Delivering Financial Services To Consumers: Face-To-Face Selling Versus Direct Marketing

Using data from the 1998-1999 Macro Monitor collected by SRI Consulting Co., the author investigates consumer's preference for face-to-face selling versus direct marketing of 15 different financial products and services. It was found that consumer preferences for face-to-face selling versus direct marketing vary across different financial products and services, and differences in preference also exist across different types of consumers.

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With a rapidly increasing technology, the financial services sector has shifted away from the traditional marketing practice, which is a "face-to-face" selling, to direct marketing of products and services in the form of phone, mail, or computer. There has been an awareness of that certain consumers are more open to this newer way of doing financial businesses, while there are others who have a strong preference of personal interaction. In addition to the differences across the customers, there might be also a greater degree of differences across the types of financial products and services. In other words, there are certain financial products and services more appropriate for direct marketing, while others are not so suitable.

The purpose of this study is to better understand how consumers want to conduct their financial business with financial service providers. Specifically, I provide the answers to the following questions: First, what are the financial products and services that consumers will purchase only through a face-to-face meeting with a financial services company representative? Second, what are the financial products and services that consumers might obtain directly by phone, mail, or computer network? Third, who desires the face-to-face interaction and are not willing to use direct marketing transaction of financial products and services? Finally, who are willing to utilize direct marketing transaction of financial products and services?

Using the 1998-99 MacroMonitor data provided by SRI Consulting Co, which is a comprehensive database of consumer attitudes, behaviors, and motivations with regard to financial products and services, consumer's preferences toward face-to-face interactions versus direct means are examined across 15 financial products and services. The financial products and services include auto insurance, home insurance, life insurance, stocks/bonds/mutual fund, annuity, certificate of deposits, disability insurance, retirement savings plan, loan, credit card, mortgage, home equity loan/line of credit, Christmas/vacation club, asset/investment management account, and packaged/relationship banking account. I found that there exists a substantial variation in consumer preferences toward the channels of delivery across the types of financial products and services.

In general, consumers are open to obtain credit cards through direct means: only 13.2% of the respondents reported that they would get credit cards only through face-to-face interaction. On the other hand, a much greater proportion of respondents (61.5%) preferred face-to-face interaction when obtaining mortgage. For mortgages, only 8.2% of respondents said that they might purchase mortgage through direct means. Consumers also desired human interactions more when buying other loan products and services, such as consumer loans, home equity loans and line of credit. Interestingly, consumers were found to be more open to purchase insurance through direct means. Investment products and services showed more diversity: consumers were more open to obtain stocks, bonds, and mutual funds through direct means than other investment products such as annuity, packaged accounts, and asset management accounts. It is also important to note that there are significant proportions of households who were not so sure about the channels of purchase. There was at least one quarter of households who did not have strong preference toward neither face-to-face interaction nor direct means.

Based on consumer's preference toward face-to-face interactions and direct means across 15 different financial products and services, consumers are grouped into four clusters, using cluster analysis. One cluster, named "Need Human Touch," had a strong preference toward face-to-face interaction, while there was another cluster, "Open to Direct Means," who were most open to direct means. The third cluster, "Undecided," was a group, who did not have strong preference toward different channels. Finally, there was a unique cluster, "Cherry Pickers," who showed an interesting pattern of mixed preference that for some products, such as loan and investment products, they preferred human interaction, while for credit card and insurance products, they are open to direct means. The profiles of each of these clusters are:

Need Human Touch (NHT). The demographic characteristics of this group mirror all households, suggesting that there is no certain demographic segment that would not appreciate human touch.

Open to Direct Means (ODM). This group is younger, more affluent, and more educated than others. About one third of them are younger than 35 years old, and more a quarter of them are singles. They are the highest income group: 17% of them had more than $100,000 of household income. About half of them had bachelor's degree or more education.

Undecided. The Undecided tend to be older with lower income and education. One third of them are 65 years old or older, and a large proportion (15%) is widowed. Two fifth of them had less than $20,000 of household income, and almost a quarter of them did not have high school diploma.

Cherry Pickers. They tend to be mid-aged, middle-income group with at least high school education. Two fifth of them are 35 to 49 years old. While a smaller proportion of the Cherry Pickers had less than $20,000 income, this group did not include many of the affluent income households. Similarly, only small portion of them had less than high school education, their overall level of education is not the highest.

In addition to the above demographic differences, the following attitudinal and behavioral differences were found across clusters, using multinomial logit analysis. First, those who were more organized about financial management were more likely to be the Cherry Pickers rather than the DHT and the Undecided. Second, the more knowledgeable about personal finance, the more likely the consumer belonged to the ODM. Finally, those who have expressed the difficulties related to budgeting were more likely to be the Undecided.

Endnotes

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