

Descriptive Lifestyle Segmentation: Make your demographic data actionable

Viewpoint

Traditional client segmentation should be replaced by lifestyle segmentation if financial services organizations are to maximize lifetime value of a client.

Financial services are segmenting client by measures such as age, income address and assets, other companies are segmenting based on lifestyles providing insight into the client current and future needs.

Dynamics

- The organizations ability to effectively serve its customers revolves around its ability to provide services that fulfill the lifestyle needs at the correct point in the clients lifecycle.
- Clients no longer associate themselves with the mass market but group themselves based on issues and interests and will migrate towards organizations that share those views.
- Organizations must create and communicate an actionable lifestyle profile for its clients if it expects the whole organization to work towards satisfying clients.

Predictions

- Financial services firms that continue to segment clients based on traditional methods will find it difficult to retain market share.
- All areas of the organization will contribute to the client experience.
- Financial services firms will extend their product reach beyond current offerings in an effort to defend client levels.

Recommendations

- Develop a lifestyle profile of target clients and communicate findings throughout the organization.
- Develop products and services based on the lifestyle profile that evolve.
- Extend the reach of the brand in line with the client lifestyle profile.

Ralph Silva

"Financial services are segmenting client by measures such as age, income address and assets, other companies are segmenting based on lifestyles providing insight into the client current and future needs."



Viewpoint

Who is the client?

Financial services organizations have recognized the importance of segmenting clients into manageable classifications. Segmentation based on conventional demographic analysis that distinguishes clients based on statistical data such as age, income, address and assets have been successfully used for many years. With the increased pressures from non financial competitors utilizing more advanced methods, financial services operators are at a disadvantage.

Non financial organizations are tracking clients based on very detailed lifestyle data that more accurately describes the needs, wants and interests of clients. These companies have recognized that brand must follow client lifestyle needs, even if it extends beyond core competence. Sony has recently launched a banking service in Japan with the intention to serve the same lifestyle demographic that use PlayStation, digital TV and other Sony services. Sony recognized the importance of aggressively pursuing the complete lifecycle of clients.

Financial services organizations are relying on brand strength to present a defense against non financials. To be aggressive and mount an offensive attack will require that financial services operators begin to understand the clients to a level beyond the capabilities of non financials.

A trusted brand, high security and a strong relationship are inherent within financial services and provide for unprecedented access to user information. Consolidating this data into a lifestyle profile and making it actionable is essential to success.

Dynamics

Financial services providers have recognized the importance of segmentation.

In 2000, Gartner surveyed over 200 banks that had at least \$4 billion in deposits and determined that most did segment clients into categories. The most used categories included age, income, occupation, account balances, address and use of products. Although data was available, very little analysis was undertaken, in fact, less than 50% of the respondents developed predictions, those that did, developed rudimentary predictions for product volumes and geographic dispersion.

Financial service separated clients into categories developed by marketing and media companies who relied on mass marketing techniques utilizing traditional media sources. Subsequently, this data was used as the foundation to strategic planning cycles, product development and marketing targets.

Adapt to the shift of power towards consumers.

Media has changed over the last century moving away from mass marketing techniques and adopting more targeted methods. This has been due to the evolution in media options that appeal directly to issues and interests. Where historically, a nation had a select number of television stations or print media options, today hundreds are available to appeal to key areas of interest or specific issues. In the 20th century, consumers are defining themselves by these issues and interests.

Financial services has had success with target marketing, banks that use these techniques are experiencing yields that are three times higher than mass marketing programs. The challenges however, still revolve around finding the right media and the correct demographic to target.

Personalized service is also increasingly difficult. Traditional branch environment revolved around the personal relationships that were formed between relationship managers and clients. Often maintaining similar lifestyles, the representatives could relate to the customers lifestyle needs. With the advent of technology and the diversity of channels, these relationships are difficult to maintain. This has resulted in an apparent conflict, channels appear to favor mass marketing techniques, however, the era demands personalization.

Clients have many new channels that provide convenient access to many options. This transparency increases the volatility of the client base and the importance of migrating toward a client focused organization. A move in this direction requires an intimate knowledge of your clients. Most financial services organizations still need to develop such an understanding.

Clients have grown up in a media dominated age where availability of information is instantaneous and endless. This access is not limited to domestic borders, clients are demanding to be treated equally, regardless of location. Financial services can no longer discriminate on the basis of geography.

In the pursuit of economies of scale, financial services are extending their reach geographically and thus imposing additional complexity. As an example a 30-40 year old in Asia does not necessarily behave the same as a 30-40 year old in North America. For this reason, financial services organizations are struggling to maintain client satisfaction away from home markets. If financial services were to segment on the basis of lifestyle, then an increased level of conformity would exist and increased success in serving different geographies should be realized.

Traditional competitors for financial services providers have been other financial services providers today, however, competitors could come from unlikely sources. Grocery chains, automotive companies, and personal electronic companies are all attempting to provide financial services. They are doing this to follow the lifestyles of their clients and are not limiting themselves to core competencies. Financial services organizations have generally developed a defensive posture against non traditional competitors, but success will be based on the ability to launch an offensive and enter new markets. Before this can happen, financial services companies must understand their clients on a much higher level.

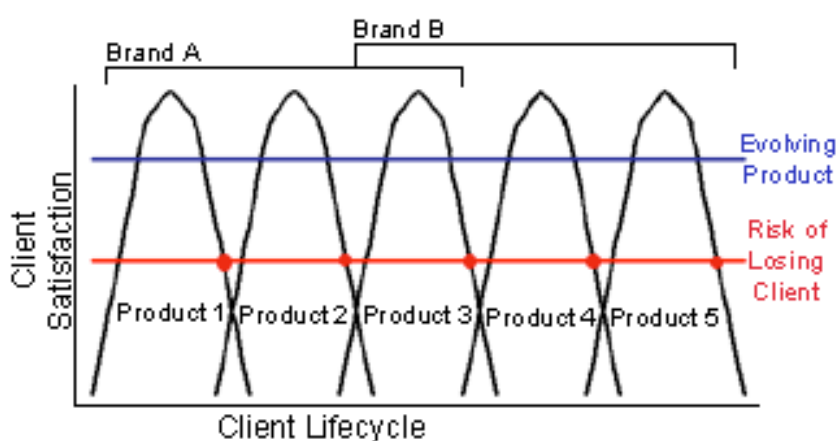
Financial services organizations sometimes forget that money is not about notes, coins or credit cards, but that money is emotional and represents a lifestyle. Clients look at products for their total offering and how the eventual outcome will affect them. Financial services companies are looking at products in physical terms. This contrast often results in a complete misunderstanding between client and firm.

Segmenting clients by lifestyle will have a far greater affect than traditional methods.

Typical segments would include clients between 30-45 years of age, with an average annual household income of \$50,000, average assets under management of \$100,000, professionally employed, and has residency in a particular city. Although the description may be accurate, it provides no insight as to the clients lifestyle their interests or concerns. Regardless of its shortcomings, the information is used in the development of products and services as well as the foundation for strategies.

Clients save or invest to sustain or improve a lifestyle not to get wealthy, money is an enabler not the goal. Clients look at products not as physical items but as enablers to a lifestyle. Some marketing departments have recognized the potential of lifestyle marketing, however, clients enter a branch, call in or log on and the traditional methodologies apply.

People change over time, and when their financial needs change organizations ask them to move to another product, or to another brand. Each one of these requests presents a risk of losing the client. The alternative is the development of products that evolve with the client thus eliminating the points of risk.



An offering that evolves with a client will inevitably encompass many different products and services. There are many examples of organizations extending the brand reach to capture the complete client lifecycle. Virgin is a good example, targeting a lifestyle, not a particular product and extend the product line to all areas where that lifestyle interacts.

Traditional segmentation vs lifestyle

As an illustration, let's discuss the retail self-directed equity investor. Although this segment has many subgroups, let's select one and contrast the traditional versus the lifestyle method.

Traditional method

- 25-40 years old
- Average annual household income of \$50,000.
- Household average assets under management of \$100,000.
- Middle to upper middle class.
- British
- Male
- Professional
- London

The lifestyle method classify this group as the generation flex or the post consumerist.

- The first generation to grow with dual career and often divorced parents.
- Inherently cynical, distrustful of authority, reject conformity seeking independence.
- If not already entrepreneurs, they are seeking relaxed workplaces with flexibility.
- Comfortable and easily adopt to multitasking.
- As the first post media children, they understand and are comfortable with media.
- They mix cultures to create their own.
- Favor products with style and high design but with an ecological friendly method of manufacture.
- Many are comfortable with apartment living, purchase organic makeup, purchase name brand bikes and the seek out high quality.
- Lifestyles combine a rewarding career with time to oneself.
- They purchase items that save time, at shops that are open to suit their pace of life.
- They are status oriented and desire to be on top of the traditional pyramid.
- They think differently, horizontally, they believe in multitasking, and mix jobs to suite lifestyles.
- Balance prestige items with environmental concerns, they want an environmentally friendly car, but want it to be a prestige brand.
- Believe that consumers have the right to know, they are suspicious of big corporations, do not trust politicians and are distrustful of traditions.
- They use buzz words but see through marketing campaigns that use them.
- Packaging will not sell products to them, but an overall design will.
- Expect the firms be receptive to all consumer concerns.
- They are culturally aware and travel often.
- Seek design and style but will not sacrifice comfort and performance.
- They are the round the clock generation, they want products and services to be as well.
- They want to be known.

The description listed above is constantly transforming due to environmental and lifecycle pressures. The events of September 11, 2001 and the economic downturn of the same period exemplify how the emotional state of a particular group can change radically in a very short period. Pre September 11, the demographic was by enlarge as described. Post September 11, the demographic illustrated signs of conservatism. The entrepreneurial spirit was less evident, an increased level of trust in the institution and politicians. As confidence builds and the economy recovers, the customer attitudes should return to normal, however, a firm should be sensitive to these temporary issues and adapt operations accordingly.

The whole organization must serve its clients.

A financial services organization is not likely to have a consolidated description of its clients, in fact, it is more likely to have a variety of views, most of which are superficial, none descriptive and difficult to act upon. It is also not reasonable to ask the organization to cater to clients needs, if those needs are not well understood.

As an example, the description above indicates the customers are distrustful of authority. If this type of description were distributed, it could have direct relevance to many functions:

- The architect responsible for branches can design an open concept with windows to management and no doors, thus portraying a feeling of accessibility.
- The web designer can include accountability links so that clients can directly contact management.
- The customer service department can address inquiries and assure clients have an escalation path for concerns.
- The CEO can communicate openly and often with the client base to indicate the firms intentions.

By communicating the lifestyle of the customer to the whole organization, each part of the organization can do their part in addressing the clients needs and desires.

Predictions

- **Financial services firms that continue to segment clients based on traditional methods will find it difficult to retain market share.** Clients will migrate to organizations that understand their lifestyles, directly address needs and share common concerns.
- **All areas of the organization will contribute to the client experience.** With actionable client profiles, all areas of the organization will be able to participate in the development of the client experience. With a common vision, customer satisfaction and client retention should improve.
- **Financial services firms will extend their product reach beyond current offerings in an effort to defend client levels.** Firms will continue to lose market share to non financial firms. In a defensive move, firms will extend product offerings.

Recommendations

- **Develop a lifestyle profile of target clients and communicate findings throughout the organization.** Organizations must understand client lifestyles, interests and concerns if they are to capitalize on lifetime value. Financial services organizations have many channels which can be used to determine the customer lifestyle profile. Once developed, it must be communicated throughout the organization. The profile must be validated on a regular basis, taking into consideration any market changes, environmental factors and behaviors assuring that the profile remains effective.
- **Develop products and services based on the lifestyle profile.** As clients move through their lifecycles, needs for financial services will continue to change. Instead of asking clients to move from one product to another, evolve the product lines and the relationships so that it appears seamless.
- **Extend the reach of the brand in line with the client lifestyle profile.** Instead of allowing other industries to aggressively pursue your clients by providing financial services products, be aggressive and target other industries. Utilize the strength and trust in your brand by following the lifestyle patterns of your key demographic to other products and services through partnerships, acquisitions or joint ventures.

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Methodology

Information for this report is derived from confidential GartnerG2 discussions with senior managers working for major financial services companies, consultants and vendors in several European countries in 3Q 2002.

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