



Retail Point of Sale Credit Explained

Up until last year I was working with a 1000+ retailers as Managing Director of one of the largest providers of point of sale credit in the UK. I've worked with high street names such as Tesco, DFS, Beaverbrooks, Ultralase and many others across all sectors from furniture, electrical, jewellery, home improvement, training and healthcare.

I now work with retailers to get the best out of their finance provider, whether that's the best possible rates, better service, or better accept rates.

Most brokers in this market take commission from the finance provider; I work independently on a fee basis for the product or service provider; that way I remain impartial and objective in the advice I give.

With recessionary pressures on the high street and in the board rooms of the banks and finance houses these are difficult times for everyone. So building a long term sustainable relationship should now be even more important to you and your finance provider.

This is the first in a series of factsheets designed to give you the inside track on how you could use credit to your advantage. This first factsheet is pitched at a fairly basic level, so apologies if many of you are already way beyond this point. I hope future editions may prove more interesting.

Regards
Mark Murphy
CEO 5M Consulting Ltd

Matching Credit Strategy with Marketing Strategy

I'm often amazed that while enormous amounts of time and energy are spent on creating advertising, store design, merchandising, pricing strategy and staff training; very little time is spent on matching all this thought and energy with what, and how, credit offerings are presented to the customer.

Don't fall into the trap of offering credit because your nearest competitor does. After all who's to say they are using it correctly in the first place?

So what are your options and how should they be used? Let's start with a basic first question.... What are your sales and profitability objectives, and have you shared them with you finance provider? Easy so far! Then we'll get a little more specific.....

1. Do you need to generate footfall? This may seem a stupid question, but many retailers have hundreds of people walking into their stores every day but still have trouble selling their products. If generating footfall is an issue then linking an Interest Free Credit offer (IFC) to your advertising programme works very well. Sales staff find this very easy to sell. So why then doesn't everyone do this, well simply this is the most expensive form of credit to you the retailer. You pay a subsidy that varies by the length of the credit offered and if there is any deferred period to begin with, e.g. nothing interest free for 4 years with nothing to pay for the first year, then there will be an extra monthly charge.

2. Is conversion from browsing to sales something your staff have difficulty with? POS credit can really help with conversion. Buy Now Pay Later schemes (BNPL) work well in this scenario....take it away today and pay nothing until next year. This is particularly relevant to this time of year as 2010 still seems a long time away. The cost of BNPL is very dependant on the back end APR so in a low interest rate environment this becomes a little more complex to sell.

3. Would you like to increase order values. Strong credit offers and promotional 'available to spend' amounts ensure staff are better placed to up-sell credit. Credit offers that reduce in interest cost by term, again help push customers to higher price bands. Simple strategies of what price band at which you start to offer credit again increase order value, but also reduces overall costs by not financing low value items.

4. Would you like to increase the proportion of repeat spending? Credit application data through your finance house could assist with customer profiling and targeting; more effective communication and personalised promotions are all possible. Store card operators have long been the pushers of so called customer loyalty but more aware customers now reject these high interest, low value tokens, so tactics have to be much more tailored post purchase.

5. Would you like to improve margin? Well why wouldn't you? Don't assume you have to offer credit on everything. Credit offers can also help promote specific models or ranges or simply increase the overall proportion of high margin sectors through carefully selecting when and how credit is used.

So if your finance provider isn't asking these basic questions to understand your marketing strategies ask yourself if you are with the right provider. The table below looks at some of the differences between the major types of POS credit:

	Interest Free Credit	BNPL/Deferred Interest Bearing Credit	Interest Bearing Credit
Image	Excellent	Can be poor, dependant on sales effort	Good
Customer Quality Attracted	Excellent	Medium	Dependant on APR
Typical Minimum Balance	£400 after deposits/discounts	£400 after deposits/discounts	£350 after deposits and discounts
Accept Rate	High, approx 75-90%	70-85%	Dependant on APR Approx 55-65% at 12.9%
Cost/Impact on Margin	Subsidy required. 5% on 12mths £1000+ ave balance	Lower subsidy cost than IFC, dependant on APR	Subsidy or commission to retailer dependant on APR and customer quality
Minimum charge	Typically between £22-£50	Typically between £22-£50	No min charge, but lower than £350 rejected
Ease of Sale	Very easy	Requires training	Medium
Typical Sector Use	Furniture Healthcare and cosmetic surgery High promotion spenders	Home improvement	Electrical Smaller balance items

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Mark Murphy is CEO of 5M Consulting offering Financial Services Consultancy and Strategic Change advice. Mark is a lending specialist, most recently running Hitachi's Consumer credit operation in the UK, but also having work at other finance houses, i.e. First National and HFC. While Mark was a general manager at a top 5 building society he set up their unsecured operation. In addition Mark has managed the marketing teams responsible for Abbey's mortgage, unsecured lending, card and banking products. Having sat on many of the senior decision making committees at the FLA, BBA and VISA he has a unique view of the finance sector after 24 years in the business.

Future factsheets include:

- How do I evaluate the performance of my lender against others?
- Risk Management
- Service - What should you expect from your lender
- The Value of 2nd Lining
- The Impact of Interest Rate Decreases
- The Impact of PPI sales at POS demise in 2010
- How credit is used in different sectors – what is there to learn?

For more
information

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