Segmentation, Targeting, Positioning in Financial Services Markets

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Defining market segmentation

- Market segmentation is the process of viewing a heterogeneous market (i.e., a market characterised by divergent demand) as consisting of a number of smaller and more homogeneous parts, called segments (Harrison, 2002)
- In its ultimate form, market segmentation results in each customer being served differently, i.e., individual marketing
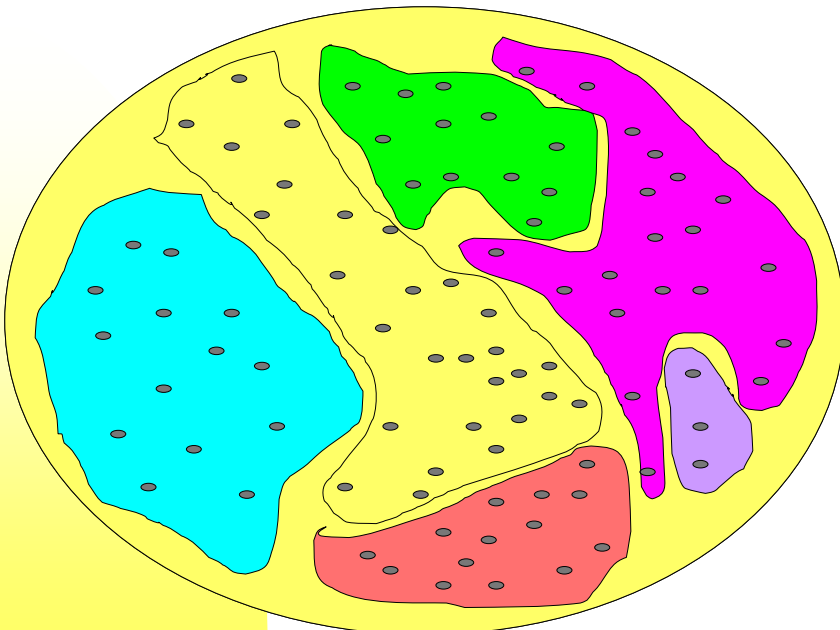 - ◆ However, due to its high-cost, individual marketing rarely is the case in consumer markets

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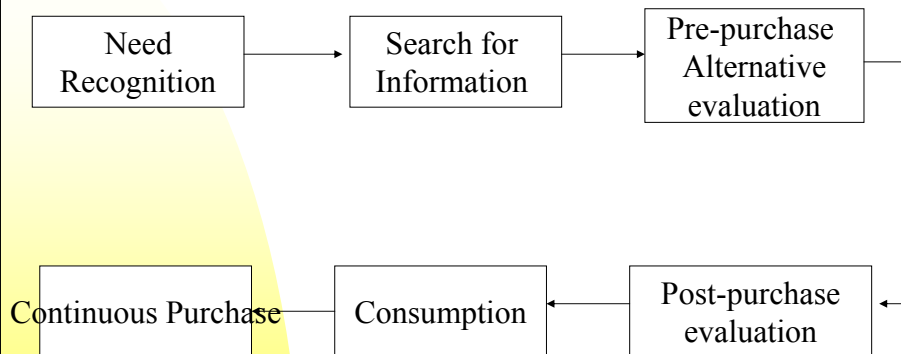**How a market looks like, before segmentation**
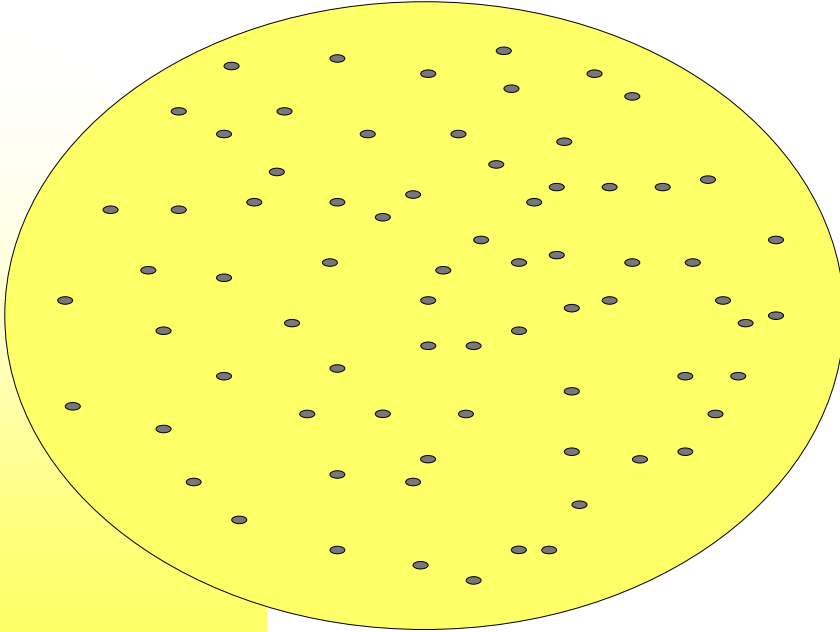
How a market looks like, after segmentation

Why do different market segments exist and need to be treated separately? Because there are differences in the buying process that customers follow

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┌──────────────┐      ┌──────────────┐      ┌──────────────┐
│    Need      │ ──▶  │  Search for  │ ──▶  │ Pre-purchase │
│ Recognition  │      │ Information  │      │ Alternative  │
│              │      │              │      │  evaluation  │
└──────────────┘      └──────────────┘      └──────────────┘
                                                    │
┌──────────────┐      ┌──────────────┐      ┌──────────────┐
│  Continuous  │ ◀──  │ Consumption  │ ◀──  │ Post-purchase│
│  Purchase    │      │              │      │  evaluation  │
└──────────────┘      └──────────────┘      └──────────────┘
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Variables that shape the buying decision-making process

- Individual differences
  - Consumer resources (time, money, information reception and processing capabilities)
  - Knowledge
  - Attitudes
  - Motivation
  - Personality, values and lifestyle

- Environmental influences
  - Culture
  - Social class
  - Reference groups
  - Family
  - Situation
  - Learning (the process by which experience leads to changes in knowledge and behaviour)

The influence of culture on the market of personal financial services

- Culture refers to a set of values, ideas, artifacts and other meaningful symbols that help individuals communicate, interpret and evaluate as members of society (Engel, Blackwell and Miniard, 1995)
- Financial institutions that expand their operations abroad must be aware of the impact of some sensitive cultures on the demand for financial services
  - Islam does not allow interest
  - Chinese people in their 50's avoid buying life insurance as they consider it a sign of bad lack

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The effect on financial institutions that fail to segment the market

- Customers with different requirements are being approached with the same financial service, the same pricing, a standardised communications policy and an inflexible service delivery process
- Customer satisfaction decreases sharply
- Customer retention becomes harder
- New customer acquisition rates decline
- The market perceives the financial institution as having either a product orientation or a production orientation, not a market orientation

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What are the benefits of financial services market segmentation (I)

- It operationalises the concept that a company cannot be all things to all people (i.e., the "blanket" approach)
- By excluding certain segments, a financial institution focuses its efforts and resources on a narrower target and gains deep knowledge of the needs of that target
- It drives costs down, by enabling a closer match of corporate resources with a segment's requirements
- In enhances customer satisfaction by addressing customer requirements more accurately

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What are the benefits of financial services market segmentation (II)

- It enhances customer retention, since target segments see that they are being valued by a financial institution
- It increases the odds of target segments perceiving the financial institution as a brand
- It enables the financial institution to foresee changes in the buying behaviour of the target market and to respond timely with new offerings
- It enables the financial institution to detect target segments, which are small in size but have large potential, i.e., niche segments

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Classification of bases for segmentation

	Customer-specific	Situation-specific
Observable	▪Cultural variables ▪Geographic variables ▪Demographic variables ▪Socio-economic variables	▪User status ▪Frequency of use ▪Brand-loyalty
Unobservable	▪Psychographics ▪Personality ▪Lifestyle	▪Benefits ▪Perceptions ▪Attitudes ▪Preferences ▪Intentions

How many criteria are used to segment a market?

- Uni-variate segmentation, that uses one criterion at a time
  - ◆ E.g., by gender, by social class, by income, by age
- Multi-variate segmentation, that makes a combined use of criteria
  - ◆ E.g., geo-demographics, psychographics

Geography as a basis for segmentation

- Historically geography has been a useful segmentation basis for companies unable (due to lack of logistical infrastructure) to serve an entire area
- Regional segmentation
  - Continents, Countries, Cities, Regions in a city
- Size of population
  - Under 15.000, 15.001-40.000, over 40.000
- Density segmentation
  - Urban, suburban, rural

Demographics as a basis for segmentation (I)

- Demographics offer a straightforward basis for segmentation because they are based on easy to access information and produce classifications which are
  - Straightforward
  - Easily interpretable
  - Measurable
  - Very useful from a marketing viewpoint

Demographics as a basis for segmentation (II)

- **Gender**
  - Traditionally men were the target segment of financial institutions, while women were viewed as feeling much less confident with financial services
  - Recent societal developments (e.g., the demise of the nuclear family, the career-seeking woman) have made women more knowledgeable of financial services
  - However, gender-based segmentation is always useful for financial services marketers in order to adapt their communications policy to the degree to which the genders understand the complex nature of financial services

Demographics as a basis for segmentation (III)

- **Age.** Individuals with similar age may exhibit similar buying behaviour and may have similar needs for financial services
  - School children
    - They have pocket money, they receive monetary gifts and they tend to save. So,
      - They may require special savings accounts, accompanied, for example by a gift
      - Financial institutions targeting school children are perceived as offering an important lesson, by teaching them about the benefits of saving

Demographics as a basis for segmentation (IV)

- ◆ University students
  - ★ They are often in short of cash. So,
    - They may need loans, overdrafts, student accounts, special types of insurance (such as student property insurance)
    - University students tend to form strong brand loyalty, which can last for a life time
    - Financial institutions targeting university students want to capitalise on their future earning power

Demographics as a basis for segmentation (V)

- ◆ First time workers and adults
  - ★ Their purchasing power increases and their needs for financial services evolve
    - They may require less overdrafts
    - They may be able to get more credit
    - Demand for long-term residential loans may increase
- ◆ Ageing population
  - ★ Their needs for financial services change, due to changes in their income and in their lifestyle
    - Income usually falls after retirement (they may be less able to get high credit)
    - Discretionary time increases (they may be more open to travel loans)
    - They usually own their home (demand for residential loans may decrease)
    - Health becomes a high priority (demand for life insurance may increase)

Demographics as a basis for segmentation (VI)

- **Family life cycle.** While age as a basis for market segmentation enables financial institutions to target specific age groups, a life cycle approach enables financial institutions to develop a long-term relationship with their customers, as the latter move towards more mature segments. Age-based segmentation aims at developing ad-hoc relationships, while life cycle-based segmentation creates lifetime relationships, thus enabling customer retention.

Demographics as a basis for segmentation (VII)

- Single Young
- Newly married young couples
- Divorced without children
- Full nest 1
  - Arrival of the 1st child
- Full nest 2
  - Youngest child is no less than 6 years of age
  - All children are still financially dependent on their family
- Full nest 3
  - Children are leaving school or are entering university, some may work on a part-time basis

Demographics as a basis for segmentation (VIII)

- ◆ Divorced with children
- ◆ Empty nest 1
  - ★ Children have left home and they are financially independent
  - ★ Parents' disposable income increases notably
- ◆ Empty nest 2
  - ★ One member of the household retires
  - ★ Income falls
- ◆ Older single people

Socio-economic data as a basis for segmentation (I)

- ■ **Social class.** Social class is a measurement of the type of a person's educational background and occupation
  - ◆ In financial services market segmentation, social class offers discriminatory power
    - ★ Lower social classes tend to have a spending aspiration
    - ★ Lower social classes tend to favour easy-to understand financial services
    - ★ Lower social classes tend to favour bank accounts that are accompanied by some tangible evidence (e.g., cheque-books)
    - ★ Lower social classes tend to favour investments that can be easily turned into cash

Socio-economic data as a basis for segmentation (II)

★ Higher social classes tend to have a savings aspiration

★ Higher social classes tend to favour financial services of a more complex nature (e.g., derivatives, options, futures)

★ Higher social classes are open to riskier types of investment

★ Higher social classes tend to favour intangible long-term investments with high returns (e.g., becoming a "Name" with Lloyds of London)

Social grade definitions

Social grade	Social status	Occupation
A	Upper middle class	Higher managerial, administrative or professional
B	Middle class	Intermediate managerial, administrative or professional
C1	Lower middle class	Supervisory or clerical and junior managerial, administrative or professional
C2	Skilled working class	Skilled manual workers
D	Working class	Semi- and unskilled manual workers
E	Persons at lower level of subsistence	State pensioners, casual lowest grade workers

Socio-economic data as a basis for segmentation (III)

- **Income.** In many societies income is not necessarily positively correlated with social class, so it represents a basis for financial services market segmentation by itself
  - ◆ Resulting segments could be:
    - ★ Segment of very low income
    - ★ Segment of low income
    - ★ Segment of middle income
    - ★ Segment of high income
    - ★ Segment of affluent
    - ★ Segment of pseudo-affluent (people who want to behave like affluent but who are not affluent)
  - ◆ Financial services marketers should be careful in making a distinction between disposable and discretionary income

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Geodemographics as a basis for segmentation

- Geodemographic market segmentation makes a combined use of geographic and demographic and economic criteria in order to identify segments with different needs and wants
  - ◆ It is a response to the inadequacies of uni-variate market segmentation

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**A Classification of Residential Neighbourhoods (ACORN):
Combined use of Geographic and Socio-economic Criteria**

A	Agricultural areas
B	Modern family housing, higher incomes
C	Older housing of intermediate status
D	Older terraced housing
E	Council estates-category I
F	Council estates-category II
G	Council estates-category III
H	Mixed inner metropolitan areas
I	High status non-family areas
J	Affluent suburban housing
K	Better-off retirement areas
	McKechnie and Harrison (1995)

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Psychographics as a basis for segmentation (I)

- Psychographics refer to internal characteristics of individuals, such as attitudes, beliefs, preferences, knowledge, personality, interests
  - ◆ Attitude segmentation
  - ◆ Segmentation based on awareness, knowledge and understanding
    - ★ Since financial services are largely intangible, this poses problems to marketers, who cannot display them and to customers, who cannot have visual pre-purchase information (so they have to rely on their past knowledge and experiences)

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Psychographics as a basis for segmentation (II)

- Their application in market segmentation is justified by their higher accuracy in predicting buyer behaviour compared to demographics or other uni-variate bases for market segmentation
  - For example two individuals of the same age may exhibit a different purchasing behaviour with regards to financial services, due to differences in their interests, knowledge, attitudes
- Psychographic information is collected by means of structured questionnaires and the analysis of the dataset is done through multi-variate statistical techniques (e.g., factor analysis, discrimination analysis, regression analysis)

Psychographic segmentation based on attitudes (Gavaghan, 1991)

Confidence

H

Opportunists
- High level of confidence
- Low respect for banking authority (they are the most likely to switch financial institutions and capitalise on better opportunities)

Traditionalists
- High level of confidence
- High level of respect for banking authority (they tend to use a full range of financial services)

L — — — **H**

Minimalists
- Low level of confidence (they tend to be only infrequent users of basic banking services)
- Low respect for the financial institution

New bankers
- Low levels of confidence
- High levels of respect for banking authority

Respect for banking authority

L

Psychographic segmentation based on perceived knowledge and financial maturity (complexity of the financial service and associated risk) (Harrison, 1997)

Perceived Knowledge

Cautious investors **H**

•Very active financially

•Have a tendency towards lower risk savings and investment products

•Not heavy users of credit cards, they pay the balance in full

L

Capital accumulators

•They are the most financially active segment

•The most frequent and heaviest savers

•They are frequent users of credit cards **H**

Financially confused

•They are the least financially active segment

•They never tend to save

•They do not tend to use credit cards and if they use them, they pay the balance in instalments, not in full **L**

Apathetic minimalists

•Average users of financial services

•They are likely to have shares

•They tend to trust financial advisers

Financial maturity

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Corporate market segmentation (I)

■ Corporate customers of financial services differ from personal customers in their structure and characteristics

  ◆ Corporate customers are smaller in number but larger in size

  ◆ They have more complex needs for financial services

  ◆ They have a much more complete understanding of their financial service-related needs (so financial institutions have to deal with highly knowledgeable corporate customers)

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Corporate market segmentation (II)

- ◆ They often require custom-made financial services
- ◆ They often exert significant influence on the terms and conditions of financial services
- ◆ The demand for corporate financial services is influenced by the state of the economy, to a much greater extent than the demand for personal financial services

Criteria for segmenting corporate markets for financial services

Criterion	Resulting segments	
Demographic and Geographic information	A.	Industry sector
	B.	Company size
	C.	Company location
Operating variables	A.	Company technology
	B.	product and brand use status
Purchasing profile	A.	Purchasing power structures
	B.	Buyer-seller relationships
	C.	Purchasing policies and criteria
Situations factors	A.	Urgency of financial needs
	B.	Amount of money involved
Buyer's personal characteristics	A.	Age, social class, personality, position in the organisation

Adapted from Shapiro and Bonoma (1984)

Prerequisites for good market segmentation (I)

- The identified segments should exhibit measurability
  - There must be a way to measure the size, the purchasing power, the frequency in which a financial service is used
  - The more quantitative the used segmentation criteria, the higher the measurability of a segment
    - E.g., it is easier to measure the frequency of use of ATMs, than to measure the perceptions of customers of ATMs
- The segments must be sizeable in order to justify allocation of corporate resources
  - This prerequisite has, however, been criticised because it implies that only large segments must be targeted, thus ignoring the potential sustainability of niche segments

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Prerequisites for good market segmentation (II)

- The identified segments must be accessible in order for the financial institution to be able to locate them and to communicate with them
- For an identified segment the financial institution must be in a position to implement actionable marketing programmes
  - i.e., programmes that comply with the needs of the segment

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Prerequisites for good market segmentation (III)

- Two different segments must exhibit
  - maximum within-segment homogeneity and
  - minimum across-segment homogeneity
- A segment must exhibit at least medium-term stability in order for the financial institution to have enough time to develop and implement marketing programmes

Segmentation process

- Identify segmentation criteria
- Conduct market research
- Apply cluster analysis (advanced statistical technique –e.g. use of SPSS, Statistica software packages)

Strategies for targeting: how many and which segments to target? (I)

- Single-segment concentration
  - Total marketing effort is concentrated on only one market segment
  - A financial institution selects this strategy
    - When it has limited resources or
    - Because it is the only segments whose needs can be currently met, given the capabilities of the financial institution
  - It is a feasible strategy for financial institutions serving the corporate or the private market
  - It is a not (usually) a wise choice for financial institutions that serve retail markets
  - It entails, anyway, a risk from putting all eggs in one basket
  - Its greatest benefit is that it gives financial institutions the opportunity to fully understand and meet the requirements of the segment, thus leading to higher customer loyalty

Strategies for targeting: how many and which segments to target? (II)

- Multi-segment coverage (selective specialisation)
  - Marketing effort is spread to more than one segments
  - A financial institution chooses this strategy
    - as a result of the diversity of its range of financial services
    - in order to spread risk

Strategies for targeting: how many and which segments to target? (III)

- Product specialisation (one product-multiple segments)
  - A financial institution concentrates on the marketing of a single financial service to several segments
  - Only small modifications are made to the financial service, in order to comply with the requirements of the different segments
  - It is a high risk strategy, in view of the short life cycles for many financial services in today's turbulent environment
  - It is more feasible for credit card companies (VISA, MasterCard)
  - It is a less feasible strategy for banks, building societies and insurance companies

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Strategies for targeting: how many and which segments to target? (IV)

- Segment specialisation (many products-single segment)
  - A financial institution concentrates on many products in order to meet different demands of a single segment
  - In order to choose this strategy a financial institution must have an array of financial services

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Strategies for targeting: how many and which segments to target? (V)

- Full market coverage
  - ◆ A financial institution targets all segments and attempts to provide all the financial services that they need
  - ◆ This strategy is feasible only for large financial institutions that have the capacity of serving the whole market
  - ◆ Full market coverage can be
    - ★ Undifferentiated (focus on common customer needs, aiming at reaching an as large number of customers as possible)
    - ★ Differentiated (focus on serving multiple and different needs, by designing different marketing programmes for each segment

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POSITIONING

"The battle for the customer's mind":
- The position that the product/brand has in the mind of the customer
- How the product/brand is perceived
- The product's/brand's personality
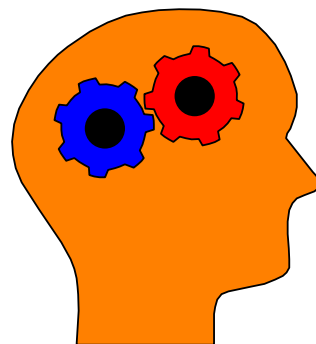
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Uses of perceptual mapping

1. **Identification of important attributes**:

Which attributes does the customer use for evaluating a specific product class?

2. **Identification of close substitutes- main competitors**:

Which brands are positioned relatively closely in the perceptual map? To put it differently, which brands are perceived as similar by the customer?

3. **Identification of differentiated brands**:

Which brands are positioned in relatively isolated parts of the map? In other words, which brands are perceived as different by the customer?
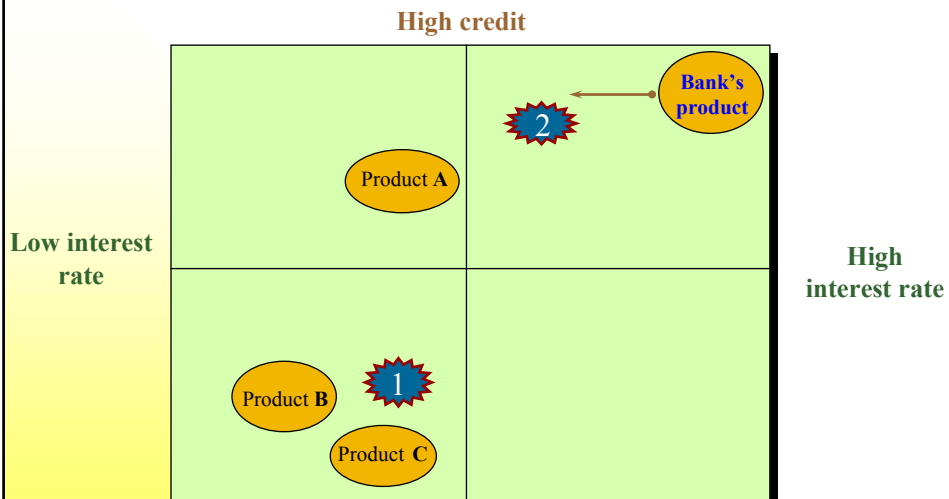
4. **Market segmentation**:

In a perceptual map different market segments can be illustrated based on the desired combinations of product attributes.

5. **Identification of gaps in the market-new product opportunities**:

A gap in the market is identified when there is no brand with the desired combination of product attributes. In this case, a company could fill this gap with a new product.

Perceptual Map for a credit card

High credit

Bank's product

2

Product **A**

Low interest rate

High interest rate

Product **B**

1

Product **C**

: Market segment

Low credit

Positioning strategies

- **By attribute**: "Our current account offers you extra interest"
- **By benefit**: "Marfin Bank-The anti-stress bank"
- **By price/quality**: "You enjoy maximum privileges with the minimum subscription fee"
- **By competitor**: "No other bank offers so much"
- **By user**: "American Express: The businessman's passport"
- **By application**: "Some things are priceless. For all the rest, there is Mastercard"
- **Hybrid strategy**: combination of two strategies