WHITE PAPER

Lending to Millennials

A Special Report From Entech the makers of AppWorks™

entech

By 2025, Millennials will account for 46% of total personal income in the U.S.

Millennial Generation

Much ink has been spilled over the last few years on Millennials (aka Gen Y) and their importance to the consumer and financial sectors of our economy.

They are smart, thoughtful, and probably the most sophisticated consumers to come along yet. And there are more of them than any generation before them.

Let's first look at some data:

- According to the Census Bureau, Millennials now number 83.1 million and represent more than one quarter of the nation's population.
- The purchasing power of Millennials is estimated to be $170 billion per year.
- By 2020, Millennials will represent 30% of all retail sales ($1.4 trillion per year).

For lenders, engaging Millennials and understanding what makes them tic is imperative because they are now entering their prime borrowing years.

For example, despite the economic and financial challenges young adults have braved since the Great Recession, according to the 2015 National Association of Realtors® (NAR) Home Buyer and Seller Generational Trends study, they represented the largest share of home buyers for the second consecutive year.

And, according to NAR, over the last three years the millennial segment accounted for two-thirds of all first-time home buyers.

In other lending segments the same trends can be seen. For example, Millennials made up 35% of automobile loan originations in 2015, and, even more impressive, Millennials increased their total outstanding auto loan balance 23% in 2015, the largest increase of any generation.

Millennial Attributes Re-examined

Most analysis to date shows how Millennials are positively affecting retail sales and profits, and are influencing brand marketing. However, not all the press they get is positive. Any discussion about what this "Millennial movement" means has to address the negative images that have dogged them over the last few years.

No other author sums it up more succinctly than Brad Tuttle in his article appearing in Time magazine,

"Millennial Shoppers: Big on Browsing, Not Splurging." In the column, Mr. Tuttle used the findings of 2013 studies from the NPD Group, Accenture, and The Shullman Research Center to encapsulate the tendencies of millennial consumers.

According to the findings three major factors come to the forefront.

Millennials:

- Purchase less often than other generational groups
- Don't tend to splurge
- Lack brand loyalty

While the tendencies described above at first glance seem negative, they are components of a complicated profile that make Millennials an extremely appealing group of consumers for financial institutions.

Millennials are actually just entering the peak years of their buying life-cycle and their initial entry has been less splashy thanks to the Great Recession, student loan debt, and the slower than expected ramp up of job availability. What's more important to lenders is that Millennials are entering a stage of financial stability. And, they love to shop!

According to retail industry data 58% of consumers ages 18 to 33 put themselves in the "love to shop" category, compared to 40% of adults overall.

More persuasive is an online shopping study that showed 45% of Millennials spend more than an hour a day looking at retail-oriented websites. If they are shopping, buying is not far behind.

Millennials exhibit the traits of a most excellent consumer, i.e., they consider the ramifications of their purchase, they research it using all of the avenues available to them, and they save up rather than whipping out the plastic or taking on other unnecessary debt.

It follows that as time goes by, they will build stronger credit ratings than previous generations.

Millennials do not tend to have the fierce brand loyalty demonstrated by the Baby Boomers or the attraction to trendiness of Gen Xers. The trick word here is loyalty. Brand loyalty doesn't mean what it used to. A recent marketing survey by Adroit Digital found a total of 77% of Millennials say they use a different set of criteria in selecting brands to which they'll be loyal.

According to the study, a critical difference is that Millennials have much higher expectations about how a brand should behave. They are really leaning on the corporate conscience. They expect brands to be eco-friendly, and have a social conscience. In addition, they expect them to be willing to change based on their opinions and feedback.

45% of Millennials spend more than an hour a day on retail-oriented websites.

So, what's a lender to do?

> **Millennials are the most elusive generation and the most challenging to keep engaged.**
>
> —Chief Industry Analyst, NPD Group, Marshal Cohen

Millennial Engagement

To engage means to offer, to attract, to bind, and to induce to participate. If you are a lender and want the Millennials as your customers, then you need to keep them engaged.

This means:

- Giving them a great user experience
- Saving them time and hassle
- Being socially conscious
- Keeping an open dialog with them

It's as simple, and as hard, as that.

A Great User Experience Needs Omni-Channel

Millennials were born into technology and have embraced it to the point that it drives everything from their daily social interactions to their purchasing decisions. To be successful, lenders need to reach consumers wherever they are, on whatever device they may be using.

According to Nielsen Research, over 85% of Millennials own a smartphone or tablet. It's estimated that over 60% use them to research and purchase products and services on the go. Also, they are increasingly using multiple channels and multiple devices throughout their purchase journey. And these Omni-channel shoppers are very valuable.

According to a 2015 study by International Data Corporation (IDC), a market research firm specializing in consumer technology, omni-channel consumers have a 30% higher lifetime value than those who shop using only one channel.

Millennials have the expectation in today's world that they can transition across purchasing channels. For example, start a purchase through a mobile app and complete the purchase through a web browser on a desktop computer.

Ultimately, they are seeking a seamless experience. And beyond seamless, they are increasingly expecting their experience across channels to be without boundaries.

The winners in the omni-channel sweepstakes will create sophisticated marketing strategies geared towards enabling consumers to advance completely through the lending process on any channel with minimal effort.

If you want Millennials to be your customers, deliver the right information at their fingertips, at the right place and the right time.

Personalization—Millennials Want it Fast and They Want it Their Way

Beyond seamlessness, Millennials are increasingly expecting their user experiences to be fast, personalized, and easy. For lenders, this means tailoring your loan offerings to customers based on profile characteristics and real-time information. It has always been good business practice to establish a relationship with every customer so you can offer products or services that meet their specific needs. This is still good practice, but the model has shifted.

Millennials expect you to know their world. They divide their time across multiple priorities, get their news and reviews from the internet, and stay connected to their friends and the world through social networks and instantly accessed information. They are networked, twitterfied, and instagrammed.

With Millennials, the entire relationship building process has transformed into collections of "likes" and "dislikes" from across the internet. As a lender, you need to collect the "likes" and combine them with real-time information like location and recent purchases.

You then need to be able to blend this data, analyze it, recognize patterns, and turn all that into personalized loan offerings. If you think this is something that needs to be done for some future world, you're wrong. It's the world we live in today.

Do a Google search on washing machines. Then, go on Facebook and see the sponsored ads that appear from places selling washing machines. This is contextual selling. As a lender, you need to understand it and learn how to use it.

New examples of contextual selling will soon be weaving their way into the mainstream, like real-time promotions using in-store location services. Imagine knowing a customer from your bank is in an auto dealership looking at a new Honda, and being able to send them a text message right then and there offering a discount on an auto loan. Retail organizations are now using this technology to do exactly this type of contextual selling.

Millennials are networked, twitterfied, and instagrammed.

Tick Toc, Tick Toc—If You Want Me, Make It Fast

It's a Hassle to Type It Over and Over Again

If your customer wants to take out a loan, and they already have a checking account at your bank, then the loan application should pre-fill their profile information automatically. This is not hard technology to implement, yet many lenders fail to do it.

Millennials expect ease of use. Why annoy them by making them fill out forms with basic data they know you already have? You risk a thought process like:

"This organization is really behind the times. Maybe I should look for a new modern bank that's easier to deal with."

92% of Millennials said that real-time product availability would influence where they shop.

Give Millennials a Voice

In terms of corporate positioning, Millennials have an entirely different perspective than other generations on how companies can make money and benefit society at the same time.

A Few Lessons for Lenders

- Ensure omni-channel (mobile, web, kiosk, live) access to products and services and enable data sharing across channels.
- Build in, or build up your lending platform so you can access data from internal databases, third parties, and social media sources.
- Pre-fill application forms with all of the information you can so that customer barriers are at an absolute minimum.
- Review loan processes. Use third party services that can deliver payroll data or tax data to eliminate customer data entry tasks.
- Integrate with social media Application Program Interfaces (APIs).
- Understand how to integrate real-time data (contextual information) to deliver recommendations and personalized products.
- Be socially conscious.
- Provide avenues for customers to share their views and perspectives.

While the common perception is that Millennials distrust big business, they actually have high expectations for it. At the same time, Millennials expect inclusion in corporate decision making through social engagement and philanthropic initiatives.

According to a study commissioned by the MSL Group, part of French communications giant Publicis Groupe, Millennials, a generation typically attributed with aversion to, and distrust of, major institutions, in fact, look to the corporate world to help solve global problems. According to the study, 78% of Millennials recommend a company to their peers based on the company's involvement with society. Eighty three percent expect businesses to do more than they are already doing to help the world. And importantly, good social behavior is not limited to being eco-friendly or helping the less fortunate...it includes looking out for the best interests of customers. This study could serve as a useful guide to lenders looking to attract young people, either as employees or as customers.

In the coming years, more large corporations will no doubt roll out various initiatives and tout their corporate social responsibility. However, Millennials are uniquely suited to scrutinize those efforts. And, they'll respond to them vocally if the initiatives aren't genuine.

Sixty-four percent of Millennials feel that companies should offer them more ways to share their opinions online. It's all about engaging in a two-way conversation where they feel involved. For success in the future, companies will need to have a constant pulse on their customer base, offering them a platform to create and interact when and where they want to.

Millennials systematically turn to content created by their peers (user generated content) to make purchase decisions regardless of the type of service, product or market. According to Bazaarvoice, a large brand analysis firm, 51% of Millennials say consumer opinions found on a company's website have a greater impact on purchase decisions than recommendations from family and friends. The rise of crowd-sourced information about a company has begun and will continue to be viewed as more reliable than just taking in the feedback of one's social circle.

Lending Institutions Need Strategy and Technology to Win

The bottom line is that Millennials are not now, nor will they be in the future, restrained in their spending. They are skilled with technology, determined, diverse, and more educated than any previous generation. And, they are still in the early stages of joining and participating in the labor market.

Lending institutions need to take steps now to develop strategies to engage Millennials and gain their loyalty. But setting a Millennial plan in motion will not be easy, nor will it be on a path that most companies have traveled before. It will require a paradigm shift in marketing and business development, and a lending platform that delivers the required technology.

We are Entech. Our lending platform is AppWorks.

Contact us at 610 590 2154 or visit www.entech.com →