This is the Author’s version of the paper published as:

Title: Emergent Consumer Behaviour and Market Segmentation  
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Conference Name: Management Research Education and Business Success: Is the future as clear as the past  
Year of Conference: 2007  
Conference Location: Warwick, United Kingdom  
Editor: URL: www.bam.ac.uk/conference2007/  
Keywords: consumer behaviour, market segmentation  
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Emergent Consumer Behaviour and Market Segmentation

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Word count: 7394 without references
Track: Foresight and Organisational Becoming
Emergent Consumer Behaviour and Market Segmentation

Abstract

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Emergent Consumer Behaviour and Market Segmentation

Introduction

Market segmentation has traditionally been widely viewed as one of the key starting points in the formation of marketing strategy, with a large set of parameters offered in the literature through which customer heterogeneity can be explored and homogenous clusters of customers can be defined. Although academic literature supports the notion of customers being targeted through carefully crafted offers, in recent years this approach has been challenged and, in practice, a number of barriers have been shown to inhibit the implementation of strategic segmentation options.

Given the emerging economies that include China, India and Brazil, it is important not to dismiss the continuing importance of mass marketing as practiced by, for example, soft drink manufacturers, nor should the increasing importance of one-to-one relational marketing be underestimated as practiced, for example, by global private banks. Also, the role of variety marketing strategies as practiced by global food processors such as Heinz, are all optional starting points for the formulation of marketing strategy. Our research has focussed on the evaluation of the use made of segmentation strategy within the financial services sector.

Accepted criteria against which segmentation options should be assessed appear in most marketing texts, encouraging marketers to assess the stability, measurability, accessibility, substantiveness, and responsiveness to marketing stimulation of the proposed segmentation option. For example, identifying segments with characteristics which are difficult to communicate with because of available media audience profile information or alternatively, market segments that cannot be served through existing distribution infrastructure without massive investment, are both good examples of barriers that inhibit the implementation of potential strategic segmentation options. In recognition of the strategic importance of segmentation, Piercy and Morgan (1993:133) challenged these traditional criteria and proposed alternative criteria of: ability to build competitive advantage; innovativeness; and compatibility with mission, values and culture. However, the authors point to the important issue that segmentation analyses generally involves assessing segmentation options against organisational resources, but rarely consider the operational issues associated with implementation of the strategy.

The advent of the internet marketplace has introduced new dimensions to the segmentation arena, presenting new options for segmentation, as customers search, compare and purchase on-line. Through an on-line medium, customers can undertake these tasks without engaging with traditional communication tailored to specific
segments or revealing to customer interface staff traditional segmentation dimensions reflecting motivation, price/quality preferences, life cycle stage or attributes/benefits sought. However, identification of some of these dimensions can be deduced through tracking on-line search and purchase behaviour (Machauer and Morgner 2001). An additional, interesting factor affecting purchase behaviour has emerged, with evidence suggesting that on-line customers are likely to purchase products outside their consideration set (Brynjolfsson, Hu and Smith 2006).

Even with an emerging recognition that customers can move in and out of specific segments as a consequence of personal time limitations, changes in imperatives and life status events, traditional parameters still form the basis of current research and marketing practice across a range of market contexts. This recognition, combined with:

1. operational segmentation implementation barriers (Meadows and Dibb 1998);
2. the challenges of segmentation blurring in the internet marketplace;
3. emerging research questioning the profitability of adopting horizontal market slices;
4. the mass of customer data stored in data warehouses; and
5. research testing out longitudinal customer life value approaches, all stimulate and justify a rethink of traditional market segmentation approaches.

To date, there has been little attention given to the fundamental issue of how organisations might approach the segmentation process as customers move between an on-line and off-line marketplace, and exhibit changing needs, changing skills and changing market understanding. The importance of the present, exploratory study lies in its value in understanding current and potential approaches to segmentation of a major financial services provider, and in building an understanding of the dynamics underpinning behaviour as customers search, purchase and monitor financial services both on- and off-line. These considerations reflect a true marketing approach in terms of understanding the constraints of the organisation in operationalising a market segmentation strategy, the changing needs of customers and the importance of providing offer flexibility to meet those changing needs. The research method involved a case study of wealth management services of a major financial services institution, examining their approach to market segmentation of on-line active wealth management customers, many of whom also engage with the institution off-line.

**Market segmentation: issues and approaches**

Wendell Smith’s (1956) seminal paper on product differentiation and market segmentation, positioned segmentation as: “dissaggregative in its effects and tends to bring about recognition of several demand schedules where only one was recognized before” (p. 5). He further postulated that “the strategy of market segmentation tends to produce depth of market position in the segments that are effectively defined and penetrated” (p.5)

Segmentation dimensions evidenced in research include loyalty (loyal customers versus those who purchase from competitors versus those who switch between a set of preferred providers), benefits sought, combinations of product attributes, descriptive
characteristics of customers such as demographic and psychographic dimensions, and attitudes towards retailers, brands and shopping. Results of research into actual purchase behaviour of specific segments have revealed inconsistencies with anticipated purchase behaviour, not only in terms of the types of goods purchased, but also in terms of attitudes to shopping and attitudes to brands and retail conglomerates. Based on available evidence, one might postulate that these inconsistencies are the result of two key factors: convergence of the on-line and off-line markets and the growing acceptance of on-line shopping.

Particularly in converging, oligopolistic, retail markets (for example, the Dixons Group and Comet have emerged as the dominant forces in the electronics market in the UK), an individual's attitudes to specific corporations and market dominance, in general, may be important determinants of purchase intent. However, these attitudes may not be strong enough to drive behaviour away from these corporations where price/quality advantages are strong, brands are well recognised, guarantees assured and relevant post–purchase service is available. Such offer combinations create a positive tipping effect even in the presence of negative attitudes towards retail dominance.

Small and medium sized retail operations are particularly vulnerable in this context. Support for on-line shopping preferences can have a strong, negative impact on smaller commercial market participants who frequently adopt a relationship-based, loyalty segmentation option through developing long-term associations with their customer base and adjusting their product offer within the constraints of their organisations skills and assets to best meet the needs of selected customer groups.

**Traditional approaches to market segmentation**

Several different descriptors have been used over the last fifty years in an attempt to group consumers into homogeneous groups. Socio-demographics were extremely popular in the early fifties as a basis for segmenting markets. The continued use of measures such as income, age, education, occupation, marital status, children living at home, social class, and family life cycle is a reflection of their ease of measurement and accessibility through government statistical agencies and from private research agencies. Age, occupation, gender and marital status were selected by Frasquet, Gil and Molla (2001), as the basis of segmenting customers to interrogate evaluations of four shopping centres based on their retail offer, atmosphere, accessibility and shopping efficiency. The authors argued that the choice modelling on evaluative factors was enhanced through a priori segmentation. For their study of internet shoppers, Shiu and Dawson (2002) selected demographic variables in preference to psychographic or lifestyle data as they argued these latter approaches create significant analytical issues in cross-cultural studies. Demographics, socio-economic factors, and psychographics are recognised as useful for determining broad trends in population change but provide a poor interpretive basis for strategy development.

Usage rates and product loyalty arose in popularity with the findings by Twedt (1967) that there appeared to be less brand loyalty among heavy users than light users. Not only do heavy users buy more in terms of volume, they buy more frequently, and they
buy more different brands. Usage rates has continued to be a common segmenting variable, which is surprising given that, for many years, studies on consumption behaviour have suggested that usage rates frequently fail to provide the dimensionality required to meaningfully segment markets (Lesser and Hughes 1986).

Psychographics, personality and lifestyle research became popular in the late sixties and early seventies and the strong acceptance of these dimensions as bases for market segmentation has continued since this time. Information on activities, interests and opinions were collected avidly in an attempt to provide marketers with the richness in consumer information useful for strategy development in specific product market segments (Wells 1974 and 1975, Becherer, Richard and Wiley 1977, Boote 1980 and 1984, Meyer 1983a and 1983b, Adams 1983, Kono 1983, Morgan, Rao and Karuppan 1984, Townsend 1984 and 1985, Zotti 1985, Lesser and Hughes 1986 are just a few examples). Recently, Lawson and Todd (2002) challenged the interpretation of lifestyle within a psychological framework, arguing its measures of activities and behaviours are more representative of social status. Nevertheless, lifestyle factors as interpreted within the broader psychological framework remain of interest in understanding behaviour, with Swinyard and Smith (2003) adopting internet lifestyle factors as basis for exploring segmentation of e-consumers. However, as each new experience on-line creates new knowledge, skills and behaviour, allocation of customers to a specific segment may be misleading as there is potential for those categorised at one point as ‘suspicious learners’ to become ‘adventuresome explorers’ as their on-line experience grows.

Although early sceptics (Wells 1974) described psychographics as having: limited linkage between theory and application; being descriptors but not predictors; ignoring learning behaviour; and being only exploratory at best, they continue to form the basis of market segmentation inquiry. Psychographic data have been argued to provide marketers with a richness of information about consumer segments as long as the statements on personality and lifestyle are specific to, and continue to be relevant to, the product category or purchase situation under examination. Recently Brangule-Vlagsma, Pieters and Wendel (2002) focussed on the notion of customer values as underpinning how people engage with their world (including actions undertaken and opinions held). Values are argued to play a central role in consumers’ cognitive structures (p. 267) however, interestingly, the authors found that the value system of consumers changed over the three years of the study. If a fundamental dimension such as a person’s value system exhibits change, then it can be concluded that all segmentation approaches will be based on dynamic attributes.

Benefits sought by shoppers were added to the practitioners’ armoury and used as the primary segmentation variable with demographic and psychographic variables to discriminate between benefit segments. In the late sixties a commonly quoted example of this approach is found in Harley (1968), who described the benefits sought segments in the toothpaste market as 'sensory', 'sociables', 'worriers' and 'independents'. The key benefits sought behind these segment labels were 'flavour/product appearance', 'brightness of teeth', 'decay prevention' and 'price' respectively. McDougall and Levesque (1994) and later Alfansi and Sargeant (2000) used a benefit sought perspective to define performance and convenience segments in
Another recent example is Desai and Ratneshwar (2003), who adopted a ‘benefits sought’ perspective to test buying intentions of new product variants. In addition, Danahar (1998) examined segmentation methodologies to reveal important differences between benefit sought segments in the airline and telecommunications markets, with the objective of integrating these post-hoc defined groups into the analysis of service satisfaction data. This latter application confirms the ongoing need to not only continually interrogate the currency of a customer’s allocation to a specific segment, but also the need to revisit segmentation methodologies and the bases of the segmentation approach. In retail banking, benefit segmentation using service quality attributes (McDougal and Levesque 1994) revealed convenience and performance segments. The approach taken by researchers and managers alike in implementing benefit segmentation is likely to profoundly influence conclusions drawn from the analysis of performance data of these segments, and subsequent resource allocation to servicing these market segments.

The contribution of motivation theory to purchase behaviour emerged in the early 1980’s with, for example, Westbrook and Black (1985) defining segments of the product oriented shopper, the experiential shopper and a combination of product and experiential orientations. Later Dawson, Bloch and Ridgeway (1990) examined the impact of pre-existing motives and transient emotional states on shopping outcomes. The authors concluded that emotions play an important role in the customer’s appraisal of a retail situation and the resultant purchase outcome. In an on-line context, new interpretations of ‘experiential’ and ‘service’ are required.

The popularity of an attitudinal basis for market segmentation grew concurrently with motivational and benefits sought segmentation options. Papadopoulos (1980) and later, Jarratt (1998) identified attitudes towards local trading areas that influence shopping behaviour. Attitudes formed around perceptions of price competitiveness, in-store-service, and merchandise selection are important considerations as retail strategists segment customers and build value options. In the financial services sector, Machauer and Morger (2001) combined attitudinal and benefit sought dimensions in describing traditional, service oriented, independent and information seeker customer types. The latter segment was described as having positive technology and on-line attitudes. Recently, Maenpaa (2006) determined four clusters of internet banking customers based around attitudes towards specific attributes of internet banking. They identified suspicious, eager, reluctant and practical clusters of customers displaying very different attitudes towards the technology and process of internet banking. Clusters were further explained through variations on a number of psychographic statements.

Many of these established approaches to segmentation sustain their popularity in various combinations and variants of these approaches. For example:

- brand equity segments (i.e. loyalty, attachment and brand identification and engagement) as a basis of pricing strategy in the beef industry (Eastburn and Morrison 2004);
- Means-End Chain Theory (Reynolds and Gutman, 1988) as a basis for integrating product development and communication strategies (Hofstede, Steenkamp and Wedel 1999);
• Purchase intention and adoption segments to reveal that a key difference between adopters and prospective adopters (a category of non-adopters) in internet banking services to be security and financial benefits/incentives (Lee, Kwon and Schumann 2005); and

• psychographic segmentation of financial services customers into ‘financially confused’, ‘apathetic minimalists’, ‘cautious investors’ and ‘capital accumulators’ which were built on attributes of: interest in financial matters; perceived customer knowledge; and confidence regarding financial matters (Harrison 1994).

While these category descriptors are interesting, the challenge of marketers has been in developing strategies that build the profitability of targeted segments (Vroomen, Donkers, Verhoef and Franses 2005). This challenge is heightened by the allocation of customers to segments when their interest, knowledge and confidence in financial matters are emerging.

New approaches to market segmentation

With increasing acceptance of new self-service technologies, and the availability of vast amounts of on-line behavioural data, traditional segmentation approaches to segmenting the financial services market have been challenged by solutions clustered around decision-making approaches (Durkin 2004). Information use and number of solutions considered were the key dimensions underpinning the decision style framework used to cluster bank customers in the UK. Alternatively, Kalyanam and McIntyre (2000: 494) proposed segmentation by personalisation where individual customers can self-select and the system customises interaction based on the user’s exhibited behaviour, or customises based on preferences of users with similar interests and/or the system evokes a rules based approach recommending items that match with those selected by the customer. Mining and modelling site tracking data provides an alternative methodology for understanding customer search, option consideration, and selection behaviour, and can reveal how behaviour changes as customer’s on-line confidence builds and knowledge of financial markets grows.

Recent research on customer lifetime value provides an alternative approach through which to segment and target wealth management customers. In a service economy, customer relationships are recognised as the key to profit generation, and Customer Lifetime Value (CLV) is a metric to select customers for relationship attention. CLV is defined by Gupta, Hassens, Hardie, Kahn, Kumar, Lin, Ravishanker and Sriram (2006) as “a disaggregate metric that can be used to identify profitable customers and allocate resources accordingly” (p. 140). The authors propose that understanding the future potential for purchasing, predicted contribution margin and the marketing costs associated with the allocation of resources between rich (face–to-face), standardised (direct mail, telephone) and Web based communication options will enhance a supplier’s ability to maximise CLV. Similarly, Drew, Manni, Betz and Datta (2001), utilised neural network analysis to develop generalised, customer lifetime values segments while Venkatesan and Kumar (2004) evaluated the usefulness of CLV in segmenting customers and designing marketing programs. Libai, Natayandas and Humby (2002) extended the individual CLV metric, and proposed a segment level
profitability model to inform resource allocation decisions. Gupta et al (2006) argued that those not delivering the required profitability should either be encouraged to shop elsewhere (in Gupta’s terms, fired) or allocated a more cost efficient combination of marketing resources. However, in practice, opting for the customer closure option can have unanticipated consequences. For example, a USA bank lost a major global corporate account through “firing” a revered family member from their banking accounts (pers com, telecommunications industry).

In spite of such unintended consequences, implementing CLV as a metric for segmenting customers and consequently growing organisational profitability has had strong acceptance by industry, evidenced through its adoption by IBM and ING. As Gupta et al (2006) highlights, sophistication in data modelling has paved the way for gaining important insights from the data streaming into warehouses hourly, facilitating the tracking of customers’ movements across commercial sites. The purpose of this current qualitative project is to provide a theoretical basis for mining and modelling data streaming into and stored in data warehouses. This approach has the potential to provide important insights into the dynamics and limitation of traditional and contemporary segmentation options, and profitability assessment. From a longer term perspective, this approach opens up the possibility of automating the application of segmentation strategies within specific markets.

**Segmentation and the financial services environment**

“Certain characteristics of the financial services sector indicate that it is a suitable area for market segmentation, notably a diverse customer base with ranging needs and buying behaviour” (Meadows and Dibb 1998:266). The authors’ review of research on the financial services sector indicated that age and social class variables have been traditionally used as a basis of a priori segmentation in this sector, with less emphasis on post hoc approaches that cluster customers on a range of attitudinal and benefits sought responses. However, Machauer and Morgner (2001) proposed that neither a priori or post hoc approaches provide financial managers with predictive capability about customer behaviour. Further, research has revealed that implementation of segmentation strategy aimed at building competitive capability incurs structural and cultural operational barriers. Piercy and Morgan (1993) described the system and functional structures that inhibited the implementation of a segmentation strategy of designing financial services around the corporate strategies of client organisations. The authors noted that “there were considerable problems in translating the qualitative into identifiable and quantifiable targets for operational management… and fitting the new segment targets into branch level planning” (p. 135). Structural silos and lack of commitment to a segmentation strategy defined by senior management have also been associated with implementation difficulties (Jenkins and MacDonald 1997).

To expand their capacity to deliver a broad range of financial services to their customers and consequently build customer loyalty, all the major banking institutions either have entered into strategic alliances with or have merged with or acquired companies specialising in superannuation and managed funds products. However,
customer loyalty towards financial service brands is constantly being challenged through competitor aggressiveness and new market entrants (Todman and James 2004). Hardware, operating system platforms, database management systems and organisational silos limit the ability of financial service organisations to build a comprehensive understanding of the dynamics of customers’ portfolios and their needs. Market opportunities and customers are being lost within the system and to the company. Issues such as ‘who owns the customer’ assumes priority over how the company should collectively engage with the customer (Todman and James 2004).

Organisational conflict regarding customer ownership not only contributes to implementation issues associated with segmentation strategies in the financial services sector, but also to inhibiting movement of strategic positioning from financial planning to wealth management. The movement from a financial planning perspective (a portfolio of investments and superannuation) to a comprehensive perspective of a customer’s wealth (the integration of all wealth dimensions such as credit, real estate, bonds, investments, superannuation) is of real benefit to the customer and desired by major banks as they merge with wealth specialists. However, the desire of specialised divisions to retain ownership of customers, the limited ability of banks to deal with on-line customer requirements and build customer relationships, and the commitment to existing systems and upgrades, limit the bank’s ability and/or willingness to respond to these demands and new positioning options.

From a market perspective, customer demand for on-line financial services, competitive forces, changing superannuation legislation and technology availability are the major forces driving change in the delivery of wealth services (Bradley and Stewart 2002, 2003). The reported lower than expected uptake of more comprehensive financial services delivery on-line is posited to be a consequence of a lack of understanding by banks of their customer’s changing circumstances and resultant inappropriate on-line service design and delivery. In support of this conclusion, research on the acceptance of wireless finance technology found that social influence, computer skills, technology leadership, and perceived benefits of using technology were demonstrated to moderate its acceptance (Kleijnen, Wetzels and de Ruyter 2004).

The anticipated, almost universal adoption of internet banking by 2011, is likely to rapidly flow through all services offered by banks, including wealth management services. Therefore, we can conclude that as on-line support services in the financial sector expand, an individual’s confidence with technology will influence behaviour on-line. As computer skills develop and acceptance of on-line purchases grows, confidence in on-line search, transaction and monitoring behaviour are likely to expand.

Research method

This project is the first stage of the development of an agent-based model which seeks to capture the emergence of consumer confidence in on-line engagement with web delivery of wealth management products and services. The specific objectives of this qualitative study are:
a) to understand the normative behaviour of segmenting the on-line wealth management market;
b) to identify the limitations of that behaviour; and
c) to build alternative segmentation approaches that will align with future anticipated market drivers.

Senior executives with extensive experience within the industry and responsibility for making strategy decisions within a variety of business unit contexts will be in a position to reveal the tacit knowledge of segmenting markets in their current context i.e. this is the way we go about it, this is what it means and this is how it has changed over time.

Research questions driving data generation were:

- How have previous approaches to market segmentation been constructed and how useful have they been in providing a platform for strategy development?
- How can and should new approaches be conceptualised?

In this preliminary study, five documents containing findings of contracted research undertaken to develop segmentation profiles and four documents describing strategies for market engagement were content analysed to identify parameters proposed and adopted as the basis for segmentation over the past six years. Following this analysis, the authors jointly conducted interviews with six senior executives who were responsible for determining where, why and how their organisation engaged on-line with its customers. The interview guide can be found in Appendix A. Six structured interviews were completed each lasting approximately one and a half hours. The interviews explored previous and current segmentation approaches and forces anticipated to change the nature of future markets. Data were collected through tape recording and transcribed, categorising data on each transcription. Emergent themes were shaped from the interview data, compared to prior positions derived from the content analysis of documents, then revisited, reviewed, and revised or rejected. The data from each case (industry expert) was sequentially categorised, examining for consistency, adjusting, and then further examined for consistency with those cases already categorised (Dey, 1993, Marshall and Rossman, 1989). This process follows that proposed by Wollin (1996:7), and combines both theory generation and theory imposition approaches to data analysis.

‘The process adopts the basic model of building theory...., but with the sequential and iterative processes of analytic induction,... within a scientific realist epistemology’.

Finally, a workshop was held involving the two authors and three of the six participants to review the conclusions derived from the analysis of the documents and interviews.

From data relating to forces anticipated to drive future wealth management environments, two scenarios were developed to provide distinct possible 2010 future scenarios in which some of the implications of alternate proposed segmentation approaches could be assessed.
Results

Data analysis confirmed the underlying assumption of interviewees that market segmentation was important for the financial institution’s strategy development. Consequently, numerous market research reports had been commissioned over the six year period studied to identify appropriate approaches. In the contracted research documents, various segmentation dimensions of benefits sought (security, rate of return, ability to grow wealth, desired level of personal control) and personal attributes (investment experience, customer life-stage and personality type) were identified as core motivators and drivers of investment behaviour. Psychographics descriptions of segments were contained in some reports (for example, ‘expertise demanding’, ‘knowledgeable hands-on’, ‘cautious controllers’, and ‘reassurance seekers’) while other reports focussed on personality as the key market separator (‘self-directed customers’, ‘trustors’, ‘status seekers’, ‘freedom seekers’ and ‘those seeking the simple life’). Investment experience and life stage were also segmentation patterns that emerged from the various studies of financial service customers. Interviewees were of the view that customers do not see themselves as either ‘advice seekers’ or ‘self-directed information gatherers’, but move between the two, thus describing this specific categorisation of customers as volatile.

While these segmentation dimensions contained in the market research reports were all taken into account in developing a segmentation approach, the key building blocks for segmenting markets and building strategy were ‘level of investment’ and ‘life stage’. A hierarchical segmentation approach was adopted that distinguished initially between the level of investment, and then the extent and nature of customer advice required (‘delegator’, ‘self-directed’, ‘assurance seekers’). As a third level of segmentation, ‘delegators’ are categorised as ‘those starting out’, ‘those with small holdings’, and ‘knowledgeable investors’. As a fourth level of segmentation, knowledgeable investors are categorised into those who choose to self manage their investments on line, those who self manage but seek confirmation of their approach through off-line advisor engagement and, due to time constraints, those who choose to manage through an advisor. However interviewees were of the view that:

- too many customers do not fit with any degree of stability into these general categories;
- there appeared to be significant heterogeneity within categories as specified; and
- there was significant horizontal blurring across segmentation hierarchies as specified.

In essence, interviewees appeared to share a view that individual customers move in and out of needing advice as they experience life status events, market fluctuations, shifts in tax regulations, exposure to competitive offers and/or information that conflicts with that forming the basis of current decisions. Respondents also indicated that customers tend to move out of the ‘delegator’ segment and into ‘self-directed’ as they grow in confidence, their time is freed up and/or they just want to take control.

Interviewees spoke about the recent changes in government superannuation regulations and the anticipated impact of those changes on wealth management behaviour. They described how companies engaged in the delivery of superannuation...
products are currently scrambling to launch new, basic, on-line products to meet anticipated market expansion needs once new regulations come into effect mid 2007. They described how communities generally are under increasing pressure to become more investment oriented and, as a consequence, customers’ knowledge about wealth management, web interrogation skills and acceptance of wealth-management decision-making on-line is changing.

Interviewees anticipated that changes to superannuation regulations would encourage those of a younger age to build wealth to support lifestyle choices. They were also of the view that customers’ desire for knowledge of investments was increasing to facilitate increased control over wealth decisions. Specifically, they described customers’ increased desire for knowledge about risk, diversification, and investment types (shares, cash investments, real estate, managed funds, fixed investments, personal super, annuities, structured investments). Interviewees and market research reports confirmed the increase in exchange of information occurring in customer social networks, consequently building customer wealth management knowledge and confidence. Customers were described as time poor and impatient.

“Customers don’t want ‘waffle’ and want to get to the point quickly. They do not want to be directed through a lot of pages that they do not want to try and understand, but require a good search engine”.

Interviewees also described the subtleties and complexities of wealth management as being apparent when customers move in and out of different sources of advice i.e. wealth management advisors, friends and family, broadcast media, taxation experts, real estate agents and stock brokers. The interviewees were confident that future environments would reveal:

- broader market appeal and increasing acceptance of wealth growth within a superannuation architecture;
- increasing competitive importance of relationships, shared experience and communication
- increasing willingness of customers to leverage their assets;
- increasing use of the internet for wealth management information, planning and trading; and
- increasing demand for quality, cost-effective advice.

These assumptions regarding future environments together with common views of interviewees that:

- customers move in and out of needing advice as they experience life status events, build confidence, knowledge and skills, markets fluctuate and tax regulations alter
- customers are exposed to competitive offers and/or information that conflicts with that forming the basis of current decisions
- customers’ desire for knowledge of investments was increasing to facilitate increased control over wealth decisions

provided the foundations for the proposed segmentation options described below.

Prior to the development of the proposed segmentation options, two scenarios (Appendix B) were developed that reflected different assumptions regarding how the market might evolve by 2010. The key uncertainties were drawn from evidence
provided during the interviews that were conducted and were subsequently reviewed by the interviewees:

- Uncertainty with regard to the level and pace of on-line investment by wealth management suppliers;
- Uncertainty with regard to the magnitude of the wealth market expansion and its future structure (young verses established professionals, young verses mature families, retired verses near retired); and
- Uncertainty with regard to the level of ‘take up’ of the virtual world.

Once developed, the segmentation options were examined to assess their appropriateness within each of the scenarios. Scenario 1 presents a strong positive customer demand response to changes in government superannuation legislation with favourable consequences for growth in both the on- and off-line investment markets. Scenario 2 emphasises the general trend towards changing customer on-line confidence and the consequent demand for on-line organisational technological and software sophistication.

**Segmentation Options for an Emerging Wealth Management Environment**

**Option 1: Segment on the basis of desired wealth position in the medium term**

*(segment on the basis of where the customer is going, not where they are now or where they have been)*, to identify relevant on-line communication positioning and resource support investments required both on- and off-line.

Interrogation queries submitted on-line, time spent investigating various product options, types of product options targeted, changes in socio-demographic and employment data, and tracking general on-line search behaviour is likely to reveal emergent behaviour of ‘young wealth’ (new wealth entrants), ‘static wealth’ (limited or no adjustments to portfolio), ‘transitioners’(entering a new phase of wealth needs), ‘up-graders’ (seeking an alternative approach to wealth management) and ‘complexity seekers’(wanting to broaden their current portfolio).

Early product choices made by ‘young wealth’ customers are likely to affect future wealth growth potential. Therefore communication strategies will need to be designed around making visible the future consequences of alternative wealth options. Although comfortable with the limited risk exposure of their current portfolio, ‘static wealth’ customers will be constantly exposed to competitive options and communication strategies will need to reinforce the quality aspects of their current portfolio.

‘Transitioners’ (for example, those retiring from full time work to take on part-time options) and up-graders (a trigger has encouraged revision of current wealth management strategy) will require comprehensive, tax relevant, advice about alternative pathways to achieve future desired positions. Complexity seekers (making adjustments to maximise long term wealth growth) will require ongoing on- or off-line advice on innovative mechanisms to advance their financial position. Communications will need to identify a comprehensive set of resources on- and off-
line available to guide decisions that will enhance the customers’ ability to achieve a future desired position.

Strategies emerging from this segmentation approach will focus attention on the design of targeted communication strategies and investment in on- and off-line, resources necessary to support a) quality decision-making, b) the desired level of customer decision control and/or c) the desired level of on-going customer involvement. The segmentation objective is to assist customers to move to the next wealth step through providing transition mechanisms, and will highlight resource investments in on-line communication and infrastructure and advisor skills.

**Option 2: Segment on customer’s emerging knowledge, skills and advice needs.**

*(segment on the basis of emerging consumer confidence in engaging with financial services, predominantly on-line)* to identify investment requirements in on-line technology and advice support resources.

Data streaming into warehouses contains proxies for customers’ changing on-line confidence, changing wealth management knowledge, changing on-line skills, changes in wealth needs and desired level of control and ongoing investment involvement. Changes in a) site access frequency, b) portfolio monitoring behaviour, c) portfolio structure and content, d) analysis and decision-making tools access, e) nature of advice requested and frequency of advice access f) access to linked sites and internal information sources and g) wealth will provide miners and modellers with foundations to capture the emergence of on-line confidence.

Vertical clusters of customers could be drawn down at defined time intervals to identify segments based on internal consistency of combinations of the following dimensions at that specific point in time to capture population movement between segments *(membership of segments will be fluid across time)*:

- confidence (high medium low)
- wealth management knowledge (high medium and low),
- the temporal demands of specific life events determining the immediacy of wealth needs (short, medium, long-term)
- desired control (high medium low)
- desired involvement (high medium low)

Customers will transiently belong to clusters which will each reflect consistency in behavioural responses to flexibility of options in advice, pricing, portfolio structure, risk and complexity, and to choices regarding access to quality, complex or standard advice and to tools and modelling available on-line.

Strategies based on this segmentation approach will capture, simultaneously, the fluidity of individuals moving between clusters and the behavioural consistency within the clusters. The segmentation objective is to provide comprehensive on-line support models through combinations of technology, information and advice and decision-support tools tailored to meet the skills and needs of each defined cluster, whose membership is defined at each specific, time interval. This segmentation approach will reveal organisational imperatives for changes in on-line resource investments as shifts in population confidence emerge.
Segmentation option 1 captures the expanded market interest in wealth management as a consequence of the change in superannuation legislation described in Scenario 1. Segmentation option 1 would inform on-line investment decisions to facilitate communication, advice, search and transaction behaviour also evidenced in Scenario 2. Segmentation option 2 reflects the virtual market expansion described in Scenario 2 and would inform on-line and advice investment decisions required in the context of Scenario 1. The fluidity contained within each recommended segmentation approach reflects movement away from traditional, static segments and the on-line investment component linked to each segmentation option would inform an on-line, self select, maximum variety strategy associated with large volume, fragmented markets.

Conclusions

The view that financial institutions are happy to sit still until a competitor changes the landscape (Bradley and Stewart 2003:1097) was supported through this research. Evidence was provided that confirmed the cyclical nature of advances in on-line technology, where competitors rapidly followed a market innovator. The findings also supported the conclusion that even though technology empowered customers to switch between selected services and service providers, the lower than anticipated uptake of on-line banking, has meant that banks in particular have been reticent to invest heavily in this alternative distribution system.

Consistent with the findings of Meadows and Dibb (1998), the research revealed that in the institution examined in this research:

1. customer data is distributed and integration to support mining and modelling is difficult;
2. the company espouses a wealth management positioning, but systems and processes are geared around the delivery of traditional financial planning products. Thus, although the organisation appears to adopting a market orientation perspective, movement towards this ideal is limited by current market segmentation approaches, current organisational structures, and current distribution strategy and organisational culture

In the case organisation, Gupta et al’s (2006) proposed importance of identifying more profitable customers was evidenced in the selection of investment level as the first dimension of the segmentation hierarchy. Following an initial categorisation on level of investment the broader mass affluent market was categorised into basic life stages, with those approaching retirement and those retired subjected to further segmentation. While previous researchers have combined traditional segmentation dimensions (Machauer and Morgner 2001; Maenpaa 2006) the combination of dimensions within a hierarchy (purchase level, life stages, personality) adopted by the case organisational has rarely been evidenced (for exceptions see Lee, Kwon and Schumann 2004, who initially segmented internet banking customers by adopter and non-adopter, then segmented non-adopters into persistents and prospectives; and Frasquet, Gil and Molla (2001).
Consistent with McDougall and Levesque’s (1994) work in the retail banking sector, the case organisation adopted a benefit sought approach incorporating risk and control to define reassurance seeker, cautious controller, expertise demander and knowledgeable controller wealth management segments. Psychographics descriptions similar to those developed by Harrison (1994) emerged through contracted research, but there was no evidence in strategy documentation or interview data that these segments were specifically targeted.

An examination of segmentation practice, contracted segmentation research reports and strategy documents for the documented period revealed only one reference to the dynamic nature of the wealth management customers and the dynamism in their interaction with the organisation. Experience was identified as one of three core motivators and drivers of investment behaviour (life stage and personality type were the remaining two). Reference was made to the evolution of growth and experience through investing over time as customers initially learn from family and friends and rely on trusted friends. Through experience from engaging with professional advisors, customers learn to challenge advice and take greater control of investments. The research reports described how experiencing advice from a range of sources, customers finally surround themselves with a selection of trusted advisors who have various skill levels necessary to support advice on an increasingly complex portfolio of investments. This notion of dynamism in engaging with different types of advisors and moving in and out of control of wealth decisions, and the increasing knowledge of customers were common themes evident in the interview data.

In line with key customer aspects of dynamism and flexibility in on-line engagement emerging from the interviews, and the organisational imperative of relevance in resource allocation, segmentation options were proposed that capture these dynamics and integrate the customer’s desired immediate and medium term objectives to illustrate how such dynamics might be captured in practice. These options will form the basis of an agent based model to capture the emergent behaviour of on-line wealth customers, many of whom also engage with institution advice off-line.
References


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Appendix A

Segmentation Interview Questions

Previous approaches to on-line customer segmentation

- Please describe previous approaches to wealth management customer segmentation that your company has adopted. Are there any aspects of that segmentation approach that are relevant today or might be important to understand future market behaviour?
- Specific on-line innovations have been introduced over the last few years. Please describe how various customer segments have responded to an important on-line innovation.
- Specific approaches to wealth management customer market segmentation have been recommended in market research previously conducted for your company. Two alternative approaches each identified personality based clusters. In your view, how useful are these approaches for understanding customer needs and developing strategies to encourage on-line engagement? What do you believe are the limitations of this approach? In your view does this segmentation approach provides a platform for understand future market behaviour? In what ways?

On-line customers here and now

- Can you please describe the current basis for segmenting on-line customers. In your view, how useful is that approach for understanding customer needs and developing strategies to encourage on-line engagement? What do you believe are the limitations of this approach?
- What do you believe are the most significant characteristics of the wealth management market (e.g. aspects of customers, government policy, technology and the industry) affecting on-line customer activity today?
- In what ways is the current segmentation approach useful for understanding future market behaviour?

Segmentation approach for the future

- What words would you use to describe various on-line customers? What important insights about on-line customer behaviour do these words reveal?
- Given your knowledge of customers, technology and the industry, what changes in the wealth management environment do you anticipate and what new market factors might emerge?
- As we move into this changing environment, what dimensions would you recommend for categorising wealth management customers and why?
Appendix B

Wealth Management Market Scenarios - 2010

Scenario 1:  *Broader age appeal*
As a consequence of changes in superannuation legislation enacted in 2007, a significant expansion in the demand for wealth management support occurred across all customer groups. New market participants are:
1. younger;
2. more likely to have high-level IT skills;
3. users of more complex wealth management services; and
4. heavy users of on-line search and decision support capabilities.
Complexity in wealth growth and management for younger market participants is a consequence of rapidly changing life circumstances and time pressures, and place greater demands on both on-line and off-line delivery and support systems. These new market participants actively engage with sites demonstrating strong investment in user-friendly technology, time-based investment information, decision support tools and alignment with respected, independent on-and off-line sources. This emerging preference for on-line wealth management engagement and complexity in wealth decision places continuing pressure on those competing in the wealth management sector to shorten their on-line investment cycles, build strong electronic partnerships and continue investment in off-line advice expertise.

Scenario 2:  *Virtual Wealth Management*
The average age of the population has increased, however the younger market sector with the strongest expanding participation in the wealth management market has already been on-line users for nearly 20 years. Customer demand for full on-line, organisational competence and service on-demand will expand in many aspects of their lives as a consequence of:
- growth in confidence in searching, synthesising and transacting on line;
- government legislation on security and privacy positively impacting on regulation of the virtual world;
- the expansion of global, on-line, secure, financial institutions to facilitate transactions; and
- the need to free up valuable time for family and recreational pursuits.
Office environments reflect acceptance of the virtual world, with staff free to work at locations of their choice. Interactive communication technology provides a ‘face’ that supports virtual relationship building and, through flexible work arrangements, businesses link each customer to an assigned service support person who can immediately access detailed records of all a specific customer’s interactions with an organisation. Service providers in all market sectors require consistent investment and research in on-line environments to ensure they remain competitive in a globalising world.