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Consumer Behavior Matrix: An Insight into the Banking Industry

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Deregulation and the emergence of new forms of technology have created highly competitive market conditions, which have had a critical impact upon consumer behaviour. Frequent innovations in the development of sophisticated technologies paves way for the emergence of a life style that have brought an attitudinal change in the customer. In a technology age, the level of expectation which is largely influenced by attitudes, starts moving upwards which if not fulfilled properly, opens door for dissatisfaction. Banks, like any other industry must, therefore, attempt to better understand their customers in an attempt not only to anticipate but also to influence and determine consumer-buying behavior.

Within the traditional structure and operation of the banking 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 the 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 behavior when purchasing financial products. As a consequence, banks and other financial services providers are less certain that their customers will continue to bank with them or that they will be able to rely upon the traditional

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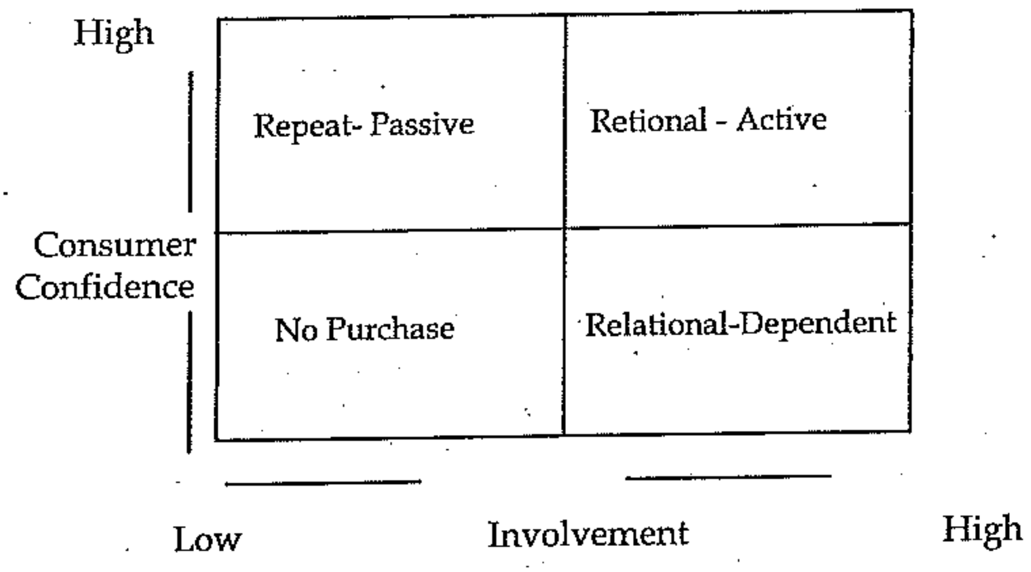
banker customer relationship to cross-sell high value, so-called ancillary products. In an era where customer retention and the ability to cross-sell products to existing customers are critical in determining profitability, it is important that banks respond strategically to these changes. Bank providers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

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). 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.



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. Give 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 activity seeking alternatives. 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.

- 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 norms, possessing the ability and inclination to make carefully considered purchase decisions across all choice environments. In terms of ideal types consumers are rational or rationally inclined. To purchase in a "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 rationality, as discrete constructing 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 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 or 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 from relationships to reduce uncertainty and structure their pattern of purchases. 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.

Consumer behaviour and delivery channels: Adding a third dimension to the Matrix

The 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. 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. The focus upon the process of delivery is represented by the Z-axis in the Figure. 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.

- **Repeat-Passive**

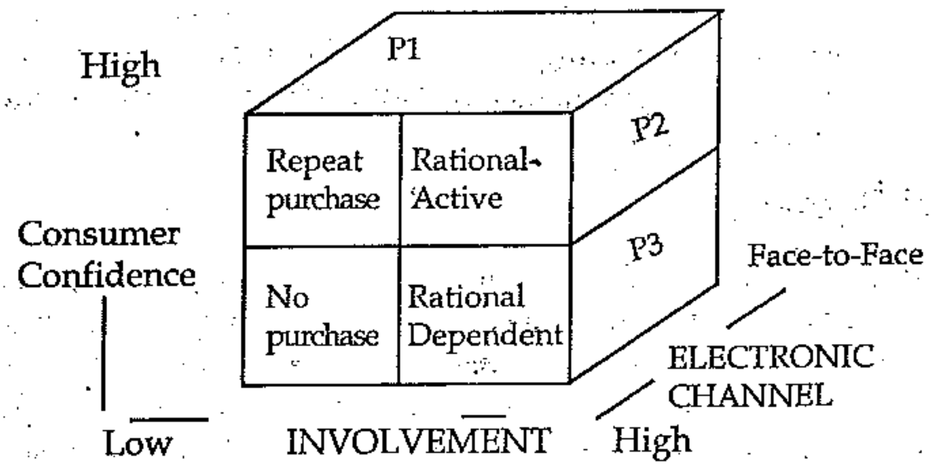
In this context, the consumer has low levels of involvement but levels of confidence. Moreover the consumer seeks the speed and convenience of a short duration and low contact from of transaction. In the Figure, P1 refers to transactions typically associated with a current, such as standing orders, direct 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 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". [P2]

- **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 conductive 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. [P3]



Strategic implications of consumer behavior ideal types

Each of the ideal types described in the consumer behaviour matrix has implications for financial providers' organizational and marketing strategies, in that they give rise to contingencies, which demand a strategic response.

- **Repeat-Passive**

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.

- **No Purchase**

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 relationship to alternatives. The relationship enables the banks (or an individual) to differentiate itself from competing alternatives. Companies frequently use brands as the basis for relationships between themselves and consumers. 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. The problem of a lack of differentiation in the market place affects banks and financial products and services generally and, therefore, makes it difficult to create consumer relationship. 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 emphasize 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.

Conclusion

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.

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