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The Need for Re-Segmenting the Commercial Banking Market: The Required Effort for Successful Bankers in Harare.

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Abstract: *Successful financial intermediation role of commercial banks can be achieved effectively if there is proper identification and match between market segments and banking services. The banking industry went through trying times and changes that could have shaken and restructured the customer expectations, interests, wants and needs around the financial products. This could point to the confusion, mixing up, shaking up and distortion that could have happened in the market segments of Harare based commercial banks. This concept paper provides the industry background details that define issues and processes that compel the banking firms to rethink and consider the direction of re-segmenting their market to enable customer satisfaction and effective financial intermediation role. Segmentation is only relevant up to when segments are clear, relevant, actionable and profitable. The defined geographical, demographic, socio-cultural, behavioural and psychographic markets seemed to have changed and hence leading many bankers to misfire and misdirect their efforts on unclear market needs. The history of Zimbabwean banking industry, the post independence dispensation, changes and shake-ups in the Zimbabwean banking industry, current competition in banking industry and segmentation variables were discussed in this concept paper.*

Keywords: *Banking industry, Harare Banks, Re-segmentation, Customer expectations, segmentation variables.*

I. Introduction

The Zimbabwean financial sector is relatively sophisticated, consisting of the Reserve Bank of Zimbabwe (RBZ), Discount Houses, Commercial Banks, Merchant Banks, Finance Houses, Building Societies and The Post Office Savings Bank. These institutions offer a variety of products to the customers, from savings account, current account, financial assistance through offering bank loans and also mortgage facilities offered by building societies. Though they differ in mandates and objectives, most of them perform the basic function of commercial banking of receiving deposits and giving out loans. Changes in the structure of the financial system and banking sector in particular should reflect the changes in the structure and needs of the society and customers in particular. This the creates a need to trace the break up of original segments and for recommending development of new segments.

The development of the Zimbabwean banking sector can be analysed within three separate periods, namely; Banking in Rhodesia, Post Independence Banking in Zimbabwe and the Post 2000 Banking period.

II. Banking In Rhodesia and Post Independence Day Zimbabwe

2.1 Banking In Rhodesia

There is not much information available on banking in Rhodesia. The banking sector during the colonial period was highly regulated and there was no competition at all hence no need for banks to embark on much marketing. After the breakup of the Federation of Rhodesia and Nyasaland, and consequently the termination of the currency union between Northern and Southern Rhodesia and Nyasaland (now Zambia, Zimbabwe and Malawi), the Parliament of Southern Rhodesia enacted the "Reserve Bank of Rhodesia Act" on November 16, 1964, creating a central bank, then called the Reserve Bank of Rhodesia. Upon achievement of de jure independence and the attainment of majority rule, on April 18, 1980, the Reserve Bank of Rhodesia became what is today known as the Reserve Bank of Zimbabwe.

The history of the number of banks that were in Rhodesia is very scarce. According to Steven C Rubert, A Most Promising Weed; A History of Tobacco Farming and Labor in Colonial Zimbabwe, 1890 – 1945, the Rhodesian Government, in 1924 created the Land and Agriculture Bank of Southern Rhodesia which was also commonly known as the Land Bank. During that period, farming was the main activity of the day and hence majority of the bank customers were farmers. The main products offered by the banks were loans since farmers would require financial assistance for their farming activities especially the tobacco farmers. The new Land Bank came into the market and did something differently to its customers and was able to capture a bigger portion of the market share. The new bank was able to provide farmers with loans secured with more "shaky" collateral, usually the next year's crop as compared to the BSCA's Land Bank which only accepted capital property as collateral. As a result of the more relaxed procedures, the new bank provided both a greater number and higher total value amount of loans than Land Bank the earlier

It was crucial for the banks during that era to be able to identify the kind of market that they were operating within, in order to be able to come up with strategies that best addressed the needs by their current market. It seems though that there were very few segments by then, since majority of the customers were farmers who only required financial assistance for their farming activities. What was crucial then was providing loan products that were tailor made to suit each of the different levels of farmers that existed during that period.

2.2 Banking In Post Independence Day Zimbabwe

Soon after independence, Zimbabwe banking sector inherited the same highly regulated system and did not make any major reforms towards nationalizing banks. During the period of 1980 - 2003, there was a normal situation where people would do proper banking. Most banks were offering Savings and Current accounts, where the Savings account was for the purpose of money saving and the current account was mainly for salary deposits. Both accounts would earn some interest, but the savings account had higher interest rates as compared to the current account. People had normal bank accounts per person, where one could have a single current account for his/her salary earnings, whilst some would have both savings and current account. Market segments were quite defined and hence marketing was a bit easier since it was done to a well-defined market. Banks could easily segment their market and banks that could clearly segment their market segments managed to acquire a greater portion of the market share. The segments that were dominating the banking industry by then include students, pensioners, civil servants, weekly wage earners, fortnight wage earners, the monthly salary earners. The business markets could also be seen so clearly according to their sector boom and shut down days. Risk takers, non savers, savers, urban customers, rural customers, small traders, young people and adults. The various demographic, socio-cultural, psychographic, behavioural and geographic segments could easily be shown as the environment was generally stable. It was ease to estimate the future needs of bank customers and their possible reaction to a set marketing mix.

III. Changes and Shake-ups in The Zimbabwean Banking Industry

The situation changed in 2003 as different entrepreneurs used varied methods to penetrate the financial services sector. It was then that confusion, mixing up and distortion of the market segments began. A new governor of the RBZ was appointed in December 2003 when the economy was on a free-fall. He made significant changes to the monetary policy, which caused tremors in the banking sector. Nine banking institutions, namely, Barbican Bank Limited, CFX Bank Limited, CFX Merchant Bank, Intermarket Banking Corporation Limited and Intermarket Building Society, Intermarket Discount House, Royal Bank of Zimbabwe Limited, Time Bank Zimbabwe Limited and Trust Bank Corporation Limited were placed under recuperative curatorship. Customer accounts were frozen and the act affected the public's confidence in banks. Customer expectation and interests were altered resulting in a mix up of the segments of the banks customers. Those banks that were left had the task of reassuring their customers of how safe their money was, in the bank. A need for market re segmentation was crucial at that time.

It was only for a short period, during 2004 – 2006 that banks were able to clearly mark their segments and for a little while, managed to restore people's confidence in banks. Soon after 2006, the banking public was faced with another nightmare period of serious cash shortages, withdrawal limits, incessant queues and bank closures. Zimbabweans' confidence in the banking sector was shattered. Customer accounts were frozen and the act affected the people's confidence in banking systems. The situation continued to deteriorate and the country entered a period of hyperinflation unheard of in a peace time period. The net result was spiraling inflation, company closures resulting in high unemployment, foreign currency shortages as international sources of funds dried up, and food shortages. The foreign currency shortages led to fuel shortages, which in turn reduced industrial production. Consequently, the Gross Domestic Product (GDP) has been on the decline. This negative economic environment meant reduced proper banking activity as industrial activity declined and banking services were driven onto the parallel rather than the formal market.

People would have multiple accounts which they would use to access cash from the banks which was now so much in shortage. This period worsened the customer's confidence in banks and their operations. People would have their funds in the banks and they could not easily access them. In so doing, people lost all the confidence in banks. It was almost impossible for banks to restore confidence in their customers. It may be very honest and fair enough to say that there was no longer banking in Zimbabwe during that period. In as much as banks would have loved to segment their markets, it was quite impossible for them to do so during that period. It was just but a crisis that had gone out of hand.

Major structural changes in the commercial banking and financial sector occurred. Mergers and acquisitions occurred as banks tried to enhance their position in line with the new minimum capital requirements that had been introduced by the RBZ. The move saw such banks like CBZ merging with Beverly building society, FBC Bank merging with ZBS Building society, Zimbank merging with Intermarket building society. There were distortions of market segments as a result of these changes. For example, some banks ended up amalgamating commercial banking customers with building society customers, who initially had different needs and wants. The customers, for example, ended up being charged with same bank charges yet previously these customers were distinguished according to their level of earning. That segmentation was very critical as it resulted in some customers leaving banks and resorting to pillow banking as they could no longer afford the bank charges and they felt that banks were robbing them off their hard earned income. This marked the beginning of financial rebellion and financial exclusion.

During 2009, a lot continued to happen in the Zimbabwean economy, resulting in continued distortion of the banking market segments. The Zimbabwean economy was dollarized, a move that wiped out the little confidence that was left in some of the customers. Overnight, people just woke up to have their Zimbabwean dollar balances no longer accessible to them and the USD dollar was introduced as the main currency of trade. This move greatly affected people's attitudes towards banking products. People then preferred keeping their monies at home rather than having it at the bank where they had no guarantee of having access to it the following day. As a result of the confusion, banks failed to come up with proper market segments. There was no proper banking and it was therefore difficult for banks to segment markets.

IV. Competition In The Zimbabwean Banking Industry

As the banks approached 2010 the situation started to almost stabilize. However, people still didn't have confidence with banks. The banks on their part did not do a proper review of their market segments and hence the developments of other products to cover up the gap. Banks were overtaken by mobile banking in terms of identifying and meeting customer needs. Eric Bloch, a renowned Zimbabwean economist, said mobile banking has managed to tap into cash that has been circulating outside formal banking through the mobile wall. While banks were busy concentrating on bank charges, Eco-cash realized a gap of unsatisfied and disgruntled customers and took over. Despite their KYC (Know your customer) songs, banks were ignorant of their customer's needs. Taking into consideration what had happened to the people in the past years, it was quite critical for banks to do an extensive market research and be able to identify the current requirements by the customers. Majority of the people had stopped banking and banks were supposed to identify this section of the market and be able to capture on it.

It is important for banks to move with the changing times, thus they can be able to identify gaps in their market sector. It was too late when some banks like ZB Bank, FBC Bank, MBCA Bank also started introducing mobile banking when the unbanked market share had already been taken care of by Eco-Cash. Their products did not do much well and they did not gather much publicity as Eco-Cash had already dominated the market. It was therefore quite difficult for the banks to win back this market share.

With Eco-Cash, customers could access their cash as and when they needed it. They could transfer cash to anyone, anywhere in Zimbabwe, who could then access it instantly. Some research shows that Eco-cash transaction charges are much on the higher side as compared to bank charges. However, regardless of the higher charges, the response by the public to Eco-Cash was so overwhelming. It appears that customers never bothered much about the charges but the fact that their money would be available to them as and when they required it was more than enough to them. They perceived Eco-Cash as a secure financial institution than the troubled banks that had some history of failure and closures.

Mobile phone banking has removed major barriers that barred many people from opening banking accounts as their phone becomes their bank. No need to produce a salary slip and all other requirements to open a bank account. One's phone can become both a means for communication and a means for saving and transferring cash or paying for goods purchased.

Segmentation becomes necessary in Zimbabwean banks if they are to survive the competition. The overall objective of using a market segmentation strategy is to improve the bank's competitive position and better serve the changing needs of its customers. Some specific objectives may include increased sales, improved market share and enhanced image. This may be accomplished by searching out unique marketing advantages, seeking new market segments that competitors are not cultivating, or developing new approaches to old problems.

A number of new, more customer-centric brands like Eco-Cash are either entering the retail banking market or seeking to grow their presence in it. In this environment of stiff competition, where brands like Eco-Cash have entered the market, banks have to resort to niche marketing and affinity segmentation than stick to the traditional "all things to all people" approach in order to reap financial benefits associated with increased productivity and efficiency of their team using their time more valuably when focusing on a specific group or segment.

The existence of unsatisfied consumer needs represent a business opportunity. Due to stiff competition and limited resources a business opportunity is often approached with a carefully designed marketing strategy. This marketing concept calls for understanding of customers and satisfying their needs better than the competitor. Different customers have different needs and it is rarely possible to satisfy all customers by treating them alike. Dividing the customer base into groups with similar characteristics in order to provide value offers which are effective and unique could optimize profit for the bank and leave customers satisfied. It is therefore important for banks to redefine their market segments in order to with stand the competition given by the substitute financial institutions in the market. The change in the Zimbabwean economy also resulted in changes in the needs and wants by the different market segments. Given the current economic environment, banks should therefore be able to identify the current needs and wants for their current segments .Without proper market segmentation, banks may not be able to reach out to all the possible prospective customers. Some market segments will be left out unaddressed and if other competitors are to realize the unattended gap, they will quickly grab that market share. It will be a greater task then for banks to try and regain the taken segments.

Currently, customers have been complaining about high bank charges levied to them by banks. Majority of the informal traders have not been able to open accounts with banks because they cannot afford the bank charges. They have therefore resorted to pillow banking. As for those who have accounts, they are still not very satisfied with the current banking system where one just puts money into an account and it does not earn any interest but rather reduced by bank charges. Currently, one can conclude that there is a mismatch between what banks are offering and what customers want. There is need for banks to address this gap in order for them to capture on the unbanked market share in order to improve productivity.

With the commercial banking sector having been shaken up for a long time, the three resulting common positions of such banks could be classified as closed banks, struggling banks and the strong players. The closed banks might want to reclaim their licenses and come back in the banking game. The ailing banks might want to re strategize and consolidate their market position. Strong banks are also encouraged to review their customer segments lest they wake up one day with fewer customers and lower market share resulting from competition by substitute financial institutions, new banks and rejuvenated banks.

Given the current economic environment and the lack of investor confidence in the bank products, it is crucial for banks to come up with strategies that will best address these current scenarios. The current market segments are much distorted and banks need to identify these segments and properly address them. Since the Zimbabwean banking industry is suffering from low investor confidence, low societal confidence, disgruntled customers, high uncertainty in retail banking, mounting internal problems, there is a dire need to attract and retain customers. The only sensible solution and starting point to addressing this socio-economic problem seems to be market segmentation. Through segmentation a bank can position itself as a leader in those microcosmic communities that make up the broader community it serves.

V. A Evaluation Of The Importance Of Market Segmentation

The rationale for market segmentation is to identify groups of customers with common needs so that they can be addressed more effectively or profitably than for a larger group with less in common. By the help of market segmentation, it is possible for bankers to perform an efficient match of their resources and market requirements, and thus, costs can be reduced. After segmenting markets, banks can come up with strategies that suit the various market segments, thus addressing each segment accordingly. By so doing, banks are able to save on costs and increase on their profitability. Through segmentation, banks are able to address personal customer needs since they are able to group customers into smaller groups that consist of individuals with common needs, beliefs, attitudes and values. It is easier and possible to monitor any changes that may occur within the segments and quickly address these changes. Monitoring is easier when dealing with smaller segments than when dealing with a heterogenous total market.

The importance of market segmentation is that it allows a business to precisely reach a consumer with specific needs and wants. In the long run, this benefits the banking industry because they are able to use their corporate resources more effectively and make better strategic marketing decisions. Defined market segments allow banking companies to create product differentiation strategies to target the customers. Market segmentation is extremely important in marketing as it allows for customization of products/ services to the customers that have the potential to buy them.

Through proper use of market segmentation a bank is able to determine how it is perceived by its customers and potential customers relative to competition. Banks can increase their market share and reduce the chances of new competitors entering the same market.

Market segmentation enable banks to come up with smaller modifications that will improve or optimize their final outcomes, thus fine tuning current marketing strategies.

Market segmentation can, however, cause some problems and challenges to bankers if it is not done and implemented with care.

Among the factors posing challenges to the market segmentation practices include one-to-one marketing (or mass customization) and the characteristics of postmodern consumers. It is argued that in the postmodern era the market is fragmented, and also that the postmodern consumer wants to experience the diversity and exhibit multiple self-images and lifestyles for different occasions. It is therefore said that consumers try several or many images, brands and products, both sequentially and simultaneously.

It is further argued that there is the need for more future research on overlapping segments in identification of multiple consumer images, benefits, and/or motivations and more empirical studies will be needed to examine the stability of segments overtime, which will require longitudinal and cohort studies. The option is that perhaps the companies will use occasion-based segmentation. The two key factors that will affect segmentation in the future are competitive and technological forces and there is a rising trend towards one-to-one marketing.

In practice, if one product is highly differentiated and successfully positioned to one certain customer segment; then soon enough, a long term strategy of that company is to appeal to more potential customers by broadening the brand's position. This might make the existing mass marketing approach a more effective way to reach the whole banking customer base.

Extensive market research is needed while segmenting a market. Even though market research is carried out, it may not guarantee success for a bank. Consumer behaviors are difficult to predict and measure because the way they behave changes over a period of time. The change in behaviour can create a problem for those firms who focus on one or two limited segments.

Banks need to know the limitations of segmentation and the pitfalls that lie ahead of targeting a wrong market segment. If the chosen market segment is too small banks may not have the proper turnover which in turn will affect the total margins and the viability of the business.

When consumers are misinterpreted banks can come up with wrong strategies which will affect delivery. In some cases, banks can come up with the right product to the wrong customers (Kotler and Armstrong, 2014)

VI. The Various Segmentation Approaches for the Commercial Banking Sector

The paper recommend the bankers to carry out demographic, geographic, psychographic, behavioural and socio-cultural segmentation.

The specific demographic measures include age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, social class and nationality (Armstrong and Kotler, 2012). Demographic factors are the most popular bases for segmenting the consumer group. This is mainly because consumer needs, wants, and usage rates often vary closely with the demographic variables.

The geographic segmentation refers to dividing a market into different geographical units such as nations, states, regions, cities, or neighborhoods. It is important to segment according to geography, due to the fact that the purchasing behavior of the customers are influenced by where they live, work and other situations (Gunter and Furnham, 1992).

The psychographic variable is derived from two principal profile of customers, namely; personality profiles and lifestyle profiles (psychographics). Psychological profiles are often used as a supplement to geographic and demographics when these does not provide a sufficient view of the customer behavior. Psychographic segmentation therefore divides people according to their attitudes, values, lifestyles, interests and opinions (Pickton and Broderick, 2005).

The behavioural approach to segmentation is based on the customers' attitude toward, use of, or response to a product. Many marketers believe that the behavioral variables such as occasions, benefits, user status, usage rate, buyer-readiness stage, loyalty status and attitude are the best starting points for constructing market segments for banking products. By combining the different behavioral variables, it is possible for marketers to get a view of a market and its segments and thereby the marketer can enhance its targeting strategies (Kotler and Keller, 2013).

Socio-Cultural segmentation is used to divide markets according to cultural origin and social items. Socio-cultural segmentation combines social (related to groups) and cultural variables (related to the shared values, beliefs, attitudes of people) that provide further basis for segmentation. All these variables need to be applied to define the market for banking services and products in Zimbabwe.

VII. Conclusion

Given the importance of market segmentation in the 'segmentation-targeting-positioning' marketing process, the review conclude that bankers will need to use market segmentation as the initial stage for improving their operations. Though market segments are expensive to establish and also vulnerable to environmental changes, re-segmenting will enable the bankers to effectively re-engage the lost bank customers, and hence reclaiming their financial intermediation role in the socio-economic system of Zimbabwe.

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