CONSUMER PERCEPTION AND THE RATE OF NEW PRODUCT ADOPTION IN COMMERCIAL BANKS IN KENYA

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DECLARATION

I declare that this research project is my original work and has never been presented to any examining body of the award of certificate, diploma or degree.

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SUPERVISOR

This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

I dedicate this work to my family, friends and all those who supported me in the completion of this project.

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I would like to thank God Almighty for His able guidance throughout my studies. I would also like to acknowledge my supervisor, Dr. Mary Kinoti for her guidance and patience throughout this project. To all the respondents and research assistants involved in the data collection process.

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ABSTRACT

Many companies have built competitiveness and obtained tremendous profits through new product development. Launching new products and services on the market represents an important source of increasing the size of a business and the profits of a company (Alves, et al 2004a). Organizations that regularly innovate new products attract consumer innovators and other members of the social system to adopt the innovation (Roger, 2003). The main difference between the response of customers and product perception is that customer's perceives the product in own way after purchasing a product at a particular price or based on previously purchased product. A customer's likelihood of product adoption is based on their perception on the value of the product its quality and the level of satisfaction level from acquiring (Roger, 2003). It is through customer perception that customers decide as to whether to adopt a new product introduced by a company or not. Consumer perception involves trying to understand how a consumer's feeling about a product or service influences their behavior. Positive perception leads to quick adoption while negative perception may lead to no adoption at all (Montoya-Weiss and Calantone, 1994).The study adopted a descriptive survey design and targeted all the forty four registered commercial banks in Kenya. The data was collected using questionnaires using the drop and pick later method. The questionnaires were then edited, coded and analyzed using the statistical package for data analysis (Version 20). The study concluded that there is a positive relationship between the consumer perception and new product adoption. The study also concluded that the new products of the bank respond well to the consumer needs and that the products are reliable to the consumer. The study also concluded that the banks offer assurance, and products and services as per the customers' needs. The study also concluded that the benefits gotten from the bank products and services are real. The study also concluded that most of the consumers are willing to try out the new products. The study also concluded that the banks understand the consumer behavior and thus develops new products that are relevant, easy to use, and compatible to the customer. The study also concludes that the banks communicate with the customers on the new products. The study recommends that the banks conduct customer surveys to understand the needs of the customers and their behavior. This will be important in innovating of products that will be easily adopted by the customers since they are compatible and meet their needs. The study also recommends that the banks develop products that will be of ease to use and develop different products for its different clientele. The study also recommends that the bank carries out promotions and advertisement so as to communicate to its customers the new product developed and creates awareness for the adoption of the products.

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CHAPTER ONE: INTRODUCTION

1.1Background of the Study

Consumers around the world have a multitude of options while choosing goods and services to satisfy their needs. The concept of customer perception is built up by customer experiences, how they perceive the service they are offered and ultimately by whether they actually are satisfied with their experiences or not. Customers who are satisfied with a product or business have an overall good perception of that product or business. When consumers' perceptions are good, they will continue purchasing goods and services from that company. According to Rogers (2008) the adoption of new products can be explained by different attributes of the product and the consumer. The dynamics of markets, technology, and competition have brought changes to virtually every market sector and have made new product adoption one of the most powerful business activities.

Understanding new product adoption behavior is critical for both firms and researchers striving to explain and influence consumers' decisions. Because influencing consumers through traditional advertising seems to become less effective (Trusov, Bucklin and Pauwels, 2009). Firms continuously seek new ways to promote products and influence consumers' adoption decisions. Van and Joshi (2007) introduced the two groups of consumers that will influence the adoption of new products as influential's and imitators where each groups aggregate adoption behavior governed by a separated differential equation with imitators' adoption affected by the number who have already adopted. According to Lehman and Markman (2001) purchase intentions for new products are guided by promotion and prevention self-regulation systems. The promotion system derives from nurturance needs such as advancement and growth and uses approach strategies when regulating toward desirable ends.

Globalization has contributed to high competition in the banking industry. With the emergence of new micro financial institutions, commercial banks in Kenya have been forced to come up with innovative products that will give them competitive advantage. Hoeffler (2003) concluded that the monumental changes that constantly impact commerce have forced companies to innovate with increasing speed efficiency and quality products that will relate to the needs of the customers for the easier adoption of the products in the market. Investigating determinants of new products adoption is important because developing these products is costly, products' life cycles are short and competition among firms is fierce (Rogers, 2003).

1.1.1 Consumer Perception

Perception is a process in which a person selects, arrange and interpret stimuli which are filtered and adjusted to become one's own view of the world (Askegaard and Hogg, 2006). Customer perception refers to how customers perceive the quality of the service they are offered. Customer perception also refers to the customers' overall picture of the company, including company image, expectations, external influences, service quality (Wilson et al., 2008). Customer perception is built up by customer experiences, how they perceive the service they are offered and ultimately by whether they actually are satisfied with their experiences or not (Bitner and Gremler, 2008). The whole perception process is made up of three stages, the exposure stage, the attention stage and the interpretation stage (Solomon et al., 2006).

Consumer perception of product is of value to marketers as it informs their marketing and sales programmes for effectiveness. It is central to all stages of the process of bringing products to markets, from design and manufacture to distribution and retail. As a result, new product development strategy needs to respect customer needs in order to achieve or retain competitive advantage in providing innovative and differentiated products. All interactions that occur between the customers and the business will ultimately affect the customers' view and image of the business.

1.1.2 New Product Adoption

New product refers to innovations that defy straightforward classification in terms of existing product categories, and thus create a new product category rather than reallocate shares within the existing categories (Gregan and John, 2010). This can be through product extension, modification and innovation. The process goes through the stages of idea generation, idea screening, concept testing, business analysis, product development, test marketing and commercialization. Investigating determinants of new product adoption is important because new product development is a costly affair to the organization and resource consuming. The process of developing new products is costly, products' life cycles are short, and competition among firms is fierce hence the need to develop products that will promise successful performance by being readily accepted and adopted by the customers (Hoeffler, 2003). According to Rogers (2003) adoption of new products can be explained by the five attributes of an innovation which are relative advantage, compatibility, complexity, trialability and observability.

Product adoption is sensitive to the presence and absence of positive outcomes. The prevention system, however, derives from security needs such as safety and protection) and uses avoidance strategies when regulating toward desirable ends (Higgins 1998). It is sensitive to the absence and presence of negative outcomes. Regulatory focus is a motivational state that can be determined either by an individual's socialization mainly with his/her caretaker or by situational factors such as framing of task instructions or feedback from an employer.

1.1.3 Banking Industry in Kenya

As at 31st December 2013, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, forty four banking institutions (forty three commercial banks and one mortgage finance company - MFC), four representative offices of foreign banks, six Deposit-Taking Microfinance Institutions (DTMs), one hundred and eighteen Forex Bureaus and two Credit Reference Bureaus (CRBs) (CBK, 2013). Out of the forty four banking institutions, thirty one locally owned banks comprise three with public shareholding and twenty eight privately owned while thirteen are foreign owned. The six DTMs, two CRBs and one hundred and eighteen forex bureaus are privately owned. The foreign owned financial institutions comprised of nine locally incorporated foreign banks and four branches of foreign incorporated banks.

According to Central Bank of Kenya (2013) out of the forty three commercial banks thirty of them are domestically owned and thirteen are foreign owned. In terms of asset holding, foreign banks accounted for about 35% of the banking assets as of 2012. In Kenya the commercial banks dominate the financial sector. In a country where the financial sector is dominated by commercial banks, any failure in the sector has an immense implication on the economic growth of the country. This is due to the fact that any bankruptcy that could happen in the sector has a contagion effect that can lead to bank runs, crises and bring overall financial crisis and economic tribulations.

1.2 Research Problem

Many companies have built competitiveness and obtained tremendous profits through new product development. Launching new products and services on the market represents an important source of increasing the size of a business and the profits of a company (Alves, et al 2004a). Organizations that regularly innovate new products attract consumer innovators and other members of the social system to adopt the innovation (Roger, 2003). One of the most important missions of a firm is the successful introduction of new products.

The main difference between the response of customers and product perception is that customer's perceives the product in own way after purchasing a product at a particular price or based on previously purchased product. A customer's likelihood of product adoption is based on their perception on the value of the product its quality and the level of satisfaction level from acquiring (Roger, 2003). It is through customer perception that customers decide as to whether to adopt a new product introduced by a company or not.

Consumer perception involves trying to understand how a consumer’s feeling about a product or service influences their behavior. Positive perception leads to quick adoption while negative perception may lead to no adoption at all (Montoya-Weiss and Calantone, 1994).

With globalization trends world over, it is difficult for a nation, big or small, developed or developing to remain isolated from what is happening around (Cooper, 2001).Some of the latest developments in new products development and launch in the Banking sector have incorporated information technology platform and mobile phone technology. Some of these services include M-Kesho by Equity bank and M-shwari of Commercial Bank of Africa in collaboration with Safaricom. This service has picked up on the market and has been given as one of the success stories in the collaborations between mobile service providers and banking industry. Other key services that have been introduced by commercial banks include internet banking which has gone a notch higher by allowing customers to transact online from their convenient location. There are also cases of products which have failed to take off immediately they are launched. For instance, PesaMob product service from Family bank Kenya limited failed to take off a few months after its launch forcing the Bank to withdraw it from the market. KCB has introduced a replica service called Mbenki which in contrary to family bank Pesamob has been performing well.

Several studies have been conducted on consumer perception and new product adoption. For instance, Amue and Adiele (2012) did an empirical validation study on new product development and consumer innovative behavior in river state Nigeria. The purpose of this study was to access empirically the extent to which new product development influences consumer adoption and innovative behaviour in the high-tech consumer durable electronics companies. This study was conducted in Nigeria which presents a different environment from that found in Kenya's Commercial banking industry. Cheruiyot (2010) examined factors that affect the adoption of new product in Kenya by studying a case of commercial banks. This study however identified the factors in general and failed to establish the influence of consumer perception on the Rate of adoption of new products. Wanjau, Macharia and Ayodo (2012) examined factors affecting adoption of electronic commerce among small medium enterprises in Kenya by conducting a survey of tour and travel firms in Nairobi. This study found out that the majority of Tour and Travel firms had adopted electronic commerce in their daily transaction. This study only considered Small medium enterprises and not the banking industry and new product. Mutua, Oteyo and Njeru (2013) studied the extent of e-commerce adoption among small and medium enterprises in Nairobi, Kenya. The study established that e-commerce is not widespread. 43% of all the firms surveyed had no functioning websites. 31% of the firms had static websites, while 22% of the firms had active websites that allowed interactive communication with customers.

The current study therefore seeks to extend the level of knowledge on the relationship between consumer perception and rate of new product adoption in Commercial Banks in Kenya. The existing studies have majorly reviewed the relationship between electronic commerce adoption and not new products adoption and consumer perception. The study sought to fill the gap in literature by seeking to answer one research question: How has consumer perception influenced the rate of new product adoption in Commercial Banks in Kenya?

1.3 Research Objective

The objective of the study was to establish the relationship between consumer perception and rate of new product adoption in Commercial Banks in Kenya

1.4 Value of the Study

This study would be relevant to future scholars and researchers. First, the findings of this study were important because they would act as a source reference material besides suggesting areas for further research whether they can research on.

The findings of this study would be valuable to policy makers in the area of product development across commercial banks and other businesses in the country. The findings would be of value in their bid to ensure development of products that would meet the needs of the customers and thus be easily adopted for use in the market. Policy experts on matters of innovation would find the findings of this study valuable as it would provide literature on the formulation of policies and practices for the adoption of new products in the banking industry.

The study would also be valuable to the managers of the commercial banks in Kenya and other financial institutions as it would provide real time information on the perceptions of consumers on the rate of new product adoption in the market and thus enable them develop relevant strategies to ensure easier acceptance of new products among consumers.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature consumer perception and the rate of new product adoption in commercial banks in Kenya. From this review, the literature covers the theoretical framework of the study covering the expectancy value theory and the theories of innovation and diffusion.

2.2 Theoretical Foundation of Study

This study seeks to build a relationship between the perceptions of consumers and the rate of new product adoption. It will be based on the diffusion of innovation and the expectancy value theory. Consumer perception applies the concept of sensory perception to marketing and advertising. Just caption as sensory perception relates to how humans perceive and process sensory stimuli through their five senses, consumer perception pertains to how individuals form opinions about companies and the merchandise they offer through the purchase they make. Merchants apply consumer perceptions to develop marketing and advertising strategies intended to retain current customers and attract new ones. According to the expectancy value theory, behavior is a function of the expectancies one has and the value of the goal toward which one is working (Palmgreen, 1984). Such an approach predicts that when more than one behavior is possible, the behavior chosen will be the one with the largest combination of expected success and value (Eccles, 1983). Expectancy value theories hold that people are goal oriented beings. The behaviors they perform in response to their beliefs and values are undertaken to achieve some end.

2.2.1 Expectancy Value Theory

Expectancy-value theories typically consist of three components: expectancy, instrumentality, and value (Karau and Williams, 1993). The expectancy component refers to the perception that performance is contingent on effort that is that greater efforts will result in better performance. The instrumentality component refers to the perception that the consequence of the performance outcome is contingent on performance that is that performance will determine the outcome. Thus, outcome value represents the difference between the reward for achieving the outcome and the cost of achieving the outcome. For many events, there are multiple values. There may be value attached to completing a task that is independent of any external rewards received for performance. When viewed together, effort motivation can be expressed as the product of expectation, instrumentality, and outcome value. Effort motivation in collective settings should be high when people: perceive a contingency between their effort and the performance, perceive a contingency between performance and the outcome, and value the outcome that is the benefits associated with contributing or achieving the outcome exceed the costs of contributing. Effort motivation reflects how much effort a person is willing to exert on a task or toward a goal. Of importance, effort motivation is a product of the perceived expectancy, instrumentality, and outcome value (Karau and Williams, 1993).

The perceptions may only loosely correspond to actual contingencies and value. Moreover, as noted earlier, a given situation may have multiple values and costs each with its own set of expectations and utilities. As a result, the model can lead to actions that are rational to the actor yet appear irrational to observers. These outcomes, although valued by the person, may go unnoticed by observers, leading to the conclusion that the person's behavior is irrational and effort in collective settings. A growing number of researchers are incorporating the notion of expectancies in their investigations of effort in collective settings (Sanna & Pusecker, 1994). Moreover, virtually every study within the social loafing literature appears explainable, within an expectancy value framework. That is, every study appears to have examined effort or productivity of people working individually or collectively by manipulating one or more of the three components of expectancy value theory. Nevertheless, much research on social loafing was conducted prior to the general recognition of the utility of expectancy-value theory for predicting social loafing. Only a few studies have examined the effect of instrumentality on collective effort, and they typically have done so indirectly by manipulating the dispensability of individual contributions.

2.2.2 Diffusion Innovation Theory

Diffusion of Innovation (DOI) Theory, developed Rogers (1962) explains how with time, an idea or product gains momentum and diffuses through a specific population. The end result is that people, as part of a social system, adopt a new idea, behavior or product.

Adoption means that a person does something differently than what they had previously done that is they purchase or use a new product, acquire and perform a new behavior. The key to adoption is that the person must perceive the idea, behavior, or product as new or innovative. It is through this that diffusion is possible. Adoption of a new idea, behavior, or product does not happen simultaneously in a society; rather it is a process whereby some people are more apt to adopt the innovation than others. The theory also argues that there are people who adopt an innovation early have different characteristics than people who adopt an innovation later and thus when promoting an innovation, there are different strategies used to appeal to the different adopter categories. Innovators - These are people who want to be the first to try the innovation. They are venturesome and interested in new ideas. These people are very willing to take risks, and are often the first to develop new ideas. Very little, if anything, needs to be done to appeal to this population. Early Adopters - These are people who represent opinion leaders. They enjoy leadership roles, and embrace change opportunities. They are already aware of the need to change and so are very comfortable adopting new ideas.

Strategies to appeal to this population include how-to manuals and information sheets on implementation. They do not need information to convince them to change. Early Majority - These people are rarely leaders, but they do adopt new ideas before the average person. That said, they typically need to see evidence that the innovation works before they are willing to adopt it. Strategies to appeal to this population include success stories and evidence of the innovation's effectiveness. Late Majority - These people are skeptical of change, and will only adopt an innovation after it has been tried by the majority. Strategies to appeal to this population include information on how many other people have tried the innovation and have adopted it successfully. Laggards - These people are bound by tradition and very conservative. They are very skeptical of change and are the hardest group to bring on board. Strategies to appeal to this population include statistics, fear appeals, and pressure from people in the other adopter groups.

2.3 Customer Perception

Perception relates to how individuals see the world around them. It is a process by which people select, organize, and interpret stimuli into meaningful and unified pictures or images of situations (Schiffman and Kanuk, 2007). In consumer behaviour, perception research has been used to study a wide range of marketing strategy issues. Schiffman et al. (1992), confirms that perception research is undertaken to ascertain the likelihood that consumers will accept a proposed new product idea, to gauge why a firm's target audience has not reacted more favorably to its revised promotional theme or to a learn how target customers are likely to react to a proposed change in the firm's packaging and label. Through a positive image a consumer perceives a brand or a firm to be stable, dependable and suitable for satisfying the needs of the consumer. Such an image can strengthen a firm's credibility, lead to more sales and help to fight competition. Consequently many companies strive to develop, project and maintain positive images of their brands and the firm. Both the brand and corporate image reinforce one another in that if the brand image is positive, it reflects favorably on the corporate image and vice versa (Haedrich, 1993). Satisfaction shifts as customer perception of quality changes, evolves, and grows to encompass more expectations (French et al, 2005). Issues can arise concerning established brands, product features, processes or procedures including complaints. Competitors can offer better alternatives or changes in other fields such as technology or culture can shift customer perception (Ferrell and Hartline, 2005). Customers develop expectations depending on how they perceive attributes and base decisions on perceptions rather than on the basis of objective reality (Schiffman and Kanuk 2007).

The relative importance played by respective quality drivers and other enabler variables in fostering customer satisfaction varies over time as marketing conditions and other aspects of life change. This dynamism needs to be reflected in satisfaction assessment tools and associated frameworks if they are to remain robust in capturing the voice of the customer. The scope and nature of drivers used in satisfaction models therefore needs to be reviewed from time to time so as to keep abreast of changes in consumer behaviour and related fields (Johnson et al,2001). Satisfaction is closely linked to future purchase behaviour and willingness to recommend and is thus a strong predictor of loyalty and customer retention (Ferrell and Hartline, 2005). Satisfaction therefore helps to reduce customer turnover and lower transaction costs related to contract negotiations, order processing, and bargaining (Fornell, 1992). Satisfied customers are most likely to share their experiences with about five or six people while a dissatisfied customer is more likely share their unfortunate experience with up to ten people (Ronald, 2010). Loyal customers tend to buy more, are less price sensitive, speak well of the firm and are harder for competitors to win (Schiffman and Kanuk, 2007).

Schiffman and Kanuk, (2007) cited that consumer perception is affected by several factors among them perceived price and perceived quality, According to Assael (2004), consumers' price perceptions may appear to be a simple matter of determining a product price based on an ad or on observation in store. However, it is not that simple because consumers have certain expectations about what prices are or should be. This price is known as a reference price. According to Aaker and Joachimsthaler (2000), perceived quality is "a special type of association, partly because it influences brand associations in many contexts and partly because it has been empirically shown to affect profitability. Consumers often judge the quality of a product or a service on the basis of a variety of information cues that they associate with the product. Some of these cues are intrinsic to the product or a service, others are extrinsic. Either singly or together, such cues provide the basis for perceptions of product and service quality.

2.4 Measurement and Scaling of Consumer Perception

Consumer perceptions are what indicate whether a customer has achieved satisfaction or not. Perceptions represent stepping stones along a continuum. They accumulate over time and gradually equate to either satisfaction or dissatisfaction. The word ‘perception’ was used in ISO 9001 to highlight just how subjective this quality is. Perceptions can comprise just about anything: fact, fiction, and fantasy, whatever. If customers believe their perceptions, though, the perceptions have the weight of fact. That is why it is so important to reach out to customers and specifically ask them what they think. By their very nature, you probably won’t agree with all the perceptions. A perception equals fact in the mind of the customer, though. One must act on these perceptions and let the customer know what you’ve done. Service companies today face an intense competitive climate. Customers' perception demand higher levels of quality for lower prices. At the same time, competitors are adopting more aggressive postures than in the past, leading to smaller profit margins for all participants (Keller, 2003).

Parasuraman et al (1997) view perceived service quality as a gap between the customers’ perception of the received service quality and the customers’ expected level of service quality (service quality = perception-Expectation). They further devised an instrument known as SERVQUAL instrument (a questionnaire) to measure this gap. They cited that the nature of the characteristics customers use to evaluate the quality of goods is different when they evaluate the expected service and perceived service quality and stress the necessity of identifying the characteristics that represent the evaluative criteria customers use to assess service quality. Therefore in earlier research Parasuraman et al (1985) identified 10 characteristics (determinants) which customers used to evaluate service quality based on a series of focus group sessions. The ten determinants are: access, communication, competence, courtesy, credibility, reliability, responsiveness, securities tangibles, and understanding/ knowing the customers. Later Parasuraman et al (1997) reduced the ten determinants into five specific dimensions after discovering that there was a considerable correlation among the original ten determinants. Parasuraman et al (1990) claimed that those five are distinct dimensions of service quality which the SERQUAL instrument is based on.

2.5 New Product Adoption

The new product adoption process is the set of mental steps customers go through beginning with first becoming aware of the new product's existence and ending with the decision to adopt the product for continued and regular use. According to Gregan and John (2010) new product adoption can be defined as a good, service or idea that is perceived by some potential customers as new. It may have been available for some time, but many potential customers have not yet adopted the product nor decided to become a regular user of the product. Thus if they buy this product, it is new product adoption. Understanding what differentiates visionary customers who adopt products earlier in the process from more pragmatic customers in the mainstream market has been suggested as the key to new product marketing in today's competitive era (Moore, 1999).

A major stream of research has focused on the influence of personal characteristics such as demographics and social-psychographics on NPA behavior, which has important implications for the practices of market segmentation and targeting, as well as product positioning and marketing communication. Understanding the key determinants of NPA helps companies identify target markets, position their new products accurately, and design more effective communication strategies. Consumer behavior research, it is surprising that only a few studies have investigated the relationship between consumption-specific attitudes and NPA (Steenkamp et al., 1999), and virtually no research has examined the role of consumption attitudes in NPA behavior within a contingency framework. The current study attempts to address these two limitations and examine the relationship between consumption-specific attitudes and new product adoption within a contingency framework. The contributions of this study are three-fold. First, it provides a theoretical understanding of a possible link between consumption attitudes and NPA as a special consumption behavior. Because fundamental personal values are important determinants of consumption attitudes (Rokeach, 2001) we derive our consumption attitudes from a universal values framework (Schwartz, 1992).

Robertson (2004) cited that customers go through five stages in the process of new product adoption or service. The study emphasized that customers need to be aware of the new product. He also argued that the customer needs to have interest in the product and in doing so the customer seeks information about the new product. A customer also evaluates the product and thus considers whether trying the new product makes sense. The customer then tries the new product on a limited or small scale to assess the value of the product. After all the above steps then the customer decides on the product adoption and whether to make full and/or regular use of the new product (Robertson, 2004).

Van and Joshi (2007), highlighted that characteristics of the new product also affect the rate at which the customers adopt the new products. Some products are quick in innovation, such as fashion items or the ones that bring a direct change in our status. Some products take long to adoption. The following things are considered such as the relative advantage of the product: defined relative advantage of a product as the extent to which a new product is more advantageous to a customer than the existing competing brands. The compatibility of a product will also affect the rate of its adoption. This is the degree to which the innovation conforms to the values and experiences of potential consumers. The complexity and divisibility of the innovation also affects the rate at which a new product is adopted. Complexity is the degree to which the innovation is difficult to recognize or use while divisibility is the degree to which the innovation may be tried on small scale basis. Communicability is the degree to which the results of using the innovation can be observed or communicated to others (Van and Joshi, 2007).

2.6 Consumer Perception and Adoption of new products

The Technology Acceptance Model (TAM) posits that a user's adoption of a new product that is technology associated is determined by that user's intention to use the system, which in turn is determined by the user's beliefs about the system (Barati, 2009). These include beliefs on the perceived usefulness and perceived ease of use. Positive perception which is in line with the beliefs and traditions of the customers promote new product adoption while negative perceptions hinder new product adoption. This is in line with the findings of Ram and Sheth (1989) that consumer resistance to innovation adoption include functional barriers in the form of usage, value, risk and psychological barriers in the form of tradition and image. The usage barrier comes into play when an innovation is not compatible with existing workflows, practices or habits. They further outline that this as the most common cause for consumer resistance to innovations.

The rate of new product adoption also depends on consumers' perception of the product quality. Consumers derive a perception of price based on the actual price and the reference price stemming from external sources, previous experience of a product (Sweeny and Soutar, 2001). Perceived quality is the consumer's perception of the superiority of a given product to its intended purpose, relative to alternatives, including previously purchased products. Perceived price and perceived quality, together, result in a formation of value perceptions, which is the key variable to influencing the adoption of new products. Perceived value is the consumer's overall assessment of the utility of a product, and is dependent on the relationship between what is received and the price paid. Therefore, increases in perceived value increase the likelihood of purchase intent, while decreases in perceived value decrease the likelihood of purchase intent. Higher perceived product quality leads to a higher rate of new product adoption (Sweeny and Soutar, 2001).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used for the study. The research design, population of the study, sampling size, the data collection instrument and how data will be analyzed is discussed below.

3.2 Research Design

The study adopted a descriptive survey design. Mugenda and Mugenda (2003) defines descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Descriptive research design has been selected upon because of its ability to build a profile about a phenomenon. According to, Creswell (2008), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Inferences about relationships between variables will be made from concomitant variations of independent and dependent variables.

3.3 Population

The target population comprised all commercial banks in Nairobi, Kenya. As at June 30th 2014, there were 44 financial institutions in the banking industry in Kenya. Following this small number, the study included all the banks in the study hence a census study will be conducted.

3.4 Sample Selection

From this study Equity, Cooperative CBA and KCB have have 36%, 18%,12% and 10% respectively. The rest of the banks have 24%. For a main mass of more than 250,000 at 95% confidence level and 5% margin error, the number of sample content will be 384. At the rate of response of 90% then it was ideal to put the total sample size at 426. Respondents were appropriate to all banks as per the percentage of the customer held.

3.5 Data Collection Methods

The study collected both primary and secondary data. The questionnaire was structured in a way so as to include both open and closed ended questions. The closed ended questions were used so as to standardize the responses. A five point likert scale technique was used. The questionnaire was divided into three sections. Section A: covered general information about the respondents and their respective commercial banks; section B covered issues to do with customer perception while section C covered issues to do with new product adopt.

The study targeted customer service managers in data collection because of their level of knowledge on the success of various service delivery platforms in their respective banks. The study administered questionnaires using a drop and pick later method. Secondary data was collected from internal bulletin, financial statements and other publications in the banks. Information on the various new products introduced and how they have performed since adoption were gathered from the secondary data.

3.6 Data Analysis

Data analysis involves cleaning and organizing the data for analysis, describing the basic features of the data in the study and inferential statistics which involves hypothesis and models testing (Mugenda & Mugenda, 2003). The questionnaires collected from the field were inspected for completeness and consistence then entered into Statistical Package for Social Sciences for processing. The edited data was coded for ease of classification in order to facilitate tabulation.

The closed ended questions were coded and analyzed quantitatively, based on percentages and frequencies and presented in tables and charts. Further, the Likert scale type questions were analyzed using mean scores and standard deviations. Mean scores were used to show the statements that most of the respondents agreed with. The open-ended questions were analyzed qualitatively using content analysis and the results presented under identified themes as per the objectives of the study.To quantify the strength of the relationship between the variables, the researcher used Karl Pearson's Moment of correlation that measures the strength and direction of linear relationships between consumer perception and new product adoption. In addition, the researcher conducted a multiple regression analysis so as to determine the relationship between consumer perception and rate of new product adoption in Commercial Banks in Kenya.

CHAPTER FOUR: DATA ANALYSIS FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter presents the findings of the study based on the objectives of the study: which was to establish the relationship between consumer perception and rate of new product adoption in Commercial Banks in Kenya. The findings are presented in tables.

4.2 Response Rate

The study targeted a sample size of 426. Out of the 426 distributed questionnaires only 283 were filled and returned. This translated to a response rate of 66 %. Mugenda and Mugenda (2008) stated that the statistically significant response rate for analysis should be at least 50% as shown in Table 4.1. The response rate conformed to this conclusion.

Table 4.1: Response Rate

	Frequency	Percentage
Response	187	66
Non Response	96	34
Total	283	100

Source: Research Data, 2014

4.3 Demographic Information

The demographic information sort to establish the specific information regarding the respondents of the study, such information included: age and number years the respondents have been customers in the respective banks.

4.3.1 Age of the Respondents

The study sought to establish the age bracket of the respondents as shown in Table 4.2.

Table 4.2: Age Bracket

	Frequency	Percentage
18 – 24 Years	65	23
25 - 30 Years	47	17
31 - 34 years	38	13
Over 51 years	44	16
35 – 40 years	33	12
41 – 44 years	27	10
45 – 50 years	29	10
Total	283	100%

Source: Research Data, 2014

From Table 4.2 it is clear that 23% of the respondents were aged 18-24, 20% aged between 41-50 years, 17% between 25-30 years, 16% were above 51 years, 13% were aged between 31-34 and 12% were aged between 35-40, These findings reveal that most of the respondents were young people aged between 18-24 years of age. People who are over 50 years of age had a significant representation of 16% in this study.

4.3.2 Number of year as a customer

The study sought to establish for how long the respondents have been customers at the bank as presented in Table 4.3.

Table 4.3: Years as a Customer

	Frequency	Percentage
Less Than 3 Years	70	25%
3-7 Years	67	24%
7-10 Years	69	24%
Over 10 Years	77	27%
	283	100%

Source: Research Data, 2014

The respondents that had been customers at their respective banks for over 10 years were 27%. For less than 3 years were 25%, 24% had been customers for 3-7 years, another 24% for 7-10 years. These findings reveal that all the respondents involved in the study had significant experience with the banks and the products they offered.

4.4 Influence of Consumer Perception on New Product Adoption

The study sought to establish whether the consumers' perception on the new product influences if they would adopt the product or not.

Table 4.4: Perception of the New Product

	Frequency	Percentage
Strongly agree	88	31
Agree	79	28
Neutral	48	17
Disagree	55	19
Strongly disagree	13	5
	283	100

Source: Research Data, 2014

As presented in Table 4.4 the respondents that strongly agreed that their perception of the new product influences whether they will adopt the product or not were 31%, 28% agreed, 19% disagreed,17% were neutral, and 5% strongly disagreed.

4.4.1 Consumer Perception and New Product Adoption

The respondents were asked the extent to which they agreed on the statements below on consumer perception and new product adoption.

Table 4.5: Consumer Perception and New Product Adoption

Statement	Mean	Std. Dev
The new product of the bank responds well to the consumer needs	1.235	0.241
The new products of the bank are reliable to the consumer	1.661	0.152
The bank offers assurance on their product to consumers	1.982	0.008
The bank offers products and services as per the customers' needs	2.014	0.352
The benefits gotten from the bank products and services are real	2.344	0.149
Grand Mean	**1.85**	**0.18**

Source: Research Data, 2014

As shown in Table 4.5, the respondents agreed that the benefits gotten from the bank products and services are real with a mean of 2.344 and a deviation of 0.149. Asked whether the bank offers products and services as per the customers' needs, the respondents agreed with a mean of 2.014 and a deviation of 0.352. On whether the bank offers assurance on their product to consumers, the respondents agreed with a mean of 1.982 and a deviation of 0.008. On whether the new products of the bank are reliable to the consumer, the respondents agreed with a mean of 1.661 and a deviation of 0.152. The respondents strongly agreed that the new product of the bank responds well to the consumer needs with a mean of 1.235 and a deviation of 0.241.

4.4.2 Extent to which perception Influences adoption of new products

The respondents were asked to what extent their perception influences the adoption of the new product by the bank.

Table 4.6: Extent of Influence

	Frequency	Percentage
To A Very Great Extent	134	47
Great Extent	121	43
Moderate Extent	19	7
Little Extent	6	2
No Extent At All	3	1
Total	283	100

Source: Research Data, 2014

As shown in Table 4.6, the respondents that said that their perception influences the adoption of the new product by the bank to a very great extent were 47%, 43% said to a great extent, 7% said to a moderate extent, 2% said to a little extent and 1% said to no extent at all.

4.5New Product Adoption

The respondents were asked which statement below best describes them as shown in Table 4.7.

Table 4.7: New Product Adoption

Statement	Mean	Std.Dev
You try out new products as soon as they are launched	1.6	0.288
You are more comfortable using new products in the market than the old products you are familiar with	0.54	0.099
You are reluctant to trying out new product and prefer using the old products that you are familiar with	1.39	0.252
You only try out new products after others have tried them out	1.07	0.198
You hardly try out the new products.	0.37	0.068
Grand Total	**0.99**	**0.18**

Source: Research Data, 2014

On customer perception and rate of adoption of the new products, majority of the respondents agreed that they tried out new products as soon as they are launched as shown with a mean of 1.61 and a deviation of 0.288. Regarding the statement as to whether they were reluctant to trying out new product and prefer using the old products that they were familiar with, majority of the respondents agreed with a mean of 1.39 and a deviation of 0.252. The respondents agreed that they only tried out new products after others have tried them out with a mean of 1.07 and a deviation of 0.198.The respondents strongly agreed that they were more comfortable using new products in the market than the old products they are familiar with as shown with a mean of 0.54 and a deviation of 0.09. Majority of the respondents strongly agreed that they hardly try out the new products as shown with a mean of 0.37 and a deviation of 0.063.

4.5.1 Customer Perception on Bank Products

The respondents were asked their perception on the products of the banks as shown in Table 4.8.

Table 4.8: Customer Perception on Banks Products

Statement	Mean	Std.Dev
The bank understands consumer behavior and thus develops new products that are relevant to the customer	1.662	0.023
The new products the bank launches are easy to understand and use	1.452	0.125
The bank communicates the launch of new products to all its customers	1.882	0.452
The bank has a high rate of new innovations that are better than the existing competing brands	2.045	0.336
The banks innovations are compatible with the needs of the customers	2.421	0.080
The products innovated by the bank conforms to the expectations of the customers	2.996	0.401
The new innovations by the banks are easily assessable on trial basis	2.014	0.336
The bank innovates products whose benefits can be seen or felt	3.542	0.452
Grand Mean	**2.18**	**0.27**

Source: Research Data, 2014

The respondents were neutral on whether the bank innovates products whose benefits can be seen or felt with a mean of 3.542 and a deviation of 0.452. The respondents were neutral on whether the products innovated by the bank conforms to the expectations of the customers with a mean of 2.996 and a deviation of 0.401. The respondents also agreed that the banks innovations are compatible with the needs of the customers with a mean of 2.421 and a deviation of 0.080. The respondents also agreed that the bank has a high rate of new innovations that are better than the existing competing brands with a mean of 2.045 and a deviation of 0.336. The respondents also agreed that the new innovations by the banks are easily assessable on trial basis with a mean of 2.014 and a deviation of 0.336. The respondents also agreed that the bank communicates the launch of new products to all its customers with a mean of 1.882 and a deviation of 0.452. The respondents agreed that the bank understands consumer behavior and thus develops new products that are relevant to the customer with a mean of 1.662 and a deviation of 0.023. The respondents strongly agreed that new products the bank launches are easy to understand and use with a mean of 1.452 and a deviation of 0.125.

4.5.2 Extent of Influence of the Rate of Innovation

The respondents were asked to what extent the rate of innovation of new products by the banks influence the adoption of the new product as shown in Table 4.9.

Table 4.9: Extent of Influence of the Rate of Innovation

	Frequency	Percentage
To A Very Great Extent	103	36
Great Extent	161	57
Moderate Extent	11	4
Little Extent	6	2
No Extent At All	2	1
Total	283	100

Source: Research Data, 2014

The respondents that said that the rate of innovation of new products by the banks influence the adoption of the new product 57% said to a great extent, to a very great extent were 36%, 4% said to a moderate extent, 2% said to a little extent and 1% said to no extent at all.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1Introduction

This chapter provides a summary of the findings on consumer perception and the rate of new product adoption. The chapter also gives the conclusions and recommendations of the study based on the objective of the study.

5.2 Summary of the Findings

The study established that the consumers' perception on the new product influenced whether they would adopt the product or not. Gregan and John (2010) established that new product adoption process involves the customers being aware of the product existence and then make up a decision on whether to acquire it based on whether its of benefit to them. The study established that the new product of the bank responds well to the consumer needs. According to Ram and Sheth (1989) compatibility of product with the consumer needs will either be a reason for or barrier to adoption of the product. On whether the new products of the bank are reliable to the consumer, the study established that they were. Van and Joshi (2007) highlighted that reliability is one of the characteristics of the new product that also affects the rate at which the customers adopt the new products. On whether the bank offers assurance on their product to consumers, the study established it did. Assurance is one the relative advantage that a product gains over its competitors when given to the clients. Robertson (2004) cited that assurance is also instills confidence to the customers to adopt the product. The study also established that the bank offers products and services as per the customers' needs. Robertson (2004) cited that customer's customer needs to have interest and need for the product for them to adopt it. The study also established that benefits gotten from the bank products and services are real. According to Karau and Williams (1993) the value of the product to the consumer should be evident for their adoption and that the value the outcome that is the benefits associated with the product should exceed the costs

The study established the highest percentage of the respondents tried out new products as soon as they are launched, followed by those that were reluctant in trying out new product and prefer using the old products that they are familiar with. These according to Rogers (1962) are characteristics that determine how quick they will adopt new innovations with the former being the innovators and the later termed as early majority. Some of the respondents tried out new products after others had tried them while a few others were more comfortable using new products in the market than the old products they were familiar. The least number of those interviewed hardly try out the new products. The DOI theory (1962) states that consumers will either be innovators, early adopters, early majority, late majority and laggards and this will determine the rate at which they adopt the new product.

The study established that the bank understands consumer behavior and thus develops new products that are relevant. The study also established that new products the bank launches are easy to understand and use. According to Schiffman and Kanuk, (2007), In consumer behavior, consumers must perceive the product to be relevant and easy to use in their day to day activities. The study established that the bank communicates the launch of new products to all its customers. Parasuraman et al (1985) identified communication as one of the characteristics (determinants) that customers used to evaluate service quality based on a series of focus group sessions. The study established that the bank has a high rate of new innovations that are better than the existing competing brands. The study also established that the banks innovations are compatible with the needs of the customers. Keller, (2003) identified compatibility as one of the factors that influence the consumers adoption of new products. The study also established that the new innovations by the banks are easily assessable on trial basis Accessibility is an important aspects that influences whether the consumers will adopt a product or not Keller (2003).

5.3 Conclusion

The study concluded that there is a positive relationship between the consumer perception and new product adoption. The study also concluded that the new products of the bank respond well to the consumer needs and that the products are reliable to the consumer. The study also concluded that the banks offer assurance, and products and services as per the customers' needs. The study also concluded that the benefits gotten from the bank products and services are real.

The study also concluded that most of the consumers are willing to try out the new products. The study also concluded that the banks understand the consumer behavior and thus develops new products that are relevant, easy to use, and compatible to the customer. The study also concludes that the banks communicate with the customers on the new products.

5.4 Recommendations from the study

The study recommends that the banks conduct customer surveys to understand the needs of the customers and their behavior. This will be important in innovating of products that will be easily adopted by the customers since they are compatible and meet their needs.

The study also recommends that the banks develop products that will be of ease to use and develop different products for its different clientele. The study also recommends that the bank carries out promotions and advertisement so as to communicate to its customers the new product developed and create awareness for the adoption of the products.

5.5 Limitations of the Study

The study encountered a limitation in that the respondents being employees of bank were reluctant in giving information for fear that the information would be used against them by the management of the banks. The researcher carried the introduction letter and assured the respondents that the study would only be used for academic purposes only and the information given would be confidential.

The target population of the study was the employees of banks who maintain a busy schedule. This made it difficult for them to answer the question in one sitting as time was a constraint. In order to address this limitation the researcher left the questionnaire with the respondents which they returned upon completion.

5.6 Recommendations for Further Research

The study sought to establish the relationship between consumer perception and rate of new product adoption in Commercial Banks in Kenya. The study targeted consumers of the banking industry and thus the findings cannot be generalized since they are based on only one sector. The study thus recommends that in the future a similar study be conducted across all industries for the generalizations of the findings.

The study also recommends that in the future a study be conducted on establish how the rate of product innovation influences the performance of an organization. This will be important in establishing to what extent product innovation affects the performance of the organization and whether organizations should innovate new products more frequently or not.

5.7 Implications on Policy, Theory and Practice

The study findings on the relationship between consumer perception and new product adoption will add on to the existing body of literature on consumer perception and rate of new product adoption. This will be beneficial to the future researchers and academicians involved in the same area of study as the findings will be a body of reference from which they can cite critique as well as suggest areas for further studies.

Government: the government has policies that regulate and promote innovation in any sector. The findings of this study will therefore be important in enabling the policy makers come up with laws and regulations that will enhance the innovation of new products in the banking sector.

Banking sector; the findings of this study will also be important for the banking sector in that it will guide the management in understanding their clients and thus innovate products that will be of importance to their customers. The findings will also act as a guide for the bank to identify products that need to be improved or overhauled for more consumer friendly products.

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APPENDICES

Appendix I: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

1.Your age bracket

18 – 24 Years	[ ]	25 - 30 Years	[ ]
31 - 34 years	[ ]	35 – 40 years	[ ]
41 – 44 years	[ ]	45 – 50 years	[ ]
Over 51 years	[ ]		

2. How long have you been a customer at this bank?

Less than 3 years	[ ]	3-7 years	[ ]
7-10 years	[ ]	Over 10 years	[ ]

SECTION B: INFLUENCE OF CONSUMER PERCEPTION ON NEW PRODUCT ADOPTION

3. Your perception on the new product influences whether you will adopt the product or not

Strongly agree	[ ]
Agree `	[ ]
Neutral	[ ]
Disagree	[ ]
Strongly disagree	[ ]

4. The table below has statement on customer perception and rate of adoption of the new products. Rate the extent to which you agree on them on a scale of 1-5 where 1= Strongly Agree, 2=Agree, 3=Neutral, 4=Disagree, 5= Strongly disgree

Statement	1	2	3	4	5
The new product of the bank responds well to the consumer needs					
The new products of the bank are reliable to the					

consumer					
The bank offers assurance on their product to consumers					
The bank offers products and services as per the customers' needs					
The benefits gotten from the bank products and services are real					

5. To what extent does your perception influence the adoption of the new product by your bank

To a very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent at all	[ ]

SECTION C: NEW PRODUCT ADOPTION

6. Kindly tick the statement that describes you best as far as adoption of new products is concerned.

Statement	Tick
You try out new products as soon as they are launched	
You are more comfortable using new products in the market than the old products you are familiar with	
You are reluctant to trying out new product and prefer using the old products that you are familiar with	
You only try out new products after others have tried them out	
You hardly try out the new products.	

7. The table below contains statements on new product adoption. Rate the extent to which you agree on the following statements on a scale of 1-5 where 1= Strongly Agree, 2=Agree, 3=Neutral, 4=Disagree, 5= Strongly Agree

Statement	1	2	3	4	5
The bank understands consumer behavior and thus develops new products that are relevant to the customer					
The new products the bank launches are easy to understand and use					
The bank communicates the launch of new products to all its customers					
The bank has a high rate of new innovations that are better than the existing competing brands					
The banks innovations are compatible with the needs of the customers					
The products innovated by the bank conforms to the expectations of the customers					
The new innovations by the banks are easily assessable on trial basis					
The bank innovates products whose benefits can be seen or felt					

8. To what extent does the rate of innovation of new products by the banks influence the adoption of the new product

To a very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent at all [ ]