

USING CONSUMER INFORMATION TO DISCOVER A NEW UNDERSTANDING OF THE FINANCIAL SERVICES CUSTOMER

by Mark Abboushi

Changing investment needs and retirement expectations demand that personal financial services companies seek out deeper, actionable insights into consumers and investors

It is hard to overstate how drastically the world of banking and investments has changed from the public's perspective. Consolidation has erased many decades-old brands, and a variety of personal financial services (PFS) companies are branching out into fields well outside their core specialties—credit card companies now sell investing advice and insurance, while banks partner with non-PFS companies to produce a host of custom cobranded credit cards.

Meanwhile, the average working person now has a variety of finance-related needs and concerns that would not have been thought of a generation ago. Retirement saving is now seen more as an individual's responsibility; the amount required to exit the workforce is a vague semi-known for many people, and the expected age of retirement has shifted

well back—from 60 to 70 and beyond. In addition, many consumers now have levels of discretionary income—and/or debt—that create a completely different roster of needs.

At the same time, sharp increases in technological capabilities have enabled consumers to conduct a variety of transactions—large withdrawals, bill paying, stock trading, even securing a mortgage—without additional human intervention. They have increased consumers' expectation of control, but also challenged them to make assessments that were once left to institutions or financial advisers. As a result of all this transformation, the traditional models often used to understand and group consumers—age, gender, geography, and the like—have decreasing relevance for personal financial services companies.



Needs are dictated by a variety of factors combining in sometimes unexpected ways; these factors include

- income
- investment knowledge
- beliefs, attitudes, and values
- media used and relied on
- habits of friends and family
- the role of the financial adviser or broker

Every period of dramatic innovation creates a new set of needs and wishes—and thereby new opportunities to serve consumers. And as today’s consumers move on the path from leaving home to entering the workforce to retirement, each brings a unique set of expectations and perspectives on money management, use of credit, and investing—all of which will help guide their decisions. To keep pace with their interests and priorities, PFS companies need to commit to ongoing programs that group and analyze consumers in ways that are relevant for these days, and not the generations just past. Combined with a streamlined and informed approach to product and service development, looking beyond demographics can help companies deliver the new services consumers need in short order.

A NEW MODEL FOR FINANCIAL SEGMENTATION

To move beyond standard demographic assumptions, companies need to profile key populations according to the

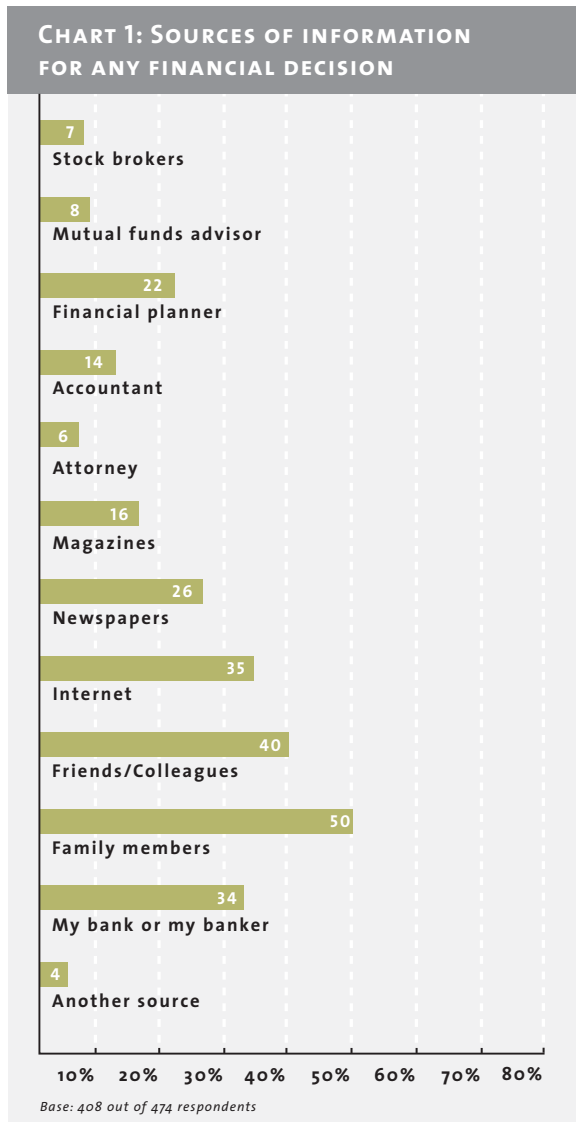
underlying attitudes that shape financial service decisions. With the help of an expert consumer insight provider, companies have the ability to investigate their consumers deeply; depending on the type of product to be offered, they need to understand such topics as

- worldview (including beliefs, attitudes, and values)
 - Are they pessimistic or optimistic about the future?
 - Do they feel entitled to a certain lifestyle, even if it is beyond their means?
- views on financial matters
 - Are they concerned about money?
 - Are they assuming that they will live the same lifestyle in retirement, or a more modest one?
 - Do they have an aversion to or keen interest in particular investment types?
 - What are their feelings about the appropriate amount of debt to carry (if any)?
 - What are their views of different types of debt offerings (home equity, credit card)?
 - How likely are they to pay off debt quickly?

After devising a sophisticated segmentation scheme based on these and other measures, companies need to

- fully profile these segments to enhance understanding and generate incremental insights
- make those segments available for further custom research
- align the segments to existing databases to make them actionable

Profiles from KnowledgePanelSM



MAKING DEEPER USE OF CONSUMER DATABASES

Banks, credit card companies, and other institutions collect a myriad of rich information about their customers, but they often seem to use it to only modest advantage in their marketing efforts. Many seem to apply the broadest, most simplistic cuts in their distinctions among types of consumers—incomes, age ranges, credit scores, and investment

preferences. The result is truckloads of direct mail with a likely hit rate of under 1 percent.

One way that financial institutions can practically leverage their masses of data is by aligning them with segmentation schemes that profile their customers and prospects from different perspectives, and use the combined information to create offers that are more targeted and effective.

Profiles from KnowledgePanelSM

TABLE 1: PREFERRED METHOD OF ACCESSING ACCOUNTS AT PRIMARY BANK		
	CHECKING%	SAVINGS%
Going into a branch and talking to an in-office teller	15%	30%
Using a drive-up teller	16%	11%
Calling a centralized service center or 800 number to speak to a representative	2%	3%
Calling a centralized service center or 800 number to use the automated line	3%	5%
Calling a branch and speaking to a representative	7%	8%
PC banking to transfer funds, check balances, etc.	19%	26%
Online bill payments	8%	4%
Automatic Teller Machine (ATM)	30%	13%

The main challenge here is internal; can the “owners” of the database see it as in their benefit to work with business unit leaders to develop a system that provides accessibility, ability to frequently update, and the capacity to take action?

Getting to action requires even further cross-functional buy-in and collaboration from marketing, IT, sales, and risk managers. In addition, many PFS companies contain more than a single business unit, which adds yet another dimension demanding coordination and collaboration. It is an effort that will pay heavy dividends to the company that takes the time to align goals across functions and units.

WHEN “ONE-STOP SHOPPING” IS NOT ENOUGH

Although consolidation of service providers theoretically allows consumers

to take a “one-stop” approach to their financial needs, many recognize that different companies may offer better benefits for savings, stock trading, or insurance. The result is that many consumers still work with multiple companies, resulting in a record-keeping nightmare: a plethora of statements, account numbers, passwords, and the possibility of missing key advantages due to confusion and interest fatigue.

The lesson here is that one-stop shopping may be more of a benefit to sellers than buyers of financial services. We still need to work hard on delivering the best offer, rather than assuming that convenience alone will win consumers over. Companies need to improve their integration efforts, applying segmentation and targeting with greater care and sophistication. If a vendor knows, for example, that customer A already has a credit card at 9.75 percent interest, then

only a “noticeably lower” interest rate (defined from a consumer’s perspective) should be offered (assuming rate is the only differentiator here).

To provide that best offer, companies might be advised to partner with other PFS firms that already deliver “best in category” for a specific product or service. The possibility of licensing or otherwise collaborating to obtain access to a branded credit card or insurance product (which the acquirer may then rebrand) is one that PFS providers across the spectrum might consider.

THE RIGHT MEDIUM FOR THE RIGHT TARGET

To truly activate our new understanding of consumers, it is essential that we extend our view beyond just product development and creation. How do we integrate deeper segmentations into a new approach to media and advertising spending? As part of their targeting of specific segments, PFS service providers need to accurately assess each group’s relationship to media, including

- media used most often
- media relied on for financial advice
- attitudes toward advertising
- engagement with media in different settings
- resonance of media brands

This is another level at which an actionable segmentation can pay dividends. Through one or all of these approaches, we can use consumer insights to deploy advertising more efficiently, by picking the right place to reach the right consumer at the right time.

PUTTING THE VISION INTO ACTION

As the needs of consumers—especially investors—continue changing at record speed, financial services companies require insights that go beyond standard demographics to offer truly relevant products. We must reevaluate our assumptions about not just consumers, but also consumer insights. Some concrete steps should include

- creating new segmentations based on today’s consumer habits and desires, and creating a framework for activating those segmentations in the marketplace
- leveraging existing databases about consumers to deliver a richer portrait of consumer/investor groups and serve them with tailored offerings
- rely less on “one-stop shopping” as a selling point, making sure that our offerings are competitive—not just convenient
- applying segmentations—in combination with insights about engagement and technology—to maximize the impact of media in raising awareness and creating sales

By taking an active role in creating new insights for new needs, we ensure that financial services will keep pace with consumer needs—if not anticipating them by a year or two. ▀

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