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Categorization of Customers' Needs: Impact of Market Segmentation on Performance of Nigeria Banks

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Abstract. This study examines the impact of market segmentation on bank performance in Nigeria. Opinions of one hundred and eighty-four customers of Guarantee Trust Bank consisting of one hundred and three (103) males (56%) and eighty-one (81) females (44%) were accidentally sampled across five different locations in Lagos, Nigeria. Two hypotheses were generated and tested using an independent t-test. Results of the study revealed that age, occupation, gender, level of income, housing interest of the customers are suitable demographic segmentation parameters that could enhance banking effectiveness and performance in Nigeria. It was also found out that psychographic segmentation significantly impacts bank performance in Nigeria t (182) = 3.14; P < .05. Results also showed a significant impact of demographic segmentation on bank performance t (182) = 3.14; P < .05. It was recommended that Nigeria banks should make efforts to give their psychographic and demographic segmentation paradigms a human face. Like any other citizens of the developed world, Nigerians like comfort, especially when it can be bought. Since the outcome of this study has placed psychographic segmentation as a better profit spinning market strategy to gain a competitive advantage over other competitors than other segmentation synergies, putting customers first may make more sense for the bankers. Such a decision will boost customers' loyalty and make their bank grow in cash assets.

Keywords: Bank Performance, Psychographic Segmentation, Demographic Segmentation, Customers

1. Introduction

Performance is the tripod stand on which the continuity of any organization stands. The recently widely publicized Millennium Development Goals in Nigeria emphasized effective performance in all sectors, especially in the banking industry, which is always referred to as the economy nerve of the nation. However, the twenty-five approved banks are in stiff competition to gain a competitive advantage. Thus, banks are using several paradigms and strategies at their arsenals to outwit one another in a competitive Nigeria market.

Banks offer a wide range of financial services to personal and business customers; some of these services, such as bank account, import/export services, money transfers, credit cards, etc., are needed by numbers of customers. These services have to be brought to the attention of potential users, who then must be persuaded to use them. Not all services are aimed at every customer, and many have a "target" slice of the market. Banks today recognize that they cannot appeal to all buyers in the marketplace, or at least not to all buyers in the same way. Buyers are too numerous, widely scattered, and varied in their needs and buying practices. Moreover, the banks themselves vary widely in their ability to serve different market segments. Rather than trying to compete in an entire market, sometimes against superior competitors, each company must identify the parts of the market that it can serve best and most profitably.

In their attempt to operationally define performance concerning bank operations, Peter and Sylvia (2008) believed that a bank is in good stead of performance

when it adequately meets the needs of its stakeholders; owners, employees, depositors, and the borrowing customers. Onaolapo, Salami and Oyedokun (2011) were of the view that indicators of the quality and quantity of a bank performance are determined by the extent of business profitability and (or)risk, which provide surrogates for evaluating the extent to which the bank achieves its objectives of maximizing owners wealth (Adeoti and Salami, 2007). Nigerian banks have been very creative in their bids to retain their customers. This has helped and shaped the banks since the recapitalization of banking sector in Nigeria. Banks have demonstrated a lot of strength and positive attitude on the linkage between performance and market segmentation. This realization has informed series of product bundling, cross selling, loyalty programmes and integrated computer system employed to attract clients.

Furthermore, the development of intense loyalty to a bank product offering has been traced, among others, to quick-delivery services, nearness to client business outfits, a corporate image built over time, customer/ employee relation, relaxed account opening formalities, referral and accessibility (Adewuyi 2008).

Market segmentation means dividing a market into distinct groups of buyers who have distinct needs, characteristics, or behaviours and require separate products or marketing mixes. Through market segmentation, organizations divide large markets with genuine activities into smaller segments that can be more efficiently and effectively with products and services that match their unique needs. Doyle (2004) defined market segmentation as a homogeneous group of customers, each reacting differently to promotion, distributional communication, pricing and other variables of marketing mixes.

There is a growing sense that the environment in which firms make choices and pursue competitive strategies has shifted and that trends in modern banking services are part of an unfolding industrial relations system. (Levy and Murnane 2002). Thus, most organizations are choosy about the customers they wish to build relationships with. As a result, most have moved away from mass marketing toward market segmentation, targeting-identifying market segments, selecting one or more of them, and developing products and marketing programmes tailored to each. Instead of scattering their marketing efforts, firms focus on buyers who have a greater interest in the values they create best.

Segmentation is the concept of grouping people with similar demographics and psychographics together. Demographics look at characteristics of people that include age, income, education, occupation, household size, homeownership and home value, among other factors. Psychographics delves deeper into people's lifestyles and behaviours, including their interests and values. Understanding the psychographics of your target market can be very revealing. Information about their likes and dislikes goes a long way in determining whether or not they are likely to purchase your product or service. With information about their preferences and lifestyles, one can successfully target the segments most interested in their product/service and effectively reach them with a message that speaks directly to them. Psychographics provides details that will help in effectively spending marketing dollars – rather than sending a mailing to everyone in the area; one can send direct mail to those who will likely respond and make a purchase. The combination of demographic and psychographic information can provide valuable insights into one's best customers – allowing him or her to find more like them.

The market is divided into groups in demographic segmentation on the basis of variables such as age, family size, period of family life, gender, income, occupation, schooling, faith, ethnicity, generation, nationality and individuals (Madeira, Da Silveira, & Toledo, (2015), Rahmawati, (2019) and Gichuru, & Limiri, (2017)). So many factors can justify demographic segmentation. Such factors include the positive correlation of demographic segmentation with wants, expectations and consumption rates of customers, goods and brand tastes.

Even if the target the market is represented non-demographically about the form of personality, the relation to demographic characteristics is still essential in order to determine the size of the market and to correctly distribute the media to succeed there (Osei, Ampomah, Kankam-Kwarteng, Bediako, & Mensah, 2021). In defining demographic segmentation, based on the definition of seniority, gender, family circle, income, occupation, schooling, faith, ethnicity, generation gap and nationality, the market is divided into different classes. The most widely used basis for distinguishing user segments is the ethnic component (Madeira, Da Silveira, & Toledo, (2015), Rahmawati, (2019) and Gichuru, & Limiri, (2017)). Partly since demographic variables are closely correlated with desire, desires, and consumption rates, and thus the other explanation is that it is easier to live with demographic variables than other variables types

(Osei, Ampomah, Kankam-Kwarteng, Bediako, & Mensah, 2021).

Market segmentation has received much attention among practitioners and researchers during the last decades. Such attention might be unconnected with the fact that superior market segmentation bears a high potential of gaining a competitive advantage. However, in this new millennium, there is a radical change in the strategy adopted by banks to market their services or products. Such change is so because the latest trend in the world of technology has injected a new wave in electronic banking with the introduction of Smartcard and Value card technologies in Nigeria. How these segmentation strategies influence bank performances as manifested in their profitability, turnover rate, and landmark success constitute the major purpose of this research.

Many problems can be seen to emanate from the market being tensed with the stiff competition due to all the banks doing the same thing at the same time in a particular environment. These banks offer similar products or services at almost the same price, with the same promotional network and distribution channels. Thus, profit maximization often suffers, the essential tripod that keeps the banks moving in the global economy. It is thus no surprise today that the segmentation of products and services has increased.

Banking organizations around the world today are under pressure from a variety of forces. The forces: economics, consumers, government/regulation and technology have impacted different geographies in different ways. However, these forces are evolutionary; they are not strong enough to create a major discontinuity in any of the geographies. Depending on the profitability and volatility in each market, however, they force banks to think about their businesses differently and present both opportunities and imperatives to change. In countries where the industry is more competitive, volatile, and less profitable, incumbents will be forced to make bigger and bolder bets around their business models (Fasanmi & Osungboye, 2018).

Researches in this area of study have attracted methodological challenges, including measurement difficulties in recent years. It is worthy of notice that for all of the advances in statistical methods in marketing in recent years, accurate estimation of consumers' utility functions has not yet been considered a fully resolved problem. Moreover, given the qualitative differences between the generic types, the statistical procedures developed for similar consumer groups are not applicable for all segmentation problems (Fasanmi, 2017).

Most customers in Nigeria have not enjoyed the comfort their money is supposed to provide for them due to the lack of organizational citizenship behaviour of bank workers (Fasanmi, 2018), poor customers services of bankers (Fasanmi, 2016), and poor bank policies. The implication is that even with a substantial amount of money in customers' bank accounts, they still have to run helter-skelter to get good value for their money, etc. These discomforts have caused several old generation banks to lose their valued customers to the new generation banks even before the consolidation exercise (Fasanmi 2018; Ogunyemi, Fasanmi, & Okunnu, 2018). The idea of psychographic segmentation to comfort the customers is thus a welcome market strategy in the Nigerian banking industry.

Competition in the banking sector has become more intense, firstly with the Federal Government's present private sector-driven economic policy. Such policy, in part, has opened doors to the influx of foreign banks into the Nigerian banking industry. In addition, the emergence of megabanks through the just concluded consolidation also posed another daunting challenge. This economic development craves better bank performance to meet global banking standards. Thus all efforts must be put together to achieve noticeable performance in banks.
Over the past two decades, most academic researchers have concentrated their efforts on product benefit preferences, resulting in many notable achievements; there is a need to broaden our empirical understanding of all the types of difference. Nevertheless, as there is substantial evidence to suggest the existence of other rationales for segmenting markets, these too need to be studied empirically and systematically. Thus, the researcher will draw particular attention to profitability-based segmentation, where advances in direct/interactive marketing and database management make feasible forms of analysis that were previously deemed too expensive, too slow and too data-demanding.

The implications of the problems mentioned above are numerous. Bank liquidation, bank distress, poor turnover rate, low liquidity ratio and general lack-lustre performance are usually evident where the concepts of segmentation and performance are taken with levity. The above problems have thus created a research gap that needs to be filled up through this study.

This study aims at examining the impact of market segmentation on the performance of banks. The researcher aims at achieving this objective thus:

- To know the targeted demographic/psychographic variables which banks are using in the market segmentation schemes;
- To examine the impact of demographic segmentation on the bank performance;
- To examine the impact of psychographic segmentation on bank performance.

2. Research Methodology

2.1 Research Design

This research is a survey in which opinions of the respondents were sampled using a questionnaire.

2.2 Population of the Study

The population of this study consists of all customers of Guarantee Trust Bank Plc. in Lagos state, Nigeria.

2.3 Sample

A total of one hundred and eighty four respondents participated in the study. This consists of customers in selected six branches of Guarantee Trust Bank Plc across the three senatorial districts in Lagos state. The branches include: Guarantee Trust Bank Plc Ikorodu; Guarantee Trust Bank Plc Ojota; Guarantee Trust Bank Plc Ikeja; Guarantee Trust Bank Plc. Surulere; Guarantee Trust Bank Plc Victoria Island and Guarantee Trust Bank Plc Obalende.

2.4 Sampling Techniques

A multistage sampling technique was used in the distribution of the questionnaire. Systematic random sampling was used in the selection of the branches used for the study. All the braches were assigned numerical numbers. Those ones that attracted an even number were picked for the study. A convenient sampling technique in which opinions of available customers were sampled was used for the study.

2.5 Type of data

The data for this study was collected between August and September 2020 in the city of Lagos. Both primary and secondary data were used for the study. A self-designed questionnaire was basically used to sample the respondents' opinions. This was complemented with the financial statements of the banks, which were used to measure the bank's performance record. Literature was sought to generate items that reflected the basic concepts of segmentation, and bank performance in Nigeria.

2.6 Instrumentation

The questionnaire that was used for this study was segmented into five sections. Section A is comprised of socio-demographic information of the respondents. This includes items like sex, age, marital status, income level, number of children etc. Section A also contained psycho-segmentation items. Section B measured the effectiveness of Guarantee Trust Bank segmentation services, section C measured psycho graphic segmentation information, section D measured the level of patronage and effectiveness of the segmentation programme of Guarantee Trust Bank Plc.

The Cronbach Alpha reliability values of the scales used for this study are as follow: section B (0.67), section C (0.78), and section D (0.76). The content validity of the instruments was also ascertained by perusing through the items in collaboration with the project supervisor. Textbooks, journals, clippings and the Internet were greatly explored for the purpose of this study.

2.7 Procedure for Data Collection

The questionnaires were administered personally. Permission was sought from the management of the sampled banks. The questionnaires were administered to the respondents during their visit to the banks. Also, some questionnaires were dropped at the customers' service desks, which were collected later by the researcher.

2.8 Data Analysis Method

Data collected from the field was analyzed using both descriptive and inferential statistics. The biodata information of the respondents was analyzed using simple percentage and frequency distribution. The two generated hypotheses were analyzed using an independent t-test. The Statistical Package for Social Sciences 24.0 was used for all data computation and analysis for result accuracy.

3. Results and Discussion

This section examines the data analysis of hypotheses tested. Two hypotheses were tested using the inferential statistics of independent t-test.

Table 1: *Demographic Segmentation variables used by Guarantee Trust Bank Plc.*

S/N	ITEMS	No		Don't Know		Yes		Total	
		F	%	F	%	F	%	F	%
1.	Age of the customers	20	10.9	4	2.2	160	87.0	184	100.0
2.	Income level of the customers	20	10.9	20	10.9	144	78.3	184	100.0
3.	Occupation of the customers	12	6.5	34	18.5	138	75.0	184	100.0
4.	Marital status of the customers	-	-	32	17.4	152	82.6	184	100.0
5.	Literacy level of the customers	20	10.9	21	11.4	143	77.7	184	100.0
6.	Household size of the customers	28	15.2	35	19.0	121	65.8	184	100.0
7.	Housing interest of the customers	36	19.6	46	25.0	102	55.4	184	100.0

Table 1 above showed that demographic factors were put into consideration in Guarantee Trust Bank segmentation scheme. From the table, most of the customers indicated their awareness of the demographic segmentation. Variables such as age of customers (87.0%), income level of customers (78.3%), occupation of customers (75.0%), literacy level of customers (77.7%), household size of customers (65.8%) and housing interest of customers (55.4%) were sampled as confirmation of demographic segmentation in the sampled bank. This awareness as the hypothesis testing further indicated below does not denote effectiveness of the scheme.

Hypothesis One: Psychographic segmentation has significant impact on performance of banks in Nigeria

Table 2: *Summary of independent t-test showing the impact of psychographic segmentation banks performance*

Variable	N	Mean	SD	df	t	*p*
Disposed to Psychographic segmentation	90	41.70	2.71			
				182	3.71	< .05
Not disposed to Psychographic segmentation	94	40.14	2.98			

Table 2 shows that there is a significant impact of psychographic segmentation on bank performance t (182) = 3.71; $p < .05$. This implies that customers' disposition to psychographic segmentation will impact bank performance in Nigeria. Thus, hypothesis one is confirmed.

Hypothesis Two: Demographic segmentation has significant impact on performance of banks in Nigeria

Table 3: *Summary of independent t-test showing the impact of demographic segmentation bank performance*

Variable	N	Mean	SD	df	t	*p*
Disposed to demographic segmentation	89	41.56	2.59			
				182	3.14	< .05
Not disposed to demographic segmentation	95	40.28	2.30			

Table 3 shows that there is a significant impact of demographic segmentation on bank performance t (182) = 3.14; P < .05. This implies that customers' disposition to psychographic segmentation will impact bank performance in Nigeria. Thus, hypothesis two is confirmed.

4. Conclusion

Results of the study revealed that psychographic segmentation has a significant impact on bank performance in Nigeria. The result also revealed that age, occupation, gender, level of income, housing interest of the customers are good demographic segmentation parameters that could enhance banking effectiveness and performance in Nigeria. Thus, it can be said that there is a significant impact of market segmentation on bank performance.

Consequent upon the findings of this research, the following recommendations are suggested:

- Market segmentation in banks relies majorly on effective Internet facilities. It thus

becomes expedient for customers to be computer literate. Banks should incorporate it in their plans to dish out free computer training services to willing customers. This will not only help the individual customers to enjoy the full benefits of segmentation services but would also fatten the big purses of the banks in return.

- There should be an enactment by the government to monitor the activities of the banks in their segmentation strategies. This becomes expedient so as to the details of the bank's activities in line with Central Bank policies and Millennium Development Goals of the Federal Government. The fraudulent intents and acts of some bankers in recent times have called the integrity of banking operations into question.
- Efforts should be made by banks to give their psychographic segmentation paradigm a human face. Nigerians, like any other citizen of the developed world, like comfort, especially when it can be bought. Since the outcome of this study has placed psychographic segmentation a better profit spinning market strategy to gain competitive advantage over other competitors than other segmentation synergies, putting customers first may really make more sense for the bankers. This will not only boost customers' loyalty but also make their bank grow in cash assets.

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