

Channel Usage Behavior of German Retail Banking Customers

THE INTERNET USAGE AMONG OFFLINE-CUSTOMERS WILL INCREASE IN THE FUTURE. THE ADDITIONAL CONVENIENCE OFFERED BY THE INTERNET OUTWEIGHS THE HIGHER RISK ASSOCIATED WITH THE INTERNET.

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Introduction

Today multi-channel distribution is rather the rule than the exception and provides customers with an expanding menu of options to interact with a retail bank. Due to this development retail banks are becoming aware that managing the customer's channel usage behavior is essential and customer channel migration activities are gaining importance. Such activities aim to manage the customer channel choice behavior and enable retail banks to increase their profitability. Retail banks especially intend to migrate their customers to the Internet channel, because it has been shown that Internet usage has a positive impact on customer profitability.

When aiming to migrate customers to the Internet channel, it has to be considered that a customer's channel usage behavior is influenced by her perceptions of the different channels. Therefore, it is crucial to understand these perceptions in order to develop strategies for customer channel migration. For that reason, we conducted a survey among 500 German retail banking customers. It was the

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aim of our study to evaluate customers' channel perceptions in the financial services industry. Furthermore, we elicited the past channel usage behavior and the customers' channel usage intentions. We distinguish between customers who have recently used the Internet channel (so called online-customers) and customers who have not recently used the Internet channel (offline-customers). Thus, we are able to identify differences in channel perceptions between those two groups of retail banking customers. Our results allow deriving strengths and weaknesses of the different channels. Moreover, we are able to identify possible actions to foster customer channel migration.

Factors driving customers' channel perceptions

Based on a literature review and extensive testing the following factors are identified which determine customers' channel perceptions:

- Quality
- Convenience
- Risk

However, customers use the different channels for different purposes. Therefore, we distinguish between (1) information stage, (2) purchase stage and (3) transaction stage. In every stage the channels have to accomplish different functions. For that reason, it seems reasonable to assume that the channels are evaluated differently related to the stages. Yet, in a preliminary study we found out that not all above mentioned factors are relevant for every stage. Therefore, we consider different sets of factors for the different stages (see Figure 1):

The factors were operationalized by multi-item scales that were specifically developed for this study and are tailored to the financial services industry.

Methodology

We conducted a survey among 500 German retail banking customers. The respondents

were interviewed face-to-face and we only considered retail banking customers who actively manage their banking affairs and are between 18 and 70 years of age. Apart from this quote the sample was drawn at random according to Nielsen areas.

Besides demographic variables the respondents were asked which channel they used the last time with regard to the different stages and 4 different product categories (current account, savings account, personal loan and stocks/investment funds). Furthermore, the respondents were asked which channels they intend to use the next time. In addition to the branch and the Internet channel, the banking terminals as well as the call center were considered.

To account for the fact that customers use a mix of channels for certain activities, channel usage intentions were asked on a constant sum scale.

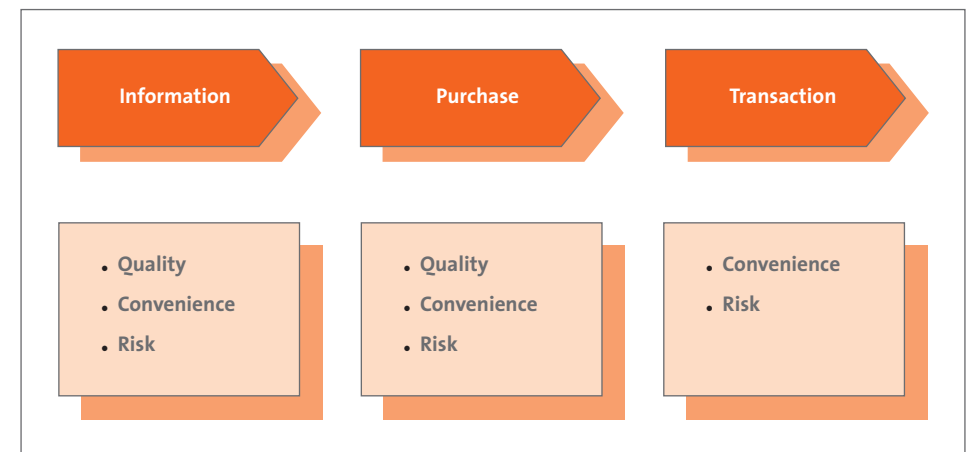


Figure 1: Factors determining customers' channel perceptions

Channel Perceptions

Related to the *information stage* the respondents evaluated the different channels with regard to quality, convenience, and risk.

Relative Channel Evaluation – Information Stage ^{*/+}			
	Quality	Convenience	Risk
Branch	86.0	79.9	29.5
Internet	69.5	76.0	57.8
Call Center	61.8	66.8	55.6
Banking Terminal	58.1	57.7	55.8

It is obvious that overall the branch has the highest perceived quality and convenience as well as the lowest perceived risk. This implies that the branch is still the optimal choice for most of the banking customers in the information stage. This is due to the fact that customers will always choose the channel which offers the highest level of quality and convenience, but at the same time choose the channel which minimizes the risk for the customer. However, in respect to convenience the branch and the Internet channel are more or less comparable.

40.2% of the respondents used the Internet channel the last time they were seeking information on financial products. And it is not surprising that online-customers have an overall higher perception of the Internet channel relative to the branch, whereas offline-customers evaluate the branch better than the Internet channel. Online-customers

perceive the branch and the Internet channel comparable regarding quality and risk, but evaluate the convenience of the Internet channel much higher than the convenience of the branch. However, offline-customers perceive the branch and the Internet channel similar in respect to convenience, but they have a very different perception of the two channels regarding quality and risk.

Considering the *purchase stage* the Internet channel is perceived as the channel with the highest convenience. However, regarding quality and risk the branch again outperforms the other channels.

Relative Channel Evaluation – Purchase Stage ^{**/+}			
	Quality	Convenience	Risk
Branch	86.3	61.3	30.7
Internet	69.7	80.0	59.0
Call Center	62.8	68.3	55.3
Banking Terminal	61.3	72.0	47.5

Today, only 11.4% of the respondents use the Internet channel for purchasing a product which is mainly due to legal restrictions. The online-customers perceive the branch and the Internet channel as comparable regarding the perceived risk. But they especially appreciate the convenience of the Internet channel (Internet: 95.7, branch: 41.7). Surprisingly, the offline-customers as well perceive the Internet channel more convenient than the branch, although they have not used it in the past for purchasing.

In a preliminary study we found out that quality is not a discriminating factor in the *transaction stage*, because customers assume that transactions are conducted with an acceptable quality. Therefore, we only consider convenience and risk for this stage.

Relative Channel Evaluation – Transaction Stage ^{**/+}		
	Convenience	Risk
Branch	67.5	28.8
Internet	77.0	54.6
Call Center	65.9	53.8
Banking Terminal	71.9	44.3

The Internet is still the channel with the highest perceived convenience, whereas the branch dominates the other channels in respect to perceived risk. It might be interesting that the Internet and the call center are considered as similar regarding the perceived risk. Therefore, personal interaction seems not to be a crucial factor to reduce the perceived risk.

38.0% of the respondents can be characterized as online-customers and again online-customers especially appreciate the convenience of the Internet channel, whereas offline-customers report a high risk of the Internet channel.

Conclusion and Summary

The results suggest that there are perceived differences between the different channels. Especially, migrating customers from the branch to the Internet channel might involve quite a lot of effort. So the perceived quality and in particular

the perceived risk has to be influenced.

However, 50.9% of the offline-customers intend to use the Internet channel in the future for information purposes. Furthermore, 42.2% of the offline-customers plan to use the Internet for purchasing financial products and with respect to the transaction stage even 62.0% of the offline-customers plan to use the Internet channel in the future.

Nevertheless, to foster customer channel migration managers should actively influence customers' channel perceptions. Therefore, in a next step the reasons for the high perceived risk of the Internet channel should be investigated and activities should be designed to reduce the perceived risk and to increase the perceived quality of the Internet channel.

Notes:

* All differences are significant at a 5% level with the exception of perceived risk of the call center and the banking terminal.

** All differences are significant at a 5% level.

+ Values have been standardized to a 0-100 scale.

Risk:

The lower the perceived risk, the better the evaluation of the channel.

Quality and convenience:

The higher the perceived quality and convenience, the better the evaluation of the channel.