A mobile-centric approach to customer acquisitions

Experian
Decision Analytics

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Executive summary

In the 1970s, it took an average of 18 days before a decision could be made on a credit card application. Credit decisioning has come a long way since then, and today, we have the ability to make decisions faster than it takes to ring up a customer in person at the point of sale. Enabling real-time credit decisions helps retail and online merchants lay a platform for customer loyalty while incentivizing an increased customer basket size. While the benefits are clear, customers still are required to be at predetermined endpoints, such as:

- At the receiving end of a prescreened credit offer in the mail
- At a merchant point of sale applying for retail credit
- In front of a personal computer

The trends clearly show that customers are moving away from these predetermined touch-points where they are finding mailed credit offers antiquated, spending even less time at a retail point of sale versus preferring to shop online and exchanging personal computers for tablets and smartphones. Despite remaining under 6 percent of retail spending, e-commerce sales for Q2 2013 have reportedly been up 18.5 percent from Q2 2012, representing the largest year-over-year increase since Q4 2007, before the 2008 financial crisis. Fueled by a shift from personal computers to connected devices and a continuing growth in maturity of e-commerce and m-commerce platforms, this trend is only expected to grow stronger in the future. To reflect this shift, marketers should ask themselves how they should apportion their budgets and energies to digital while executing broader marketing strategies that also may include traditional channels.

Generally, traditional card acquisitions methods have failed to respond to these behavioral shifts, and, as a whole, retail banking was unprepared to handle the disintermediation of traditional products in favor of the convenience mobile offers. Now that the world of banking is finding its feet in the mobile space, accessibility to credit must also adapt to be on the customer's terms, unencumbered by historical notions around customer and credit risk.

This white paper addresses how credit issuers can provide an optimal customer experience in emerging channels such as mobile without sacrificing risk mitigation strategies — leading to increased conversions and satisfied customers. It will demonstrate strategies employed by credit and retail private-label issuers who already have made the shift from paper and point of sale to digital, and it provides recommendations that can be used as a business case and/or a road map.

Tablets and smartphones: moving away from the personal computer

According to Nielsen, smartphone penetration within North America is currently at 61 percent. Further, it is markedly higher — 78 percent among 25- to 34-year-olds and 75 percent for 18- to 24-year-olds. As credit card issuers try to increase their customer base among these key age segments — when people solidify their banking loyalties and enter the peak of their earning years — it is imperative to have acquisition strategies that treat mobile as a full-service channel.

Customers have different expectations on how services and products should integrate with their lives and find traditional silo approaches antiquated and convoluted.

Alongside the smartphone revolution, tablet adoption has been nothing short of spectacular — as indicated by an increase in market penetration from 5 percent in 2011 to 34 percent in Q1 2013. Tablets have been widely adopted as a replacement for the personal computer and are increasingly becoming the go-to device for the consumer at home for browsing, commerce and consumption of digital content. As tablets and the environment supporting them continue to mature, it becomes critical for brands to tailor their content and customer experience to accommodate these devices.

Furthermore, mobile devices offer a captive audience with fewer distractions than a personal computer, such as a smaller form factor. They also offer a real-time and contextual channel that can be leveraged to serve personalized content and services to an "always connected" consumer. Most retail merchants expect to integrate tablets into the customer buying experience in some form — choosing multipurpose tablets equipped with payment and Customer Relationship Management (CRM) capabilities over traditional specialized point-of-sale registers. Accordingly, retailers expect customer and card acquisition strategies to evolve to meet the needs of the mobile channel, as payment and other adjacent areas of focus have proved.

Advantages of a mobile-driven in-store credit acquisition

There are specific advantages for in-store card acquisitions through mobile devices over point-of-sale registers and specialized kiosks. These range from the multipurpose utility of mobile devices to its relative ease of use compared with a kiosk or a point-of-sale register.

In an in-store setting, a low-cost tablet offers the advantages represented by commoditized hardware over a specialized kiosk and comes with a low setup, training and maintenance cost. The move to tablets for acquisitions also mirrors a broader shift in the small-to medium-retailer market, where traditional point-of-sale registers have given way to multipurpose iPads® equipped with sophisticated CRM tools.

In addition, a tablet is not bolted down like a kiosk or a point-of-sale register, which allows a customer to interact with it on his or her own terms. A tablet or a smartphone significantly reduces the chance of downtime, such as that which occurs when a kiosk or a point-of-sale register is unavailable. Another consideration is the relatively easier upgrade paths on a tablet — whether it's a native app or an optimized mobile Web experience — compared with a traditional point-of-sale register, which has a decades-old, brittle infrastructure with limited modern orchestration capabilities. The extensibility of existing ports, cameras and other sensors along with additional specialized software and hardware add-ons significantly advances the capability of mobile devices in both ingesting and verifying customer input. The success in traction and the diversity of the mobile point-of-sale market are both a testament to this fact.

Adoption of tablets and other mobile devices as an acquisition tool is expected to grow as more retailers use in-store Wi-Fi to bridge in-store and online shopping experiences to appeal to a smartphone-toting savvy shopper.

From couch to store: friction abounds

If the mobile channel sounds like a panacea for credit acquisitions, it deftly conceals the myriad challenges that arise when devising an acquisitions strategy for mobile devices. As credit issuers and retailers begin to envision a mobile-first acquisition strategy, extending from couch to in-store, the following questions are top-of-mind:

- How do I keep pace in a quickly evolving mobile ecosystem with multiple device environment owners and hundreds of device configurations?
- Do I build a native app or an optimized mobile Web experience? What partners do I need around development, device security, connectivity and content management to realize this vision?
- How should my acquisitions strategy adapt and accommodate the customers' location (on-the-couch versus in-store)?
- How do I balance and deliver an optimal customer experience within my credit risk requirements?
- How do I effectively analyze my existing acquisitions framework to identify gaps relating to data that currently is collected, as well as strategies and tools that currently are employed?
- What are the legal, privacy and compliance issues for data collection and/or fraud that are specific to the mobile channel?
- How should I resolve customer and device identity in real time by leveraging the mobile channel?
- How do I scale quickly and effortlessly beyond the initial pilot stages — to hundreds of retailer locations in a limited time frame?

Each of the concerns above highlights the fact that in order for a mobile acquisitions strategy to be extensible and pragmatic, it must be device-agnostic and optimized for the mobile channel. It is important to define up front what an optimized acquisitions workflow would look like and, more specifically, to identify partnerships and capabilities that are vital to realizing that vision. Device agnosticism is important and requires an organization to incorporate capabilities that expand the question of customer identity to include the device.

Measure, analyze, and optimize

For any financial services organization building a mobile strategy, a complex mobile device environment poses the risk of being overly broad or being too specific. Either approach exposes it to the whims of a diverse device landscape with varying form factors, environments and configurations. Furthermore, any new acquisitions strategy must not attempt to start from scratch and should be building a single platform for onboarding customers, regardless of channel and device. Even if there are differences that are unique to each channel and device type (tablets versus smartphones), the acquisitions platform must provide common functionalities that allow additional channel/device-specific capabilities to be plugged in and leveraged via hardware modules or software Application Programming Interfaces.

Given a complex and heterogeneous device environment a responsive user experience design which is cognisant of the device, is also very important when catering to a broader audience, as well as to stop short of making substantial investments in native app development. An additional advantage is the capability to continually modify the acquisitions workflow, after having identified and measured any friction in the acquisitions process and its impact on customer conversion rates, and further streamlining the process through split testing.

Expand the acquisitions funnel on mobile

Apart from merely replicating or extending an existing, mature digital acquisitions strategy to begin catering to a mobile audience, the ubiquity of mobile devices allows for further unique capabilities and partnerships that can help expand the front end of the acquisitions funnel, to help drive distribution. Product awareness once consisted of in-store traditional and digital advertising coupled with a handful of commissioned, enthusiastic employees. Yet, now mobile enablement can help open up new scenarios — from targeted Short Message Service delivery based on customer location[1] and in-app targeting[2] to in-store Quick Response codes, Bluetooth® Low Energy — capable devices and Radio Frequency Identification/Near-Field Communications (RFID/NFC) tags — that can help drive product awareness and channel very focused and qualified traffic.

The fact that eight out of 10 retail shoppers research products and prices on their mobile devices while in-store allows a passing opportunity to retailers and credit issuers to connect and deliver relevant alerts and offers to store customers. Further, partnerships around data segmentation and distribution at the front end of the funnel can help with additional customer segmentation to ensure that each delivered alert is customized to appeal to its recipient, targeted at a segment of one — a single shopper.

On-board device capabilities such as camera, Bluetooth®, Global Positioning System and RFID/NFC further allow retailers and credit issuers to reduce friction in the acquisitions workflow to:

- Expand the front end of the acquisitions funnel by driving more customer traffic based on location, brand appeal and other attributes
- Find newer ways to ingest and validate customer data, such as using a smartphone to scan and validate a drivers' license
- Unambiguously answer questions around Know Your Customer (KYC) by pushing the question of identity downstream to the device
- Handle customer fraud and credit risk in real time, irrespective of a customer's current location by analyzing available channel and customer information
- Address device risk by querying a trust consortium to assess device reputation
- Deliver an appropriate offer or product alert in real time

[1]Example: receiving a targeted prescreened offer on your phone as you are walking into a store
[2]Example: a retailer shopping app having a credit acquisitions component

A mobile-centric approach to customer acquisitions

Future of mobile — in acquisitions, loyalty and commerce

The role of mobile in commerce will expand well beyond what it is today — from enabling product discovery, comparisons and shopping into facilitating remote ordering, retail payments and crowd-sourced credit. As it does, we will see customer acquisitions strategies fully embrace the possibilities offered by mobile.

In the near future, a customer waiting in line at a retail store will be able to pull down an app, view a targeted credit offer, quickly apply and be approved, and transparently provision the card credentials securely into his or her mobile wallet — all in time to use the new card to pay at the point of sale. This scenario would never be feasible with plastic that lacks both connectivity and context. With mobile, the capabilities and partnerships required to realize this vision exist today — from the ability to drive instant decisioning to addressing fraud and KYC concerns by leveraging customer credentials stored in the device and, ultimately transparently transferring card credentials to the phone to facilitate a contactless (NFC) payment at the point of sale. Discounting some of the roadblocks that NFC payments have encountered in executing this vision, we are close to realizing it at a neighborhood merchant point of sale.

In addition to the apparent rewards, there also are risks to retail card issuers as they encounter an increasingly young and digital customer base whose notions of brand loyalty have evolved with their changing behaviors around retail commerce. If retail private-label cards in the past were a barometer of brand loyalty, the same is not true anymore. Payment wrappers and wallet aggregators[3] have introduced an ever-widening gap between the funding source and loyalty, disintermediating that relationship by stating that they need not be connected in the first place. As in a PayPal® transaction, where customers use a credit card or their bank's debit account to pay and the merchant sees an entirely different funding source — PayPal — the gap reflects new opportunities for the disintermediator to redefine loyalty. These opportunities include providing value-added services to the retailer such as expanding the front end of the funnel and driving qualified, segmented traffic to the merchant, delivering targeted offers to the customer on behalf of the merchant and ultimately reducing payment processing costs to the retailer. These disintermediators pose a real threat to retail private-label issuers, where they reduce the charm of private-label cards to merchants by proving that retail card loyalty and retailer loyalty are separate and need not be directly proportional. This is the long-term threat to card issuers and one they must not hesitate to address quickly and decisively.

Like payments, card acquisition is at an inflection point today brought on by seismic shifts in customer behavior, the incursion of mobile and its adoption by merchants who abhor friction in the in-store customer experience. Customers expect products and services to adapt to their needs and find products that require them to shift channels both convoluted and antiquated. The traditional, silo approach to acquisitions is antithetical to customer expectations of how products and services should work in the digital age. Any retailer or credit issuer who adapts to these changed realities can expect to drive long-term customer loyalty and spend.

[3]Examples of prominent wallet aggregators include PayPal,® Google Wallet and Square.

Conclusion

The risk to card issuers and retailers who continue to ignore digital and mobile channels for acquisition and marketing is that they lose relevance among an increasingly digital audience. But for card issuers and retailers who are poised to expand their card acquisitions strategies into digital and mobile channels, the focus should be to:

- Create a digital acquisitions road map that spans the entire length of the customer acquisitions journey — from driving qualified customer traffic to real-time vetting of customers and devices and, ultimately, to converting the right customer quickly
- Understand that customers expect a full-service channel through mobile and reject issuers who are unable to leverage the channel capabilities to authenticate and mitigate risk
- Equip retailers to add card acquisition into their mobile assets alongside current capabilities such as offer delivery, loyalty and payment programs
- Create a template approach to private-label card acquisitions that can allow card issuers to scale quickly to multiple retailers and locations
- Proactively consider all legal, privacy and compliance issues around data collection and marketing in the mobile channel

Apportioning the organization's focus and marketing spend on digital and mobile channels, along with a comprehensive acquisition road map, can give card issuers the required edge in growing a healthy private-label portfolio while growing retailer sales and strengthening customer loyalty

About the author

Cherian Abraham is a Senior Business Consultant with Experian's Global Consulting Practice. With more than 15 years of experience, Abraham brings a deep understanding of mobile and emerging payments industry and trends, helping financial services companies and retailers to develop and execute on strategies to increase market penetration and creating customer-centric products and services for the digital channel. Abraham's knowledge of both marketing and credit risk affords him the ability to provide rounded support encompassing mobile commerce and emerging revenue models, closed-loop loyalty programs and transactional marketing.

Prior to joining Experian, Abraham founded DROP Labs, a mobile payments strategy and advisory practice focused on banking and retail. He is an adviser at ModoPayments, a mobile commerce platform, and a member of the Editorial Board at *E-Finance & Payments Law and Policy*, a U.K.-based legal journal. He also serves as an affiliate analyst for the Yankee Group.

About Decision Analytics

Experian Decision Analytics enables organizations to make analytics-based customer decisions to achieve and sustain dramatic growth and profitability. Through our unique combination of consumer and business information, analytics, strategy and execution, we help clients maximize and actively manage customer value.

Meaningful information is key to effective decision making, and Experian® is an expert in connecting, organizing, interpreting and applying data, transforming it into information and analytics to address real-world challenges. We collaborate closely with clients to identify what matters most about their business and customers and then create and implement analytics-based decisions to manage their strategies over time. In today's fast-paced environment where developing, implementing and sustaining an effective strategy is imperative, we help organizations unlock a wealth of benefits immediately — and set the stage for long-term success.

Increased revenue: Our products and services enable clients to increase revenue by providing the insight and agility they need to find and engage the right customers, target products more effectively and grow market share.

Controlled risk: A broad range of risk-management products and services help organizations verify identity, manage and detect fraud, optimize collections and recovery, and balance risk and reward.

Operational efficiency: We help organizations quickly integrate information and processes to enhance operational efficiency and boost agility. Our flexible, collaborative approach helps organizations increase speed to market and improve the quality of customers' experiences.

Compliance as differentiation: Proven expertise lets clients use compliance as a source of competitive advantage. We help ensure compliance with essential regulations, while helping organizations better understand customers.

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