Raddon
A Fiserv Company

Building a Better Product:

Tradeoffs in Designing for Consumer Preferences

Executive Summary

What do consumers want from their financial products and services? The answer is simple: everything. Unfortunately, financial institutions can't deliver everything, so their challenge is to come up with a tradeoff. They must figure out what their customer base wants most in a product. Are consumers willing to sacrifice a lower interest rate if a fee is waived? Is having no minimum balance more important than having high branch convenience?

Financial institutions must determine which product features are priorities for their target market – which elements have, in their customers' minds, crossed the line from desires to demands. With this information in hand, they can take steps to design the right products, meeting demand while avoiding deal breakers that make current and potential customers look elsewhere. It's also important to remember that priorities will differ among generational and consumer segments. For example, a Traditionalist will likely be more interested in a certificate of deposit than a Millennial, and an Upscale consumer might want something very different in a credit card than his or her Fee Driven counterpart.

To help financial institutions in this endeavor, Raddon Research Insights analyzed 1,739 online surveys that asked respondents what is most important to them in a variety of financial products. *Building a Better Product: Tradeoffs in Designing for Consumer Preferences* examines the survey results and weighs consumer preference using part-worth utility, the value that a person places on a given feature. Utility is examined for the entire population as well as Raddon's Consumer and Generation segments.

The products and features studied in this report are:

- **Savings accounts**: minimum balance, interest rate and branch convenience (finding: minimums matter)
- **Checking accounts:** maintenance fee, interest rate, debit rewards, branch convenience and additional features (finding: fees come first)
- **Certificates:** interest rate, term of deposit and bump feature (finding: terms are tops)
- **Credit cards:** annual fee, interest rate, rewards and additional features (finding: fees are foremost)
- **Home equity products:** type of product, interest rate and loan-to-value ratio (finding: rate rules)

Building a Better Product: Tradeoffs in Designing for Consumer Preferences

Marketers and product managers at financial institutions understand that a product's features and benefits can make or break that product. As a result, institutions spend significant time and energy measuring how their products fit in their competitive landscape. What are their competitors offering and can their product compete?

Many of these analyses – comparing pricing, features, requirements and the like – leave out the most important part of the economic equation. Measuring the supply environment is useful but inadequate without identifying consumer demand. What do consumers actually want and expect from their financial products and services?

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This study seeks to understand that question by exploring how consumers prioritize their desires. Traditionally, surveys ask questions like "How important is (feature A, B or C)?" which generally get answers like "Extremely, extremely, extremely." Given all options, consumers would like all of them. Reality, however, necessitates tradeoffs. Financial institutions cannot typically offer both the best rate and the best features, so they must prioritize what matters most to the customers they seek to attract or retain.

To measure those tradeoffs, this study uses a statistical tool called a conjoint analysis. By asking 1,739 consumers nationwide to choose their preference among products, each with different features, we can measure the relative value of those features to that consumer.

For example, a respondent would be given three choices for a savings account:

- An account with a $10,000 minimum balance, paying 0.50% annual percentage yield (APY), where the nearest branch is within a five-minute drive
- An account with a $20,000 minimum balance, paying 1.00% APY, where the nearest branch is within a five-minute drive
- An account with a $10,000 minimum balance, paying 1.00% APY, where the nearest branch is between a five- and 15-minute drive

The consumer would select the product that appeals the most:

- The one with a lower minimum and branch convenience
- The one with a higher rate and branch convenience
- The one with a higher rate and a lower minimum

Once they made their selection, they would be given three additional savings accounts with three different feature sets. After choosing multiple sets of savings, they would be given a choice of checking accounts, certificates, credit cards and equity products, each with different attributes.

By aggregating each respondent's choices, we can determine which features matter most to that respondent. Will he or she give up branch convenience to get a better checking rate? Do features like double rewards move the needle for credit cards?

The value that a consumer places on a given feature is called its *part-worth utility*. By aggregating all the responses, we can determine the utility for the entire population. We can also determine which feature set is most important to consumers, whether it be rate, convenience or another factor.

In addition, this study will identify utility based on Raddon's Consumer and Generation segments, as seen in the appendix. This is important because Millennials, for example, may prefer certain features that Traditionalists do not.

Knowing what an institution's target market desires most in a product will allow financial institutions to design the right product to meet customer demand.

Savings Accounts

In this environment of rising rates, both local competitors and internet-only institutions are exerting significant pressure on community banks and credit unions to raise their rates. Raddon research has shown over the years that branch convenience helped attract deposit dollars, while minimum balance requirements would repel potential savers. For this analysis, we looked at three attributes, asking consumers to imagine that they were choosing a new savings account and were considering various institutions:

Minimum Balance – The deposit institutions to choose from have minimum balance requirements to earn interest:

- $20,000 minimum balance – Interest is earned on balances greater than $20,000
- $10,000 minimum balance – Interest is earned on balances greater than $10,000
- No minimum balance – Interest is earned on all balances

Interest Rate – The deposit institutions to choose from offer various interest rates, expressed as an APY:

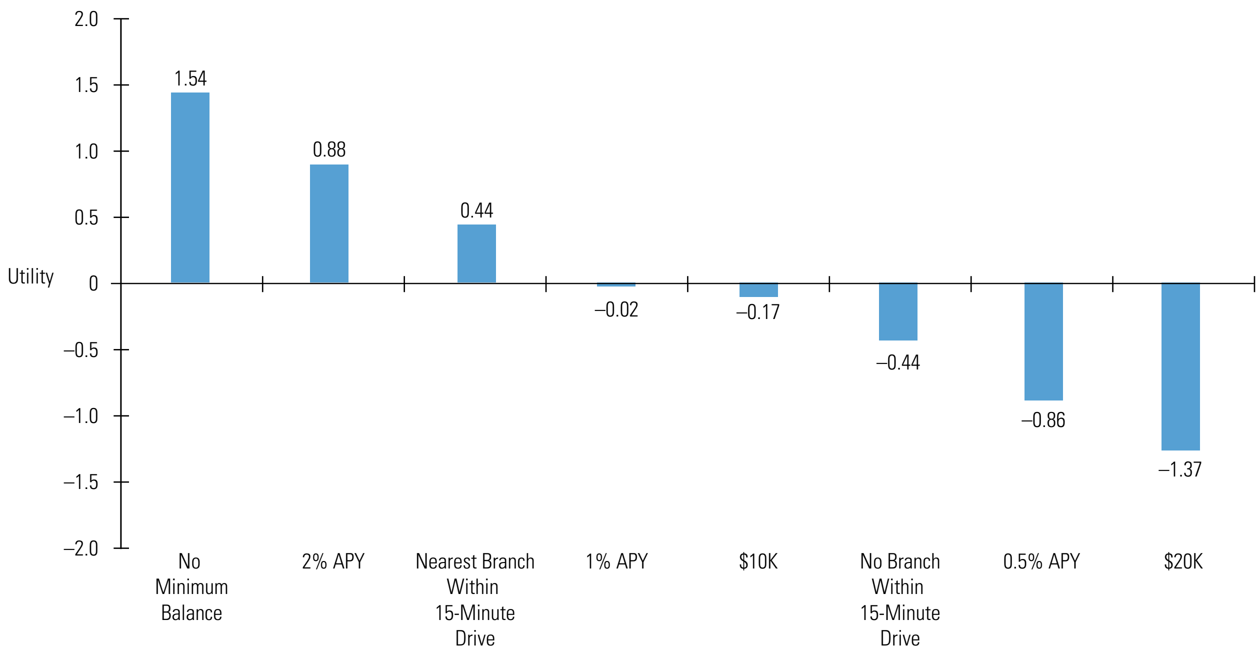
- 2.00% APY interest
- 1.00% APY interest
- 0.50% APY interest

Branch Convenience – The deposit institutions to choose from have various levels of convenience:

- Nearest branch within 15-minute drive – The institution has at least one branch location within a 15-minute drive of the respondent's home
- No branch within 15 minutes – The institution has no branch location within a 15-minute drive of the respondent's home

Overall, the most important variable to consumers is minimum balance (53%), followed distantly by rate (31%) and branch convenience (16%).
The difference is evident in the relative utility of "no minimum balance": 1.54, compared to -0.17 for $10,000 minimum and -1.37 for $20,000 minimum. Consumers also place high value on 2% APY and short driving distance (less than 15 minutes).

Figure 1: Relative Utilities for All Households for Savings Accounts



Source: Raddon Research Insights

The most useful savings account for the average consumer, therefore, is one with no minimum balance, a 2% APY and high branch convenience (1.54 + 0.88 + 0.44 = 2.86 total utility). That perfect account may be difficult to offer financially, so instead, use the utilities to find a feasible product that meets consumer demand. To put this analysis to use, let's compare two institutions' savings offerings:

	Institution A	Institution B
Interest Rate	0.5%	2%
Convenience	High convenience	High convenience
Minimum Balance	No minimum	$20,000 minimum