

The Private Label Credit Card Dilemma

Once upon a time ... not very long ago, actually... senior finance and marketing executives at specialty retailers across the U.S. were quite excited about the promise of stronger customer loyalty and increased purchasing to be generated by offering a proprietary or co-branded credit card. The idea, enthusiastically touted by credit card issuers, was that a proprietary card could not only in and of itself be a source of revenue to the retailer, but also *would* serve as a major source of customer shopping behavior data for purposes of developing insight based customer engagement strategies.

And then ... along came our current Great Recession and its strongly negative impact on consumer interest not only in acquiring new credit cards but also, of course, in using those already in their possession.

So the question has become ... “Is your private label card really as powerful a tool for cultivating customer loyalty – especially in today’s credit averse environment – as it perhaps once was?”

The fact is, a number of retail marketing leaders have been determining that the answer is “No ... it is not,” ... and here are two major reasons why:

First: A large base of card-holders does not equate to a high rate of active card use ... and diminished card use means diminished customer insight opportunity. We all know why customers sign up for private label cards. It’s a response to the opportunity to get a 10% or 15% discount on everything purchased that day (or as soon as the card is approved). The tactic definitely works for stimulating applications. But what matters much more is the percentage of card holders who continue to use the card. Few retailers claim that more than 40% to 50% of their cards are actively used. What that means is that if “loyalty” is tied solely to a branded credit card, all those inactive card holders are essentially invisible to analysis, development of insight into their shopping behavior and, consequently, your ability to communicate with them in a targeted and cost effective manner.

Secondly, some percentage of the customer base – even best customers for a given brand – have never accepted the card and will not ever do so. They have other cards they use ... airline mileage cards, rebate cards, etc., or have determined instead to utilize debit cards or simply pay with cash. So the question becomes even broader, e.g., what percentage of the **total** customer base – and their associated shopping activity - is generally invisible? In cases where most loyalty cultivation efforts are associated with a retailer’s credit card, the answer simply cannot be known. Without insight, what is there to do but extend one discount offer after another to the world in hopes of increasing store traffic?

Changing the Customer Conversation

A better way is to get promptly to work on the development of a data base that is not dependent upon the use of any particular credit card. Assuming your POS system can link a customer identity number (email address, for instance, loyalty program member number or even phone number) to a specific transaction, you may begin the process of gaining insight into all the important aspects of your customer’s purchasing behavior ... shopping frequency, locations visited, transaction value, what items are purchased, and based on intense analysis of customer preferences, what other products might be appropriately suggested for trial. The goal is a stronger, more personalized relationship ... it’s the best hope for success in a difficult retail environment.

Don’t have the resources “in house” to make the most of the data you are able to gather? Then move quickly to find an outside provider of specialized expertise in data management, segmentation, analytics campaign design and testing, and overall fact-based strategy development. The right partner will contribute to your

ongoing success by helping you improve your communications ROI, increasing incremental sales per customer and optimizing your investment (e.g., reducing expense) in direct marketing.

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Jeffrey founded SHC Direct and leads its management team. Jeffrey has over 20 years of marketing, sales, sales management and client services/operations experience in the incentive marketing and loyalty marketing fields. Prior to founding SHC Direct, he held the position of Executive Vice President of Marketing and Client Services for S&H Citadel, Inc., Chicago. Prior to that, he was Executive Vice President of Sales and Marketing for S&H Citadel where he was responsible for all marketing and sales functions. Jeffrey has been an active member of TEC (The Executive Committee) since 1998.