Segmentation and brand positioning for Islamic financial services

Rusnah Muhamad
Department of Financial Accounting and Auditing, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia

T.C. Melewar
Brunel Business School, Brunel University, Uxbridge, UK, and

Sharifah Faridah Syed Alwi
Department of Marketing, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia

Abstract

Purpose – The purpose of this paper is to explore the different segments of consumers in the Islamic financial services industry (IFSI) and their relationship with product/brand positioning for Islamic financial services (IFS).

Design/methodology/approach – In-depth interviews were conducted with individuals in managerial positions among the key market players in the IFSI to explore the segmentation of consumers and their buying motives.

Findings – Four segments of IFS consumers emerged, namely, Religious conviction group; Religious conviction and economic rationality group; Ethical observant group; and Economic rationality group. These segmentation groups were appropriately categorized through a psychographic (value)-based approach.

Research limitations/implications – The empirical findings of this study pave the way for embarking on promising and relevant future research, which is needed to substantiate and enrich the academic understanding and managerial practice of linking market segmentation and brand positioning for IFS in the global market. Future research should focus on analysing these issues from the perspective of consumers of IFS to identify the purchase trend.

Practical implications – The study provides empirical evidence of the bases or initial dimensions of consumer segmentation for IFS. The findings are useful in guiding the management of institutions offering IFS in making decisions relating to the marketing communication and promotion strategy as well as product and brand positioning strategy.

Originality/value – For both academia and the IFSI, this study provides useful knowledge in strategically using market segmentation to position IFS in the global market.

Keywords Market segmentation, Islamic financial services, Shariah, Product/brand positioning, Buying motive, Marketing communication strategy, Consumer behaviour

Paper type Research paper

Introduction

IFSI has developed into a global phenomenon, which is both highly dynamic and growing rapidly. The global IFSI is experiencing an average growth of 15-20 per cent
annually (McKinsey, 2008). According to The Banker, there are 614 Islamic financial institutions worldwide across 47 countries (Malaysia International Islamic Financial Centre (MIFC), 2010). The current global Islamic financial assets have reached USD750 billion and are expected to grow to USD1.6 trillion by 2012. The MIFC reports that the Top 500 Islamic Financial Institutions (TIFI) reported that the global total of shariah compliant assets grew by 27.6 per cent to reach USD639.1 billion.

Although the main centres of the industry are acknowledged to be in the Middle East and the Gulf countries such as the UAE and Bahrain, and Asia and the Far East including Malaysia, the clientele of IFS is not confined to Muslim countries nor are the providers confined to local institutions. The industry has a globally diverse clientele and is attracting growing interest from global players who are increasingly playing major roles in this industry (Aslam, 2006). The increasing world Muslim population and the growing global interest in IFS provide a golden opportunity for the industry to further progress (Islam, 2008). The world’s Muslim population is expected to grow from 1.73 billion (25.34 per cent of the world population) in 2009 to 1.90 billion (26.16 per cent of the world population) in 2015 (US Census Bureau, International Data Base, 2009). The improvement in the education system globally has seen a larger population gaining access to education. This has resulted in a greater number of educated Muslims worldwide, thus, further increasing the demand for IFS (IDB, IFSB and IRTI, 2007). The increasing concern for green and sustainable or ethical investment, particularly in Europe and Western countries, has also sparked further interest in IFS globally, as the criteria used in screening these investments are largely overlapping with the principles of Islamic finance (Saidi, 2009; Ghoul and Karam, 2007). There have even been suggestions that the principles of Islamic finance may be the best solution for the current global crisis (Maverecon, 2009; Quinn, 2008).

The diverse clientele in this largely untapped market suggests that there are various groups of consumers with differing purchasing motives. Marketing researchers have long recognized differences between groups of consumers as opportunities in the market (Raaij and Verhallen, 1994). Market segmentation is often considered as key to operationalise the marketing concept, guide a bank in its marketing strategy and positioning, and allocate resources among markets and services in the banking industry (Edris and Almahmeed, 1997; Dickson and Ginter, 1987; Wind, 1978). Market segmentation involves the identification of segmentation variables followed by segmentation of the market, which leads to market targeting (i.e. the selection of the most attractive segment(s)) (Raaij and Verhallen, 1994). The process continues with developing, selecting and communicating positioning concepts (Raaij and Verhallen, 1994; Kotler, 1988). The ability to understand the specific requirements of different segments of consumers would enable companies to achieve a competitive edge within the existing conditions of the market, whereas, failure to do so could lead to the loss of market position (Smith, 1956).

The review of the extant literature reveals that consumer segmentation in the conventional financial services (CFS) appear to rely heavily on the “a priori” approach (i.e. demographic or uni-dimensional type) (Machauer and Morgner, 2001; Meadows and Dibb, 1998; Harrison, 1994) and the post-hoc approach, which is based upon benefit-sought from products, attitudes, lifestyles and, values (Machauer and Morgner, 2001; Harrison, 1994; Burnett and Chonko, 1984). However, a similar segmentation for IFS is still lacking. Thus, there is a pressing need to understand whether consumer
segmentation for IFS is different from that of CFS, particularly from the practitioners’ perspective, given the development in the IFSI and the dearth of literature on consumer segmentation for the industry. In the past, research on IFSI mainly focused on:

- examining the level of awareness and understanding of the basic concepts and products of IFS (see for example, Rammal and Zurbruegg, 2007; Okumus, 2005; Karbhari et al., 2004; Bley and Kuehn, 2004; Ahmad and Haron, 2002; Hamid and Nordin, 2001; Naser et al., 1999; Metawa and Almossawi, 1998; Gerrard and Cunningham, 1997; Haron et al., 1994; Omer, 1992); and

- consumer patronage and preferences in IFSI (Dusuki and Abdullah, 2007; Zainuddin et al., 2004; Almossawi, 2001; Metawa and Almossawi, 1998; Gerrard and Cunningham, 1997; Haron et al., 1994).

However, research on consumer segmentation for IFS is lacking. Muhamad et al. (2009) proposed three different market segments for Islamic banking consumers and, accordingly, the main motives underlying the buying behaviour for each segment. These groups are known as the Religious conviction group who are strongly guided by their religious dictates in making their purchase decision; the Ethical observant group who make decisions based on ethical criterion; and the Economic rationality group whose decisions are solely based on their personal financial gain (economic rationalism). Thus, the objective of this paper is to examine the initial segmentation based on the proposal made by Muhamad et al. (2009) and to identify whether there are any differences between consumer segmentation for CFS and IFS. It is hoped that this finding could provide a strategic direction for marketers in the brand positioning of IFS.

The article is organized as follows. First, a brief description of the IFSI is provided. Second, the relevant literature on market segmentation and brand positioning is discussed. Third, the method and data collection are described, followed by the analysis and results. We conclude with a discussion of implications for researchers and practitioners together with suggestions for future research.

Review of literature

**Islamic financial services industry (IFSI)**

The IFSI has witnessed a frenetic pace of growth during the last decade (Saidi, 2009; IDB, IFSB and IRTI, 2007). Industry experts are estimating that the sector has been growing by more than 20 percent annually since 2000 (IFSB, IRTI, IDB, 2010). Islamic financial products have proven to be a competitive and viable alternative to conventional financial products. International Financial Services London (2008; 2009) reported that the total projected size of the global Islamic financial assets is USD729 billion and about USD537 billion is in the form of Islamic banking assets.

According to El-Sheikh (2008), what makes an economy “Islamic” is *shariah*: a huge corpus of moral and legal discourses, which were intended by scholars (jurists and theologians) of the second and third Islamic centuries to guide Muslims in their pursuit of a good and virtuous life (El-Sheikh, 2008, p. 116). Therefore, IFS are financial products (banking, non-bank financial services, insurance and capital markets) that are designed in compliance with *shariah* law. The basic principles in designing IFS are prohibition of interest; risk sharing; individual rights and duties; property rights; money as potential capital; prohibition of speculative behaviour; sanctity of contracts;
and shariah approved activities (IFSB, IRTI, IDB, 2010; Aslam, 2006; Zaher and Hassan, 2001; Loqman, 1999; Iqbal, 1997). Since interest is prohibited in all forms and for all purposes, IIFS has adopted various shariah principles, as suggested by Muslim jurists and scholars in providing services to their consumers. According to Haron (1995), these principles can be broadly classified into four categories, namely: principles that are based on profit-loss sharing (mudaraba and musyaraka), principles that are based on fixed charges (murabaha, bai-mu’ajjal, ijjara, and ijjara wa-iktina), principles that are based on free charges (qard hassan), and, finally, principles that are applicable directly or indirectly to the operation of IIFS (wadiah and rahn).

The idea of Islamic banking and finance has grown out of an increasing desire to conduct financial activities in accordance with shariah principles (Naser and Mountinho, 1997). Thus, ensuring the compliance of IFS with the above mentioned guidelines is necessary for the services to be relevant for use by Muslims and, hence, broadening the public’s access to financial services. The IFSI caters to this special need of society. For the devout Muslims, the compliance of financial services with shariah rules and principles is a primary concern for the users of these services. Simultaneously, it is also possible to capture demand beyond the Muslim population through the provision of innovative and high-quality IFS. Therefore, by adding another alternative in an array of choices of financial services, IFS can foster healthy competition.

Given this opportunity, it is timely that marketers identify the markets they are currently serving as well as potential markets in this area. Many financial institutions select a few key target markets and concentrate on trying to serve them better than their competitors (Zineldin, 1996). However, to-date, lack of information exists on the understanding of “who” buys IFS. In the CFS market, previous literature suggests that the segmentation approach among the financial services consumers is either “a priori” in nature or “post-hoc” (Harrison, 1994). In other words, different criteria/bases of segmentation (as discussed in the later section) are used or found by previous studies when segmenting the financial services consumers. The review of the extant literature reveals that various approaches have been used to segment consumers in the CFS market. Thus, it is unclear at present how the IFS consumers should be segmented. The segmentation issue presents an opportunity for businesses as not only are the IFS consumers growing, with IFS being proposed as an alternative to CFS (IDB, IFSB and IRTI, 2007), but, also, some have even suggested that the principles of Islamic finance may be the answer to the current global crisis (Maverecon, 2009; Quinn, 2008). Therefore, an academic understanding of market segmentation is crucial as the initial step towards developing a theoretically sound base for market segmentation in the IFSI. The next section examines and discusses market segmentation for CFS and IFS in greater detail.

**Market segmentation**

This section presents the definition of consumer segmentation and the general overview of consumer segmentation for IFS.

**Consumer segmentation – the definition.** Not all consumers are alike. By segmenting the consumers, subgroups will be smaller and more homogenous than the overall market. Accordingly, the segmentation process requires that the total market involved be divided into homogeneous segments, selecting the target segments, and
creating specific marketing programmes, and, hence, address more efficiently, the needs and wants of each subgroup (Marshall and Johnston, 2010). Although segmentation may be done in several ways it can be grouped into four broad categories, namely, geographic, demographic, psychographic and behavioural segmentation. In practice, these approaches are not applied one at a time (Marshall and Johnston, 2010). A marketing manager may combine these approaches, wherever appropriate, in a given market and for a given product and not consider the segmentation as rigid as it is (Peter and Olson, 2008).

Consumer segmentation in CFS. The segmentation bases for CFS appear to rely heavily on the “a priori” approach (i.e. demographic or uni-dimensional type) (Machauer and Morgner, 2001; Meadows and Dibb, 1998; Harrison, 1994) and the “post-hoc” approach, which is based upon benefits sought from products, attitudes, lifestyles and, values (Machauer and Morgner, 2001; Harrison, 1994). The tendency of using the “a priori” or uni-dimensional approach is proposed to be based on the following two assumptions:

(1) consumers needs and wants are determined by the external consumer characteristics (such as demographic, social status, family life stage), which, in turn, will influence their decision-making (i.e. to opt for a particular financial service); and

(2) the segmentation would be appropriately used consistently across all products in the financial services industry (Meadows and Dibb, 1998).

These assumptions lead to the standardization of marketing strategies in the financial services industry (Machauer and Morgner, 2001; Harrison, 1994). However, the “a priori” or uni-dimensional approach is heavily criticised as the use of a single indicator does not address the specific needs and wants of consumers (Machauer and Morgner, 2001); consumers exhibit different personalities, values and lifestyles even in the same category or demographic criteria (Kotler et al., 2009; Meadows and Dibb, 1998), and the profitable segment may be ignored or missed (Harrison, 1994).

The attempt to segment consumers will enhance the satisfaction among consumers, improve the understanding of consumers’ needs, achieve effective resource allocation, provide a better determination of opportunities in the market and, thus, help to position the brand as well as the overall marketing programmes (Kotler et al., 2009; Meadows and Dibb, 1998). Products are the building blocks of lifestyles (Solomon, 1999), thus, segmentation according to lifestyles, personalities or values could be more effective (Feng Lin, 2002) than the common uni-dimensional method (Machauer and Morgner, 2001; Harrison, 1994). Furthermore, consumer personalities, values and lifestyle are indeed very important indicators of brand association because when consumers evaluate brand image or make a decision about a product, they also associate the brand image or the brand personality with their own (Aaker, 1997; Foxall, 1980). Thus, segmentation through personalities, values or lifestyles may be more effective in enhancing the brand image of the financial institutions or their products. In addition, Harrison (1994) suggests that most studies on segmentation of consumers in the financial services industry focus on consumer perceptions, attitudes and the underlying motivations of consumers towards a particular financial institution. This is because it can lead to the identification of profitable consumers (Meadows and Dibb, 1998; Harrison, 1994), which, in turn, leads to more effective (tailored) marketing
strategies for such consumers. Consumers of CFS have been segmented according to benefit or behavioural segmentation (such as attitudes and benefit-sought) (Machauer and Morgner, 2001; McDougall and Levesque, 1994) or psychographic segmentation (lifestyle, personality or values) (see Meadows and Dibb, 1998; Harrison, 1994; Burnett and Chonko, 1984). The behavioural segmentation by benefit of the product explains the benefit consumers seek in consuming a given product (Peter and Olson, 2008). An illustration of this type of segmentation is provided by McDougall and Levesque (1994). The researchers group the banking consumers according to the benefit segmentation such as the “performance” or “convenience” segment. The performance segment describes the consumers who desire the services of the bank to be performed right the first time whereas the “convenience” segment identifies those consumers who seek convenient opening hours, branch locations and the availability of automated teller machines. Consumers, in other words, are seeking the quality of services offered by the bank. In addition, Burnett and Chonko (1984) use the characteristics of products that are preferred by consumers and they identify four consumer segments in the CFS, namely, “Traditional”, “Convenience”, “Investment” and “Debt”. In another study, Harrison (1994) examined consumers attitudes towards financial services based on psychographic segmentation and found four consumer segments, termed as:

1. “Financially confused”;
2. “Cautious investors”;
3. “Apathetic minimalist”; and
4. “Capital accumulators”.

Several researchers suggest that consumer segmentation may consider the multi-dimensional approach or combined approaches as discussed (Peter and Olson, 2008; Machauer and Morgner, 2001; Harrison, 1994). Thus, a post-hoc or multi-dimensional method is argued to be more relevant than the single indicator when segmenting consumers in the financial services industry (Peter and Olson, 2008; Machauer and Morgner, 2001; Harrison, 1994). The post-hoc approach assumes that heterogeneity exists within a homogeneous market, and, thus, each segment requires a different mix of marketing strategies to satisfy the individual needs of consumers (Feng Lin, 2002). Marketers may use cluster analysis to identify the potential and profitable groups that may be unique by certain characteristics in a given population (Gwin and Lindgren, 1982).

The preceding section discusses the most frequent segmentation bases for CFS. However, will these bases be similar in the context of segmentation for IFS? The next section discusses consumer segmentation in the IFSI.

General overview of consumer segmentation for IFS. Delener (1994, p. 48) explains that marketers should seek a niche within a given market. Marketing should not be seen as a quick-fix solution for current problems, but rather entailing sensitivity in meeting the needs and wants of the consumer being served. Religion has a significant impact on consumer behaviour and religiosity must be considered where marketing communication is concerned (Delener, 1994). He maintains that religiousness (or religiosity), as an important value in the individual’s cognitive structure, can influence an individual’s behaviour. Sociologists use the term religiosity to describe an individual’s or group’s intensity of commitment to a religious belief system (Renzetti
and Curran, 1998). Delener (1994) posits that a more religious person is more likely to align their behaviour to be compliant with their religious belief and practices. Furthermore, Rugimbana (2007) studied youth segmentation in the context of e-banking services and discovered that the cultural values provide a useful basis for segmentation, especially for the financial services providers. According to Ralston et al. (1997) religion, education, norms, customs, and history are essential components of the culture of a society. Therefore, there is no doubt that religion and, particularly religiosity will be more important for a decision that involves goods or services that have serious religious implications. Since the IFSI distinctiveness depends on its offering of financial products that are compliant with the basic tenets of *shariah*, the religiosity of consumers then assumes a more important role in segmenting consumers, especially for Muslims.

Thus, in recognising the influence of religion on consumer behaviour it is appropriate to investigate how consumers should be segmented in the IFSI. Indeed, there is a pressing need to understand whether consumer segmentation for IFS is different from that of CFS, particularly from the practitioners’ perspective. Consequently, the identification of segments would enable IIFS to evaluate and refine their marketing strategy. In determining what would be the appropriate segmentation bases for IFS, a review of literature in the segmentation literature, in general, and the CFS and Islamic banking literature, in particular, have been conducted to guide the main objective of this study: determining the segmentation base(s) for IFS.

Historically, the emergence of IFS in the financial market was propelled by the long-impending necessity of helping Muslims who aspire and strive to refrain from indulging in interest (*riba*) while carrying out financial and business transactions (IFSB, IRTI, IDB, 2010; Muhamad et al., 2009; IDB, IFSB and IRTI, 2007). Although the avoidance of interest had been thought to be a prime concern for Muslims only, the undeniable success and growth of IFS has been its ability to attract a good number of non-Muslim consumers from all over the world (IFSB, IRTI, IDB, 2010; Muhamad et al., 2009). One of the implications of this success is that a broader segmentation of the individual consumers of IFS has been possible on the basis of religious affiliation, i.e. Muslims segment and non-Muslims segment.

Most of the past studies focus on the Islamic banking institutions since this is the most significant component of IFSI (International Financial Services London, 2008; 2009). Various researchers have focused on the preference of individuals to bank selection factors including both Muslim and non-Muslim consumers (for example, Gerrard and Cunningham, 1997; Zainuddin et al., 2004; Haron et al., 1994). Another category of studies discusses bank selection criteria for individual consumers, without showing or giving major emphasis to any explicit classification of consumers along the line of their religious status (see for example, Dusuki and Abdullah, 2007; Almossawi, 2001; Metawa and Almossawi, 1998). Consumers’ age, income, education, experience and other socio-demographic characteristics are found to have a significant impact on their buying decision.

These studies do not employ the concept of religiosity as a potential approach to segmenting Islamic banking consumers. Now, the vital question is whether the religiosity of an individual influences his/her decision-making behaviour. The fact that it does have an influence has been recognized in the research literature (Delener, 1994).
Taking a cue from the segmentation of people in the Quran and segmentation of traders in the Kasb literature, Muhamad et al. (2009) offer a fresh proposal on market segmentation for the Islamic banking institutions, as given below:

- The Religious conviction group, which is strongly guided by religious dictates.
- The Ethical observant group, which may not be particularly aware or careful of religious dictates but consciously tries to uphold moral values.
- The Economic rationality group, which is indifferent to both religious and moral dictates, and is intent on deciding things solely from the perspective of personal financial gain (or economic rationalism).

The above segmentation bases/groups appear to exhibit that consumers are making purchase decisions based on the ascribed values, namely, religious, ethical and economic values. These proposed groups appear to be consistent with the previous discussion on the segmentation for CFS, which was based on the post-hoc approach, specifically looking at psychographic criteria (i.e. the values approach). Values constitute the deepest level of culture and are the most difficult to change (Hofstede, 1980). In Islam, Akhlaq (moral and values) provides a framework that shapes the moral and ethical behaviour of Muslims in the conduct of all aspects of their life (Ismail, 1990; Saeed et al., 2001) and is expected to have a significant impact on the behaviour of Muslims.

It is argued that segmentation based on the post-hoc (benefit or psychographic) approach, has provided useful guidelines for marketers in the past as it helps tailor specific consumer needs and wants for CFS (Machauer and Morgner, 2001; Meadows and Dibb, 1998; Harrison, 1994). Given the potential of IFS as a viable alternative to CFS, the importance of consumer segmentation exploring personality, value or lifestyles of consumers may help identify the profitable consumer segment. The Islamic resurgence throughout the Muslim world has resulted in a mounting religious commitment among Muslims and, consequently, an increasing emphasis on shariah (Esposito, 1991). Therefore, IIFS may uncover the profitable consumers segment that makes decisions based on religious values and belief. Furthermore, “ethical consumerism” is on the rise (Ismail and Panni, 2008; Auger et al., 2003) and it is established that the evaluation criteria for ethical investment overlaps with the ideals of Islamic banking and finance (see for example, Saidi, 2009; Ghoul and Karam, 2007; Rice, 1999; Wilson, 1997). Thus, segmentation based on ethical values is relatively in line with the emerging trend of consumers in the global market (Ismail and Panni, 2008).

The next section briefly discusses the link between market segmentation and product/brand positioning in general as well as in the banking industry.

**Market segmentation and product/brand positioning.** Kotler’s theory on segmentation, targeting and positioning is described as a sequential process (Laforet, 2010). Segmentation is the process of identifying the potential consumer(s) for a specific product or service, examining the most effective base(s) to describe consumers and developing the segment description(s) (Kotler and Keller, 2008; Hooley et al., 2008). This is followed with the targeting step, which is to evaluate and select the most attractive segment(s) from a list of consumers or segment groups identified earlier (Hooley et al., 2008). Finally, with a clear target market, positioning can then take place. Positioning is the act of designing the company’s offering and image to
occupy a distinctive place in the minds of the target market (Kotler and Keller, 2008, p. 308). A successful positioning means that the target market understands the company’s brand values, buys the company’s product or service due to the brand values attached to it and is loyal to the company’s brand/product (Laforet, 2010, Kotler and Keller, 2008). Ries and Trout (1982, as cited in Hooley et al. 2008, p. 209) stress that “… Positioning is what you do to the mind of the prospect …”. Hooley et al. (2008) further add that the stages in segmentation and positioning (as exhibited in Figure 1) is an iteration process where a manager should evaluate its competitors positioning strategies and compare them with its own company to decide whether the current positioning strategy is the best for the company. Consumers make their choice on the basis of comparison (Kapferer, 2001), therefore, it is important for a company to position itself in the market. A strong brand image could provide the basis for differentiation and positioning, not only for the product (Aaker, 1991) but also for the overall company (Fombrun, 1996). The next section briefly discusses the market segmentation and positioning in the banking industry.

**Product/brand positioning in the banking industry.** In general, brand positioning can be done using several categories by:

1. **product attributes** (consumers seek benefit from product features such as quality and price);
2. **uses or applications of the product**;
3. **product user** (such as based on consumer lifestyles);
4. **product class** (a product could be substituted); and
5. **competitors such as position to be a market leader** (Peter and Olson, 2008).

In the past, option (1) by product attributes (i.e. the closest to benefit segmentation) has been used to guide marketing strategy in the banking industry, fast moving consumer products and consumer durables (Hooley et al., 2008). For example, benefit segmentation explains the underlying reasons why customers are attracted to various product offerings and offer the closest possible explanation of why consumers buy a specific product. In the context of banking specifically, benefit segmentation could be the best base for target market as Hooley et al. (2008, p. 229) explain:

In Figure 1, Stages in segmentation and positioning are depicted.
One corporate bank struggled to find a way of segmenting the UK market for corporate financial services; they concluded that the most insightful approach in corporate financial services was to examine their own consumers strategies as a predictor of financial service product need and purchasing priorities.

However, is the same segmentation basis applicable for IFS? In the IFS context the brand could perhaps be positioned by product attributes (that is, 

１．しariah

compliant in accordance with the religion of Islam) as well as by competitors, that is, by competing or differentiating between IFS and CFS. However, without a clear understanding of consumers’ segmentation and the target market in the IFSI the positioning of IFS is rather difficult. The present study hopes to identify the segmentation bases for IFS and, thus, clarify the positioning of such services.

This study has proposed that segmentation could be based on consumer values as discussed by Muhamad et al. (2009). According to Dickson and Ginter (1987, p. 9), a market segmentation strategy can only be pursued when product differentiation already exists, however, a product differentiation strategy can be pursued with or without a market segmentation strategy. It can be argued that in the IFS context, the product differentiation “already exists” due to the unique feature it has, i.e. the shariah compliant criteria, as compared to CFS. Thus, ensuring that all the products and overall operations comply with shariah is critical for IIFS as any serious breach of compliance may affect the reputation of the entire industry.

Islam (2008) explains how brand recognition differs among various consumer segments in the IFSI. She states that “Certain consumer segments will only bank with brands that have a strong history and presence in Islamic countries, whereas other consumer segments will be more willing to accept European brands...”. Therefore, according to her, “… prior to taking a shariah compliant product to market, the consumer segments which form that market must be understood, ... and brand criteria defined...”. In addition, Haniffa and Hudaib (2007) explain that there are five main features that differentiate IFS from CFS:

1. it is based on an underlying philosophy and relevant values;
2. provision of interest-free products and services;
3. restriction to deals acceptable to Islam;
4. focuses on developmental and social goals; and
5. subject to additional review by the Shariah Supervisory Board.

Thus, product differentiation is clearly evident for IFS that can aid the identification of brand differentiation, uniqueness of the brand and brand positioning of IFS.

The next section discusses methods adopted to explore the possible segment(s) in IFS by this study.

Research methodology
The preceding discussion discusses the three possible segments that might emerge in the context of IFS. The subject of market segmentation and brand positioning for IFS is relatively new and the literature on this issue is scant, hence, in this paper an exploratory approach is adopted. Babbie (2002) explains that an exploratory research approach typically occurs when a researcher examines a new interest or when the subject of study is relatively new. Therefore, as a preliminary step, this
paper focuses on identifying the various market segments based on the managerial judgment gathered through in-depth interviews with selected respondents at the managerial level representing the key market players in the IFSI. Peter and Olson (2008, p. 370) assert that “There is no simple way to determine the best bases for segmenting markets. In most cases, however, at least some initial dimensions can be determined from previous purchase trends and management judgment.” Harrison (1994, p. 19) interviewed 15 individuals and maintains that the relatively small number is considered sufficient for an exploratory study. From here, an implication is made in terms of the market segmentation and brand positioning of IFS in the global market.

The data collections were done from October 2008 to June 2009 and involved three interviewers. An interview guide was prepared based on the past literature and discussion with the selected key market players in the industry to ensure consistency. We conducted a total of 25 in-depth interviews with selected respondents holding managerial positions who are considered as key market players in the IFSI to identify how they segment their consumers. The key market players comprise bankers, takaful operators, fund managers, IFS consultants and industry regulators from Malaysia and other parts of the world. The international interviewees were interviewed in London and Singapore (during the Islamic Financial Services Board (IFSB) summit). The details on the nature of services and the number of institutions involved in the data collection are presented in Table I and the job profiles of the interviewees are given in Table II.

Each interview lasted between 40 to 90 minutes. All interviews were digitally recorded. The recorded interviews were then transcribed and manually analysed using content analysis and classified based on key words/themes. A single coder was utilised in the coding of the interview transcripts to ensure consistent interpretation of the data. Specific questions that were asked during the interview sessions are given in Table III. The next section highlights the findings on market segmentation for IFS and its implication for brand positioning.

<table>
<thead>
<tr>
<th>Nature of services</th>
<th>Number of institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail bank</td>
<td>2</td>
</tr>
<tr>
<td>Investment bank</td>
<td>2</td>
</tr>
<tr>
<td><em>Takaful</em> operator</td>
<td>1</td>
</tr>
<tr>
<td>Wealth management firm</td>
<td>5</td>
</tr>
<tr>
<td>IFS consultants</td>
<td>2</td>
</tr>
<tr>
<td>Regulators</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Job title</th>
<th>Number of interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Management</td>
<td>15</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>5</td>
</tr>
<tr>
<td><em>Shariah</em> Advisory Board members</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

Table I. Nature of services

Table II. Job title of interviewees
Findings and discussion
This section presents the findings on the qualitative enquiries conducted with the selected key market players in the IFSI on market segmentation and brand positioning for IFS.

Market segmentation
The analysis of transcriptions from the in-depth interviews reveals the following market segmentations for IFS.

Religious conviction group
For this group of consumers, other aspects of IFS, such as product options, service quality and attractive pricing may not add any value to what is being offered. As argued by Delener (1994), religiosity can influence an individual’s behaviour. Thus, the motive of individuals in the first group to opt for IFS is bounded by the religious commitment of those individuals. This is reflected by the following comments made by some of the interviewees.

Malaysian Retail Banker 1:

The way we profile our consumers is slightly different...particularly for people from Kelantan, Kedah or from Terengganu; religious factor is the main motive in their decision whether or not to opt for IFS ... this is what we call religious conviction.

He further adds that:

[...] there are situations ... where people do banking only with Bank A even if they have to pay slightly higher charges as they believe that this particular bank is very strict in its shariah compliance procedures, this is where I think the religious conviction is evident.

Foreign Investment Banker 1:

The principles would probably be the same. Muslim investors would opt for IFS because of the religious factor ...

The above findings reflect what was proposed by Delener (1994) – that the more religious persons are expected to behave in line with their religious belief and practices. Furthermore, this group is very much related to the term “brand fundamentalism” coined by Ambler (2009). He explains that the brand fundamentalists are motivated by

<table>
<thead>
<tr>
<th>Issues</th>
<th>List of questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switching rate</td>
<td>Why DO consumers use the product or NOT use the product? Prevalence of switching or refinancing of loans from conventional to Islamic, vice versa Why is this happening?</td>
</tr>
<tr>
<td>Market segmentation</td>
<td>Can you explain the profile of your consumers? Do you treat consumers as one group? If they are not treated as a group, how do you differentiate them? How is IFS positioned in the global market? What type of marketing tool is used to communicate and market the products to these different groups?</td>
</tr>
</tbody>
</table>

Table III. Interview guide
their beliefs and emotions, which, to him, are far more powerful than rationality. He stresses that belief is more important than knowledge in persuading consumers and, without inculcating belief, knowledge will not be retained. This fact is described in the following interview extracts:

Malaysian Retail Banker 2:

Religious commitments do play an important role in attracting consumers for some Muslims ... Bank A for example, has fanatical clients. They refuse to leave bank A. There is nothing you can do to steal them away unless you can stop Bank A ... They'll stay with Bank A simply because of their religious commitment as they perceive that the products of Bank A are more shariah compliant.

In segmenting consumers, religiosity is not only applicable to Muslim consumers, as most of the basic principles of business ethics laid down under shariah law are also applicable in other great monotheistic religions such as Judaism and Christianity (Muhamad, 2006). This is evidenced in the following interview extracts:

Foreign Retail Banker 1:

For Muslims, we can categorise them into three different groups, namely, conservative Muslims, moderate Muslims and flexible Muslims. For the first group, shariah compliant would be the only criteria that they will consider in their decision to opt for a particular financial service; for moderate Muslims, economic criteria also matters as they are also interested in receiving a quality service and an acceptable rate of return besides the shariah compliant aspect of financial products/services; as for flexible Muslims the main criteria would be the economic benefits, so if Islamic banks can offer competitive returns and quality services, then they may opt to use Islamic banking products. The level of religious commitment is very relevant in marketing Islamic financial services even to the non-Muslims, especially with the Jews and Christians ... as their religions also prohibit interest. When my bank first introduced the housing financing product in the US, I was contacted by a group of devout Jews to explain to them the product simply because it does not have an element of interest.

We may conclude that for the Religious conviction group IFS should be positioned as shariah compliant products and the term shariah compliant should be clearly described. Accordingly, all these features and benefits should be conveyed effectively to consumers to persuade them to purchase IFS and create consumer loyalty.

Religious conviction and economic rationality group

Interestingly, some of the bankers highlighted that in recent years a new group of consumers has emerged. These consumers seem to combine both the religious and economic rationality criterion in their purchase decision. It is possible that this consumer group has better access to education, high income and resides in urban areas. For this group, which is bounded by religious as well as economic performance, the credibility and reputation of the bank in terms of its shariah compliance procedures, as well as the services quality and pricing may be the important motives for opting for IFS. This is reflected in the following interview extracts:

Malaysian Retail Banker 1:

The second criteria that underlies the decision whether or not to opt for IFS is the economic value, and I think this is applicable for the central region, mainly from Kuala Lumpur and other parts of the Klang Valley. They are looking more at the economic value instead of the addition in other benefits. But of course religious conviction is important ...
Malaysian Retail Banker 2:

In Bank B, when we first started our operation we tried to balance-up, the shariah credibility as well as the technological advancement and innovation. So we are taking a balanced approach ... in our opinion both are equally important for some consumers.

Foreign Retail Banker 2:

For moderate Muslims, besides shariah compliant, they would also look for the returns a bank can offer. They will switch to Islamic banks if they can get this same benefit as offered by conventional banks because they can observe the requirements of their religion at the same time.

The overlapping of both values: Religious conviction and economic rationality are interesting and provide consumer insight to marketers when designing and tailoring their marketing messages. This is akin to the second kind of personality lawwamah, as described in the Quran (75:2) where the angelic element encourages a person to follow in totality the will of God, however, such a state also appears to contain the evil element that persuades an individual to be selfish and decide things based purely on self-interest.

Apparently, these combination or overlapping values highlight the notion put forward by Wind (1978). According to him, clustering consumer segments does not necessarily mean that consumers should be classified in only one cluster (or one segment). He argued that “conceptually, there are a number of situations in which a consumer can belong to more than a single segment (especially if one considers multiple brand usage, different usage occasion, multiple benefit sought, etc” (Wind, 1978, p. 331). Furthermore, in the context of Islamic banking, Haron et al. (1994, p. 34) explain that, “consumers view Islamic banks just like any other commercial bank, thus, the service quality and products and services offered must be compatible with those offered by other commercial banks.”

Ethical observant group

Another interesting motive that emerged from our qualitative findings is that consumers may consider opting for IFS as it meets the requirements of their ethical beliefs. This is described in the following responses:

Foreign Investment Banker 1:

For non-Muslim investors they are looking to be honest. I don’t think they really care whether it is shariah compliant or not ... in the conventional products we obviously only invest in certain sectors, we do not invest in gambling and alcohol related industries as these are considered unethical. The most fundamental fact is that we only invest in ethical investment, and it is not a religious point of view.

Foreign Investment Banker 2:

[...] Islamic products are not just for Muslims, we have many non-Muslim clients buying Islamic products. So to me it is not a purely religious activity ... we have a large population of Muslims and also a large pool of other investors who are potentially interested in IFS, and, one of the drivers is that the principles of Islamic finance makes it appealing to fund managers who want to invest in sustainable or green funds.

Foreign Retail Banker 1:

In the European/Western countries, where ethical/social responsibility funds are emerging and upcoming, IFS may be attractive to this group of investors since the basic principles of Islamic finance are in line with their investing criteria.
Fund Manager based in Italy and London:

I believe that promoting IFS should start through the ethical channel ... So, for example, if you want to market Islamic finance in western countries, the right thing to do is to portray the Islamic finance as an integral part of an ethical approach to finance.

As explained earlier, Akhlaq (morals and values) is expected to have a significant impact on the behaviour of Muslims. In addition, “ethical consumerism”, in which consumers decisions are based on ethical values (Strong, 1996), is on the rise (Ismail and Panni, 2008; Auger et al., 2003). It is also established that the evaluation criteria for ethical investment is parallel with the ideals of Islamic banking and finance (Saidi, 2009; Ghoul and Karam, 2007; Rice, 1999; Wilson, 1997). Therefore, this segment of consumers may potentially form the profitable group for IIFS as proposed by Gwin and Lindgren (1982).

**Economic rationality group**

For some individuals, Muslims or non-Muslims, the decision to opt for IFS is made purely on economic rationality – to minimize loss and risks and to maximize profit. The following extracts from the interview transcriptions reflect the motives that underlie their decision for using IFS.

**Foreign Investment Banker 1:**

[...] the non-Muslim investors would probably opt for IFS because it is considered as an alternative to the CFS ... they see IFS as an arbitrage for the conventional products ..., for example, you can buy a 2 year bond in the conventional market and 2 year Islamic sukuk for the same rating; you receive a high return from both markets while at the same time minimising your risk ... diversifying the credit risks.

**Malaysian Retail Banker 1:**

[...] The bottom line is what is good for their pocket.

The ability to provide efficient and innovative products that can successfully compete with other available financial products in the market will be necessary to capture the demand from this group of consumers.

In summary, four segments that are based on religious, ethical and economic values have emerged from this study. By identifying the differentiation among the groups, marketers of IFS can better understand how to communicate and deliver the subscribed values to each consumer group (Marshall and Johnston, 2010). We may conclude that the main brand identity for IFS are shariah compliant (Haniffa and Hudaib, 2007), ethical and socially responsible, and universal for human kind (Ghoul and Karam, 2007; Mashhour, 1996).

A positioning strategy is considered successful when consumers or target markets stay loyal and buy a specific product or service due to the values the product or service offer. These values serve as a point of differentiation for the product or service implying that the target market perceives the brand values very strongly in their minds. These values could be based on a dimension or the multidimensional features of the product. In the context of IFS, it appears that the post-hoc approach (position by product attributes/benefit segmentation) could serve as the basis for understanding the creation of brand values or dimensions. The values that emerge from the current qualitative findings are religious, ethical and economic values.
We used perceptual mapping to illustrate the IFS brand positioning as suggested by Hooley et al. (2008). They maintain that the perceptual mapping approach could be used to uncover the images and position in the consumers’ minds. Perceptual mapping is a technique that determines a brand’s position in relation to competitors (Peter and Olson, 2008). Several techniques exist in order to construct the perceptual map, such as simple two-dimensional features, multiple-dimensional features, hierarchical clustering, multi-discriminant analysis, profile mapping and conjoint analysis (Laforet, 2010). The current study adopts the multi-dimensional features to reflect the dimensions or values established in the findings. However, Hooley et al. (2008) caution researchers when interpreting the images or visual models from the perceptual map. They explain that although the technique provides useful summarisation and aids the positioning process, it is a simplification of reality and needs to be used with care (p. 269). The authors highlight that even if the primary data was collected from the target market, such as the consumers themselves, it cannot replace the individual managers insights, which are vital to creative marketing decision. Nevertheless, in this study, the positioning map is developed based on the managerial perspective, thus, it is hoped that it will help the initial understanding of the segmentation and, thus, aid positioning research in the context of IFS.

The following figures depict the positioning map. Specifically, Figures 2 and 3 below illustrate the positioning of IFS and its relationship with the market segmentation as emerged from this study. Figure 2 portrays the mapping of criteria that may be considered by the different market segments in deciding whether or not to purchase IFS. The relevant criteria are shariah compliant, ethical issues such as fair and justice for all, socially responsible behaviour, accountability and transparency, and economic benefits such as pricing and service quality.

Figure 3 describes the positioning of the IFS brand in the global market as opposed to its main competitors, i.e. CFS. Since IFS appeals to both Muslims and non-Muslims the “universality” of IFS should be stressed in the positioning of the IFS brand in the market, the criteria of which, generally comprises shariah compliant, ethical and economic benefits. This would be able to satisfy some if not all of the criteria concerning the purchasing motives of all market segments. CFS, however, can only
fulfil the requirements or purchasing motives of the Ethical observant group and Economic rationality group.

**Conclusion**

The study’s objective is to examine the initial segmentation based on the proposal made by Muhamad et al. (2009) so as to provide a strategic direction for marketers in the brand positioning of IFS. As indicated earlier, Muhamad et al. (2009) proposed three different market segments for Islamic banking consumers, namely, Religious conviction group, Ethical observant group and Economic rationality group. Interestingly, an additional group, known as the Religious conviction and economic rationality group has been identified.

Theoretically, the identified groups appear to be consistent with the previous discussion on the post-hoc segmentation of CFS (see for example, Machauer and Morgner, 2001; Meadows and Dibb, 1998; McDougall and Levesque, 1994; Harrison, 1994; Burnett and Chonko, 1984). The findings provide support for Delener’s (1994) notion that religion influences consumer behaviour and marketing communication. We can conclude that the closest possible market segmentation bases for IFS are:

- values, which are religious values, ethical values and economic values; and
- benefit sought from product or product attributes (such as shariah compliant, ethical and socially responsible and pricing, service quality etc).

Specifically, it can be concluded that it will be appropriate to position the brand services for IFS as based upon values – Religious conviction; Religious conviction and economic rationality, Ethical observance and Economic rationality; and product attributes such as shariah compliant, sustainable and ethical, pricing/rate of profit, service quality, reputation and image. These groups bear a resemblance to either one or more of the suggested groups proposed by Muhamad et al. (2009). We may conclude that for IFS the services brand may be positioned as shariah compliant, ethical and socially responsible and value for money (economic benefits) depending on the targeted segment.

Furthermore, the overlapping dimensions of Religious conviction and economic rationality are interesting, as conceptually, these overlaps are common in segmentation (Wind, 1978) and to be expected, particularly, in the IFSI (Haron et al., 1994).
findings give marketers some insights into the potential of what may be a profitable segment within IFSI.

The practical contribution of the study and its managerial implications can be seen in the context of defining the strategy and positioning of IFS. Depending on the targeted segment consumers may associate IFS with the qualities or image of being religious (i.e. shariah compliant) “ethical” and value for money. Thus, with these qualities IFS should be positioned for all consumers based on its “universality”, notwithstanding that the motivation to buy the services may differ. Thus, communication of the IFS brand is vital, as different marketing communication messages should be designed to target the different market segment groups. Therefore, recognizing that consumers segmentation could be divided into these groups, marketers could identify which qualities to address in their advertising strategy, while simultaneously differentiating the IFS brand values from the CFS brand values.

Peter and Olson (2008) propose that some initial base(s) for segmentation can be determined from previous purchase trends (i.e. from the consumers’ perspective) and managerial judgment (p. 370). In this study, we examine the perception of general consumers concerning the market segmentation and positioning of IFS based on managerial judgment, as represented by the key market players, which, in itself, could be a limitation. In future, studies may be conducted to examine the issues from the consumers’ perspective so that there will be an alignment between what is perceived by the IFS providers and the consumers. Qualitative enquiries may be conducted for the purpose of establishing the measurement of the different segments identified in this study for validation purposes. The present study is exploratory in nature, a larger sample involving key market players as well as consumers using robust quantitative analysis could be adopted in future studies to verify/strengthen these findings and for the purpose of generalisation.

References
Journal of Retail Banking, Vol. 6 Nos 1/2, pp. 8-17.

and marketing implications”, European Journal of Marketing, Vol. 28 No. 5, pp. 36-53.

Dickson, P.R. and Ginter, J.I. (1987), “Market segmentation, product differentiation, and 


Edris, T.A. and Almahmeed, M.A. (1997), “Services considered important to business customers 
and determinants of bank selection in Kuwait: a segmentation analysis”, International 

World, Vol. 98 No. 1, pp. 116-44.


School, Boston, MA.


Journal of Bank Marketing, Vol. 15 No. 6, pp. 204-16.

(morally responsible investing), and socially responsible investing (SRI) mutual funds”, 

Journal of Retail Banking, Vol. 4 No. 4, pp. 8-13.

new millennium – Malaysian experience”, International Journal of Islamic Financial 
pdf (accessed 20 May 2010).


Haron, S., Ahmad, N. and Planisek, S.L. (1994), “Bank patronage factors of Muslim and 


Hofstede, G. (1980), Culture’s Consequences: International Differences in Work-related Values, 
Sage, Beverly Hills, CA.

Hooley, G., Piercy, N.F. and Nicoulaud, B. (2008), Marketing Strategy and Competitive 

IDB, IFSB and IRTI (2007), “Islamic financial services industry development: ten-year 
framework and strategies”, available at: www.ifsb.org/docs/10_yr_framework.pdf 


Mashhour, N. (1996), Social and Solidarity Activity in Islamic Banks, The International Institute of Islamic Thoughts, Cairo.


Peter, J.P. and Olson, J.C. (2008), *Understanding Consumer Behaviour*, Irwin, Boston, MA.


Further reading


About the authors

Dr Rusnah Muhamad received her PhD in Islamic Accounting from the University of Malaya, Malaysia and is a Senior Lecturer of Accounting in the University of Malaya, Malaysia. Her PhD research was related to financial reporting for the Islamic banking industry. She teaches Financial Accounting and Reporting, Accounting for Business Decision Making and Islamic Banking and Finance on a range of undergraduate, MBA, and executive courses in the University of Malaya. Her research interests among others are Islamic banking and finance, financial reporting from an Islamic perspective and Islamic business ethics. Rusnah Muhamad is the corresponding author and can be contacted at: rusnah@um.edu.my

Professor T.C. Melewar is a Professor of Marketing at Brunel Business School, Brunel University, UK. He has previous experience at Warwick Business School, MARA Institute of Technology in Malaysia, Loughborough University, UK and De Montfort University, UK. He teaches Marketing Management, Marketing Communications and International Marketing on a range of undergraduate, MBA, and executive courses with companies such as Nestlé, Safeway, Corus and Sony. He has conducted seminars and courses in Russia, the Republic of Georgia, Moldova, Germany, France, Denmark and Indonesia. T.C. Melewar is also the joint editor in chief of the highly acclaimed *Journal of Brand Management* (Palgrave).

Dr Sharifah Faridah Syed Alwi received her PhD from Manchester Business School, UK and is a Senior Lecturer of Marketing in the University of Malaya, Malaysia. She teaches MBA courses such as Brand Management, Marketing, Research Methodology and Statistics. Her previous research was in the area of corporate and internet branding and her recent interests include Islamic branding and marketing in the service sector.

To purchase reprints of this article please e-mail: reprints@emeraldinsight.com
Or visit our web site for further details: www.emeraldinsight.com/reprints