Taking Advantage of Market Opportunities via Segmentation

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A study by the Pew Research Center, released in September, noted that the median income of American households decreased by as much in the two years after the official end of the Great Recession as it did during the recession itself. In fact, in the two years since the end of the recession, median household income has fallen by 4.1%. The gloomy indicators in income, poverty, and wealth point to the current and future financial habits, needs, and preferences of consumers.

Understanding your customers’ needs has always been important. Now, it is essential – especially given the degree to which those customers’ needs have changed in the last four years. In this article, I will discuss a few important elements of a traditional approach to market segmentation and explore the generational habits and differences of three distinct generations. By recognizing how these generations are reflected in your customer base and aligning your marketing and product delivery with these generations, a clearer path to profit can be achieved. Before the end of the article, I will also offer a seemingly obvious, yet slightly unconventional approach to the topic of segmentation.

Many institutions today are focused on growing their franchise through cross-selling. There is no arguing that cross-sell often equates to profit. It’s more cost-effective than acquiring new customers and is a tried-and-true mainstay of retail banking – its presence in the metrics of most retail financial establishments attests to this fact. However, without a targeted delivery of products and services catered to specific customer segments, cross-sell can miss the mark. It is like forcing a square peg into a round hole. Moreover, a mis-targeted effort can feel inauthentic to the customer. This is especially risky in the current economy, where consumers are increasingly empowered and often value a personalized approach.

A focused delivery of products paired with cross-selling will lead to profits, pure and simple. And regardless of whether your strategy is focused on retention or acquisition, you can no longer act as if all customers are the same. That means market segmentation. Done correctly, segmentation gives institutions the knowledge to deliver customer value on factors that are both relevant and important to them.

First, a quick definition: market segmentation is a strategy that involves dividing a broad target market into subsets (or segments) of consumers who have common needs. Segmentation usually occurs in one of three general categories:

- Geographic Segmentation – your market is segmented according to geographic criteria (e.g. cities, neighborhoods, zip codes, etc.)
• Demographic Segmentation – your market is segmented on variables such as age, gender, family size, income, occupation, education, religion, race and nationality.
• Psychographic Segmentation – combines psychology and demographics to divide the consumer in your market according to variables such as their lifestyle, personality, values and social class.

Our firm most frequently uses psychographic segmentation, by means of the Nielsen P$YCLE household segmentation system. This level of data drills down into the actual buying habits of individuals. Of course, an important element of that analysis is the generational preferences of those individuals. Each generation has its own unique needs and with today’s empowered consumer, financial institutions must pay attention to these needs. It’s up to banks and credit unions to make an effort to look at their customers as people with lives, habits, and practices and to take all of that into account when offering products and services. This will lead to loyalty, retention, and profits. Let’s look at your three primary cohorts:

Generation M

Yes, that says Generation M. That isn’t a typographical error. Normally I would begin a review of demographic cohorts with a review of Generation Y (generally understood to include those born between 1982 and 2004). Gen Y, also referred to as Millennials or Echo Boomers, has distinctly different behaviors, values, and attitudes from previous generations. We actually spend a great deal of time talking about this particular cohort. Remember, the oldest of them turned 30 this year.

Embedded in Gen Y is a far more relevant segment that is worthy of note: Generation M. I know it can get confusing, but this conceptual framework is beginning to help those in banking understand how to attract and retain a younger customer base. The term Generation M was coined by the Kaiser Foundation in conjunction with a large scale, three-part study of media use by 8-to-18-year-olds in 1999, 2004 and 2009. Time Magazine added further definition to the term in 2006 by calling them the ‘multi-tasking’ generation. Essentially, it describes those who have had their lives shaped by the fast-paced nature of rapidly changing technology and points to the subtle shift in behaviors that will have the greatest impact on what they require of their financial institutions. These are the media-hungry, digitally connected late-teen and twenty-somethings who have grown up listening to iTunes, working on projects, and sending friends text messages all at the same time.

The biggest challenge with this generation is, and will continue to be, messaging and brand engagement. Bestselling author Brett King often reminds bankers that our delivery channels are geared toward Baby Boomers and Gen-Xers’ desire for face-to-face “touch and feel” customer experience; where Generation M is more “see and hear.” They want more than a personal connection to a customer experience, they need to share and talk about that experience – and their connection needs to happen at high-speed.
Throughout my time as a marketing professional, I have consistently heard in meetings that this generation “does not want to be bothered” and “is not interested in developing a working relationship.” I will not deny that this may be true in some instances. However this is by no means an excuse to dismiss the generation as unreachable. Instead, the best way to reach this generation is to provide the necessary resources for the start of an ongoing relationship with your institution.

Generation M has always known a world that’s constantly available at their fingertips. As such, their expectations are often centered on immediacy, independence, and convenience. Plus, with the myriad of electronic devices that make up their everyday lives, multi-tasking has become this generation’s most defined characteristic.

A single trip to the bank to discuss products is not what first occurs to a member of Generation M. When it’s possible to research products online, ask your entire social network for recommendations, and sign up for accounts online, all at the same time on one’s own timeframe, why would you do anything else? The majority of Generation M will feel most comfortable seeking out financial products on their own time – which is often outside the hours of most brick and mortar locations.

So with a generation that values a completely new way of doing business, how do banks keep up with them? The answer is to simply be where they are and allow them to do what they do. An online presence is crucial – not stopping at simply having a website. Their most popular search engine is YouTube and an online presence today is about having positive reviews on Yelp, an up-to-date Facebook page, a constant Twitter feed, etc. Instagram, Tumblr, Pinterest are similarly powerful communication tools. Also, this generation is increasingly using mobile devices as their primary form of electronic activity and communication, so financial institutions must be able to offer all of their services in a sleek mobile interface.

Segment takeaways:

- Provide quick, easy, and convenient self-service, with customizable options that are easily accessible, especially via the Internet and mobile devices.
- Make mobile banking adoption a top priority. While there are new operational costs with mobile banking, it is the lowest cost banking channel. A branch transaction, $4; call-center, $3.75; ATM, $0.85; mobile, $0.08. Yes, eight cents per mobile transaction.
- Remember, they are still feeling the effects of the Great Recession. Student loan debts, job insecurity, and declining employer benefits are very real to this cohort. Provide the virtual tools, information, resources, and products that help them navigate their complex financial lives on their own terms.

Generation X
Generation X consists of people born between 1965 and 1982. As they are well into middle age with their own families and careers at this point in their lives, they have a unique financial situation all their own. A generation known as being fiercely independent and adaptable, many have built thriving careers and comfortable lifestyles for themselves and their children. However, these lifestyles come at a cost and things like college loans and credit have become a common fact of life for many in this generation.

Full product suites are essential to profitability among this generation. As already-full lives become even busier, the convenience of dealing with financial needs in one place becomes a major selling point to customers of this generation. It also leads to profitability for financial institutions.

Credit is a major aspect of Generation X’s finances – mortgages, student loans (both their own, and those of their college-aged children), auto loans, credit card balances, etc. When customers are able to get all of these at the same place where they hold checking and savings accounts, and at competitive rates, the value of convenience leads to increased retention. Also, with widespread credit comes an increasing need for financial advice – a need that banks and credit unions can harness by offering this as a free service and further deepening the relationship of the customer with the institution.

An online presence is also crucial for reaching Generation X, though certainly not to the extent of its importance for Generation M. Facebook could very well be the most important online tool for reaching this generation. Members of Generation X account for nearly 20% of Facebook’s users, according to 2011 dataiv. Personally, as a mid-20s working professional, I see my aunts, uncles, and friends’ parents more active on Facebook than many of my own peers. Facebook has become a key social aspect of Generation X’s collective daily lives. When banks and credit unions establish a strong Facebook presence, deeper personal connections to the respective institution is inevitable. When updated frequently, the bank or credit union becomes as much of a part of this generation’s social life as many of their other Facebook friends.

Segment takeaways:

- Make certain you offer a full range of products and services; including credit.
- They are under financial pressure and they want advice on how to manage their day-to-day finances. Access to financial expertise focused on controlling spending and revamping investment strategies is of increasing value. HINT: Generation X considers video-based communication with their banks a positive differentiator.
- Get social! Facebook is a good place to start.

Baby Boomers

The Baby Boomer generation consists of those born immediately after World War II; generally from 1946 to 1964. It is a huge cohort, and it probably takes as many as eight
sub-segments to capture the important, often subtle, nuances that can spell the difference between a successful and failed outreach to them. The oldest turn 66 this year, the youngest, 48 years old – and for the next 18 years or so, Baby Boomers will be turning 65 at the rate of about 8,000-10,000 a day.

Most analysts already know that these are not going to be your traditional senior citizens. A study by Intuit reports that un-retirement and active engagement best describe their lifestyle choices as they continue to work part or full-time in current professions or start new careers. Making the change to living off retirement accounts and navigating investments can be a stressful time full of unanswered questions and uncertainty. Thus, financial institutions must make an effort to offer assistance where it is needed.

Baby Boomers find value in knowing their banker or financial representative. Where Generation M will seek out other means of financial advice on their own accord, Baby Boomers instead will be most likely to seek out an employee they are familiar with for financial advice. By fostering these ongoing relationships, financial institutions can increase retention and thus drive profits with further products and services throughout the lifetime of the relationship.

During a recent focus group session with customers of a community bank, I heard a testimonial from a Boomer-aged customer who had nothing but praise for a bank employee who helped walk him through the process of setting up a trust. This bank employee made a point of explaining each step of the process to the customer and never let communication slip. From that point forward, not only did the customer walk away with a greater appreciation for the bank as a whole, but he felt a personal connection with the employee who helped him. As a result, the bank gained a lifelong customer and the opportunity for a continued relationship of other products and services.

Segment takeaways:

- For the oldest of your Baby Boomers, your products and services should address these areas of concern:
  - Maintaining adequate levels of income for day-to-day expenses
  - Covering increased long-term care costs
  - Managing their health and longevity risks

- Keep in mind, 40% of Baby Boomer households have children under 18 years of age. The Great Recession ate away billions in 401(k) assets, other retirement savings, and likely inheritances; and some reports suggest as many as ¾ of Boomers are at financial risk or are concerned about their future. Financial advisors are a Boomers best friend.

- Personalize your marketing – Boomers are the ‘me’ generation so avoid generalizations and put the ‘me’ in your messaging and your media.

Now for one final thought.
The process of traditional market segmentation is a valuable tool for understanding broad concepts about specific groups of target customers. As the current age of micro-targeting proves, the more we know about a customer’s needs and preferences, the better we can align our product and service mix to remain relevant to that customer. Yet, in many cases, the clearest picture of a market comes through a blending of both traditional segmentation and actually talking to your customer. It is a simple concept, yet too often overlooked. Data obtained by speaking with actual customers in a structured manner (one-on-one, focus groups, etc.) is a great way to identify unmet needs and validate your segmentation strategy.

Travis McCafferty is a self-proclaimed member of Generation M. He is a consultant for Chicago-based Market Insights, with a background in retail banking with TD Bank in Boston. He oversees client and market data analysis, customer segmentation studies, and the visual presentation of research data and strategy. If you would like to learn more about this type of customer segmentation or how it can help your own situation, please contact Travis at tmccafferty@formarketinsights.com or follow on Twitter @mi_travis.

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