



In this issue

Divide and prosper: seasoned credit union marketers say it pays to develop different strategies for different groups of members.

Market smarts

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Slice it, dice it, segment it – Gourmet Marketing

CREDIT UNION MARKETERS know that it's not enough to look at "the market" as a whole enchilada. By slicing up the market into smaller segments, credit unions can target specific groups of members or potential members. Market targeting can clarify and simplify a variety of critical business decisions, such as location or re-location of branches, pricing of products and services, product ranges, new product development, and advertising messages and media.

This edition of *Market Smarts* will explore effective techniques for segmentation, drawing on strategies used by individual credit unions and other financial institutions. □



Defining Segmentation

Market Segmentation describes the division of a market into separate groups, each of which will respond differently to marketing variables: pricing, communications, advertising, product features and delivery channels. A segment minimizes the differences of individuals within the segment and maximizes the differences between the segment itself and the rest of the market.

Market segmentation can be applied to both the internal credit union market (i.e., the existing membership) and the external market (financial services consumers within the credit union's trade area who are not currently members).

Why Use Segmentation?

If you ask a credit union marketer why they include segmentation in their strategies, they'll tell you:

It's effective.

It is easier to address the needs of smaller groups of members or potential members when they have many characteristics in common (for example, age, gender, or an interest in the same benefits from a product or service).

It's smart.

Niche marketing allows marketers to identify under-served or un-served markets.

It's efficient.

Segmentation can help focus limited marketing resources on those members the credit union most wants to retain and the non-members it most wants to attract.

Young consumers with limited incomes generally want convenience from their financial institutions; characteristics of this segment include low balances and price sensitivity. Up-and-coming professionals

want credit to improve their style of living. Middle-aged consumers with families want ways to borrow and to save for the long term. Many older consumers are empty-nesters with higher incomes and an interest in

accumulating wealth. Each group or segment wants different products for different reasons, requiring a different marketing approach.

Characteristics of an Effective Segment

Before allocating marketing dollars or time to a particular segment, analysis should indicate that this slice of the market is commercially viable. Here are some of the factors to consider:

Size

Is the segment large enough to justify attention?

Profitability

The anticipated return on investment must exceed the cost of developing a separate marketing strategy to reach the segment. Product development, operational and promotional costs should be included in the analysis.

Sustainability

Once identified, the characteristics of a given segment do not remain static. Individuals within the group are constantly changing, and those changes affect their financial needs. People move in and out of various segments. How long will a particular segment be viable? Next year? Five years from now? Will the characteristics of the segment stay the same over time?

Measurability

The segment should be identifiably different from the rest of the market. The market potential of the segment should

be measurable with surveys, census data or other traditional data collection methods. Ascertaining the different financial needs of youth and seniors, or knowing the number of mortgage customers among the credit union's membership in relation to the general population are examples of measurability.

Accessibility

A necessary prerequisite is that the segment be accessible through one or more media. This criteria obviously only applies to external segments. Existing members will be accessible via newsletters, marketing letters, phone and email. It is also critical that products being marketed are accessible through one or more channels. For example, accepting loan applications via the web will improve a credit union's accessibility to those seeking car loans.

Responsiveness

Members of a given segment must be expected to respond in a similar way to a marketing strategy: if you cannot build strategies that address the needs of the segment, there is little value in knowing that it exists. For example, new homeowners or homeowners who have recently moved might have a need for credit and would be responsive to an offer of a pre-approved line of credit.

Types of Segmentation

Demographic

Credit unions routinely employ certain forms of demographic segmentation. For example, many credit unions offer free banking to seniors or promote RESPs to the parents of younger members. Age, gender, income, education, occupation, ethnicity (often measured in surveys by language spoken at home), household size, marital status and family composition, are common demographic variables.

Information presented in CUCBC's *2002 Product and Services Study* shows that a typical credit union member is likely to be male, English speaking and older, with a more modest income than the average British Columbian (see Figures 1-4, page 4).

Geographic

Geographic segmentation groups people according to where they live. Classifying customers by province, city, postal code, or urban versus rural addresses, enables the credit

union to view its membership base from a geographic perspective. Geographic information systems and mapping software are important tools in this process. Financial institutions commonly use this type of segmentation to make decisions concerning branch and ATM locations. Geographic segmentation is also employed when integrating branch networks following a merger or in analyzing possible expansion into a new geographic market.

Behavioural

Behavioural segmentation distinguishes customers by any of the following criteria: 1) the benefits they seek from doing business with the credit union and/or purchasing a given product; 2) the frequency of purchase or product usage; 3) their brand loyalty; 4) the preferred distribution channels; 5) the amount of effort put into the purchase decision (e.g., impulse buyer or not?). Financial institutions that establish specific marketing programs to customers favouring Internet banking, for example, are practicing a form of behavioural segmentation. ►

Figure 1: Gender – BC Market

	PRIMARY CU USER	BC ADULT* POPULATION
<i>Gender</i>		
Female	45%	51%
Male	55	49

* BC adult population aged 19 plus and partly or fully responsible for the household finances.

SOURCE: 2002 *Products and Services Study*, CUCBC.

Figure 3: Language Spoken – BC Market

	PRIMARY CU USER	BC ADULT* POPULATION
<i>Language Spoken**</i>		
English	90%	85%
French	3	3
German	3	2
Chinese***	0	2
Hindi	1	1
Italian	1	0
Dutch	1	1

* BC adult population aged 19 plus and partly or fully responsible for the household finances.

** Language first learnt as a child and still spoken today.

*** Mandarin or Cantonese.

SOURCE: 2002 *Products and Services Study*, CUCBC.

Attitudes and Lifestyle

Segments of the market may be defined according to life-stage (e.g. single, married with young children, empty nester), hobbies, risk tolerance, media habits, attitudes toward credit, or similar variables.

Values and Beliefs

Whether religious, political, nationalistic or cultural, values can affect a customer's choice of financial institution and are possible avenues for segmentation. People dealing with a financial institution because it promotes ethical values and

Figure 2: Age – BC Market

	PRIMARY CU USER	BC ADULT* POPULATION
<i>Age</i>		
19–24	5%	7%
25–34	14	17
35–44	21	22
45–54	21	19
55+	38	33

* BC adult population aged 19 plus and partly or fully responsible for the household finances.

SOURCE: 2002 *Products and Services Study*, CUCBC.

Figure 4: Household Income – BC Market

	PRIMARY CU USER	BC ADULT* POPULATION
<i>Household Income</i>		
Under \$25K	15%	15%
\$25–40K	18	16
\$40–60K	24	19
\$60–80K	15	17
\$80–100K	7	9
\$100K +	8	10
Refused	14	15

* BC adult population aged 19 plus and partly or fully responsible for the household finances.

SOURCE: 2002 *Products and Services Study*, CUCBC.

corporate social responsibility, or because it supports the local community, compose a definable segment of the market.

Profitability

With the expansion of database marketing capability and an enhanced understanding of cost information, financial institutions now have the ability to segment their clientele according to profitability. Credit unions can adapt this information to develop profiles of existing and potential members they wish to target.

Segmentation Tools

Numerous external and internal tools are available to help marketers in developing customer segments.

External Tools

■ Demographic and geographic data

BC Stats and Statistics Canada provide extensive information on British Columbians, ranging from basic facts, age, gender and marital status, to more selective information such as investment income. Information can be selected for large regions as well as areas as small as postal code aggregations. This is especially useful to credit unions, whose business activities are geographically concentrated. Basic data can often be obtained free of charge from these sources.

■ Consumer research and surveys

Credit unions may conduct their own primary research with customer satisfaction surveys or they may obtain the information from third parties. Print Measurement Bureau (PMB) data and the annual *Products & Services Study* are examples of attitudinal and behavioural data available to credit union marketers from external sources.

■ Direct Marketing Lists

Often purchased from list brokers, direct marketing lists range from the very basic (all seniors living in a particular area) to more complex lists based on a target group's media habits, income levels and propensity to respond to direct marketing offers.

■ Third Party Classification Systems (e.g. VALS, PRISM and Mosaic)

These systems use sophisticated models to define segments based on a variety of demographic, attitudinal, personality or behavioural data. By placing customers in segments reflecting common characteristics, these models attempt to predict consumer preferences and choices. For example, the VALS system segments the consumer marketplace by concentrating on personality traits that are believed to drive each segment's particular consumption behaviour. Another product, Equifax's Credit Behaviour Segmentation system, uses credit variables to cluster consumers into 16 segments, featuring catchy names like 'Big Spenders' and 'Cream-of-the-Crop'. Each of the 16 segments displays unique credit and purchase behaviour characteristics.

Internal Tools

Credit unions should not overlook their own internal capabilities to collect, analyze and store member data. From marketing databases of member information (often referred to as MCIF systems) to more robust customer relationship management (CRM) systems, credit unions have a plethora of information on members' demographic characteristics, product use and transaction behaviour that can facilitate segmentation. These systems can be married to external marketing lists, credit bureau information or census data to further define a market. Member satisfaction surveys, new member analysis and exit interviews can add depth to the customer profiles marketers develop.

Segmentation Based Marketing Strategies in Action

Age Specific

Age segmentation is the most common form of target marketing among credit unions and other financial institutions. Since youth and seniors obviously differ the most in age, and because their corresponding needs differ from those in other age groups, they normally receive specifically targeted communications.

Banking on Youth

While financial service providers vary in their enthusiasm for marketing to children, a number of players are energetically pursuing younger customers.

The K² program offered by Kootenay Savings has three distinct stages – Start, Stash and Study – with products appropriate to the changing needs of young members: simple savings accounts for children; lines of credit, loans

and ABM access for older teens and university students. In marketing the program, Kootenay Savings uses images and language that speak to each age group.

Two years ago, ScotiaBank launched the *Scotia Young Investors Fund*. It invests mainly in companies that young people recognize, such as PepsiCo, Nike, Microsoft, Harley Davidson and Wal-Mart. BNS expects the fund to reinforce the young customers' ties with the bank and to encourage further investment.

Houston Texas Fire Fighters Federal Credit Union produces a collection of newsletters for preteens, teens and young adults. The articles feature credit cards, new car purchases, and other relevant topics. An important objective is to make the newsletters – *Money Talk*, *Starting Off Right* and *Paw Print* – fun to read, so each is written in age-appropriate language. Through its efforts, the credit ►



Figure 5: Evolving Product Needs of Youth

AGE PRODUCT INTRODUCED	12 and under	12 to 17	18 to 24	25 to 29
<i>Products</i>	<ul style="list-style-type: none"> ■ Savings account ■ Term deposit ■ CSBs ■ RESP (inc. mutual funds and term deposits) 	<ul style="list-style-type: none"> ■ Chequing account ■ ATM card ■ Secured credit card 	<ul style="list-style-type: none"> ■ Student line of credit ■ Car loan ■ RRSP ■ Mutual funds 	<ul style="list-style-type: none"> ■ Mortgage ■ Line of credit ■ Insurance ■ Business loan ■ Financial planning

union hopes to form bonds with its young members that will carry forward to adulthood.

The Growing Mature Market

Seniors represent an obvious and increasingly important market segment for financial institutions. The baby-boom generation is aging. One in five British Columbians will be 65 or older by 2026, an astounding 120% increase from today. While increasing numbers alone make this segment worthy of interest, other factors add to its appeal. According to Statistics Canada, households headed by those 55 to 64 have the highest average net worth, at nearly \$227,000; in comparison, households headed by people under 55 have an average net worth of less than \$75,000. By some estimates, older customers in the US hold as much as 70% of all retail bank deposits. CUCBC's *Products & Services Study* indicates that mature British Columbians are much more than stereotypical term deposit investors. Credit cards, mutual funds and lines of credit are among a range of financial products that interest this group. In the future, retirement planning, investment management, tax and estate planning are services that will become increasingly important to seniors as they live longer lives and increasingly need to extend their retirement income.

While free or discounted banking service is still the most prevalent example of marketing to seniors, some financial institutions, CIBC and Scotiabank among them, have gone an extra step by offering travel benefits, newsletters, interest rate bonuses and seminars in an effort to build relationships with the mature segment.

Income Specific

Segmentation based on income and net worth influences all aspects of the marketing mix: product range (premier accounts, platinum charge cards for high income folks, and micro-lending and low cost chequing accounts for the less wealthy), pricing (premium for service), promotional efforts (media selection, promotional give-aways, look and tone of communications) and the delivery channels used to provide service.

High Net Worth

Figures published in Statistics Canada's *The Assets and Debts of Canadians* indicate that 30% of the households account for over 80% of the total net worth in Canada, making a relatively small number of households a key target for most financial institutions' marketing efforts.

HSBC Canada recently launched a national ad campaign aimed at high net worth individuals and commercial customers, positioning HSBC as 'the world's local bank.' Client profiles and testimonials laud both the international character of the bank and its local understanding of individual customers.

Marketing to Main Street

Although the marketing efforts of the financial services industry are dominated by competition for the favour of higher net worth households, some credit unions recognize that their members have less need for financial planning and other sophisticated offerings. These credit unions tailor their own products and services accordingly.

Village Credit Union is one example. Reminiscent of Wal-Mart's commitment, early in its history, to serving towns that larger retailers deemed unprofitable, Village sees opportunity in serving the 65% of households who see themselves as living pay cheque to pay cheque: the working poor, the underemployed, small business entrepreneurs, and those starting careers burdened by large student loans – groups that many financial service providers try to ignore. Emphasizing used-car loans, emergency loans and debt consolidation, Village follows an unorthodox approach that heavily weighs a loan applicant's character over a credit score, showing that the credit union is prepared to help those who are turned away elsewhere. Is it working? Village increased its net earnings by 46% last year.

Northern Savings is another example of a credit union taking a back-to-basics approach. Northern Savings is helping its members build strong financial foundations by initially addressing the basics – debt management and budgeting – before jumping ahead to investing. While not negating the importance of sales, the credit union encourages its advisors to spend time with members "who have too much month at the end of their pay cheque."

Ethnic Groups

Segmentation based on ethnicity has become a sophisticated business since advertisers first gave it serious consideration in Canada some 15 years ago. Within financial services, segmentation based on ethnicity is most visibly reflected in the Asian banking market, where HSBC Canada and other financial institutions have developed a network of branches in key Asian communities across Canada. At these branches, the majority of all business, including marketing communications, is conducted in Cantonese and Mandarin. Ethnic segmentation is also evident in the credit union system, where several credit unions have been formed to service the financial needs of a particular ethnic group, e.g. Sharons Credit Union (Korean community) and Khalsa Credit Union (Sikh community).

A marketing strategy based on attracting and servicing a particular ethnic group must be accompanied by a long term commitment. Ken Koo, president of Koo Asian Marketing Group in Vancouver, says, “A marketer isn’t serious if he or she decides after only a three-month campaign that the market isn’t there. They should at least try it for a couple of years.” To make it work, a company would have to invest in infrastructure and staff and develop a communications style that resonates with the particular group being targeted.

Aboriginal Banking

In creating its Aboriginal banking unit, CIBC realized that success would take time. The unit is now six years old. Initially, the bank held an ethnic awareness workshop for all non-Aboriginal staff. The unit is a national initiative

that includes specialist regional Aboriginal banking representatives and a range of tailored products and services. One example of its specialty products is a \$15,000 maximum business loan for Aboriginal youth wanting to start new businesses. The banking units also employ modified personal lending guidelines. To help get its message across, CIBC has created an Aboriginal banking web site, which provides information on CIBC’s products and services as well as the Bank’s community initiatives.

In the credit union system, Ontario is celebrating the first birthday of Anishinabeck Nation Credit Union, its first First Nations credit union. Since opening its doors, ANCU has issued over \$1 million in loans and attracted more than 600 members. The credit union movement and First Nations community appear to be a natural fit, as both support small business development in their community and favour local governance. At the core of ANCU’s membership are a number of First Nation bands and their members. The credit union has targeted this market for further growth, but it faces stiff competition from the chartered banks. ANCU intends to continue to strengthen its credibility among the bands and increase its share of the market by becoming “an institution of choice.”

Asian Banking

All of the major banks and several credit unions operating in Vancouver’s Lower Mainland have adopted marketing strategies designed to attract and serve the Canadian Chinese market. These financial institutions advertise in the Asian media, issue brochures and financial guides, and offer telephone and personal service – all in Cantonese and ▶

Figure 6: Language Availability at Financial Institutions Web Sites

FINANCIAL INSTITUTION	ALL OF SITE FRENCH	ALL OF SITE MANDARIN	SELECTED INFORMATION
Bank of Montreal	x	x	
CIBC	x	x	
HSBC	x	x	
RBC	x		
Scotia Bank	x		
TD/CT	x		Mandarin Japanese
VanCity			Mandarin Punjabi

SOURCE: CUCBC 2002.

HSBC Canada home page – Chinese version



Mandarin. Branch staff reflect the ethnic background of the clientele they serve.

According to Canadian Chinese marketing specialists, there are three important considerations that will greatly affect how financial institutions market to this evolving customer base.

Shift in 'country of origin'

Far different from a decade ago, today's Asian immigrant to BC is more likely to come from China than from Hong Kong or Taiwan. Social and language differences between these groups will affect how advertisers communicate with this market. For example, the changing immigration patterns mean that Mandarin is more prevalent than Cantonese in the local Asian community.

Demographic and lifestyle diversity

Canada's Asian community is becoming increasingly diverse. No longer can it be assumed that this community is monolithic either by ethnicity, wealth, age, occupation, length of residence in Canada, language, or eagerness to adopt Canadian culture. Marketers must acknowledge these differences within this market to more effectively reach their preferred consumers.

Growth of ethnic mass media

Chinese media mushroomed in the late 1980s and early 1990s with the rapid growth of immigrants from Hong Kong and Taiwan. Television, radio, newspapers, magazines and billboards catering to the Chinese market are now firmly established. Marketers should keep a careful eye on all ethnic media to determine which outlets will maintain their audience. Second and third generations of immigrants may not retain their parents' mother tongue, and will

look to alternative sources, including the Internet, for information (see Figure 6, page 7).

Gays and Lesbians

Segmentation based on sexual preference is not new. Corporations and financial institutions such as Bank of Montreal have long recognized that the gay and lesbian market is a lucrative one. Numbering an estimated 75,000 to 150,000 residents in the Lower Mainland, the gay and lesbian community is noted for its brand loyalty and high discretionary income.

The problem for most mainstream marketers is that direct messages to this segment may also be seen by a different population that could react unfavourably. Consequently, much gay-directed marketing has been limited to supporting gay events and running ads in gay publications.

In August, Vancouver City Savings Credit Union launched an ad campaign, directed to gays and lesbians, in the Vancouver Sun and other traditional media. The initial ad featured two gay men in an affectionate pose with the tag line, "I want to bank with people who value all partnerships." The campaign is the latest in a long line of initiatives by VanCity supporting the gay and lesbian community: it has actively sponsored the AIDS fundraiser, Dining Out For Life, and Pride Week; it has granted same-sex spousal benefits to employees and extended joint account rights to same-sex member households. Before launching the campaign, the credit union surveyed nearly 300 members and non-members, and was pleased to find general support. To further strengthen its relationship with the gay and lesbian community, VanCity is considering a branch location in Vancouver's West End, home to many gays and lesbians.



Figure 7: Channel Use Segments

SEGMENT (% of population)	DESCRIPTION	STRATEGY – ELECTRONIC CHANNELS
Old Dogs, New Tricks (21%)	Mostly retirees, open to increasing electronic channel use	Provide online banking tutorials, seminars, electronic channel pricing incentives
Digital-preferred (23%)	Heavy electronic channel users	Improve the credit union's online banking functionality
Malleable Middle (16%)	Use online channels, but want to retain human assistance; reliant on branches for deposits (don't trust ABMs)	Address security and privacy issues affecting electronic channels
Human Holdouts (20%)	Use online channels extensively, but demand personal service option as well	Consider price discounts for electronic access to lessen desire for branch service
Teller-Tied (20%)	Do few, if any, transactions electronically; demand personal service	Not likely to change behaviour

SOURCE: BAI/Forrester 2002 Survey.

Fidelity US has been successful in using behavioural segmentation to drive selected customers to electronic channels. The push began when segment analysis revealed that a large group of Fidelity customers were overly dependent on using its call centre for simple things like obtaining account balances.

These customers were identified by affixing a special code to their accounts, so that the next time they called they were asked “Did you know you could have done this on the web?” Those customers who continued to call frequently were assigned a further code, which meant they would be routinely moved

to the bottom of the call queue. In time, 96% of the group started to serve themselves via the web for the majority of their routine transactions, while the remaining 4% were lost to the organization.

Behavioural Segmentation

Many financial institutions, including credit unions, regularly segment their membership based on behavioural factors such as the products and services they choose and preferred delivery channels. Behavioural segmentation frequently leads to marketing strategies that promote complementary products to members who hold a base product. An example would be offering mortgage holders a line of credit or credit cards.

Many financial institutions are using this type of segmentation to encourage members to use electronic channels. The BAI/Forrester 2002 Survey, encompassing 10,000 respondents across North America, divides financial institution users into five groups based on behavioural characteristics and identifies broad strategies for motivating each group to use electronic channels for routine transactions (*see* Figure 7, page 8).

Attitudes and Lifestyle

Segmentation based on attitudes or lifestyle (rather than lifestyle, which is more age specific) involves the use of detailed surveys to collect a variety of psychographic data. These surveys could, for example, identify groups of members who are credit averse, or have a “here today, gone tomorrow” attitude toward money. While difficulty in applying the resulting information sometimes limits the benefits of this form of segmentation, data on attitudes, lifestyles, hobbies and media habits can be highly useful in developing advertising plans and communication strategies.

PMB data – a primary but costly source of attitudinal and lifestyle information – is an essential tool for the majority of media planners. Credit unions working with advertising or specialist media planning agencies may have free access to PMB information through their respective media planners.

PMB data reveal that credit union members’ media preferences (newspaper, radio, television, Internet) are similar to those of bank customers and the general population. Credit union members do show a slightly greater propensity to read magazines and community papers and to listen to the radio (*see* Figure 8).

In addition to media use data, PMB has developed a segmentation model based on attitudes toward financial matters, dividing the population into four clusters. Credit union members are most noticeably over-represented in the ‘Super Savers’ segment (*see* Figure 9, page 10).

Beliefs and Values

With financial products and services gradually becoming commodities, some credit unions are finding it advantageous to segment their market by targeting individuals attracted to the credit union’s philanthropic and ethical philosophy.

Coastal Community Credit Union’s Community Builder Campaigns take a creative approach to segmenting the market by products and services while providing a unique selling proposition and still supporting the local community. Launched in 1998, the Campaigns combine ►

Figure 8: Media Habits – BC Market

	BC POPULATION	BANK CUSTOMER	CREDIT UNION MEMBER	CU MEMBER INDEX VS. POPULATION
Read magazine (previous day)	37.8%	38.7%	38.8%	103
Read daily newspaper (yesterday)	45.6%	46.7%	44.1%	97
Read community paper (past week)	75.5%	75.3%	79.4%	105
Heavy TV watcher (over 23.8 hrs/wk)	37.4%	37.8%	35.3%	94
Heavy radio listener (over 13.7 hrs/wk)	39.3%	38.7%	40.5%	103
Internet user (over 3.8 hrs/wk)	20.7%	21.2%	20.2%	98

Index values above 100 indicate behaviour more likely to be found among credit union members than the population as a whole.

SOURCE: PMB 2002.

Figure 9: Financial Attitudes – BC Market

SEGMENT (% of population)	DESCRIPTION	BANK	CREDIT UNION	CREDIT UNION INDEX VS. POPULATION
Have It, Make More (18%)	Savvy investors: life goal is to make lots of money...fast	19.6%	18.1%	100
Pay cheque to Pay cheque (23.9%)	Younger, large spenders: financial planning not a consideration for them; pro-credit.	25%	24.5%	103
Super Savers (18.9%)	Planners: very aware of their financial status and prepared for retirement; slow to adopt new banking technologies; anti-credit.	20.4%	23.9%	127
Buy Now, Pay Later (26.2%)	Impulsive, credit-oriented shoppers: extravagant spenders, not concerned with incurring debt.	28.3%	28.9%	110

Index values above 100 indicate behaviour more likely to be found among credit union members than population as a whole.

SOURCE: PMB 2002.

business objectives with community aspirations. Running from four to six weeks, each Campaign concentrates on either deposits or loans, and offers preferential rates for the duration. But the Campaigns differ from most promotions by incorporating fund-raisers that benefit selected groups of community organizations or 'community partners.' The Campaigns often feature a theme that promotes the selected community partners. In the past, themes have highlighted culture and youth.

After producing five Campaigns at a modest marketing cost of \$20,000 to \$25,000 each, CCCU has gathered more than \$63 million in deposits and loans, and more than doubled the number of new 'Community Partner' non-profit accounts. Balances in these accounts now average more than \$6,000. The Campaigns have also garnered almost \$67,000 in contributions to the community. Do members care? Results of regular telephone surveys show that 81% of members and 77% of non-members believe community involvement by a financial institution is a relevant matter in their trade area and that CCCU is the acknowledged leader. Eighty-three percent of CCCU members describe their credit union as active in the



community, far ahead of the 49% scores Royal Bank and CIBC customers gave their institutions.

Another form of segmentation based on "beliefs and values" are 'shop local' promotions that encourage customers to support local businesses, including locally-based financial institutions. Credit unions have conducted out various marketing campaigns based on this concept.

Prince George Savings Credit Union is partnered with the Prince George Chamber of Commerce in Community Proud, a program that runs through early 2003 to encourage local shopping. PGSCU, as the official financial institution for the campaign, offers preferential interest rates and deferred payments on loans provided the funds are used for purchases from participating local merchants.

In the Lower Mainland, G&F Financial's 69 Cents Loonie Event also encourages local shopping by offering consumers the opportunity to pay 69 cents for 'Loonie' certificates, which are redeemable at participating retailers for the full dollar value. G&F acts as distributor for the Loonies. The program has been an unqualified success, selling out in the last two years and achieving a 99% certificate redemption rate.

DO PEOPLE REALLY CARE ABOUT SRI?

Socially Responsible Investing (SRI) is still on a roll. SRI mutual funds are the fastest growing niche in the Canadian mutual fund market, experiencing more than double the growth rate of the broader industry. According to Social Investment Organization estimates, Canada's retail social investment market is second largest in the world, as

an increasing number of investors favour companies that place the needs of employees and the community on a par with profitability. In 2000, Environics International's "Millennium Poll" on corporate responsibility interviewed over 25,000 individuals worldwide to ascertain their expectations for corporate behaviour in the new century.

Results of the Poll revealed that, when forming impressions of companies, people rank corporate citizenship ahead of brand or financial factors. Two-thirds wanted companies to create social benefits in addition to their traditional purposes of earning profits, paying taxes and providing employment.

Gulf & Fraser 69 Cent Loonie Ad



Figure 10: RBC Segment Overview

KEY MARKETS	GROWTH MARKETS	PRIME MARKETS	COMMERCIAL MARKETS
Youth Nexus Small Business Farming & Life-Style Agriculture	Borrowers & Builders Business Agriculture	Wealth Accumulators Wealth Preservers	Knowledge-Based Industries Public Sector Real Estate Retail / Consumer Energy Diversified Industries
Consumer: 2,240,000 Business: 480,000 Customers: 2,720,000	Consumer: 3,600,000 Business: 110,000 Customers: 3,710,000	Customers: 4,135,000	Customers: 26,000
<ul style="list-style-type: none"> < 19 years, basic banking Largely single product holders Owner managed businesses with credit needs <\$100M, sales <\$1MM Smaller sized agricultural producers and 'hobby' farmers 	<ul style="list-style-type: none"> Leveraging debt to increase net worth, starting investment portfolios Privately controlled medium sized enterprises Larger sized agricultural producers 	<ul style="list-style-type: none"> Investing to accumulate wealth / wealth preservation and inter-generational transfers 	<ul style="list-style-type: none"> Regional to national privately controlled (both publicly and privately owned) and professionally managed companies, often exporting and importing, sales \$20MM to \$500MM

SOURCE: *The Customer Experience*, RBC Banking Presentation, 2002.

RBC and Segmentation – A Mini Case Study

Segmentation is a key component in RBC's drive to enhance customer relationship management. RBC first introduced segmentation and modelling to differentiate customer groups in 1999. The goal: to develop a personalized financial strategy for every customer. With over 9 million customers, 30,000 sales and service staff, 1,800 call centre staff, 750 mobile bankers, 1,200 branches, 4,800 ABMs, plus web and telephone based electronic services, this is no small task!

Each segment RBC identifies is characterized by its lifetime value to the bank, risk of defection, propensity to buy and channel preference. This analysis gives RBC the ability to:

- Segment customers and organize its business around segments
- Understand profitability:
 - What factors affect profitability in each segment?
 - What are the impacts of channel and product choices?
- Differentiate service requirements by customer group
- Anticipate customer needs by predicting behaviour and preferences
- Develop personalized customer strategies – determine service package offerings and pricing within each segment

The bank measures profitability not by branch, but by segment, and segment managers are responsible for profitability, customer satisfaction, loyalty and retention. ►



An example of how RBC has applied segmentation in its CRM strategy can be seen through an initiative aimed at first-time homebuyers. Research indicated that 19% of RBC customers who were renters planned to buy a home within two years – but half of these customers planned to shop around for their mortgage. In response, the bank set out to build greater awareness of its mortgage offerings among this group. Through a strategy of targeted communication

and a special mortgage package that included advice, a chequing account, a discounted mortgage rate and regular savings account contributions, RBC increased mortgage volume among the target group by 20% in a year. Further, 62% of all new mortgages originated during that time were from first-time homebuyers, and direct mail response rates quadrupled over the previous year.

Segmentation and Privacy Legislation

Provincial privacy legislation, due to be introduced in Spring 2003, may restrict a credit union's ability to use a member's personal information to offer them products and services from the credit union, its subsidiaries or third parties – or even to conduct market research.

The provincial Privacy Act is expected to require all private sector for-profit and not-for-profit organizations

to provide customers with a means of opting out of any unsolicited marketing communications, such as details of products and services that may be of interest to them. Implementing this requirement would oblige the credit union to first segment its membership based on willingness to allow the use of their personal data for marketing purposes before any further analysis is undertaken.

Summary

Market segmentation is a technique that every credit union marketer can use. Simply put, market segmentation involves the division of a market into separate groups, each of which can be expected to respond differently to pricing, communications, advertising, product features and use of delivery channels. Marketing plans that incorporate segmentation are likely to be more effective and efficient, and better able to address un-served, or under-served, markets.

Segmentation of a market can be based on any number of variables, from basic demographics such as age or income, to more esoteric criteria, including attitude or lifestyle. The variables employed in segmentation will depend on specific objectives and circumstances, i.e., the nature of market the credit union is trying to reach, the cost and availability of data (from external sources like census data or internal sources such as customer surveys and databases), and timelines for the implementation of marketing plans. However, in defining targets, credit union marketers must be certain that any segment under

consideration is sufficient in size to warrant the effort, will continue to exist for an adequate period, is descriptive enough to distinguish it from other segments and the broader market, can be reached through media and distribution channels, and is likely to respond similarly (and positively) to any marketing strategy.

Financial institutions, including BC credit unions, large and small, are actively practising segmentation as part of their marketing strategies. While traditional approaches, such as grouping by age, are still important, increasingly effective methods of accumulating data on existing and prospective customers are expanding the application of segmentation in business. Factors to consider will reflect individual objectives and may range from income and ethnicity through product usage and transaction behaviour to attitudes, beliefs and lifestyles. As credit unions continually strive to improve their competitive positions, marketers must be vigilant to the opportunities segmentation affords in support of this effort.

BIBLIOGRAPHY

The Corporate Information Centre maintains a comprehensive business library and archives of legal, periodical and newspaper collections with access to many commercial databases and subject files, including the sources of information provided within this issue. Contact: Diane Walker at 604 737 5971 or dwalker@cucbc.com for further information regarding the services of the Centre.

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