Building a sophisticated market segmentation strategy for the banking industry

INTELLIGENCE QATAR

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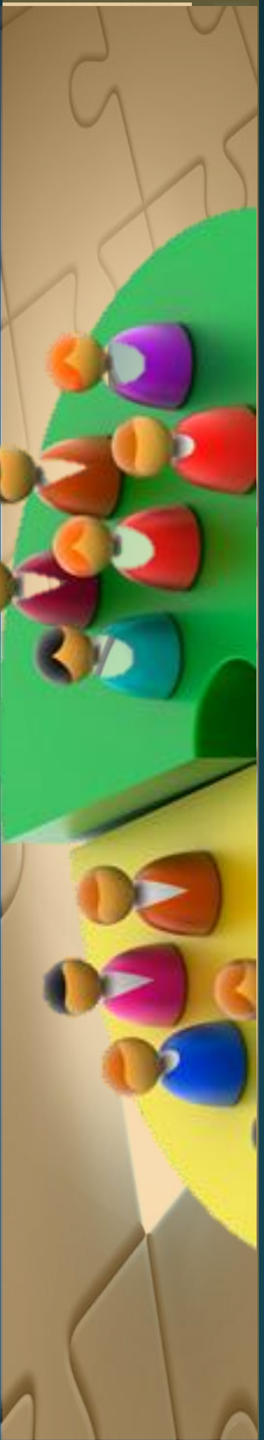
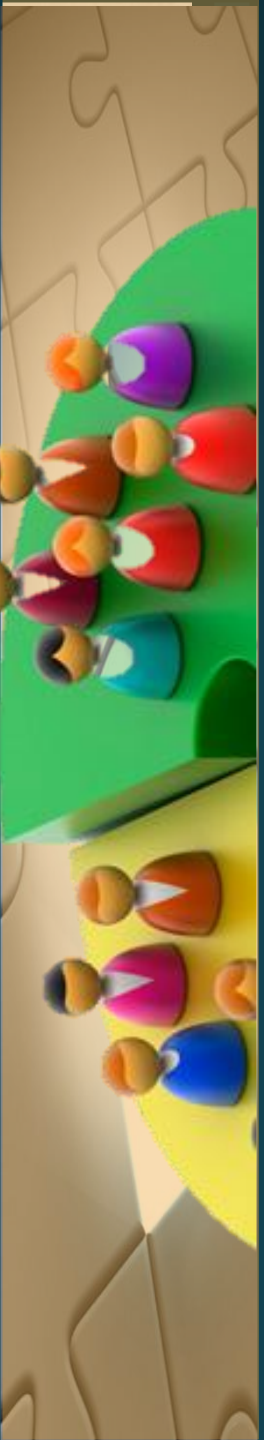


Introduction

Consumer banking preferences and behaviors continue to change based on technological advances, demographics and social factors. Retail bank executives are seeking to drive revenue generation by growing share of wallet from existing customer relationships.

While customer acquisition is still important, greater emphasis is being placed on more accurately targeting current customer segments. The goal is to identify and capitalize on opportunities for revenue growth through cross selling and up selling.

Meeting this priority requires a deep understanding of what customers need, want, expect and value in a financial institution.



Why is a segmentation strategy important to banks and financial institutions?

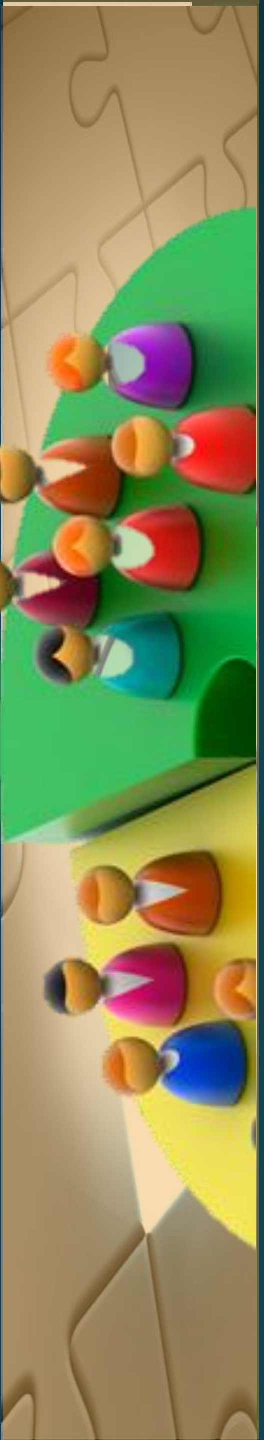
A market segmentation strategy is important to banks and financial institutions because it is the key to optimizing marketing and customer service delivery.

There are two fundamental strategies organizations can take to market their products and services - it can try to sell to everyone (mass-marketing) or it can focus its efforts on target segments (segmentation-marketing).

In most cases, mass-marketing is expensive and ineffective. For this reason, a market segmentation study should be a key component in the company's overall strategic plan.

"Segmentation is considered one of the fundamental concepts of modern marketing"

Philip Kotler

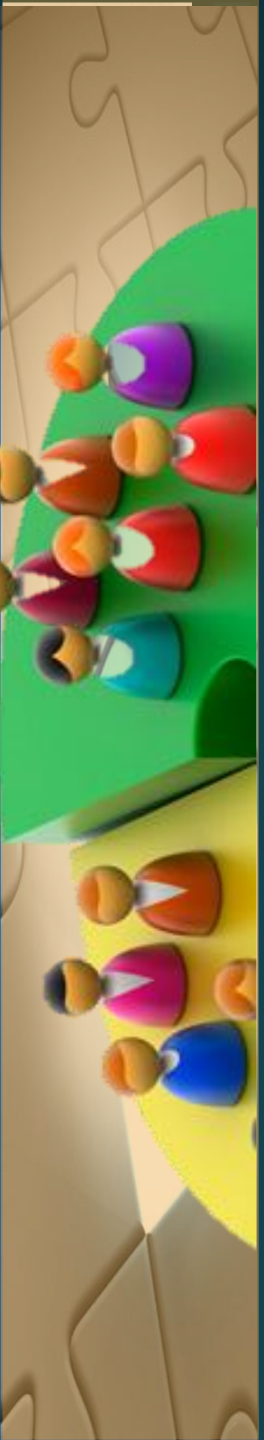


Current segmentation models

Many local banks in Qatar have adopted a segmentation model based on a elementary classification scheme. They use ‘income’ as the main demographic variable to segment their customer base. One of the reasons why they use this approach is because it can be developed quickly and inexpensively.

The main drawback of this model is that it is only marginally better than mass marketing. Furthermore, if all banks in Qatar segment their existing and potential customers by income, they all view consumers through the same lens. The current approach does not help organizations to differentiate themselves from the competition.

It assumes all customers in a certain income band are the same and does not provide the necessary insights to effectively target, attract and service the different target segments.



A successful market segmentation strategy

A comprehensive segmentation strategy should be based on a range of variables including:

- **Demographics** (age, income, gender, nationality etc.)
- **Contribution** (revenues, costs, profit and lifetime value etc.)
- **Behavior** (product ownership, spend, transaction frequency, channel use etc.)
- **Psychographics** (social class, lifestyle, personality characteristics etc.).

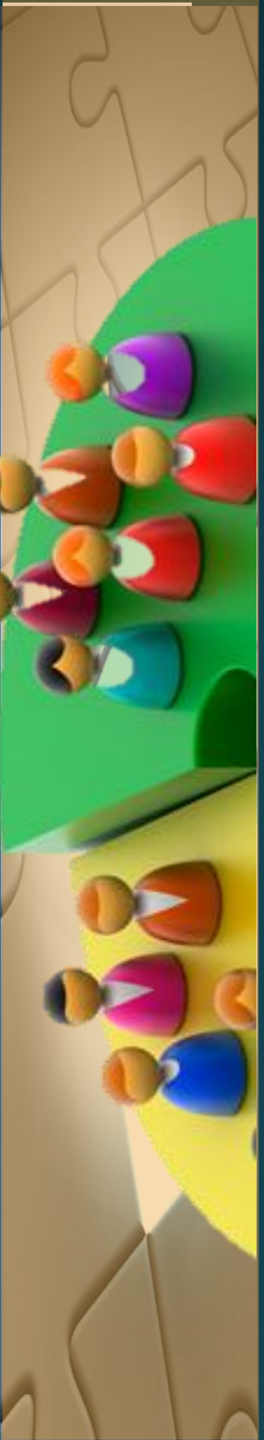
Segmentation can help answer the most important questions:

- **Who** are my best customers?
- **What** products/services do they need?
- **When** will they need them?
- **How** do they want to interact with us?
- **Why** do they behave the way they do?

A well designed market segmentation study will identify groups of people who are "most likely" to purchase a particular bank's products or services.

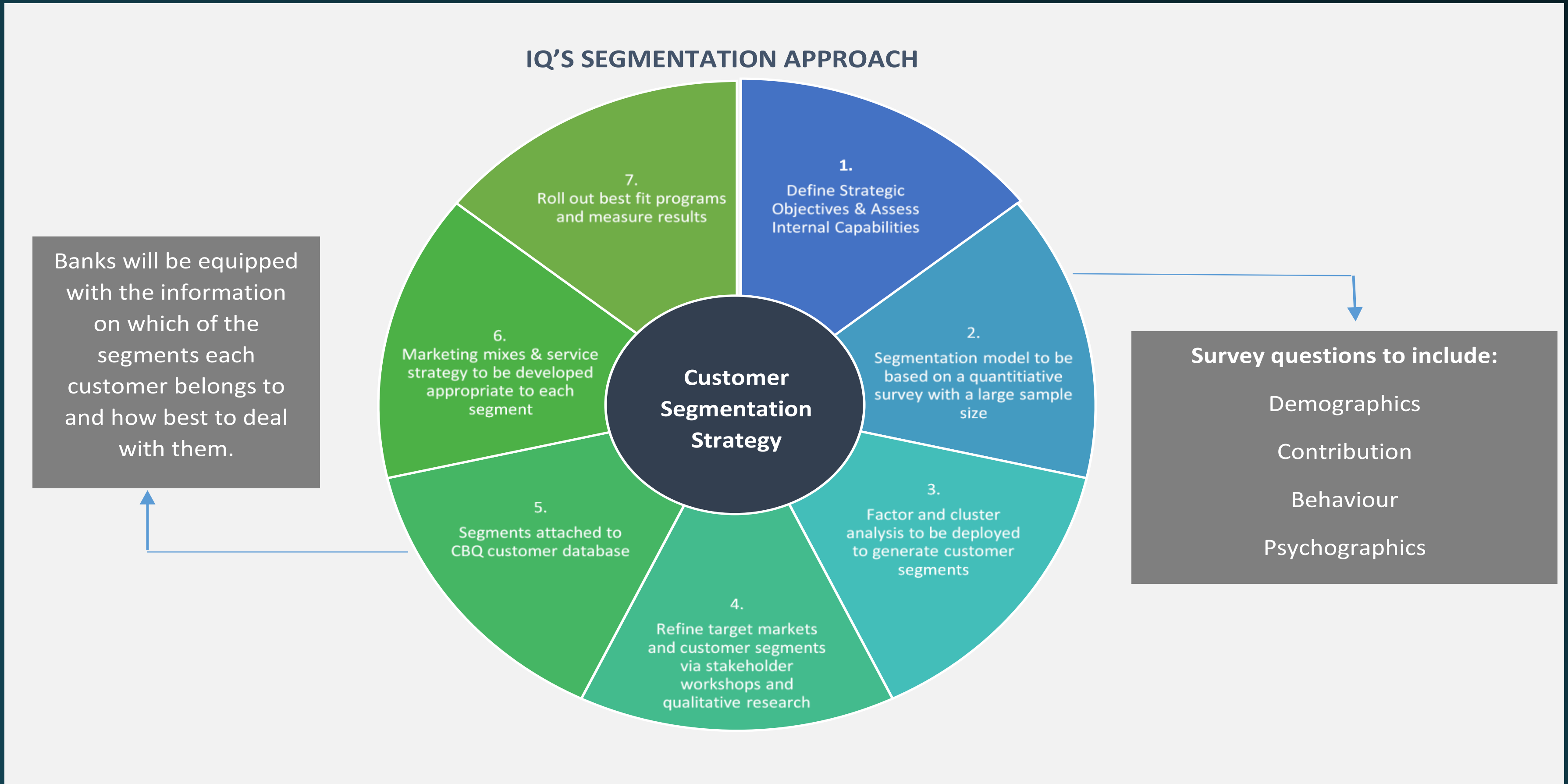
Segmentation helps firms understand customers' needs, preferences, channel behavior and choices of brand.

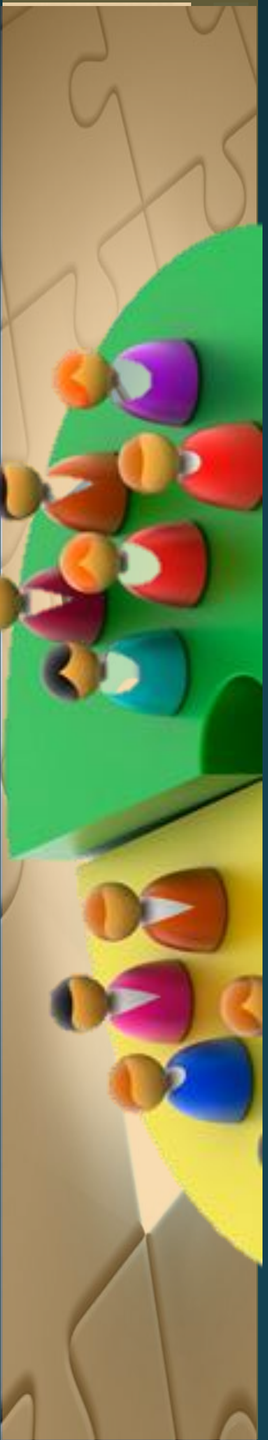
Armed with this knowledge, organizations can focus its product development, marketing and service delivery in a way which maximizes sales and profitability.



IQ’s approach to market segmentation

IQ’s approach to segmentation is outlined below.





How banks can gain a competitive advantage

The main objective of a market segmentation strategy is to analyze the market, find niche opportunities, and capitalize on a superior competitive position. An improved understanding of customer segments better enables bank executives to rethink marketing strategies and approach segments in a more targeted, cost effective manner – for an improved customer experience and greater investment return.

There is a unique opportunity for banks to be an early adopter and be the first bank in Qatar to implement a successful market segmentation strategy

From an efficiency standpoint, successful segmentation strategies lead to better planning and more effective use of resources because they allow the organization to focus their resources on segments of consumers that are more likely to purchase their market offerings.

A segmentation strategy will enable banks to:

- Understand existing customers
- Decide which segments to serve
- Develop different packages for each segment
- Tailor marketing messages and media mix
- Prioritize customer facing technology spend.

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