Empirical Analysis of Deposit Money Bank Customers' Sophistication In Yola, Adamawa State, Nigeria

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ABSTRACT

Customer sophistication refers to the level at which customers general knowledge/experience, innovativeness, search orientations and brand value orientations influences how customers get satisfaction and realization of self-image and esteem as sophisticated customer. A sample of 375 customers from Yola metropolis patronizing the Deposit money banks were collected from the total population using a purposive sampling technique. Similarly, a PLS-SEM approach was used in data analysis. Relationship between search orientation, and market experience are approximately equal in terms of positive strength, while innovativeness of customers emerged as the least in terms of strength in positive relationship. Customers are therefore less innovative when it comes to general knowledge and experience in evaluating the prospects of different options. Brand value orientation is also a strong determinant of customer sophistication because respondents are more attached to brands they are more familiar with than taking brand of services that are new and becoming more risk averse. Customer sophistication in general to the respondents indicates moderate satisfaction with services and low self-image and esteem. Therefore, customers are less sophisticated because they lack innovativeness and stick to brand value orientation, they don't realize full satisfaction, self-image and attainment of self-esteem as an experienced customer.

Keywords: Customer sophistication; Search orientation; Market Knowledge; Brand orientation; Innovativeness
Jell Classification : A11

INTRODUCTION

More than ever before Deposits Money Banks (DMBs) are touching the lives of individuals and businesses in multiple numbers of ways. This is as a result of globalization and technological advancement (Rehman and Ahmed, 2008). Traditionally, DMBs were known for provision of core banking services like deposit taking as checking accounts, savings accounts, or fixed deposit accounts, lending in form of short/medium/long term loan or overdraft, transfers, forex trading, bank drafts, bank cheques, etc. In today's financial world nothing changes more frequent than banks' customers' needs as a result of ever changing technology, as such banks have no alternative than to follow suit (First Data, 2011). Today, DMBs provide electronic banking services in form of Automated Teller Machine (ATM), Point Of Sales (POS), Electronic Direct (ED), Mobile banking, Internet banking, Telephone banking, among others to their teaming customers. Apart from the aforementioned, DMBs are also serving as vendors and conduits through which customers settle their utility bills; prepaid or after service. In Yola today, there are 17 (seventeen) different DMBs providing banking and other financial services in the town having hundreds of thousands residents. The said DMBs share

the town's banking population which was put at hundreds of thousands. Each DMB is trying to get large share of active customers in this sizeable market.

In Nigeria, banking sector is on the road to becoming a perfect market as described by economists. Through Information technology, market information on the products/services and the DMBs (suppliers) is relatively accessible now more than ever before. No single bank can influence significantly the price of financial products and services in the market. The products and services in the market are relatively homogeneous in the sector. Consequently, DMBs customers are becoming sophisticated (modern) and are growing geometrically (Jeanny, 2010). As customers are evolving, the banks need to be proactive in the handling of their current and potential customers. This necessitates understanding the level of customers' sophistication in terms of their need and desire most importantly in advance.

Recent development in the country's public financial sector made it necessary even though difficult for DMBs to adjust to the reality of their actual businesses. One of the major developments is treasury single account (TSA), which denies them manipulating and using public fund to their advantage (Chinedu, 2017). For example, DMBs were charging numerous MDAs accounts maintenance fee of N4 billion monthly which is stopped now (Daneji, Haruna, Musa and Dahiru, 2017). This force the DMBs to re-strategize and device means of surviving in the ever changing business environment within which they operate. Knowing the needs of their customers is of paramount importance. One of the sure ways of knowing these needs is by knowing the level at which different factors influences customers' sophistications. Moreover, the relationship between the factors like search orientation, knowledge of market characteristics, experience, brand value orientation and innovativeness. The study intends to study the strength of relationships and the most influential factor that determines customer sophistication.

LITERATURE REVIEW
Customer Sophistication
Merriam (2012) viewed sophistication as a process or result of becoming; cultured, more complex, knowledgeable, disillusioned, developed, or subtle. Customer sophistication was defined by Anicar (2016) as the process of acquiring knowledge by customer before purchase decision making and evaluating that process after purchasing. Considering these two definitions, banks' customers' sophistication can be viewed as that inbuilt/inherent knowledge or acquired information in banks' customers about products/services which influences their purchase decisions. This knowledge/information differ from one customer to another as its source is diverse, changing and many. For example, the source could be; internet access, web enable cell phones, opinion leaders, market mavens, feedback comments, previous experience, school etc(Jeanny, 2010).

Various scholars described sophisticated customers as better educated, well informed, more knowledgeable, and experienced in purchasing, value driven, more efficient, competent in using information and searching, and more sophisticated (Hirschman, 1980, Sproles et al, 1978; Alba and Hutchinson, 1987; Feick and Price, 1987; Titus and Bradford, 1996; Sauer, 1998, and Zhang et al, 2010) as cited in Jeanny, (2010).

Sophisticated customer is a child of circumstances or necessity which evolved as a result of market maturity and complexity (Guerzoni, 2010). Few studies on banks' customers' sophistication focused on defining and measuring the level of customer sophistication, yet they differed on how they viewed it (Sauer, 1998). Some studies identified customer sophistication based on demographics and personality traits while others

viewed it as a result of customers' actions like; involvement, attitudes, behavior, motivation, personality, experience, knowledge, and exposure to environmental factors (Sproles, Loren, and Suzanne, 1978, and Jeanny, 2010).

Accenture (2016) posits that financial services sophisticated customer stands differently from the crowd. They are more engaged, significantly more digital in their everyday lives. Also they have different expectations of their financial services providers, they are harder to please, more likely to complain and significantly less loyal.

It has been observed by Jeanny (2010) that sophisticated customers mostly exist in mature markets where competition is fierce, wide range of products availability and available information. But a question may be asked who gave birth to whom? Is it sophisticated customers that gave birth to mature market or mature market gave birth to sophisticated customers? This question calls for another research. The researcher here hypothesized that it happens in both ways. Sometimes mature market necessitates the emergence of sophisticated customer and vice versa.

First Data (2011) segmented banks customers into six segments viz.; fast trackers, young aspirational, middle-of-the-roaders, value seekers, simplifiers, and conventional stalwarts. The aim of this segmentation was to identify the new bank customers' behavior, attitudes and values among others with the intention of meeting individual customer's requirements base on their needs. This segmentation is likened to identifying bank customers' level of sophistication in terms of their needs and expectations from their banks.

Sophisticated customer, market maven and opinion leaders share similar characteristics and or traits, like knowledge of the market, and the product, price, use and even substitutes. Yet sophisticated customer is more proactive, motivated and more willing to conduct research (Jeanny, 2010).

Experian (2014), came up with financial sophistication index which can be used to assess customers financial acumen. The index is classified under three headings; Low financial sophistication (LFS), Medium financial sophistication (MFS), and High financial sophistication (HFS). On his part Jeanny (2010), proposed search orientation, market maven characteristics, knowledge and experience, brand value orientation and innovativeness as factors/constructs that can be measured while evaluating the level of sophistication of a customer.

METHODOLOGY

This study was conducted in Yola metropolis, Adamawa state, in north eastern region of Nigeria. The study has three faces; exploratory face, descriptive face and survey face. According to University of Southern California Libraries (2016), a research is exploratory if there are only few of previous studies to depend on in directing the study. This study adds strength to the thin layer in the area of DMBs customer sophistication. It is descriptive in nature in the sense that a phenomenon is described and obtains information concerning current status of DMBs customer sophistication in Yola, Adamawa State. The data for this study is sourced primarily by employing systematic way of asking people (questionnaire) to volunteer information about their attitudes, behaviors, opinion, attributes, preference and beliefs this research is survey in nature (Ronald, 2005).

As mentioned, the quantitative data will be sourced using a structured questionnaire from the conveniently selected sample. In most cases including this study coming up with the accurate banks customers' sampling frame may not be easy if not impossible hence the study resort to taking sample from the population. Also it was impossible to assemble the sampled DMBs customers at a time to administer questionnaire to them and following them to their respective address was not an option. That resulted in the choice of non-probability sampling specifically, convenient sampling. Four hundred

respondents were requested to answer the questionnaires administered to them with the hope of getting more than 50% response rate due to simplification and modification of the questions to enable the customers answer without lot of hitches. After collection and sorting out the useful questions the data analysis was done using the PLS-SEM (partial least square-structural equation modeling) because of the nature of the study to predict the outcome of customer sophistication level. The variables predicting customers sophistication are adapted from (Jean, 2010) comprising 3

items for measuring search orientation, 3 items for market maven characteristics, 3 items for knowledge and experience, 3 items for brand value orientations and 4 items for innovativeness of the customer. The dependent variable of customer sophistication is measured by satisfaction, self-image and esteem depicting different levels of sophistication consisting of 4 items. Whenever respondents indicate all three features of sophistication they are termed as highly sophisticated. The diagram below illustrates the conceptual framework for the study.
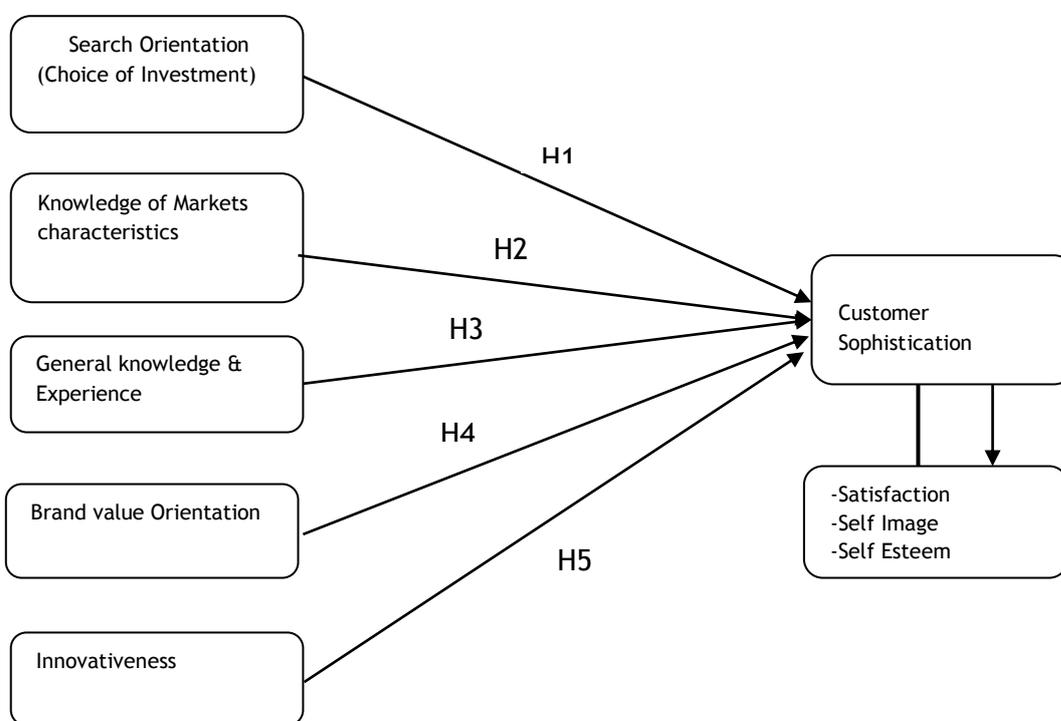

Fig. 1.1   Research Model

Based on the literature review with the variables within it in forming the conceptual framework, the following hypotheses are formulated.

H1 The choice of investment has a positive effect on customer sophistication

H2 Knowledge of market situations has a positive effect on how a customer is sophisticated

H3 Experience of a customer influences his sophistication

H4 Brand value orientation has a positive impact on customer sophistication

H5 Innovativeness of a customer influences his sophistication

Data Presentation and Analysis
Profile of Respondents
After collection of data for the purpose of analysis, the next phase is to present the analyzed data and follow it with the

required discussions. The respondents that answered the questionnaire after distribution of 400 questionnaires were 375 respondents; the remaining 25 questionnaires were unusable, unreturned and unreachable rendering their response unaccounted for. Nevertheless, the usable ones numbering 375 were adequate for the purpose of this study. The table below shows the profile of the respondents

Table 1 Respondents Profiles

Variables	Categories	Total Frequency	Total Percentage (%)
Age	<30yrs	62	16.5
	31-40yrs	19	5.1
	41-50yrs	271	72.3
	>50yrs	23	6.1
Gender	Female	147	39.2
	Male	228	60.8
Work Experience	5-10yrs	99	26.4
	11-15yrs	134	35.7
	16-20yrs	121	32.3
	>20yrs	21	5.6
Transactions Frequency	1or < p/month	43	11.5
	2-5 p/month	152	40.5
	6-10 p/month	102	27.2
	>10 p/month	78	20.8

For the purpose of data screening SPSS 24 was used where the mean score for each variable is above 2.50 and standard deviations for all items are below 1.0. To avoid the problem of common method bias since the study uses a single source of data Herman's single factor test was used were all factors account for 68.743% of total variance explained. This study used an unrotated factor analysis on all the variable items and obtained 8 factors with eigenvalues higher than 1. The lowest value for the factors is 3.069 percent, while the highest is 23.102%. This indicates that there is no bias in the data used for the study.

Construct Validity

Construct validity refers to the suitability of measurement items in a research towards explaining the variables in a conceptual framework based on a theory. Rate of association between variables in a research and their respective items of measurement defines the validity of constructs. Assessment of construct validity is to test the rate or extent to which a set of measurement items are designed to measure constructs in a research based on a grounded theoretical framework. Construct validity is measured by convergent validity and discriminant validity (Sekaran & Bougie, 2010; Hair et al, 2010). Convergent validity reflects the degree of conformity between multiple items used for measuring the same concept in a research (Ramayah et al, 2011). (2) **Convergent validity is assessed by examining the factor loading, composite reliability** (CR) and average variance extracted (AVE). To achieve convergent validity, scholars suggest the value of factor loading and average variance extracted to exceed 0.50 and at the same time composite reliability to be greater than 0.70, while from 0.60 is also within acceptable range (Hair et al, 2014). Similarly, Cronbach alpha is widely used in assessment of internal consistency reliability but of recent there is an argument on its application because of

sensitivity to number of items in a scale leading to underestimation of reliability, thus employing composite reliability in assessment of reliability is advisable (Hair et al, 2014). Reliability is the rate of consistency measuring items shows in measuring a given construct or variable. It shows the repeatability of a set of items for measuring a construct over time or the extent to which measurement items are consistent in measuring a construct in a research (Hair et al, 2010). Composite reliability (CR) **(3)as a measure of internal consistency reliability takes into cognisance** the reliability at a summated scale of items that are measuring the same construct. Normally it tends to be higher than Cronbach alpha value, accepted at 0.7 and above. Composite reliability is used in this paper as a measurement of reliability. Average variance extracted value is a summary indicator of convergence showing mean variance extracted for the items loading on a construct. Researchers suggest that AVE should not be less than 0.5 meaning a latent variable must explain not less than 50% of the variance of its indicators on average (Fornell & Lacker, 1981; Hair et al, 2010). All AVE values in this paper are 0.6 and above indicating convergent validity of the constructs.

Discriminant Validity

Discriminant validity highlights the rate at which different constructs are distinctively not correlated to each other. Discriminant validity is ascertained by examining the cross loadings of the indicators or the square root of the average variance extracted value compared to correlation values known as the Fornell Lacker criterion. Square root of AVE for each variable is evidently higher than the correlation for each construct indicating discriminant validity established for this study. The last test for validity is the HTMT ratio. The criteria for assessing discriminant validity using the HTMT (Heterotrait Monotrait Test) are the highest value to be lower than 0.85 or 0.95. The table 2.1 shows the convergent validly of constructs in this paper.

Table 2.1 Convergent Validity

Variables	Item	Factor Loadings	CR	AVE
Search Orientation	SO1	0.931	0.915	0.835
	SO2	0.826		
	SO3	0.842		
Market Knowledge Characteristics	MK1	0.897	0.921	0.795
	MK2	0.917		
	MK3	0.825		
General Knowledge & Experience	GK1	0.933	0.923	0.858
	GK2	0.815		
	GK3	0.902		
Brand Value Orientation	BO1	0.909	0.913	0.817
	BO2	0.925		
	BO3	0.930		
Innovativeness	INN1	0.837	0.893	0.675
	INN2	0.829		
	INN3	0.972		
	INN4	0.791		
Customer Sophistication	CSP1	0.840	0.877	0.641
	CSP2	0.901		
	CSP3	0.926		
	CSP4	0.882		

Table 2.2 Discriminant Validity (Fornell Larcker Criterion)

Variables	SO	MK	GK	BO	INN	CSP
SO	**0.851**					
MK	0.099	**0.801**				
GK	0.182	0.353	**0.894**			
BO	0.409	0.182	0.058	**0.823**		
INN	0.314	0.184	0.456	0.126	**0.836**	
CSP	0.381	0.215	0.024	0.243	0.133	**0.885**

Table 3.1 Loadings & Cross Loadings

	SO	MK	GK	BO	INN	CSP
SO1	**0.931**	0.164	0.005	0.240	0.139	0.239
SO2	**0.826**	0.196	0.042	0.180	0.093	0.372
SO3	**0.842**	0.083	0.202	0.286	0.253	0.306
MK1	0.550	**0.897**	0.277	0.281	0.296	0.267
MK2	0.511	**0.917**	0.238	0.277	0.263	0.342
MK3	0.149	**0.825**	0.285	0.025	0.379	0.023
GK1	0.180	0.314	**0.933**	0.083	0.412	0.064
GK2	0.103	0.059	**0.815**	0.408	0.291	0.399
GK3	0.203	0.090	**0.902**	0.334	0.239	0.258
BO1	0.106	0.069	0.221	**0.909**	0.308	0.280
BO2	0.262	0.146	0.392	**0.925**	0.295	0.137
BO3	0.302	0.164	0.431	**0.930**	0.265	0.098
INN1	0.157	0.109	0.286	0.073	**0.837**	0.161
INN2	0.378	0.134	0.039	0.065	**0.829**	0.277
INN3	0.384	0.139	0.001	0.063	**0.972**	0.215
INN4	0.328	0.185	0.087	0.053	**0.791**	0.173
CSP1	0.237	0.143	0.077	0.104	0.082	**0.840**
CSP2	0.100	0.102	0.342	0.148	0.209	**0.901**
CSP3	0.088	0.002	0.328	0.093	0.162	**0.926**
CSP4	0.055	0.027	0.215	0.206	0.111	**0.882**

Table 3.2 Discriminant Validity (HTMT)

Variables	SO	MK	GK	BO	INN	CSP
SO						
MK	0.118					
GK	0.204	0.395				
BO	0.472	0.232	0.084			
INN	0.355	0.200	0.521	0.145		
CSP	0.443	0.239	0.051	0.278	0.160	

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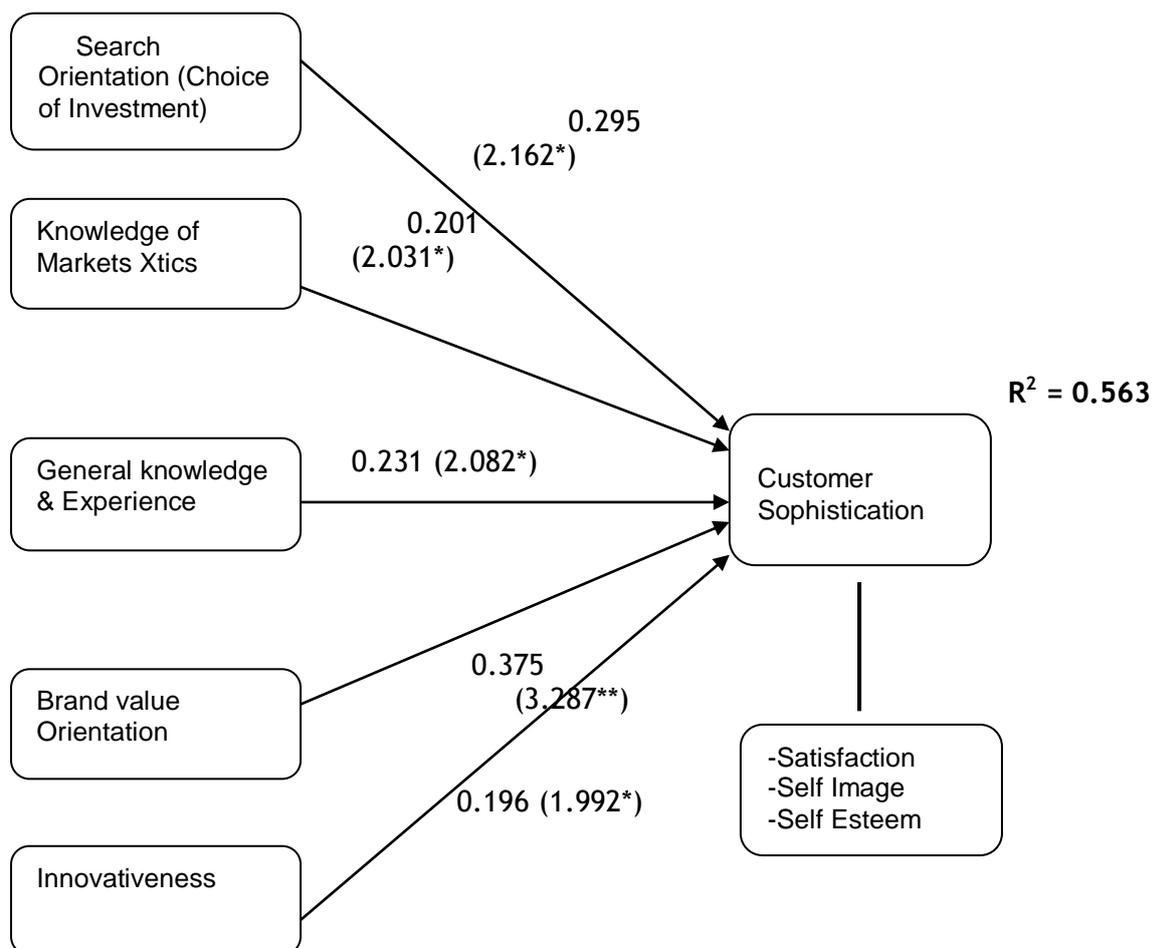
Fig. 2.1   Path Analysis
Table 2.1   Test of Hypotheses

		β value	t-value	f^2 value	R^2	Q^2	Decision
H1	SO → CSP	0.295	2.162*	0.192	0.563	0.187	Yes
H2	MK → CSP	0.201	2.031*	0.170			Yes
H3	GK → CSP	0.231	2.082*	0.181			Yes
H4	BO → CSP	0.375	3.287**	0.263			Yes
H5	INN → CSP	0.196	1.992*	0.127			Yes

Note: (*$p < 0.05$; **$p < 0.01$) SO = Service Orientation, MK = Market Knowledge, GK = General Knowledge, BO = Brand Orientation, INN = Innovativeness, CSP = Customer Sophistication

The R^2 of 0.563 and Q^2 values of 0.563 and 0.187 respectively indicates the total variance explained and predictive relevance of the model used in this study to be sufficient in explaining the relationships and predicting the outcome variable of the research. The f^2 values are all within the acceptable limits with the lowest as 0.127 and the highest 0.263. The path coefficients are also indicating positive relationships that are all strong and above 0.1. The t-values obtained after running the bootstrapping test are all having significant values ranging from (1.992 to 3.287). The relationship between search orientation of respondents and their sophistication H1 (β = 0.295; t-value = 2.162) is strongly positive indicating that the ways a respondent chooses an investment alternative easily among different options available to him means that he is to an extent a sophisticated customer. H2 (β = 0.201; t-value = 2.031) indicates that knowledge of market characteristics (market maven) contributes positively towards indicating that a customer of financial services is sophisticated. Because without full knowledge of market conditions and becoming a market maven, sophistication of customers in terms of satisfaction, self-image and esteem boosting at high level is not attainable. H3 (β = 0.231; t-value = 2.082) shows that general knowledge and experience of the customer also

contributes towards becoming sophisticated in terms of acquiring self-image, esteem and full satisfaction with services offered by financial institutions. This relationship is a little bit lower than brand value orientation because the respondents are not fully experienced and knowledgeable enough to become highly sophisticated. Bank customers according to H4 (β = 0.375; t-value = 3.287) attach more importance to brand value when it comes to determining their sophistication, they prefer or are more attached to the brands that they are more familiar with. Preference is highly accorded to all investment alternative or products that are patronized by the majority, the customer restrict him to only those that are more familiar brands than venturing and inquiry on new alternatives that at times can yield more returns. H5 (β = 0.196; t-value = 1.992) indicates customers are less innovative when it comes to choice of investment alternatives. The customers are more risk averse; attach preference to brands that are already known, and less experienced in detecting market changes. All these features contribute to becoming less innovative and less in terms of sophistication.

CONCLUSION
The study concludes that customer sophistication depends on search orientations, market characteristics, general knowledge and experience, brand value orientation, and innovativeness. Customers of DMBs in Yola metropolis exhibit low innovativeness and experience in determining their sophistication. Customers are less

sophisticated and depend on brand value orientation when it comes to how they patronize financial services offered to them by deposit money banks. There are needs for improving level of innovativeness by introducing products that can be easily accessed by low income earners, brands that are substitute to familiar expensive targeting every set of customers. Introduction of products that are requiring non market mavens with less experience to access easily should be a priority for DMBs. Customer sophistication from the perspective of the respondents indicates satisfaction that is less, with no attainment of self-image and esteem. Therefore, the respondents can be classified as majority on the less sophisticated side.

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