OLIVER WYMAN

MAKING THE SWITCH

THE DYNAMICS OF CONSUMERS' "PATH TO PURCHASE" IN CHECKING

AUTHORS
Vivian Merker, Principal
Tim Spence, Partner

MARSH & McLENNAN COMPANIES

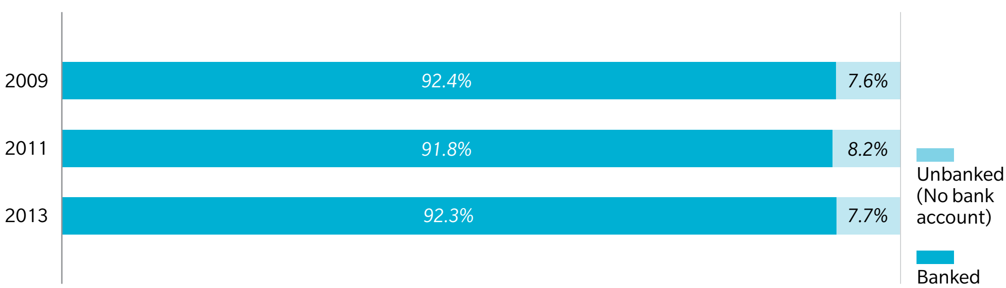
INTRODUCTION: ELUSIVE GROWTH

Consumer checking relationships have long been the essential core of retail banking. Even in today's low interest rate environment, we estimate that checking alone represents a $20 BN profit pool for US banks. And as the anchor relationship product, checking is often the primary source of cross-sell opportunity for other payments, lending, and investment products.

In recent years, however, acquiring new checking households has proven challenging for most large banks. The US checking market is growing slowly overall, owing to saturation and low new household formation. Meanwhile, de novo branch building – the historical driver of organic market-share growth for most banks – has turned negative.

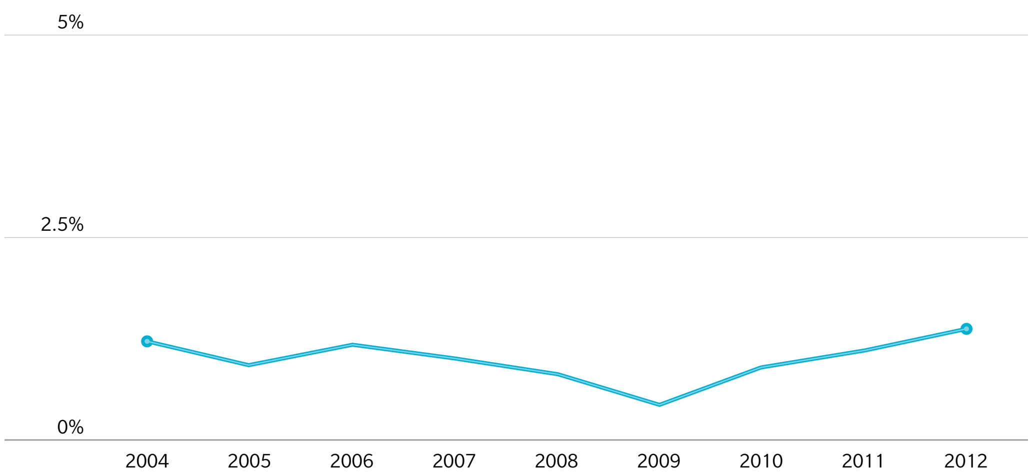
Exhibit 1: The overall checking market is a "no growth zone"

HOUSEHOLDS WITH AND WITHOUT A BANK ACCOUNT OVER TIME



Source: 2013 FDIC National Survey of Unbanked and Underbanked Households

OVERALL GROWTH OF US HOUSEHOLDS

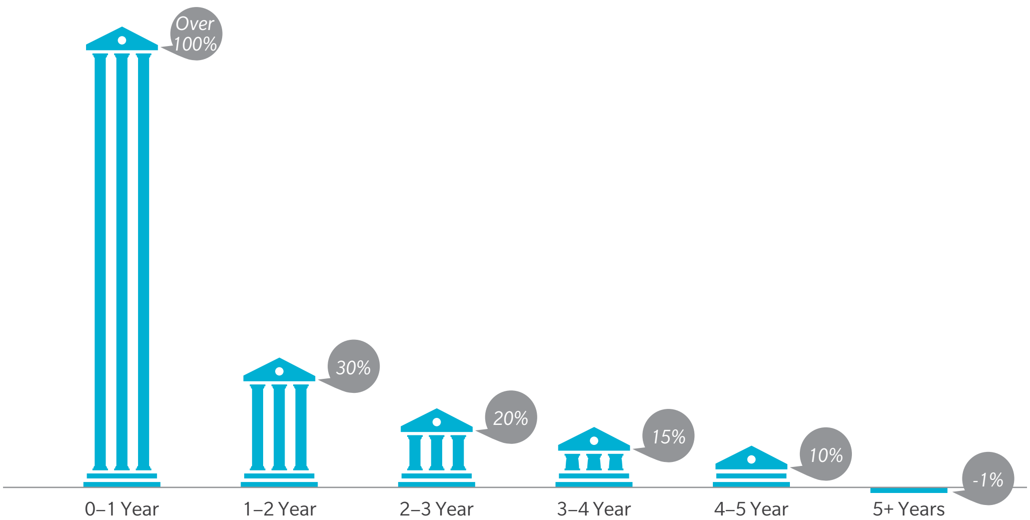


Source: US Census

Note: 3-year average %

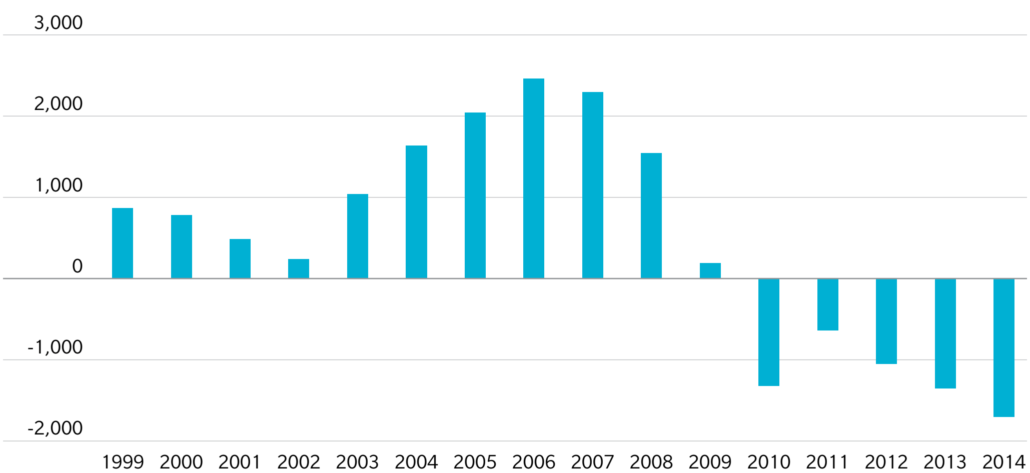
Exhibit 2: There are limited opportunities to employ legacy approaches to gain market share

NET CUSTOMER GROWTH RATE BY BRANCH AGE



Source: Disguised client example, approximate percentages
Note: Annual new household gain/loss

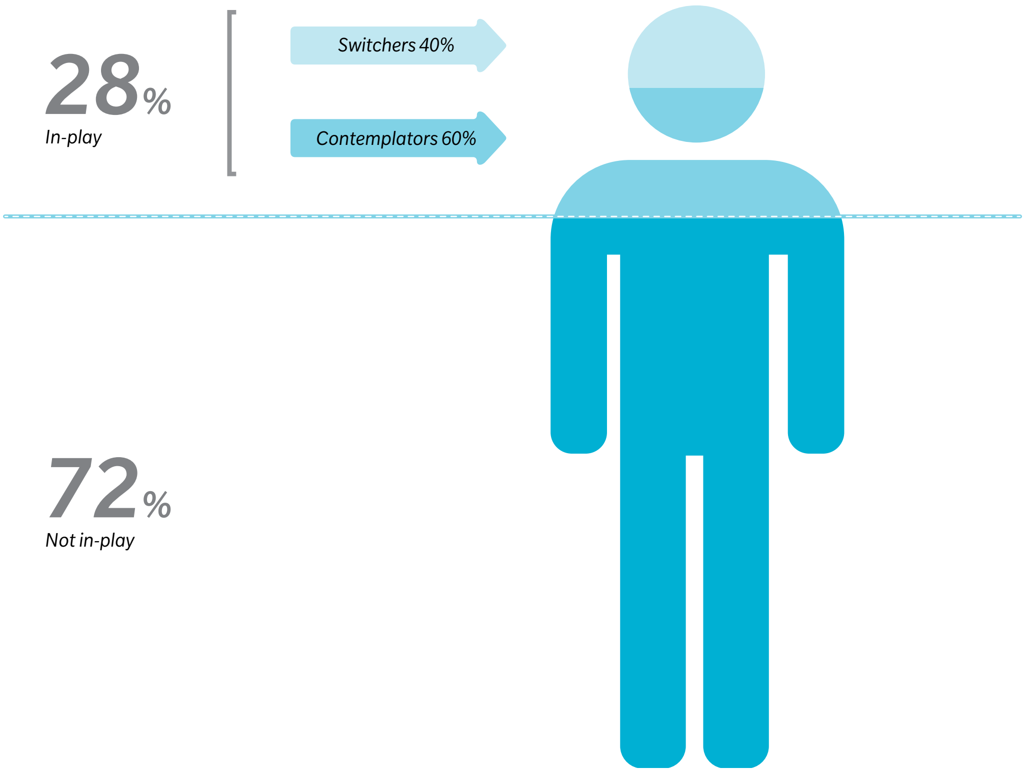
NET BRANCH OPENINGS BY YEAR



Source: SNL

With market-wide options now limited, to grow core relationships and gain share, banks must win customers individually. One way to do this is to attract a larger share of consumers who are actively shopping for a new checking relationship at any given time – those who are "in-play". 28% of consumers say that they consider opening a new checking account each year; and 40% of these actually do (i.e. 11% of the total checking base). What does the path to purchase look like for those who are in-play? How can banks be sure to attract them? And what can banks do to win the business of the 60% who are in-play but who ultimately do not switch primary banks?

Exhibit 3: Switching among checking account customers



Source: Oliver Wyman Survey of Consumer Finance, 2012
Note: Annual view

A recent study sponsored by Oliver Wyman and AOL sought to explore these questions through a survey of more than 1,700 consumers who either switched their primary checking account, started the switch process only to abandon it before completion, or opened their first checking account. This paper focuses on the in-play consumers as opposed to first-time account openers. We were able to combine participants' survey responses with their actual online clickstream history during the 90 days prior to beginning the application process for a unique perspective.

Our research sheds new light on the Path to Purchase and highlights several areas where banks may be able to improve overall growth and profitability by rethinking their acquisition strategies.

WINNING THE IN-PLAY CONSUMER: SUGGESTIONS FOR BANKS

Conventional wisdom dictates that consumers shop for banking products in a fashion that is roughly similar to the way they shop in other categories, and banks have generally organized their acquisition marketing and sales efforts around a traditional purchase funnel. They rely heavily on media advertising to build awareness, use promotions such as outbound cash offers to generate interest, create brochures and account information webpages with detailed comparisons of accounts to appeal to left-brain thinkers, and trust that customers will make the logical choice after careful consideration.

However, our new Path to Purchase research challenges that conventional wisdom. We find that brand preference is actually set before customers consciously decide they want a new account. Customers come into play for a wide variety of reasons, but their subsequent consideration process is apparently more about confirmation of the original preference. Interestingly, the research also shows that more in-play customers actually never make the switch and remain in-play. These "contemplators" represent a missed opportunity for acquiring banks.

Insights from the research suggest ways that banks can adapt their strategies to increase their share of new customers. We focus on three core plays in this paper:

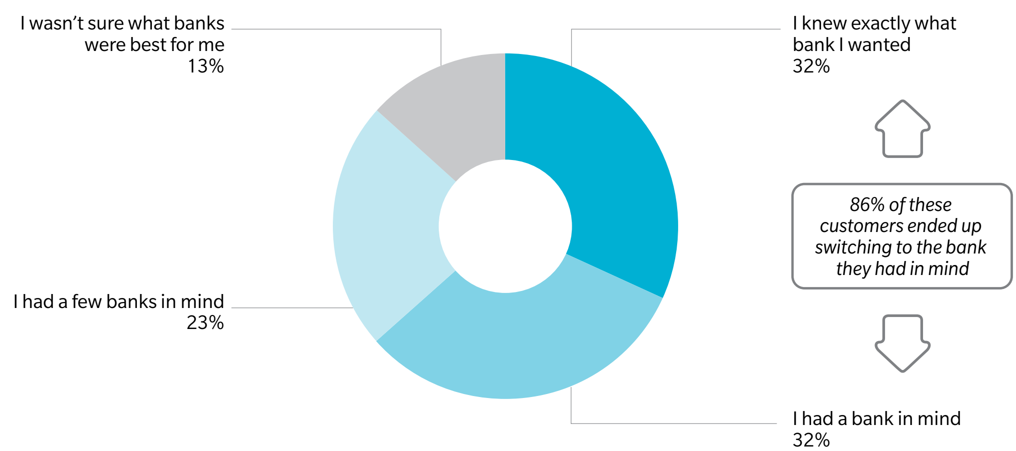
- Focus marketing efforts to reinforce the brand
- Segment the in-play group and pursue them with targeted strategies
- Emphasize value proposition, not price competition

FOCUS MARKETING EFFORTS TO REINFORCE THE BRAND AND ENSURE THE BANK IS ALWAYS UNDER CONSIDERATION

Most consumers start the switch process with one or a few banks in mind and spend less than a month researching. This is why it is important for banks to engage consumers well before they begin the switch process, so when the consumer does become in-play the bank is already part of the consideration set.

Exhibit 4: Bank consideration sets for switchers

WHEN YOU FIRST CONSIDERED SWITCHING, WHAT BEST DESCRIBES YOUR MINDSET ABOUT BANKS?



Source: Oliver Wyman Path to Purchase Study

The battle for many in-play customers appears to be won before they even come to market – so how do customers select the bank in which they are interested? The most commonly cited source of influence is recommendations from family, friends, and coworkers. Three other influences all affect at least 20% of switchers: reading or searching for information, interactions with representatives or other prior experience with the bank, and exposure to ads and promotions. Of course, the impact of these sources of influence is shaped by the characteristics of the bank itself, including its branch locations, product offerings, and more.

Given the diversity of influences on switchers' choices of new banks, every bank's marketing function should develop an understanding of their brand's current awareness and level of consideration among potential customers, and undertake targeted steps for improvement. For many banks, ensuring a place in the consideration set for the in-play customers may include the following types of activities.

Modernize referral programs. Accelerate advocacy among current customers and harness the power of the personal recommendation, the most commonly cited source of influence. For example, this could include referral discounts for customers to share on their social media profiles.

Maintain prominent, well-situated branches for their billboard effect. For banks pursing branch reduction in the face of declining branch traffic, the right approach may be to migrate toward an optimal location mix with a mixture of closings and new branch opening.

Reallocate marketing budgets. Shifting some promotional spend to additional "always on" branding can help keep the brand top-of-mind for potential customers wherever they are in their Path to Purchase.

Use distinctive marketing messages. They should stick in the minds of in-play customers and stand out from today's typically generic or product-focused messages.

Spend wisely on paid search and keywords. Interestingly, clickstream data showed that half of bank-related searches by in-play customers are branded, simply to locate a bank's website (e.g. googling "Bank of America") as opposed to broader searches for things like the "best bank", and only 15% of switchers visit bank review websites. Banks should also ensure that marketing mix models attribute accurate impact to digital marketing with sufficient data or precisely applied expert judgment.

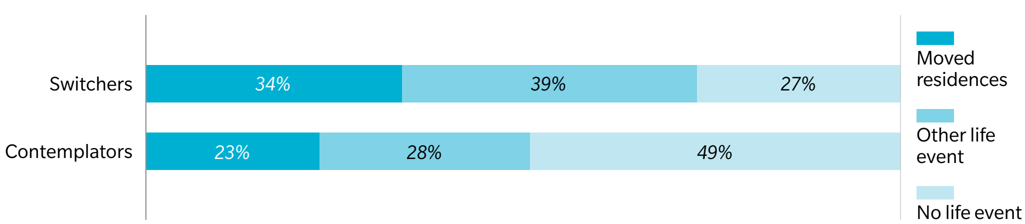
SEGMENT THE IN-PLAY GROUP: CAPTURE SWITCHERS AND CONVERT CONTEMPLATORS

We noted earlier that 60% of the in-play customers ultimately do not switch while 40% of them do. Banks should adopt strategies specific to each of these sub-groups of potential customers so that they successfully capture switchers and convert contemplators.

Use life events as a means to identify switchers. On the surface, switchers and contemplators have similar demographics, but one significant difference that may allow banks to segment the in-play is that actual switchers are more likely to have experienced a life event in the past year.

Exhibit 5: Frequency of life events in switchers and contemplators

DID YOU HAVE A LIFE EVENT?



Source: Oliver Wyman Path to Purchase Study

Life events are a powerful trigger that causes people to reconsider their banking relationships for a variety of reasons:

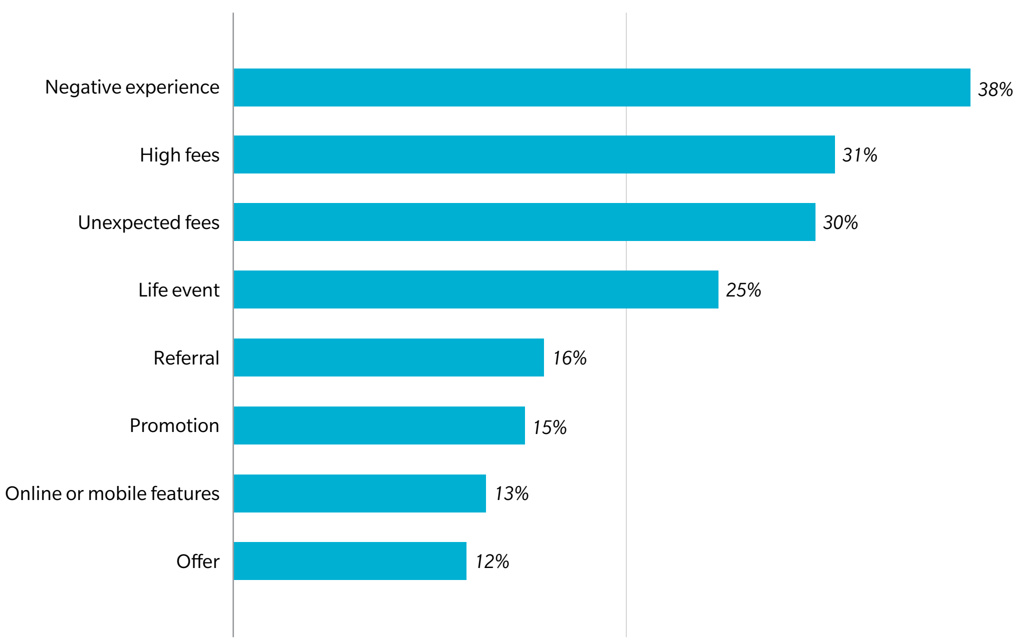
- Perceived necessity: "my old bank doesn't have a branch near my new home"
- Broader re-evaluation of choices: "now that I'm a parent, I need to make sure I'm making smart decisions with my finances"
- Change bundling: "since I'm going through so many changes already, I guess it's finally time to act on my general banking dissatisfaction by making a switch"

Banks should try to identify people with life events as potential customers. For example, banks could acquire contact information for people who list their homes for sale as a leading indicator of moving; such information can be obtained from data vendors. Alternatively, a bank could buy online ads tied to key word searches that signal such life events. Targeted outreach to people experiencing life events will access a higher percentage of in-play consumers – and of the sub-group who will actually switch – and therefore may produce a better return than more general promotions.

Despite the above evidence, it is interesting to note that the influence of life events may be subconscious. Only 25% of switchers say they first started to think about switching because of a life event although 73% have experienced at least one in the past year; they are 50% more likely to cite a negative experience, and they are also more likely to cite high or unexpected fees. What does this mean for banks? Even if the bank's efforts are targeted at people experiencing life events, the optimal message may emphasize hassle-free service and a strong value proposition – the reasons customers cite for thinking about switching.

Exhibit 6: Motivations for switching

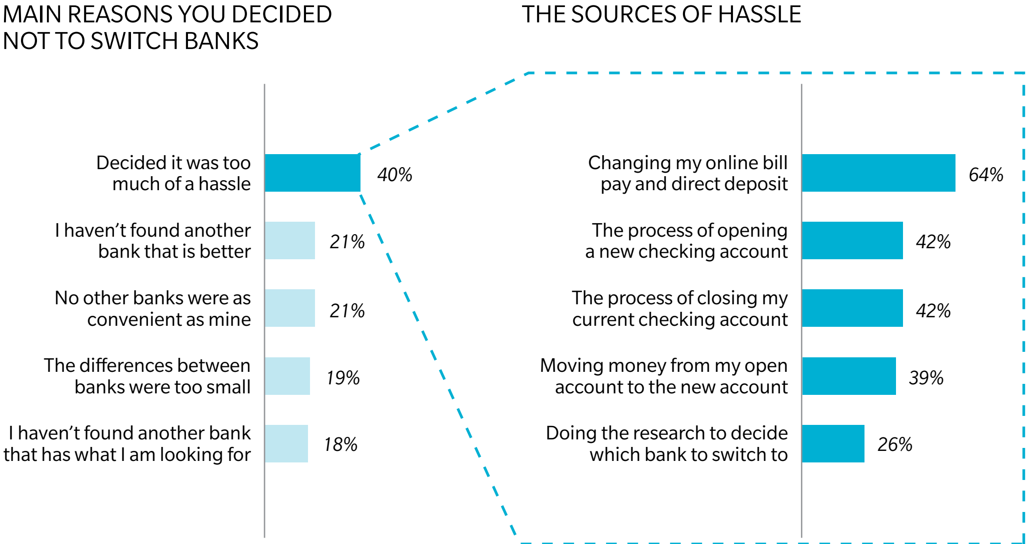
WHY DID YOU FIRST START TO THINK ABOUT SWITCHING?



Source: Oliver Wyman Path to Purchase Study
Note: Multiple selections allowed; top eight displayed

Reduce the barriers for contemplators. If in-play customers experiencing life events represent the low-hanging fruit, those who are in-play but less likely to actually switch are the prize fruit worth reaching for since there are 50% more contemplators than switchers. Specific strategies are required to target and convert contemplators, grounded in an understanding of what typically deters them.

Exhibit 7: Main reasons for not switching banks and sources of hassle



Source: Oliver Wyman Path to Purchase Study
Note: Contemplators, multiple selections allowed, top five displayed

The research shows that contemplators perceive switching to be a significant hassle – by far the largest reason for abandonment. They also appear frustrated by the lack of distinction between banks. Banks can address these and other concerns to increase their pull-through with potential customers.

Reduce hassle by creating a powerful, user-friendly website and delivering on the promise of omnichannel. Banks' own sites are the most-used source for customers reading or searching for information about new accounts. Banks must review their websites critically:

- Can new account information be located quickly?
- Does the website convey the overall value proposition of being an account holder (or does it dive immediately into the details)?
- Can customers readily find out where to turn if their questions are not answered online?

Ethnographic research can help fine-tune the site's usability and intuitiveness. Leading banks are building click-to-call functionality, allowing customers to book in-branch appointments while online, and sending multi-channel follow-ups after an account opening. The latter also allows banks to identify customer-preferred channels for future communication and maximizes the possibility of account activation.

Banks should consider significantly upgrading online account opening processes as well as website contents. Customers should be able to start applications online but sign and fund them in the branch if they prefer. Ensuring that fraud policies do not create unnecessary manual reviews and providing a variety of simple funding options can also increase the likelihood that a high fraction of applications will turn into new customers.

Consider switching services for high-value targets. Although we have yet to see a compelling low-cost switching concierge or other solution that delivers a seamless experience in the US, the investment in a premium assisted switching solution may be worthwhile for selected in-play customers who can be expected to generate significant profit for the bank.

Emphasize uniqueness in marketing materials. Convey that the experience of being a customer is different at the bank compared to competitors, and provide support with compelling proof points in marketing materials; this may also help with brand awareness as indicated earlier.

Use offers tactically to instill urgency in engaged customers. Banks can deploy offers to customers who are already in-play and engaged to encourage follow-through. For instance, customers who are investigating a bank's website can be extended limited-time offers or hassle-free switch support if they open an account immediately.

AVOID PRICE-ONLY COMPETITION; FOCUS ON VALUE PROPOSITION

Banks have a delicate balance to achieve on price. Customers undoubtedly say that they are sensitive to price, but given that most customers come to the market with a particular bank in mind and end up at that bank, their decision process does not appear to be driven by price comparisons – thus banks should avoid competing on price and giving away value unnecessarily. Consider this simple math: to justify charging a base account fee of $7.99 per month instead of $9.99, a bank must attract over 25% more customers as a result of the lower price; it is not clear that consumer price elasticity stretches this far.

Be wary of broadly distributed cash offers. Banks should refrain from competing to offer the highest cash bonus to new accountholders. Most customers attracted by promotions like these end up abandoning their attempt to switch, meaning that the payouts that are made end up with customers who would have switched anyway. Instead the money may be better deployed to encourage conversion in contemplators, as mentioned above.

Steer clear of the price war. Banks do not need to out-price their neighbors – they simply need their product and pricing to represent a fair value exchange on a stand-alone basis, something that can be tested with customer research. Product profit is far more sensitive to a price change than consumer response is. We have seen several of our clients successfully raise their prices while increasing their share of new customers by honing their product design and value proposition. This does not mean providing a laundry list of features but rather focusing marketing on the features that resonate most with customers.

Emphasize the value proposition. In focus groups, customers react very differently to the same set of features based on the account name. Why is this? Customers are deciding quickly whether the account feels like a good fit – if it is designed for someone "like me" – reinforcing the idea that product design should be holistic, with a value proposition that provides instant appeal to target customers. Furthermore, the value proposition set needs to be simple (i.e. no more than three basic value propositions) to be compatible with customers' quick evaluations.

CONCLUSION

The Path to Purchase research offers a starting point for banks that wish to improve their customer acquisition success. Banks should:

- Invest in always-on brand building since customers come to the market with their brand preference already set
- Identify and target switchers using life events since they are much more common among switchers
- Doggedly pursue the large population of contemplators by eliminating hassles, differentiating their value proposition and deploying offers, to address common reasons for abandonment
- Convey the experience and value proposition of the account rather than compete on price since customers do not appear to select their bank based solely on price – while product profitability is extremely sensitive to price reductions
- Not neglect retention – although not the focus of this paper, many of a bank's own customers are in-play, and keeping good customers is just as important as winning new ones. Banks that apply the insights from this research to support retention efforts, as well as tailor their retention approaches based on an informed understanding of their individual customers' value to the bank, will have a leg up on net growth goals with retention as well as acquisition

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

For more information please contact the marketing department by email at info-FS@oliverwyman.com or by phone at one of the following locations:

AMERICAS	EMEA	ASIA PACIFIC
+1 212 541 8100	+44 20 7333 8333	+65 6510 9700

AUTHORS

VIVIAN MERKER
Principal
Vivian.Merker@oliverwyman.com

TIM SPENCE
Partner
Timothy.Spence@oliverwyman.com

www.oliverwyman.com

OLIVER WYMAN