

Competition Commission Storecard Services Inquiry ~ Quantitative Survey

Submitted to

Dr F P Wheeler
Statistical Adviser
Competition Commission
Victoria House
Southampton Row
London WC1B 4AD

Prepared by

Andrea Kennard

ORC INTERNATIONAL

Angel Corner House
1 Islington High Street
London N1 9AH

www.orc.co.uk

Tel. 020 7675 1909
Fax. 020 7675 1903
E-mail andrea.kennard@orc.co.uk

January 2005

Contents

1	Introduction	3
2	Methodology and Sample	4
3	General Findings	6
4	Key findings	9
5	Summary and conclusions	18

1 Introduction

This report presents findings from the store card quantitative survey.

Background and research objectives

The Competition Commission assigned ORC International to conduct a piece of quantitative research on their behalf. This quantitative survey follows on from a qualitative piece of research conducted earlier in July 2004. The research is part of an inquiry being undertaken by the Competition Commission investigating the store card market.

Objectives

1. Understand consumer usage and behaviour with regards to store cards.
2. Increase understanding as to how far store cards, credit cards and other forms or credit are realistic alternatives for customers.
3. Investigate consumer awareness of APR, insurances and penalty charges

2 Methodology and Sample

Between the dates of 28th October to the 14th November ORC International achieved 1002 CATI (computer aided telephone interviewing) interviews with respondents who held at least one store card i.e. not a credit card or a bonus/reward card. Respondents came from varying backgrounds, detailed further within this document. The interviews took approximately 15 minutes to conduct and mainly took place in the evenings.

Sample

Initially ORC contacted respondents from an RDD (random digit dialling) sample list. However, it soon became clear that many respondents from that list did not own a store card and many who did had not used their store cards in recent times. To continue to use RDD would have increased the costs and would have had a significant impact on the timings of the survey, thereby delaying reporting. Therefore it was decided that it would be far more productive to purchase a more relevant sample list from a life style database where one of the questions asked was whether or not respondents own one or more store cards.

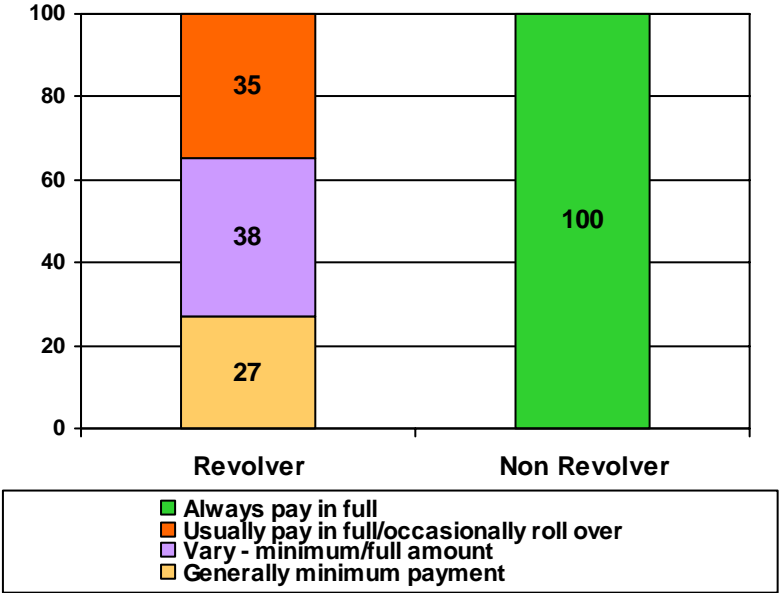
The RDD contacts represent 8% of the sample reported here.

General quotas

As already mentioned, the respondents could only take part in the survey if they owned one or more store cards; a store card was defined as a payment card that did not have the Visa or MasterCard logo and that was not a reward or bonus points cards.

A quota was set to achieve interviews with 80% revolvers (those who do not always pay their store card bills in full each month) and 20% non-revolvers (those who always pay in full each month and therefore do not use the credit facility that store cards provide). The classification of revolvers and non-revolvers was done through asking respondents how they generally handle their repayments on store cards; on that basis respondents were self-classified into these categories. (see fig. 1)

How do you generally make store card payments?

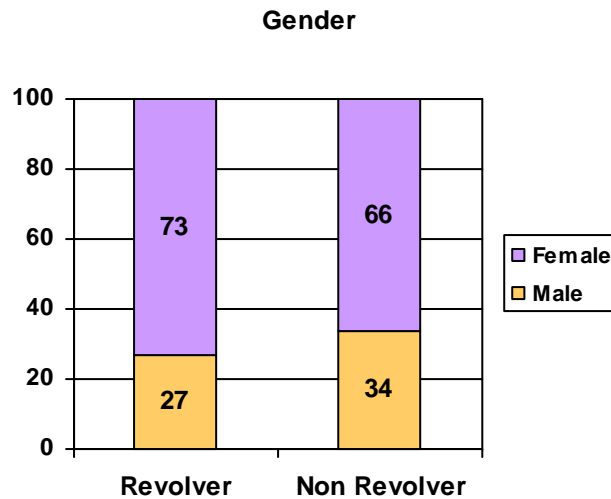


No other quotas were set although ORC endeavoured to speak with as varied an audience as possible.

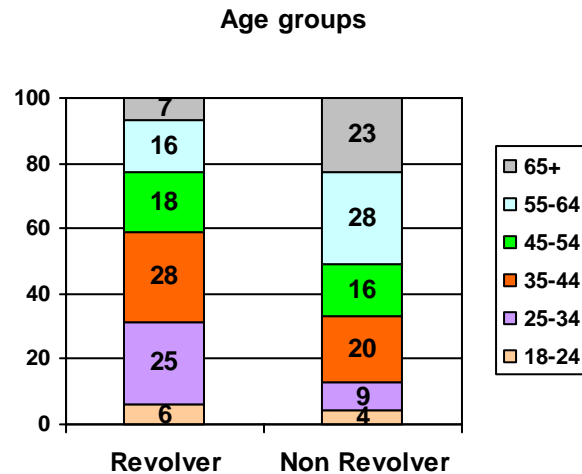
3 General Findings

Profiles

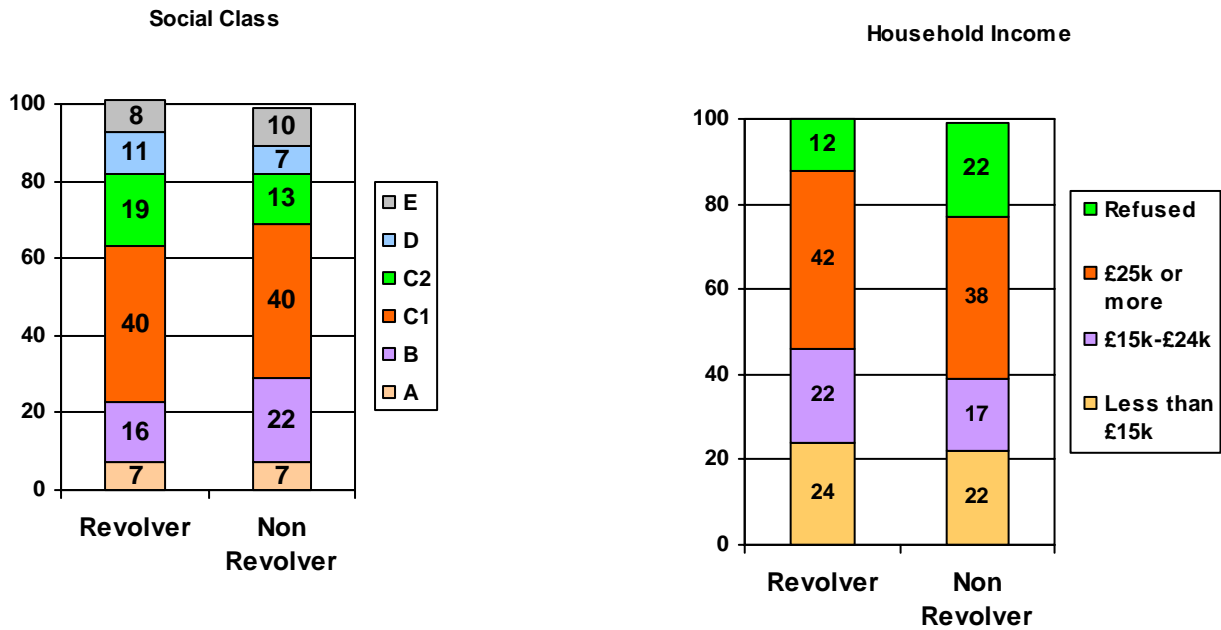
Of the people ORC spoke to revolvers were more likely to be females (73%) than was the case with non-revolvers (66%).



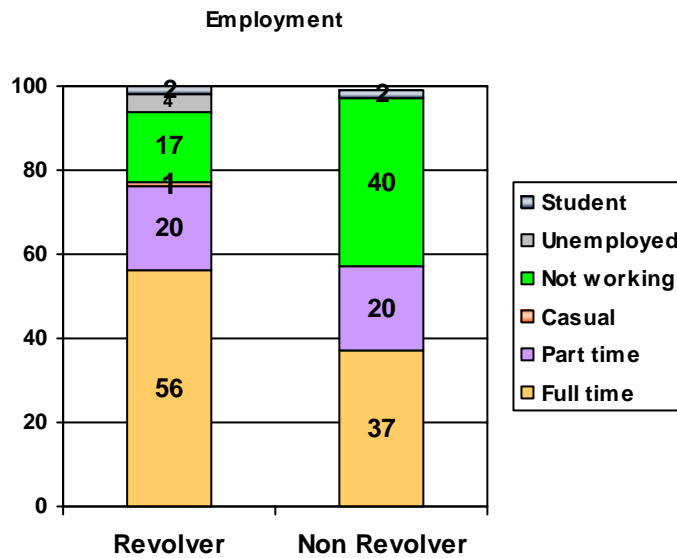
Revolvers were also more likely than non-revolvers to come from the younger age brackets (31% 18-34 against 13%); hence relatively more non-revolvers than revolvers were aged 55 or more (51% against 23%).



It would appear that neither social background nor household income played a large part in determining revolver and non-revolver categories. Both of these areas showed very little differences between them (even when figures exclude all 'refuseds')

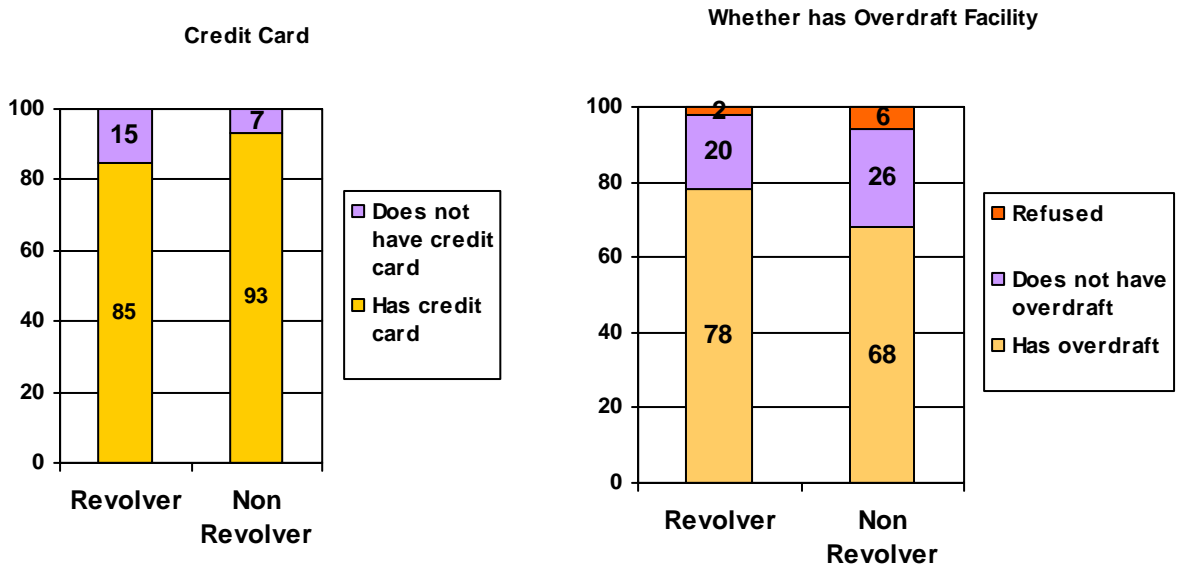


Revolvers differed in employment status; revolvers were more likely than non-revolvers to be in full time employment (56% against 37%).



Most non-revolvers (93%) owned a credit card - only slightly more than revolvers (85%).

Revolvers were relatively more likely than non-revolvers to have an overdraft facility (78% against 68%).



4 Key findings

General handling of store card bills

When asked how they normally handle paying their store card bill, male revolvers said they were less likely to pay the minimum amount each month (17% to 23%). Female revolvers' preferred payment method is to vary the amount, between the minimum and the full (31%). Apart from the 24% of male revolvers who pay in full every month, in general they said they preferred *mostly* to pay in full, allowing part of the balance to roll over to the following month (31%).

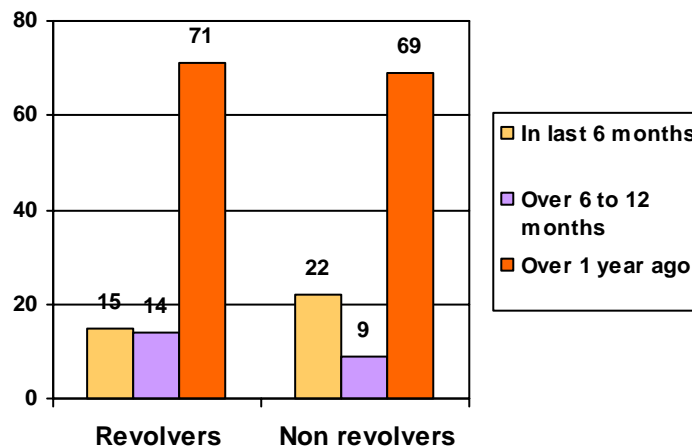
Very few of those from AB Social Grades only paid the minimum amount on a monthly basis; however there were very few other differences between other grades and payment methods.

Revolvers were a little less likely to come from above the average Household Income bracket (£25k or more) than those from a below average (£15k or less) or from an average household income bracket (18% against 26% and 25% respectively). Again, no other differences in payment behaviour could be seen. It appears that revolvers and non-revolvers did not generally come from any specific social grade or household income bracket.

Non-revolvers (36%) were slightly more likely to be respondents who were not in employment (i.e. housewives and retired people) whilst revolvers appeared to be those who work; either full or part-time (33%). Those in employment tended to vary how much they repay on a monthly basis (63%) rather than mainly pay the minimum or pay in full.

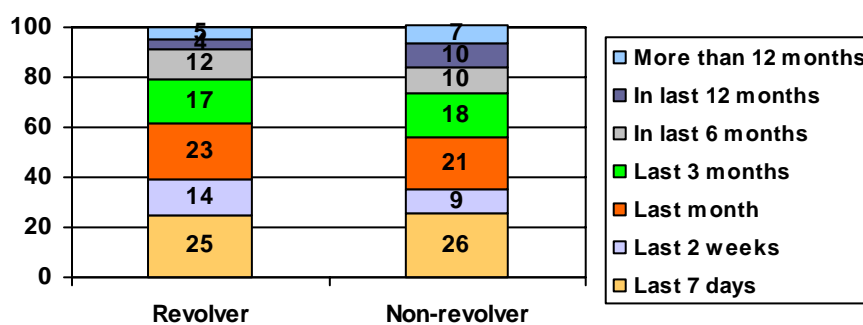
Recent store card acquisition

Most revolvers and non-revolvers acquired their most recent store cards over one year ago (71% and 69%). Revolvers from a below average income household were a little more likely to have obtained a card within the last 6 months (20%) than those from the other income brackets (average 16%, above average 15%). No other real demographic differences are noted.



Most recent purchase

Most respondents, both revolvers and non-revolvers, had used their cards within the last year, with 62% of revolvers and 56% of non-revolvers having used them in the last month, and a quarter of both revolvers and non-revolvers having used their card within the last 7 days.



The most common purchase categories were Women's Fashion/clothing (no significant difference between revolver and non-revolvers – 51% and 49% respectively). This was followed by Men's Fashion (14% and 18%) and by Children's Fashion (14% and 12%) - again, no significant difference between revolvers and non-revolvers.

Analysis of revolvers' purchases

As would be expected female revolvers purchased Women's Fashion more than males (59% to 32%), however, male revolvers purchased Men's Fashion and Women's Fashion equally (both 32%). Only 8% of females used their cards to purchase Men's Fashion.

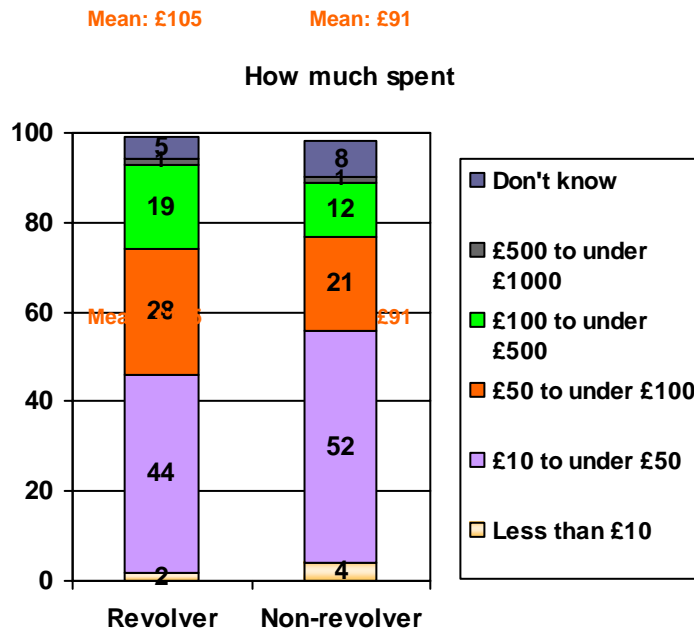
Revolvers from C1, C2 and DE's social grades purchased Women's Fashions equally (52%), and AB's slightly less at 40%. The category and social grade that most stood out within the top 3 categories were DE's; they were much less likely to purchase from Men's Fashion than the other social grade brackets at 6% with AB's at 21% and C1 and 2's at 16%. Another category where a difference between social grades was noticeable was at Children's Fashion with A social grade revolvers more likely to purchase from this category (24%) than the other social grade brackets (average 13%).

Purchases by Age

The type of purchase varied slightly with age. Women's Fashion was the most popular category with Men's Fashion and Children's Fashion following. As would be expected, due to the life stage of this age group, there was a slight increase with those aged 25-44 purchasing Children's Fashion (18%) than the other age groups (average 7%). One other area where age showed a difference was within the Food category; 20% of those aged 65+ used their card for the purchase of food against an average of 5% for the other categories.

Purchases by spend

More than 4 in ten revolvers (44%) spent between £10 and £50 the last time they used their card with a further 28% spending between £50 and £100. Only 2% used their store cards for a purchase of under £10 and even less, 1%, used their card to make a purchase of over £500.



Demographically there were almost no differences in amount spent on this last occasion, however, only 7% of those aged 65+ spent over £100 while an average of 20% of those from the other age groups did.

Purchases by specific store cards

(FOUR PARAGRAPHS EXCISED)

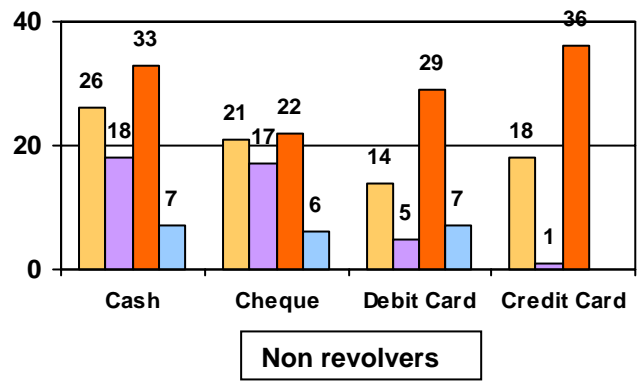
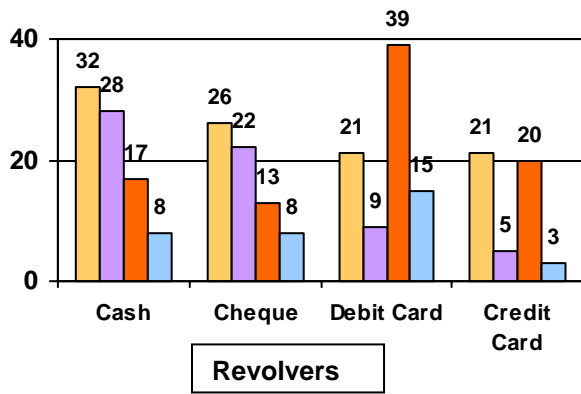
Reasons for using store card instead of other payment methods

Store card users were asked why they did not use other means of payment for their last purchase using a store card.

The main reason revolvers gave for not using another method of payment and for using a store card to make their purchase on the last occasion was convenience (25%). This was followed by 17% of revolvers saying that they used their card this time to get either a discount on their purchase or to obtain some kind of secondary benefit, such as air-miles, rewards or points. An average of 9% said they either did not have cash or funds in the bank or credit available at that time.

28% of revolvers stated that they did not have enough cash, 22% did not carry cheque books, 9% did not have a debit card and 5% of those who own a credit card did not have it with them on this occasion.

Reason for using store card instead of other payment methods



Convenience

Discounts/rewards/points/air-miles

Do not have payment method

Not enough funds/credit available

Important factors

When taking out a store card, the most important factor that was taken into consideration for both revolvers and non-revolvers was the discount that is offered on the day (64% and 71% respectively).

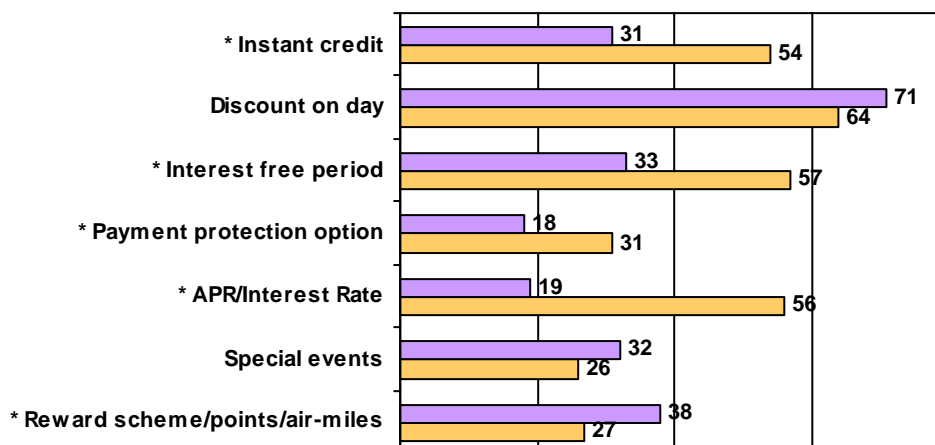
For both revolvers and non-revolvers the payment protection option was least important (18% and 31%), but non-revolvers were relatively more likely to consider insurance important.

Beyond this point revolvers and non-revolvers seemed to have differing thoughts from each other as to what is important or not.

Revolvers placed more importance on interest free periods, interest rates and APR, and instant credit than non-revolvers, whereas non-revolvers placed greater importance on special events and reward schemes, points and air-miles.

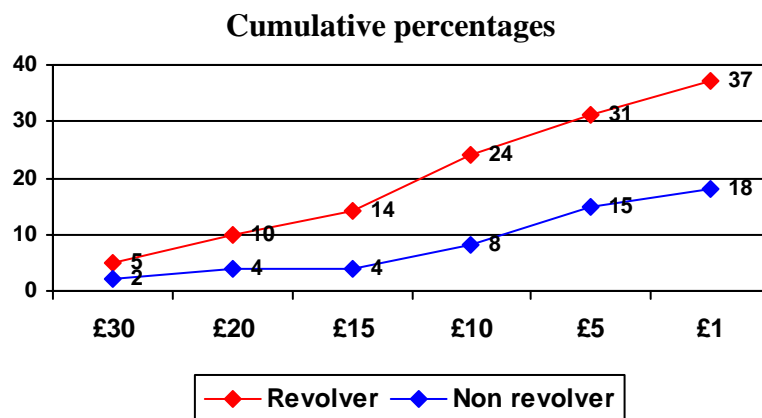
This seemed to be the area where revolvers and non-revolvers most showed their differing behaviours and attitudes to store cards. Revolvers, knowing that they won't be paying their store card bill in full each month, said that they placed most importance on the issues surrounding what happens when they don't pay in full. The opposite was true for non-revolvers who were more interested in reward schemes and gift/promotional benefits.

(TWO PARAGRAPHS ON SPECIFIC STORE CARDS EXCISED)



Value of cards

Revolvers were more likely to place a value on the benefits of having a store card than were non-revolvers (60% to 52%). However very few revolvers or non-revolvers would want to pay an annual fee to keep their cards. Of the 60% of revolvers who did say they place a value on their card only 37% said they would be willing to pay a £1 annual fee.



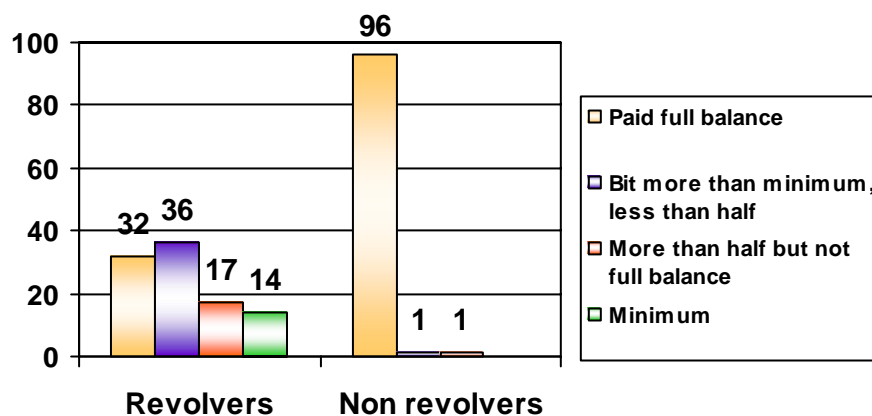
Base: All respondents who place a value on the benefit of storecards –589

Revolvers – 483/Non-revolvers – 106

Most recent repayment behaviour

When the last payment was made, for October/November, over half of revolvers paid more than the minimum but less than half of the outstanding balance (36%). A further 32% of revolvers paid in full this time round. Only 14% said they paid the minimum amount only.

When revolvers were asked why they did not pay in full, the most cited reason was that they wanted to spread the cost over a few months (57%). This was followed by 42% of revolvers who said that not paying in full helped them manage their overall budget, while 26% said that they had no funds available at the point of purchase/payment. 13% believed that the cost is lower than other credit options.



Balance on last statement

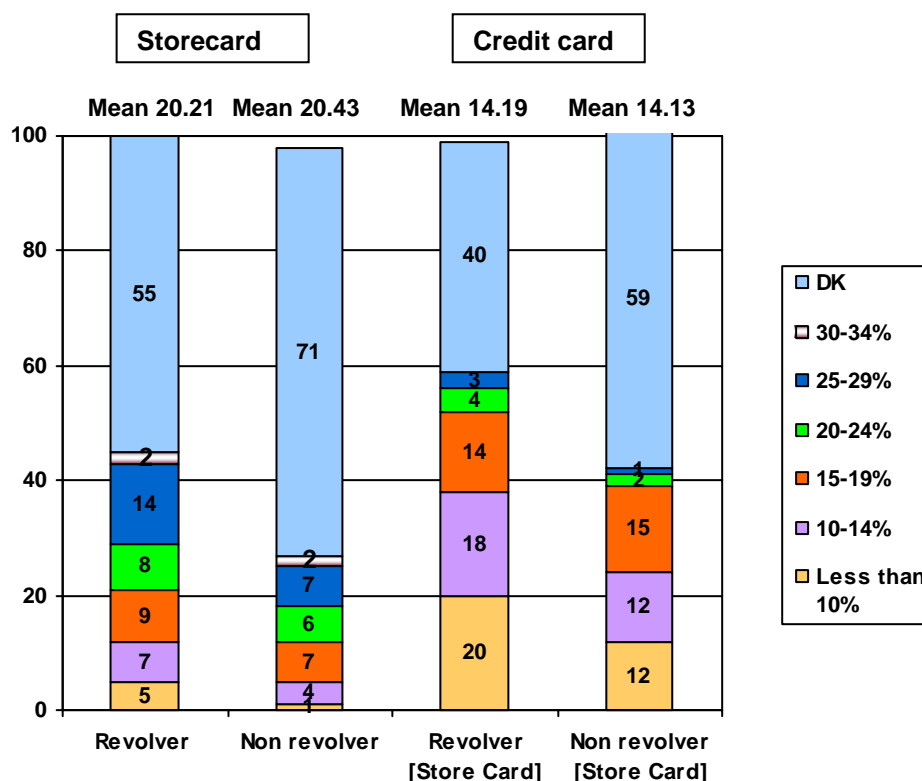
The majority of revolvers had between £50 and under £500 on the last statement for their most recently taken out store card (52%). A further quarter had less than £50 (25%)

Almost half (48%) of non-revolvers said they had less than £50 on their statement at that point in time with a further 31% having between £50 and under £500.

(PARAGRAPH ON SPECIFIC STORE CARDS EXCISED)

Perceived APR on store cards and credit cards

Most respondents, whether revolvers or non revolvers, said they did not know what the APR was on their store card bill or on their credit card bill. This was especially true of non-revolvers, although this is likely to be because they feel that they do not need to know as they pay any outstanding credit each month.



Insurance

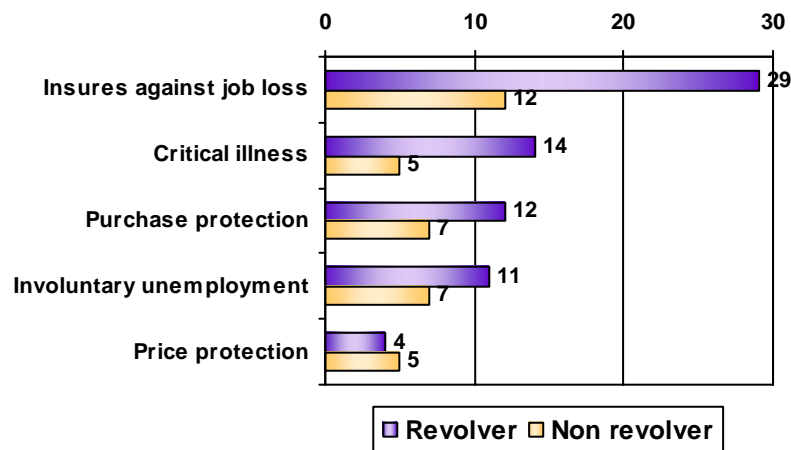
30% of revolvers and 9% of non-revolvers said they do have store card insurance.

In terms of respondents actually taking store card insurance out, only 9% of non-revolvers and 30% of revolvers did so.

Of those, most revolvers (72%) said they were unaware of how much of the percentage of their balance would be paid each month by the insurer if they did have to claim from the protection plan. 14% believed the whole balance would be paid per month.

When asked what the insurance covers, the most commonly cited risk mentioned by revolvers was job loss/involuntary unemployment (40%). Critical illness was also mentioned (14%) followed by purchase protection (12%) and price protection (4%).

Around a third of respondents (30% revolvers, 34% non-revolvers) had not considered any other types of insurance to cover themselves against the perceived risks that they mentioned above.



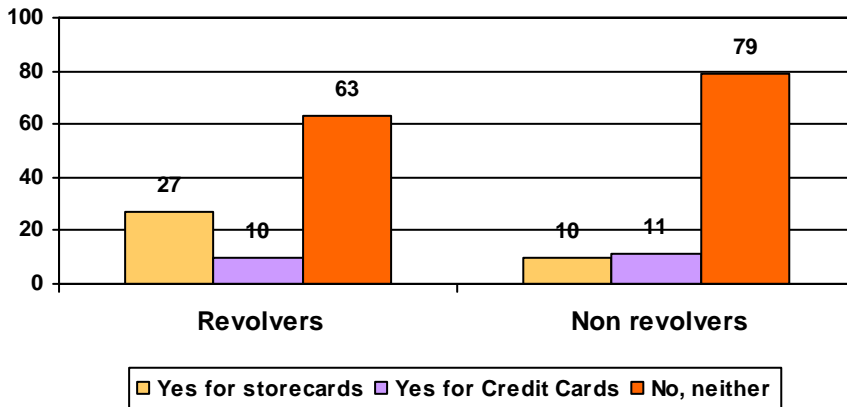
Missed Payments

When asked how much they thought they would have to pay if a payment was missed or if they went over the credit limit on any store cards or credit cards, most respondents were unaware of the actual amount (63% of revolvers, 79% of non-revolvers). Again, the high number for non-revolvers here may be because they do not need to know this detail, as they pay outstanding amounts in full every month.

Interestingly, 8% of non-revolvers *had* been asked to pay a charge for a missed payment on their store card and 22% had been asked to do the same on their credit card. However, 44% of those asked to pay a charge on store cards complained and were let off, and similarly 41% of those being asked to pay a charge on their credit cards were also let off.

Relatively more revolvers were asked to pay a charge for missed payments, at 20% for store cards and 25% for credit cards. However, only 18% of revolvers who complained were let off paying the charge for store cards and 21% were let off from paying the charge for credit cards.

Awareness of charge amount



Storecard
 Ever been asked to pay charge for missed payment
 SC = 20% CC = 25%

Credit card
 Ever been asked to pay charge for missed payment
 SC = 8% CC = 22%

Other sources of funds

In general, most revolvers had not considered other ways to clear their store card balance. This was mainly due to not feeling that the amount left outstanding on their balance was worth transferring to another source. Of those who had thought of other sources, 18% mentioned transferring to a credit card, 18% mentioned a personal loan and a further 10% mentioned an overdraft.

28% of those who had considered other ways to clear their store card balance had in fact transferred to a credit card, 10% had taken out a personal loan and 6% had chosen a flexible mortgage. However, it is possible that the personal loan and flexible mortgage had been taken out to consolidate all other credit balances as well as just store cards.

5 Summary and conclusions

- Store card holders were more likely to be female. The majority of revolvers also had credit cards (85%), and had an overdraft facility (78%).
- Store cards were generally used to purchase women's fashion (which is the major usage). Some store cardholders from E social grade (11%) and at retirement age (20%) used the cards to purchase food.
- Convenience was the most frequently cited reason for using store cards over other payment methods. Those in the lower social classes used cards when they do not have sufficient cash funds at the time. Discounts and points also featured highly as reasons for using store cards..
- Discount on the day was the most important motivation for taking out a store card for both revolvers and non-revolvers. Revolvers placed far more importance on all other aspects than did non revolvers and were particularly interested in the interest free period, interest rate and instant credit. Payment protection was the least important for both although again revolvers placed more importance on this than non revolvers did.
- Most would not want to pay a charge, however small, to keep their store cards. This was particularly true of non revolvers, of whom only 18% would be prepared to pay £1, as against 37% of revolvers.
- A third of those that said they normally were revolvers claimed not to have revolved on their last bill, with a further third paying more than half. The majority made a conscious choice not to pay in full, mainly to spread the cost and manage their overall budget. However, a quarter did not pay in full due to lack of funds.
- Respondents were less likely to think they know the APR on their store card than on their credit card – over half definitely did not know. Revolvers were more likely than non-revolvers to think they knew the APR on both.
- 30% of revolvers but only 8% of non-revolvers had insurance. Of those who had insurance, the minority knew how much would be paid on a claim.
- While the majority who were charged for missing a payment pay up as asked, a high proportion of those who complained were let off; this is more likely to be the case for non-revolvers.
- Few have considered transferring their store card balance to another credit facility.