

## **CUSTOMER SELECTION OF BANKS – A BIOGRAPHIC SEGMENTATION**

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### **ABSTRACT**

In this Competitive environment, competition among banks has risen worldwide and the retail banking customers become more sophisticated and it is very important for the banker to monitor how customer evaluates bank services with different factor and select their banks. Bank has to make necessary modification to their policies in order to satisfy the specific demand of the customer groups and they must provide high technological services to the customers. This paper analyzed the factors considered important in selecting a bank by customers in Chennai and to find whether the demographic factors influence the customer choice criteria.

Findings indicate that convenience of branch location was the most important factor in influencing the customers for choosing a bank and bank reputation was the second important factor considered by the customers.

**Key words:** Bank selection, Consumer behavior, Customer demographics

### **INTRODUCTION**

Since, Competition is increasing, it became mandatory for the bankers to analyze customer segments and make strategies according to demand of the customers. Rapid environmental changes will necessitate continued attention and emphasis in formulating bank marketing strategies on the part of management. In its true sense, bank marketing involves a commitment on the part of management to adopt a consumer oriented approach as their philosophy of doing business. The essential element in matching the needs of bank customers and the products and services of banks is the development of a positioning strategy. Positioning involves the perceptual differentiation of the bank and its products and services from its competitors. Past studies conducted on bank selection decision revealed that significant differences exist between different markets.

Market segmentation can lead to insights about the basic process of consumer behavior. Edris and Almahmeed (1997) extended the analysis on market segmentation in Islamic banking by analyzing the behavior of 500 business firms on their differences with bank selection criteria. Kaynak et al (1991) analyzed in his study that differences in bank selected criteria based on gender, age, educational background of bank customers. It find out that comparing to female customers, male customers put great emphasis on reputation

of the bank, working hours, parking facilities, and fast and efficient services. Nowadays competition among banks has risen worldwide and they must provide high technological services to the customers. Bank must continue to monitor how customer evaluates bank services with different factor and select their bank. Bank has to make necessary modification to their policies in order to satisfy the specific demand of the customer groups.

This study is attempted towards finding how different categories of customers choose their banks, what factors they mostly rely on, what makes them satisfied. Through this study, an attempt was made to find whether customers from different Age, gender, income, educational qualification act differently while selecting their banks, whether they give any preference to any factor or not. Fitts (1975; Evans, (1979); Kazeh and Decker, (1993); Holstius and Kaynak (1995) and pass (2006) these researcher has given special attention for how customer choose their banks segments (kaynak et al., 1991

## RESULTS AND DISCUSSIONS

### Profile of the respondents:

The profile of the personal characteristics of the sample population in outlined in Table: 1 More than half of the total respondents belong to 18-30 age groups followed by below 31-40 remaining respondents' falls in the category of above 40 age group. 81.6 percent of total respondents are male and 18.4 percent is female. Nearly 75.7 percent of respondents are married. 33.2 percent of respondents earning 41,000-60,000 per month and 24 percent of sample size are selected from income class of less than 20,000 per month. Very few respondents having a family income of greater than one lakh. Out of total sample size 47 percent of the respondent is graduate followed by post graduate.

### Factor analysis:

**Table:2 Reliability Statistics**

Cronbach's Alpha	N of Items
.965	24

After identifying the dimension underlying a factor, a researcher may prepare a scale of those dimensions to measure the factor. Such a scale has to be tested for reliability and validity. However, research study commonly uses the Cronbach's alpha coefficient for establishing scale reliability. The Cronbach's

Alpha coefficient is an indicator of internal consistency of the scale. The reliability value of our surveyed data was .965 for variables of choice criteria. If we compare our reliability value with the standard value alpha of 0.7 advocated by Cronbach(1951), a more accurate recommendation (Nunnally & Bernstein',1994) or with the standard value of 0.6 as recommended by Bagozzi&Yi's(1988). Researcher finds that the scale used by us is highly reliable for data analysis.

Researchers have applied factor analysis on the responses provided by respondents. Factor analysis is a good way of identifying latent or underlying factors from an array of seemingly important variables. For ascertaining whether sample size is adequate and data collected are suitable for factor analysis application, the KMO and Bartlett's test has used.

**Table:3 KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.940
Bartlett's Test of Sphericity	Approx. Chi-Square	16598.336
	Df	276
	Sig.	.000

The KMO measure of sampling adequacy value .940 indicates that as it is very near to one, it explains almost all variables used in the analysis. Moreover the

chi-square value shows that the variables used in factor reduction method are highly related. Hence it seems to be appropriate for adopting factor analysis in this study. In this study totally twenty four variables have been considered based on previous studies conducted in the area of retail banking selection by customers in Chennai. For the purpose of extraction, the variables with loading of more than .5 are considered. Thus four factors have been extracted which explained 91.892 % (Refer Table: 5) of the total variance. The higher the loading the more important is the factor. All the loadings in the study are positive. Rotation is necessary when extraction technique suggest there are two or more factors. The rotation of factors is designed to give an idea of how the factors initially extracted differ from each other and to provide a clear picture of which item loan on which factor. As a result, the number of factors has been reduced to four that has been arrived at considering Eigen value of more than one and using varimax rotation method.

**Ranking of Choice criteria:**

The descriptive statistics reveals that customers of retail banking have judged core services such as Convenient branch locations, Bank's reputation, Convenient ATM locations, Secrecy, Low interest rates on loans, Reliability, Working hours of bank, Flexibility, Speed of service and decision making, Full service provider, High technological services, Paying highest interest rates on saving accounts, etc as very important criterion for customers choosing a bank. The second important factor is Image such as Recommendations of friends, External appearance of bank and the next less preference given to financial charges and parking. (Refer Table: 4)

**Naming of Factors:**

All the factors have been given appropriate names according the variables that have been loaded on each factor. The four factors depicted in Table: 6 are discussed below.

**Factor1: Core services**

The rotated component matrix has revealed that respondents have perceived this factor to be the most important factor with the highest variance of 72.051% twenty out of twenty four variables yields a great influence on selection of banks. Researchers have named this factor as Core services as it includes Convenient branch locations, Bank's reputation, Convenient ATM locations, Secrecy, Low interest rates on loans, Reliability, Working hours of bank, Flexibility, Speed of service and decision making, Full service provider, High technological services, Paying highest interest rates on saving accounts, Service charges, Ease of obtaining loans, Documentation required, Innovative products, Friendliness of bank personnel, Transparent accounting, Recommendations of relatives, Wide range of products. All these variables are pertaining to the basic criteria considered

by consumers at the time of selecting the bank. Among them, Convenient branch locations has got the score of highest loading value of .976 and the least loading score .569 is attained by the Wide range of products.

### **Factor2: Image**

The second most important factor contains two variables namely Recommendations of friends, External appearance of bank with the variance of 10.717% and researchers have named this factor as Image.

### **Factor3: Financial charges**

This is the next important factor, which accounts for 4.880 % of the variance. Only penalty charges loaded in this factor and it named as financial charges.

### **Factor4: Parking**

Only available parking space load on this factor and together account for 4.244% of the variance and the researchers named it as parking.

## **CONCLUSION AND MANAGERIAL IMPLICATIONS**

Customer selection of banks was studied in the present study through the relationship between the four factors along with the demographic characteristics of respondents. These factors were extracted through the factor analysis from the exhaustive list of statements. From this study it reveals that banks must continue to analyze how customer evaluates bank services with different factor and select their bank. The study has vigorously confirmed that the important factors that customers look for in banks is Core services such as Convenient branch location, banks reputation, Convenient ATM location, secrecy, Low interest on loans etc., Level of importance given to each factor varies with demographic profiles like age, gender, income education and length of association with banks. Age groups of respondents greatly influence the customer for choosing a bank. Respondents of all age groups invariably have considered core services as the most important factor and second most important factor as image. An important results reveals from the study that gender difference does not influences the customers for selection of banks. In order to attract new customers, retail bankers should focus their emphasis on core services because core factor found to be important among the customers of retail banking and this truth is invariably accepted by private and public sector customers.

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## Appendix

<b>Age of the respondent</b>	<b>Frequency</b>	<b>Percent</b>
18-30	163	53.6
31-40	96	31.6
41-50	26	8.6
51-60	9	3.0
above60	10	3.3
<b>Sex</b>		
Male	248	81.6
Female	56	18.4
<b>Educational Qualification</b>		
Graduate	143	47.0
post graduate	128	42.1
Others	33	10.9
<b>Family income per month</b>		
<=20,000	73	24.0
21,000-40,000	69	22.7
41,000-60,000	101	33.2
61,000-80,000	31	10.2
81,000-1,00,000	20	6.6
>1,00,000	10	3.3
<b>Marital status</b>		
Single	74	24.3
Married	230	75.7

**Table: 4 Ranking of choice criteria**

Choice criteria	Minimum	Maximum	Mean	Std. Deviation	Rank
<b>Core services</b>	27	88	76.19	19.964	I
<b>Image</b>	2	8	4.32	1.292	II
<b>Financial Charges</b>	1	3	2.79	.432	III
<b>Parking</b>	1	5	2.76	.710	IV

**Table:5 Total variance Explained**

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	17.292	72.051	72.051	17.292	72.051	72.051	16.103	67.097	67.097
2	2.572	10.717	82.768	2.572	10.717	82.768	3.338	13.907	81.004
3	1.171	4.880	87.648	1.171	4.880	87.648	1.451	6.046	87.050
4	1.019	4.244	91.892	1.019	4.244	91.892	1.162	4.842	91.892

Table:6 Naming of Factors						
Factors	Statements	Factor 1 loading	Factor 2 loading	Factor 3 loading	Factor 4 loading	Cronbach Alpha
Core Services	Convenient branch locations	.976				0.980
	Bank's reputation	.955				
	Convenient ATM locations	.950				
	Secrecy	.948				
	Low interest rates on loans	.947				
	Reliability	.947				
	Working hours of bank	.941				
	Flexibility	.935				
	Speed of service and decision making	.934				
	Full service provider	.934				
	High technological services	.932				
	Paying highest interest rates on saving accounts	.931				
Service charges	.927					

	Ease of obtaining loans	.918				
	Documentation required	.916				
	Innovative products	.890				
	Friendliness of bank personnel	.787				
	Transparent accounting	.663				
	Recommendations of relatives	-.664				
	Wide range of products	.569				
<b>Image</b>	Recommendations of friends		-.932			0.813
	External appearance of bank		-.845			
<b>Financial Charges</b>	Penalty charges			.752		
<b>Parking</b>	Available parking space nearby				.955	