Nick Backhouse
(FIDM) is currently Strategic
Planning Consultant with Balloon
Dog in Norwich. Previously
he was Direct Marketing Director
for McCann Communications
House in Manchester and served
on the Worldwide Board of
McCann Relationship Marketing.

Opinion Piece

Credit crunch–data crunch?

Nick Backhouse

Received: 27 October 2008

Keywords: credit crunch, cautious,
data, models, segmentation, CRM

Abstract

This paper starts to consider the effect of the economic down turn on consumers' attitudes and the implications on data driven customer relationship management programmes. As consumers become more cautious in terms of spending and more cynical with regards to financial services, how will data modelling and segmentation strategies built in 'better days' adapt to the new world of the credit crunch?

Journal of Direct, Data and Digital Marketing Practice (2009) **10**, 303–306. doi:10.1057/dddmp.2009.5

Things have changed dramatically and permanently

When I started to draft this paper a few weeks ago, I intended to refer to a few of the financial issues that were happening at the time. These included the bankruptcy of a UK holiday airline, stagnation of the housing market and the fall of RBS. However, it seemed that every time I picked up my pen, the events of the previous day were already old news and something more dramatic and unpleasant was happening in the UK and around the world. So at that point I decided not to link my thoughts too closely to a list of specific events, which no doubt would have been superseded by the time you started reading this paper. What has remained constant, however, is the feeling that 'things' have changed dramatically and in some cases permanently, which, depending on your own personal outlook, may or not be a good thing.

As marketers involved in relationship and direct marketing, these global issues will change how we go about our business, especially in the use of data. What we may be witnessing is a seismic shift in attitudes and resultant behaviours. These changes are not restricted to us as individuals, but apply equally to how organisations work and do business, or in the case of bank lending, do not do business.

So, let's start with the banking industry. For many of us involved in financial services marketing, we have done well with the incremental growth in lending programmes. Now that those days have gone, with a return to the more draconian lending policies of the 1970s and the 1980s, where does this leave all those very sophisticated and continually refined credit scoring models that use behavioural and transactional data based on pre-crunch conditions? It can be argued on two counts that they are not entirely relevant to what is happening today.

Good days for direct marketing in financial services may have gone

Nick Backhouse
E-mail: nickbackhouse@aol.com

Savers attitudes have changed

First, lenders have changed the audience and the criteria on which they want to base their lending criteria. Secondly, our ability as borrowers to pay has also changed and, as importantly, our desire to increase our indebtedness. While lending is at rock bottom levels this may not be so much of an issue as the lending taps are eased, as they must be to help get the economy back on a stable flight path. So hopefully when this happens the modelling experts will have their hands full rebuilding models that are robust and dynamic, but with little relevant data available to help them in this task.

It's rather perverse to note that data analysts in the risk management departments of the major financial institutions around the world may be to blame for some of our current woes by creating algorithms that drove automatic trading ('algotrades') of stocks, shares and derivatives, including re-packaged sub-prime debt. These algorithms may have been built on flawed risk assessments based more on current, and what has proved to be totally inaccurate, market risk rather than the borrowers' real and long-term ability to pay.

Staying with financial services and looking at the other side of the coin in terms of savings, we can see other challenges for data-driven marketing. Savings has tended to be a poor relation to lending, but look at many of our leading banks as they try to rebuild their capital bases and balance sheets by pulling in additional money from savers. However, savers' attitudes are changing. Research from around 18 months ago showed that inertia was a major element with the average person in the street when deciding where to place their savings. While around 40 per cent of those surveyed stated that interest rates were the most important factor, over 25 per cent had no idea what rate they were receiving and over 40 per cent stated that they always used the same bank for their savings. A much more recent update of this research showed that over half of savers will now consider much more carefully how much they invest and which institutions they use, based on bank stability and media comments, rather than just using headline rates.

This could result in the traditional attitudinal model used for financial services segmentation, based on a matrix of knowledge and caution, being blown apart. This style of segmentation traditionally threw up four groupings of roughly equal size:

- 'Uninterested/Uninvolved'. This segment may well have shrunk as they are reluctantly forced to think properly about basic financial services and become more involved.
- 'Hedonists'. This high-spending, high-borrowing segment may also have declined now that they have less disposable income to spend and reduced access to low-cost borrowing.
- 'Financial Sophisticates'. Another group that may well have reduced in size. Their wealth has shrunk as their so-called knowledge failed them, with equity prices, offshore tax havens and Icelandic banks to name just a few examples.

- ‘Cautious Managers’. This group must have grown and no doubt will now need further segmentation as more of them take greater interest in who has their money and how much debt they have. Even sub-prime borrowers are taking more effort to improve their credit ratings and financial situation as higher borrowing costs hit home.

Can data systems react to major changes in consumer attitudes and behaviours?

The challenge for data mining is to identify and quantify these trends as soon as possible, so that as relationship marketing steps up a gear in the financial sector, it can react to these major changes in attitudes and behaviours when building actionable segmentation and robust predictive models.

Staying with attitudinal and behavioural changes, let’s now look at another sector that is also going through a time of turmoil: retailing, starting with retail catchment areas. These have been traditionally based on a combination of drive times, distance and plots of customers’ home postcodes. Some recent data for 2008 show that traffic jams were down by 12 per cent, while average motorway speeds had dropped by 1 mph to 62.2 mph, combined with motorists’ average journey times dropping slightly for the first time in several years. What is this telling us? It’s not due to less roadworks, so it’s more likely caused by people travelling less frequently, going shorter distances and travelling more slowly in an attempt to reduce their rising motoring costs.

Catchment areas will shrink

How could this affect catchment area analytics? It almost certainly indicates that catchment areas will shrink as consumers think a little more carefully about setting out in their cars for shopping trips; and when they do set out, they may well pack in more tasks. This could mean that local marketing programmes will need adjustment as catchment areas alter and the customer profiles within them are subsequently affected. In the longer term, the models retailers use for investment and disinvestment strategies may also need rebuilding.

Another significant change is occurring in the supermarket sector. Until fairly recently, organics was the big thing, following hard on the heels of growth in the low-fat and quality food sectors. Waitrose was on the up, Sainsbury’s was fighting back and Tesco’s blitzkrieg continued to roll out. Now it’s all change. Shoppers are becoming more cautious (that word again) about their food bills, which means that their shopping trolleys are starting to change in terms of types of food they are buying and the amount they are spending. But the really big sea change is in the growth of the so-called value chains, such as Netto, Lidl and especially Aldi, who are increasing market share through a combination of new stores and genuine like-for-like sales growth. Why? Because they are significantly cheaper, and as more and more consumers move their ‘major shop’ to these stores, the word starts to go around that they do provide good value and aren’t too bad to shop in at a time when consumers are worried about their food bills. For those who can remember, Kwik Save successfully grew its business during the 1980s on exactly the same premise.

**Cautious and
concerned will be
the watchwords for
consumer attitudes**

The data analysts working on Tesco Club Card and the Sainsbury's sector of Nectar will now be seeing some pretty marked shifts in shopping patterns, especially those reflecting that old direct marketing warhorse of 'Recency, Frequency and Value'. This represents a challenge for direct marketers, as those well-established segments based on transactional and behavioural data have now been significantly altered. This in turn will affect the messaging and promotional communications to new segments on the supermarket databases.

By the time you read this, more 'events' may well have occurred, such as increased rationalisation in the financial sector, more corporate insolvencies and perhaps some good news on energy costs. But what will not have altered are the changes we are seeing in the attitudes and behaviours of the UK consumer — changes relating to their finances, their housing, their shopping patterns and their future. Caution and concern will be their watchwords. How we in relationship marketing react with effective data solutions relevant to a new order will be the challenge for 2009. So instead of credit crunch–data crunch, perhaps we should be thinking credit crunch–data challenge.