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Build a strong brand

A definition of a strong brand is one that people insist on to the exclusion of all others. A strong brand is a great means of creating loyalty and stopping switching. A key to strong branding is to build on and emphasise values that have a strong relevance to the market and which are not the high ground of competitors.

Build interlocking relationships

Strong brands involve far more than the promotion of company names, logos and value statements. They are strengthened enormously by the relationships built up between the financial services company's sales teams and the customer. It will be hard to dislodge the sales person who regularly calls on a customer, that sends a birthday card and that calls occasionally to check if everything is in order.

Segment your customers by needs

We conclude this white paper where we came in. At the end of the day, all marketing is about segmentation; namely understanding and responding to the different needs of customers. With this understanding it will be possible to create different customer value propositions that meet those needs more closely and so resonate with customers better than a vanilla offer for everyone.

For more details on our services please call our offices on +44 (0) 161 440 6000 and ask to speak with one of our research executives.

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A WHITE PAPER ON

Switching in the Financial Services Industry

What makes people switch?

What does make people switch? What is it that makes someone change their mind or their behaviour? These are crucial questions to any marketer and particularly baffling to marketers in the financial services industry. This is because in financial services we operate in a world complicated by decision that is influenced by a blend of emotion and rationality and by fact and ignorance. This white paper offers thoughts on switching behaviour in financial services markets and the forces that shape these decisions.

The starting point for our understanding of "what would make them switch" is to recognize that there are different groups of people with different needs in our target audience. It would be an unusual situation for everyone to be motivated by the same things. Of course, this presupposes that we have an understanding of our market and know how customer groups differ in terms of meaningfully different needs.

Our understanding of the different needs of customers helps us begin to work out what would change a "buyer's" mindset. In other words, we can expect someone who says that they are driven by safe and secure products will have their head turned by a well known brand that they feel they can trust while those who are paranoid about getting the best price will be attracted by a half percent financial advantage. However, these are broad brush views and things are not as simple as that.

Buyer behaviour segments

In our search for what drives behaviour in financial services, let's look at four classically different segments. Most people reading this white paper will work with a company that supplies financial services that are bought because they are needed for a purpose (as opposed to for unadulterated pleasure). These functional products can be located in one of the quadrants in the following diagram (see figure 1).

In the south-west corner is the "holiday insurance" quadrant representing products that are of low value and that are not strategic to the customer's future. In the north-west corner is the "car insurance" quadrant, representing products where the annual spend may be quite high but the supplier could be any one of a number of reputable companies who are not embraced as by the customer as one with which they necessarily want a strategic relationship.

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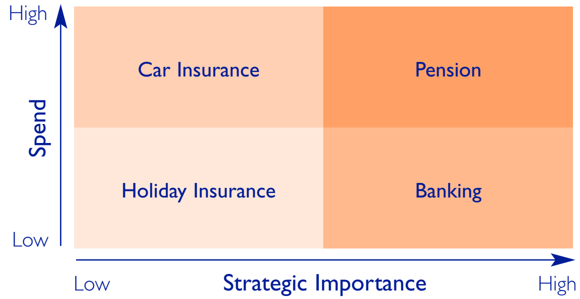
Figure 1 The Strategic Supplier Matrix



The "banking" box in the south-east of the matrix, represents an interesting group as here we have companies who may not dominate the customer's shopping basket but who certainly have a strong strategic input into their future in many ways.

Finally, we have the "pensions" group in the north-east quadrant. This box typically includes suppliers of services such that are strategically vital products to the customer and with whom they spend a substantial amount of money.

The behaviour of "buyers" in each of these segments can be expected to be very different. The buyers of holiday insurance operate at a different level. Of course, the customer does not want insurance that will let them down and they want a supplier they can trust. But frankly, they may not know too much about the product they are buying and they may not care too much who they buy it from. They may be more influenced by the promotion and the ease of doing business.

Contrast this with the buyer of "car insurance". This is the box where the products on the shopping list account for a substantial expenditure but where there may not be a great deal of loyalty to the supplier because it is not key to the future. In fact, many people have switched their insurance suppliers and they know it is easy to do so. Shopping around is normal in this box and so the products are always subject to price pressure. Price is the most obvious lever that prompts switching. It is also a box of opportunity because the clever marketer can explore customers' needs and add services that create a "lock-in". Of course, in this quadrant there will be some people that buy entirely on price but a surprisingly large proportion will be happy to consider paying a little bit more for the benefits of a trusted deal.

Moving on, the companies that occupy the banking box are generally regarded as specialists. Over time, the amount that is spent on banking services may be quite large but the monthly payments are small. However, the lock-ins are great and there is likely to be considerable loyalty to a supplier. In this box, the relationship with the supplier is likely to be important.

Finally, companies buying products and services that account for a significant spend and that are also strategically important are reluctant to switch to another supplier. A switch may take place but only after careful consideration of the consequences of the move. In fact, the relationship may be more with the pension's advisor than with the pensions company.

What themes emerge from this examination of switching behaviour for different types of financial services? The first thing we note is that both rational and emotional factors weave their way into all the decisions. The problem we face is that buyers of these financial services find it hard to admit to or even work out the influence of the emotional effect.

Measuring the forces on switching behaviour

Market researchers attempt to measure these influences at different levels. There is the very obvious "front of mind" level where a customer is asked very simply to say why they choose a financial services company or what would prompt them to switch. Not surprisingly, because it is front of mind, the answers are fairly predictable. "I chose the best product for the best price".

The researcher may follow this with a prompted question that reminds the customer of the many different issues in the equation. This memory jogger may identify new factors. There are many variants on the prompted questioning theme. For example, the respondent may be asked to rank factors, score them out of 5 or 10 or spend points over half a dozen factors to indicate which carries the most weight.

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Figure 2 A Simple Points Spend Question To Establish Customer Needs

I would now like to get some measure of the factors that have influenced your choice of holiday insurance. I would like you to imagine you have 100 points to spend on issues concerning your supplier of holiday insurance. How would you allocate these points between the following:

Attribute	Points Spend
Pays claims quickly	
Pays claims in full	
Easy to submit a claim	
Ability to claim on line	
Discount offered for no claims	
Easy to understand policy	
Well known and trustworthy insurance company	
TOTAL (Must add up to 100)	**100**

More sophisticated tools such as conjoint analysis can show the trade off between different issues although even here there is no guarantee that the emotional issues will be given their full weight.

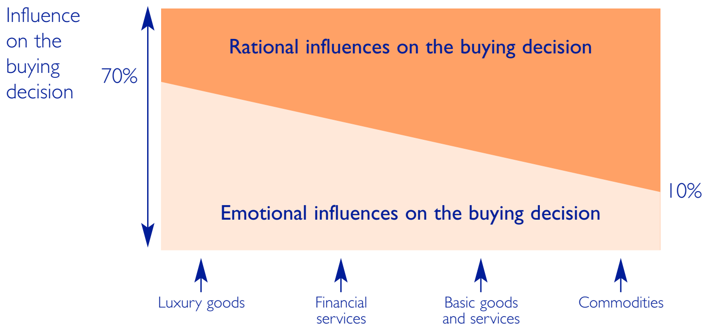
Points spend and conjoint use structured market research interviews to throw light on the forces shaping behaviour. On their own they are not enough to give us the deeper insights of how buyers behave and what makes them switch. For this we have to turn to qualitative research. And here we must get as close to psychology as we can to get a deep understanding of what makes buyers tick.

Influences on the buying decision

Let's for a minute step outside the field of financial services and consider the mind of the general public in our search for how emotions effect buying decisions. Take the car buying public. Can we really say why we switched from that practical estate to a 4X4 off-roader to take the kids to school? For sure the question gets rationalised - "we have a steep drive and it can be difficult to get out of in the snow" (yes, on the one day a year that it does snow!); or "I feel safe in it with the kids" (yes, even though the stability is less than for most conventional saloons). In general we recognize more readily these emotional pulls and tugs in other people than we do in our rational selves.

The buyer of financial services is no less influenced by emotions when they make their decisions. Figure 3 gives a stylized indication of how the emotional factors according to the types of goods we are talking about – but even in the most mundane of products, emotions are known to play their part, often accounting for 10% or more of the buying decision.

Figure 3 The Influence Of Emotional & Rational Factors On Buying Decisions



This discussion is leading us to a point where we can build a check list of factors that prompt switching:

Switching more readily takes place when:

- The product is a commodity supported by very few services
- There is no strong relationship between the buyer and the seller
- Products and services are easily interchangeable with little or no testing/prequalification
- The product or service is not supported by a strong brand
- A market is awakened by a new supplier or an energetic supplier who runs a campaign that talks about the benefits of buying a different product or service
- The buying company has switched a number of times and has no fears of the difficulties of switching again
- The product or service is not of strategic relevance to the buying company
- The financial benefits of switching to a different product or service are considerable

Stopping the flow

Once we have won a new customer, our aim should be to make sure that from now on there is as little switching as possible for it is agreed that finding a new customer is 10 times more expensive than selling a product to or servicing an existing customer. We conclude the white paper with three important ways to generate loyalty - in other words, stopping switching: