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Card-linked offers: test results and future outlook

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Executive Summary



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Card-linked offers (CLOs), widely used by US financial institutions, are starting to emerge in Japan also. CLOs are merchants' promotional offers targeted at specific cardholders in response to their credit or debit card transaction histories. We recently conducted a CLO test in collaboration with two major credit card companies. Our test confirmed CLOs' effectiveness.

What are card-linked offers?

Card-linked offers (CLOs) are merchants' promotional offers delivered by settlement service providers (member-owned companies) to consumers (cardholders) in the aim of driving customer traffic to the merchants. CLO recipients are targeted based on payment-card usage data.

Merchants can efficiently deliver promotional offers to consumers by segmenting the consumers based on their preferences and purchasing behavior. They can then verify their promotional offers' effectiveness by checking payment-card settlement information. By utilizing smartphone networks, card companies can increase CLOs' customer-drawing power through such means as pushing the CLOs to consumers during commuting hours or sending CLOs in response to GPS data from cardholders' smartphones. In the latter case, when consumers are in the vicinity of a given merchant's location, card companies can send them CLOs redeemable at that merchant or reminders about CLOs from that merchant that were previously loaded onto cardholders' cards but not yet redeemed.

Because CLOs are tailored to consumers' personal tastes and past purchasing behavior, consumers are unlikely to regard them as spam. Additionally, CLOs conveniently eliminates the hassle of printing out coupons or showing one's smartphone screen to a sales clerk at a store. Consumers load CLOs onto their payment cards by selecting the offers that they wish to use. Once a CLO is loaded on a card, it can be redeemed simply by purchasing the promoted item with the card as usual.

Through CLOs, settlement service providers aim to increase usage of their settlement services by encouraging cardholders to use their cards more and by driving customer traffic to the merchants in their networks. They can also earn customer-referral fees from the merchants. Settlement service providers include payment card companies and e-money issuers. Card-usage history data are the first step in utilizing Big Data business strategies. CLOs are accordingly garnering attention within the payment card and retail industries¹⁾.

NOTE

- 1) CLOs were mentioned in the Interim Report of the Study Group for Developing a Healthy Environment for Credit Card Use, published by the Ministry of Economy, Trade and Industry in response to the government's Japan Revitalization Strategy. Several companies have started testing and launching CLO services.
- 2) One of the two card companies extended its arm of the test until December 28 at the request of participating merchants (test results presented herein are for the period through October).

CLO test conducted by NRI and two major card companies

From August to October 2014²⁾, NRI conducted a CLO test in collaboration with a top Japanese credit card company (Company A) and another major card company (Company B). Company A participated in the test using a credit card account website and 16 merchants while Company B used a smartphone app and 18 merchants. The merchants included apparel retailers, restaurants and shopping centers. They were given access to webpages where they could upload promotional offers and target the offers at specific consumer segments. Each merchant was provided with a set of segment selection buttons. The card companies were provided with webpages for responding to consumer inquiries. Card members were given access to webpages where they could display, peruse and select premium offers using a conventional web browser or smartphone app.

Test results

The response from the participating merchants was better than expected. Merchants requested that the test period be extended and reported that their CLOs were so successful that their promotional markdowns went over budget. Specific feedback from merchants included the following comments. "We have tried various digital

Exhibit : Overview of CLO test

	Company A	Company B
Dates	Aug. 4 – Oct. 31, 2014	Aug. 4 – Oct. 31, 2014 (extended to Dec. 28 at merchants' request)
Participating cardholders	approx. 3,300 (Greater Tokyo)	approx. 10,500 (nationwide)
Channel	Credit card account website	CLO smartphone app
Participating merchants	16 bricks-and-mortar retailers	18 bricks-and-mortar and online/mail-order retailers
Other	Co A. vetted content of CLOs before delivering them to cardholders	Company B refrained from sending out CLOs of existing alliance partners' competitors

Source: NRI

3) Online to offline (i.e., promotions that combine e-commerce and bricks-and-mortar stores).

media, including O2O³⁾, but none were this effective." "Being able to target consumers is valuable." "We have been spending 80% of our advertising budget on print media, but we now want to reallocate some it to CLOs."

(1) Growth in card users, card transactions and card transaction value

During the test, the participating merchants saw substantial growth in card usage among participating cardholders. On a year-on-year basis, participating cardholders' card usage at participating merchants increased 20% in value terms, 40% in transaction-volume terms, and 30% in user terms. In Company B's case in particular, participating cardholders' card usage at participating merchants increased on average by about 50% in transaction-volume terms and roughly 30% in value terms, while average card usage among cardholders who did not participate in the test was roughly flat year on year over the three-month test period.

(2) Contribution to acquisition of new customers

Multiple merchants gained new customers by offering CLOs to cardholders with no prior history of card usage at their stores. One merchant conducted a follow-up investigation to determine the extent to which such cardholders were actually existing customers who had previously made purchases with cash or other payment cards. It concluded that some 43% of these cardholders were in fact new customers who had never previously purchased from the merchant⁴⁾. The merchant ended up strongly requesting that the card companies expeditiously launch full-scale CLO services.

4) This merchant gives loyalty-point cards to all of its customers. It was able to identify new customers as those not previously listed in its loyalty cardholder database.

(3) Smartphones' effectiveness

As mentioned previously, Company A participated in the test using a credit card account website while Company B used a smartphone app. The cardholders who participated in Company A's arm of the test accessed its webpage five times a month on average. In contrast, the cardholders who participated in Company B's arm of the test used its smartphone app 30 times a month on average. The difference between the two usage rates is striking. Moreover, some 45% of CLOs that were delivered to cardholders based on GPS data ended up being loaded onto their recipients' cards. Once loaded onto a card, these CLOs were redeemed about 25% of the time. These astonishingly high loading and redemption rates reaffirm mobile technology's effectiveness.

(4) Cash rebates preferred as reward

In a post-test survey, about 60% of the participating cardholders indicated that they would prefer to be rewarded for their card usage with cash rebates. Some merchants

also said that given that they are bearing the cost of their promotional offers, CLOs would have more customer drawing power if card companies rewarded cardholders with cash rebates instead of points.

(5) Other findings

Other findings include that CLOs are effective at inducing customers to revisit a merchant after a recent absence and that cardholders targeted with CLOs increase their average credit card purchase amount when the CLO is contingent on the cardholder making a card purchase in excess of a certain threshold.

Challenges and outlook

Launching CLO services on a full-scale basis will entail a number of challenges. Foremost among them is protection of personal information. In our test, the card companies obtained the participating cardholders' consent to use their information. For GPS data, we used a patented technology able to deliver CLO information without continuously tracking cardholders' GPS coordinates. Safeguards to protect cardholders' personal information and privacy will be essential to full-scale CLO services also. Other matters that need to be resolved to launch full-scale CLO services include a method of specifying merchants for multi-acquiring⁵⁾ and the ability to offer special discounts on certain merchandise by identifying frequently purchased goods and/or to offer generous CLOs through manufacturer discounts⁶⁾. Most importantly, even among the merchants that participated in our test, CLOs' effectiveness varied greatly depending on how the merchants devised their CLOs. The CLO concept is not a magic formula guaranteed to succeed. Indeed, we found success to be elusive unless the merchant made the effort to formulate and test hypotheses based on valuable hints gleaned from various data. Additionally, our test confirmed that effective CLOs can be delivered through fusion analysis of payment card usage data coupled with data from the NRI Survey of 10,000 Consumers⁷⁾.

In addition to offering CLOs in response to cardholders' day-to-day consumption behavior, overseas payment card issuers are starting to offer their own financial products to their cardholders. We expect Japanese card issuers to likewise stimulate consumption and breathe fresh life into financial markets through adroit utilization of CLOs.

5) Multi-acquiring is a scheme whereby merchants that contractually belong to one card company's merchant network can accept branded cards issued by any card company, provided that the cards have the same brand name (Visa or MasterCard). For more details on branded cards, see *Cashless Kakumei 2020* (Nikkei Business Publications), co-authored by myself (available in Japanese only).

6) A patent application is pending on a business model for promotional offers with manufacturer involvement.

7) NRI conducts its Survey of 10,000 Consumers once every three years. For example, if survey data indicate that 30-49-year-old women who frequent a certain theme park tend to like karaoke, a card company could send out karaoke-parlor CLOs to 30-49-year-old women who had previously used their credit cards at that theme park.

about NRI

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