DO YOU REALLY KNOW YOUR CUSTOMERS?

Roger Donbavand highlights new research which shows the need to reassess the old life stage models to target accurately new consumer groups. He argues that consumer insight is an essential ingredient in building a 'customer-centric' organisation.

We all know the importance of getting up close to our customers, knowing what their wants and requirements are and providing products and services that meet those needs. But how many organisations can truly claim to be totally consumer focused?

A good place to start is to define what is meant by 'customer-centric.' Customer-centric modelling relates to the development of corporate, marketing and sales strategies that clearly identify whom the organisation's real customers are, what these customers' priorities are and what the organisation must do to meet those needs - not just for the present but continuously.

This latter point is very important. To quote Sam Walton, founder of Wal-Mart, the world's largest retailer, "you can't just keep doing what works one time. Everything around you is always changing. To succeed, stay out in front of that change."

As a leading financial services research consultancy, Business Development Research Consultants recently released a report titled Financial Pathfinder* that addressed a number of key issues facing financial services providers. In particular, the report looked not only at what changes were taking place and had already taken place, but also at where organisations were falling down by not clearly identifying and addressing these changes to meet the needs of their customers.

The finance industry is more adversely affected by subtle changes in the market than most industries. To enable organisations to develop more effective customer-focused strategies, it is worth looking at some of the findings of the Pathfinder Report, in particular life stage modelling, and subsequent research we undertook in the savings and investments markets.

Aligning the organisation with the market

Financial services organisations are constantly looking for ways in which to segment their customer base in order to target products and services effectively and profitably. Life stage marketing has played a key role in this process for many years and marketers have recognised the potential for utilising a life stage model as a demographic segmentation tool.

One of the key issues raised in the Financial Pathfinder was that of life stage modelling. Variations of the life stage model have been developed by the financial services industry over the past few decades. But the traditional model, based on the premise that people marry young, have children and grow older together, is far too simplistic and does not reflect society today.

Certainly, a proportion of the UK population may fit this model but it is breaking down as result of significant societal changes - divorce, the growth of single person households, couples choosing to have children later in life and other factors.

Life stages are snapshots of a continuum that constantly needs to be re-evaluated. It is important to consider the life course of consumers - the sum of their life experiences – as well as considering their life stage. The financial potential of a couple in their late sixties who have benefited from windfall shares, endowments that *did* deliver and a final salary pension will be totally different from a couple in their fifties.

The latter may have seen their endowment halved in value, they now have to fund university fees for their children and any final salary pension scheme may not provide for their retirement. Indeed retirement may have to be deferred. In developing consumer-focused strategies it is essential to view trends in the current

TABLE 1

- In 2002, the average number of persons per household was 2.31, down from 2.91 in 1971*
- Around 2 in 5 marriages end in divorce*
- Remarriage now accounts for 2 in 5 of all marriages – with second marriages twice as likely to end in divorce*
- The proportion of households containing a couple with dependent children has fallen from around a third in 1971 to just over a fifth in 2003*
- At any one time, nearly 1 in 5 of the adult population between 30 and retirement age are single and a further 1 in 10 are in childless relationships**
- Around 3 in 5 of women with children under 5 are in paid employment**
- Less than 20% of female graduates are having children before their 30th birthday**

* Source: Office of National Statistics 2004 ** Source: BHPS 2002

market and not use a model that may have been successful a decade or so ago. (Table 1)

In addition to the sharp rise in the proportion of retired people, there are growing trends with regard to falling proportions in both the older and younger family life stages, and higher proportions of younger singles and also older singles and childfree couples in both age groups. As a result, a revision of the traditional life stage model is essential.

A reconfigured model that subdivides life stages where appropriate, and where financial needs are likely to be disparate, and one that also includes additional 'later life' stages with particular characteristics and considers those without children, is significantly more meaningful. It will provide financial services marketers with the ability to get much closer to their customers. (Tables 2 and 3).

Comparing the periods 1991 and 2003, one would rightly expect to see changes in the marketplace. However, many of the changes that have occurred have not been sufficiently taken into account by the finance industry. Table 4 shows that no only has there been a fall in family life stages, there are now significant numbers who remain childfree and are not impacted by the major life events engendered by raising a family. What are the triggers for these people to consider financial products and services?

Furthermore, there has been a growth in delayed empty nesters, with 'boomerang kids' returning to the family nest. How will this affect parents' retirement planning? Consider also second family formers as a result of divorce, many of whom are effectively 'repeating' life stages. Their financial needs are likely to be complex, with multiple dependencies and responsibilities.

Successful Customer Relationship Management and one-to-one marketing requires an understanding of life stages that is not 'time specific' and allows for changes in particularly groups of people, or 'cohorts', over time. We believe that Tables 2,3 and 4 reveal a more accurate life stage model reflecting the current marketplace.

Need for sound intelligence

It is vitally important that both the life stage and the life course of individuals and couples need to be understood in some detail, otherwise the products and services being offered by the financial providers, and

TABLE 2

• **Young Childfree**	single, married or partnership, incl. divorced and separated
• **Young Family**	all/majority of children <10yrs
• **Older Family**	all/majority of children 10 – 18yrs
• **Delayed Empty Nesters**	all/majority of children over 18yrs, BUT still live at home
• **Empty Nesters**	all children permanently left home
• **Semi-retired**	all children permanently left home and respondent has retired from previous full-time work, but is working part-time
• **Retired**	all children permanently left home and respondent has retired from previous full-time work and is not working at all
• **Older Singles & Childfree Couples**	all over 30 and couples without children

TABLE 3: CORE AGE RANGES OF EACH LIFE STAGE

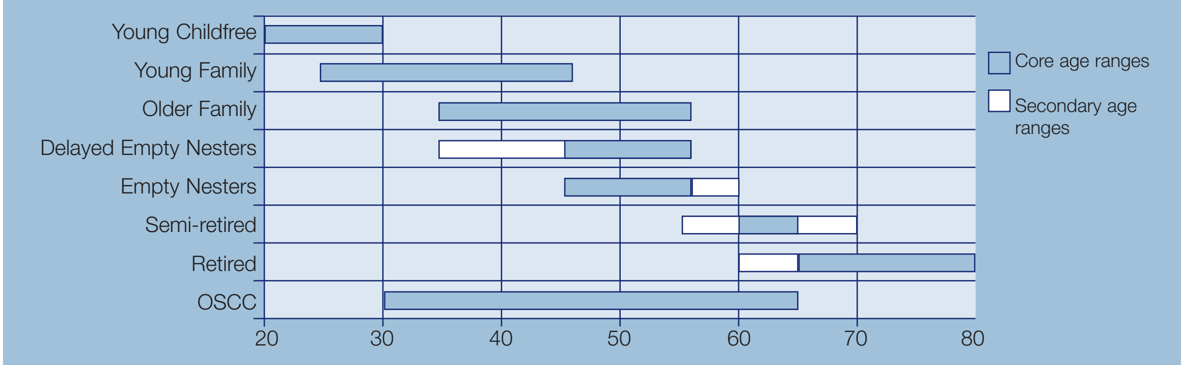
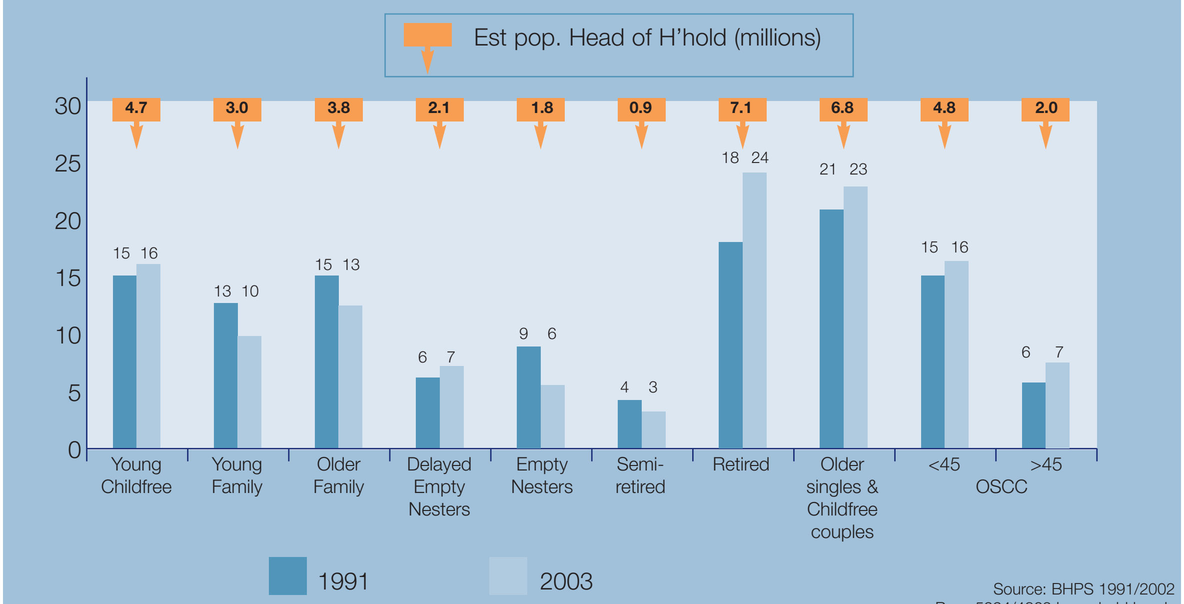


TABLE 4: CHANGING SIZE OF EACH LIFE STAGE



Source: BHPS 1991/2002
Base 5294/4863 household heads

the way in which they are marketed, will not be appropriate for consumers' needs and attitudes.

The Pathfinder Study showed that there are other significant consumer segments that are either not being catered for, or have needs that are not being met.

These include:

- Divorcees and second family formers.
- Singles and childfree couples.
- Working women.
- Consumers from ethnic minorities.

These are the consumers who slip through the gaps of traditional life stage marketing. Indeed, they are almost invisible to many financial services providers. There is a huge opportunity to cater for these sizeable 'niche' groups, but marketers must first accept that they exist, then understand their needs and develop appropriate solutions.

Points for Action

- Consider the assumptions about life stages that your current marketing activities are based on, and assess whether these are still relevant.
- Look at whether certain products and services are wholly or mainly targeted towards particular life stage groups – is this still appropriate? For example, do you have products or services aimed at delayed empty nesters or those childfree couples who may have a large disposable income?

- What are the consumer segments for whom your communications may no longer be relevant?
- Demographically we are rapidly becoming a nation of older and retired people. What are the medium-to long-term implications for the products and services you provide?
- Target the growing numbers of single people and childfree couples – especially the latter who represent an attractive segment in terms of disposable income.

Effective communication is essential

If financial advice represents the 'human' face of the financial services industry, then marketing and communications has taken on the role of the corporate machine. There are some financial providers who have worked hard on projecting the right image to their customers, and who have ensured that delivery meets the expectations created by this. But these tend to be in the minority.

Much of the advertising material we tested independently during our research was simply 'fuel to the flame' of consumer cynicism. Examples of this include:

- Marketing Individual Savings Accounts (ISAS) as if the provider had created the tax free element themselves.
- Continuing to market investments on an emotional level as the perfect solution, that is in the visuals, headlines etc – and hiding the potential downside in the text.
- Marketing credit as if the provider was in some way doing the consumer a favour.

In general, consumers do not feel that the communication they receive from financial providers equates to real communication. In recent times especially, consumers have discovered that 'the sweet has not been as tasty as the wrapping' for many of the financial products they have experienced. There is a huge demand for openness – products which do what they say on the tin!

Mass direct marketing campaigns may 'work' in terms of generating income, but they are not completely without negative impact – particularly over an extended period. Consumers favour messages that are in their own language rather than perceived 'marketing speak'. Unless messages have genuine relevance to consumers they are likely to be ignored.

There is an obvious tension between product categories, with messages promoting credit largely seen as tempting – and perhaps dangerous - and messages promoting saving, investment or protection perceived as largely benign. Recently, however, the promotion of investment and even pensions has taken on a negative aspect in the eyes of many consumers.

In terms of these products, our research** has shown that the consumers hold the following deeper attitudes:

- They tend to perceive their financial lives in terms of a journey that leads towards a secure retirement. Indeed the customer journey is increasingly being recognised by providers. However, the most disturbing consequence of recent economic events is that consumers feel that this journey has been interrupted, throwing them off balance and forcing them to reassess their next steps.
- There is currently a strong sense that the world is out of balance, that things are not as they should be. This is tied in with a strong sense of injustice:
- "Why has the share value of some organisations halved, when they still do the same things, make the same amount of profit and employ the same staff?"
- Consumers know that if they fail in their work they risk unemployment. Why then do directors of companies appear to fail and receive million pound payouts?
- Why do they, as investors, lose large proportions of their hard earned money, when their adviser, the fund manager, and the financial provider do not appear to lose anything?

Financial providers who take a holistic view of their customers are more likely to prosper in this changing environment. Whilst there is a greater emphasis today on cost-focus rather than customer-focus, if a priority is not given to developing customer-focused strategies, there will be little to return to customers who, in essence, include you and me. While this may be easier to say than do, if financial providers do not do this, then they are only paying lip service to fully embracing the customer.

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Key to the success of a truly customercentric organisation requires marrying the top-down macro approach, for example, brand and customer strategy, with the bottom-up micro implementational issues 'on the ground'. Additionally, a closer relationship between the research agency and the financial services provider is the key to corporate objectives. Effective communication at all levels, the delivery of consistent customer value, and the ability of the organisation to embrace change and to keep step with its marketplace are fundamental. ☐

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