MARKET SEGMENTATION AS A STRATEGY FOR GOAL ATTAINMENT IN THE INSURANCE INDUSTRY

Festus M. Epetimehin
Department of Actuarial Science and Insurance
Joseph Ayo Babalola University, Ikeji- Arakeji

ABSTRACT

The insurance industry has entered an era of accelerated change as a result of increased competition in products and pricing within the sector. The transformation of the society from regulated to deregulated one has also speeded up social changes in all the economic sectors in which the insurance industry is not an exception. The insurance industry which is a service sector has been seriously affected by this sudden change bringing in innovative pressures which have tended to arrive late and in a much diluted form. Though, this has been due to a series of qualitative shortcomings. For example, the orientation and efficiency of resource utilization and the shortcomings in organizational- managerial spheres. Professional marketing management is now a pre-requisite if a company is to retain or advance its position in the competitive hierarchy. The battle ground on which insurance companies will win or lose is distribution. The battle will be fought on three fronts. How you sell. What you sell. What type of after sales service you offer. This paper shall focus on 'how you sell', therefore, embracing how we get our services across to the consumer and managing our channels of distribution. The topic according to its construction leaves us with two natural divisions: Goal attainment and market segmentation as a strategy. It is considered expedient to observe this division in the treatment of the topic with each division attracting sectional prominence.

Key Words: Goal attainment, Segmentation, market distribution and competition

INTRODUCTION

Many institutions including insurance companies spend a considerable portion of their time, energy and resources chasing new business. Although it is important to replace lost business, grow the business and expand into new markets, one of the primary goals should be to keep existing customers and enhance customer relationships. Conventional wisdom suggests that it costs at least five times more to get a new customer than to keep an existing one (Weinstein, 2002). According to Weinstein, in many markets, share of customer, which is a customer retention measure, has supplanted market share, which is a customer attraction measure, as the relevant business performance objective. Consequently a good understanding of customers' purchasing patterns helps companies keep customers and gain a greater share of their business. This applies also to insurance companies in their goal attainment and market segmentation strategies.

LITERATURE REVIEW

Market segmentation involves the grouping of customers with similar needs and buying behavior into segments, each of which can be reached by a distinct marketing programme. The concept attempts to reconcile differing customer needs with limited company resources, and allows product and marketing offerings to be adjusted to suit different customer groups (Wind, 1978). The theoretical grounding for market segmentation comes from economic pricing theory, which indicates that profits can be maximized when prices that discriminates segments are set (Frank, Massy and Wind, 1972).

According to Kotler (1994), companies from all industries are increasingly embracing target marketing. This has followed a natural progression "Mass Marketing", where one product is produced and sold to all buyers and "Product-differentiated marketing" where more than one product, with different features, styles and characteristics are produced for offer to a variety of buyers. The essence of target marketing is that customers are heterogeneous in their buying requirements and behavior, and therefore these companies will be in a stronger position to serve certain customer segments.

The result is that financial institutions should identify those areas of the market which are more attractive to them and which they are most able to serve effectively. This will require a careful analysis of the structure of the industry, and the relationship between customer satisfaction and return on investment, as well as an assessment of the organisation's capabilities and resources (Doyle, 1995).

Keaveney (1995) states those customers' reasons for switching service providers were classified into eight general categories.

- Pricing
- Inconvenience
- Core service failure
- Failed service encounters
- Response to failed service
- Competition
- Ethical problems and
- Involuntary switching

The segmentation exercise is intended to minimize incidences of service failures that promote switching. The cost of switching by customers is usually significant to institutions . The paper according to its construction leaves us with two natural divisions: Goal attainment and market segmentation as a strategy. It is considered expedient to observe this division in the treatment of the topic with each division attracting sectional prominence

Goal attainment in the insurance industry

The important element of a company's strategic profile is the performance goals which management has decided to pursue and which for the benefit of financial analysis or for internal guidance have often been made explicit. These goals may be expressed in terms of earnings growth (often expressed as a rate of growth in earnings per share) sales growth, industry position or in other ways. Of increasing importance is the intended relationship between the company and various constituencies, such as employees, customers and the community, which extends beyond the traditional financial and stewardship obligation to ownership interests. In some instances, performance in these areas is also included among the company's goal. It is important to note that this goal deals with what a company or industry as a whole hopes to achieve not what it has achieved. In order to place these future goals in perspective, it is useful to relate them to the actual performance to date. Where goals significantly exceed previous achievements, they provide an indication of the stress that will be placed on future strategy. It is therefore natural for the management of an organisation to do a kind of gap analysis to identify those things that are responsible for their inability to attain their pursued goals and therefore come out with a mapped out strategy to attain the future goals. Thus, performance goals serve as a point of departure for the subsequent steps in the strategic process.

Unattainment of goals influences not only a company's strategic posture but also its range of potential responses to competitive challenges and environmental challenges and environmental changes among which is the distribution structure. Most businesses have to operate within a distributive infrastructure and the management may have to ask themselves: are new or rapidly growing products able to find sufficient and qualified markets? Sometimes, a company faces a crucial dilemma in the use of existing channels while restructuring of distribution may be preferable to long term growth.

These are the problems the managements of the insurance industry are facing today. I will therefore look into the other division that is Market Segmentation as a strategy for achieving the organisation goals.

Market Segmentation as a Strategy

Many Insurers have for years designed their promotional and marketing effort to aim at only the very broad mass markets. Their philosophy has been to utilize a blanket approach in the hope that something in their advertising message would strike a responsive chord with prospects.

Recently, the insurers have become increasingly aware of the possible improvements in productivity and resulting economies to scale by using Market Segmentation when appealing to new customers or promoting insurance services to present customers.

Market Segmentation Defined

In order to appreciate the way in which market segmentation can benefit the insurance industry in goal attainment, it is necessary once again to explain the concept itself. Market Segmentation has been defined as a means of guiding marketing strategy by distinguishing customer groups and needs. It is the sub-division of a market into distinct subsets of customers, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix. Therefore, the key to market segmentation is to take the so called mass market with a heterogeneous set of needs and through the use of creative research efforts divide it up into smaller parts or segments thus giving the insurance marketer some direction in shaping his product offerings.

Types of Insurance market Segmentation:
There are three major types of Insurance market segmentation:-

(1) **Segmentation by Life Cycle: -** Hass and Barry in their book "Systems selling of Retail Services" advocate the classification of financial customers into household according to the stages in the life cycles. There is ample evidence according to them that the financial needs and expectations of households will vary according to stages in the cycle. For example, young married couples with no children have the same size household as older couples whose children no longer live at home. The insurance needs of these two segments which an insurance marketer should identify would tend to differ in certain respects.

The Life Cycle Segments are:-

(i) The Bachelor stage young single people.
(ii) Newly married couples- young no children.
(iii) The full nest 1- Young married couples with dependent children
(iv) The full nest II- Older married couples with dependent children.
(v) The empty nest-Older married couples with no children living with them.
(vi) The Solitary survivors- Older single people segmentation by life cycle provides a good starting point for an effective packaging or systematization of insurance products.

(2) **Psychographic Segmentation:** Psychographic segmentation utilizes consumer life styles and personality differences to determine variances in buyer demands. For example, the insurance companies market differently to swingers (i.e. young, unmarried, active fun loving party going people etc, fast- paced (hedonistic living) than to "Plain Joes" (Older, Married family centered people).

Even Insurance companies price differently life policies which are designed for smokers or motors policies which are designed for smokers or motors policies or fast sports car drivers.

Usefulness of psychographic Segmentation:
Projecting behaviour: - By identifying a customer segment and understanding why its members are interested in making an insurance related decision, it is possible to estimate the probability that they will react in a certain way or at least predict several possible reactions.

Client Interaction: - The process of psychographic segmentation allows more effective communication between a customer and the insurer as a more meaningful dialogue with more information flowing both ways.

Anticipation of Future Market needs: - With valuable information flowing in from customers, it will provide a better opportunity to analyse future customer requirements. It will also help to provide a basis for determining future insurance objectives.

Relevance of Practice: By Understanding the behavioural patterns of customers, insurance services can be tailored to meet changing customer needs and demands. The idea is to meet as many of the needs target as possible.

Social Class Segmentation

Insurers traditionally used purely demographic information to analyse their customers and initially, segmentation in insurance was basically along demographic lines. Categories such as age, sex, education, income, family size and religion were used. In fact, in some cases terms such as housewives, customers, men, women, buyers, investors or savers were used casually, but it was soon realized that this form of segmentation was very general and often used as a matter of convenience. The approaches to this segmentation are:-

(i) Geographic Segmentation: - It examines potential differences in the relative attractiveness of different marketing mixes by geographical location of the consumer's plant facilities and offices.

(ii) Demographic Segmentation: - Occurs when the insurance marketer determines that customers respond differently to marketing offerings on the basis of their sex, age, size of immediate family, income level, occupation, formal education, religion, race or stage in the family life cycle. Demographics are a popular basis for segmentation since they often have a strong and significant relationship to an insurer's sales and are easier to recognize and measure than most other variables.

Other consumer segments;

The other section that needs a special attention is:-

(i) Students- The segment has been recognized recently by insurers for its future potential and measures aimed to cater especially for students are based on the philosophy that students will retain their loyalty after graduation. On the other hand, the student market segment is considered to carry quite high risks by the insurance industry, particularly because of student high incidence of loss of personal belongings and proneness to car or motorcycle accidents.

(ii) Women—Women form about 50% of the population. They demand very special attention on the very basis of substantiality. For the insurance sector, the new independent role of women means a new market segment whether they are single, married or unmarried mother.

This has been a neglected segment for a very long time by the Insurance Industry but they have now recognized that an increasing number of women are attaining management positions through better education opportunities and as such are capable of exerting commercial influence.

Conditions for Effective Market Segmentation

It is very important to have the knowledge of segmentalizing the market for effective management. There are three conditions that are very relevant in this regard.

(a) The characteristic of segment must be identifiable and measurable. The measurability here is very important when one considers the fact that insurance is based on law of large numbers.

There will be no need to focus a policy towards a segment that will not yield an appreciable underwriting profit.

(b) It must be accessible in that it must be possible to reach a segment effectively with proper marketing strategies.

(c) Each segment should react uniquely to different marketing efforts. This stems from one of the most fundamental aspects of marketing- the customer buying process.

A Harvard Business school Professor (Green, 1977) described strategic planning by saying "the highest function of the Executive is still seen as leading the continuous process of determining the nature of the enterprise and setting, reviewing and achieving its goals. He calls this central function "Corporate Strategy" and defines it further as follows:-

Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, producing the principal policies and plans for achieving these goals.

CONCLUSION

It is therefore necessary and important that General Managers, Marketing Managers, etc. should direct their marketing efforts to achieve the goals of the organisation and one of the effective methods or ways of doing this is through Market Segmentation.

Although it requires:-

- The setting up of Research and Development Department, and
- Extensive market research tests with the following basic questions.

(i) Who is the customer?
(ii) What does the market buy?
(iii) When does the market buy?
(iv) Who is involved in the buying?
(v) Why does the customer buy, and?
(vi) How does the insured buy?

No doubt, the information gained will be used to improve the design of insurance products and communication with insurance customers which will invariably assist in the attainment of organizational goals.

REFERENCES

1. Anderson E. and Sullivan, M. (1993). ''The antecedents and consequences of customer satisfaction for firms". Marketing Sciences, 2(12), pp 125-143

2. Brookes, R and White D. (1998) ''Don't copy the competition – lead with new products", Bank Marketing, May, pp 13-17

3. Cronin, J and Taylor, S (July 1992). Marketing service quality: A re-examination and extension"*. Journal of Marketing*, 56, 55-68

4. Doyle P. (1995). ''Marketing in the Millennium". European journal of Marketing, Volume 29 no 13, pp 23-41

5. Fornell, C and Wernerfelt, B (1987). ''Defensive marketing strategy by customer complaint management: A theoretical analysis". *Journal of Marketing Research*, volg 24, pp 337-346

6. Frank, R.W. Massy and Y. Wind (1972).Market Segmentation, Englewood Cliffs: Prentice-Hall Inc.

7. Green P.E (1977). '' A new approach to market segmentation". Business Horizon, February, pp. 61-6

8. Hooley, G.J. and Saunders, J. (1993). Competitive positioning, the key to market success. Prentice-Hall London.

9. Keaveney, S.M (1995). '' Customer switching behavior in services industry: an exploratory study". *Journal of Marketing*, 59(2), 71-82

10. Kotler, P. (1994). Marketing Management anal analysis planning, implementation and control, 8th edition, prentice-hall. London.

11. Mckechnie, S, and Harrison, T. (1995). "Understanding consumer and market in Ennaw", c., Watkins, T. and Wright, M. (Eds), financial services, Butterworth-Heinemann, Oxford

12. Pearson, M. M and Gessner, G.H. (1999). Transaction segmentation to slow customer defection". Marketing Management

13. Peters, T. (1980). Thriving in chaos, Alfred A. Knopf, New York, NY.

14. Reichheld, F and Sasser, W. (1990). '' Zero defections: quality comes to services". Harvard – Business Review, September-October, pp 105-111

15. Rust R and Zahonik, A, (1993). '' Customer satisfaction, customer retention, and market share"*. Journal of Retailing*, 2(69), pp193-215.

16. Speed, R. and Smith, G. (1992). "Retailing financial services segmentation". *The Service Industries Journal*. Volume 12, July, pp 368-83.

17. Webster, G.E. (1991). Industrial Marketing Strategy, J. Wiley, New York, NY

18. Weinstein, A. (2002). '' Customer-specific strategies-Customer retention: A usage segmentation and customer value approach"*, journal of Targeting, Measurement and Analysis for Marketing*, 10(3), 259-268. American Marketing Association

19. White, P.D (1992). '' Market segmentation: overcoming the problems to capitalize on the promises". Bank Marketing, February, pp 28-29 and March, pp. 32-3

20. Wind, Y. (1978). "Issues and advances in segmentation research". *Journal of Marketing Research*, Volume 15, August, pp 317-37. American Marketing Association.