

# SOURCES OF INFORMATION AND THEIR USEFULNESS IN SELECTION OF BANK: AN EMPIRICAL STUDY AMONG RETAIL BANKING CUSTOMERS AT DIFFERENT LIFE CYCLE STAGES.

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## Abstract:

*Information search is a key phase of consumer behavior in decision making. Sources of information and their level of usefulness vary from consumer to consumer. This is a very important input for a banker to frame marketing strategy. Hence, this study has collected information from 895 retail banking customers regarding sources of information and their utility level. It is impossible to analyze each customer, so segmentation is carried out on the basis of family life cycle of respondents that is considered to be an appropriate criteria for this research. One way ANOVA is applied to find out the difference between segments in terms of usefulness of each information source. It is found that there are significant differences on an average in the sources of family and friends, previous dealings and shopping around.*

*Key words: Retail banking, family life cycle, previous dealings and shopping around.*

## Introduction

Indian retail banking has witnessed phenomenal growth ever since the economic reforms that started in 1991. There are many reasons cited by many reserachers for this growth which includes demographic changes, flexible interest rates, competition among banks, and profitability in retail banking business, less demand for credit from industry and technological developments.

Therefore there is a special need for banks to study and gain insights into the borrowing behavior of retail consumers in order to develop suitable policies and practices. Information search is an important phase of borrowing behavior that is playing a vital role in evaluation and selection of a bank for borrowing credit.

The initial buying behavior models were developed by Howard, and Sheth, (1969) [1], and Engel, Blackwell, and Miniard, (1994) [2]. They establish that buying process of consumers consists of five stages - starting with problem recognition, information search, and evaluation of alternatives, purchase decision, and post purchase behavior. As this model explains, the consumer borrowing process begins long

before the actual borrowing and has consequences long afterwards.

An interested borrower who recognizes a need for retail credit will be inclined to search for more information. The arousal would be operated at many levels & sources of information. They include personal sources (family, friends, neighbors, acquaintances), commercial sources (advertising, web sites, sales persons, dealers, packaging, displays), public sources (mass media, consumer-rating organizations), and experiential sources (people who have examined and used the product).

The borrower usually receives the most information from commercial (marketer-dominated) sources, although the most influential information comes from personal sources. Through gathering information, the consumer learns more and more about competing banks. The individual borrower will come to know only a subset of these banks (awareness set). Some of these banks will meet initial borrowing criteria (consideration set). As the person gathers more information, only a few banks will remain as strong contenders (choice set). The person makes a final choice from this set. (Desarbo, and Jedidi, 1995) [3].

It is clear that a bank must strategize to get itself into the prospect's awareness set, consideration set, and choice set. The bank must also identify the other banks in the borrower's choice set, so that it can plan competitive appeals.

## Review of literature

### Regarding sources of information

Most of the previous researchers defined information search either explicitly or implicitly related to the specific purchase under consideration. (Beatty, and Smith, 1987) <sup>[4]</sup>. Information search behavior can be also classified as internal or external. Internal information search consists of consumers' retrieval of memory or knowledge from previous search, experience with products or passively acquired information during normal regular activities. External information search behavior comprises of consulting with friends, family members, experts, sellers, reading books, magazines articles, consumer ratings, advertising and direct inspection.

In the survey conducted by the Mortgage Bankers Association of America, most of the respondents cited the phone as their favorite way to obtain information on mortgages; personal contact was the second most cited source of information followed by advertisement and real estate professionals; experience was also cited as a source of information for refinances. (Lee, and Cho, 2005)<sup>[5]</sup>.

Research in developed market economies has established that consumers derive product knowledge from multiple sources of information which include advertising, personal search, influential others. (Dichter, 1966) [6]. and product experience. (Kempf, and Robert, 1998) <sup>[7]</sup>.

The wire services, personal contacts, analysts, brokers, newspapers, televisions are sources of information for foreign exchange traders. Acquiring information also differs between individualist and collectivistic cultures. In the individualistic culture, people predominantly acquire information through media sources; in the collectivistic culture,

people are perhaps to look for interpersonal sources of information. (Oberlechner, and Hocking, 2004)<sup>[8]</sup>.

A study conducted during economic transition in Hungary (Coulter, Gerald, and Keith, 2001)<sup>[9]</sup> indicated that the market information variables explained in knowledge of consumer. Advertising was an important predictor of consumer knowledge and personal search was always important source of information. However, brand experience was positively related to knowledge in later transition and negatively related in earlier transition. Conversely interpersonal sources were not important in either period.

### Regarding Family Life Cycle

The origin of family life cycle concept was found in sociology in the 1930s and has its application in marketing research since 1950. The application has been based on the fact that stages of family life cycle have an impact both on the income and the expenditure of households. The family life cycle implies that an individual passes successively through a series of family stages which are characterized by their own financial situation and certain patterns of purchasing that are more or less determined. (Wells, and Gubar, 1966) <sup>[10]</sup>. These stages are specified based on a range of variables namely age, labor activity of household, marital status, age of the youngest child and so on. (Murphy, and Staples, 1979) <sup>[11]</sup>.

The three phases of conceptual evolution of family life cycle are described below. The first period is upto 1930's which is considered to be the founding period. During this phase, conceptual bases were developed, (Kirkpatrick, Cowless, and Tough 1934) <sup>[12]</sup>, which followed simple structures having a limited family composition and life style stages. The second phase from 1940 to the end of 1950s was dominated by the models. (Glick, 1947) <sup>[13]</sup>. During this phase, new uni-dimensional variables were incorporated in the family life cycle and further stages were defined. Third phase has started since 1960.

In this phase, researchers have concentrated on two things. First, family life cycle is used

as criterion for segmentation purpose and second, it is considered for predicting consumer behavior along with other socio economic variables.

Family life cycle is considered as one of the useful bases for segmenting markets. It is a constructive socio demographic variable to explain consumer behavior and market segments. Its role has been tested in the consumption of many goods and services.

The life cycle hypothesis suggests that household consumption and savings reveal the life cycle stage of the family, and the consumption is a function of available income. The general assumption is that income would increase during working years and decline following retirement; households would tend to borrow during the early stages, save during the middle stages and spend down during the later stages (retirement).

Except for age, role played by socioeconomic factors was insignificant in personal debt and debt repayment. Their results showed that younger households were more likely to be in debt than other households were (Bertaut, and Haliassos, 2004) <sup>[14]</sup>.

### Research Questions

Thus information search plays a vital role in selection of bank for availing retail credit vis-a-vis life cycle stages. This study has been conducted to focus on these vital aspects and has attempted to answer the following questions.

“(i) What are sources of information used by retail banking consumers in India for the purpose of selection and to what extent they are useful on an average?”

“(ii) Is there significant difference between segments based on life cycle of consumers in terms of average utility of each source of information?”

### Methodology

As the number of people who borrowed credit is very large, sampling technique was applied to select the respondents for study.

Using mail intercept method, totally 1500 questionnaires have been distributed among retail credit customers of scheduled commercial banks in Chennai city during the period of 2010-11 but only 1264 have been received after continuous follow-up. Among collected questionnaires, only 895 were in usable condition. The confidence level and deviation considered in this study were 95 per cent and 3 per cent respectively.

The questionnaire consists of personal information like age, income, gender, amount of loan, type of loan etc., and information sources including personal and other sources. The usefulness of each source of information is measured on a five point scale ranging from “not at all useful” - “highly useful”. The reliability of the usefulness scale was tested with Cronbach alpha (0.823). Based on pilot survey and feed back of respondents, some of the sources of information were removed and some were clubbed with others.

### Sources of Information and Segments of Retail Bank

The borrowers of retail credit use various sources for getting information regarding details of suppliers of credit and features of loans. Based on previous studies conducted in this area, the major sources of information are advertisement, financial advisor, family and friends, previous dealings with the bankers and shopping around.

The Table 1 indicates that all sources of information invariably are mentioned by all respondents and have minimum of one and maximum of five. It shows that all sources are useful and the degree of usefulness varies from respondent to respondent.

The conclusion elicited from the Table 1, that by and large the information from family and friends are highly useful and has the least variation. The next valuable source is advertisement of banks, while the least helpful source of information is shopping around. Nonetheless none of the sources seemed to be of no use.

*Table: 1. Descriptive statistics*

Source of information	N	Min	Max	Mean	Std. Deviation	Rank
Advertisement	895	1	5	2.35	1.185	II
Financial adviser	895	1	5	2.07	1.119	IV
Family/friends	895	1	5	3.00	0.970	I
Previous dealings	895	1	5	2.33	1.149	III
Shopping around	895	1	5	2.01	1.037	V

### Segmentation Based on Family Life Stage of Respondents

The demand for retail loan is determined by the family life cycle stage of respondents.

The type of loan and amount of loan availed of by the people also differ based on the stage. For finding out the differences in behavior of consumers belonging to different life cycle stages, the life of respondents is divided into five stages.

The respondents of fifth stage of family life cycle are old people living separately after settling their children

Table 2, shows that one fourth of the respondents fall in the category of second stage which means that married couple in their early stage for one or other reason avail of retail loan. The least percentage of respondents is in the fifth stage. It is a rare situation, in which people of this stage go for retail loan. The second highest number of respondents belongs to first stage of family life cycle. Due to the growth of IT and ITES

*Table: 2. Family life cycle stage of respondents*

Life cycle stage of the respondent	Frequency	Percent
Stage one	205	22.9
Stage two	227	25.4
Stage three	192	21.5
Stage four	182	20.3
Stage five	89	9.9
Total	895	100.0

The first stage of family life cycle includes respondents, who are single but they either live with parents or stay alone. The second stage consists of married people with or without children or children of young age. The third stage of family life cycle comprises of respondent, who are parents of adult children. The respondents, whose children are in earning stage and any or some of the children are just married but still staying with them are categorized as the fourth stage.

industry, people of less age resort to avail loans especially home loan, for reducing tax and investment purpose. The third stage and the fourth stage have one fifth of total respondents each.

### Hypotheses:

1. There is no significant difference between life cycle based segments in terms of usefulness of information from advertisement.
2. There is no significant difference between life cycle based segments in terms of

usefulness of information provided by financial advisors

3. There is no significant difference between life cycle based segments in terms of usefulness of information given by family and friends

4. There is no significant difference between life cycle based segments in terms of usefulness of information gathered through previous dealings.

5. There is no significant difference between life cycle based segments in terms of usefulness of information with the help of shopping.

One way ANOVA test is employed to understand the difference between segments in terms of usefulness of each source of information. The Table 3 depicts F values of each source and their corresponding significant level.

analysis has been adopted.

Since there is significant difference between the level of usefulness of information given by family members and friends, between respondents of different stages of family life cycle, further analysis is made with the help of Duncan post hoc. The result from Table 4 exposes three sets of combination, first one consists the respondents of stage five which has scored the least value among all stages and poses significant difference from other segments. The second combination is made up of stages two, three and four - mean value of which ranges from 2.95 to 3.08.

Barring respondents in the stage four of family life cycle, all respondents have similarly perceived the value of information gathered through previous experience with the banks. Hence the opinion of respondents belonging to stage four on the level of

*Table: 3. Impact of family life cycle stage on use of sources of information*

Sources of information	Life cycle stage	
	F value	Sig
Advertisement	.501	.735
Financial advisor	1.482	.206
Family / friends	9.807	.000*
Previous dealings	6.083	.000*
Shopping	2.698	.030*

\* Significant at 0.05

The table further reveals that there is significant difference in the usefulness of information from family and friends, previous dealings and shopping around. However, there are no significant differences in the cases of advertisement and financial advisor. To ascertain further, Duncan posthoc

usefulness is significantly higher than that of respondents in other stages. The stage four respondents who are just married or adult children and thus have more experience in dealing with banks than respondents of preceding stages.

Further, it is confirmed that the least level of usefulness with this source of information is

*Table: 4. Homogeneity table for use of family and friends, previous dealings and shopping among family life cycle stages.*

Life cycle Stage	N	Family and friends			Previous dealings		Shopping	
		1	2	3	1	2	1	2
Stage 1	205			3.18	2.16			2.03
Stage 2	227		3.02	3.02	2.22			2.11
Stage 3	192		3.08	3.08	2.33		1.92	1.92
Stage 4	182		2.95			2.68		2.10
Stage 5	89	2.45			2.29		1.75	

found by the respondents of first stage who are young in age and experience as well.

The third source of information having significant mean difference between segments based on stage of family lifecycle is information by shopping around.

Table 4 illustrates that the total stages have been divided into two subsets. The first contains stage five and stage three while the second set contains remaining three stages of life cycle. However the stage three falls into both sets. It can be explained from the above data that the level of usefulness felt by respondents of stage five is significantly less than other respondents except respondents of stage three.

Therefore, people who are old and living in empty nest do not find information by shopping around, as valuable as other people find, in selection of bank. Relatively the information through shopping around on an average is less compared to other sources of information.

Based on the results of F values first and second hypotheses are accepted while the remaining three hypotheses are rejected.

### Conclusion

It is clear that the need and demand for retail banking services are not same for consumers belonging to different stages of family life cycle especially need of retail credit. For instance, in the early stages, consumer avail education loan, then consumer durable loan and housing loan etc. More over their borrowing habits and quantum also vary from stage to stage.

Therefore, when the bankers design their products and strategies thereof, sources of information used by different stages must be taken into account. Output of this study will be useful to understand the behavior of retail banking customers in the stage of information search and may be used as input for their strategies.

Further studies may be conducted to learn deeply about behavior of retail banking customers of different family stages

pertaining to other phases of consumer behavior.

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