

An exposition of consumer behaviour in the financial services industry

Antony Beckett

Senior Lecturer in Marketing, University of the West of England, Bristol, UK

Paul Hewer

Research Fellow, Loughborough University Banking Centre, Loughborough, UK

Barry Howcroft

Professor of Retail Banking and Director of Loughborough University Banking Centre, Loughborough, UK

Keywords

Financial services,
Consumer behaviour,
Focus groups,
Qualitative techniques, Trust,
Relationship marketing

Abstract

Deregulation and the emergence of new forms of technology have created highly competitive market conditions which have had a critical impact upon consumer behaviour. Bank providers must, therefore, attempt to better understand their customers in an attempt not only to anticipate but also to influence and determine consumer buying behaviour. The paper accordingly presents and develops a model which attempts to articulate and classify consumer behaviour in the purchasing of financial products and services. The theoretical insights generated by this model are then used to examine qualitative research data gained from focus group discussions on consumers' attitudes to their financial providers and their financial products. Finally, these findings are examined for the potential insights they provide to bank providers attempting to identify appropriate strategies which are conducive to increased customer retention and profitability.

The authors gratefully acknowledge the financial assistance provided by NCR's Knowledge Laboratory in conducting this research.

Introduction

In this paper a model is presented and developed which attempts to articulate and classify consumer behaviour in the purchasing of financial products and services. The theoretical insights generated by this model are then used to examine qualitative research data gained from focus group discussions on consumers' attitudes to their financial providers and their products.

Within the traditional structure and operation of the financial services industry, consumers had little choice in terms of selecting financial instruments and delivery channels. The rigid structure of the industry, combined with the operation of cartels, meant that consumers had to accept the form and price of both financial instruments and delivery channels. Switching between financial providers generated little, if any, long-term benefit and forced the consumer to incur disruption and financial cost.

Consumers were, therefore, locked into buying patterns and had little incentive to change. However, deregulation and the emergence of new forms of technology have created highly competitive market conditions which have had a critical impact upon consumer behaviour. Consumers are now more disposed to change their buying behaviour when purchasing financial products. As a consequence, bank providers are less certain that their customers will continue to bank with them or that they will be able to rely upon the traditional banker-customer relationship to cross-sell high value, so-called ancillary products.

In an era where customer retention and the ability to cross-sell products to existing customers are critical in determining profitability, it is important that banks respond strategically to these changes. Bank

providers must, therefore, attempt to better understand their customers in an attempt not only to anticipate, but also to influence and determine consumers' buying behaviour. Accordingly, this paper details a model through which to understand the behaviour of consumers when purchasing a range of financial products. Finally, these findings are examined for the potential insights they provide to bank providers attempting to identify appropriate stages which are conducive to increased customer retention and profitability.

Consumer behaviour matrix

To better understand consumer behaviour in the context of the financial services industry, a matrix has been developed which is based on the work of Dwyer *et al.* (1987) and Thibaut and Kelly (1959). The approach is based upon the "ideal type" methodology outlined by Max Weber (1949). Weber sought to characterise phenomena into broad groups or ideal types which represented the self-conscious and "one-sided accentuation" of the most significant features of social phenomena. Once classified into groups, the constituent elements of the phenomena being observed can be analysed. The rationale for this approach is that complex social interactions rarely, if ever, operate to a set pattern like elements in the physical sciences. Rather than postulate general theories that describe behaviour in all contexts, ideal types describe forms of behaviour in certain contexts which facilitate the construction of hypotheses about reality. The ideal type expresses what Weber described as an "objectively possible" course of actions within a relevant frame of reference (Parsons, 1951). Behaviour is, therefore, dependent upon both the nature



and the context in which it occurs. An ideal type will therefore possess a number of distinguishing characteristics, constructed by the researcher to describe the complexities of behaviour within a particular frame of reference.

Weber argued that the key to developing ideal types was to identify characteristics that shaped both the form of the ideal type and the frames of reference. It follows that in developing ideal types which characterise consumer buying, it is necessary to identify the underlying constructs which determine consumer behaviour within a particular environment or frame of reference. Ideal types, therefore, reflect certain underlying constructs or imperatives, and individual buying behaviour is shaped to accommodate them. This is consistent with the work of Fishbein (1967) which links attitudes and outcomes, arguing that individuals' attitudes toward certain outcomes motivate behaviour.

From a review of the literature on consumer-buyer interactions, it is possible to identify two principal factors that motivate and determine individual contracting choices, namely involvement and uncertainty (Bateson, 1989; McKechnie, 1992; Harrison, 1997; Ennew and McKechnie, 1998). By placing these factors on to a simple continuum running from high to low, it is possible to construct a two-dimensional matrix of consumer behaviour (see Figure 1) which provides greater insights into the possible range of interaction modes. This matrix describes the purchasing/contracting alternatives available to consumers to structure their interactions when acquiring products and services. Each quadrant represents a different combination of involvement and uncertainty (referred to as consumer confidence in the matrix) and thus a different mode of interaction to accommodate consumer needs when

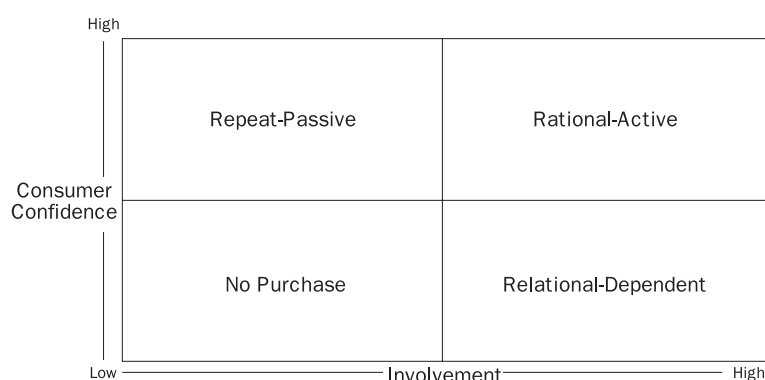
purchasing different financial products and services.

It is postulated that consumer "involvement" in the buyer-seller interchange incorporates a number of subsets: customer control (Bateson, 1989), customer participation and level of contact (Chase, 1978). Similarly, it is assumed that uncertainty or "confidence" is largely determined by perceptions of risk, which are determined by the complexity of the product being purchased and the certainty of outcome associated with that product (Shostack, 1977). In addition to these product specific considerations, the model necessarily incorporates "exogenous" factors or "institutional" factors which influence the consumer's disposition to purchase financial products. These factors relate to the importance of trust and loyalty and to the degrees and modes of consumer participation which, within the context of this study, are defined as relating to alternative delivery channels.

These considerations are important because the limitation of previous consumer behaviour models (Nicosia, 1966; Engel *et al.*, 1968; Howard and Sheth, 1969; Bettman, 1979) stems from the factors hypothesised to explain consumer motivation and behaviour, particularly in the creation and maintenance of relationships. Previous models have tended to focus on the extensive role of information in shaping and directing rational choice. Nicosia (1966), for example, identifies the search and evaluation of information; Howard and Sheth (1969) link the amount of information held with the extent of learning and thus problem solving; Engel *et al.* (1968) identify information input and processing as central elements in decision making; Bettman (1979) recognises that individuals have limited capabilities for processing information and this limitation affects their decision-making activities. The common causal link in all of these approaches can be summarised as: information – attitude – purchase. As an explanation of behaviour this form of linkage is not only predominant in the social sciences, but can also be clearly identified in behavioural economics (Katona, 1960; Scitovsky, 1976). All of these models are based on information which is necessarily assumed to be freely and readily available; little reference is made to the context in which information is found and used. Academics have thus argued that such models are largely unverifiable empirically because they do not offer testable hypotheses (Tuck, 1976; Foxall, 1991). It can also be suggested that they are inappropriate for the

Figure 1

Consumer behaviour matrix



understanding of financial services purchasing as they typically focus upon one-off purchases rather than recurrent ones (McKechnie, 1992). Consumers of financial services in this way frequently cannot calculate costs and benefits and it is because of this inability that they create relationships. These earlier models in this manner tend to ignore consumer involvement with the purchase and their ability or confidence when making purchase decisions (Morgan and Hunt, 1994).

The advantage of the consumer behaviour matrix, as an approach to understanding consumer buying and contracting behaviour, is that it draws on the economics (Simon, 1957), consumer behaviour (Bloch, 1982; Bloch and Richins, 1983) and psychology (Thibaut and Kelly, 1959) literature and combines it into a single framework. The rich diversity of literature in these areas is brought together to create ideal types of behaviour which can be applied to actual buying and contracting in financial services. In this way, the consumer behaviour matrix places observed behaviour within an overall context. By identifying the underlying factors influencing buying and contracting behaviour and linking these very directly with consumer needs, the rationale for consumer interactions and relationships can be more readily analysed.

Forms of consumer behaviour

The model outlines four ideal types of consumer behaviour; each will be examined in turn for the insights they provide for understanding consumers' buying behaviour in the context of financial services.

Repeat-Passive

In this quadrant consumers display low levels of involvement with the financial product as they are fully aware of the product's salient features. Given the low levels of involvement and the limited perception of uncertainty, these consumers can be described as "passive" in the sense that they will make repeated interactions without actively seeking alternatives. This repeated pattern of purchase behaviour, which is described as "behavioural loyalty" in the literature, has been extensively researched. Brown (1952) and Johnson (1973, 1982), for example, have identified markets and social factors which encourage or coerce individuals into repeated behaviour patterns. Their work indicates that considerations, such as the absence of a motivating event to encourage search for alternatives and a lack

of choice or a lack of an incentive to alter purchasing patterns, encourage consumers to maintain existing purchasing patterns. In maintaining their existing patterns of purchase, these consumers are adopting a "bounded" rational approach to their buying and contracting behaviour (Simon, 1957). Accordingly, having selected a heuristic to guide their behaviour, such as a brand example, this behaviour is repeated until a better alternative becomes available. Making repeated purchases from a single source or type also reduces the "cost" of purchasing by limiting uncertainty, whereas a more rational approach may expose the consumer to uncertainties which could result in financial loss. This form of repeat purchase behaviour is common in fast-moving consumer goods (FMCG) markets where consumers use brands and brand identities to determine purchasing behaviour.

Rational-Active

In this quadrant it is postulated that the consumer's involvement in terms of the process dimensions of control, participation and contact is high and so too is their confidence in terms of product complexity and certainty of outcome. It is these active consumers that economic theory has viewed as the norm, possessing the ability and inclination to make carefully considered purchase decisions across all choice environments. In terms of ideal types these consumers are rational or rationally inclined.

Eztioni (1988) notes that rationality can be defined in a number of forms and argues that individuals make decisions in a more or less rational manner depending on the nature of the choice environment and item purchased. Examples of individuals approximating rationality would include purchases of commodity goods and services such as petrol, milk, orange juice, flour and so forth. Within these purchase environments the consumer can articulate requirements and uses short-term contracts to structure the purchase. These contracts are described by MacNeil (1978, 1980) as "discrete", because they have a clear beginning, are of a short duration and possess a definite end. No interactions are expected after the transaction, there is a clear division of benefits and costs, disputes are settled through reference back to the original contract and the switching costs between contracts are low. Discrete contracting is a reflection of the characteristics of the product or service transacted and the underlying rational behaviour of the decision-maker.

Consumers will tend towards discrete, rational contracting to structure their buying behaviour, whenever possible, because it enables them to reduce transaction costs and to exert a high degree of control over the purchase decision (Etzioni, 1988). To purchase in an “instrumentally rational” manner, the individual consumer is assumed to possess sufficient ability and information to enable them to make clear comparisons between competing products and thus make an informed choice. If the information is not available or the consumer lacks the ability to make choices, they have to move away from “instrumental” rationality as discrete contracting is no longer an effective means of structuring the transactions.

No purchase

This quadrant describes consumers who, because they have no involvement with the financial product and do not possess the ability or the confidence to make transaction decisions, make no purchase. Individuals who leave significant sums of money on deposit rather than purchase financial services that could generate greater returns are an example of this behaviour. This is not, strictly speaking, an interaction mode and is hardly (if at all) discussed in the banker-customer relationship literature. However, a significant amount of marketing activity is directed at individuals in this quadrant, in an attempt to increase their awareness of alternative products and convince them of their relative merits.

Relational-Dependent

In this quadrant consumers are highly involved, but are not in control due to the complexity of the product and uncertainty of eventual outcome and this reduces consumer confidence. In order to make choices, the consumer will seek advice and help from banks or third parties and can, therefore, be described as “dependent consumers” who form relationships to reduce uncertainty and structure their pattern of purchases.

Relational contracting does not fit easily into the concept of either an active or a passive interaction, but it is clearly an important aspect of the banker-customer relationship. It emerged from the work of MacNeil (1978) and Williamson (1975, 1985), who recognised that in particular contexts rational-active and repeat-passive contracting were not effective in structuring exchange. It is used in highly uncertain environments where consumers lack the information to make rational decisions yet perceive that differences in quality exist between competing products or services. In

this instance they will want to make informed choices and have to draw on the assistance of more informed third parties. The relationship then effectively replaces the information search and processing activities found in repeat-passive and rational-active contracting. Trust plays a critical role in this relationship and the role of professional associations is to protect consumers from third parties acting opportunistically[1].

Research method

Based upon the success of previous research (Harrison, 1997) and following Shostack's (1977) recommendation of understanding consumers' evaluation processes by standing “in the shoes of consumers”, it was decided to use focus discussion groups with consumers. However, due to the budgetary constraints of the project it was found that only three such groups could be convened. Accordingly, we sought to obtain views from a cross-section of the UK population of varying ages, socio-economic groupings and locales. In this manner three groups were organised through professional recruiters in London (the South of England), Leeds (the North) and Oakham (the Midlands). Each group consisted of seven people and lasted for approximately two hours. The London group consisted of males and females aged 18-29 years old in the B and C1 socio-economic groups. The Leeds group consisted of C1 and C2 females aged between 30-47 years old and the Oakham group consisted of B and C1 males aged between 48-65 years old. Each of the participants was paid a small amount, as were the recruiters. All the discussions were taped and transcribed to permit further analysis and coding. In total 21 people took part in the research. An interview schedule was devised which focused on the main issues of interest, but also permitted the respondents to introduce topics which they perceived as important in their relations with financial service institutions.

The main objective of these groups was to obtain further insights into consumer behaviour when purchasing a range of financial products. The data were therefore analysed using a keyword approach which included identifying either specific words, themes or issues which commonly occurred within and across the discussion groups. To facilitate this approach it was decided to classify financial services and products on the basis of consumer need as advocated by Normann and Haikola (1986). Accordingly, the discussions focused on the following generic products: transaction services, i.e.

those associated with current accounts; basic insurance services products, i.e. house contents and car insurance; and finally, investment services, i.e. PEPs, TESSAs, stocks and shares, pensions, etc.

It was decided to structure the discussions under each of these three generic products and to ask the respondents to relate their experience of purchasing these financial products to the rest of the group members. The degree of consumer involvement was, therefore, explored in terms of the degree of contact, control and personalisation in the buyer-seller interchanges for each of the generic products. Structuring the discussions in this way also allowed us to ascertain whether or not consumer confidence varied according to the complexity of the financial product. In addition, we sought to understand the kinds of relations consumers had with their financial providers, and whether they used constructs such as loyalty and trust.

Research findings and the consumer behaviour matrix

The material gained from the focus group discussions can be used to illustrate and provide insight into each of the quadrants outlined in the consumer behaviour matrix.

Repeat-Passive

Evidence from the focus group discussions of consumers acting in a repeat-passive mode of behaviour included their relationships with banks providing their current accounts. From the interviews it became apparent that consumers were confident in their ability to open a current account and that the choice of bank was often determined by convenience considerations such as the location of the branch in relation to where they worked and lived. As one of the respondents in the Oakham group, who had been with Lloyds bank for 35 years, explained:

Because it was about 15 yards from where I worked and in those days that was important (Male, BC1, 48-65 years old, Oakham).

Or as one of the female respondents in the London group suggested:

...because I'm from a remote village in Northumberland and the only bank in the village was Barclays, so if I didn't go to Barclays I would have had to travel into Newcastle, so it seemed the easiest thing to do (Female, BC1, 18-29 years old, London).

However, others factors taken into account by some consumers when making this decision included the influence of friends and family and finally the image and reputation

of the provider. The influence of family members appeared especially significant in the London group, which contained the youngest group of consumers interviewed:

It was mainly that my family have always banked with Barclays and my first ever account was opened at Barclays. (Male, BC1, 18-29 years old, London).

I've banked with NatWest from the beginning because my Mum and Dad were there. (Female, BC1, 18-29 years old, London).

For these younger consumers another concern was the overdraft limits available to them and the amount of interest they would be charged.

I suppose the overdraft is the key thing ... whichever one offers you the biggest and you feel the most comfortable with. (Male, BC1, 18-29 years old, London).

An interesting point, which arises from these comments, is that once consumers have made their original decision they appear to settle into a repeat-passive mode of contracting even though the reasons for their choice may have been fulfilled or altered. For example, they typically remain with the same bank, despite having moved to a location where their bank is no longer the most convenient or despite the fact that their loan or overdraft facilities have expired.

Furthermore, when the discussions probed the issue of loyalty, many respondents tended to deny that they were loyal to their financial providers. This was despite the fact that many had banked with the same financial institution for most of their lives. This unwillingness to switch providers was attributed to the "hassle factor", as one of the Leeds discussants stated:

When you're working full-time, you haven't got the time to do it (switch), you don't want the hassle. (Female, 30-47 years old, C1 and 2, Leeds).

Or as another respondent explained:

I think you stick with them as long as they keep you happy, as soon as they double your bank charges then you would look around for some other options, but I think while it's all running smoothly you don't change your account ... because I have standing orders and all sorts ... it would be a hassle to leave (Female, 30-47 years old, C1 and 2, Leeds).

The responses enable us to draw some tentative conclusions as to why consumers appear to remain loyal to the same financial provider even though, in many instances, they hold less than favourable views toward them. First, they appear to perceive little differentiation between financial providers; second, consumers appear primarily motivated by convenience and inertia; and

finally, consumers associate high switching costs in terms of potential sacrifice and effort with changing banks.

From the empirical evidence, we can also conclude that consumers exhibit behavioural loyalty, rather than attitudinal loyalty, towards their financial providers (Brown, 1952; Betts, 1994; Ennew and Binks, 1996). Behavioural loyalty is characterised almost exclusively by repeat-passive purchasing, whereas attitudinal loyalty involves holding positive or negative attitudes towards service providers. It is, therefore, possible to distinguish between those customers who are “wholly loyal” in both their attitudes and behaviour, and those who are only “partially loyal” in terms of their behaviour. In the light of the findings we are able to suggest that one way in which a financial provider may shift consumers from a rational-active to a repeat-passive mode of contracting is to promote the time-saving potential and convenience implications of its standing order and direct debit services to its customers. These appear to function as a barrier to switching, thus “locking” the consumer into a long-term repeat-passive relationship with their financial providers.

The findings also indicate the kinds of conditions which may prompt consumers to switch from a repeat-passive to a rational-active mode of interaction. If we analyse the reasons why consumers suggested that they had transferred their accounts to alternative providers we find that these can include lifestyle changes, such as getting married, or moving house. More importantly, however, the levels of customer service they receive and how the financial institutions had “handled” their problems, i.e. the financial provider’s response when the consumer’s account was overdrawn, and administrative errors such as being charged excessive overdraft rates. For example, one of the female respondents spoke of how she had been charged a fee for going overdrawn and how this had made her feel:

It puts you on edge if something goes wrong just once, they didn’t tell me they just took it (Female, 18-29 years old, BC1, London).

Having incurred such problems it appeared common for consumers to then re-evaluate the service they were receiving and thus consciously decide to stay or transfer. This is very important as advances in technology are reducing the costs associated with changing bank providers, i.e. reducing the “hassle factor” and thereby increasing the consumer’s propensity to change banks.

Rational-Active

Evidence from the focus group discussions of consumers acting in a rational-active mode of consumption indicated that this was more likely to occur for purchases of basic insurance products. In this context, many of the consumers expressed fairly high levels of confidence, participation and control in making the purchase decision. Moreover, although brands and reputation were important in creating customer awareness, many appeared to regard price as the most important criterion. As one of the male respondents explained:

(It’s) who gives the cheapest ... you select the viable options, companies that you know that aren’t going to go bankrupt, you then investigate and once you’ve got the information you make an educated decision based on your findings (Male, BC1, 48-65 years old, Oakham).

This respondent’s use of the word “educated” is interesting as it indicates the perceived level of control people believe they exert when making this decision. This view was echoed by a number of the older respondents in the Oakham focus group. For example, another male respondent suggested that he would use a broker to obtain quotes for motor insurance, but rather than relying solely on this source of information he would also obtain quotes for himself:

He goes for it, I go for it ... that’s my loyalty. I don’t pay over the odds (Male, BC1, 48-65 years old, Oakham).

This emphasis on price can also be illustrated through the comments of one of the female respondents in the Leeds focus group, who spoke of the excellent service she had received from Direct Line when she made a claim. However, when questioned on how she would behave if they subsequently increased her premium she admitted:

If the premium goes up, I’ll be ringing around, I won’t be that loyal (Female, 30-47 years old, C1 and 2, Leeds).

In this manner, many of the discussants appeared to switch their insurance providers far more regularly than they did providers of current accounts and investment products. It can therefore be suggested that their behaviour bore many similarities with a rational-active mode of consuming which is typically characterised by the consumer’s high involvement and confidence in understanding insurance products. In this way, they were able to assess and compare insurance instruments primarily on the basis of price, but also on the basis of other considerations such as excesses charged, no claim discounts, etc.

In addition it is possible to suggest that the type of delivery channel used by consumers may have an important role to play in engendering this rational-active mode of consuming. The focus group discussions revealed that for many of the respondents the decision-making context for motor and house insurance tended to be at-a-distance exchanges, typically telephone or direct banking. In this respect, one might conclude that one of the effects of using direct delivery channels (i.e. the telephone and Internet) may be to commoditize the product. In this situation the consumer cannot rely upon face-to-face communication for the establishment of trust; therefore, they place emphasis on the price differentials between financial providers. One significant consequence of this is that the consumers appear less behaviourally loyal to financial institutions. That is to say, whereas for transactions-based current accounts consumers tended to stay with the same provider, for insurance-based products switching between providers every couple of years was more typical. In essence, consumers did not regard themselves as being loyal or having a relationship with providers of basic insurance products. Moreover, this lack of loyalty and having no feeling of being in a relationship was reinforced by the fact that most discussants had no communications with their insurance companies apart from a letter each year informing them of the increase in premiums.

Relational-Dependent

Evidence from the focus group discussions of consumers acting in a relational-dependent mode of consuming included their behaviour with respect to purchasing complex financial instruments such as investment and pension products. From the discussions it soon became apparent that many of the respondents expressed a lack of confidence and knowledge with respect to the decision-making context for these products. Consequently, they were more likely to employ the services of an independent financial adviser. As a male respondent in the Oakham group suggested:

I think investment products are increasingly difficult, increasingly complex (Male, BC1, 48-65 years old, Oakham).

To counter this perceived complexity and risk, consumers would often seek the assistance of a personal adviser when deciding upon investment products, such as PEPs, TESSAs and pensions. This was perhaps most pronounced in the Leeds group where three of the women spoke of the long-term relations they had with their personal

advisers. One of the respondents suggested why she had chosen to employ the services of a personal adviser:

At the end of the day you know you're talking to somebody who's confident about what they're talking about (Female, 30-47 years old, C1 and C2, Leeds).

However, one respondent in this group spoke of how a financial broker had mismanaged her financial affairs and in explaining why she had used a broker in the first instance, she illustrated the degree of "trust" that consumers instil in this relationship:

You trust them because you think they know what they're talking about and know more than you do (Female, 30-47 years old, C1 and C2, Leeds).

The men in the Oakham group also spoke of their use of personal advisers in this fashion, emphasising their own perceived lack of confidence and knowledge when making such decisions:

They know you and you feel you're getting genuine advice and you feel that you're talking to somebody that knows what he or she is talking about (Male, BC1, 48-65 years old, Oakham).

For the consumers in the London group, which contained the youngest group interviewed (aged 18-29), the question of how to invest one's money was also perceived as more complex than for other financial products. However, rather than obtaining independent professional advice as the older women (aged 30-47) in the Leeds group, and the older men (aged 48-65) in the Oakham group had suggested, they tended to go to their banks and building societies for such advice. This was most evident in the purchase of PEPs where one of the men suggested how his financial provider had simplified this decision for him:

Banks help you, they give you a lot of literature and they'll talk to you for about an hour, they'll ask you how much you've got and they'll put them (PEPs) into three categories, whether you want high risk, medium risk or low risk and they group particular PEPs (Male, 18-29 years old, BC1, London).

Another male respondent similarly spoke of how his building society had made this decision easier by:

...break(ing) it down ... what will suit your needs ... what is going to be best for me ... for my PEP. I didn't get independent advice, but my building society basically told me about the best deals and which was going to suit my needs (Male, BC1, 18-29 years old, London).

These latter responses suggest that banks and building societies might already be targeting consumers in the socio-economic

group represented by the London focus discussion groups, i.e. young people aged between 18-29 in the BC1 socio-economic groupings.

The results certainly identified an apparent lack of consumer confidence in purchasing many of these investment products. Moreover, the lack of confidence was compounded by the inherent risk of these products because not only are they intangible, but they are complicated and perhaps more significantly their outcome is not immediate. For example, pensions and investments typically do not mature until some time in the future. This future date could range from between five and 40 years and, therefore, the consumer cannot easily and certainly not immediately ascertain whether the purchase has been good or bad. As a consequence, consumers of these investment products seek reassurance and, therefore, place emphasis on brand image and past performance. In particular, however, the focus discussion groups revealed the importance of trusting a third party. In a sense, the purchase decision and the subsequent monitoring of performance is delegated, in many instances, to a third party. This third party could be an institution, but the research reveals that in many instances trust is personalised, being based on having a relationship with a reliable and respected financial adviser.

Consumer behaviour and delivery channels

The results of the focus discussion groups also enable us to examine further the role which the choice of delivery channel has in the context of explaining consumers' decision-making behaviour for financial products. The importance consumers place upon the "how question" in the decision-making situation, that is the context in which they decide and the degree of personal contact they appear to desire, means that we can add a third dimension to the previously outlined consumer behaviour matrix. This third dimension encapsulates the importance of the type of delivery channels consumers appear to want to use for each of the previously outlined consumer behaviour ideal types (see Figure 2).

Grönroos (1984) in his examination of service quality distinguished between technical and functional dimensions. The term "technical quality" referred to what the customer gets from the service, whereas functional quality relates to how the service is delivered to the customer. This focus upon

the decision-making context can also be found in the work of Parasuraman *et al.* (1985) who suggested that "quality evaluations" are made not only on the content or outcome of the service, but also on of the process of service delivery.

The focus upon the process of delivery is represented by the Z axis in Figure 2. This can be illustrated in terms of the two extremes: at one end of the axis are electronic fully automatic transactions while at the other end stands face-to-face or interpersonal communications. Furthermore, based upon the findings from the focus group discussions we are able to plot "ideal" modes of consumer interactions for each of the three financial products examined.

Repeat-Passive

In this context, the consumer has low levels of involvement but high levels of confidence. Moreover the consumer seeks the speed and convenience of a short duration and low contact form of transaction. In Figure 2, P1 refers to transactions typically associated with a current account, such as standing orders, direct debits and even money from an ATM where the consumer has high levels of confidence, but low levels of actual or "intellectual" involvement.

Rational-Active

In this context, the consumer has high levels of involvement and confidence. In Figure 2 this is illustrated by P2 which represents the purchase decision over basic car and house contents insurance. In this instance consumers have fairly high levels of confidence and involvement; however, because the delivery channel is more likely to be at-a-distance, such as through a telephone, or increasingly through a computer, they are able to focus upon the price of the "commodity".

Relational-Dependent

In this context, as in the rational-active quadrant, the consumer has high levels of involvement, but in contrast to the rational-active mode they prefer face-to-face contact to counter low levels of confidence. The delivery mode must, therefore, be conducive to a protracted discussion which engenders trust and the formation of relationships. This is typically resolved by discussions in which consumers are able to gain information on the complexity of different products, get their questions answered but perhaps more importantly establish the trustworthiness of the financial provider or adviser. In Figure 2 this scenario is shown by P3 which

Antony Beckett, Paul Hewer
and Barry Howcroft
*An exposition of consumer
behaviour in the financial
services industry*

International Journal of Bank
Marketing
18/1 [2000] 15–26

represents the purchasing of complicated investment products.

Strategic implications of consumer behaviour ideal types

Each of the ideal types described in the consumer behaviour matrix has implications for financial providers' organisational and marketing strategies, in that they give rise to contingencies which demand a strategic response. The following section accordingly attempts to articulate these strategic implications by emphasising the common and recurrent themes of the focus discussion groups. Where appropriate the authors have interpreted these themes in the light of trends which have either emerged or are beginning to emerge in the marketplace.

Repeat-Passive

Consumers have traditionally used repeat-passive behaviour to structure their purchases of simple financial services, especially "transactions" and, to some extent, "deposits and loans". Consumers' interest or involvement in these services is limited, but they still remain a necessity. However, in order to limit cognition and the search costs, or simply out of consumer inertia, purchases tend to be repeated. Strategically the challenge facing banks depends on whether they are new entrants or existing players. In order to gain business, new entrants have to encourage consumers to move into the rational-active quadrant, but existing players need to retain customers by keeping them

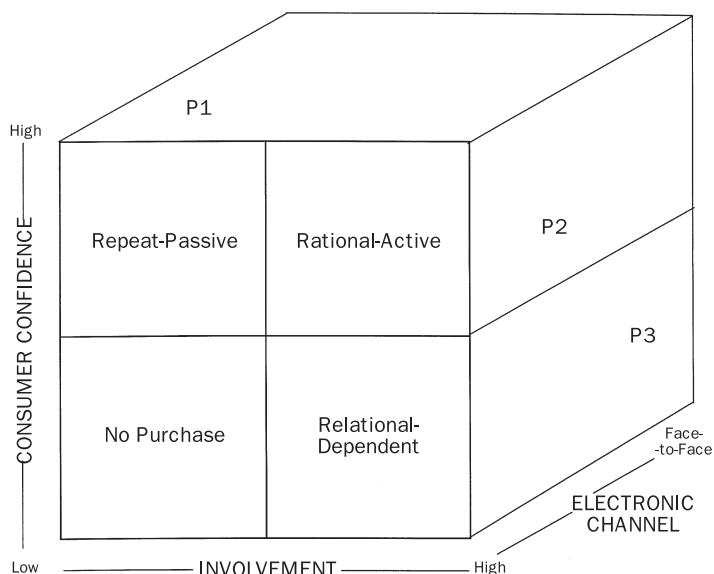
within the repeat-passive quadrant (at least in the short term) through improvements in product/service provision. In the financial services markets, it had been possible to retain large numbers of consumers within this quadrant simply because the perceived benefits of switching were low and the costs high, thereby making changes in the pattern of buying behaviour prohibitively expensive. However, increased competition and consumer willingness to use new delivery channels will reduce switching costs and erode inertia, making it increasingly difficult to retain consumers in the repeat-passive quadrant.

Rational-Active

The strategic threat of rational-active consumer behaviour for banks is that consumers reappraise their repeat-passive behaviour and as a result change their existing patterns of buying behaviour. Encouraging consumers to change their behaviour requires the provision of a financial product or service that is typically cheaper and better than existing products. Consumer involvement in the financial product or service can also be increased and cause existing patterns of repeat-passive behaviour to be reconsidered. Direct selling of insurance-based products, such as Direct Line, has largely been based upon their success in switching consumers out of the repeat-passive quadrant into the rational-active quadrant by raising levels of involvement and offering a lower priced but improved service. Financial products and services associated with "transactions" and certain types of "investments" have similarly revealed a propensity to migrate from repeat-passive into the rational-active quadrant.

Figure 2

Consumer behaviour matrix and delivery channels



No Purchase

No current strategic contingencies flow from this quadrant, but the consumers within it represent an important source of potential new business. Banks need to adopt strategies which raise levels of involvement and increase consumer confidence so as to encourage purchases of financial instruments. One way to increase consumer involvement may be to introduce delivery channels which consumers feel comfortable using.

Relational-Dependent

In strategic terms the relational-dependent quadrant offers a potential basis for the creation of differentiation. By forming a relationship with a bank or individual, the consumer prefers that relationship to alternatives. The relationship enables the

Antony Beckett, Paul Hewer
and Barry Howcroft
*An exposition of consumer
behaviour in the financial
services industry*

International Journal of Bank
Marketing
18/1 [2000] 15–26

banks (or an individual) to differentiate itself from competing alternatives. Companies frequently use brands as the basis for relationships between themselves and consumers. Brands embody a cluster of values and meanings which through consumption are transferred to the individual. A relationship exists between a brand and an individual, where the individual consumer prefers a particular brand to all others and is prepared to pay a premium for that choice.

Creating such brand loyalty demands that the brand is in some sense unique, either in terms of its physical properties or through the values it communicates about those who consume the brand. Brands and brand loyalty are the basic building blocks of differentiation advantage and this advantage can only be created where consumers recognise and value the features of the product. If this is not the case, as is common for products where low levels of involvement exist, establishing brands and brand loyalty is difficult. This problem of a lack of differentiation in the marketplace affects banks and financial products and services generally and, therefore, makes it difficult to create consumer relationships. Direct providers of insurance and banking services have generated differentiation by changing the channel of distribution and this may partly explain their success in entering the industry. However, over a longer period their success is likely to be imitated and their differentiation advantages eroded. Moreover, as we have seen, they are attracting consumers who are acting on the basis of a rational-active rather than a repeat-passive heuristic to guide their actions.

Given that the contractual nature of individual finance products is easily imitated, creating and sustaining meaningful differentiation on the basis of a “good product” is likely to be extremely difficult. An alternative approach might, therefore, be to focus on the “process of service delivery”. As we have been able to demonstrate, consumers have a predisposition to create relationships and emphasise trust and loyalty when they find it difficult to make rational choices on the basis of available information (Doney and Canon, 1997). In this manner, complicated “investment services” appear to fall naturally into this relational-dependent quadrant. Bank providers, however, need to focus on the dynamics of this quadrant in order to generate sustainable competitive advantage.

Such an approach is implicit in the relationship marketing literature (Berry 1983; Dwyer *et al.*, 1987; Crosby *et al.*, 1990).

An approach which is based on the premiss that consumers create relationships with companies on the basis of loyalty and trust and this encourages them to make multiple cross-purchases from a single supplier. Moreover, loyalty and trust create barriers to entry, thereby making it more difficult for new players entering the market (Goodwin and Gremler, 1996). Historically, this approach has not been widely explored or used in the financial service industry as choice was traditionally limited and consumers had little incentive to switch between bank providers. However, this situation no longer prevails as competitive forces increasingly enable and encourage consumers to adopt rational-active forms of buying behaviour.

Conclusion

This paper has discussed and examined a consumer behaviour matrix in the light of research data obtained from focus group discussions with a range of consumers on their purchasing and monitoring of financial services. The research findings have demonstrated that consumers’ purchasing behaviour is greatly influenced by the type of financial product being purchased, and this is in keeping with the research of Bateson (1977), Shostack (1977), McKechnie (1992) and Betts (1994). This has enhanced our knowledge of how consumers purchase different financial products but perhaps more significantly it has drawn our attention to the role of delivery channels. In the light of these findings we can postulate that one important unintended consequence of the introduction of new electronic-based delivery channels may be to engender new at-a-distance exchanges which will impact considerably upon the “process of service”.

The emphasis on trust and having a relationship, especially in particular contracting contexts, is also highly pertinent to the strategies of financial service providers. Increased competition and developments in new delivery channels are commoditising bank products and changing consumer behaviour by increasing consumers’ propensities to switch banks and make rational decisions in the purchase of certain types of financial product. The ability to retain customers and increase customer profitability by cross-selling high margin basic insurance and investment products is, therefore, very important. In this respect, the paper has made a contribution to our existing knowledge and understanding of the important behavioural factors involved in

purchasing different categories of financial product and the associated strategies which financial service providers might adopt in order to maximise customer retention and profitability.

Note

- 1 The strength of the relationship between two parties can be judged by the extent to which the consumer will incur costs to consume within their preferred relationship, even where an alternative relationship exists. The greater the costs the consumer is willing to incur, the stronger the relationship and vice versa. Often firms mistake repeat-passive behaviour for the existence of a relationship, assuming that consumers making repeat purchases have a relationship with the firm. That error of judgement is revealed when the consumer is presented with an alternative providing only marginal benefits and yet still switches to the new alternative. The existence of marginal benefits encourages the consumer to switch into the rational/active ideal-type and to reassess and possibly alter their existing patterns of consumption. In this instance consumers are not prepared to incur costs and consume from their existing provider and in any real sense a relationship has not existed between the parties.

References

- Bateson, J. (1977), "Do we need service marketing?", *Marketing Consumer Services: New Insights*, Marketing Science Institute Report 77-115, Cambridge, MA.
- Bateson, J.E.G. (1989), *Managing Services Marketing – Text and Readings*, 2nd ed., Dryden Press, Fort Worth, USA.
- Berry, L.L. (1983), "Relationship marketing", in Berry, L.L., Shostack, G.L. and Upah, G.D. (Eds), *Emerging Perspectives on Services Marketing*, American Marketing Association, Chicago, IL.
- Bettman, J.R. (1979), "Information processing theory of consumer choice", MA thesis, University of Reading, Addison-Wesley.
- Betts, E. (1994), "Understanding the financial consumer", in McGoldrick, P.J. and Greenland, S. (Eds), *Retailing of Financial Services*, McGraw-Hill, London.
- Bloch, P. (1982), "Involvement beyond the purchase process: conceptual issues and empirical investigation", *Advances in Consumer Research*, pp. 413-17.
- Bloch, P. and Richins, M.L. (1983), "A theoretical model for the study of product importance perceptions", *Journal of Marketing*, Vol. 47, pp. 69-81.
- Brown, G.N. (1952), "Brand loyalty: fact or fiction?", *Advertising Age*, Vol. 23, pp. 53-5.
- Chase, R.B. (1978), "Where does the customer fit in a service organisation?", *Harvard Business Review*, Vol. 56 No. 6, pp. 137-42.
- Crosby, L.A., Evans, K.R. and Cowles, D. (1990), "An interpersonal influence perspective", *Journal of Marketing*, Vol. 54, July, pp. 68-81.
- Doney, P.M. and Cannon, J.P. (1997), "An examination of the nature of trust in buyer-seller relationships", *Journal of Marketing*, Vol. 61, April, pp. 35-51.
- Dwyer, F.R., Schurr, P.H. and Oh, S. (1987), "Developing buyer-seller relationships", *Journal of Marketing*, Vol. 51, April, pp. 11-27.
- Engel, J.F., Kollat, D.T. and Blackwell, R.D. (1968), *Consumer Behavior*, Holt, Rinehart Winston, New York, NY.
- Ennew, C.T. and Binks, M.R. (1996), "The impact of service quality and service characteristics on customer retention: small businesses and their banks in the UK", *British Journal of Management*, Vol. 7, pp. 219-30.
- Ennew, C. and McKechnie, S. (1998), "The financial services consumer", in Gabbott, M. and Hogg, G. (Eds), *Consumers and Services*, John Wiley & Sons, Chichester, pp. 185-207.
- Etzioni, A. (1988), *The Moral Dimension: Toward a New Economy*, Free Press, New York, NY.
- Fishbein, M. (1967), *Readings in Attitude Theory and Measurement*, John Wiley, New York, NY.
- Foxall, G. (1991), *Consumer Behaviour*, 2nd ed., Butterworth-Heinemann, Oxford.
- Goodwin, C. and Gremler, D.D. (1996), "Friendship over the counter: how social aspects of service encounters influence consumer service loyalty", *Advances in Services Marketing and Management*, Vol. 5, pp. 247-82.
- Grönroos, C. (1984), "A service quality model and its marketing implications", *European Journal of Marketing*, Vol. 18 No. 4, pp. 36-44.
- Harrison, T. (1997), "Mapping customer segments for personal financial services", in Meidan, A., Lewis, B. and Moutinho, L. (Eds), *Financial Services Marketing: A Reader*, Dryden Press, London.
- Howard, J.A. and Sheth, J.N. (1969), *The Theory of Buyer Behavior*, Wiley, New York.
- Johnson, M.P. (1973), "Commitment: a conceptual structure and empirical application", *The Sociological Quarterly*, Vol. 14, Summer, pp. 395-406.
- Johnson, M.P. (1982), "Social and cognitive features of the dissolution of commitment to relationships", in Duck, S. (Ed.), *Dissolving Personal Relationships*, Academic Press, New York, NY.
- Katona, G. (1960), *The Powerful Consumer*, McGraw-Hill, New York, NY.
- McKechnie, S. (1992), "Consumer buying behaviour in financial services: an overview", *International Journal of Bank Marketing*, Vol. 19 No. 5, pp. 4-12.
- MacNeil, I.R. (1978), "Contracts: adjustments of long-term economic relations under classical, neoclassical and relational contract law", *Northwestern University Law Review*, Vol. 72, pp. 854-902.

Antony Beckett, Paul Hewer
and Barry Howcroft
*An exposition of consumer
behaviour in the financial
services industry*

International Journal of Bank
Marketing
18/1 [2000] 15–26

- MacNeil, I.R. (1980), *The New Social Contract, an Inquiry into Modern Contractual Relations*, Yale University Press, New Haven, CT.
- Morgan, R.M. and Hunt, S.D. (1994), “The commitment-trust theory of relationship marketing”, *Journal of Marketing*, Vol. 58, pp. 20-38.
- Nicosia, F.M. (1966), *Consumer Decision Processes*, Prentice-Hall, Englewood Cliffs, New York, NY.
- Normann, R. and Haikola, B. (1986), “Winning strategies in financial services: a multiclient study”, The Service Management Group Oy, Helsinki.
- Parasuraman, A., Zeithaml, V.A. and Berry, L.L. (1985), “A conceptual model of service quality and its implications for future research”, *Journal of Marketing*, Vol. 49, pp. 41-50.
- Parsons, T. (1951), *The Social System*, Free Press, New York, NY.
- Scitovsky, T. (1976), *The Joyless Economy*, Oxford University Press, Oxford.
- Shostack, L.G. (1977), “Breaking free from product marketing”, *Journal of Marketing*, Vol. 41 No. 2, pp. 73-80.
- Simon, H.A. (1957), *Models of Man*, John Wiley, New York, NY.
- Thibaut, J.W. and Kelly, H.H. (1959), *The Psychology of Groups*, John Wiley, New York, NY.
- Tuck, M. (1976), *How Do We Choose?*, Methuen & Co., London.
- Weber, M. (1949), *The Methodology of the Social Sciences*, Free Press, New York, NY.
- Williamson, O.E. (1975), *Markets and Hierarchies: Analysis and Anti-Trust Implications*, Free Press, New York, NY.
- Williamson, O.E. (1985), *The Economic Institutions of Capitalism*, Free Press, New York, NY.