

CONSUMER PREFERENCE FOR ALTERNATIVE CREDIT CARD BASED PAYMENT METHODS: SOME EMPIRICAL EVIDENCE

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Abstract

This article looks at consumer preferences for two major types of credit cards viz: (1) national credit cards i.e. bank credit cards and travel and entertainment cards that are typically accepted at a wide variety of establishments and (2) store credit cards whose acceptance is typically limited to stores that constitute a department store chain. Through a mail survey, an attempt is made to identify the reasons for card preferences and distinguishing background characteristics of individuals with a distinct preference.

Introduction and Background

There have been several studies dealing with the consumer's use of credit cards in the past ten years. While almost three-fourths of total consumer debt is made up of long-term home mortgage loans, it is estimated that the total outstanding balance in credit card accounts, as of the end of 1986 was almost \$127 billion.¹ This translates into a per capita credit card balance of around \$550 for each man woman and child. Thus credit cards occupy a very important position in fueling the economic engine in the US market place.

It has been reported that almost 63% of US families reported using any credit card in 1983, up from about 50% a decade earlier.² 54% reported using a retail credit card, 40% reported using a bank credit card, registering increases over the past 10 years. Regardless of type of card, it was noted that usage rose sharply with increasing income and education level of head of household. Further, retail credit cards are reported to be the most widely used type of credit card, more than bank or travel

and entertainment cards.

Since credit cards constitute an alternative to other payment methods like cash, check, debit cards etc., consumer preferences among these different alternatives has also been a topic of interest to researchers. For instance, it has been reported that consumers perceived alternative payment systems (cash, credit card etc.) differently in terms of the characteristics of these payment systems. These perceptual differences, in turn, are seen as influencing consumer preference for and use of the systems.³ It has also been found that possession of a bank-issued or store-issued credit card is likely to be associated with higher levels of in-store expenditures and greater incidence of in-store shopping.⁴ Another study concluded that cash and checks are the most frequently used as well as preferred methods of payment for buying goods and services.⁵ This study also found that preference for credit card payment was clearly and positively linked to income and education.

Issues addressed in this paper

For a long time consumers only relied on bank cards issued by banks (such as VISA and MASTERCARD) and travel and entertainment cards issued by other organizations (such as AMERICAN EXPRESS, DINERS CLUB, and CARTE BLANCHE). These cards could be collectively referred to as **national cards** since they are accepted at a wide variety of establishments all over the USA and the world. However, the increasing strategic importance of credit card usage coupled with intensifying competition, has led to a proliferation of credit cards issued by **retailing establishments** (such as Sears and JC Penny). These can be referred to as **store cards** and are accepted only at stores that constitute the department store chain. Further, many department stores accept their own **store card** as well as one or more **national cards** for concluding transactions. Thus, the average consumer today not only has the traditional choice of using cards versus other payment methods such as installment payment methods, but frequently can choose between national cards and store cards as alternative methods of payments.

One question of particular interest to retail department stores, is whether or not they should accept national credit cards in addition to the store's own credit card. On the one hand, the store could possibly generate additional sales and profits; however, on the other hand, accepting national cards will involve payments to the organizations that issue these cards in the form of margins besides creating the need to keep track of the additional national card transactions. Specifically, the following problems, concerning store cards versus national cards, appear to be worthy of investigation:

1. Given a choice, do consumers prefer using one type of card over the other?
2. What are the reasons for these

preferences?

3. Are these preferences associated with any distinguishing shopping and customer characteristics?

While these problems appear to be obviously crucial and of great practical significance, researchers have devoted little or no effort to answer these questions. In the present paper, we report an exploratory study that attempts to shed some light on all three problems.

Data Collection Procedure

Data for this study were collected through a mail survey of a sample comprised of credit card holders for a large department store in the Southwest. 2094 store customers, drawn randomly by computer from a list of over one hundred thousand credit card customers, were contacted by mail. A total of 1112 usable responses were obtained giving a response rate of 57.5%.

Since store record data on expenditures were available (for most respondents) for purchases at the sponsoring store with the store's own credit card, the 1112 respondents were compared with the 982 non-respondents on this basis. Specifically, the two groups were compared on recorded credit card expenditure for the past year as obtained from the store record data. This was done to investigate whether there was any "non-response" bias in the data (i.e. did those who respond to the survey and those who did not differ in a systematic manner?). There was no statistically significant difference between the two groups. This gave at least limited reassurance that there was no "non-response" bias in this data.

The questionnaire used in the survey was prepared in accordance with standard procedures⁶ and consisted of questions in the following three areas directly relevant to this study.

1. Consumer Credit Card Preferences:

Data on consumer preferences for national cards versus store cards were obtained through a closed-ended response to a single question, shown in Exhibit 1. Respondents were asked to indicate not only whether they would prefer store card or national card given a choice in a purchase situation, but also the degree to which they show this preference. The possibility of no preference was also taken into account.

2. Reasons for Preferences:

As also shown in Exhibit 1, after the respondents indicated whether or not they preferred one card over the other, they answered an open-ended question to indicate the single most important reason for their preference. Responses to this question were classified into several categories and then separately analyzed for the two groups of respondents: those with preference for store cards, and those expressing preference for national cards.

3. Distinguishing Characteristics:

In addition to the above questions, the questionnaire also included other questions on ownership of different

credit cards, amount charged on different cards in the month of June i.e the month previous to the mailing of the survey, shopping frequency, shopping expenditure and demographic information. Shopping frequency and expenditure data were obtained for five different behaviors. These were: shopping at the sponsoring store (1) without using a credit card (using cash etc.) and (2) with the store's credit card, (3) and (4) two similar measures for a local, competing store and (5) frequency of shopping with national credit cards at the competing store that did accept national credit cards at the time of this research. Use of the competing store primarily served the purpose of disguising the sponsoring store. The demographic questions included the respondent's age, sex, education, current employment status and household income for the past year.

Discussion of Findings

A. Consumer Preferences

As shown in Table 1, almost 82% of the respondents reported owning at least one national credit card (of the five listed in the questionnaire.) Most of the respondents reported owning two national credit cards, with the average

Exhibit 1

Q 3. If a retail store issues its own credit cards (Penney's or Sears, for example) but also accepts national credit cards (American Express, Visa etc.), would you prefer to use the store's own card or a national card for a purchase? (CHECK ONE SPACE)

- STRONGLY PREFER STORE CARD _____ 1
- SOMEWHAT PREFER STORE CARD _____ 2
- NO PREFERENCE _____ 3
- SOMEWHAT PREFER NATIONAL CARD _____ 4
- STRONGLY PREFER NATIONAL CARD _____ 5

Q4. What is your single most important reason for this preference?

between one and two. Visa and Master Card were the most often mentioned national cards, with the former having an edge.

Table 2 reveals that 65% of the sample preferred to use a store card in the event they had a choice between a store card and a national card to pay for their purchases. Only 16% of the respondents indicated that their preference would be the national card. The remaining 19% of the respondents in the sample had no preferences with regard to either type of card.

The extremely strong preference for store cards can be explained by looking

at the reasons respondents reported for their preference shown in Table 3. The most important reason for store card preference is to preserve credit on their national cards. Many national cards such as VISA and MASTERCARD have restricted credit lines which consumers can save for their other purchases outside the department store (i.e., situations in which a store-card alternative is not available). One could infer from this that consumers apply for store cards to extend their overall credit lines, not just to increase shopping convenience.

Respondents also indicated that they prefer the store cards in order to keep

Table 1

Ownership of different national cards

Card Name	n	Percent
VISA	655	60%
MASTER CARD	582	53%
AMERICAN EXPRESS	511	46%
DINERS CLUB	81	7%
CARTE BLANCHE	21	2%
Any one of the above	910	82%

Table 2

Respondent's Preference for Cards

<u>Response</u>	<u>n</u>	<u>percent</u>
Prefer Store Card	709	65%
No Preference	203	19%
Prefer National Card	178	16%
TOTAL	1090	100%

Chi-Square = 494 df = 2 significance = 0.0

Table 3

Reasons Cited for Preference

a. Those Preferring Store Cards

<u>Reason</u>	<u>n</u>	<u>percent</u>
Preserve credit on national cards	133	20.4%
Keep track of purchases	104	16%
Better payment planning	78	12%
To avoid finance charges on national cards	54	8.3%
Spread credit over cards	39	6%
Quicker service	36	5.5%
Build relationships with store	25	3.8%
Leverage for problem solving with store	20	3.1%
Ease of exchange	18	2.8%
Build credit record	14	2.1%
To be on mailing list	14	2.1%
All other reasons	117	18%
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TOTAL	652	100%

b. Those Preferring National Cards

<u>Reason</u>	<u>n</u>	<u>percent</u>
Have all credit on one account	102	60.7%
Carry fewer cards	36	21.4%
Other reasons (7 reasons)	30	17.9%
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TOTAL	168	100%

better track of their purchases and to better manage their payments --- in other words, better budgeting. Another important reason is the avoidance of finance charges on national cards. Table 3 summarizes several other reasons for preferring store cards. One general conclusion which can be drawn from these findings is that the most important reason consumers prefer store cards is to overcome the obvious disadvantages of national credit cards such as restricted credit lines etc. Attributes that can be considered to be unique to store cards, such as relationship-building with the store, ease of exchange, and quicker service, appear to be relatively less important to the average consumer.

Reasons for preferring national cards are also shown in Table 3. These are noticeably fewer in number. The overwhelming motive for using national cards, in preference to store cards, is that of convenience. Since national cards are far more versatile, and usable in a variety of in-store and out-of-store purchase situations, their use allows consumers to carry fewer cards and manage fewer accounts.

B. Distinguishing Characteristics

It must be noted that while about 65% of the 1112 respondents preferred to use store credit cards, the remaining 35% did not. Of these, about 19% had no preference between the two card choices and 16% preferred the national cards. Hence it can be said that while a majority of the respondents preferred to use store credit cards, those that dissented were, by no means, insignificant in number. Hence, it was decided to further investigate whether there were any important differences between those who preferred to use store credit card (the "S" group) and those who preferred to use the national cards (the "N" group). Since our primary interest was in looking at differences between those who indicated a preference, be it store card or national

card, those who did not indicate a preference were left out of this analysis.

First, the two groups were compared on variables that related to credit purchase behavior. These included: average number of non-gasoline credit cards owned, average number of national cards owned, average number of store cards owned, average dollar amount charged last month to non-gasoline credit cards, average amount charged last month to national credit cards, average amount charged last month to store credit cards, and actual average monthly charge for the past year using the credit card of the sponsoring store, as obtained from store records referred to earlier.

The results of this comparison are shown in Table 4 and are interesting. First, the store card group reported owning more cards overall as well as more store cards, which does make sense in the light of their preferences. Likewise, the national group reported owning more national cards on the average; however, this finding was not statistically significant.

It was quite surprising to note that the two groups did not differ significantly, on the average, in the amounts charged to all credit cards (including store cards and national cards during the past month; nor did they differ significantly in the average actual monthly charge last year as obtained from store records. The only conclusion would be that preferences did not directly translate into corresponding dollar purchase behavior, at least for this sample.

The two groups were also compared on the demographic measures mentioned earlier. The results of these comparisons are shown in Table 5. Those preferring national cards had higher average income that differed significantly from the average for the store card group. They were significantly

Table 4

Comparison of the S and N groups select credit purchase aspects

Aspect	Average for		test statistic and its significance **
	S	N	
Number of cards (all) owned	7.1 n=709	6.3 n=178	t=2.94;p=.003
Number of national cards owned	1.7 n=709	1.8 n=178	n.s.
Number of store cards owned	5.9 n=709	4.9 n=178	t=4.14;p=0.0
Average charge to all cards last month	\$79.2 n=696	\$85.8 n=176	n.s.
Average charge to store cards last month	\$59.4 n=683	\$50.5 n=170	n.s.
Average charge to national cards last month	\$137.6 n=369	\$131.7 n=107	n.s.
Actual monthly charge last year (from store records) last month	\$52.9 n=699	\$47.8 n=176	n.s.
Frequency of shopping (five measures)			n.s for all five
Shopping expenditures (five measures)			n. s for four out of five; (lone exception was shopping at sponsoring store without cerdit card)

** n.s = not a significant difference

younger on the average. It is possible to draw an inference of more of a "convenience" orientation on the part of the younger respondents.

Male and female respondents differed significantly in whether or not they preferred to use store credit card or national credit card. While 75% of

the males preferred to use the store card, a much higher percentage (nearly 83%) of the female respondents were inclined towards the store card. however, employment status, marital status and highest level of education completed had no impact on card preference. This means that respondents from the S group were as likely to be mar-

Table 5

Comparison of respondents preferring store credit cards (Group S) preferring national credit cards (Group N) on demographics

Aspect	Average for		test statistic and its significance **
	S	N	
Annual income	\$38254	\$42038	t=2.23;p=.026
Age	39.5	37.2	t=1.95;p=.052
Sex of respondent			χ^2 X=6.6;p=.01
Education			n.s
Employed or not			n.s
Currently married or not			n.s

ried, employed or as highly educated as respondents from the N group.

Implications of Findings

First, the finding that fully two-thirds of the respondents in this sample indicated they would prefer a store card to national cards in any purchase situation where they have a choice, shows that store cards have strong potential. Of course, it must be remembered that the sample used in this study is not exactly representative of the U.S. population. Nevertheless, the finding is indicative of the opportunities that exist for major retail chains wishing to promote their own store cards.

Second, it appears that the main reason people prefer to use store cards is to overcome disadvantages inherent in national cards --- limited credit lines, cost of financing etc. --- and not because of any benefits uniquely attributable to store cards themselves. It, therefore, pays retail stores to position their cards as "credit-line-extendors." They can emphasize in

their promotion that by using store cards for all in-store purchases, consumers can save their national card credit for out-of-store purchases.

Third, the finding that the S group and the N group are virtually similar in all the background characteristics that were investigated, is a significant insight which retailers can benefit from. It shows that these groups may not be from two distinct segments. Product differentiation strategies (as opposed to market differentiation) may therefore be more appropriate when marketing store cards.

Of course, these findings are more indicative than conclusive given the exploratory nature of this study. But they form the basis for more rigorous research in this field.

Conclusions

With the proliferation of store cards in recent years, a question of considerable interest to both practitioners and academicians is: "Do consumers have any preferences among store cards

and national cards, and if so why?" The paper addressed this question and offered some useful insights. There is a good basis to believe that consumers have strong preferences for store cards when given a choice and that this preference appears to stem from the disadvantages of using national cards. A related question investigated was: "Do people preferring store cards differ from those preferring national cards in any of the demographic and shopping characteristics?" The findings presented here do not indicate many significant differences. Implications of all these findings to retailers were

discussed.

In future studies, the scope has to be considerably broadened. First, more representative samples must be used. Second, a larger number of distinguishing characteristics ought to be investigated. These could include, in addition to the shopping and demographic characteristics used here, a number of life style characteristics. This would, perhaps throw more insight on whether consumers who prefer store cards belong to a distinct segment as opposed to consumers who prefer national cards.

Footnotes

1. Federal Reserve Bulletin (January 1987), Domestic Financial Statistics, A40
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3. Hirschmann, Elizabeth, "Consumer Payment Systems: The Relationship of Attribute Structure to Preference and Usage", Journal of Business, 55-4 (1982), 531- 545
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6. Dillman, Don, "Mail and Telephone Surveys: The Total Design Method", New York, NY, Wiley, 1978