Adoption of Psychographic Model in Determining Factors That Influence Insurance Interest and Perception (Case Study on Micro, Small and Medium Enterprises in the Province of Yogyakarta)

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Abstract

This is a joint research between Indonesian Insurance Institute (AAMAI) and Gunadarma University (UG), with fully funded by the Indonesian Insurance Institute. This study generally aims to implement the VALS psychographic method develops segmentation method based on characteristic feature and demographic key. Purposes of this study are (1) To analyze any parties involved in micro, small medium enterprises (SMEs) in Province of Yogyakarta, with psychographic models that can map the demography, interest and preferences of the insurance services. (2) To identify factors which determine interest and preferences of SMEs toward insurance services in Province of Yogyakarta. Subjects of this research are owners and entrepreneurs of export and national oriented Small and Medium Enterprises in the province of Yogyakarta. Research site was conducted in the province of Yogyakarta at 4 regencies (Bantul, Kulon Progo, Gunung Kidul dan Sleman) and 1 municipal (Yogyakarta). The number of respondents is 300 respondents but collected and analysed data are only 225 respondents. Variables in this research consist of Activity, Interest, and Opinion. The results show that there are three main categories of insurance determinants have been identified for this purpose; economic, psychographic and social factors. Based on the demographic and psychographic analysis, there are some elements which should be put into attention in the insurance industry, namely the need of micro-insurance program and socialization of roles and benefits of insurance program especially for SMEs.

Keywords: psychographic, segmentation, small medium enterprises

1 Introduction

Results of research conducted by Kohli and Jaworski (1990) showed consumers’ needs in present and future time are strongly influenced by knowledge and perception that develop in their community. Further in-depth elaborative research in Indonesia which followed Jaworski’s and Kohli’s method was conducted by Suwahyo (2007). The result of study conducted by Suwahyo (2005) showed that perception of someone a certain object is shaped by roles of recipient, target and situation. Recipient (perceiver) receives stimulation and makes processes of perception according to need, expectation, experience of the recipient (Suwahyo, 2005). The concept of Kohli’s and Jaworski’s research (1990) was then further developed by Natalia (2008) by focusing on perception of industry. According to Natalia (2008), concept of knowledge and perception can be implemented to examine several factors that influence implementation of market orientation in improving quality of industrial service, particularly in financial service industry.
Based on Swastha [Swasta, 2000], decision-making process undertaken by consumer to purchase a good or service is influenced by knowledge and perception that include factors of initiator, influencer, decider, buyer, and user. Therefore, primary concerns that need to be considered by industry in conducting socialization and promotion is determination of segmentation, product design, pricing, and distribution channels (Natalia, 2008). According to Schiffman and Kanuk (2000) psychographic segmentation is psychological and demographical approach to understand consumers better. So, psychographic segmentation divides different groups based on basic individual characteristics, lifestyle, or values. Community residing in same demographic group will show different psychographic profiles. One of psychographic-based segmentation methods which is often used in various researches is method developed by SRI Consulting Business Intelligence’s - VALS method [Schiffman, 2008].

The VALS psychographic method develops segmentation method into eight groups based on characteristic feature and demographic key. Main concern factor in this method is main tendency network, which consists of successful innovator, thinker, giver of success, and survivor. Segmentation system is basis for answering questionnaire consisting of 4 demographics and 35 attitudes.

One of the industries that has wide-spread regional distribution and variation is Small and Medium Enterprise (SMEs). The easiest identification and classification of SMEs is grouping based on its orientation, i.e. export and non-export SMEs. Export-oriented SMEs, according to (Tambunan, 2003) are classified into two, namely Export Manufacturer (Direct Exporter) and Indirect Exporter. SMEs of Export Manufacturers are SMEs who export and sell products directly to overseas buyer or to importer. Meanwhile, indirect Exporter SMEs are SMEs that produce products for export, and the export activities are not directly with buyer / importer, but through export trading agent or domestic exporter.

2 THEORETICAL FRAMEWORK

In studying, analyzing and understanding consumers’ behavior, conceptual framework is needed to assist in preparing marketing strategy that is applicable to factual conditions. This framework is based on a mix of consumer behavior models proposed by some previous researchers, as well as various other related theories. The description of the framework is presented in Figure 1.

2.1 Theory of Psychographic

Hawkins et al., (1992) argued that the original psychographics focuses on measuring Activities, Interests, and Opinions contained in inventory AIO (Hartanto, et al, 2005). According Engel et al [Engel, 1994], psychographics is main technique that used by researcher on consumer as operational measurement of lifestyles. Psychographics provides quantitative measurement with a large sample in contrast to soft or qualitative research techniques like focus group interviews or in-depth interviews.

Psychographics moves beyond view of consumers expressed in demographic, behavioral, and socioeconomic measurement. Mowen and Minor [Mowen and Minor., 2002] stated that psychographics contains ideas which depict (in graphic) psychological factors that shape consumer. However, in practice, psychology is used to measure lifestyle of consumers by analyzing activities, interests and opinions.

2.2 Components of Activities, Interest, and Opinion (AIO)

AIO, a term used interchangeably with psychographic, refers to measurement of activities, interests, and opinions. According to Engel, et al., [Engel, 1994] AIO (activities, interests, and opinion) are:

1. Activities are real actions like watching a medium, shop at the store, or tell the neighbors about the new service. Although this action can usually be observed, the reasons for those actions can rarely be measured directly. Activities: person who is easy or move and react and behave spontaneously.

2. Interest on a kind of object, event, or topic is level of excitement that accompanies special and continuous attention. Interest is an active effort towards implementation of a goal. Aim, in general, is the end point of a movement that leads to anything but aim of interest is to carry out a purpose.

3. Opinion is oral or written answer that people give in response to stimulus in which a kind of question is posed. Or it can be interpreted as...
result of work of thought in underlying relationship to each other responses, between one understanding to another and expressed in a sentence. Opinion is used to describe interpretation, expectation, and evaluation as about someone's intentions, anticipation in connection with future events, and consideration of consequences of giving reward or punishment of an alternative action.

Psychological research objective is usually for basic application which is used by researchers on marketing to describe segmentation of consumers which eventually will help organization reach and understand customers. Psychological studies typically include questions designed to assess target market lifestyle, personality characteristics, and demographic characteristics. So it can be concluded that, psychographics is the quantitative investigation of consumer lifestyle, personality, and demographic characteristics.

Schiffman and Kanuk [Schiffman, 2008] stated one of the psychological profiles of consumer segmentation can be regarded as a combination of activities, interest and opinion of consumers that can be measured as a way to develop psychographic profiles of consumers. In general, AIO psychographic study use a series of statements (list of psychographic statements) that are designed to recognize various relevant aspects of consumer’s personality, buying motives, interests, attitudes, beliefs, and values.

Sumarwan (2001) suggestion that psychographic is an instrument to measure lifestyle, which provides quantitative measurement and is usually used to analyze large data.

Psychographic analysis is usually used to look at market segmentation. Psychographic analysis is also interpreted as consumer research that describes consumer segmentation in terms of their life, work and other activities. Psychographic means depict (in graph) consumers’ psychology.

Psychographic is a quantitative measurement of lifestyle, personality and consumer demographic. Psychographic is often interpreted as measurement of consumer’s AIO (activity, interest, opinion). Schiffmann and Kanuk [Schiffman, 2008] in Prasetijo [Prasetijo, 2005] stated that Psychographic, also called as lifestyle analysis or AIO research, is a form of consumer research that provides clear and practical profile of consumer segmentations, namely on important aspects of consumer personality, buying motives, interests, attitudes, beliefs, and values. Furthermore, Mowen [Mowen and Minor., 2002] in Prasetijo [Prasetijo, 2005] defined psychographic as the study of what constitutes consumer, psychologically.

There are two concepts in psychographic: first, it provides an illustration of the consumers’ psychological characteristics that are more directed at consumer personal identification (self concept). Second, it views psychographic as study of activities (events), interest and opinions.

2.3 Psychographic Segmentation

In general, segmentation is divided into three categories, namely geographic segmentation, demographic segmentation, psychographic segmentation [Mursid.2006]. Each approach has different characteristics. This research will be conducted by using psychographic approach.

Psychographic segmentation is one of the most popular approaches for marketing commercial products in Indonesia. It is interesting because it tries to divide consumers based on soft data such as shared values and lifestyles, rather than on hard data such as age, gender and occupation [Schiffman, 2008]

Psychographic analysis is defined as a consumer research that describes consumer segments in terms of their life, work and other activities. Psychographic is an instrument to measure lifestyle that provides quantitative measurements and can be used to analyze large data (Sumarwan, 2002).

VALS (Values and Lifestyle) is one example of another lifestyle segmentation approach. This approach uses a combination of several theories, namely:

1. Hierarchical theory of human needs (need hierarchy), which was developed by Abraham H. Maslow. According to this theory, there are five stages of human needs, namely: basic physical needs, a sense of security, have, esteem, and self-actualization. VALS identify values that are embraced by community at every stage of the above needs.

2. Theories of personal boosts (The inner and outer-directed personality theory) which was introduced by Ries, Glazer and Denney (1950). In the VALS, directed other terminology was changed to outer directed (a boost from the outside).

SRI Consulting Business Intelligence (in Wicakseno, 2006) tried to divide consumers based on psychographic segmentation into eight categories, namely:

1. Innovator; Innovators are people who are successful, broad-minded with high confidence because they have more than enough resources.

2. Thinkers; Thinkers are motivated by ideal things. They are mature and reflective people and appreciate knowledge and sense of responsibility.

3. Achievers; Achievers are motivated by desire for achievement. Achievers have goal-oriented
lifestyle and deep commitment to career and family. Their social lives reflect this and are well-structured between families, places of worship, and work. With a lot of desires and needs, achievers are active consumers. Image is important for achievers.

4. Experiences; Experiences are motivated by self-expression. As young, enthusiastic, and impulsive consumers, experiences are quickly excited to new things yet easily get bored too.

5. Believers; As well as thinkers, believers are motivated by ideal things. They are conservative and conventional with belief on concrete matters that are traditional and well established such as: family, religion, community and country. They follow established and organized routines around the home, family, community, and social and religious organizations where they live. As consumers they can be predicted.

6. Strivers; Strivers are group of people who like trendy and fun things because they are motivated by achievement.

7. Makers; Makers are motivated by self-expression. They express themselves and enjoy life by building houses, raising children, fix cars, grow plants and have enough skill and energy to make their wishes fulfilled.

8. Survivors; Survivors live with limited resources. They often feel that life is changing too fast. They feel comfortable if they feel familiar and pay attention to safety and security.

2.4 Cluster Theory

Definition of cluster according to Porter, is the geographic concentration of companies and institutions that are interconnected in a particular area. Kuncoro further stated in detail that industrial clusters is basically production group that is very concentrated spatially and usually specialize in only one or two main industries only. Clustering phenomenon has attracted attention of economists to get involved in the study of location problem which raises new paradigm, called the new economic geography (geographical economics) [Fujita, 1996, Kuncoro, 2002a]. This argument is reinforced by Porter, that today’s economic mapping is dominated by what he called cluster [Porter, 1998]. The same thing was also confirmed by Kuncoro that industry tends to agglomerate in areas where get potential benefit due to their company location adjacent to each other [Kuncoro, 2002b].

3 Research Method

Subjects of this research are owners and entrepreneurs of export and national oriented Small and Medium Enterprises in the province of Yogyakarta. The reasons establishing this research in Province of Jogjakarta, because regionally, the majority of SMEs in all sectors is concentrated in Java, particularly in Province of Jogjakarta. SMEs have critical playing is an important engine for the development of local economies and communities [Tambunan, 2004]. Total SMEs in Province of Jogjakarta has listed 43,224,007 unit [Tambunan, 2004].

Research site was conducted in the province of Yogyakarta at 4 regencies (Bantul, Kulon Progo, Gunung Kidul dan Sleman) and 1 municipal (Yogyakarta). The number of respondents is 300 respondents but collected and analysed data are only 225 respondents. Variables in this research consist of Activity (x1), Interest (x2), Opinion (x3).

Data measurement is an effort in connecting concept and reality. Instrument to collect data is questionnaire which is composed based on theories in the form of likert scale. Before being used to collect data, then firstly, various tests were conducted to determine whether the questionnaire is valid and reliable to retrieve variable data. In this case, the validity and reliability instrument test was used.

Once data are collected and processed, the next step is to analyze the data. In this study, analysis model or technique used was cluster analysis. Cluster analysis is a tool to search (explore). Cluster analysis reveals relationship and arrangement according to data without taking into consideration the reasons why it happens.

Cluster analysis will show results that are important for decision making. The goal of cluster analysis is to summarize or to form groups based on similar characteristics to observations or cases. Clustering analysis used SPPS ver 17.

4 Results and Analysis

4.1 Demographics

The number of respondents who participated in this study was of 300 respondents, with response rates of 75% rate. Views composition of respondents by gender and age for each type of business are presented in Figure 2.

Figure 2 shows that in the category of micro business with the total amount of 133 respondents, and the composition of male respondents are 45% and female respondents are 51%. Total amount of small business are 25 respondents, with male respondents are 68% and female respondents are 32%. In the category of medium business with the total amount of 67 respondents, with male respondents are 70% and female respondents are 30%. From
225 respondents, most business owners whose age is between 21-30 years old are owners of medium business, as many as 59 owners; while most business owners whose age is between 31-40 years old are owners of small business, as many as 18 owners; and most business owners whose age is >40 years old are owners of small business, as many as 29 owners.

From perspective of ownership and management, owners of Micro Small and Medium Enterprises in the province of DIY who also handle management of the business are calculated with percentage as follows: for micro business 60.2%, for small business 56% and for medium business 46%. Hence, it can be concluded that the owners of Micro Small and Medium Enterprises in the province of DIY also handle management of the business.

Data in table 1, shows that most SMEs in the province of Yogyakarta have not joined any insurance programs such as life insurance, general insurance or health insurance for their employees. However few SMEs (micro, small and medium) mostly hold general insurance policy, amounting to 9.8% for micro, 28% for small businesses, and 19.4% for medium business. This is because the factors considered by the SMEs to have such insurance are for the sake of their business sustainability.

The second layer of policy holders in SMEs is from personal life insurance that amounting to 15% for micro, 24% for small businesses, and 13.4% for medium business. This is because under consideration of personal protection of the owners and his or her families. And the third layer of policy holders in SMEs is from insurance for employees programs that exist only in medium business. This condition is due to perception that insurance programs are not yet a necessity for their employees, and also due to financial reason.

4.2 Psychographic

Study Mowen [Mowen and Minor., 2002] and Prasetijo [Prasetijo, 2005] shows that psychographic as the study of what constitutes consumer, psychologically, it views psychographic as study of activities (events), interest and opinions. Detailed description will be elaborated in the next sub chapter.
In this research, respondents are viewed from activities of interest clustering by business type (micro, small and medium). The types of insurance programs available in the questionnaires are general insurance. As this refers to the results of the mostly that policy holders in SMEs above, discussed which have findings that typicality of micro business prioritizes their incomes as their operational business sustainability. Detailed description of SMEs perception in setting priorities to join general insurance programs is as follows.

Figure 6: Priority Scale of Interest on General Insurance (Micro Business)

Figure 7 show that micro business select the most preferred type of general insurance program of loss, fire and damage, with the percentage of 47%; 38% on insurance of loss, damage and fire; 15% on insurance of damage, loss and fire.

Figure 7: Priority Scale of Interest on General Insurance (Small Business)

Figure 7 shows the priority scale select form small businesses are: 49% on insurance of fire-loss-damage; 38% on insurance of loss-damage-fire; 13% on insurance of damage-fire-loss.

Figure 8: Priority Scale of Interest on General Insurance (Medium Business)

The priority scale types of insurance in Medium business are:77% on insurance of fire-loss-damage; 15% on insurance of fire-damage-loss; 8% on insurance of loss-damage-fire.

4.2.3 Opinion

1. Factors of Why Have not or Do not Join Insurance Programs

In Micro business category the factors that consideration to join insurance program shows in figure10, below.

Figure 9: Consideration Factors Not Join (Micro Business)

The most considered reasons (84%; factor B in graph) of micro business not join insurance program are (1) don’t have enough fund to join insurance programs, (2) do not know the benefits of insurance, (3) because they think in current condition insurance is not necessity, (4) do not trust on insurance company yet. Another considered reasons (16%; factor A in graph) of micro business not join insurance program are 1. Do not know the benefits of insurance; 2. Insurance is not a necessity; 3. Do not have fund; 4. Do not have trust on insurance company.

Figure 10: Consideration Factors Not Join (Small & Medium Business)

In Small business category the most considered reasons (67%; factor B in graph) not join insurance program are (1) don’t have enough fund to join insurance programs, (2) do not know the benefits of insurance, (3) because they think in current condition insurance is not necessity, (4) do not trust on insurance company yet. Another considered reasons (33%; factor A in graph) of small business not join insurance program are (1). Do not know the benefits of insurance; (2). Insurance is not a necessity; (3). Do not have fund; and (4). Do not have trust on insurance company.

While in Medium Business category the most considered reasons (80%; factor B in graph) not join insurance program are (1) don’t have enough fund to join insurance programs, (2) do not know the benefits of insurance, (3) because they think in current condition insurance is not necessity, (4) do not trust on insurance company yet. Another considered reasons (20%; factor A in graph) of small business not join insurance program are (1). Do not know the benefits of insurance; (2). Insurance is not a necessity; (3). Do not have fund; and (4). Do not have trust on insurance company.
2. Factors of Why Join in Insurance Programs

Factor A is priority scale considered by Micro business of why joined in life insurance, with percentage of 65%, which start from: 1. Financial security; 2. Preparing inheritance for heirs; 3. Assurance of safety when working; 4. Affected by others. While factor B, with percentage of 35%, is stated with priority scale as follows: 1. Affected by others; 2. Assurance of safety when working; 3. Financial security; 4. Preparing inheritance for heirs.

Figure 11: Consideration Factors Join (Micro, Small & Medium Business)

Factor A is priority scale considered by Small business of why joined in life insurance, with percentage of 33%, which start from: 1. Financial security; 2. Preparing inheritance for heirs; 3. Assurance of safety when working; 4. Affected by others. While factor B, with percentage of 67%, is stated with priority scale as follows: 1. Affected by others; 2. Assurance of safety when working; 3. financial security; 4. Preparing inheritance for heirs.

Factor A is priority scale considered by Micro business of why joined in life insurance, with percentage of 53%, which start from: 1. Financial security; 2. Preparing inheritance for heirs; 3. Assurance of safety when working; 4. Affected by others. While factor B, with percentage of 47%, is stated with priority scale as follows: 1. Affected by others; 2. Assurance of safety when working; 3. financial security; 4. Preparing inheritance for heirs.

4.3 Analysis

Analysis of demographic variables shows that most SMEs are owned by men. Here, the men have roles as head of family, as well as owner and manager of business. Therefore, the business functions as main source of income for the family. The roles of male as owner and manager of the business reveal significant number in SMEs, especially in micro scale business, with the amount of 80%. Business activities of the SMEs are assisted by their wife and children, also by other members of their family (in micro and small scale business), while in medium scale business, the activities have involved workers who live nearby the business place. It is reflected in the small amount of business of which employees are not family members (wife, children, brothers, sisters, nieces and nephews).

Demographic data show that the number of business owners in medium scale (with financial flows of sales more than IDR 50 millions) mostly ages between 21 – 30 years old. Business owners in small scale, in average, age between 31 – 40 years old, while business owners in micro scale, in average, age above 40 years old. Domination of business owner's age between 21 – 30 years old in medium scale business is generally due to the fact that they do not become owners since the business started. They inherit the business from their parents so many strategic decisions are taken based on considerations from previous experiences.

Psychographic analysis shows that the number of SMEs which have join insurance program is still small with average of below 30% at all types and products of insurance. The biggest percentage of insurance type joined by SMEs is general insurance with average of 19% and the biggest percentage is joined by small scale business which is 28%. One of the factors which encourage SMEs to join general insurance is consideration of business sustainability and protection of their assets and capital. Based on that consideration, the general insurance products which they choose, in order, are insurance program of fire, insurance program of loss, and insurance program of damage.

The number and percentage of SMEs which have become insurance policy holder are still low. This factor is dominantly caused by high insurance premium that they have to pay. Another factor which becomes barrier for SMEs in joining insurance program is the lack of knowledge among the SMEs on benefits of joining insurance, which leads to assumption that, in current condition, insurance program is not a primary necessity for their business. The other factor which also becomes barrier for them not joining insurance program is the low level of trust toward insurance company, as based on some previous experiences, there is rumor among SMEs that quality of insurance service provided by insurance company is low. However, some SMEs which have joined insurance program reveal some factors which become their considerations in joining it, among others, are future financial security, intention of providing inheritance for their family, providing safety during working, and because they are influenced by other parties. In micro and medium scale, the most dominant factor is consideration of future financial security, while in small scale; the most dominant factor is because they are influenced by other parties.

Based on the demographic and psychographic analysis, there are some elements which should be put into attention in the insurance industry, namely the need of micro-insurance program and socialization of roles and benefits of insurance program especially for SMEs.

The term micro-insurance is gaining increasing usage in the world of micro-finance, often with little clarity regarding the definition. In the micro-insurance donor guideline for the micro-finance institutions, the definition of micro-insurance is alienated in two parts: First, micro portion of the def-
inition refers to the subset of a product that is designed to be beneficial and affordable for low-income individuals or groups. Second, insurance, which refers to a financial service that uses risk pooling to provide compensation to individuals or groups that are adversely affected by a specified risk or event.

The socialization of insurance roles and benefits must be conducted by complying with local characteristics and culture of the community by regarding community demographic factor. 4. Summary and Recommendation

Most SMEs are owned by men, as well as owner and manager of business, therefore, the business functions as main source of income for the family. The roles of male as owner and manager of the business reveal significant number in SMEs, especially in micro scale business, with the amount of 80%. Business activities of the SMEs are assisted by their wife and children, also by other members of their family (in micro and small scale business), while in medium scale business, the activities have involved workers who live nearby the business place. It is reflected in the small amount of business of which employees are not family members (wife, children, brothers, sisters, nieces and nephews).

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