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Electronic Channel Customers for Financial Products: Test of Ability-Motivation-Opportunity Model

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Introduction

When purchasing products today there are a wide range of sales channel choices available including traditional retail stores, catalog-based mail order outlets, as well as on-line markets (most often associated with Internet-based World Wide Web sites). Shopping on the Internet is becoming increasingly important and there is a wide range of research on who actually buys products on the Internet and why. The primary focus of most previous research, which has originated among industry practitioners, has been to explain use of on-line channels on the basis of demographic factors (Darian 1987; Hill and Baker, 1996; Meridien Research, 1997; Miller, 1995). Our study takes a consumer behavior perspective explaining Internet usage for shopping using the ability-motivation-opportunity (AMO) framework (MacInnis, 1989). The idea is that consumer's ability to purchase on-line, their motivation to do so, and having a reasonable opportunity to access on-line markets, are determinants of actual on-line buying. We attempt to show that these factors affect on-line buying more than the demographics of the consumers.

Our empirical study focuses on consumers in the financial services industry where on-line sales channels are becoming more important. We present our findings in the following sections. First we discuss the consumer and organizational perspective of on-line channels for financial services. We identify the components of our model and analyze the empirical survey-based results used to validate it. And finally we present the results and managerial implications that arise from our study.

Consumer Perspective

For many consumers, purchasing financial products is a complicated process. Not only do a majority of consumers not have a clear understanding of the financial choices available to them for satisfying their financial needs, they also do not fully trust financial intermediaries such as agents, brokers, and financial planners. Further, the quicker-paced life that consumers lead constrains them from allocating time to establish trusting relationships with the financial intermediary. Consumers therefore are looking for alternative ways of buying financial products and controlling their financial future. One of the alternatives they can turn to is the electronic channel; however, their adoption of this channel is predicated on overcoming risk perceptions associated with using the electronic channel.

Organizational Perspective

Financial institutions are keenly aware that electronic commerce is here to stay and will experience tremendous growth in the immediate future. For example, "explosive" growth in the number of retail users of electronic financial services is forecast by a study from Meridien Research. This study estimates that the number of retail customers for electronic finance will reach five million in the U.S. by the year 2000. In another study, DeLoitte and Touche estimates that half of all U.S. bank branches will be substituted by electronic banking within the next 10 years.

Financial institutions that are at the forefront of using electronic commerce have been developing expensive security protocols (such as data encryption, server authentication, and message integrity) for providing a secure on-line banking or trading solution to their customers. They have also been investing in marketing databases to support cross selling and upsell campaigns to existing customers and decisions support systems to analyze back-end marketing program expenditures. For example, American Express has invested close to $100 million during the last five years for this purpose. The Principal Financial Group is currently engaged in a multi-million dollar project to evaluate electronic commerce potential for their products.

While financial institutions have been making huge investments in building the infrastructure and technology needed for facilitating electronic commerce, they have not spent an equal amount of effort for identifying the customers who may be motivated, willing and able to use electronic channels. Markets in the physical world generally know how many (and which) customers they have. The electronic commerce market for financial products and services, however, may be the first major market in history not to have a clue about the identities of their customers. The primary purpose of this research is to help practitioners with identifying consumer attitudes and experiences that influence their current use of on-line channels for buying financial products.

Ability–Motivation–Opportunity Model

Figure 1 provides a brief overview of our proposed model. The model suggests that actual use of on-line channels for buying financial products may be preceded by a willingness to use such channels and prior experience with such channels in pursuit of financial information.

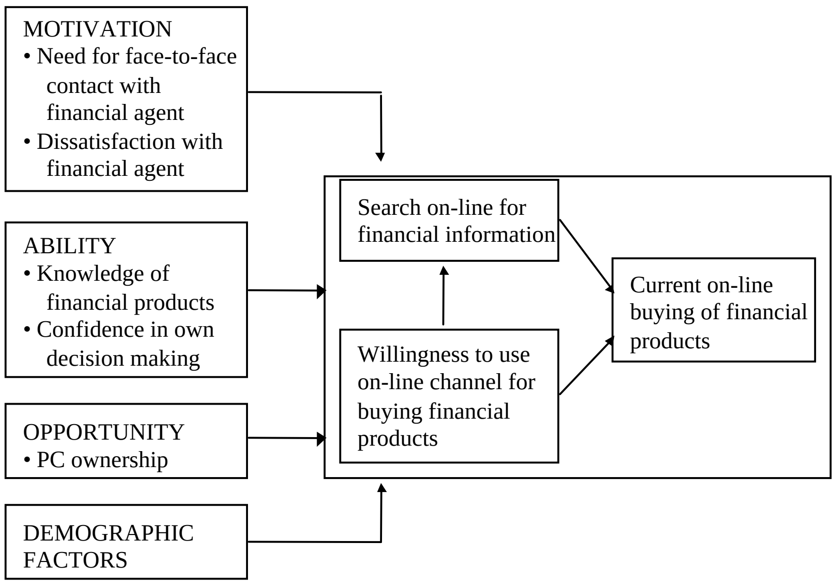

Figure 1. AMO Model

The basic antecedents in the model are needs, ability, and opportunity to use electronic channels for buying financial products. The propensity to use electronic channels is likely to be influenced by the presence of a need, motivation to attend to that need, and the ability and opportunity to use electronic channels to satisfy the need.

Needs relate to functional reasons why a person may be interested in electronic channels. Consumers may be motivated to use the electronic channel because they may have gone through negative experiences with the traditional sales agent channel. Consistent with previous research, the relevance of electronic channels to meeting the unmet needs of the consumer is the mechanism that stimulates its trial (Petty and Cacioppo, 1986). On the other hand, consumers may feel most comfortable with having face-to-face contact with a sales agent or a broker. In such a situation, they may be less prone to using electronic channels for buying financial products.

Ability is defined as skill or proficiency in understanding financial products. Lack of ability implies that knowledge structures necessary to perform purchase transactions on the electronic channel either do not exist or cannot be accessed. It is our belief that people need to feel comfortable with their own knowledge of financial products before they would attempt to conduct financial transactions (using the computer) without the help of a financial advisor. Part of the problem may be that personal or situational factors impede the time spent on understanding electronic channels. People who lead a very busy lifestyle may have less time to manage the decision making process by themselves.

Opportunity is defined as the presence of circumstances that promote the use of electronic channels. People who do not have the tools such as a computer may not have the opportunity to use electronic channels. Similarly, people who do not have the economic capacity to purchase financial products may have lower opportunity to use such channels than those who have disposable income and wealth for investment purposes.

Methodology

Sample. The data for the study were collected through a primary study of consumers in the Nashville, Tennessee area. An independent research supplier, Market Facts, Inc., was used for data collection. Surveys were mailed to 700 randomly selected customers living in Nashville. Complete surveys were obtained from 413 households, providing a response rate of 59%.

The sample households were predominantly from the middle-market – 92% earned less than $75,000; 61% were under 49 years of age; 92% had a household size of four; 73% were married; and 70% had at least a high school education.

Measures. The dependent variable, on-line usage, was measured by asking consumers if they have used on-line channels for buying financial products and services. This was a binary variable, with "1" referring to past/current use and "0" referring to non-use.

The model suggests that on-line usage could be explained as a function of whether consumers currently use on-line sources to search for financial information (SEARCH). Consumers answered "yes" or "no" for the following seven search activities relating to financial products: browse web sites for information, request for more detailed information, compare pricing of alternatives, review articles about providers, participate in on-line discussions, and obtain quotes on insurance and investment products. The range of score on this variable is thus between zero and seven.

Another determinant of on-line usage is willingness of consumers to use on-line sources (WILL). This was captured by asking consumers whether they would use on-line channels for buying four types of financial products: stocks, bonds and mutual funds; life insurance; retirement-related products; and home mortgage products. The range for this variable is between zero and four.

The motivation to use on-line channels was measured along two dimensions: need for face-to-face contact with agents – FACE (implying low motivation) and dissatisfaction with the agent channel – DISSAT (implying high motivation). These were measured using multi-item scales. An example item of the need variable is: "I need face-to-face contact with a financial intermediary when making financial decisions." Similarly, an example item for the dissatisfaction variable is: "We are satisfied with the services provided by our financial advisor." The alpha reliability value for these two scales were 0.79 and 0.89 respectively.

The ability to use on-line channels was captured using three constructs: income (reflecting monetary ability), knowledge (KNOW) and confidence (CONFID). The latter two were measured using multi-item scales. The reliability index for these scales were 0.67 and 0.73, respectively.

Finally, the opportunity to use on-line channels was measured by asking consumers if they owned a personal computer at home (PC).

Analytical Method. The following regression models were run:

1. On-line usage = function (SEARCH, WILL, EDUC, AGE, INCOME)
2. On-line usage = function (EDUC, AGE, INCOME)
3. SEARCH = function (PC, KNOW, CONFID, FACE, DISSAT, WILL, INCOME)
4. WILL = function (PC, KNOW, CONFID, FACE, DISSAT, INCOME)
5. CONFID, FACE = function (KNOW)

Results

The consumer use of on-line channels for financial products is significantly and positively related to their current use of such channels for financial information search (beta = 0.48). Surprisingly, consumer willingness to use on-line channels is not related to their current use of such channels. Additionally, none of the demographic variables were related to on-line usage for buying financial products. This last result is important because most industry studies in this area have shown the propensity to explain on-line usage primarily in terms of demographic factors.

Three factors were significantly related to consumers using on-line sources for financial information. These include presence of a PC at home (beta = 0.33), confidence in self-ability to make financial decisions (beta = 0.23) and income (beta = -0.21). Consumer willingness to use on-line purchase of financial products is related negatively to their need for face-to-face contact (beta = -0.26).

Finally, while knowledge is positively associated with confidence (beta = 0.58), it is negatively associated with need for face-to-face contact (-0.29). Additionally, knowledge is unrelated to any of the demographic variables, including education level of the respondent.

Managerial Implications

When identifying potential customers for on-line sales channels, the current study suggests that managers should concentrate less on demographics and more on consumers who have the ability, motivation and opportunity to buy on-line. Specifically, these are consumers who currently use the Internet to search for information and have confidence in their understanding of the product area, do not have a strong desire for face-to-face assistance in their decision making, and own a personal computer that allows them access to the Internet. If increasing the number of potential on-line consumers is a goal, then various strategies can be employed.

Increasing Opportunity. It may be difficult for an individual company to increase their customer's opportunity to purchase on-line, but the increase in family PC ownership, and use of the Internet through interactive service providers, may increase opportunity across the economy as a whole. This has positive repercussions for firms that want to move toward an on-line sales channel.

Increasing Ability. Increasing customer ability may also prove difficult for companies, but, as younger people who have used personal computers throughout their education become adults, the proportion of consumers who have the ability to participate in electronic commerce will increase. Companies may also use traditional marketing methods to educate their customers about the new on-line channel to increase their confidence.

Increasing Motivation. Finally, companies have the most direct effect on their customer's motivation to purchase on-line. They can pull customers toward the new channel by informing them that it can be more convenient than other options. Monetary savings also help increase motivation to use. For example, if transaction fees are normally charged, transaction fees may be lowered when the on-line channel is first available. Also, product and service prices may be decreased during the introductory period for the on-line channels. Obviously, once the consumers have seen that the on-line channel is useful, they are more likely to purchase than if they never have seen it.

An important result of this study is that consumers who use the on-line channel for gathering financial information are more likely to be on-line buyers of financial products. In other words, consumers who get their information the traditional way are less prone to use the on-line channel. It is also interesting to note that consumer willingness to use the channel has no influence on their current information gathering or on-line purchase behavior. From a managerial perspective, these findings suggest that targeting efforts should focus on current information seeking practices of potential customers.

Overall, consumer opportunity to use on-line channels, and their ability to do so, increase as electronic commerce (with its associated electronic markets and sales channels) becomes more common place. The key for organizations competing in an environment where on-line markets are available is attracting (motivating) consumers to access their on-line presence (Internet and/or Web) to increase the likelihood that they will buy. It is apparent that identifying potential on-line customers strictly based on demographics will be a far less successful marketing strategy.

References

References available upon request from authors.