

MARKETING OF FINANCIAL SERVICES

Lecture Three

Financial Services Consumer Behavior

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WEEK THREE

3.1 Introduction

Welcome to week 3 of our lecture! It is my great joy to have you in this class. Last week, we examined the environment in which marketers offer their services and its implication to marketing decisions and strategies. This week we shift our focus to behavior displayed by consumers in the process of purchasing a financial service or product.

3.2 Intended Learning Outcomes

At the end of this lecture, you will be able to

- a) Define consumer behavior in service context
- b) Determine factors influencing consumer behavior
- c) Evaluate service consumption process
- d) Establish significance of consumer behavior knowledge

3.3 Definition of Financial Service Consumer Behavior

There are several definitions of consumer behavior that have been advanced by marketers. This is behavior that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs ((Schiffman and Kanuk, 2004). The field of consumer behavior is the study of individual groups or organization and the processes they use to select, secure, use and dispose of products, services, experiences, or ideas to satisfy needs and the impact that these have on the consumer and society (Hawkins, Best, and Coney, 2001)). Consumer behavior is the sum total of how individual and groups recognize and determine their needs and how they purchase and experience goods and services to meet those needs (Solomon, Bamossy, Askegaard and Hog, 2006). It includes what, when, where, why and how of the purchase and experience process.

From the various definitions we extract the following about consumer behavior

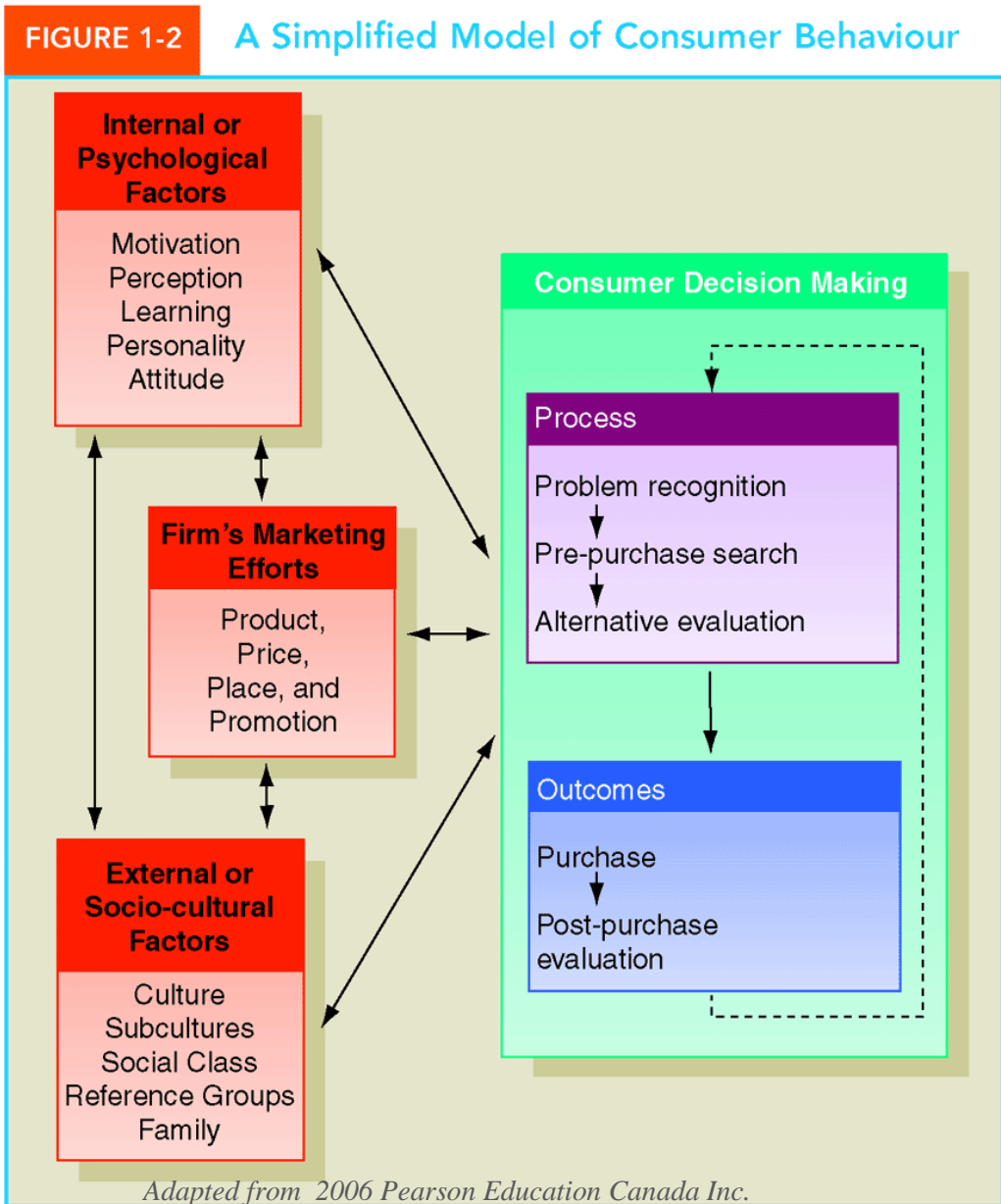
- a) Consumer behavior is a process not a single activity
- b) The goal of this process is to satisfy a need
- c) It may involve groups or individuals
- d) The process involves need recognition
- e) The process also involves means of satisfying the need
- f) The definition further stipulate that the consumer will evaluate the extent to which their expectations have been met

From this information we can define consumer behavior of a financial services as the process through which consumers go through in looking for, purchasing, consuming, and evaluating the quality of a financial product. This definition implies that the consumer will have to recognize

his need, looking for a service that can satisfy a need and finally evaluate whether that service has met his expectation or not.

3.4 Factors Influencing Consumer Behavior of Financial Products

Like any other product, consumption of a financial service is influenced by both intrinsic and extrinsic factors. The intrinsic factors are inside a person and may include motivation, perception learning, personality and attitude. The marketer needs to be aware of these factors and also relate them with marketing of financial services.



The consumer is also influenced by external factors that include culture, subculture, social class, reference groups and family. Each of these factors will have a bearing on decision made by consumer on consumption of financial services. The marketer needs to consider which factors have more weight on consumption of services.

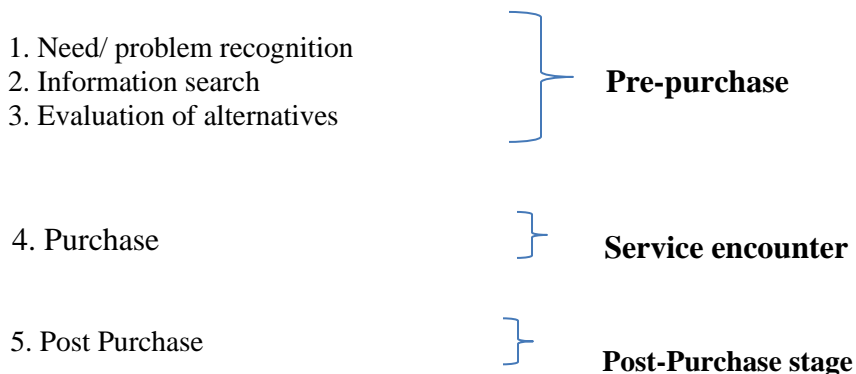
The other factor that will influence consumption decision is the firms marketing effort in terms of product, place, promotion, pricing, physical evidence, people, and processes. Each of these components will affect the decision of various financial services and how they will be consumed.

3.5 Stages in Purchase of a Financial Products

Consumption of a service is affected by service characteristics and offerings. Of particular importance to a marketer is the services offerings that will constitute search, experience and credence qualities. As noted by Lovelock (2011), search qualities refer to attributes such as color, price, feel, smell all of which a consumer can determine before buying a product. This makes it easier for the consumer to evaluate before making a purchase decision. Financial services are poor in these characteristics making it difficult for a marketer to evaluate before making a purchase decision.

Experience and qualities are noted during and after consumption. They constitute what the customer is going through and the results of the process. In purchase of a financial service, the consumer can assess the friendliness of service provider and the look of environment in which the service is being offered to make a bit of judgement on the quality. Credence qualities implies the characteristics that the consumer may find impossible to evaluate even after purchase and consumption. The financial services are also poor in this since the evaluation can be done only to some extent after purchase. Understanding of these qualities helps us in appreciating how consumers make purchase decisions.

The specific steps followed in purchase of a service will include need recognition, information search, evaluation of alternatives, purchase, post purchase behavior. Since services are different from goods these decisions are further classified into pre-purchase, services encounter, and post purchase stage.



a) Pre-purchase stage

This stage constitutes problem recognition, information search and evaluation of alternatives stage. Each step is described briefly

In the need/problem recognition stage, the consumer recognizes the need he has. This could be triggered by internal stimuli or from outside by marketing activities such as various types of promotion. Some consumers may not be aware of the need they have and therefore the marketer must try to convince them through personal selling. In other instances, consumers have latent need that need to be awakened by some marketing activities. The consumer will not seek to fulfill a need that is not well identified hence the need for marketers to avail the necessary information. Financial services, the marketer must not only demonstrate the need but also show the urgency and consequences of not fulfilling it. Insurance and pension firms usually use fear appeals to make customers aware of the need. Needs could range from physiological needs to safety, social esteem, and self-actualization. Each of these could be fulfilled through certain financial products.

Once the customer is aware of the need the next step is information search on how needs can be met. The customer will begin by doing internal search within his subconscious mind. Therefore, it is important for financial services provider to ensure that customers keep good memories of their experience with them so that the next time the customers have a need they will remember them. If they have not had a great experience with current service providers, the next step is to consult their close friends. In today digital world consumers will quickly rush to various website to see if there are providers of the desired service, where they are and perhaps the cost. The marketer must ensure that there is enough information on their online platforms for them to be considered by the potential customer.

Lovelock (2011) notes that consumers seek information for them to reduce perceived risk. Some of the risks perceived include financial risk (loss of money), time risk (waste of time), performance risk (services may not meet expectation), social risk (what friends will say about the service bought and psychological risk (whether the service will injure self-esteem of the service receiver). These risks are on increase because of the intangibility aspect of a service. The financial service provider must endeavor to reduce these risks by offering guarantees, making the service more tangible, offering a free or reduced-cost trial period for a service, employee training so that they can provide standard services and through employee compensation

Once several options of satisfying the financial needs have been identified the consumer will have to evaluate them based on some criteria. Schiffman (2006) considers objective, subjective, compensatory, and non-compensatory as the options mainly employed by consumers. Subjective criteria considered the tangible aspect of a service such as the physical environment in which the service is delivered. Subjective criterion considers the symbolic meaning of a service like level

of prestige. The compensatory criteria combine several features of a product, weighs them and then chooses the option that has highest scores. The non-compensatory criteria look at an outstanding negative feature to reject the product and seek for others. The ones that don't carry an outstanding negative feature is picked. The marketer needs to be aware of these difference as they will affect purchase decision. He needs to understand the criterion that will be used for a particular service so that he can satisfy customers requirement to increase the choices of being selected

b) Service Encounter Stage

This is the stage in which the consumer makes actual purchase of the service. The financial customer interacts with the service provider by visiting the service facility or remotely through online, use of machines such as ATM. This stage is crucial in determining service quality and sometimes the customer becomes part of production of the service. Lovelock (2011) notes the following about this stage of service purchase. *“Service encounters as “moments of truth”*: *Richard Norman borrowed the metaphor (moment of truth) from bullfighting to show the importance of contact points with customers. Norman writes: (we) could say that the perceived quality is realized at the moment of truth when the service provider and the service customer confront one another in the same arena. At that moment they are very much on their own...it is the skill, the motivation, and the tools employed by the firm’s representative and the expectations and behavior of the client which together will create the service delivery process.”* This expression shows what happens when the service is being delivered. The knowledge and skills and motivations of the service provider are key on the quality of service delivered. On the other hand, the cooperation, behaviors, and knowledge of the customer will also contribute to quality of service being delivered.

Lovelock (2011) further notes that the compatibility of various customers taking the service will affect service delivery. Those customers who are heterogeneous should not be put together while those who are homogeneous should be encouraged to interact in the process of receiving the service. Emotions and moods also affect service delivery. These are feelings states that influence people’s (and therefore customers’) perceptions and evaluations of their experiences. Positive mood may make customers more obliged and willing to participate in behavior that helps service encounter succeed. Moods may also bias the way customers judge service encounters and providers as well as affect the way information about service is absorbed and retrieved in memory. This understanding is significant for a financial services provider in ensuring that this stage of service delivery is successful.

c) Post-Purchase Stage

This is the final stage in financial service purchase process. It is the stage in which customer evaluates his service received. Kotler (2006) notes that after consumption of the service a customer will either be satisfied, if the service meets his expectation, excited if the experiences

exceed his expectation or disappointed if it falls before expectation. Zeithaml, Bitner and Gremler (2006) notes that the experience will have great impact on word-of-mouth communication, attribution of dissatisfaction positive or negative biases and brand loyalty. Evaluation of services will be based on customer expectation. Lovelock (2011) notes that customer expectation could be classified as desired service. This is the level of service the customer hopes to receive, adequate service which is the 'minimum tolerable expectations'. The extent to which customers recognize and are willing to accept variation in service provision constitutes zone of tolerance while predicted service is the level of service that customers anticipate receiving. The financial service provider must strive to remain in the zone of tolerance failure to which the customer will be disappointed. The level of service expected is affected by factors such as personal needs, other people's expectations, the skills of company's managers / employees- location of business, personal service philosophies and urgency of the situation in which a customer is in

Review questions

1. Define a financial service and give its characteristics
2. Discuss the significance of financial services consumer behavior
3. Citing relevant examples discuss internal factors that influence consumption of financial service
4. Critically analyze factors that influence customers expectation of a financial service experience
5. Evaluate the statement “*Service encounters as “moments of truth”*”

References

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