Kurt Salmon

Retailers and Banks: Finding the Path to the Ultimate Alliance

In recent years, the relationship between bankcard issuers and retailers has not always been rosy, strained by a high degree of self-interest and loss of focus on their mutual customer.

But as retailers face a host of strategic issues—technological advancements, competitive shifts and changing consumer behavior—and card issuers face their own economic, technological and competitive challenges, the time is ripe for that to change.

Evolving and strengthening the retailer–card issuer relationship can help retailers improve their customer experience and deepen customer insights while enabling card issuers to tap into new groups of customers and increase revenues.

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To change the conversation, retailers and banks need to focus on how each can add value to the relationship. The good news is, on the card side, players like MasterCard, American Express and Visa are dedicating internal resources with the explicit goal of improving engagement with their retail partners. As these efforts start to take hold, we are now seeing the promised benefits of improved revenue and margins for retailers and increased usage and balances for card providers begin to materialize.

And these benefits aren't insignificant. Research shows that consumers spend more when they're purchasing with credit cards instead of cash—up to 100% more, according to an MIT Sloan study.

This translates into real-world examples, as with McDonald's, for instance, which started allowing credit card purchases and saw the average purchase increase from $4.50 to $7.00. At the opposite end of the cost spectrum, many consumers rely on credit cards to make certain big-ticket purchases.

But in addition to this core financing need, there are four other areas where stronger retailer–bankcard issuer bonds show the most potential to create value for both organizations.

1. Collaborative programs

The airline–card issuer co-branding relationship is perhaps the best example of how powerful collaboration can be. In addition to free travel, cardholders are rewarded with perks like free baggage check, upgrades, early boarding and airport club access, and these benefits can be scaled up or down to target different consumer segments with different card offers.

Card issuers benefit because airline travel is relatively expensive and therefore drives a higher dollar volume spend while generating 180 to 200 basis points of interchange. Airlines benefit on two levels—the cost of air travel almost necessitates a card-based transaction, and because consumers' redeemed miles are bought by the bank from the airline at a fixed rate per mile, it's very lucrative for the airlines as well.

For a successful example from the retail realm, consider American Express and Walmart's Bluebird prepaid card aimed at traditionally underserved consumers. The card has been a success, with more than 575,000 accounts opened and $275 million in funds added since its inception in 2012. If that wasn't sufficiently enticing, consider that 85% of enrollees are new to American Express and 45% are under 35—a key growth demographic for the company. And Walmart benefits from being able to offer their customers a cost-effective banking alternative from one of the world's most respected financial services brands.

2. Consumer insights

Even with limitations due to consumer privacy laws, there is significant opportunity for the mutual sharing of insights between the card issuer and the retailer. By providing broader visibility into consumer behavior, card issuers can give retailers

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access to tremendous market and consumer insights, including spending trends by category and cross-retailer consumer spending habits, that can help feed predictive analytics and targeted marketing and promotional offers.

One Kurt Salmon retail client identified a key consumer segment whose purchase decisions were highly influenced by brands. The retailer had identified a significant number of these customers, but believed many more were hidden among their broad customer base. Using information gleaned from their card partner's data, they developed an algorithm to find and target these hidden customers. These insights were then used as part of their targeted marketing efforts.

3. Cross-segment marketplaces

Card issuers can also help forge bonds between different co-brand partners in their payment networks, creating mutually beneficial marketplaces in which non-competing brands offer targeted products and promotions to their customers. When executed correctly, these marketplaces can boost key customer awareness and loyalty for all participating companies and the network or card issuer involved.

4. Mobile payments

Mobile payments are growing at an impressive rate—they will hit $670 billion annually by 2016, according to Juniper Research. And today more than 120 phone models are currently enabled with near-field communication technology, with another 30 on the horizon—meaning that side of the payment value chain is nearly set. We know, however, through a recent Kurt Salmon study, that a significant percentage of consumers are still reticent to trust their point-of-sale purchases to their mobile phones. But as with previous technology adoption, we believe consumer attitudes will change as they become more confident in the security of mobile payments technology and recognize its potential for added convenience, leading to broader adoption of mobile phones as a point-of-sale device. To accelerate adoption and build store traffic, retail and financial services companies can collaborate to expand the number of digital interaction points in-store. As the store environment evolves to being more digitally intelligent and dynamic, the importance of the mobile phone rises, and its use as a payment device will naturally follow.

As a result, mobile and digital platforms will become an increasingly central part of the in-store customer experience. Retailers will begin to see the financial sense in taking a serious look at mobile payments for their potential to increase customer engagement and loyalty. Maintaining strong retailer–card issuer collaboration as both parties innovate in this area will help keep costs down and ensure that whatever solution is developed is both financially viable and widely supported.

Conclusion

Moving the retailer and financial services relationship from confrontational to cooperative to collaborative will be an imperative strategy among the winning players in these two industries. In the end, customers will be the victors—as well as the retailers and banks to whom they pledge their loyalty. As a start, focus on the four key areas in which retailers and payment companies can really enrich their relationship: collaborative programs, consumer insights, cross-segment marketplaces and mobile payments.

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Our Global Financial Services practice works with the world's leading retail, corporate and investment banks; consumer finance companies; asset managers and investment funds; insurance companies; payments businesses; and financial sector regulators. We understand well the forces at work in the financial services industry, such as the need for improved asset quality and risk management, the imperative of further operational efficiency, the interrelationships between core funding and deposit gathering and payment transactions, and the opportunities related to mobile payments. Kurt Salmon brings unparalleled insight into the cross-industry issues and opportunities facing financial institutions and retail and consumer products companies.

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