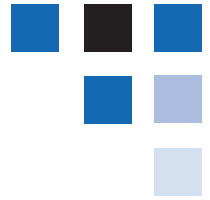


# **VIEWPOINT**

## **Payment Processing Trends - Part 2: Influencing the Buying Behavior of the Affluent Consumer**

By Bala Janakiraman



## VIEWPOINT: Payment Processing Trends - Part 2: Influencing the Buying Behavior of the Affluent Consumer **By Bala Janakiraman**

In Part 1, Jason Pavona took a look back at select milestones (e.g., the rise of the “credit cautious” consumer) and millstones (e.g., the Durbin Amendment) in 2010 and their implications for direct marketers in 2011. While he used broad brush strokes to convey the challenges ahead, this entry and those immediately ahead in the series will reduce that canvas to a series of interrelated panels uniquely representing, at least for members of the direct marketing community, equal amounts of risk and opportunity.

### Winston Smith and the Threat to Privacy

Several years ago, 2007 to be exact, I was invited by a colleague to attend a presentation by the CEO of a Western European software vendor who had made his bones compiling tranches of VC funding and refining his offering to support a bold new frontier of direct marketing known as “web analytics.”

I must admit that at the time I was a neophyte of this would-be paradigm shift and my interest was rooted more in the technical rudiments of the solution than in any inherent intellectual capital. That said, however, I was struck by the end-game of his presentation: the ability to drill so deeply into a given IP address accessing a website that a direct marketer would be able to identify such variables as the geographic location behind the address, (right down to the country, city and zip code) up to and including their name and presumably more. But practically speaking, after you’ve drawn that precise a bead of disclosure, what’s really left?

It turns out, even more.

For example, the CEO claimed that his software could actually “influence and manage” that IP address remotely — the equivalent, I suppose, of an otherwise benign botnet that identifies when and how frequently that IP address would appear in say, a community chat room or other social networking environment.

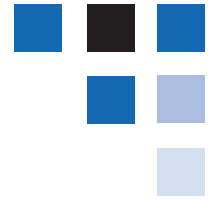
Once the IP address was recognized, the theory the CEO conjured was two-fold: the individual behind that IP address could be marketed to based on his level of discourse with other members of the community and that, over time, you could influence not just his buying decisions, but also his ability to influence others around him by supplying positive comments about a given product or solution. Effectively, the equivalent of what appears on the surface to be a customer advocate but underneath the subterfuge a thinly disguised, remotely controlled virtual evangelist.

If this sounds even vaguely Orwellian in nature (and I’m sure George Orwell’s anti-hero Winston Smith would have been ultimately fine with this new order), that’s because it is. While the CEO had convinced himself (and undoubtedly his investors) that American direct marketers would collectively and enthusiastically throw open their checkbooks for his solution, he never counted on the possibility that the euro-centric perspective on privacy had no such counterpart (largely due to our umpteenth privacy laws) here in the states. As a result while his intentions — ostensibly to help marketers more directly target their audience — appeared honorable, I wasn’t surprised to learn that he ultimately packed up and went home empty-handed.

### The Care and Feeding of the Affluent Consumer

By now, you’re probably wondering what any of this has to do with direct marketers, much less electronic retailers. I contend the relationship is causal. Privacy considerations aside, the two pillars of intellectual heft that enabled this CEO’s idea to flourish — a structured series of marketing messages to help influence behaviors joined to and achieved by adding intelligence to better profile prospects — actually offers tremendous upside and immediate application to direct marketing e-tailers.

Case in point: identifying and influencing the buying behavior of the affluent consumer.



According to research findings attributed to The American Affluence Research Center and found in L.E.K. Consulting's Executive Insights newsletter "Affluent Consumers Are Powering The Retail Recovery," "the high-income bracket has historically made a disproportionately large contribution to domestic spending, with households earning more than \$150,000 annually representing more than half of U.S. retail sales."

Additionally, L.E.K.'s research found that households earning more than \$150,000 annually are much more likely than the general population to believe that their financial conditions have recovered or were never affected while, on average, the general population believes that they are still more than a year away from "personal recovery" from the downturn.

According to a follow-on study, the AARC found that the spending habits of the utmost tier of earners remains robust, but everyone below has cut back and plans to stay there. (Note: The AARC surveys are conducted among the wealthiest 10 percent of U.S. households based on a minimum \$800,000 net worth or the equivalent of approximately 11.4 million households).

The influence of the affluent consumer is far-reaching. At the macro level, for example, the National Retail Federation predicted spending during the 2010 holiday season would reach \$451 billion, a 3.3-percent increase over last year and the largest total since 2007.

Close-up the details are especially revealing. In its December 2010 report on holiday spending, Bain & Company partially attributed affluent households — those with income over \$100,000 per year, for the uptick in retail sales this past Christmas shopping season, especially among jewelry and luxury goods. In its holiday wrap-up report *SpendingPulse*, which reports on national retail and services sales and is based on aggregate sales activity in the MasterCard payments network, found that jewelry and luxury items sales both improved during the 2010 season. In the case of the former the year-over-year increases resulted in an 8.4-percent gain and luxury items, excluding jewelry, ended with a season-to-season growth of 6.7 percent.

For consumer and B2B marketers in general and direct marketers in particular, this is a potent audience. Influencing, attracting and maintaining productive relationships with the affluent consumer bridges the gap for e-tailers who have seen both their profits, as well as their margins shrink and devolve into what the AARC has coined "the new normal" characterized by less household debt, higher personal savings, and less consumption.

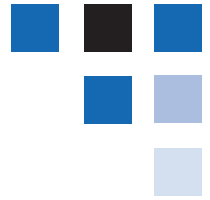
The importance and value of the affluent consumer is likewise stipulated by the card brands (VISA/MasterCard), which defines "Mass Affluent" as high income (>\$100,000) and "Affluent" as high income, high-card spend (income >\$100,000, card spend > \$40,000). Consumers who have these cards often enjoy benefits that include no pre-set spending limit, higher authorization rates and dedicated chargeback resolution support.

It's the best of all possible worlds: consumers who can afford your products, have the cards (and income) to support their purchases and to whom you can effectively market over and over again knowing you will always (or more than likely anyway) come out ahead.

### **The Trade-off Between Intelligence Gathering, Privacy and Your Next Marketing Campaign**

Let's revisit the example of our web-analytics evangelist. For the purposes of illustration, let's make it a given that in the immense shadow cast by the buying power of the premium cardholder there is a trade-off occurring between intelligence gathering for the purposes of optimizing marketing dollars but without (and this is key) compromising the integrity of the transaction by invading a customer's privacy.

This presupposes that identifying affluent consumers is an all or nothing proposition. Nothing could be farther from the truth. Instead, it's about inserting intelligence into individual transactions, intelligence that helps to parse the mass affluent from those who were either un-banked or under-banked or those qualified enough to benefit from your product but who would never be able to afford it (e.g., the aspirational consumer).



Using this methodology, direct marketers effectively “unlock” the data stored within a transaction. As a result, capturing information at the time of authorization enables direct marketers to adjust their sales approach to the needs and spending patterns of the consumer, potentially generating additional sales in the short-term while providing, in the long-term, the opportunity for targeted marketing campaigns and future sales.

With such a solution direct marketers could harness information intelligence to enhance customer acquisition including:

**Analyzing the buying patterns of affluent cardholders within your base.** Focus your short-term sales at affluent cardholders who are more likely to have the buying power and the willingness to spend.

**Upselling to affluent cardholders.** Use data to drive cross-sell/upsell campaigns, including proactively making product suggestions or recommendations to your website to drive cross-sells or augment sales through product add-ons.

**Optimizing marketing strategy.** Collecting customer intelligence down to the cardholder’s level of affluence enables your direct marketing campaigns to be focused on a select population that is already amenable to your messaging and has the financial means to respond to it in kind, ensuring its success.

Ultimately, the visibility afforded by inserting intelligence into individual transactions strengthens a direct marketer’s reach and influence and without compromising privacy — an outcome the web analytics CEO may have anticipated but a business model that simply could not be sustained.

#### ABOUT THE AUTHOR



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