

CHAPTER 1
RESEARCH METHODOLOGY

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CHAPTER 1

RESEARCH METHODOLOGY

1.1 Introduction

The economic boom in India has been a boon to many in terms of increased job and business prospects. The growing needs and wants for financial products like loans, credit cards, insurance, banking facilities, investment opportunities itself is an indicator of the financial confidence among the Indian population. The past decade has witnessed changes in consumer lifestyle and this may have an influence on many of the consumers' activities that include investment activity also.

Markets are not homogenous. A company cannot connect with all customers in large, broad or diverse markets. This allows identified segments to be targeted with specific services and a distinctive marketing mix. Therefore a segmentation process divides a heterogeneous market into specific homogenous segments.

The similarity in offerings and services may poses difficulty to any company to differentiate its offerings from the rest. A better way to differentiate is to provide products and services that the customer really accepts and appreciates. In order to understand the needs, wants, attitudes, interests, opinions and lifestyles of customer i.e. psychology of the customers, marketers must make proper segmentation. This segmentation can be termed as psychographic segmentation.

No wonder the demographic profile of people is also changing on the magnitude of increase in income and educational level. According to an NCAER survey, the middle income group (MIG)--those with an annual household income of Rs 2-10 lakh per annum--is expected to increase at 13.7% per year in the next four years as against 12.2% in the last four years. Since the per capita expenditure of the middle and high income group on consumer durables is nearly 19.6% of the income in urban areas.

There is a dearth of studies on 'Behavioral Finance' and little information is available about investors psychological aspects i.e. personalities, attitude, behavior, perception, learning and the investment pattern. Present study is an effort to understand psychographic segmentation of investors.

1.2 Literature Review: An Abstract

An overall appraisal of literature reveals research studies done in the field of segmentation using psychographics in the field of general buying behavior, retail, media behavior, sports marketing, brand behavior and banking. Most of these studies have been conducted in countries like America, Germany, UK, Japan, China, Singapore, New Zealand etc.

A comprehensive psychographic-based study is lacking in India. There is a dearth of studies on 'Behavioral Finance' and very little information is available about investors psychological aspects. Therefore, researcher found that there is sufficient scope for the studies based on psychology of investor and their investment pattern. Hence, present study is an attempt to bridge this overall gap and to provide comprehensive understanding of psychographic segmentation of investor.

1.3 Research Problem

India has always been a diverse market, with different consumer segments exhibiting varied buying behavior. There is different communication, distribution, product attributes, pricing strategy in different region. Geographic Segmentation on the basis of population density such as urban, sub-urban, rural etc remains major factor for marketers to sell their product or service. According to Healthcare PR & Marketing News -1998 Long ago, marketers relied only on Geographic- urban, sub-urban, rural and demographics - gender, age, income, family size, ethnicity, and education levels and so on. Not all women are alike. Not all women over age 50 are alike. Not all white women between the ages of 40 and 50 with family incomes of \$75,000 and an American Express Gold Card are alike.

The limitation with Geographic and demographics segmentation is that they do not find similarity of behaviors i.e. a person's attitudes, beliefs, opinions, hopes, fears, prejudices, and aspirations. Several demographic and psychographic mega trends augured well for the growth of financial services. In India, urban growth has probably been too slow in the past two decades. Financial market is made up of persons with different mind sets concerning saving, using credit, and investing. Besides these attitudinal differences, persons in these segments also prefer different channels, rely on various types of advisors, feel more or less

comfortable with technology and use different media. There was a 40% substantial segment of the middle class population that remained 'unbanked'.¹ From urban population, only 59% have Bank Account, 26% Life Insurance, 16% Debit Card, 10% FD/Bonds, 4% Credit Card. 4% Medical Insurance, and 3% have Mutual Funds/Shares.² Therefore it needs to be accelerated in order to improve economic welfare of financial market in India.

The problem of investment industry leads to several research problem as:

1. A study of awareness regarding investment avenues in urban area.
2. A study of awareness regarding investment avenues in rural area.
3. A study of psychographic segmentation for Insurance/ Mutual fund/Banking industry.
4. A Study of Middle Class Investor's Preferences for Financial Instruments in urban area.
5. A Study of Psychographic Segmentation of Urban Investors
6. A Study of Psychographic Segmentation of Rural Investors

1.4 Statement of Research Problem

Statement of research problem is, "A Study of Psychographic Segmentation of Investors in Satara City". The title signifies the study of understanding psychographic segmentation of investment pattern in Satara city

1.5 Hypotheses for study

Segmentation on the basis of psychology is relatively new thought. Psychographic variables are moreover qualitative and difficult to measure in comparison with demographic variables. Researcher had few unanswered questions:

Do people with identical demographic characteristics have identical investment?

Do people belong to same Socio Economic Class has identical investment?

Does risk bearing capacity remain same in comparison to demographic and socio economic similarities.

¹ YVDV Prasad, Vivek Bengani, ING Vysys Life Insurance, India

² www.juxtconsult.com, 05/08/2009, 18.10 hrs.

Present study put foreword following hypotheses to test.

1. The investors with similar demographic profile has similar investment pattern, the demographic profile includes age, sex, occupation, income, educational qualification.
2. Investors with similar personality has similar investment pattern.

1.6 Objectives of the study

Present study purports following objectives.

1. To study the demographic profile of sample investors.
2. To study the investment pattern of investors in Satara city.
3. To determine the relevant psychographic dimensions by using VALS.

1.7 Scope of Study

Study has been conducted in Satara city in Maharashtra State, India.

Study has focused on Psychographic segmentation and investment pattern of people resides in Satara city on the basis of selected demographic parameters viz Age, Income, Sex, Education and Occupation. Available investment avenues in Indian economy viz Insurance, P.P.F., Mutual Fund, Shares, Real estste, Gold, Bank Deposits, etc have been taken for study.

Data is collected through Structured Schedule, and processed by using Tables, Weighted average, rank, etc.

Market Research Society of India developed eight socio economic classes. The classes are based on two parameters i.e. educational qualification and occupation of a person. These classes are A1, A2, B1, B2, C, D, E1 and E2. This study has focused on SEC A1 only.

Investment of respondent in the financial year 2008-09 and 2009-10 are only considered for the study.

VALS model is bring in use to determine Psychographic dimensions of investors. VALS is values and lifestyles. It is a way of viewing people on the basis of their attitudes, needs, wants, beliefs, and demographics. The U.S. Framework, a graphic representation of VALS, illustrates the eight types and two critical concepts for understanding consumers: primary motivation and resources. The VALS main types

are Innovators, Thinkers, Believers, Achievers, Strivers, Experiencers, Makers and Survivors.

1.8 Importance of the Study

Service Sector in India today accounts for more than half of India's Gross Domestic Product. According to data for the financial year 2006-2007, the share of services, industry, and agriculture in India's GDP is 55.1 per cent, 26.4 per cent, and 18.5 per cent respectively. The service sector now accounts for more than half the GDP. The Indian financial services industry is in a process of rapid transformation. In this industry several factors like globalization, competition from private sector, changing customer demographics, and development of banking system are responsible for revolutionizing the financial sector. Therefore present study is an effort to help investment industry to understand psychographic attributes of investors to devise the Marketing strategy, designing investment product, promotion strategy, designing penetration strategy. Also the net disposable income has grown at a Composite Annual Growth Rate (CAGR) of 11.6% between FY00-FY08. As there is increase in disposable income of urban people, financial market has realized it as an opportunities in untargeted urban market Therefore the study may help organization dealing in investment instruments, to understand the needs and wants better and further to understand attitudes, interests, opinions and lifestyles of the investors.

1.9 Research Methodology

Research design of study deals with segmenting investors on the basis of psychographic factors and to understand investment pattern accordingly. For this, researcher has used diagnostic research design and inferential approach for study.

1.9.1 Data Required

Data about demographic profile of respondents, preferred investment avenues, objectives of investment, Influencing factors on investment, sources of getting information about investment, data about psychographic dimensions and conceptual data on investment and psychographic segmentation was needed for the study.

1.9.2 Data Sources

The data and information have been collected using Primary Sources and Secondary Sources.

1. Secondary Data Sources

The secondary data regarding concept of investment, concept of psychographic segmentation, information about different investment avenues, Investment activity have been collected from various books, newspapers and websites. This data is useful for conceptual framework.

2. Primary Data Sources

The primary data regarding demographic profile, investment pattern and psychographic profile of respondents have been collected through Structured Schedule. The data regarding preference to investment avenues , objectives behind investment, guiding factors, sources of information and factors considered while selecting any financial company have been collected by researcher in person.

1.9.3 Instrument

Structured Schedule was used to collect primary data. Schedule was divided into three structures. The structures were data about demographic profile, investment pattern, and psychographic dimensions of sample investors.

1.9.4 Pilot Testing

Pilot testing has been conducted in Koregaon, Satara district, in Maharashtra State, India. For that study, sample size 30 has been taken. With the help of Schedule, data have been collected. After the Pilot testing, Schedule was revised. The Investment avenues where zero score have received have been removed. Only ten investment avenues have been taken for study. In present study, researcher has added study regarding Personality and investment pattern, Personality and Investment objectives, Personality and Guiding factors, Personality and Sources of information and Parameters considered in selecting any Financial Company.

1.9.5 Variables Used

For this study data of investment pattern is collected by using different structures. These structures encompass variables to test.

To test the psychographic personality, 34 questions of VALs model has been executed. Twenty one investment instruments were asked to record respondents investment pattern. These investment instruments are NSC, Bank Deposits, PPF, Insurance, PO Schemes, Gold, Mutual Funds, ELSS, Credit Society, Debt Instruments, Shares, Company Deposits, Real Estate, NBFC Schemes, Precious Stones, Art Objects, Personal Lending, Systematic Investment Plan, Pigmi, Deposits with savkar and ULIP.

Investors have certain objects behind investment. Nine objectives were asked to the respondents. These objectives are Retirement Planning, Tax Saving, Health Insurance, Future Personal Obligation, Future Dependent obligation, Acquisition of Assets, Acquisition of House Property, Source of income and Working capital formation.

The investment is guided to certain goals. 14 guiding factors were asked to respondents. These factors are Return, Risk, time bound, safety, Tax concession, Freebies, Insurance cover, Liquidity, Brand Name, Past Performance, Past Experience and Lucrative Schemes.

Investors have solicit information of investment instrument before investment or investors get influenced by various promotional effort by industry. These sources of information were asked to the respondents. Fourteen sources were used. These are Govt officials, Bank officials, Financial Advisors, Consultants, Television Ads, Brokering firms, Friends, Relatives, Newspaper Ads, Websites, Handouts, hoardings, Newsletters, Seminar, Coldcalls and Journals.

Respondents were also asked to rate the parameters to be continued while selecting any financial company for investment. Thirteen parameters were used for this Sub-Structure. These are Trustworthy, Financial strength of promoters, Usage of technology, Reputation, Innovativeness, Products flexibility and transparency, Business practices, Management team, Range of services, Convenience, Service orientation, Customer interaction, Channel availability.

1.9.6 Sampling

Population for the study is infinite. Stratified convenient sampling technique has used to select the sample of the population. Stratification has been done on the basis of socio economic classes. A1 socio economic class has selected for study and from SEC A1, 30 samples have been selected. In SEC A1, Three stratas have been made. They are Entrepreneurs, professionals and Management executives. 10 samples from each strata have been selected by researcher.

1.9.7 Data Analysis

Data is classified and presented in tables. Analysis is done by using weighted average, Rank and Percentages. Spearman rank Correlation is used to analyze the data. Samples are clustered into groups on the basis of psychography by using VALS model. Hypotheses are tested using one sample Kolmogorov-Smirnov Z test. To check the uniformity in two demographic groups Friedman test is used.

Data is processed using MS-Excel software and analysed using Systat software.

1.9.8 Concepts Used In Research

Following concepts are used in research.

1.9.8.1 Psychographic Segmentation

Psychographic segmentation divides the market into groups based on social class, lifestyle and personality characteristics. It is based on the assumption that the types of products and brands an individual purchases will reflect that persons characteristics and patterns of living. Psychographics goes beyond standard demographics to indicate customers' dreams, hopes, fears, and beliefs. Many marketers are trying to increase profits by grouping people into homogeneous segments based on their lifestyles

Psychographics initially emphasized consumer's activities, interests, and opinions, also known simply as AIO. They were helpful, but were soon found to be excessively narrow. Today, psychographics has broadened to include attitudes, values, activities and interests, demographics, media patterns, and usage rates. Because of this new, more extensive, definition, psychographics is able to more precisely define who a company or product's consumers are.

1.9.8.2 VALS

VALS - short for values and lifestyles - is a way of viewing people on the basis of their attitudes, needs, wants, beliefs, and demographics. The VALS program was created by SRI International in 1978 in an attempt to "put people" into the thinking of those of us trying to understand the trends of our times - in the marketplace, economically, politically, sociologically, and humanly. The approach is holistic, drawing on insight and many sources of data to develop a comprehensive framework for characterizing the ways of life of Americans. Conceptually, VALS owes a major debt to the findings of developmental psychology. The system is currently being applied in many areas of business and is evoking interest in circles as diverse as sociology, politics, law, education, and medicine.

VALS segments U.S. adults into eight distinct types—or mindsets—using a specific set of psychological traits and key demographics that drive consumer behavior. The U.S. Framework, a graphic representation of VALS, illustrates the eight types and two critical concepts for understanding consumers: primary motivation and resources. The combination of motivations and resources determines how a person will express himself or herself in the marketplace as a consumer. The VALS main types are Innovators, Thinkers, Believers, Achievers, Strivers, Experiencers, Makers and Survivors.

1.9.8.3 Socio Economic Class (SEC)

For decades, until about 1990, the monthly household income (MHI) was believed to be a key determinant of consumer (purchase) behavior in India. However, it had some areas of concern.

- a. MHI, which was expressed in Rupees, was not comparable over the years (Rs. 10,000 in 1985 did not have the same value as Rs. 10,000 in 1995).
- b. Individuals were either unwilling or unable to indicate their MHI accurately.
- c. The price of a product, and hence affordability based on MHI, was no more the key influencer of the brand(s) purchased.

In the light of this, the Market Research Society of India (MRSI) developed an appropriate alternative to MHI, which was called SEC. In urban SEC uses education and occupation of the CWE for classifying households. It is appended in Annexure.

1.9.8.4 Entrepreneurs

An entrepreneur is someone who organizes a business venture and assumes the risk for it. Also an individual who, rather than working as an employee, runs a small business and assumes all the risk and reward of a given business venture, idea, or good or service offered for sale. The entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes.

Entrepreneurs play a key role in any economy. These are the people who have the skills and initiative necessary to take good new ideas to market and make the right decisions to make the idea profitable. The reward for the risks taken is the potential economic profits the entrepreneur could earn. When most people think of entrepreneurs, a few well-known names probably come to mind, including such people as Henry Ford, Andrew Carnegie and Bill Gates.

1.9.8.5 Professionals

The word professional means a person who has obtained a degree in a professional field. The term professional is used more generally to denote a white collar working person, or a person who performs commercially in a field typically reserved for hobbyists and amateurs.

Main criteria for professional include the following:

1. Academic qualifications - A teaching degree (University doctorate program), engineering, medical, or law degree - i.e., university college/institute.
2. Expert and specialized knowledge in field which one is practicing professionally.
3. Excellent manual/practical and literary skills in relation to profession.
4. High quality work in: creations, products, services, presentations, consultancy, primary/other research, administrative, marketing or other work endeavors.
5. A high standard of professional ethics, behavior and work activities while carrying out one's profession (as an employee, self-employed person, career, enterprise, business, company, or partnership/associate/colleague, etc.). The professional owes a higher duty to a client, often a privilege of confidentiality, as well as a duty not to abandon the client just because he or she may not be able to pay or remunerate the professional. Often the professional is required to put the interest of the client ahead of his own interests.

6. Reasonable work moral and motivation. Having interest and desire to do a job well as holding positive attitude towards the profession are important elements in attaining a high level of professionalism.

1.9.8.6 Management Executives

The management executives generally applies to those people or specific positions in top levels of management, e.g., chief executive officers, chief operating officers, chief financial officers, vice presidents, general managers of large organizations, etc. In large organizations, executives often have different forms of compensation or pay, e.g., they receive portions of the company's stock, receive executive-level "perks, etc. Chief executives usually pay strong attention to strategic plans and organizational performance, whether measured financially or from impact of services to a community. Many people think of the Chief Executive Officer as heading up large, for-profit corporations. This is not entirely true. The majority of businesses in the United States are small businesses, whether for-profit or nonprofit. Their top executives could be called Chief Executive Officers.

1.10 Chapterization

This report is organized in six chapters as follows.

Chapter 1 is titled as, 'Research Methodology', which deals with the introduction to the Study, management Problem, research problem, hypothesis, objectives of the study, scope and importance of research and research methodology followed for study.

Chapter 2 is titled as, 'Literature Review', which narrates an overall appraisal of research studies done in the field of psychographic segmentation and financial service industry in India

Chapter 3 is titled as, 'Conceptual framework' which discusses the concept of psychographic segmentation, investment and various investment avenues available to investment in India

Chapter 4 is titled as, 'Financial Service Industry in India' which deals with investment profile in India, marketing of investment products, segmentation in investment industry, etc.

Chapter 5 narrates analysis and interpretation of Data, in which collected data has analyzed and interpretation has been provided by researcher. This chapter is titled as, presentation and analysis of data.

Chapter 6 presents findings and conclusions based on the analysis of data this chapter titled as, 'Findings and Conclusions.'

Besides these chapters the dissertation is appended with Schedule used for data collection and list of references.