

**MONASH** University

Business and Economics

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# **Retailers' Entry into Banking and Payments: Much Ado about Nothing?**

# Why are Retailers Interested in Banking and Payments?

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- **Firstly, they want to offer banking services to their customers, to widen their product proposition.**
- **Secondly, they want to reduce the costs of accepting customers' payments, particularly card payments!**

# Banking at the Checkout?

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- **Both reasons involve moving into traditional bank territory, either by competing in the supply of banking services to personal customers or by taking acquiring 'in-house'.**
- **What then are the differences between retailers and bankers?**

## Retailing and retail banking – similarities and differences

<b>Similarities</b>	<b>Differences</b>
Shared personal consumers	Distribution of physical goods (retailing) vs Provision of intangible services (banking)
Shared retail presence through shops and branches	Sale of physical goods (shops) vs Management of accounts (branches)
Importance of credit to the business	Supports core business (retailing) vs Part of core business (banking)

Source: Banking at the Checkout report

# How have retailers across the world sought to enter the banking market?

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- Use the UK as one example
- Retailer entry strategies – 2 options
- The Store Card as a platform
- Best UK e.g.: Marks & Spencer (M&S)
- The Loyalty Card as a start point
- Best e.g.: Tesco and Sainsbury's

# M&S Financial Services

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- **M&S ran its own store card rather than outsource, as many others did.**
- **This gave M&S knowledge and skill sets which they used as a platform for the wider provision of financial services, e.g., personal loans, mutual funds, savings and life insurance.**

# M&S Money

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- **Re-branded as M&S Money (10/03)**
- **Launched a MasterCard badged credit and rewards card in 10/2003**
- **1.7 million Chargecard holders converted + 380K new accounts**
- **All 2.1 million cards + all M&S Money sold to HSBC in 11/04**

# Loyalty Cards as an Entry Point

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- The ‘one-stop-shop’ approach is based around being a provider of solutions to customers and hence ‘supermarket’ groups added to their propositions by including services.
- To identify their customers and their needs, they used ‘loyalty cards’

# The Tesco Clubcard

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- **Launched in 2/95 as the first such card – quickly reached 10 million**
- **Reinforces the brand + ‘loyalty’**
- **Application form plus subsequent use and redemption generates data on the identity and behaviour of customers; helps target better offers**

# Tesco Personal Finance (TPF)

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- Unlike M&S, the supermarkets did not have banking skills, so they partnered with existing banks to produce their 'own-label' products.
- Tesco has a joint venture with the Royal Bank of Scotland (RBS) to create TPF – now over 5 m accounts

# Sainsbury's Loyalty Card/Bank

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- **Followed Tesco and launched in 6/96 – also 10 million cardholders**
- **Sainsbury's also followed Tesco into banking, creating Sainsbury's Bank in 02/97, as a joint venture with Bank of Scotland (now HBOS)**
- **Had 2.5 m customer accounts by 2006**

# Only a Limited Offer!

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- **Retailers have only competed with selective products; cards, loans, etc.**
- **No retailer has a cheque/current account and hence customers are forced to have other bank accounts**
- **Unsecured lending has been their game, but this is more risk prone!**

# Services offered

	M&S Money	Tesco PF	Sainsbury's
Deposit accounts	o	o	o
Current accounts			
Store cards	o		
MasterCard / Visa credit cards	o	o	o
Personal loans	o	o	o
Mortgages		o	
ISA	o		
Unit trust	o		
NS&I savings products		o	
Child trust fund			o
Travel money	o	o	o

# Presence by market

<b>Current accounts</b>	<b>No presence</b>
<b>Savings accounts</b>	<ul style="list-style-type: none"><li>➤ Both TPF and Sainsbury's Bank with portfolios of &gt;£2bn</li><li>➤ But UK mkt of &gt;£550bn at end 2005</li></ul>
<b>Mortgages</b>	<ul style="list-style-type: none"><li>➤ Marginal presence</li><li>➤ Only TPF currently offers mortgages</li></ul>
<b>Credit cards and consumer loans</b>	<ul style="list-style-type: none"><li>➤ Unsecured loan books of £2-3bn each</li><li>➤ But UK market of approx. £190bn</li></ul>

# Reducing the costs of payments.

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- In Australia, two major retailers have become 'on-us' acquirers of all card transactions – they sort and then send directly to card issuers
- The Australian regulator has already intervened in the market and reduced interchange to 0.5%

# The Australian Experience

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- **An interchange benchmark for debit cards (MasterCard and Visa) has also been established (12A cents)**
- **Merchants can and do surcharge for credit/charge transactions**
- **The ‘Honour all Cards’ rule has been abolished for both credit/debit**

# Retailers Entry into Banking and Payments

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- **Much Ado about Nothing?**
- **Or is it more The Merchant of Venice?**
- **And are retailers now looking for their ‘Pound of Flesh’?**
- **? Can co-opetition (the mix of co-operation and competition) succeed?**