Identifying Potential Customers for On-line Financial Services

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Introduction

Many banks are studying the feasibility of selling financial products and providing banking services using on-line channels (such as the World Wide Web and Internet). The technology necessary to do this is now widely available, but little is known about how to identify potential customers for on-line banking. The primary focus of most previous research, which has originated among industry practitioners, has been to explain use of on-line channels on the basis of demographic factors (Darian 1987; Hill and Baker, 1996; Meridien Research, 1997; Miller, 1995). Our study takes a consumer behavior perspective explaining Internet usage for shopping using the ability-motivation-opportunity (AMO) framework (MacInnis, 1989). The idea is that consumer's ability to purchase on-line, their motivation to do so, and having a reasonable opportunity to access on-line markets, are determinants of actual on-line buying. Our study focuses on consumers in the financial services industry.

Consumer Perspective

For many consumers, purchasing financial products is a complicated process. Not only do a majority of consumers not have a clear understanding of the financial choices available to them for satisfying their financial needs, they also do not fully trust financial intermediaries such as agents, brokers, and financial planners. Further, the quicker-paced life that consumers lead constrains them from allocating time to establish trusting relationships with the financial intermediary. Consumers therefore are looking for alternative ways of buying financial products and controlling their financial future. One of the alternatives they can turn to is the electronic channel; however, their adoption of this channel is predicated on overcoming risk perceptions associated with using the electronic channel.

Organizational Perspective

Financial institutions are keenly aware that electronic commerce is here to stay and will experience tremendous growth in the immediate future. For example, "explosive" growth in the number of retail users of electronic financial services is forecast by a study from Meridien Research. This study estimates that the number of retail customers for electronic finance will reach five million in the U.S. by the year 2000. In another study, DeLoitte and Touche estimates that half of all U.S. bank branches will be substituted by electronic banking within the next 10 years.

Financial institutions that are at the forefront of using electronic commerce have been developing expensive security protocols (such as data encryption, server authentication, and message integrity) for providing a secure on-line banking or trading solution to their customers. They have also been investing in marketing databases to support cross selling and upsell campaigns to existing customers and decisions support systems to analyze back-end marketing program expenditures. For example, American Express has invested close to $100 million during the last five years for this purpose. The Principal Financial Group is currently engaged in a multi-million dollar project to evaluate electronic commerce potential for their products.

While financial institutions have been making huge investments in building the infrastructure and technology needed for facilitating electronic commerce, they have not spent an equal amount of effort for identifying the customers who may be motivated, willing and able to use electronic channels. Markets in the physical world generally know how many (and which) customers they have. The electronic commerce market for financial products and services, however, may be the first major market in history not to have a clue about the identities of their customers. The primary purpose of this research is to help practitioners with identifying consumer attitudes and experiences that influence their current use of on-line channels for buying financial products.

Research Study

Our hypothesis is that usage of electronic channels is likely to be influenced by the presence of a need, motivation to attend to that need, and the ability and opportunity to use electronic channels to satisfy the need.

Needs relate to functional reasons why a person may be interested in electronic channels. Consumers may be motivated to use the electronic channel because they may have gone through negative experiences with the traditional sales agent channel. Consistent with previous research, the relevance of electronic channels to meeting the unmet needs of the consumer is the mechanism that stimulates its trial (Petty and Cacioppo, 1986). On the other hand, consumers may feel most comfortable with having face-to-face contact with a sales agent or a broker. In such a situation, they may be less prone to using electronic channels for buying financial products.

Ability is defined as skill or proficiency in understanding financial products. Lack of ability implies that knowledge structures necessary to perform purchase transactions on the electronic channel either do not exist or cannot be accessed. It is our belief that people need to feel comfortable with their own knowledge of financial products before they would attempt to conduct financial transactions (using the computer) without the help of a financial advisor. Part of the problem may be that personal or situational factors impede the time spent on understanding electronic channels. People who lead a very busy lifestyle may have less time to manage the decision making process by themselves.

Opportunity is defined as the presence of circumstances that promote the use of electronic channels. People who do not have the tools such as a computer may not have the opportunity to use electronic channels. Similarly, people who do not have the economic capacity to purchase financial products may have lower opportunity to use such channels than those who have disposable income and wealth for investment purposes.

The data for our study were collected through a primary study of consumers in the Nashville, Tennessee area. An independent research supplier, Market Facts, Inc., was used for data collection. Surveys were mailed to 700 randomly selected customers living in Nashville. Complete surveys were obtained from 413 households, providing a response rate of 59%. The sample households were predominantly from the middle-market - 92% earned less than $75,000; 61% were under 49 years of age; 92% had a household size of four; 73% were married; and 70% had at least a high school education.

Results and Implications

When identifying potential customers for on-line sales channels, the results of the current study suggest that managers should concentrate less on demographics and more on consumers who have the opportunity, ability and motivation to buy on-line.

Increasing Opportunity. We found that the presence of a PC at home significantly affects consumer opportunity to participate in on-line sales channels. Although it may be difficult for an individual company to increase their current customer's opportunity to purchase on-line, knowing that PC ownership is important enables companies to identify potential customers for on-line financial services.

Increasing Ability. Consumer confidence in their own ability to make financial decisions significantly affects their ability to purchase financial services on-line. Increasing customer ability may also prove difficult for companies, but it does provide insight into identifying customers who are more likely to purchase on-line.

Increasing Motivation. Finally, the need for face-to-face contact with financial agents significantly decreases the likelihood that customers will purchase on-line. This means that customers that do not have this need can be identified as potential customers for on-line financial services. There are also marketing strategies that companies can use to motivate their current customers to purchase on-line. They can pull customers toward the new channel by informing them that it can be more convenient than other options. Monetary savings also help increase motivation to use. For example, if transaction fees are normally charged, transaction fees may be lowered when the on-line channel is first available. Also, product and service prices may be decreased during the introductory period for the on-line channels. Obviously, once the consumers have seen that the on-line channel is useful, they are more likely to purchase than if they never have seen it.

An important result of this study is that consumers who use the on-line channel for gathering financial information are more likely to be on-line buyers of financial products. In other words, consumers who get their information the traditional way are less prone to use the on-line channel. It is also interesting to note that consumer willingness to use the channel has no influence on their current information gathering or on-line purchase behavior. From a managerial perspective, these findings suggest that targeting efforts should focus on current information seeking practices of potential customers.

Overall, consumer opportunity to use on-line channels, and their ability to do so, increase as electronic commerce (with its associated electronic markets and sales channels) becomes more common place. The key for organizations competing in an environment where on-line markets are available is attracting (motivating) consumers to access their on-line presence (Internet and/or Web) to increase the likelihood that they will buy. It is apparent that identifying potential on-line customers strictly based on demographics will be a far less successful marketing strategy.