitive advantage brings about two crucial strategic questions: the determination of where in an industry to compete and in which segments focus strategies would be sustainable by building barriers between segments. He explains that a true market segment is distinct from other segments, homogeneous within itself, responds similarly to a market stimulus and it can be reached by a market intervention.

Porter (1985) suggests that the identification of segmentation variables is among the most creative parts of the segmentation process, because it involves conceiving dimensions along which products and buyers differ, that carry important structural or value chain implications. He contends that the greatest opportunity for creating competitive advantage often comes from new ways of segmenting, because a firm can meet buyer needs better than competitors or improve its relative cost position. He notes that the most common method of segmenting includes demographic variables such as age, race, sex, income, occupation, education and geographic location. Much of the segmentation will involve a combination of these variables and no matter how the segments are defined they are characterized by considerable change over time. Market segmentation and corresponding product differentiation strategy can therefore give a firm only a temporary commercial advantage.

While there may be theoretically 'ideal' market segments, in reality every organization engaged in a market will develop different ways of imagining market segments. Goldstein (2007) defines customer segmentation as a method for grouping customers based upon similarities they share with respect to any dimensions the marketer deems relevant to their business - whether it be customer needs, channel preferences, interest in certain product features or customer profitability.

Various authors have pointed to the way in which approaches to segmentation are often poorly thought out and then poorly implemented. In the case of companies with a broadly reactive culture, this is often largely due to a degree of organizational lethargy, which leads to the firm being content to stay in the same sector of the market for a considerable period. It is only when the effects of a changing

environment become overwhelmingly evident that serious consideration is given to the need for repositioning in order to appeal to new sectors of the market. For other organizations, however, a well thought out policy of segmentation plays a pivotal role in the determination of success. It is the recognition of this that has led to the suggestion in recent years that the essence of strategic marketing can be summed up by segmentation, targeting and positioning.

Important to note is that not all writers are in favor of segmentation. Bliss (1980) suggests that while many marketing managers acknowledge the rationale of segmentation, many are dissatisfied with it as a concept, partly because it is inapplicable or difficult to apply in many markets, but also because emphasis is too often given to the techniques of segmentation at the expense of the market itself and the competitive situation that exists. Equally, Resnik *et al.* (1979) propose that changing values, new lifestyles, and the rising costs of products and services argue the case for what they call 'counter-segmentation' referring to an aggregation of various parts of the market rather than their subdivision. The majority of writers, however, acknowledge the very real strategic importance of segmentation and, in particular, the ways in which it enables the organization to use its resources more effectively and with less wastage.

#### **2.4 Strategy implementation**

Although formulating a consistent strategy is a difficult task for any management team, Hrebiniak (2006) asserts that implementing the strategy throughout the organization is even more difficult. Unlike strategy formulation, strategy implementation is often seen as an art, rather than a science, and its research history

has previously been described by Noble (1999) as fragmented and eclectic. It is thus not surprising that, after a comprehensive strategy or single strategic decision has been formulated, significant difficulties usually arise during the subsequent implementation process. Thompson & Strickland (2003) stress that the implementation of strategy is the most complicated task and time-consuming part of strategic management. Wernham (1985) also describes it as more of a spring than a simple cascade stating that many factors influence the flow and content of the spring.

Strategy implementation is an iterative process of implementing policies, programs and action plans that allows a firm to utilize its resources to take advantage of opportunities in the competitive environment. Kotler (1984) as cited in Noble (1999) argues that implementation is the process that turns plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan's stated objectives. It is the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and better performance.

## **2.5 Models of strategy implementation**

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Bourgeois & Brodwin (1984) categorize strategy implementation into five models, which they say to represent a trend toward increasing sophistication in thinking about implementation and also a rough chronological trend in the field. The models are: commander, change, collaborative, cultural and crecive models.

The scholars explain that in commander model, the general manager, after exhaustive period of strategic analysis, makes the strategic decision, presents it to top managers, tells them to implement it, and waits for the results. In this model, general manager has a great deal of power and access to complete information, and is insulated from personal biases and political influences. The model also splits the organization into thinkers and doers. The writers assert that in change model, after making strategic decisions, the general manager plans a new organizational structure, personnel changes, new planning, information measurement and compensation systems, and cultural adaptation techniques to support the implementation of the strategy. In contrast the collaborative model of strategy implementation goes to involve the management team in strategic decision-making. The general manager employs group dynamics and brainstorming techniques to get managers with different viewpoints to provide their inputs to the strategy process.

The cultural model takes the participative elements to lower levels in the organization as an answer to the strategic management question of inclusiveness. The general manager guides organization by communicating the vision and allowing each individual to participate in designing the work procedures in concert with the vision. Finally in crecive model the strategy comes upward from the bottom of the organization, rather than downward from the top. The general manager's role is to define organization's purposes broadly enough to encourage innovation, and to select judiciously from among those projects or strategy alternatives that reach his attention.



## 2.6 The challenge of strategy implementation

Strategy implementation has received increasing attention in literature over the recent decades. However Noble (1999) notes that no coherent research paradigm seems to exist mainly because of the diversity of perspectives that have been taken in defining the concept. Research indicates that 70% of organizations fail to effectively execute their strategic plans. Zook & Allen (2001) propose that this is mostly because strategy implementation is both challenging and resource intensive.

Given the importance of strategy and its execution, firms today are increasingly seeking the best tools and methodologies to enable effective strategy implementation. Noble (1999) makes a distinction between structural and interpersonal process views on strategy implementation. The structural perspective focuses on formal organizational structure and control mechanisms, while the interpersonal process is about understanding issues like strategic consensus, autonomous strategic behaviors, perspectives, leadership and implementation styles, and communication and other interaction processes.

Some of the problems in strategy implementation include unfeasibility of the strategy, weak management role, lack of communication, lack of commitment, lack of awareness or misunderstanding of the strategy, unaligned organizational systems and resources, poor coordination of responsibilities, inadequate capabilities, unexpected obstacles, competing activities, delayed schedule, uncontrollable environmental factors, and negligence of daily business (Alexander 1991; Beer & Eisenstat 2000; Galpin 1998; Giles 1991). However, the most common reasons why strategy implementation fails are insufficient stakeholder buy-in, resistance to change,

insufficient and/or ineffective leadership attention and weak or inappropriate strategy. By developing an awareness of these hurdles which lead to failure in implementation firms can learn how to adapt their approach and develop tools to assist them in more successfully executing their strategy.

Porter (1996) proposes that in conducting strategic planning firm leaders involved in the process develop a strong understanding of the business imperative behind the chosen strategy and the need for change in order to achieve the firm's goals. However, employees removed from the process may struggle to identify with the goals and strategies outlined by the leaders. These employees may not understand the background and rationale for the chosen strategy hence may never buy-in to the strategic plan and will passively or actively interfere with the implementation process. Executing on strategy requires adopting a change in approach and new ways of doing things which translates to convincing stakeholders that change is needed and that the chosen approach is the right one.

### 3.2 Data Collection

Data was obtained from selected informants who were most likely to be aware of the execution and implementation challenges of the segmentation strategy in Co-op Bank. The selected informants were the total number of the bank's divisional heads. The data collected was qualitative being an account of what had transpired in the company over a period of time. It was confirmed by qualitative secondary data from various internal and external reports and publications.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

The focus of this study was on Co-operative Bank of Kenya Ltd (Co-op Bank) as one specified organization in an effort to unveil its particular challenges in the implementation of the segmentation strategy. The objective in this section is to detail the style of research that was adopted to best fit the objectives of the study.

### **3.2 Research Design**

The study was conducted through a case study. According to Kothari (1990), a case study involves a careful and complete examination of a social unit, institution, family, cultural group or an entire community. It embraces depth rather than breadth of a study. Cooper and Schindler (2003) also agree that case studies place more emphasis on a full contextual analysis of fewer events or conditions. The research involved an in-depth study of Co-op Bank. This bank was one of a kind in the banking industry in Kenya, associated with and serving predominantly SACCOs. The choice of the case study research design was influenced by the fact that it is about intensive study of a specific unit and therefore it was best suited for the objectives of this research.

### **3.3 Data Collection**

Data was obtained from selected informants who were most likely to be aware of the evolution and implementation challenges of the segmentation strategy in Co-op Bank. The selected informants were the total number of the bank's divisional heads. The data collected was qualitative being an account of what had transpired in the company over a period of time. It was confirmed by quantitative secondary data from various internal and external reports and publications.

The researcher developed an interview guide which was used in the process of personal interviews with the informants. This type of interview also created an environment suitable for probing as the researcher guided the informants in providing the required responses. The researcher met the informants face to face to be able to explain questions and seek clarity where necessary. The primary data was supplemented by secondary data sourced from various publications of Co-op Bank, CBK publications and reports, as well as other relevant industry publications.

### 3.4 Data Analysis

Analysis of data was conducted using the content analysis methodology. Nachmias and Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends. The presentation of the findings was both in qualitative and quantitative forms. Data was analysed using content analysis based on analysis of meaning and implications as per the informants' accounts.

## CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

### 4.1 Introduction

This chapter contains research findings, analysis and presentation of data obtained from interviews and other secondary sources. The data is summarized and presented as a feedback report from the informants supported by documented secondary data and statistics. The opinions of informants were obtained through personal interview data collection method. The researcher used an interview guide to ensure to cover all relevant areas of research. In addition the probing technique was employed in order to guide the respondents to provide the required information and explain areas that were not clear. Seven top managers of the bank were interviewed by the researcher. The respondents were selected on the premise that they have access to critical information that guides the strategic direction of the organization.

The researcher identified 7 respondents out of which 6 were able to participate in the study. The response rate was therefore 86% and non response rate 14%. The respondents were selected based on their senior position in the company and access to information on strategic decisions. Being the top management staff it was challenging to find adequate time for a comprehensive interview with the respondents for a research of this nature. Some of the respondents were also fairly new in the organization hence had to refer the researcher to their designated assistants for accurate information. All in all, the response rate was considered good and the data collected was considered reliable.

## **4.2 Profile of Co-operative Bank of Kenya Ltd**

The unit of analysis was the Co-operative Bank of Kenya Limited. The company is incorporated in Kenya under the Company's Act and is also licensed to do the business of banking under the Banking Act. The Bank was initially registered under the Co-operative Societies Act at the point of founding in 1965. This status was retained up to June 2008 when the bank's special general meeting resolved to incorporate under the Companies Act with a view to complying with the requirements for listing on the Nairobi Stock Exchange. Subsequently the bank went public and was listed on the stock exchange in December 2008.

### **4.2.1 Ownership**

The Co-operative Bank was 100% privately owned by over 111,720 shareholders as at the end of 2009. Shares previously held by the 3,805 co-operatives societies and unions were collated under Coop Holdings Co-operative Society Limited which became the strategic investor in the Bank with a 64.56% stake. The bank runs three subsidiary companies, namely: Kingdom Securities Limited, a stock broking firm, Co-op Trust Investment Services Limited, the fund management subsidiary, and Co-operative Consultancy Services (K) Limited, the corporate finance, financial advisory and capacity-building subsidiary.

The bank is ranked fifth in the Kenya banking industry as measured by capital base, which was slightly above KES 20 billion as at December 2010. This capitalization is largely attributed to retained earnings as well as equity capital injection by shareholders over the years.

## 4.2.2 Asset base

Asset base may be described as the underlying infrastructure and benefits giving value to a company. The asset base of a company is not fixed as it will appreciate or depreciate according to market forces. The true asset base of a bank should therefore include physical infrastructure as well as intangible assets such as man-power, goodwill and intellectual property the company may own. It is however difficult to measure intangible assets hence in practice only tangible assets are evaluated in computing asset base. Measured by asset base, Co-op Bank was ranked as the third largest bank in the industry as at December 2010. Some of the indicative assets owned by the bank include the branch network, the Automated Teller Machine network and the workforce.

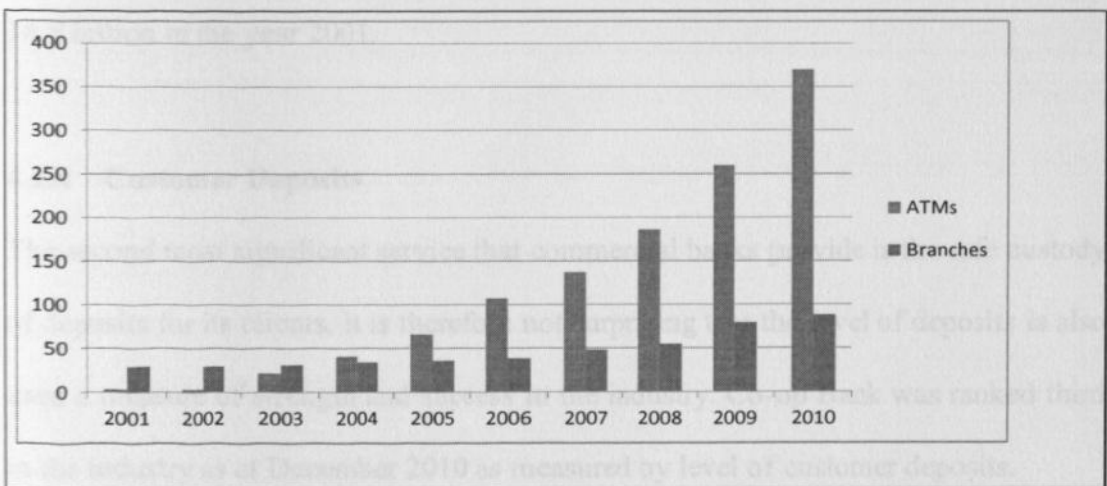
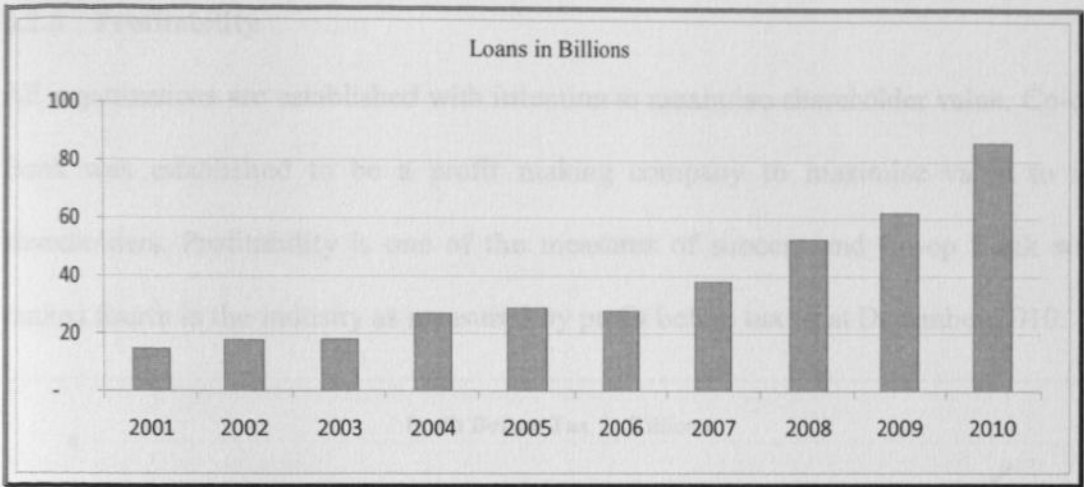


Figure 1 - Growth in service outlets

## 4.2.3 Loans and Advances

One of the major activities of commercial banks is provision of financial services in the form of loans to its customers. Co-op bank's loan book has grown over time in tandem with the growth of customer base. Co-op Bank was the third largest bank in the Kenya banking industry as measured by loans and advances as at December 2010.

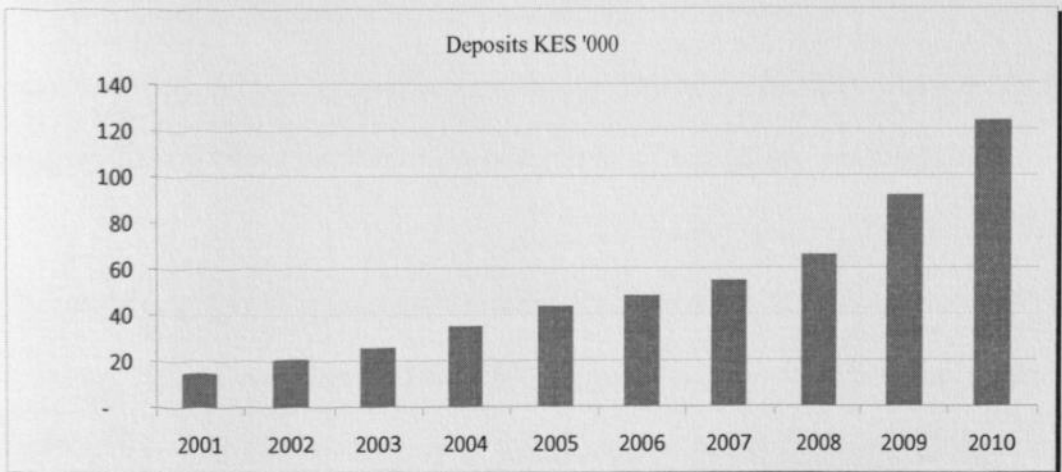


**Figure 2 - Loans and advances**

The growth in loans and advances over the last 10 years has been steady and particularly impressive in the later 5 years from the year 2005. In the year 2010 the loan book balance was over KES 86 billion having grown over the years from only 14.8 billion in the year 2001.

**4.2.4 Customer Deposits**

The second most significant service that commercial banks provide is the safe custody of deposits for its clients. It is therefore not surprising that the level of deposits is also used a measure of strength and success in the industry. Co-op Bank was ranked third in the industry as at December 2010 as measured by level of customer deposits.



**Figure 3 - Customer deposits**



#### 4.2.5 Profitability

All organizations are established with intention to maximise shareholder value. Co-op Bank was established to be a profit making company to maximise value to its shareholders. Profitability is one of the measures of success and Co-op Bank was ranked fourth in the industry as measured by profit before tax as at December 2010.

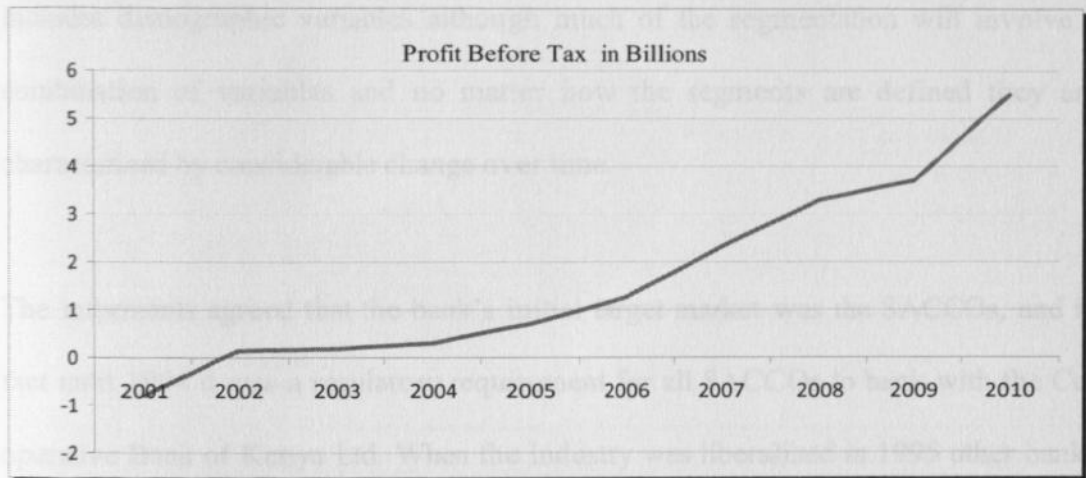


Figure 4 - Profit before Tax

### 4.3 Basis of segmentation

Porter (1985) suggests that the identification of segmentation variables is among the most creative parts of the segmentation process, because it involves conceiving dimensions along which products and buyers differ, that carry important structural or value chain implications. He notes that the most common method of segmenting includes demographic variables although much of the segmentation will involve a combination of variables and no matter how the segments are defined they are characterized by considerable change over time.

The informants agreed that the bank's initial target market was the SACCOs, and in fact until 1994 it was a regulatory requirement for all SACCOs to bank with the Co-operative Bank of Kenya Ltd. When the industry was liberalized in 1995 other banks began to target the SACCOs and encroach on Co-op Bank's market. As such, apart from trying to protect their otherwise captive market, the bank had to consider targeting new markets such as individuals and companies.

Some of the effects of going into new markets included bountiful growth in customer numbers, deposits, loan book, revenue, costs and also profits. As a result of this growth it became important for the bank to segment its customer into groups that could be served more effectively and profitably. The SACCOs had to share the bank's attention with the new found markets in the name of individuals and companies.

The informants agreed unanimously that the bank had segmented the market on socio-economic basis. There were 3 identifiable segments namely: retail banking, corporate banking and SACCO banking. The segments are based on types of borrowers

specifically focusing on their potential borrowing needs and the level of social involvement they demand. The segments size in terms of loan book as at December 2010 was represented as below:

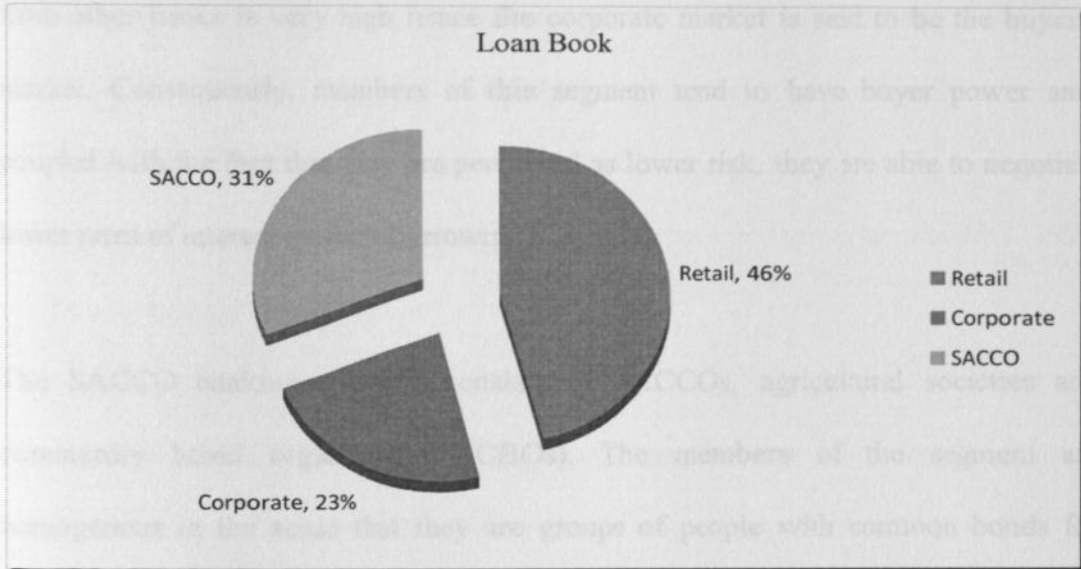


Figure 5 - Segmentation by loan book - December 2010

Retail banking focus is on individuals, micro enterprises and small & medium sized businesses. All the members of this segment, including the business people, tend to borrow relatively low amounts of money (below KES 10 million). They are perceived to be higher risk clients and thus the bank prices their loan facilities at higher rates to compensate itself for the higher risk. The members also tend to demand less personal attention and are generally considered as the mass market. They often require quick service and are content to pay higher rates as long as they are assured that they can at least obtain financing in terms of loans.

Corporate banking segment consists of customers in the league of corporate and institutional bodies including large corporate businesses, government bodies and multinational corporations. Their potential borrowing requirements are above KES 10

million and their revenues are on average above KES 25 million per annum. They are often well established companies or government bodies, whose risk profile is considered as good. They are finite in the market and competition for their business from other banks is very high hence the corporate market is said to be the buyers' market. Consequently, members of this segment tend to have buyer power and, coupled with the fact that they are perceived as lower risk, they are able to negotiate lower rates of interest on their borrowing.

The SACCO banking segment consists of SACCOs, agricultural societies and community based organizations (CBOs). The members of the segment are homogenous in the sense that they are groups of people with common bonds for example they are employees of the same organization (SACCOs), they engage in the same economic activity (agricultural societies) or save together for a common purpose (CBOs). The groupings tend to have democratic leadership hence tend to be political in their interactions even with the bank hence require dedicated attention. The SACCOs form the bulk of this segment and since they are the majority shareholders of the bank they are able to negotiate extremely low interest rates on their borrowing.

#### 4.4.1. Inadequate staff capacity

The informants indicated that since its inception the bank had dealt only with the SACCOs as their primary clients and lacked capacity to deal with the new-found account effectively. This required the bank to embark on recruitment of experienced staff from other banks and training of existing staff to bridge the skills gap.

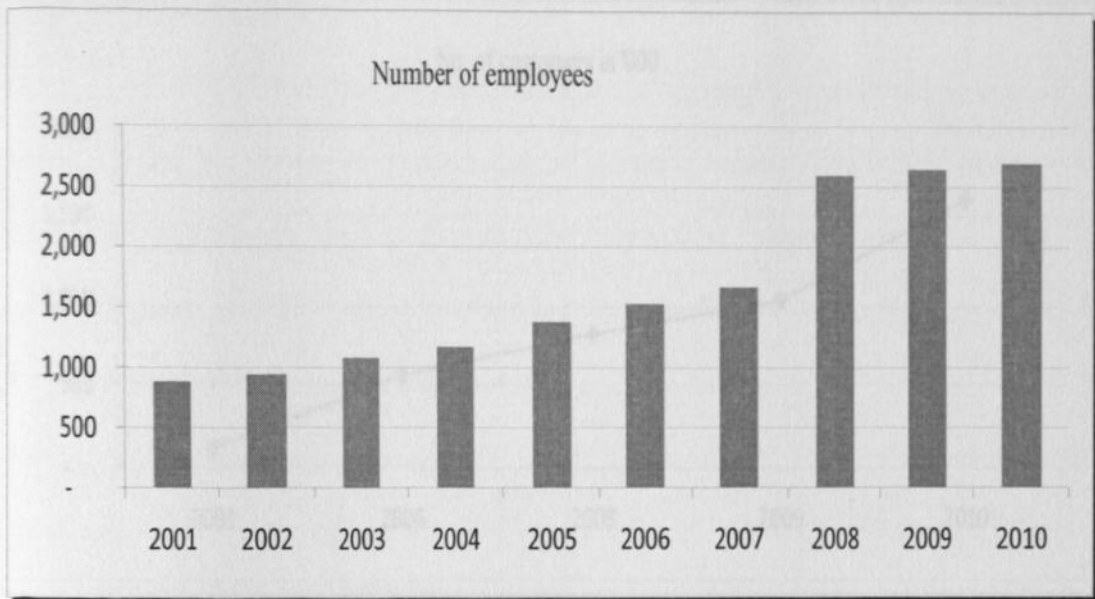
#### **4.4 Challenges of implementing the segmentation strategy**

The second objective of this study was to establish the challenges, if any, of implementing the segmentation strategy at the Co-operative Bank of Kenya Limited. Various scholars have studied the concept of the segmentation strategy and have noted some common challenges in its implementation. Strategy formulation is seen as a science while strategy implementation is often seen as an art, rather than a science. Research history on strategy implementation has previously been described by Noble (1999) as fragmented and eclectic.

Once a comprehensive strategy or single strategic decision has been formulated, significant difficulties often arise during the subsequent implementation process. In fact, Thompson & Strickland (2003) state that the implementation of strategy is the most complicated task and time-consuming part of strategic management. Information gathered from the study of Co-operative Bank of Kenya Ltd confirmed the complexity of implementation by indicating certain challenges that the bank faced and also continues to face in the process of implementing the segmentation strategy.

##### **4.4.1 Inadequate staff capacity**

The informants indicated that since its inception the bank had dealt only with the SACCOs as their primary clients and lacked capacity to deal with the new found segments effectively. This required the bank to embark on recruitment of experienced staff from other banks and training of existing staff to bridge the skills gap.

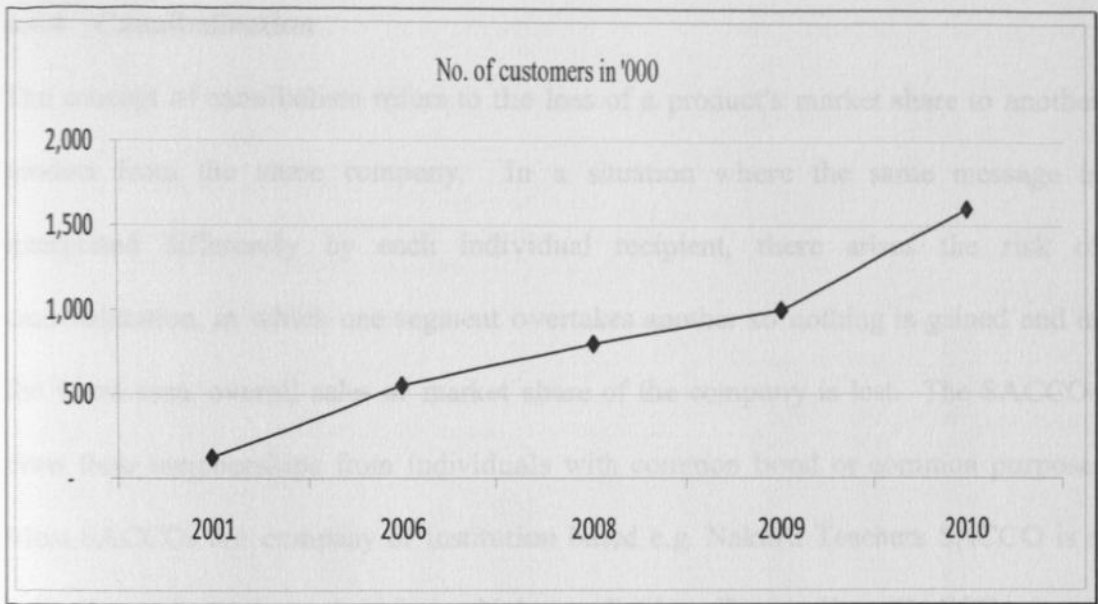


**Figure 6 - Number of employees**

The number of staff has grown tremendously over the 10 years under review to support the expansion of the bank and the increasing operations. Most employees were resistant to the changes because of the fear of the unknown territories. Those who continued to serve the SACCOs segment were faced with the new challenge of protecting the otherwise captive market that was under attack by the competition. On the other hand those assigned to new segments had to develop new skills altogether.

#### **4.4.2 Ignoring potential audiences**

The bank had for a long time served the SACCOs as a matter of regulatory requirement and did not need to aggressively market itself to the segment. With the introduction of new segments it was natural for the bank to aggressively create awareness in the market that it serves other markets other than the SACCOs. Unfortunately, this resulted in missing opportunities to capture new upcoming SACCOs as the audience was inevitably ignored. Inevitably, the market that was ignored was easy prey to the emerging competition from other commercial banks.



**Figure 7 - Growth in customer numbers**

The number of customers grew from 125,000 in 2001 to over 1,600,000 at the end of the year 2010. Introduction of services to other segments apart from the co-operative movement members exposed the bank to reach many more customers resulting in a steady increase in the total customer base.

#### **4.4.3 Resistance from the market**

The perception of the market was (and still is) largely that the bank is a SACCOs and farmers' bank. For this reason development of alternative segments has been slow and costly. The informants, particularly those in customer facing functions, indicated that potential customers often express disbelief about the bank's potential to meet their financial requirements outside the SACCO setting. This has forced the bank to spend a lot of resources in educating the public and creating awareness of their capacity to serve other segments in the market. The market's response has improved over time as indicated by statistics on the financial performance of the bank.

#### **4.4.4 Cannibalization**

The concept of cannibalism refers to the loss of a product's market share to another product from the same company. In a situation where the same message is interpreted differently by each individual recipient, there arises the risk of cannibalization, in which one segment overtakes another so nothing is gained and in the worst case, overall sales or market share of the company is lost. The SACCOs draw their memberships from individuals with common bond or common purpose. Most SACCOs are company or institution based e.g. Nakuru Teachers SACCO is a collection of teachers based in Nakuru district, Banki Kuu SACCO draws membership from employees of the Central Bank of Kenya Limited, NASEFU SACCO draws membership from employees of National Social Security Fund and Biashara Kwa Vijana SACCO is a young group of business people.

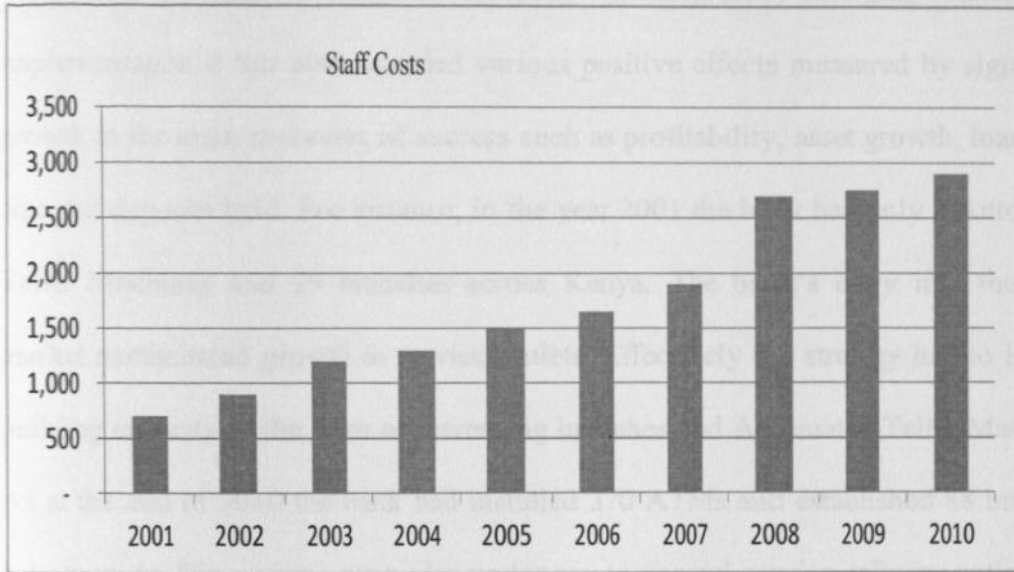
As the bank exerted its efforts on the personal banking segment to attract individual customers, it started to infringe on the SACCOs' target market as well. This resulted in some form of competition between the bank and its shareholders as one segment began to cannibalize the other. The bank resolved this challenge by developing generic products that would serve individuals who were also members of SACCOs differently from those who were not members of SACCOs.

#### **4.4.5 Inefficient resource utilization**

With the need for segmentation came the need for employing experienced staff in each segment. Over time the increasing number of products per segment resulted in overstaffing as each segment attempted to be self sufficient. Roles and responsibilities at each profit centre were grossly duplicated resulting in unnecessarily high costs for



the organization as a whole. The inefficiency built up over time and it only became noticeable when profitability began to stagnate against budget.



**Figure 8 - Staff Costs**

The bank dealt with this challenge from the year 2008 when they implemented a staff rationalization strategy to eliminate duplication of roles and responsibilities. The management is now aware of this continuing risk and is dealing with the inefficiency by continuous staff rationalization and equipping staff with multiple skills to minimize staff costs which forms about 40% of total operating costs.

#### **4.4.6 Increased operating costs**

Segmentation of the markets opened new opportunities for the bank and led to increase in customer numbers and customer needs. Inevitably the bank had to improve its capacity by upgrading the information systems, increasing service outlets, increasing staff complement and even increasing office hours to cater for the emerging customer needs. All these activities were costly and presented financial challenge to the organization.

#### 4.5 Discussion

The implementation of the segmentation strategy has had various effects on the business of the bank. Although the company has faced many emerging challenges in implementation it has also recorded various positive effects measured by significant growth in the main measures of success such as profitability, asset growth, loan book size and deposits held. For instance, in the year 2001 the bank had only 3 Automated Teller Machines and 29 branches across Kenya. The bank's entry into the retail market necessitated growth in service outlets. Effectively the strategy had to include building capacity in the form of increasing branches and Automated Teller Machines. As at the end of 2010 the bank had installed 370 ATMs and established 88 branches countrywide. Discussions were also underway to expand service delivery outlets into the East Africa region, specifically Sudan and Uganda in the foreseeable future.

As the bank increased its target segments, deposit products were developed that better appealed to the target customers resulting in steady increase in total deposits. The retail banking segment specifically developed a variety of savings accounts for children (Jumbo Junior account), young people (Young Enovators Account), employed people (Salary Account), small business savers (Haba na Haba Account), affluent savers (Gold Fish Account), strategic savers (Hekima account), Moslem savers (La Riba Account). The accounts with distinguishing benefits tailored to the target market contributed to the overall increase in customer deposits.

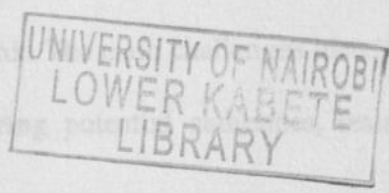
The bank recorded losses from the year 1998 during which its headquarters was bombed by terrorist ostensibly targeting the then bordering American embassy. The losses extended into the year 2001 after which the bank turned around into profitability. The steady growth of profit from the year 2002 when the bank recorded

profit of KES 103 million to 2010 when it recorded a profit of KES 5.5 billion is largely attributed to increased business as a result of increasing customer and capital base. Adequate concentration on new segments significantly increased the profits and profit margins especially noting that the bank could earn a higher return by lending to the retail segment members at higher interest rates.

### 2.3. Conclusion

The bank was segmented on a socio-economic basis into retail, corporate and SACCO banking segments. The segments are differentiated on the basis of potential customer requirements, and level of social interaction that each segment demands from the bank. The bank has thus developed products per segment suitable for various categories of customers within the segments. This implementation of the segmentation strategy has gone a long way to address individuality within the context of financial institutions.

The bank's implementation of the segmentation strategy has been and continues to be a



## **CHAPTER FIVE: CONCLUSION & RECOMMENDATIONS**

### **5.1 Introduction**

This chapter sums up the findings of the study and details the researcher's recommendations for action arising from the findings. The study aimed at analyzing how the bank has segmented its target market and the challenges it faced and/or continues to face in implementation of the segmentation strategy. The respondents provided valuable information which the researcher validated and complemented with the secondary data obtained from the bank's publications and website and other third party informants to summarize the findings of the study. The study was time limiting as it had to be conducted within a short period despite it being broad. The top management did not have sufficient time to explain all the issues in detail hence some information was derived from secondary sources.

### **5.2 Summary**

The bank has segmented its market on socio-economic basis into retail, corporate and SACCO banking divisions. The segments are differentiated on the basis of potential borrowing requirements and level of social interaction that each segment demands from the bank. The bank has then developed products per segment suitable for various categories of customers within the segments. This implementation of the segmentation strategy has gone a long way to address individuality within the context of the broad segments.

The process of implementing the segmentation strategy has been and continues to be a challenge to the management of the bank. The main challenges identified in this study were inadequate staff capacity, ignoring potential audiences, resistance from the

market, cannibalization, inefficient resource utilization and increased costs. The bank has managed to overcome some of the challenges, and it continues to deal with existing and emerging challenges as they arise. Customer needs are not static hence the management has to continually keep abreast with developments and reactions in the market in order to ensure continued success for the company.

Despite the challenges, the study has found that segmentation as a response strategy that the bank has adopted to counter the competition has yielded positive results and the bank has continued to grow and expand as a result of this. In general the segmentation strategy has been implemented successfully in the case of Co-operative Bank of Kenya. This is supported by the significant and steady growth of the company's performance over the period under review having recorded growth in all the critical success indicators including customer base, loans, deposits and profits.

### **5.3 Limitations of the Study**

The subject of the study required response that could only be obtained from the senior most staff of the bank. The middle level and junior level staff were therefore not given a chance to respond. This cadre of employees that were left out of the study could be facing other challenges which do not affect the senior management hence not recorded in this research. Since they are responsible for implementation of response strategies their input would likely add value to this research.

#### **5.4 Recommendations for further research**

SACCOs have continued to grow and become competitors to the banks. Co-operative Bank is like a 'central bank' to these SACCOs as it provides them with financing solutions including lending them in wholesale to lend to their members. In fact, before the liberalization in the banking industry in 1994, it was mandatory for all SACCOs to bank with The Co-operative Bank. A study needs to be carried to establish how the two on one part being competitors, while on the other hand having a 'parent-child' relationship are able to operate effectively.

#### **5.5 Implications on policy, theory and practice**

The findings of the study indicate that it is important for organizations that intend to implement a response strategy to carefully anticipate the effects of implementation of the strategy during the planning stage. This will prepare them for the various ripple effects of implementation. This notwithstanding, the management should also be aware that there may be effects that emerge as the environment responds to changes in the organization's strategy. Some of these responses by the environment are outside the control of the organization and cannot be accurately anticipated by the management. This will require the organization to be flexible in order to adapt to emerging changes as a result of the interaction between itself and environment.

The study has also indicated that the implementation of the segmentation strategy is long term in nature. Further, as the environment responds to the implementation, variation of strategy is necessary and thus formulation is under constant review to accommodate effects of the interaction between the organization and the environment.

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## APPENDICES: INTERVIEW GUIDE

The interviewer will commence the interview with a brief description of the objectives of the research, giving details of the strategy under scrutiny. Thereafter, using the interview guide questions below, the interviewer will probe and prompt the respondents to provide information relating to the subject. The respondents will be the divisional directors of the Co-operative Bank of Kenya Limited.

### **a) Questions for all respondents**

1. What is your job title and job description?
2. Who in your perception is Co-op Bank's target market?
3. Has this always been the target market, or has there been change over the years?
4. Who was the target group when you joined the bank and how has that changed?
5. On what basis has the bank has segmented its customers?
6. Was the change deliberate or forced by circumstances?
7. What was the motivation to change strategy or diversify the market?
8. What was the market reaction on change or diversification of the market?
9. Were there challenges in implementing the change of strategy?
10. How has Co-op Bank managed the challenges in implementing the strategy?
11. If you were to implement the segmentation strategy afresh, what would you do differently?

### **b) Questions for Finance Director and Credit Risk Director**

1. How would you apportion the different market segments that the bank serves presently?
2. How would you rank the segments in terms of profitability?

3. What has been the overall impact of change in strategy on the profitability of the bank?
4. How has the segmentation strategy impacted the management of credit risk?
5. What has been the impact of the segmentation on the provision for bad debts on the books of the company?

**c) Questions for Operations Director and Human Resource Director**

1. What has been the impact of the changes on your operational efficiency?
2. What has been the impact on resource utilization, including the human resources?
3. How has the segmentation of customers impacted your recruitment and training requirements?
4. What has been the impact of segmentation on the available IT infrastructure?

**d) Questions for Personal and Business Banking Director**

1. What has been the impact of segmentation on interfacing with the public?
2. Has there been any change in how the Bank presents itself to the public?