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Bank Marketing - Effective Segmentation Strategy for Banks

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ABSTRACT

Bank and credit union marketers have traditionally relied on the use of effective segmentation strategies as a means of targeting customers for product and service communication. The present paper aims at studying the different areas of segmentation. Marketing segmentation is one of the most widely used marketing tools and has long played a crucial role in identifying and treating differences among customers. For decades, bank and credit union marketers have used market segmentation strategies for product development, product positioning, marketing communication and results measurement in banks. The market segmentation makes the market smaller and therefore it becomes easier for the marketing professional to study and understand the hierarchy of needs and requirements and to offer to the customer and services they expect. Thus the motives to satisfy and retain the customers are fulfilled. The most important thing for marketing is identifying the changing levels of expectations of customers.

This research paper highlighting that how marketing strategies and bank management practices are associated with the core competencies of bank to achieve desired outcomes. Many banking organizations are today applying effective marketing strategies to achieve organizational success for long time survival.

KEYWORDS : Bank, Bank marketing, Marketing strategies, Segmentation, Divide and Rule, customer service.

INTRODUCTION:

Indian banking is at cross roads today. With the deregulation and liberalization process in full swing, the consequent policy changes introduced in the Indian financial system in general and banking in particular are effecting unprecedented changes in its functioning. With the emerging changes did spring up new challenges of commercial viability, cost effectiveness, effective marketing strategy, etc. Market oriented policies also gave birth to new players like foreign and private sector banks and subsidiaries offering varied high tech and cost effective Service. There was an absolute shift from sellers into buyers' market, establishing the 'consumer' as the key factor in the market. The dictum "as the bank exists because of its customers, has become more pronounced and relevant in the present context". Thus, marketing constitutes the key strategy for banks to retain good customers and also anticipate their future demands.

The behavioural scientists fell that appeal, Strategy and tact vary from segment to segment which in a natural way brings a change in the market behavior and responses***. Small is beautiful. Small is identifiable. If we divide, we make it small and if we make it small, we Rule. This is the main theme that we find in segmentation which is based on policy on "Divide and Rule".*** We cannot negate that identification of market occupies a place of outstanding significance in almost all the industries. It is not the wisdom that we make our marketing resources unproductive.

Since the very beginning of marketing the market segment has been practiced to get the productive results. The markets rather than homogeneous are really heterogeneous. The modern marketing thinkers, the behavioral scientists and many others fell that appeal strategy and tact vary from segment to segment. Segmentation makes possible tailoring of products and marketing programmes uniquely suitable for each and every segment. The main thing in the process is to identify the profitable segment and to focus on the sensitive moment.

Segmentation is a process of dividing and sub- dividing the market into different small segments. By segmenting we divide and by dividing, we identify and thus we succeed in studying and understanding the behavioral profile of different segments. The segmentation is thus a process of understanding the market in a right perspective which simplifies the task of formulating a creative marketing strategy. The market segmentation is an effort to achieve the most efficient and productive use of marketing resources which helps the bank professionals in reaching to the target customers. This makes it essential that we go through the various dimensions of segmentation.

In this paper we go through a number of problems related to the segmentation of market for the banking organization working either in private sector or in public sector. The changing lifestyles have an important bearing on the marketing decisions. This is due mainly to the fact that lifestyles govern intensity of expectations. The consumerism has been found governing the lifestyles vis-à-vis the expectations of customers. A study of market is essential and the study remains incomplete unless we segment it. While segmenting, the bank professionals need to assign due weight-age to segmentation criteria. This helps them in segmenting the market in a right way. Particularly in the Indian setting where we find emergence of a profitable rural market, the banking organizations need to assign due place to the changing lifestyles of this segment. The segmentation would help in formulating a sound marketing strategy.

Bank defined:

A **bank** is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses.

Bank Marketing

Deryk Weyer of Barclays Bank call it "a process, consisting of identifying the most profitable markets now and in future; assessing the present and the future needs of the customers; setting business development goals and making plans to meet them; and managing various services and promoting them to achieve the plans – all in the context of a changing environment in the market".

Evolution of Bank Marketing

Historically marketing in banking in India emerged in late 50s. In 70s the bank marketing scene started changing dramatically when marketing positions were created in certain banks to meet the demand for restructuring banking services. First major step in this field was taken by SBI in 1972 by reorganizing itself on the basis of major market segments dividing borrowing customers on the basis of activities. Canara Bank, Bank of Baroda, Corporation Bank are a pointer about how banks of Indian origin could be market innovative and can manage and respond to the change so quickly and efficiently Indian braches of foreign

banks and the newly established private sector banks also used these techniques successfully in funds mobilization and consumer credit activities. Similarly the financial institutions to tap vast potential of bank and non-bank saver, used marketing concept by introducing attractive schemes(to name, deep discount bonds, family bonds by IDBI,SIDBI,ICICI,SCICI).mutual funds have also brought Innovative products to suit customer's fancy and have been successful in mobilizing huge funds. It needs to be understood that marketing is just not the deposit mobilization and the concept has to be applied in line with organizational objectives and meeting the challenges being faced.

Importance of Bank marketing:

- Awareness among Customers
- Quality as a Key Factor
- Growing Competition
- Technological Advances

Special Features of Bank Marketing:

- Banking product cannot be seen or touched like manufactured products (intangibility)
- In marketing banking products, the product and the seller are in separable; they together define the banking product (inseparability)
- Banking products are products and delivered at the same time; they cannot be stored and inspected before delivering' (perishability)
- Standardization of banking product is difficult (variability)

Market Segmentation: Concept, Levels.

According to Kotler and Armstrong (2006), market segmentation is the process of dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviours who might require separate product or marketing mixes. Schiffman and Kanuk (2000) regard market segmentation as the process of dividing a market into distinct subset of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix. Marketers do not create a segment because segments are natural phenomenal. Through segmentation research, a marketer identifies the segments and selects one or more segments to target and satisfy.

Market segmentation is in four different levels: segment, niche, local and one-to-one markets (see Kotler and Keller, 2006; and Kotler and Armstrong, 2006). When a total market is divided into broad consumer groups with common or homogeneous needs, it is called segment market. A broad segment market can further be divided into groups of consumers with distinct needs, called niche market. Local Marketing involves tailoring brands and promotions to the needs and wants of local customer groups – cities, neighborhoods, or even specific stores (Kotler and Keller, 2006). One-to-one marketing, otherwise called *personalization or customization,* is the lowest level of segmentation in which a company tailors its marketing activities to meet the needs of just one individual customer (Mawoli, 2011).

Bank market segmentation

The market segmentation implies regrouping of bank's various services and activities into separate departments for each category of customers, depending upon the business handled in each market. The marketing effort should be directed through segmentation. The rationale of segmentation lies in the fact that banking being a financial services industry, focus has to be on customer and his needs, instead of organizational convenience. A customer has more than helped us to serve him better. His needs in turn would depend on the activity he is pursuing. Through segmentation it would be possible to relate business to activity of customer. This could be done by sub- dividing the market into more or less homogeneous sub-sets of customers. It must reflect measurability, accessibility, and substantiality and action ability. The customers can be sub-grouped taking into account geographical area, social status, income levels, profession, economic activity, age group etc...

Importance of segmentation to the Banking Organization:

Segmentation of market important to the development of business in the banking organizations. If the segmentation is done in a right way, the bank professionals find it easier to formulate a strategic marketing plan. This simplifies professional task of increasing the market share vis-à-vis excelling competition. The following facts testify the instrumentality of segmentation in the banking services.

Instrumental in exploring opportunities: It is right to mention that we find segmentation very much effective in exploring profitable and untapped or non-optimally tapped opportunities.

Active in formulating a sound marketing strategy: The market segmentation helps banks professionals in formulating a sound marketing strategy. Since they know about the changing needs and requirements of customers/ prospects and they also know about the level of income and intensity of expectations, the sensitive strategies related to the different mixes can be formulated.

Helpful to the policy planners: whatever the policies are formulated should have a close link with the emerging trends in the business environment. The policy makers need sufficient information about the different segments so that they succeed in formulating a strategic plan for future marketing.

A sound management of budget is possible: Formulation of scientific strategic plan simplifies the task of formulating a pragmatic annual plan. As and when we talk about planning, the budgetary provisions, allocation in the face estimated requirements, optimal distribution of funds to different heads, monitoring of expenses etc, are found easier.

Enriching the marketing resources: The marketing resources are the available instruments in the hands of bank professionals who bear the responsibility of translating the plan in to action. The inputs that we use for making goods/ services are the resources in our hands to touch the target.

Segmentation strategy: A strategy for segmenting the market is found significant to make the segmentation process more effective. The banking organization need to select a strategy which is found helpful to them in marketing successfully. The three strategies for segmentation are.

Mass marketing or Undifferentiated marketing: If we find sale of one product/ service to the entire market, we call it mass marketing or undifferentiated marketing. Such a segmentation strategy is found suitable to the organizations having a mass market. In the process, an organization goes after the whole market with one market offer. It focuses on what is common in the needs of buyer rather than on what is different. The strategy relies on mass distribution and mass advertising. An organization practicing undifferentiated marketing typically develops an offer aimed at the largest segments in the market.

Selective marketing or Differentiated marketing: This is adopted by the organizations where a number of products or services are sold to selected market segments in order to increase overall sales. In differentiated strategy, the costs are however higher than in mass marketing. The banking services are found differentiated into segments.

Concentrated or Niche marketing: We find concentrated marketing segmentation where organizations are found concentrating on selling to a small market segment or niche. The costs can be kept low since the specialization makes it possible to make the entire process exceptionally cost effective. It is a strategy commonly adopted by smaller companies who are not in a position to complete wit the well established companies and therefore concentrate their limited resources on establishing a strong image and dominate in the chosen niche. Niche marketers also benefit from the absence of large firm as competitors.

Effective segmentation: In processing the marketing activities, of course there are a number of steps and stages but of all, we find segmentation significant since right segmentation simplifies the task of policy planner's vis-à-vis makes the marketing efforts sensitive. An important task before the bank policy planners is to have effective segmentation which makes ways for an optimal utilization of the marketing resources. It is against the background that we find effective segmentation to be discussed in detail. Kotler says that any worthwhile effort for market segmentation must satisfy the following four conditions:

Measurability: By measurability in the market segmentation, we mean the degree to which the size and purchasing power of the segments can be measured. In a true sense, this refers to the extent to which the size and purchasing power of a segment can be fair to a point that is measured. If we fail in measuring the size and purchasing power of a segment, it is natural that we also fall in assessing the business potential of that segment.

Substantiality: This refers to the degree to which the segments are large and profitable. It is essential that a segment belongs to the largest homogeneous group. If the size is very small even we find it full of potentials, market would hardly be profitable. In the banking business we find some of the small segment with tremendous potentials.

Accessibility: This is related to the degree to which the segments can effectively or smoothly be reached and served. Of course, we find it an essential consideration for effective segmentation since even if market is profitable and we can't reach to that market smoothly, the bank professionals are found helpless to capitalize on the opportunities.

Actionability: This is meant the degree to which effective programmes can be formulated for attracting and servicing the customers. Here our emphasis is on the potential of the banking organizations in quick expedition of the formulation process. If the bank organizations face the problem of under-staffing, the actionability would be affected adversely.

CONCLUSION:

The role of marketing strategies in the banking industry continues to change. For many years the primary focus of bank marketing was public returns. Then the focus shifted to advertising and sales promotion. That was followed by a focus on the development of a sales culture. Now a day's marketing strategies in banking are concentrating only those who are gaining rich dividends from agriculture, industry and business sector and neglecting rural masses regarding banking products which are beneficial to the working class who are really creating the wealth and contribution to the national income. So in this democratic Indian nation the marketing strategies in banking are framed on the basis of majority people not for minority people for benefiting the all the levels of the people in the nation with social marketing strategies. Segmentation of market important to the development of business in the banking organizations. If the segmentation is done in a right way, the bank professionals find it easier to formulate a strategic marketing plan. This simplifies professional task of increasing the market share vis-à-vis excelling competition.

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