Volume : 1 | Issue : 7 | July 2012 ISSN - 2250-1991

Research Paper Commerce

Retail Credit Convention and Relationship Marketing

*Dr. Vipul Chalotra

*Assistant Professor, Department of Commerce, University of Jammu, Udhampur Campus

ABSTRACT

Retailers are recognizing the importance of developing and maintaining long-term relationships with customers. Using credit usage information is one way of identifying consumer's purchasing behaviour. The paper illustrates how differences in retail credit usage could be used to individualize marketing efforts by retailers. It also suggests how these efforts will benefit retailers in terms of creating loyal customers. A unique feature of this study is that it uses "live" account histories describing actual customer credit usage of revolving accounts. The findings suggest that customers of different store types use credit differently, and that credit usage patterns could be used as a basis for customizing promotions for individual customers.

Keywords :Retail, Credit, Business, Retailers, Customers.

Introduction

Competition among players in the retail sector is a global phenomenon. The oversupply of retail space in the central business District (CBD) and the springing up of new shopping centers and neighborhood shops in the major areas are expected to lead to further softening of retail stores. The general outlook of the retail sector is bleak as the market faces a downturn caused by a decline in tourist arrival and expenditure, ever increasing operating costs, the implementation of the Goods and service Tax (GST) on 1 April 1994, and the full-day Area Licensing scheme (ALS) which restricts the free flow of vehicular access into the CBD. In the face of a potential oversupply of retail space and the up-and-coming shopping centers, shop owners and shoppers alike will have a much wider selection of shopping location (Sim, 1994). Hence, existing and new shopping centers will face immense difficulties in attracting and maintaining their clientele base (i.e. tenants an shoppers). A shopping centre will survive the competition only if it can attract a steady flow of customers. The buying public or shoppers therefore have to know of the center's existence, its location and the various goods and services which shops in the centre have to offer. Advertising, promotion and Publicity or any combination of these three activities – would help to build traffic flow and increase sales for all the shops in the centre.

Retail credit convention/usage

In the last few years, the term "database marketing" has become the descriptor of a movement away from undifferentiated marketing toward greater customization of product and services offerings to the customer. Many scholars and Practitioners now recognize that to excel in customer service, a firm must identify and respond to the individual needs of those customers. For retailers, this response to individual customers will not only result in increased sales in the long run, but also will help to establish strong relationships and, ideally, to create more loyal customers. One of the difficulties in developing these types of relationships with customers is maintaining accurate and current information files on individual customers credit card as information provides a significant portion of the data available on customer demographics and purchasing behaviour. However, one aspect of retail credit usage that is unclear is whether or not purchasing behaviour varies by customer type and / or store type. The different purchasing patterns, based on store type or store benefits sought by the customer, could be identified from credit data, appeals and promotions directed specifically to their needs could be developed. The problem with most studies on credit usage behaviour is that they have been based on what consumers think about their credit usage rather than how they actually use credit. A unique feature of this study is that it uses "live" account histories describing actual customer credit usage of revolving accounts. Previous studies have used self-report questionnaires, which may or may not accurately reflect actual usage.

Benefits of Retail Credit Usage

- **Precise targeting of promotions.**
- **Assists in positioning and branding the store.**
- **Enables the identification of best-selling items.**
- **Allows for testing of new merchandise.**
- **Ensures more chance of success for sales and Preview.**
- **Provide a better guide to new customer generation.**
- **Identifies benefits for inclusion in general advertising.**

Traditional Credit Segmentation

In the past, research on credit usage has focused on demographic descriptions of credit customers in general terms, but few have focused specifically on retail credit customers and their use of proprietary credit cards. Consumer credit research can be grouped into two categories: longitudinal data on credit usage; and factors determining consumer credit behavior. The first category of data is typically derived from government-sponsored surveys such as the Survey of Consumer Finance and the Survey of Consumer Attitude. These types of survey provide periodic data on the distribution and extent of consumer debt. Additional compilation and analysis of data derived from government surveys have been conducted by the Credit Research Centers of Purdue University (Household Credit Data Book, 1989) and the University of Michigan. These studies, as well as the annual Chain Store Age Executive/Deloitte and Touché Retail Credit Trends (1995), categorize credit data and point out significant overall trends in credit usage. Based on data from these types of sources, time series analysis can be conducted to provide descriptive information and track specific usage of credit cards such as monthly dollar usage, and the amount of credit debt consumers carry from month to month (Canner, 1988; Canner and Cyrnak, 1985). Segmentation has traditionally divided customers by either user characteristics (i.e. demographics) or by user behavior. While demographic information can help to classify and perhaps define likelihood of purchasing, other data may be needed to help us understand actual buying behavior (Vavra, 1992). The second category of credit research considers the factors which determine user behavior. Both income and social class have been studied as major determinants of buying behavior in general. Despite some controversy over the more significant factor, most agree that credit usage is determined by multiple factors and that there is varying usage patterns. Two contrasting patterns of credit card usage have been identified through multiple consumer surveys: convenience usage and revolving credit usage (Canner and Cyrnak, 1985). Convenience usage applies to those individuals who use credit cards because, in comparison to writing checks or carrying cash, it is a simpler means of making a transaction. These consumers do not carry a balance on the account but pay the total each month. Revolving credit users, in contrast, finance their transaction through installments on the account, paying a portion of the balance plus a finance charge each month. Convenience users generally charge greater dollar amounts per month than revolvers, and the amount charged per month for both types of credit users rises with family income (Canner, 1988). Surveys have also indicated that as family income and the age of the head of the household increase, the likelihood that a consumer will be a convenience user also increases (Canner and Cyrnak, 1986). Retail credit card users differ from bank card users in many ways. Consumers who have a store credit card indicate that they spend about twice as much, and rate the store higher on customer service than customers who do not have the card (Credit World, 1988). The characteristics of a cardholder of one store appear to differ from those of cardholders of another type of store. Although these segments have been identified for quite some time, until recently, little attention has been given to the value of this type of information from a marketing perspective (Vavra, 1992).

How could these differences be used to individualize marketing efforts?

Traditionally, customers and stores appear to have had different perspectives on the relationship issue. Customers spend time and effort up to the point of purchase, and then may see the actual purchase as the beginning of the relationship with the store. Retailers likewise spend time and effort up to the point of purchase, but may view the actual sale as the result of their efforts rather than the beginning of a new relationship (Vavra, 1992). Retailers must refocus their efforts toward the retention of current customers. For retailers, the credit customer is the most loyal customer and spends more money than cash customers (Hubbard, 1987). Targeting these consumers based on their credit usage patterns provides an opportunity not only to maintain their loyalty, but to solicit new customers who are likely to respond similarly. For example, status seeking customers, who have the highest number of purchases per year, may respond to promotions involving incentives for shopping frequently, or price protection offers. Retailers identifying their credit customers as fashion seekers may want to concentrate promotions on the convenience aspects of shopping with the store's credit card, and demonstrate a customer-focused selection of merchandise. To maintain the relationship, continuous communication may be beneficial. Monitoring credit usage will also help an organization identify key customers whose proprietary accounts are inactive. The firm can then determine whether there is a problem and/or encourage customers to re-activate their account.

How will these individualized efforts benefit the retailer?

First, customized contacts will increase the likelihood that customers will return for future purchases in a product category, because marketing efforts have been directed specifically towards their needs and towards the resolution of any dissatisfaction that may have been experienced. By identifying customers via their purchasing activities, as well as their interests, retailers will communicate that they do not relate to customers as a mass, but rather as individual with individual needs. Second, we see a personal relationship has been established through recognition of the customer's specific buying behavior, it is more likely that the customer will feel comfortable making other types of purchases from the retailer. This is especially pertinent to retailers with broad product mixes, or retailers who are well-known for a particular product line, but are known to a lesser degree in other product categories. Third, more frequent and personalized contact with individual customers should cause the retailer's name to come to mind when considering purchasing location. The personalized touch of retailers' marketing efforts will help to establish a rapport with consumers, which can continue to be built on to create strong and enduring relationships.

Conclusion

The world of Retailers is changing rapidly under the increased pressure to improve overall retail marketing performance. As a result, it's recognized that those who see relationship marketing as a step forward in customer service need to make it clear to those objecting to database use that, in most circumstances, they have a choice. Above all, retailers must begin to realize that the store card is primarily a source of data about their-customers rather than a means of making extra money from them. Unless they take this view the use of credit card data will come under attack as exploitative and manipulative-hardly the image we want in this customer-friendly age.

REFERENCES

Canner, G. and A Cyrnak (1985), Recent Developments in Credit Card Holding and Use Patterns Among Our Families, Journal of Retail Banking, Vol. 7 (3), pp 63-74. | Canner, G. and A Cyrnak (1986), Determinants of Consumer Credit Card Usage Patterns, Journal of Retail Banking. Vol. 8. |Canner, G. (1998), Changes in Consumer Holding and Use of Credit Cards, 1970-1986, Journal of Banking, Vol. 10 (1), pp. 13-24. |Chain Store Age Executive (1988), Private Label Credit: Can Incentives Help?" September, pp 97-98. |Chain Store Age Executive (1995), Database, Marketing Goes Mainstream, January, pp 82-84. |Credit World (1988), Benefits of Private Label Credit, October, p 22. |Household Credit Data Book, Credit Research Centre, Krannert Graduate School of Management, Purdue University. |Hubbard, A (1987), The Times They Are a Changing, Credit World, July/August, pp. 42-45. |Passavant, P (1995), Retention Marketing Needs a New Vision, Journal of Direct Marketing, Vol. 9, pp 2-3. |Vavra, T (1992), After Marketing: How to keep Customers of Life Through Relationship Marketing, Richard D. Irwin, Inc., Homewood.