Profits are hiding in your payments data

How insights from transaction data can increase sales and reduce costs

Every digital payment produces a wealth of data. Merchants today are finding that this data—made up of social, digital and mobile information—can be used to reduce the cost of doing business and identify opportunities for growth.

"You have to do analytics to survive," says Jonathan Skvoretz, senior vice president of Data Governance and Operations at Bank of America Merchant Services. "If you're not using data to understand your customers' needs, your competitors will meet them better than you can."

Here are some key ways companies can mine their payments data to improve both sides of their balance sheets.

TARGET THE RIGHT MARKETS

Skvoretz notes that the opportunity to boost revenue may be the greatest benefit offered by transaction data analysis. Analyzing payments information can help businesses understand their existing customers and identify which markets to target next.

"We spend a lot of time helping clients learn about their customers through segmentation analyses," says Raoul Aranha, vice president, Security, Fraud and Analytics Services at Bank of America Merchant Services. "That information can help them market more effectively. We also help them answer other critical questions: What are my opportunities for affinity partnerships in competitive, high-spend categories? Where should I open new locations? How well are my campaigns performing?"

For example, a major sports franchise might use its payments data to evaluate the success of marketing efforts such as "Family Day" as the events occur. Data showing general areas where customers live can suggest how effectively an event draws fans from specific areas. An auto parts dealer might learn that millennials represent a larger share of its customers than baby boomers—revealing that its marketing efforts have been targeting the wrong demographic, and might even deserve a design overhaul.

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Some businesses combine internal payments data with anonymized data about competitors in their industry to make better marketing decisions. For example, a restaurant chain might learn from an aggregation of comparative data that its best-performing store is actually underperforming relative to its competition in the same market, or that a

weaker location is outperforming its peers nearby. Likewise, a company might also ask where its customers spend money before and after their in-store purchases, and use that information to help choose the location for a new store.

The most productive data analysis leads to changes in a company's behavior.

"You should be able to use the data and the insights gained to tell you to do something different than you would have otherwise," says Chris Wearing, vice chairman of global advisory firm Teneo Holdings. "Is there something about the customer's buying patterns that I didn't know? Is there something about that information that will help my business grow? Those are the kinds of questions to ask."

USE PAYMENTS DATA TO REDUCE COSTS

Internal operations such as chargebacks, authorization rates, transaction routing and consumer authentication all contribute to the total cost of payment. Analyzing your internal data on a monthly, quarterly or annual basis can help you understand your costs, and find out identify areas of opportunity—areas where you might be able to trim costs.

For example, influencing end customers' behavior with their debit transactions can help you reduce costs. If you find out that your customers are choosing to sign for debit card purchases versus using a PIN, there might be room for improvement in reducing those costs. Similarly, when a company only has card readers that only allow swipes, the merchant must cover the cost of any chargeback (the credit card bank covers that fee when the card is inserted and the chip read).

A close look at the data might indicate that upgrading technology at the point of sale could reduce chargeback expenses. Alternatively, an analysis may reveal more efficient ways to reduce chargebacks and their associated fees—for example, requiring customers to input their zip code for credit card transactions, as many gas station chains are doing.

Some companies analyze their payments data to figure out the best ways to organize payments information when they send it to acquiring banks. For example, merchants can group various types of payments together so that they are less likely to trigger false fraud alerts.

"By grouping similar types of payments together, using variables such as frequency or location, we can make what is happening clearer to the acquirer," explains Michael Reed, executive vice president and general manager for Europe at Bank of America Merchant Services. "We can identify the good transactions and do a better job of monitoring the riskier ones."

Transaction data is everywhere, and it's accessible to businesses of all sizes. The ways companies use that information can make the difference between leaders and laggards. Businesses that appreciate the potential value of payments data analytics can reveal the most attractive growth opportunities to pursue while reducing unnecessary costs.

For more information on how Bank of America Merchant Services can help you optimize your business and customer experience through integrated analytic solutions, call your Bank of America Merchant Services business consultant or 855.833.3614. We're here to help.

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