

BENEFIT SEGMENTATION

Case of a National Bank's Customers in Indonesia*

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Fierce competition in Indonesian banking industry had forced banks to get closer to their customers in order to maintain their customer base. However, considering the banks limited resources and the market competition, raised question on which customers they should focus to serve. Benefit segmentation as one of the concept of market segmentation, provides a clear picture of which segment or type of customers the bank should focus.

Undertaken in a national bank, this research was aimed to identify benefits desired by the customer in financial service; segments for the bank based on those benefits; and to identify whether there is a relationship between customers' demographics and their desired benefits. Factor analysis with principal component method was used to extract 29 banking attributes to a set of factors that capable to capture the main features of the responses. Cluster analysis was then applied to the data set to identify whether a bundle of benefit might be sought by a specific customer segment. The last, chisquare test was applied to identify whether there is any correlation between the cluster and the demographic variables.

Five factors (main benefits) sought by the customers were found, namely: safety-convenience; relational; bank's features; cost; and promotional incentives. Based on those factors, the customers could be classified into four segments, service-oriented (38.41%), rate sensitive (16.85%), incentive seekers (13.30%), and safety-convenience (31.44%). A significant correlation between demographic characteristics (gender, age, education, income, monthly spending, occupation, and number of children) and desired customer benefits were found. Therefore, those demographic characteristics could be used to develop the customers' profiles.

Keywords: benefit segmentation; chisquare test; cluster analysis; factor analysis

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Introduction

Since the Indonesian government financial regulation, "Pakto 1988,"¹ introduced, competition in Indonesian banking industry has been fierce. Nowadays customers have many alternatives to fulfill their financial needs. This mature and intense competitive pressure had forced banks to get closer to their customers in order to maintain their customer base. A thorough understanding of their customers needs and wants become increasingly important, since a bank's resources had limited its capability in fulfilling the varying wants in the market.

Establishing a loyal customer base for a retail bank has been increasingly important. By increasing loyalty, a retail bank could reduced its servicing costs, gains knowledge of the financial affairs and needs of its customers, and has an opportunity to crosssell existing and new products and services (McDougall and Levesque 1996).

The next issue that came up for the bank was which customer they should focus to serve, considering their limited resources and the market competition. The concept of market segmentation could provide a clear picture of which segment or type of customers the bank should focus. Davidow and Uttal (1991) identify good service marketing as focusing on a particular market segment and servicing the needs of that segment.

Traditional methods in market segmentation used by banks typically are geographic, demographic, socioeconomic and psychographics characteristics to segment their target markets, but these vari-

ables have been found to be poor predictors of future buying behavior, particularly in marketing financial services. To overcome this shortcoming, benefit segmentation has been introduced to financial service customers in relation to their particular attitudes and behavior (Minhas and Jacobs 1996).

This study was undertaken on a national bank to answer the question of how the bank should maintain their existing customers. The benefit segmentation approach was used to find out whether differences in customers' financial needs exist and to classify the customers. Understanding the actual segments could provide a bank a better insight about their customers' financial needs, and benefits desired for financial service offer. Therefore, it is expected that the bank would be able to provide better financial service offer to their customers.

Benefit analysis allows the bank to concentrate its marketing effort on its strengths, and to target benefit segments in keeping with them. The use of benefit segmentation could improve the effectiveness and efficiency of their marketing strategies. The bank could focus on certain segments and improve their financial service offer to those segments. Improvement in the bank's services would increase customer satisfaction and loyalty. Increase loyalty means reduce the cost, and extend the business with their customers by crosssell the existing and new financial products and services.

The objectives of this research are to identify segments for a national bank² based on their customer-desired benefits, and to see whether there is a relationship

¹ Banking deregulation that among others, allowed the national banks to open their branches in all of the Indonesian cities.

² We do not list the banks to accord with the bank's secrecy rule and promise not to disclose the information to third parties.

between customers' demographics and their desired benefits.

Literature Review

A company cannot serve all customers in a broad market. The customers are too numerous and diverse in their buying requirements. The company needs to identify the market segments that it can serve more effectively. The identification of market segments could help company to identify how to (1) attain a closer match between buyers' value preferences and the organization's capabilities, and (2) compare organization's strength and weaknesses to the key competitor in each segment (Cravens 2000). Wilkie (1994) stated that the most basic advantage offered by market segmentation is that it provides a structured means of viewing the marketplace confronting the firm.

Market segmentation defined by Wendell Smith as viewing a heterogeneous market as a number of homogenous markets, in response to differing preferences, attributable to the desires of consumers for more precise satisfaction of their varying wants (Alfansi and Sargeant, 2000). Similarly, Kotler (2000) defined market segmentation as identification and profile distinct groups of buyers who might require separate products or marketing mix. However, the feasibility and value of market segmentation need to be evaluated. There are five criteria that need to be considered before conducting market segmentation:

1. **Measurable:** the size, purchasing power, and characteristic of the segments can be measured.
2. **Substantial:** the segments are large and profitable enough to serve.
3. **Accessible:** the segments can be effectively reached and served.
4. **Differentiable:** the segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs.
5. **Actionable:** effective programs can be formulated for attracting and serving the segments (Kotler 2000; and Cravens 2000).

Segmentation Approaches

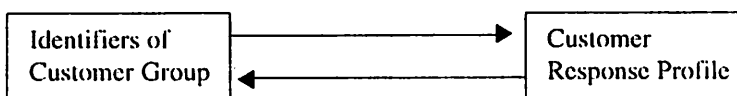
Day (1990) mentioned that there are two approaches in identifying market segment:

1. Grouping customers according to descriptive characteristics and then comparing response differences across the groups, or
2. Forming groups based on response differences (e.g. frequency of purchase) and determining whether the groups can be identified based on differences in their characteristics.

Illustration of the two approaches is shown in Figure 1.

The first approach in market segmentation is useful to locate and describe target segments. However, they suffer from the underlying disadvantage that all based on an *ex post facto* analysis of the kinds of people who make up specific segments of

Figure 1. Segmentation Approaches



Source: Day (1990)

Table 1. Classification of Segmentation Variables

| | General | Product Specific |
|--------------|--|---|
| Observable | Demographic, geographic, and socioeconomic variables | User status, usage rate, loyalty, stage of adoption |
| Unobservable | Psychographic, values, personality, and lifestyles | Benefits, perception of preferences, and intentions |

Source: Adopted from Wedel and Kamakura (1998).

a market. With this method, we never find out what causes the segments to develop, nor does buying behavior determine membership of a segment. The second approach identified a certain kind of behavior, and then findings out what kind of people are grouped in the segment.

The above explanation showed that the way we segment the market will determine the nature and content of the segment identified, and will influenced the marketing strategy.

Segmentation Variables

There are several variables that could be used in market segmentation. In forming market segments for financial service industry, Andersen et al. noted that banks often focused on geographic, demographic, socioeconomic, and psychographic characteristics as descriptive variables of market segment (Minhas and Jacobs 1996). Other approaches used are usage rates and product purchase decisions. Wedel and Kamakura (1998) classified those variables according to whether they are "product specific" or "general" (independent of product or services).

The concept of segmentation in marketing recognizes that consumers differ not only in the price they will pay, but also in a wide range of benefits they expect from the product or service, and its method of delivery. In this regard, some limitations in the traditional approaches to seg-

mentation, especially with respect to financial services, would be discussed below.

Observable General Bases

Geographic segmentation is used to divide the market into different geographical units such as nations, region, local town, or neighborhood. The company can operate in one or a few geographic areas in all but pay attention to local variations. However, the influence of technological innovation made definitions of market boundaries keeps on changing. Since then, the nature of the financial services industry such as banks cannot discriminate in terms of locality or region. Moreover, differences in preferences and purchase patterns for financial products or services do not appear to emerge along regional lines, thereby removing the usefulness of geographic segmentation (Chee and Harris 1993).

Demographic variables such as age, gender, income, occupation, marital status, education, and so on, are the most popular bases for distinguishing customer groups. The reason is that consumer wants, preferences, and usage rates are often associated with demographic variables. Another reason is that demographic variables are easier to measure. However, differences in behavior between demographic segments can be too small to be of any practical value (Frank et al. 1972).

The other demographic variable is social class (social strata) determined by the person's position on status dimension (Loudon and Della 1984). However, there are some several weaknesses in social class segmentation. The assumption that a person's social class stable, ignores the effects of mobility. The inconsistencies that arise from individual ranking high on one dimension (such as income) but low on another (such as education) are also ignored by this segmentation. Furthermore, the further supposition that an individual identifies only with the social class in which he/she is categorized ignores reference group effects from other classes (Minhas and Jacobs 1996).

Unobservable General Bases

Psychographics variables divide a market into different groups on the basis of life-style, personality, and values. People within the same demographic group can exhibit very different psychographic profiles (Kotler 2000). Life-style segmentation divides the market into segments based on activities, interest, and opinions. However, in contrast to demographics variables, which are possible to define characteristics, there are no fixed definitions for life-style. Moreover, identified life-style characteristics must be related to specific product categories if they are to be useful to marketers.

Personality variables have been used in market segmentation by endowing products with brand personalities that attempt to correspond to consumer personalities. The inability to explain or predict variations in consumer behavior becomes the weakness of this method. Some marketers segment by core values, the belief systems that underlie consumer attitudes and behaviors. Such perspectives paint a rich picture of the dimensions underlying con-

sumer behavior, their performance against the criteria for efficient segmentation of accessibility, responsiveness and stability has often been called into question (Wedel and Kamakura 1998; Novak and MacEvoy 1990).

Observable Product Specific Bases

Variables such as user status, usage rate, loyalty, and stage of adoption have been utilized in market segmentation. These variables have been identified offering utility to the marketer. While of obvious importance to customer retention and development, the utility for customer acquisition of segments created by these variables could be low, due to weak associations with general consumer descriptors (Frank et al. 1972).

Unobservable Product Specific Bases

This class contains variables such as brand attitudes, behavioral intentions, and product specific psychographics and product benefits. Brands attitudes were important because attitudes influence behavior. Assael (1998) defined attitudes as enduring systems of favorable or unfavorable evaluations about brands. Therefore, attitudes reflect buyers' overall preference for a brand.

Behavioral intention measures the consumers' tendency to act toward an object (Assael 1998). This variable could be used to divide consumers based on their tendency toward a specific product. The product benefits variables that could overcome the disadvantages of traditional methods discussed in following section.

Benefit Segmentation

Benefit segmentation is a form of behavioral segmentation. Market segments can be defined by the benefits consumer desire. Its proponents argue that benefits which people sought in consuming a given

product are the basic reasons for the existence of true market segments. The benefit approach classifies consumers according to their different requirements and hence defines a segment by causal rather than descriptive factors. Therefore, it can offer considerably more utility than many other approaches that cannot answer the question of why consumers elect to purchase particular products and services. Hence, this method can assist managers in developing those that more accurately reflect the needs and wants of their market.

The benefits used in this method identify the key product attributes that marketers should use to influence consumers. The benefits consumers desire are measured by attribute evaluations. For example in the car market, segments defined by economy, performance, and luxury. Marketer attempt to influence consumer attitudes in the performance segment by citing key features such as acceleration, horsepower, and fuel efficiency (Assael 1998).

The main strength of benefit segmentation is that the benefits sought have a causal relationship to future behavior. However, difficulties can arise in choosing the correct benefits to be emphasized and making certain that consumers stated motives are their real motives. Failure to understand the benefits, which consumers may be seeking, can prevent market success. The extent that marketers could successfully segment their market on this basis, would depend on the degree to which it might be possible to access consumers demanding specific bundles of benefits with a uniquely tailored marketing mix.

Methodology

In developing the questionnaire, previous empirical research on financial in-

stitution (McDougall and Levesque 1994 1996; Alfansi and Sargeant 2000) and service quality (Parasuraman et al. 1991) were used. Following the above research, in total of 29 items were used to find out the banking benefits that might be sought by the bank's customers (see Table 2). Respondents were asked to identify the importance of banking benefit on a seven point's semantic differential scale, ranging from 1 (very unimportant) to 7 (very important).

A pretest was conducted on 95 respondents in Yogyakarta to make sure that all items were valid and reliable to be used. The result showed that all the items were valid and reliable.

Using purposive sampling technique to include all designated regions, the questionnaire were distributed to 1000 of a national bank customers that spread in 7 branches in Jakarta, Bogor, Tangerang, and Bekasi since these are the areas where most of the branches located. Respondents were asked to fill out the questionnaire by a surveyor that visited their homes. Response rates that yield in the survey were 97.7 percent with 3 (0.3%) unusable questionnaires. Sample and respond distribution are shown in Table 3.

Factor analysis was applied to the data set to extract from the series of 29 benefit variables, a set of factors that capable to capture the main features of the responses. The principal component method was used in this analysis. Kaiser Meyer Olkin (KMO) measure of sampling adequacy and Bartlett test of sphere city were applied prior to the factor extraction. Thus, a VARIMAX rotation was applied to the data set to get better factors pattern.

Cluster analysis was then applied to the data set to identify whether a bundle of benefit sought by specific customer segment. Hierarchical cluster was first ap-

Table 2. **Banking Benefits Used in Questionnaire**

| No. | Bank Attributes | No. | Bank Attributes |
|-----|---------------------------------------|-----|--|
| 1 | Bank reputation | 16 | Portable banking (phone banking, internet banking) |
| 2 | Fast and efficient service | 17 | Bills payment service |
| 3 | Employee's knowledge and skill | 18 | Banking hours |
| 4 | Parking space | 19 | External appearance |
| 5 | Interesting advertising | 20 | Interior layout |
| 6 | The availability of prize draws | 21 | Employees appearance |
| 7 | The value of prize draws | 22 | Reliability of staff |
| 8 | Lower credit interest | 23 | Provide services when promised |
| 9 | Higher interest on deposit and saving | 24 | Transaction accuracy |
| 10 | Lower service charge | 25 | Employees willingness to help |
| 11 | Flexibility in credit negotiation | 26 | Employee's personal intentions |
| 12 | Bank assets | 27 | Friendliness of the staff |
| 13 | Convenience branch location | 28 | Bank know customers needs and wants |
| 14 | Personal recommendations | 29 | Security of transactions |
| 15 | The number of ATM | | |

Source: McDougall and Levesque (1994, 1996); Alfansi and Sargeant (2000), and Parasuraman et al. (1991)

Table 3. **Sample Distributions**

| Branch | Allocation | Total Respondent | |
|-----------|------------|------------------|---------|
| Harmoni | 145 | 145 | 14.84% |
| Kuningan | 145 | 141 | 14.43% |
| Depok | 130 | 110 | 11.26% |
| Ciputat | 130 | 131 | 13.41% |
| Bogor | 125 | 125 | 12.79% |
| Tangerang | 150 | 127 | 13.00% |
| Bekasi | 175 | 189 | 19.34% |
| Unknown | | 9 | 0.92% |
| Total | 1000 | 977 | 100.00% |

Source: Primary Data

plied to the data set, to find out how many distinctive groups or segments should be formed. The next step, *KMeans* cluster was applied to identify the bundles of

benefit that might be sought by each segment.

The last step, chi-square test was applied to identify whether there is any cor-

relation between the cluster and the demographic variables. With this step the demographic variable(s) that could be used as identifiers of customer groups could be identified.

Research Findings and Discussion

Sample Profile

Characteristics of the sample showed that 73.3 percent respondents were male.

About 80 percent respondents were between 34 to 54 years. Almost half of the sample (46.7%) has undergraduate background, and 17.6 percent of respondents have graduate background. About 67 percent of the respondents have income above 2 million rupiahs a month, and 56 percent of the sample spends Rp1,000,000.00 to Rp3,000,000.00 a month. Entrepreneur account for 38.1 percent sample's occupation, followed by middle employee. Almost all of the respondents (94.4%) married. Married couples with 2 children hold

Table 4. Sample Profile

| Demographic Characteristic | Frequencies | Percentage | Cumulative % |
|---------------------------------|-------------|------------|--------------|
| Gender | | | |
| Male | 713 | 73.3 | 73.3 |
| Female | 260 | 26.7 | 100 |
| Age | | | |
| Less than 25 years | 8 | 0.8 | 0.8 |
| 25 - 34 years | 65 | 6.7 | 7.5 |
| 34 - 44 years | 364 | 37.4 | 44.9 |
| 45 - 54 years | 416 | 42.7 | 87.6 |
| More than 54 years | 121 | 12.4 | 100 |
| Education | | | |
| High school | 106 | 11 | 11 |
| Diploma | 203 | 21 | 32 |
| Undergraduate | 451 | 46.7 | 78.7 |
| Graduate | 170 | 17.6 | 96.3 |
| Postgraduate | 25 | 2.6 | 98.9 |
| Others | 10 | 1 | 100 |
| Monthly income | | | |
| Less than Rp500,000.00 | 3 | 0.3 | 0.3 |
| Rp500,001.00 - Rp1,000,000.00 | 17 | 1.8 | 2.1 |
| Rp1,000,001.00 - Rp2,000,000.00 | 98 | 10.3 | 12.4 |
| Rp2,000,001.00 - Rp3,000,000.00 | 194 | 20.4 | 32.8 |
| Rp3,000,001.00 - Rp5,000,000.00 | 307 | 32.3 | 65.1 |
| More than Rp5,000,001.00 | 330 | 34.8 | 100 |
| Monthly spending | | | |
| Less than Rp500,000.00 | 4 | 0.4 | 0.4 |
| Rp500,001.00 - Rp1,000,000.00 | 150 | 15.7 | 16.1 |
| Rp1,000,001.00 - Rp2,000,000.00 | 286 | 30 | 46.1 |

Continued from Table 4

| Demographic Characteristic | Frequencies | Percentage | Cumulative % |
|---------------------------------|-------------|------------|--------------|
| Rp2,000,001.00 - Rp3,000,000.00 | 248 | 26 | 72.1 |
| Rp3,000,001.00 - Rp5,000,000.00 | 125 | 13.1 | 85.2 |
| More than Rp5,000,001.00 | 140 | 14.7 | 100 |
| Occupation | | | |
| Students | 9 | 0.9 | 0.9 |
| Middle employee | 236 | 24.5 | 25.4 |
| High employee | 138 | 14.3 | 39.7 |
| Professional | 157 | 16.3 | 56 |
| Entrepreneur | 367 | 38.1 | 94.1 |
| Others | 56 | 5.8 | 100 |
| Marital status | | | |
| Married | 917 | 94.4 | 94.4 |
| Single | 38 | 3.9 | 98.3 |
| Divorced | 16 | 1.6 | 100 |
| Number of children | | | |
| None | 39 | 4 | 4 |
| 1 child | 166 | 17.2 | 21.2 |
| 2 children | 401 | 41.5 | 62.7 |
| 3 children | 251 | 26 | 88.6 |
| More than 3 children | 110 | 11.4 | 100 |

Source: Primary Data

most of the sample (41.5%). In general, it can be seen that the respondents were in productive age, high educated people, have relatively high income, and married.

Factor Analysis

Factor analysis with principal component method was applied to the data set to reduce the 29 banking benefits into several factors that could explain the respondents' main responses. We followed conventional method that only those factors which have an Eigen-value larger than 1.0 were selected as extracted factors (Hair et al. 1996). With this criterion, we found five factors solution. Variance explained for each factor can be seen in Table 5, with total variance explains 73.67 percent. This means, those five factors could explain

73.67 percent of the total variance. Correlation between each factor with the banking benefits was shown in Table 5.

Factor 1—Safety-Convenience; Factor 2—Relational; Factor 3—Bank's Features; Factor 4—Cost; Factor 5—Promotion Incentives

The five factors above was interpreted as follows:

Factor 1 —Safety-Convenience.

This factor consists of nine variables, where convenience and security were scored high. Respondents who gave high scores on these variables tend to choose banks that could make their transaction easy and secure. Parking space, number of ATM, convenience banking hours, and convenience branch location were variables that represent the convenience re-

Table 5. Rotated Component Matrices

| Bank Attributes | 1 | 2 | 3 | 4 | 5 |
|---------------------------------------|-------|-------|-------|-------|------|
| Employee's knowledge and skill | 0.81 | | | | |
| Bank reputation | 0.80 | | | | |
| Fast and efficient service | 0.78 | | | | |
| Personal recommendation | 0.74 | | | | |
| Parking space | 0.71 | | | | |
| Number of ATM | 0.68 | | | | |
| Size of bank assets | 0.67 | | | | |
| Banking hours | 0.66 | | | | |
| Convenience branch location | 0.63 | | | | |
| Friendliness of the staff | | 0.76 | | | |
| Bank know customers needs and wants | | 0.75 | | | |
| Employees willingness to help | | 0.75 | | | |
| Employee's personal intentions | | 0.74 | | | |
| Security of transaction | | 0.70 | | | |
| Transaction accuracy | | 0.67 | | | |
| Provide services when promised | | | 0.59 | | |
| Reliability of staff | | | 0.59 | | |
| Employees appearance | | | 0.76 | | |
| Bills payment service | | | 0.76 | | |
| Portable banking | | | 0.71 | | |
| External appearance | | | 0.63 | | |
| Layout of bank interior | | | 0.53 | | |
| Lower credit interest | | | | 0.77 | |
| Higher interest on deposit and saving | | | | 0.74 | |
| Lower service charge | | | | 0.68 | |
| Flexibility in credit negotiation | | | | | 0.67 |
| The availability of prize draws | | | | | 0.85 |
| The value of prize draws | | | | | 0.81 |
| Interesting advertising | | | | | 0.55 |
| Eigen-value | 6.91 | 4.89 | 3.95 | 3.16 | 2.46 |
| Variance explained | 23.82 | 16.88 | 13.62 | 10.89 | 8.47 |

Source: Primary Data

spondents expected from their bank. In evaluating the security of their funds, bank reputation, the size of bank assets, skill and knowledge of bank's staff, and personal recommendation were considered by these respondents. Therefore, this factor named safety-convenience.

Factor 2—Relational. Factor 2 consists of eight variables that most of them describe the relationship between the customer and the bank's employees. Respondents, who scored high on these variables, tend to look at the quality of relationship they experienced with the employees. Friendliness, understanding of customer's need and wants, employees' willingness to help, and personal attention, were variables that represent the interaction between the customers and the employees. These variables also represent the quality of service delivery process that the respondents expected. The quality of service delivery process would affect the bank performance in transaction accuracy, meet their promises, and reliability. Therefore, this factor called relational.

Factor 3 —Bank's Features. This factor consists of five variables that described the features of a bank. Tangibles in form of employees' appearance, interior layout, and external appearance load heavily on this factor. Consumers also scored high on facility for portable/home banking and billing payment. Since these variables are the part of a bank that is easily noticed by consumers, this factor named bank's features.

Factor 4 —Cost. Factor 4 entails four variables that describe cost. Credit interest, saving and deposit interest, service charge, and flexibility of credit negotiation load heavily on this factor. Consumers who scored high on this factor tend

to be cost sensitive. Therefore, these variables called cost.

Factor 5 —Promotion Incentives. Factor 5 was made of three variables that describe promotional incentives. Incentives in form of prize draws, valuable price, and interesting advertising were weighed heavily on this factor. These incentives motivate consumers who scored high on this factor. Therefore, factor five named as promotional incentives.

From the above analyses, we can conclude that the customers consider five factors in choosing their main financial institution. Managers should consider these factors in retaining their customers.

Cluster Analysis

Classification of the benefit variables into five factors enables us to identify whether a bundles of benefits sought by a specific segment. Hierarchical cluster was applied to the data set first. Distance coefficient between clusters on agglomeration schedule showed drastic jump between three to five clusters, which indicate that the respondents could be grouped into three to five different groups. However, a high distinctive appeal would come if the respondents grouped into four clusters. The number of respondents on each segment was shown in Table 6.

Table 6. Number of Respondents on Each Cluster

| Cluster | Frequency | Percentage |
|--------------|------------|---------------|
| 1 | 358 | 38,41 |
| 2 | 157 | 16,85 |
| 3 | 124 | 13,30 |
| 4 | 293 | 31,44 |
| Total | 932 | 100,00 |

Source: Primary Data

From Table 6, we could see that cluster 1 and cluster 4 hold about 70 percent of sample population. Which means, the majority of the customers were come from these clusters.

The next step, to identify the bundles of benefit that might be sought by each segment, *K-Means* cluster was applied. Cluster mean square shows variance for each factor due to the cluster. Variance that did not cause cluster was represented by error mean square (Table 7).

Based on the *K-Means* cluster, the sample was divided into 4 clusters or segments to reveal the factors that is prioritized by each segment in choosing their bank. The values in the table are the means for each variable within each final cluster (see Table 8).

Relationship between Clusters and Demographic Variables

The last step, chi-square test was applied to identify whether there is any correlation between the cluster and demographic variables. Demographic variables examined were gender, age, education, income, monthly spending, occupation, marital status, and number of children.

The result of chi-square test (Table 9) shows only marital status that did not have significant correlation with cluster membership. Gender and age have weak correlation with cluster membership. Numbers of children, occupation, and education have medium correlation. Relatively strong correlation came from income and spending variables.

Table 7. Cluster Analysis of Consumer Banking Benefit

| | Cluster Mean Square | Df | Error Mean Square | df | F | Sig. |
|----------|------------------------|----|----------------------|-----|--------|-------|
| Factor 1 | 210.64 | 3 | 0.32 | 918 | 653.62 | 1E224 |
| Factor 2 | 37.56 | 3 | 0.88 | 918 | 42.60 | 2E13 |
| Factor 3 | 172.19 | 3 | 0.45 | 918 | 385.57 | 5E163 |
| Factor 4 | 34.95 | 3 | 0.89 | 918 | 39.26 | 1E13 |
| Factor 5 | 174.90 | 3 | 0.44 | 918 | 395.26 | 1E164 |

Source: Primary Data

Table 8. Segments Characteristics

| | Segment | | | |
|----------|---------|-------|-------|-------|
| | 1 | 2 | 3 | 4 |
| Factor 1 | 0.30 | -0.79 | -1.65 | 0.75 |
| Factor 2 | 0.54 | -0.45 | -0.41 | -0.08 |
| Factor 3 | 0.73 | 0.52 | -0.74 | -0.86 |
| Factor 4 | 0.17 | 0.54 | -0.64 | -0.19 |
| Factor 5 | 0.40 | -1.41 | 0.82 | -0.25 |

Source: Primary Data

Table 9. Relationship between Demographic Variables and Cluster Membership

| Demography | X2 | Df | Significance | Value |
|--------------------|---------|----|--------------|-------|
| Gender | 39.673 | 3 | 0.000 | 0.202 |
| Age | 66.492 | 12 | 0.000 | 0.258 |
| Education | 131.913 | 15 | 0.000 | 0.353 |
| Income | 219.387 | 15 | 0.000 | 0.440 |
| Spending | 265.172 | 15 | 0.000 | 0.470 |
| Occupation | 115.840 | 15 | 0.000 | 0.334 |
| Marital Status | 10.550 | 6 | 0.103 | 0.106 |
| Number of children | 86.714 | 12 | 0.000 | 0.293 |

Note: a above 5 percent considered insignificant

Source: Primary Data

Table 10. Product Ownership on Each Segment

| Product Owned | Segment | | | | Total |
|----------------------|---------|-------|-------|-------|-------|
| | 1 | 2 | 3 | 4 | |
| Saving | 343 | 149 | 119 | 289 | 900 |
| % within saving | 38.1% | 16.6% | 13.2% | 32.1% | 100% |
| % within cluster | 95.8% | 94.9% | 96.0% | 98.6% | 96.6% |
| ATM card | 248 | 95 | 61 | 198 | 602 |
| % within ATM card | 41.2% | 15.8% | 10.1% | 32.9% | 100% |
| % within cluster | 69.3% | 60.5% | 49.2% | 67.6% | 64.6% |
| Credit Card | 87 | 32 | 16 | 20 | 155 |
| % within credit card | 56.1% | 20.6% | 10.3% | 12.9% | 100% |
| % within cluster | 24.3% | 20.4% | 12.9% | 6.8% | 16.6% |
| Giro | 24 | 6 | 4 | 3 | 37 |
| % within giro | 64.9% | 16.2% | 10.8% | 8.1% | 100% |
| % within cluster | 6.7% | 3.8% | 3.2% | 1.0% | 4.0% |
| Credits | 183 | 115 | 81 | 241 | 620 |
| % within credits | 29.5% | 18.5% | 13.1% | 38.9% | 100% |
| % within cluster | 51.1% | 73.2% | 65.3% | 82.3% | 66.5% |
| Hajj saving | 7 | 4 | 1 | 9 | 21 |
| % within saving Hajj | 33.3% | 19.0% | 4.8% | 42.9% | 100% |
| % within cluster | 2.0% | 2.5% | 0.8% | 3.1% | 2.3% |
| Deposits | 194 | 105 | 79 | 139 | 517 |
| % within deposits | 37.5% | 20.3% | 15.3% | 26.9% | 100% |
| % within cluster | 54.2% | 66.9% | 63.7% | 47.4% | 55.5% |
| Total cluster member | 358 | 157 | 124 | 293 | 932 |

Source: Primary Data

Table 11. Information Source in Each Cluster

| Source of Information | Cluster | | | | Total |
|-----------------------|---------|-------|-------|-------|-------|
| | 1 | 2 | 3 | 4 | |
| Newspaper | 190 | 68 | 96 | 91 | 445 |
| % within newspaper | 42.7% | 15.3% | 21.6% | 20.4% | 100% |
| % within cluster | 53.1% | 43.3% | 77.4% | 31.1% | 47.7% |
| Magazine/Tabloid | 151 | 74 | 39 | 133 | 397 |
| % within magazine | 38.0% | 18.6% | 9.8% | 33.5% | 100% |
| % within cluster | 42.2% | 47.1% | 31.5% | 45.4% | 42.6% |
| TV | 162 | 132 | 108 | 93 | 495 |
| % within TV | 32.7% | 26.7% | 21.8% | 18.8% | 100% |
| % within cluster | 45.3% | 84.1% | 87.1% | 31.7% | 53.1% |
| Radio | 55 | 55 | 47 | 21 | 178 |
| % within radio | 30.9% | 30.9% | 26.4% | 11.8% | 100% |
| % within cluster | 15.4% | 35.0% | 37.9% | 7.2% | 19.1% |
| Billboard | 57 | 76 | 32 | 30 | 195 |
| % within billboard | 29.2% | 39.0% | 16.4% | 15.4% | 100% |
| % within cluster | 15.9% | 48.4% | 25.8% | 10.2% | 20.9% |
| Brochure | 145 | 26 | 4 | 206 | 381 |
| % within brochure | 38.0% | 6.8% | 1.0% | 54.1% | 100% |
| % within cluster | 40.55 | 16.6% | 3.2% | 70.3% | 40.9% |
| Others | 32 | 11 | 3 | 19 | 65 |
| % within others | 49.2% | 16.9% | 4.65 | 29.2% | 100% |
| % within cluster | 8.9% | 7.0% | 2.4% | 6.5% | 7.0% |
| Total cluster member | 358 | 157 | 124 | 293 | 932 |

Source: Primary Data

Table 10 showed banking products owned by each segment, and Table 11 showed information sources used by each segment.

Based on Table 7, 8, 10, and 11, each segment could be interpreted as follows:

Segment I—Service Oriented. This segment holds the biggest number of cluster member, about 38.41 percent of the sample respondents. In terms of age, income, and the size of the family, this segment was potential. Member of this segment give high attention on quality of

their interaction with the bank's staff and the bank features (factor 2 and 3).

In detail, this segment is dominated by male (61.9%). However, half of the female sample (54.4%) belongs to this segment. Most of the members (76.4%) are between 35 to 54 years old. About 69.8 percent members, hold diploma and undergraduate degree. The largest part of this segment (83.2%) has income above 2 million rupiahs per month, and 85.8 percent spend about Rp500,000.00 to Rp3,000,000.00 a month. Middle employ-

ees and entrepreneur hold more than half (61.4%) of members' occupation. About 60.5 percent of the members have 2 to three children. Almost a half (46.4%) of the sample that has three kids, and 67.3 percent of the sample that have more than three kids belong to this segment. It seems that the bigger the family size, the tendency to become member of this segment increased.

Savings and deposits were owned by more than a half of the member, half of them (51.1%) also have credits. Newspapers, TV, magazine, and brochure were the source of information in searching for financial products.

Segment 2 —Rate Sensitive. This segment holds 16.8 percent of the sample (Table 6). Cost (factor 4) was the main consideration for members of this segment in choosing their bank. Male dominate this segment (77.7%). The majority of this segment (85.3%) was in age between 35 to 54 years old. Most of them (68.8%) hold undergraduate degree. About 70 percent of the members have income more than 5 million rupiahs per month, and 42.9 percent spend more than 5 million rupiahs within a month. Professional holds the biggest number of the member occupation (33.3%), followed by entrepreneur (27.6%). Half of the members (5.8%) were family with two kids.

Deposits were owned by 66.9 percent of the member, while credits were owned by 73.2 percent of the member. TV was the information source that used by 84.1 percent of the member in searching for financial products, followed by billboard (48.4%), magazine (47.1%), and newspaper (43.33%).

Segment 3 —Promotional Incentive. This segment holds 13.3 percent of the sample (see Table 6). Promotional incentives (factor 5) were the main consid-

eration of the member of this segment in choosing their bank. This segment is dominated by male (85.5%), with age between 35 up to 54 years old (77.5%). Half of the members (55.3%) holds undergraduate degree. There are two groups of income in this segment. The first group earns 2 until 3 million rupiahs a month, consist of 34.7 percent of the member. The second group earns more than 5 million rupiahs a month, consist of 33.9 percent of the member. Almost a half of the member (46%) spends 1 to 2 million rupiahs within a month. Most of them were entrepreneurs (45.2%), and 48 percent of the members married with two children. There is possibility that the member of this segment switch to another bank when the competitor offered more attractive promotional incentives (such as greater prize draws).

Besides saving, the members of this segment (63.7%) also owned deposits. ATM cards to increase the account accessibility are owned by 49.2 percent of the members. About 65 percent of the members own credits to their bank. The members' main information source for financial products/services were TV (87.1%), and newspaper (77.4%).

Segment 4—Security-Convenience. This segment consists of 31.4 percent of the sample (see Table 6). This segment was the second potential customer for the bank after the first segment. Security-convenience (factor 1) were the main consideration of this segment in choosing their bank. About 34.1 percent of male sample, belongs to this segment. Half of them (50.2%) were 45 to 54 years old. Most of the members (44.3%) hold undergraduate degree, but the higher their education, the higher tendency to become the member of this segment. It can be seen from the fact that half of the graduate sample (49.1%), and 59.1 percent of postgraduate sample

Table 12. Segment Characteristics

| Demography | Segment | | | |
|--------------------|-------------------------------------|--------------|------------------------|--------------|
| | 1 | 2 | 3 | 4 |
| Income | > Rp2 milion | > Rp5 milion | Rp2-3 mil > & Rp 5 mil | Rp3 mil |
| Spending | Rp0.5-3 mil | > Rp5 mil | Rp1-2 mil | Rp1-3 mil |
| Gender | Male, Female | Male | Male | Male |
| Age | 35-45 | 35-54 | 35-54 | 45-54 |
| Education | Diploma & S1 | S1 | S1 | S1, S2, S3 |
| Occupation | Middle Employee & & Entrepreneur | Professional | Entrepreneur | Entrepreneur |
| Number of children | 2-3 child | 2 child | 2 child | 1-2 child |

Source: Primary Data

belong to this segment. About 44.8 percent of the member earns 3 to 5 million rupiahs a month, and 63.3 percent of the member spends 1 to 3 million rupiahs within a month. Most of the members were entrepreneurs (49.1%), and 41.4 percent of the entrepreneur sample belongs to this segment. Families with two children hold 47.8 percent of the member segment, and 41.4 percent sample with 1 child belong to this segment.

About 47 percent members' segment owned deposits besides saving, this was the lowest compared to the other segments. More than 67.6 percent of members owned ATM card to increase the accessibility to their account. About 82 percent members' segment owned credits, this was the highest number compared to the other segments. Brochure was the main information source for 70.3 percent members, followed by magazine (45.4%), TV (31.7%), and newspaper (31.1%).

The characteristics of each segment showed in Table 12.

Conclusions and Recommendations

Conclusions

1. There are five factors (main benefits) sought by the bank customers, which are: safety-convenience, relational, bank's features, cost, and promotional incentives.
2. The customers could be classified into four segments, service-oriented (38.41%), rate sensitive (16.85%), incentive seekers (13.30%), and safety-convenience (31.44%).
3. A significant correlation between demographic characteristics (gender, age, education, income, monthly spending, occupation, and number of children) and desired customer benefits were

found. Therefore, those demographic characteristics could be used to develop the bank customers' profiles.

Recommendations

1. The four segments above showed that more than 70 percent sample belongs to segment 1 and 4, so that both segments were potential for the bank. These segment seek for convenience, safety, and best service. Focus on these segments could give the bank a chance to get higher margin. The bank should consider several things as follows:

Segment 1

- a. Based on the banking attributes sought by this segment, the bank should focus on efforts in enhancing service delivery process in form of interaction quality between employees and customers. This includes employees' friendliness, willingness to help, and personal attention when serving their customers. Improvement in service delivery process should in line with improvement in service outcome in form of bank's accuracy, promise delivery, and reliability. The bank should establish a service standard. A regular service evaluation could be used as a tool in enhancing the quality of service delivery process and service outcome.
- b. The bank should maintain and improve their tangibles in form of building, layout, and uniform, since this segment scored high on these banking attributes.
- c. The members of this segment were still in their productive age. with economic conditions become stable or already stable. Financial products such as middle and high class housing and car loan could fulfill their needs for social status and life-style.

- d. Families with children still depend on their parents were belong to this segment. Needs for children education could give the opportunity for financial products that can insure their child education.

Segment 4

This segment occupied by 31.4 percent sample respondents, which choose their bank based on transactions security and convenience. The education level of this segment relatively high compared to the other segments. In reaching this segment, the outlet locations should consider the location of this high educated community.

The bank should pay a close attention on fast and efficient service that became priority for this segment. The age and the occupation of members' segment could not tolerate long time queue and procedures. The bank should improve their service pattern and job distribution, especially in busy hours.

Besides the two potential segments mentioned above, the bank should pay attention on the other two segments as follows:

Segment 2

- a. This segment occupied by most of the sample with relatively high income. This segment is potential for consumption credits recalling their high income and spending.
- b. Financial product such as deposits is appropriate for this segment.

However, their preference for high deposits interest could cause a high cost of fund.

Segment 3

1. To attract this segment, promotional incentives such as prize draws or gifts

- could be used. However, since the main motivator was incentive, their loyalty would be hard to maintain.
2. A further research about the bank positioning in their customers mind should be conducted. Therefore, the bank could develop a strategy for positioning their products or services so that it appeals to one or more of the segments based on how consumers perceive the bank relative to competition.

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