PRICE ISN'T EVERYTHING

In commoditised markets like general insurance and personal loans selling purely on price is inevitably limited. Ian French argues that these products must have relevance to the consumer's needs. Direct marketing can deliver the right product to the right target market.

The advertising of commoditised financial services such as general insurance, personal loans, credit cards etc., is a difficult business. It is characterised by countless undifferentiated brands banging out the same price-based consumer propositions and the only way to get cut through in the market is to shout louder than the competition. The problem is that this struggle for increased share of voice only leads to more clutter in the market, more noise.

So when financial services providers are all shouting the same thing at the consumer in differing volumes and pitches, how are potential customers supposed to hear any single provider clearly? And if they can't differentiate between the voices, how can they really know who's saying what?

In days of yore, consumers had less choice. They would take a personal loan and credit card from their bank or go to a broker for their insurance needs. The emergence of direct insurance providers and banking deregulation delivered a consumer revolution. The customer was in control – they could choose a provider that offered a better deal. In short they had the opportunity to save money.

At this time, advertising worked powerfully to educate consumers and change long established behaviours. It informed the consumer that there was money to be saved – and who to talk to in order to get a better deal. Consumers could use advertising to establish their shopping list. And let's face it, the list wasn't very long.

But now consumers are more savvy than ever before. They understand that there are better deals to be had – after all, they've been getting them for years. And they have a wealth of information at their fingertips thanks to best buy guides, TV programmes, national and specialist publications, websites, e-mail, outdoor and events.

It is no longer enough to tell a potential customer that they could save money – they already know that. They've been told the same thing a million times. They need evidence, a reason to believe. However, there's a limit to the amount of research they're prepared to do. So you've got to be convincing. This might be achieved as a result of trust in your brand or it might come about through word of mouth. You might have the luxury of being able to advertise your price (APR, AER), or you may have to provide a price beating guarantee.

It is amazing to consider that home insurance – a product that covers a customer's single most valuable asset, and in all likelihood their most treasured possessions – should be reduced to a situation where the single most important factor in the buying decision across all demographic segments is price (*source: Mintel*). Brands understand this, and have reflected it in their advertising.

Or was it the other way round? Was it that the new direct providers and emerging banks differentiated themselves on price, and therefore sought to move the battleground in this direction? Is the current focus on price-based advertising, to all segments, a direct result of customer need, or has the financial services industry created a rod for its own back?

It hardly matters, because we are where we are. But it remains that a continued focus on price is unlikely to be sustainable in the long term. If every insurer were to offer a cash reward when it failed to beat a consumer's renewal quote, we'd be heading for a world where customer loyalty was meaningless, and annual switching behaviour would become the norm. The current situation in the credit card market is testament to this.

So what do we do about it? How do we emerge from the price fog? The answer, as any half-decent marketer would say, lies with consumers. All consumers make purchase decisions based on value. And value decisions are made by weighing up product quality against the price being charged for it. Value is therefore a function of quality over price - V = Q/P

Now quality is a funny old thing. Its definition is entirely dependant on what's important to the consumer and it can comprise of a hundred different product attributes - or just one.

Brands, of course, have an important role to play on the quality front. Whilst product categories tell us what the function of a product is, a brand is predictive. So whilst *I know* that buying an estate car will get me, my family and associated paraphernalia, from A to B, *my belief* is that if I buy a Volvo, we're more likely get there in one piece. So if safety is important to me, then I might be more prepared to pay extra for a Volvo.

The personal loans market is a bit trickier in that apart from the cost of funds - the price, as demonstrated by the APR or the total amount repayable - there are only a couple of product characteristics that influence the decision making process. For example, how quickly can I have the money? Can I repay early without penalty? Can I take a break before repayments begin? Is it a brand that I'm comfortable with? Should these elements be of little importance? Or if they are purely hygiene factors then the 'quality' element of the value equation becomes a constant and the only factor remaining that determines value becomes price.

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Consumer research shows that personal loans products are largely considered undifferentiated – it's just money, a means to an end. It is unsurprising then that this is a commodity market.

But what of home insurance? Here is yet another financial services market whose advertising is overwhelmingly dominated by price-based messaging. Any reader of Defacqto reports knows that there are huge variations in levels of cover between insurers and products. And differing consumer lifestyles and asset ownership would suggest that the insurance needs of individual homeowners should be equally diverse.

So why is price so important? In this case, product complexity doesn't help. Let's say I'm a consumer looking for buildings and contents cover and I have a shopping list of three insurers. I've got my buildings covered for £200,000 and £40,000 contents cover. I've got a young family, a full freezer and a shed containing the family bikes and a whole bunch of garden equipment.

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- Insurer A offers £400 freezer food cover, £400 cycle cover and £600 shed contents cover – for a premium of £400
- Insurer B offers £600 freezer food cover, £400 cycle cover, and £250 shed contents cover – for £430
- Insurer C offers £400 freezer food cover, £250 cycle cover and £1,000 shed contents cover – for £440

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In addition, insurer A will replace my contents on a new for old basis, insurer B will allow me to build a no claims discount and insurer C will give me a £20 Marks & Spencer voucher when I take out a policy. How do I decide which represents the best value?

In this case, the 'quality' element of the value equation is complicated. And, most importantly, three different individuals may make a different decision depending on what's important to them. A keen gardener may place more emphasis on cover for the contents of their shed, whilst an amateur gourmet cooking enthusiast might be more concerned about protecting their stocks of sea bream and quail.

Our needs as individuals are different by definition. Ironically, it is this 'individuality' which has perhaps led to the price-driven mass marketing of home insurance. Media schedules have increasingly followed the Direct Line 'top down' approach, generating high level awareness in order to pull response through in other channels such as directories and online. In the mass media environment, advertisers are forced to identify those buying-decision drivers which unite the masses, such as price - let's face it, we'd all rather pay less than more – and not those which might have more relevance to smaller segments of the population. The wastage would be too great.

So if you're an advertiser out there with a single message, it is likely to be price-based. And this sends a signal to the market that the way to differentiate between providers is on price. If sellers don't talk about what else they have to offer, then how can they expect consumers to recognise that 'quality' is not a constant? The more we shout 'price', the more important it will become in the buying decision, and the more consumers will switch to get the best deal. So retention rates and profits go through the floor.

So what's the answer?

The term may have become a cliché, but ultimately, it's about being relevant. Relevance is not about identifying the lowest common denominator that applies to all, or most, consumers. It is about understanding customer needs and finding those messages which are most important to the individual, or failing that, each market segment you are addressing. That suggests a re-focus on below the line, targeted media – not simply to reflect and re-enforce the above the line effort, but to deliver salient messages which make your brand or product more valid to individuals, and ultimately which deliver stronger ROI.

That means an investment is required - an investment in research to understand customer needs and behaviours and how those attributes are clustered according to targetable characteristics. It might mean investment in product development, and it almost certainly means an investment in proposition and creative development.

It doesn't have to be complicated. Direct marketing can be a pretty simple science. Creative testing can begin without complex propensity modelling. All you need is a theory - say, that targeting homes with big gardens is more likely to yield a good response to a message around cover for garden contents - and a willingness to test.

But as with all testing, you must also be prepared to fail. That's why you maintain strict control activity and don't commit the whole budget to testing. And when you do fail, learn from the experience. Analyse who responded, form a theory about why, research it, evolve your offer, refine your target audience and try again.

Direct marketing is a science. Not rocket science admittedly, but a science all the same. Science relies on experimentation. And in a society that is constantly evolving and decentralising, our marketing must evolve to stay with it. The marketing of financial services is no exception.

How do you achieve cut through amongst the noise? Simple - take the consumer to one side and talk quietly to them, adult to adult, about something relevant. ☐

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