

What *Really* Drives
Consumer (Payment) Choice?
Using Academic Models to Develop
Business Applications

Visa Payment Panel Study: Discussion
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Overview of My Comments

- Describe data
- The possibilities: examples and benefits of “modeling” approach
 - What *really* drives payment choice
- Back to data: a few additional pieces needed for modeling approach
- The applications: business
 - Pricing strategy
 - Debit fees
 - Checking account fees
 - Rewards
 - Credit card interest rates
 - (Truly) targeted marketing: what features speak to consumers?
 - Price vs. value-based
 - Product development strategy
 - If consumers are indeed using debit for spending control, there are other (more direct ways) of providing this service

The Visa Data

- Fantastic
 - Credit and debit
 - In principle ability to link transaction and account characteristics at individual (or better yet household) level
- Superior to anything currently available:
 - For free (government datasets)
 - For sale (possible exception of new Forrester data)

The Possibilities

- Test hypotheses (rather than just describe trends)
 - “Modeling” approach
 - Use micro, not aggregate data
 - Use consumer and transaction-level data
 - Some financial institutions and consulting firms do this, but unlikely they are fully optimized
 - Many institutions do not do this at all
 - Economies of scale and scope in data mgmt/analysis
- And thereby learn something about how consumers *really* make retail payment choices.
- What do I mean by this?....

Example #1 of Modeling Approach (vs. purely descriptive approach)

- Descriptive: “more use debit because of broader acceptance”
- Model. Test hypothesis: “When the proportion of merchants with POS PIN terminals increases by 5%, debit use increases by $X\%$ ”
 - Subtext: acceptance clearly matters, useful to know how much...
 - BUT there’s clearly a deeper value proposition for consumer here...
 - Why is there demand for debit in the first place... “we built it, why have they come?”

Example #2 of Modeling Approach (vs. purely descriptive approach)

- Descriptive: “Despite their loyalty to debit cards, debit users have not reduced their use of GPC”
- Model. Test hypothesis: “Debit does not cannibalize credit.”
 - Modeling enables us to address question: “What would have happened to credit growth if not for debit?”
 - My view: debit and credit *are* substitutes
 - Zinman (2005)
 - Credit usage leveled off despite major product improvements: lower rates, broader acceptance, more generous rewards, better security, lower annual fees....
 - This has practical implications
 - For marketing
 - For pricing
 - For product development

Example #3 of Modeling Approach (vs. purely descriptive approach)

- Descriptive: “Debit is the card of choice at discount stores....”
- Model. Test hypothesis: “Consumers prefer to use debit at discount stores because doing so helps them manage their spending”. I.e.,:
 - Transaction characteristics drive choice *per se* (holding everything else constant)
 - Consumers who multi-home based on transaction characteristics spend less (of their discretionary dollars)
- Alternative explanations
 - Acceptance
 - Customer mix. Maybe discount shoppers:
 - Less likely to have credit rewards (and more likely to single-home with credit)
 - More likely to be revolving at high rates (and less likely to “borrow-to-charge”)

What We Can Learn From Modeling Approach: Overview

- What's the relative importance of the *each* of the following features:
 - Price. May be implicit, includes:
 - Rewards
 - Cost of borrowing-to-charge for credit card revolvers
 - Acceptance
 - Perceived spending control
- Do this not only on average (across all consumers), but by segments, and....

What We Can Learn: Truly Targeted Marketing

- Identify *individual customers* as particular types:
 - Price-driven
 - Miles-driven
 - Value (e.g., spending control)-driven
 - Indifferent
- And then tailor prices, products, and product presentation accordingly

Missing(?) Pieces

- Additional microdata needed for modeling approach:
 - Cash back*
 - Acceptance*
 - Late credit card payments?
 - Rewards generosity?
 - Checking account terms (including overdraft provisions)?
 - Link individuals for household-level analysis

The Applications

- Pricing strategy
 - Debit fees
 - Checking account fees
 - Rewards
 - Credit card interest rates
- Government relations strategy
 - Antitrust implications
 - Research with value beyond retail payments (savings and Social Security)
- (Truly) targeted marketing: what features speak to different “types” of consumers?
 - Price vs. value-based
 - Market to indifferent guys?
- Product development strategy
 - If consumers are indeed using debit for spending control, there are other (more direct ways) of providing this service
 - Commitment savings products
 - Customer-set monthly spending limits on credit
 - Text or email notifications whenever spending (by category) exceeds a customer-set target