

Customers 50+ Behavior in the Financial Market in the Czech Republic

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Abstract—The paper deals with behaviour of the segment 50+ in the financial market in the Czech Republic. This segment could be said as the strong market power and it can be a crucial business potential for financial business units. The main defined objective of this paper is analysis of the customers' behaviour of the segment 50-60 years in the financial market in the Czech Republic and proposal making of the suitable marketing approach to satisfy their demands in the area of product, price, distribution and marketing communication policy. This paper is based on data from one part of primary marketing research. Paper determinates the basic problem areas as well as definition of financial services marketing, defining the primary research problem, hypothesis and primary research methodology. Finally suitable marketing approach to selected sub segment at age of 50-60 years is proposed according to marketing research findings.

Keywords—Population aging in the Czech Republic, Segment 50-60 years, Financial services marketing, Marketing research, Marketing approach.

I. INTRODUCTION

THE nature of the financial market in the Czech Republic before 1989 caused slow adaptation of marketing philosophy by financial institutions which did not pay much attention to their customers. After major political changes at the end of the 90th years there have been customers' demands increasing, market deregulation, the development of new technologies and competition intensifying. Financial institutions had to rethink their approach to customers and to market in general. The new products came into existence, presented in a new way, and provided through new distribution channels. Current financial institutions are focused on the marketing approach and customization and they apply concentrated marketing approach, or one-to-one marketing (private banking).

The financial institution success in the market also depends on a clear definition of the target group. It may be current or potential users of the product or brand, individuals or people's groups who decide on a purchase. Their detailed characterization is an essential prerequisite for further progress which represents the clarification what, how, when and where to offer and communicate. The future marketing orientation of

financial institutions should be sought in segments that are currently regarded as marginal and not very profitable. This paper focuses on the segmentation and marketing potential of the specific and significant target group of the population 50+ which could be a goldmine for companies which are planning to target pensioners in the near future. The proportion of the population in developed nations that is over 50 is now much greater than it was 10 years ago. In fact, 24 of the world's 25 "oldest" countries are in Europe, the other is Japan, which comes at number three [1]. Demographic aging is a fundamental characteristic of the current European population evolution, but the perspective of further population aging is more noticeable in the Czech Republic. The Czech population at the turn of the 20th and 21st century is the oldest in its entire history. A strong contingent of births in the mid-70th years is likely to remain in the first three decades of the 21st century the largest age group of the population [2].

II. THE ESSENCE OF FINANCIAL SERVICES MARKETING

The methodical approach was chosen in steps from general to special (induction reasoning). For the research purposes two objectives were defined.

Marketing is concerned with the relationship between buyer and seller, and the transactions involved in bringing this to a satisfactory conclusion. Marketing relies on the idea that the customer forms the central focus for all people working in the organization. The modern marketing concept can be expressed as: The achievement of corporate goals through meeting and exceeding customer needs and expectations better than the competition [3].

A service is an intangible product involving a deed, performance or effort that cannot be stored or physically possessed [4]. Services are a special kind of product. They may require special understanding and special marketing efforts [5]. Financial services are concerned with individuals (B2C market), organizations (B2B market) and their finances – that is to say, they are services which are directed specifically at people's intangible assets - i.e. their money/wealth). The term is often used broadly to cover a whole range of banking services, insurance (both life and general), stock trading, asset management, credit cards, foreign exchange, trade finance, venture capital and so on [6].

Financial services have their own distinctive characteristics which are based on dissimilarity from physical goods and typical features of financial services. In the book by Levens there are four ways in which services differ from physical goods—intangibility, inseparability, perishability and variability [7]. Intangibility - with a service a customer cannot

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be certain of what benefits they will accrue until after the purchase has taken place. This aspect of a service applies equally to all types of services. Financial services intangibility has certain common qualities as low cost of entry, speed to marketing and lack of exclusivity [8]. Inseparability – a service cannot be separated from whomever is providing the service. It must be bought, and then produced and used simultaneously. Perishability – services cannot be stored for later use. This is not necessarily a problem if a service faces a constant level of demand but in markets with demand fluctuations this aspect of services causes some problems. Variability – a service quality is sometimes inconsistent because it depends on factors that are difficult to control. Drummond and Ensor added lack of ownership as the next characteristic because a pure service cannot be owned as such; customers can merely buy access to a particular service for a specific period of time [9]. It is also important, however, to stress that financial services hold some unique additional characteristics that affect their performance in the market. Three further characteristics are fiduciary responsibility, duration of consumption and contingent consumption [10].

Marketing activities are normally structured around the marketing mix. McCarthy classified marketing tools in model of “4Ps” – product, price, promotion and place [11]. However, the distinctive characteristics of financial services require the addition of three more Ps – people (the appearance and behaviour of financial service personnel), physical evidence (everything from the appearance, design, layout of the service setting, equipment etc.) and process (how the financial service is delivered, the actual procedures and flow of activities). The need for the extension is due to the high degree of direct contact between the firm and the customer, the highly visible nature of the financial service assembly process, and the simultaneity of production and consumption [12].

The customers of services are actively involved in shaping up a service offering due to inseparability of production and consumption. Customers can be identified as actual or potential purchasers of financial service with a number of buying roles as initiator, influencer, decider, buyer and user [13]. The customers can be divided into two basic markets as consumer market (B2C – retail banking) and business market (B2B – corporate banking). The relationships formed between buyers and sellers need to be built on mutual trust and continuous or discrete in nature, yet will have a great impact on the future customers buying and on word of mouth communications about the services concerned. By their very nature financial services tend not to be one-off purchases and are based on customer trust and confidence not only in the organization supplying but also particularly in the customer contact employees themselves [14].

CRM has become one of the strongest areas of management focus in financial services companies throughout the world. A comprehensive definition comes from one of the leading retail banks: The business strategy and mode of operation deployed to maintain and develop relationships with profitable customers, and manage the cost of doing business with less profitable customers [15]. More recently, cross-selling has

evolved into a strategy for customer relationship management. Cross-selling is an old and valuable technique used by salespeople to increase order size and to transform single-product buyers into multi-product ones [16].

III. RESULTS AND DISCUSSIONS

In terms of the orientation analysis secondary data were used that are supplementary to the data obtained within primary research. The basic secondary data were obtained mainly from Czech Statistical Office, Labor Office of the Czech Republic, domestic and foreign professional literature and available studies. Due to the type of requested information and examined topic, the personal interview as the primary research method was chosen. The analysis was based on the number of 306 respondents, most of them from the Moravian-Silesian Region. As a technique of selecting a sample of respondents was used semi-representative technique of choice (non-exhaustive survey), which consists of selecting respondents based on the assumption (judgment) that these respondents meet certain requirements.

A. Defining the Research Problem and Hypothesis

The main research problem represented the inappropriate respecting of the fundamental demographic trends development (the population aging) by providers of financial services in the Czech Republic and the related neglect of significant market potential of generation 50+ living in this area. The objective of this research was to describe Czech customers' behavior of the target group 50 – 60 years in the market of financial services which can be understood as the potential pensioners in the role of customers.

The following four working hypotheses were defined for the purpose of marketing research.

- H1. *Less than 40 % of respondents have loan products.*
- H2. *More than 30 % of respondents prefer electronic forms of communication through Internet with their financial institution.*
- H3. *The reference groups' opinions have the biggest influence in the selecting process of financial institution.*
- H4. *The segment at age of 50-60 years cannot be seen as a uniform group of customers in the financial services market – there is an essential presumption of heterogeneity according to the terms of their incomes.*

B. Sample Characteristics and Research Methodology

The structure of the sample is 45% male and 55% female, dominated by married people. Based on education, the largest group is respondents with a secondary education diploma. Their share amounted to 51% of the total sample of respondents. The second largest group was respondents with higher education. The largest income group is in the category of up to 20 000 CZK (48%), 37% respondents belong to the category 20 001 - 50 000 CZK. Only 4% respondents have incomes more than 50 000 CZK. There is a certain correlation among the identifying data, such as education and earnings. This marketing research confirmed the fact that people with higher education mostly have also higher earnings.

Customer behavior of the segment of 50 - 60 years in the financial market can be assessed as rational and circumspect. Before financial product buying they seek information through the contact personnel and use other information sources (Internet, references etc.) at the same time. 27% respondents stated that their decision is not in any way affected by the seller, but they are actively interested in searching for information concerning financial products. Czech customers are relatively stable in the financial market and fluctuation is not typical for them. More than 50 % respondents said that they haven't changed their bank, insurance company and building society over the last 10 years. Their financial literacy can be described as average. One part of questionnaire was devoted to this problem. Respondents identified 5 of 10 financial terms that they do not know (e.g. Cash Back, ATM, revolving credit etc.).

MS EXCEL was used to evaluate the overall research. Working hypotheses were evaluated with descriptive statistics (absolute and relative frequency of responses). The chi-square test was used to assess the dependence of the characteristics as Czech customers' behaviour of the segment at age of 50 – 60 years in the financial market and their incomes. The chi-square test aims at comparing the actual frequencies within each category of a nominal variable against its expected frequency.

The six steps of the Chi-square test procedure were implemented [17]:

- Null and alternative hypotheses formulation. The null hypothesis is that there is no difference in the proportion of respondents in the different categories of the variable while the alternative hypothesis has the opposite meaning.
- Data converting into a tabular form.
- The expected frequencies for each of the categories finding out.
- Chi-square value finding out by applying the formula of

$$\chi^2 = \sum_{i=1}^n \frac{(O_i - E_i)^2}{E_i} \quad (1)$$

- The critical chi-square value finding out for 0,05 level of significance.
- The decision making by comparing the calculated and critical chi-square value.

C. Marketing Approach to Target Group 50-60 Years in the Area of Financial Marketing Services According to Marketing Research Findings

The current account (97% respondents) is the most frequently used financial product. It is surprising that only half of the current account users use debit cards that is linked to their current account. 56% active users of debit cards use it for payment purposes and 50 % users for withdrawing money from ATM. It is clear that there is a change in trend and approaching to the European standards because the debit cards had been used recently mainly in ATM. Financial products such as pension insurance (74%), life insurance (51%), savings (47%) and life insurance (46%) also dominate. Short-term and long-term credit products are demanded less. These

include the mortgage loan (15%), short-term consumer loans (10%), leasing loan (5%). 36% respondents use a credit card which belongs to the category of credit products. Many users of this type of credit card purchase it but rather because of the benefits of additional services that are associated with it. Increased interest in this payment instrument is also supported with financial institutions massive intensive marketing communication campaigns.

Overall, the segment 50 - 60 years rather tends to savings than to credit products. They demand for financial products to minimize losses (life and non-life insurance and accident insurance). This observed fact is mainly due to higher public awareness in the area of financial literacy in the Czech Republic, as well as changing customer access to debt. The caution, rationality and responsibility dominate increasingly in their behavior. The creation of financial reserves and minimizing financial liabilities are used to ensure a certain standard of living in old age. 36 % respondents have loans only to pay for necessities. While negotiating the loan they pay attention to credit conditions, consistently gaining information before signing the loan agreement. 30% of respondents even stated that no loan has been arranged.

D. The Hypothesis No. 1 Has Been Confirmed Because 30% Respondents Have the Loan Products

A third of respondents is satisfied with the pricing policy (fees, interest rates, penalties etc.) of their financial institution. 55% stated their dissatisfaction but it is not essential reason to change the financial institution. Only 10% respondents are willing because of their dissatisfaction to reach a new competitive financial institution and 4% respondents are in favor of radical solutions such as litigation with the bank etc. Based on the survey results it can be said that the Czech financial public is dissatisfied, cost-sensitive, demanding, conservative and comfortable. Price elasticity of Czech customer demand for financial products is generally lower. The basic obstacles of Czech customers mobility include mainly information asymmetry, customers laxity, financial product packages, the penalties for cancellation of existing financial products and administrative problems. The Czech Banking Association issues a Code of clients mobility to eliminate administrative difficulties when changing existing bank. This code must be respected in practice by the participating banks.

Financial institutions may eliminate customer dissatisfaction with the price offer and ensure their retention by extending additional product (additional services to the basic product). There are a lot of opportunities for Cross-selling and Up-selling sales strategy because 73% respondents stated that they are willing when dealing with a seller to set up an additional financial product or more expensive variant of an existing financial product.

In the area of distribution policy, it is clear that personal contact is still essential - (inseparability) between the provider and the recipient of financial services, which is one of the characteristics of services. With a dynamic and continuous development of information technology and the phenomenon

of time, more and more financial services are provided through the technological distribution (Internet banking, telephone banking, mobile banking, ATM, etc.). Due to the requirements for a good knowledge of information technology and access to an Internet connection, the opportunities of technological distribution rather appeal to a younger target group of customers. When communicating with financial institutions segment 50-60 years prefer personal contact, either in the stone branch (42%), at another agreed location (37%) or by telephone (30%). The impersonal forms of contact such as the Internet represent a small proportion (8%).

Even though the trend is accelerating and discounting of the financial service process using technology distribution, personal meetings in stone branches still have and will have a crucial role in the future. In past the most important distribution channels were branches, posts, ATMs and telephones. At present, the importance of stone branches has decreased slightly, ATM and telephone meaning has increased and newly Internet is preferred. In the future it can be expected that the position of the stone branches will still be the same, the influence of the Internet, ATMs, mobile phones is going to be increased. New alternative channels "face to face" are going to be developed.

Financial institutions also perceive the marketing orientation need in distribution policy. They conduct a number of customer satisfaction surveys regarding point of sale, innovate massively their affiliates, implement new technologies (video-calls, biometric methods etc.) and develop new concepts of sales (bank-café, bank-stores of selected goods). The most attention should always be given to the place of sale, such as the appearance and cleanliness of the store, staff behavior, store location etc. From a marketing point of view the businessmen should understand and implement merchandising issues into their marketing communication strategies. In relation to the meaning of point of sale it cannot be ignored increasingly important role of POP/POS displays in the in-store communication [18]. Although vast budgets can be spent above the line on advertising to gain the customer's attention or change an attitude, fewer resources are sometimes allocated to the crucial moment in the buying process - the point in the buying cycle where the customer is physically in front of the product or service and is about to make a decision as to whether to buy or pass by - the point-of-sale. Merchandising techniques such as display and store design are therefore vital communications tools that can guide a buyer towards making a purchase [19]. Currently, we can have experience with new forms of financial product sale in the Czech Republic as mini-branches, banking kiosks, mobile branches and more. The aim is to bring banking environment to customers - the people.

The hypothesis No. 2 has not been confirmed because electronic forms of communication with financial institutions through the Internet are preferred by only 8% of respondents.

The crucial motivational criteria related to the selection of financial institution are pricing, points-of-sale availability and reference groups' opinions (see Fig. 1). Individual approach with the possibility of having own financial adviser is not a

priority for respondents. At the same time the distrust and lack of interest in financial services consulting firms was confirmed. Even though the use of marketing communication is necessary in a strong competitive environment, the presentation through commercial media is the least popular. *The hypothesis no. 3 has been confirmed because the reference groups cannot be regarded as a crucial motivational factor when choosing a financial institution.*

Although the results of the primary research showed that commercial communication is meaningless information and motivational source for the segment 50-60 years, it cannot be a completely excluded from financial institutions practice. It would be more efficient regarding the target group to use the tools of BTL than ATL marketing communication. ATL or above the line means advertising - paid insertion in any medium, BTL or below the line means any marketing communication which is not advertising [20]. According to research, it seems appropriate to use direct marketing, primarily through direct mail (33%) then tools in the area of sales promotion such as the free product testing for some time (61%) and incentives within the cross-selling (67%). The target group is not particularly supportive of new communication trends and approaches. Still, there is opportunity to use the very topical word-of-mouth communications (in general way with support of electronic means we can say viral marketing). Word-of-mouth communications are characterized as informal, unplanned, unsolicited, interactive and bidirectional conversations. These recommendations provide information and purchasing support and serve to reinforce and individual's purchasing decisions. Personal influence is important and can enrich the communication process [21]. It would also be appropriate to use in the marketing strategy of communication events (Event Marketing) which can be defined as designed occurrences that communicate messages to target audiences. It complies the use of unique sponsored activities or events in certain locations and point in time for reaching corporate marketing and communication objectives [22].

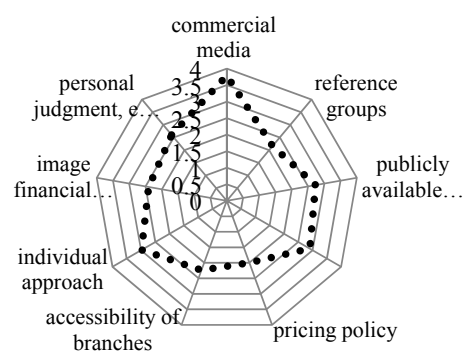


Fig. 1 Financial institution selecting factors (1 – the best, 5 – the worst)

The test and verification of the dependences between income levels and some selected customer behavior

characteristics were carried out. The selected characteristics include the use of financial products, price sensitivity, distribution channels preference and motivational factors connected with financial institution selection. Based on the outputs of chi - square test cannot be clearly said that the segment 50 - 60 years is a uniform group of customers because there have been some dependences in the area of financial services distribution channels ($p\text{-value: } 1.17926 E - 05 < 0.05$) and motivational factors for purchase (see Fig. 2). The test of dependence between product demand ($p\text{-value: } 0.073503157 > 0.05$), pricing sensitivity ($p\text{-value: } 0.460493095 > 0.05$) and income levels has not confirmed any dependences. *The hypothesis no. 4 has been partly confirmed. Dependence between income levels and price sensitivity and type of financial product, price sensitivity has not been confirmed, but dependence between income levels and distribution channels, motivation factors for purchase has been confirmed.*

Respondents in the lowest income category prefer mainly personal contact, with respondents' growing income the technology distribution begins to be requested. On the other hand, people with incomes above 50 000 CZK use the benefits of technology distribution, but the personal contact still plays a vital role for them. This is due to the fact that these customers look for solutions of their financial affairs through personal banker, i.e. they use the services of private banking. It would be beneficial to choose a differentiated distribution strategy of financial services for the segment 50 – 60 years according to their incomes.

Some motivational factors for purchase are very similar in different income categories such as factors A, B, C, G (see Fig. 2). On the other hand, large differences can be observed in the case of factors D, E, F, H. Customers behavior in the income category from 10 000 to 50 000 CZK is very similar. Significant differences relate to defined maximal and minimal income level.

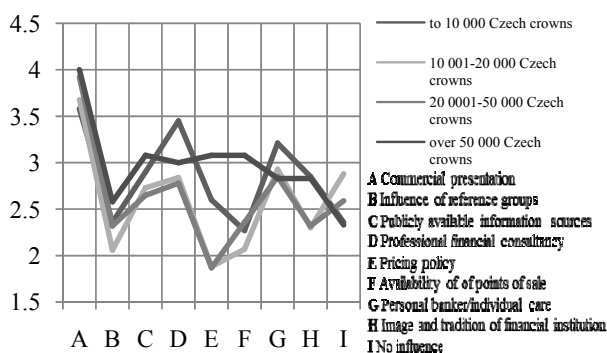


Fig. 2 Motivational factors for purchase within segment 50-60 year according to their incomes (1 – the best, 5 – the worst)

IV. CONCLUSION

This paper focused on behavior description of the specific and significant target group of the population at age of 50-60

years in the financial market in the Czech Republic. Until recently, marketers had little interest in the pensioner market because of misconceptions. Czech pensioners are ridiculously mischaracterized as „old bats“, poor and indisposed people with no vision of active life. Nowadays, Czech marketers gradually understand the fact that pensioners can save more money than young people, some of them have great savings and Czech pensioners' financial literacy has been improving. This segment also has higher demands on the process of financial services providing than before. There is the increasing importance of the personal contact, atmosphere and features of financial branches – the physical evidence (merchandising, POP materials). The inconsiderable fact is that the number of pensioners has been constantly increasing, must be also taken into account. Since pensioner markets are often ignored by many financial institutions, it is a perfect market to attack and build the financial institution as senior-friendly. In the area of marketing, it means the adaptation to a new stratification of society, defining new target groups, finding suitable ways how to gain, maintain and communicate with these groups. The outputs of realized primary marketing research in this paper confirm the fact that segment 50-60 years cannot be seen as a uniform group of customers. The different income categories of this segment must be especially taken into account.

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