The Effect of Store Cards on Buyer Behaviour: Is It a Matter of Ignorance Or Abuse?

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This research identifies and compares the most important reasons for the adoption of store credit cards by two dissimilar consumer groups: 267 questionnaires were completed by samples that were characterized by different levels of experience and exposure to the facility. Noticeable differences between the samples in terms of number of cards possessed; payment options exercised and credit status were reported. The majority of store cardholders reported an increase in installments during the preceding year and the majority of the less experienced sample admitted that they consequently struggled to manage monthly installments.

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EXTENDED ABSTRACT

Introduction and justification

Store cards as a form of credit has increased in popularity in recent years, probably because it is easier to obtain than most other credit systems. It is unfortunately thus afforded less respect than for example bank credit cards. A major concern is that many consumers who obtain store cards are not necessarily competent to manage the credit facility and generous credit limits that are approved for their use (Chien & Devaney, 2001). Overspending thus seems almost inevitable (Kaynak et al., 1995).

Literature Review

A store card account represents a convenient open-ended transactional medium that charges no annual fees and provides interest free pre-approved revolving credit (Portrait Report, 2004). Store cardholders enjoy additional benefits such as discounts that may appear more rewarding than the credit facility itself (Benavent et al., 2004). Most store cards provide access to consolidated stores where customers might have been hesitant to apply for credit in the first place (Holbrook and Hirschman, 1985 in Holt, 1995) and because store cards are used by consumers over the whole socio economic spectrum, they pose no social threat at point of sale (Shallat, 2006).

Research however indicates that store cards encourage lavish spending: store cardholders admit that they spend larger amounts per shopping trip because the facility diminishes financial limitations amidst increased desirability (Hirschman, 2001). This facility consequently contributes to an increase in debt (Evans and Schmalensee, 2005).

Consumers’ satisfaction with store cards can apparently not be deduced from the number of store cards owned, frequency of use or ongoing use of the facility because many store cardholders continue to use them because they simply cannot afford to settle their accounts (Shallat, 2006).

Objective of the research

This research compares the reasons for the adoption of store cards and the consequent buyer behaviour of two groups of store cardholders that differ with regard to exposure and experience with the facility.

Methodology

An explorative survey approach, directed by deducto hypothetico method was applied to cross sectional data. A pre-tested structured questionnaire consisting of five sections was used. Data was collected during the third term of 2006 in Botswana in Gabarone and Francistown (sample B) where store cards were introduced after 1995 when large shopping malls were erected as part of the “African Renaissance” initiative. This sample was selected as a less experienced group of store cardholders. Respondents were recruited with the permission of store managers by one of the researchers when they exited selected stores. Questionnaires were completed in interview format to compensate for respondents’ inexperience with the procedure. The more experienced sample was recruited in South Africa in Gauteng where store cards have been in use for decades (sample RSA). Convenient sampling was used and questionnaires were distributed to the homes of respondents in selected suburbs on a drop-down-collect-later basis because store managers in large shopping centers were reluctant to approve data collection in the centers.

Results

A total of 267 questionnaires (B:100; RSA:167) were completed by 208 female (B:71; RSA:137) and 59 male respondents (B:29; RSA:30). Nobody in the less experienced sample B, held more than one store card while the majority of sample RSA possessed four or more different store cards.

Eleven possible reasons for the adoption of store cards were listed for prioritization and an open-ended opportunity was provided to indicate additional factors (Zywicki, 1996; Fiana et al. 1998; Durkin, 2002; Portrait Report, 2004). Responses were compared through chi square analysis and presented in a two by three contingency table: sample B considered the financial advantages of store card accounts (p=<0.0001) as well as the social advantages of store card use (p=0.0019) significantly more important than their counterpart. Both samples appreciated store cards as a convenient substitute for cash and cheques (p=0.1173); preferred it as a secure payment method (p=0.2087) and they were indifferent about additional advantages such as club membership (p=0.3976) and rewards such as discounts that are involved (p=0.1004). A significant larger percentage of sample B acknowledged the persuasive influence of salespeople in their decision to adopt a store card (p=0.0278).

Indications are that less experienced store cardholders are significantly more inclined to overspend (B: 55.0%; RSA: 47.0%) (p=0.01). Installments thus increased for 42% of sample B during the preceding year (RSA: 27.5%). Open-ended questions revealed that impulsive buying (B: 52.4%; RSA: 53.3%) and poor planning (B: 23.8%; RSA: 10.9%) were mostly to blame for this. Not surprisingly, 57% of sample B (RSA: 4.2%) admitted that they struggled to honor monthly installments. Despite store cards’ commendable benefit of interest free credit over six months, only 19% of sample B used that payment option (RSA: 59.9%). The rest distributed their installments over twelve months that included interest, or paid “whenever they could afford to do so”.

Factor analysis was done to determine whether store cardholders’ satisfaction with store cards related to specific attributes of store cards. Responses of the combined samples (N=267) to a list of 15 store card attributes were subjected to factor analysis using squared multiple correlations as initial communality estimates with direct oblimin rotation. Three constructs were identified, i.e.; ADDITIONAL INCENTIVES, FINANCIAL BENEFITS and CONVENIENCE. ANOVA indicated that sample RSA was significantly more satisfied with store cards as a commodity than sample B (p=0.0045). Although installment status did not affect respondents’ satisfaction judgment significantly, additional benefits associated with store cards caused a significant negative judgment by sample B (p=0.0001). They indicated that they were not fully informed about it. Although use of store cards rather than cash significantly increased respondents’ satisfaction with store cards (p=<0.0001), the more experienced sample RSA was significantly more satisfied with the convenience attribute of store card use than sample B (p=0.0027).

Conclusion

Findings indicate that store cardholders’ evaluation of store cards is affected by exposure and previous experience with store cards. While experienced store cardholders were more impressed
by convenience attributes, less experienced cardholders were significantly more impressed by financial benefits and the potential social value of store card ownership. Despite evidence of increasing debt and problems to maintain store card accounts, both samples willingly recommended store cards as a utility. Within a system’s perspective (Spears and Gregoire, 2003), it can be explained that respondents’ satisfaction with store cards culminates as an evaluation of all of the attributes of the commodity. Financial problems and a negative evaluation of additional benefits are thus probably negated by the positive attributes of store cards.

A positive evaluation of store cards by both samples and the number of store cards possessed by the more experienced sample suggest that store cards have come to stay as part of an anticipated future “cashless society”. Of particular concern however, is the inclination of less experienced store cardholders to overspend and the percentage of them that was “heavy revolvers” (i.e. cardholders who extended the payment option to the maximum) who had to face the burden of interest. The consequent challenge to retailers would be to exercise greater caution when they issue store cards and to monitor store cardholders’ installment status.

References


