Factors Affecting Customers Lifetime Value of Fintech Services

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FINTECH ERA

Fintech is the thriving industry of present-day industrial world. Beginning from a small street vendor to precious gems dealers, majority of the transactions are accomplished through fintech services worldwide. Gone are the days where customer used to visit any shop or service with their wallets full of cash. The present-day mantra of any customer and the business world is "cashless". The fintech revolution has ushered the customer into the era of cashless, be it withdrawal or deposit of cash.

The fintech industry has strengthened its roots in India during the global crises 2008. The crises have brought in the essential innovative transformations known as Fintech.3 in every field be it financial or marketing. Awareness on the usage of digital and online services has gradually advanced due to the increase in the presence of private players. The smart phones have ushered the era of digital banking which has brought in financial inclusion of all unorganised sectors. Mobile banking and internet banking were the first steps in our economy's shift towards fintech services. Integration of multiple services of the financial institutions have initiated the online presence of the customers. The markets have gradually shifted from product centric to customer centric. Customer has become the God in the eyes of all services. Demonetization is the primary driving factor for the growth and development of the fintech services in India. Mandating banks and public on the limited usage of ATMs for cash withdrawals acted as a catalyst for the changing of the mindset of the public. Promoting of the fintech services by the Prime Minister internationally and nation-wide has given the public the assurance on the security of using them. The RBI has opened the financial sector for the private fintech startups like Paytm, phonepe, google pay which were based on the existing international fintech companies like PayPal and Visa. The new entrants of fintech services have revolutionized the entire outlook of financial inclusion. Technology has become inexpensive, readily available at the hands of customers. Smart phones carrying the features of scanning technology, 5G technology have made the transformation towards the fintech services effortless.

The emergence of UPI (Universal Payments Interface) has brought India into the global arena of fintech services. India is expected to have a $1.3 trillion fintech market by 2025. The BNPL (buy now pay later) model has resulted in the expansion of the markets and buying behaviour of the customers. Credit cards have changed the customer's buying patterns. The pay later option has amplified the customer life time value with a product. Gone are the days when the prospective lead of a product or a service will turn into as customer on payment of cash. Cashless transactions have impacted the buying behaviour twin-fold. First, the customers usage number per service is increasing and the second is the retention which is related to the customer life time.

CUSTOMER LIFETIME VALUE

As per Harvard Business Review, the customer lifetime value can be boosted by orchestrating the marketing arm of the company towards the customer. Customer centricity is the new age approach followed by every company. High speed service delivery, offering customer incentives as needed, cultivating a community growth with the customers, handling customers issues and complaints and managing the product returns are some of the strategies that upsurge the positive impact on the CLV of the company. The CLV monitors the cashflows that are brought in by the customers using the service throughout their usage. The CLV also acts as the base for the CRM activities undertaken by the companies to turn the new customers into loyal ones.

The RFM (Recency-Frequency-Monetery) framework is the backbone for ascertaining the CLV of the services. The purchasing pattern of the customers can provide in-depth data on the tastes and preferences which can be used to create highly customised promotional campaigns which in turn are used to retain the customers and prolong the CLV of the service. Major fintech companies like Google Pay, Phone Pay have the option of storing and sharing the data to the backend servers to create the customised campaigns and ads for the customers. The RFM framework segments the customers into various buckets based on the purchasing patterns. Then along with quantitative modelling techniques, each segment is analysed to comprehend the loyal customers and the everchanging ones. The end goal of every CMO (Chief Marketing Officer) is to ascertain the bottom-line and the cost benefit analysis of every marketing strategy and campaign that is flagged off. The mathematical models along with RFM framework can focus on the RFM segments that are worth pursuing and those RFM segments that can be shelved. This will help the company in minimizing the type 1 and type 2 errors. Type 1 error focuses on the potential prospects that can be turned into definite leads, while the type 2 error talks on the non-potential customers that the company focuses on. The RFM framework is used to determine the direct marketing techniques

Every interaction with the customer must be treated as an opportunity for reinforcing the brand values. Creating a value experience with the customer is crucial.

The purpose of the study is ascertaining the main marketing features that attract the customer base for the specific fintech service. The customer base is based on 3 factors namely gender, age and income.

The study aims to examine the catalysts which encourage the public to use that specific fintech services. To survive in the cut throat competition of the concentrated markets, fintech services employ various marketing strategies beginning from tapping an un-marketed segment like a new location, or tying with third parties for providing heavy discounts to the customers. So, what makes a fintech service unique from its competitors is the driving USP of its customer base. Another factor which plays a significant role in establishing these services is the clearance certificate from RBI. RBI being the apex bank in the country regulates all the payment services be it traditional or non- traditional.

Thus, in the maturing market like in India, which is the 2nd largest country in world population wise, has been the prime market for all fintech services be it international or national.

METHODOLOGY:

Literature Review:

Study & Year	Nature of Study	Interpretation
Susilo et al (2019)	User acceptance	It is actually harder to identify the basic role of factors that will contribute to user decision especially for application that they do not have to pay. In the other word, we cannot identify user judgment prefer on one than other using basic Technology Acceptance Model (TAM). It is important to find out the other factors to include in basic model of TAM.
Junger and Mietzner (2019)	A household's level of trust and comfort with new technologies, financial literacy, and overall transparency.	Households with low levels of trust, good financial education, and preference for transparency are characterized by a higher probability of adopting FinTech. In contrast, household price perceptions do not appear to significantly impact switching probability.
Palmie et al (2019)	Disruptive innovation	This study defines disruptive innovation ecosystems and illustrates the impact that the financial technology (FinTech) ecosystem has had on disrupting the financial services industry.

Citations: Susilo et al (2019), Jagtiani and Lemieux (2018), Palmie et al (2019), Junger and Mietzner (2019)

RESEARCH METHODOLOGY

The research methodology used is based on primary and secondary research. A questionnaire consisting of open ended and close ended questions was designed and shared to participants to answer. The participants were asked to answer the various factors that affect their usage pattern of various fintech apps.

More than 12 variables and factors are considered for the hypothesis that these factors affect the customer life cycle of the users definitely. The number of responses recorded were 101. The 101 answers have been given by users of varied backgrounds, income groups, genders and people of all ages.

Secondary data is from various online websites and articles are used in the theoretical framework of the research.

DATA ANALYSIS

The findings are classified into two sections:

- The first section deals with the basic understanding of the users' preferences based on their answers in the questionnaire.
- The second section deals with the findings of the various tests done using SPSS software to test the factors that are significantly affecting the customer life cycle, the test of good fit for checking the significance of the factors affecting the life cycle.

Age

		Frequency	Percent	Valid Percent
Valid	10-30	50	49.5	49.5
	30-50	25	24.8	24.8
	50-70	26	25.7	25.7
	Total	101	100.0	100.0

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	49	48.5	48.5	48.5
	Male	52	51.5	51.5	100.0
	Total	101	100.0	100.0	

Education Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10th -inter	15	14.9	14.9	14.9
	graduation(degree)	34	33.7	33.7	48.5
	phd and others	8	7.9	7.9	56.4
	post-graduation	44	43.6	43.6	100.0
	Total	101	100.0	100.0	

Income (p.a)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	38	37.6	37.6	37.6
	2	22	21.8	21.8	59.4
	3	28	27.7	27.7	87.1
	4	11	10.9	10.9	98.0
	5	2	2.0	2.0	100.0
	Total	101	100.0	100.0	
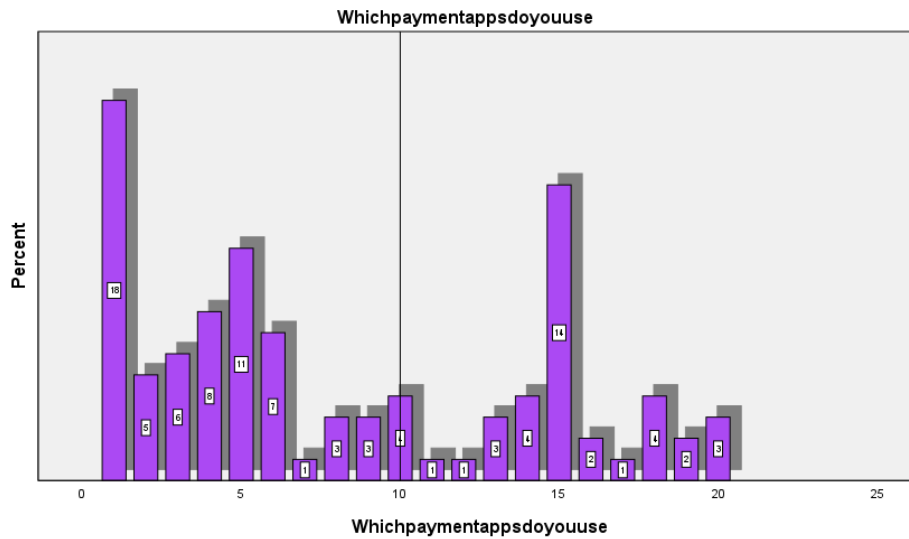
It is observed that the respondents are using a combination of the fintech apps. This gives us the inference that awareness of the usage of the fintech apps is substantial and diversified. The respondent's answers establish that people of all age groups are aware on the existence of numerous fintech apps that are available and are using a variety of fintech apps in their daily life. Of all the combinations, there are two which stood out the highest. They are Phone-pe and a combination of Phone-pe and Google Pay
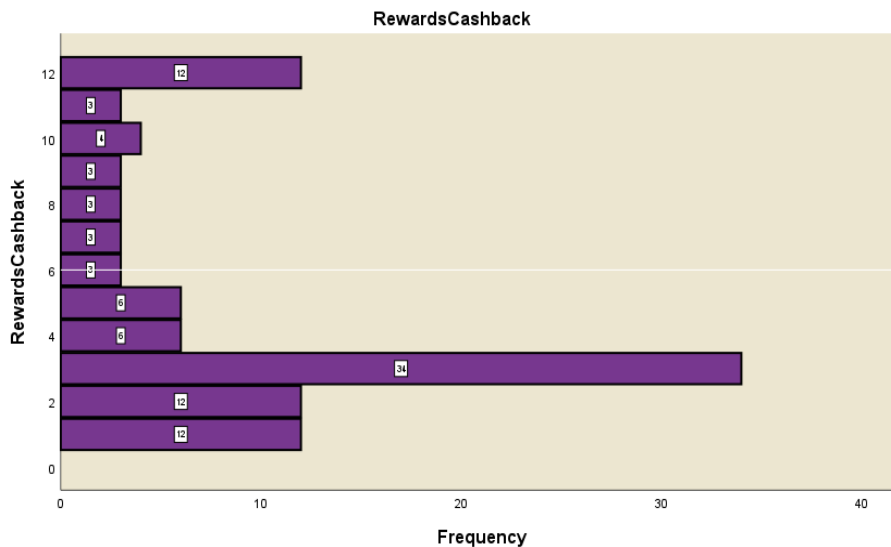

Customers were found to interact with the fintech apps frequently when they are offered some incentives. This behaviour pattern was exploited by the fintech apps in the form of rewards and cashback offers for every transaction executed by the users. For the variable where rewards and cashback offer by the apps were the major usage factors. Phone-pe and Google Pay have taken the lead in this category.

Google Pay app has gamified its user interface where the frequency of the transactions is classified into various levels and the type of rewards and cashback offer amounts increase with the level of the transactions. Each level of the gamified interface depends on the frequency of the transactions executed by the user. Phone-pe has a similar gamified interface through a scratch card system where the user wins a scratch card every time, they use the app to transact. This

technique of gamification strategies even with the existence of uncertainty has transformed the user's perception of the fintech apps in a positive direction and has motivated the users to prolong the customer life cycle of the app.

For the variable where the app is available in regional languages, it is observed that majority of the users preferred a combination of all apps. Language spoken and understood by the customers appears as a significant dependant factor for the higher market penetration of the fintech apps. Since every State in our country has its own regional language and people tend to speak and comprehend proficiently in the native language, having English as a default language might not ensure a high customer life cycle for the product. Rather it would be beneficial for the existing apps and upcoming apps to have the regional languages as options for catering to a large audience of customers.
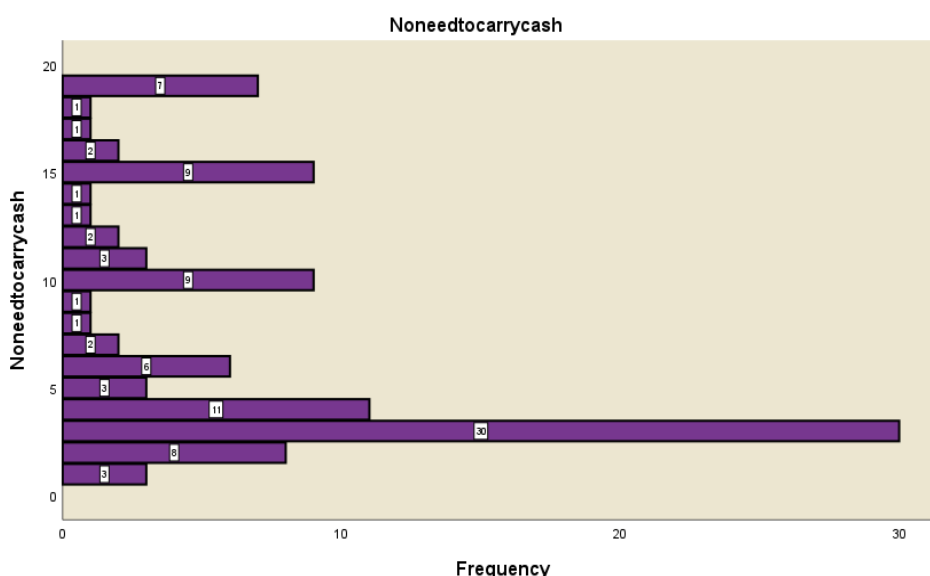
Digital advancement and the emergence of fintech have transformed the economy into a cash free. Availability of a smart phone with minimum internet facility are enough to transact anywhere and anytime. Cutting-edge technologies like 5G, optic fibre and wireless have resulted in bringing the highspeed internet facility to customers at their doorsteps at a minimum price. Thus, the progressive technologies have shaped the fintech apps usage into a routine phenomenon in a layman's life. The variable 'Hassle-free Cashless transactions' done by the customers plays a crucial role in determining the reasons for the users to choose fintech apps over cash. The observations show that Phone-pe and Google Pay apps have revolutionised the payment system of majority of customer base. The promotional activities done by the government and the Hon' Prime Minister in creating awareness on the usage of the fin tech apps have played a crucial role for the global players in accepting the apps and willingness to use them.

Descriptive Statistics				
	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
Age	.453	.240	-1.422	.476
Gender	.060	.240	-2.037	.476
Education Level	.017	.240	-.238	.476
Income pa	.474	.240	-.815	.476
Which payment apps do you use	.434	.240	-1.237	.476

Rewards & Cashback	.934	.240	-.569	.476
Offers with other services	.579	.240	-1.367	.476
No need to carry cash	.840	.240	-.702	.476
Can use to pay bills and others	.919	.240	-.347	.476
Software does not crash	.532	.240	-1.386	.476
Available in multiple languages	.609	.240	-1.181	.476
Speed of money transfer	.750	.240	-.705	.476
The app can support any device	.671	.240	-1.140	.476
Easy login	.417	.240	-1.524	.476
Good customer service	.710	.240	-.954	.476

From the above table, the skewness of the major variables like gender, age, education level, easy to login, software does not crash, offers with other services, income level is in between the optimal levels of -.05 to 0.5.

Thus, we can understand that the data is not skewed but is in the normal distribution levels. This indicates that the answers provided by the participants are random and there is no possibility of any data manipulation. The customer life cycle is indeed being affected by the above variables.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.860
Bartlett's Test of Sphericity	Approx. Chi-Square	397.642
	Df	45
	Sig.	<.001

It is observed that the Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.860 and the Bartlett's Test of Sphericity is below 0.001 which is significant to interpret that the sampling undertaken is adequate. This in turn concludes that factor analysis a valid test for ascertaining if the designated variables are indeed the underlying factors impacting the customer life cycle of the fin tech apps.

Communalities		
	Initial	Extraction
Age	1.000	.787
Gender	1.000	.541
Education Level	1.000	.877
Income pa	1.000	.747
Which payment apps do you use	1.000	.634
Rewards Cashback	1.000	.648
Offers with other services	1.000	.718
No need to carry cash	1.000	.678
Can use to pay bills and others	1.000	.542
Software does not crash	1.000	.632
Available in multiple languages	1.000	.545
Speed of money transfer	1.000	.375

The app can support any device	1.000	.524
Easy login	1.000	.565
Good customer service	1.000	.454
Extraction Method: Principal Component Analysis.		

The communalities matrix shows that majority of the variables are having more that 0.5 value which is adequate in inferring that the above taken independent variables are affecting the CLV of the fintech apps used by the customers. The factors like age, education level, income level offers and promotional campaigns are showing the highest communalities through which we can infer that the RFM framework is the deciding factor for the companies in designing the marketing strategies for improving the CLV of the app.
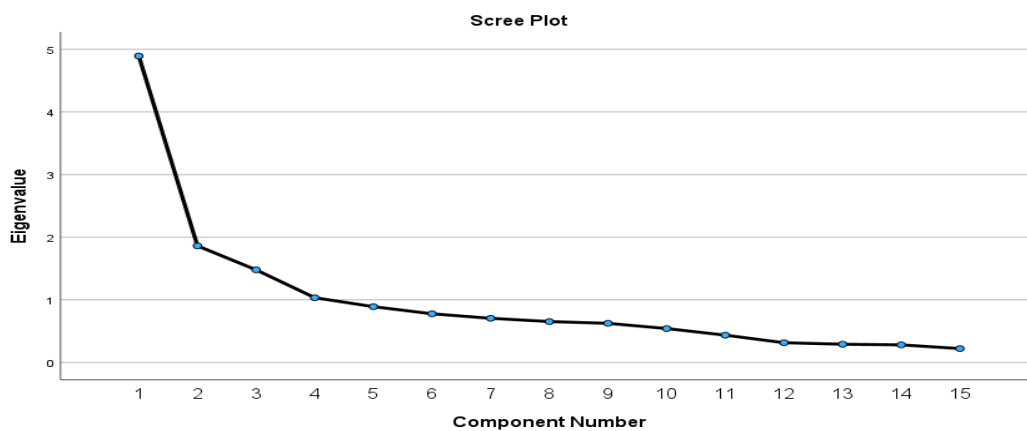
The scree plot indicates four KPIs which are impacting the CLV of the fintech apps. These are the offers and promotional campaigns, cash rewards, age, cash free transactions. The facility of wallet free transaction experience has brought the fintech apps closer to the customers. The companies try to retain small recency customers with large monetary and frequency basis to turn them into loyal patrons by designing customized direct marketing strategies. The data mined from the apps is used to segment the complete customer base into different buckets based on the RFM metrics. Each bucket is scrutinized to understand the diversified tastes and preferences of the customers to strategize the marketing arm of the business.

CONCLUSION

Every business, be it MSME or large industries, marketing is the lifeline. Without suitable marketing tactics the objectives of the business may go haywire which can in turn lead to the closure of the business. Customer is the ultimate endgame for all the successful business entities. Envisaging high quality products and services without keeping the end user in the product designing may lead to the winding up of business even before starting. Gone are the days when the markets are product centric. The era of demand-based entrepreneurship is the chant of the time. Hence, for a business to establish itself in the cut throat competition, idea, concepts, prospects, leads, new customers, loyal patrons, all play a crucial role in decoding the success of the entities.

SURVEY QUESTIONNAIRE

Name: _____

Gender: _____

Age: _____

Income per annum (app): _____

Education Level: _____

How many payment apps (phonepay, upi) do you use: One ☐   Two ☐   Three ☐   Four ☐

Which payment apps do you use:

Paytm   Google Pay   Phonepe   Mobiwick   YonobySBI   Others_____

Why do you use that specific App:

1. Rewards & Cashback
2. Offers with other services like swiggy, lenskart
3. Games like spinning wheel, win a contest
4. Easy to use than others
5. Security than other apps
6. Software does not crash
7. Automatic Login for daily use
8. Can use to pay bills and other services
9. ATM services
10. Brand Ambassadors (seeing celebrities use the app):
11. Available in multiple languages (telugu, hindi, regional based):
12. Do you prefer payment apps or net banking:
13. Speed of money transfer:
14. The app can support any device (IOS and Andriod):
15. No need to carry cash everywhere:
16. Good customer service:
17. Privacy protection:
18. Easy Availability of the app everywhere:
19. Facility for international payments:
20. Discounts on services used in the app:

Will you recommend the payment apps to others:

	Questions	Paytm	Phonepe	Google Pay	BHIM	YONO	Others
1	Rewards & Cashback						
2	Offers with other services like swiggy, lenskart						
3	Games like spinning wheel, win a contest						
4	Easy to use than others						
5	Security than other apps						
6	Software does not crash						
7	Automatic Login for daily use						
8	Can use to pay bills and other services						
9	ATM services						
10	Brand Ambassadors (seeing celebrities use the app):						
11	Available in multiple languages (telugu, hindi, regional based):						
12	Do you prefer payment apps or net banking:						
13	Speed of money transfer:						
14	The app can support any device (IOS and Andriod):						
15	No need to carry cash everywhere:						
16	Will you recommend the payment apps to others:						

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