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THE ECONOMIC IMPACT OF THE BANK CREDIT CARD
ON THE BANKING AND MERCHANT COMMUNITY OF
GREAT FALLS, MONTANA

By

Andrew P. Hartman, Jr.

B.S.B.A., University of Florida, 1967


Presented in partial fulfillment of the requirements
for the degree of

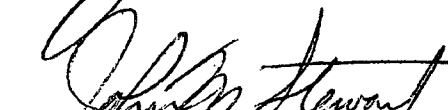
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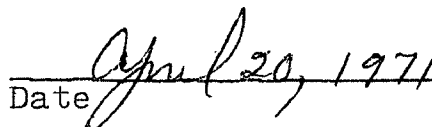
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TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION	1
Purpose and Contribution	1
Research Objectives	1
Research Limitations and Methodology	2
II. THE BANK CREDIT CARD OPERATION IN GREAT FALLS	4
III. THE BANK CREDIT CARD MARKET IN GREAT FALLS	7
IV. BANK CREDIT CARDS AND THE BANKING COMMUNITY	13
Summary	27
V. MERCHANT SURVEY	28
Summary	40
VI. SUMMARY OF FINDINGS	43
Impact of the Bank Credit Card on the Banking Community	43
Impact of the Bank Credit Card on the Merchant Community	44
Recommendations for Further Research	46
WORKS CITED	47
APPENDIX A: THE QUESTIONNAIRE SUBMITTED TO LOCAL AGENT BANKS	48
APPENDIX B: THE QUESTIONNAIRE SUBMITTED TO LOCAL BANK CREDIT CARD AFFILIATED MERCHANTS	52
APPENDIX C: LIST OF MERCHANTS INTERVIEWED	53

LIST OF TABLES

Table	Page
I. CARDHOLDER INFORMATION	8
II. CARDHOLDER ACTIVITY	9
III. MERCHANT INFORMATION	11
IV. TOTAL BANK CREDIT CARD RETAIL SALES IN GREAT FALLS	12
V. RATIOS BASED ON BANK CREDIT CARD TOTAL REVENUE	16
VI. BANK CREDIT CARD OUTSTANDING AS A PERCENT OF CONSUMER INSTALLMENT CREDIT OUTSTANDING.	20
VII. MAIN SOURCES OF BANK CREDIT CARD REVENUE	22
VIII. MASTER CHARGE REVENUE AND EXPENSE FIGURES FOR TWO SAMPLE BANKS	24
IX. BANK CREDIT CARD PLAN PROFITABILITY	26
X. RETAIL SALES BREAKDOWN FOR GREAT FALLS	29
XI. QUESTIONS RELATING TO THE SAMPLE MERCHANTS BANK CREDIT CARD PROGRAMS	30
XII. MAJOR REASONS WHY MERCHANTS ADOPTED BANK CREDIT CARD PLANS	32
XIII. THE PERCENTAGE OF SAMPLE MERCHANTS RETAIL SALES WHICH WERE ACCOUNTED FOR BY BANK CREDIT CARD SALES.	34
XIV. THE PERCENTAGE OF RETAIL SALES ACCOUNTED FOR BY BANK CREDIT CARDS IN GREAT FALLS	35

CHAPTER I

INTRODUCTION

Purpose and Contribution

The purpose of this professional paper is to study the economic impact which the bank credit card has had on the banking and merchant communities of Great Falls, Montana. The findings will serve as a guide for banks and merchants who are confronted with the problem of deciding whether or not to become affiliated with a bank credit card plan. This paper will also assist in the evaluation of already established bank credit card programs.

Research Objectives

The hypothesis for this paper is that the bank credit card operation in Great Falls, even though it generates a very small portion of local business, is increasing in importance and will, in the author's opinion, be a major vehicle of retail credit, in the near future.

Research was carried out in two main areas. Bank credit card affiliated banks and merchants were asked selected questions from a preplanned questionnaire.

First, the bank credit card officials of the four local agent banks were interviewed to gain information regarding the role which their bank credit card plans play in their banks' credit operations. Certain of the information obtained was termed confidential by the different bank officials. In order to comply with the wishes of individual banks certain data had to be grouped together and presented as an aggregate. Several banks which had volunteered confidential information were designated by letters of the alphabet so that comparison could be made of these data without divulging their source. The necessity for taking this approach is regretted because individual statistics would have afforded better analysis but it was the only method which could be used to present classified bank information. A copy of the bank questionnaire appears in the Appendix.

Merchants, selected randomly, were then interviewed to gain understanding of the role which the bank credit card has played in their fields of business. Names of the merchants interviewed and the merchant questionnaire are also present in the Appendix.

Research Limitations and Methodology

Primary research data was limited to that obtained in a series of interviews with the four local bank credit card affiliated banks and selected area merchants. A lack of both time and resources prevented a more extensive study.

Secondary research data sources were limited, basically, to the most current articles in business periodicals and Federal Reserve publications.

CHAPTER II

THE BANK CREDIT CARD OPERATION IN GREAT FALLS

The first national interchange bank credit card plan was offered in Great Falls, Montana, in May of 1968. The Great Falls National Bank, acting as an agent bank, became the local licensed BankAmericard representative. The second bank credit card plan was made available in July of 1969 when Montana Bank became the first authorized representative for Master Charge. In September of that year the First National Bank and the First Westside National Bank introduced their Master Charge Programs. Therefore, both national interchange bank credit card programs were established in Great Falls prior to 1970.

All four of the local banks offering bank credit card plans are licensed as agents for a principal bank. The Montana Bank is an agent bank for the American National Bank of Denver. Both the First National Bank and the First Westside National Bank perform the function of agent for the United Bank of Denver. These two principal banks belong to the Mountain States Bankcard Association. The Colorado National Bank of Denver does business in Montana as the Rocky Mountain B.A.C. Corporation and serves as the principal bank for the Great Falls National Bank.

Agent banks are responsible for signing up merchants, accepting their merchants sales drafts, providing their merchants with supplies and making cash advances to cardholders associated with their national credit card plan. Agent banks require all of their merchants to maintain a special service free account for their bank credit card operations. The agent bank debits this account at the end of the month for the amount of discount that is charged the merchant. This merchant discount varies with credit card plan and merchant but usually declines as sales volume and average ticket size increase.

Principal banks extend cardholder credit and require their agents to maintain a special credit card account with them. This account is debited constantly with a service charge for each transaction (cash advance or sales draft) and credited with the amount of the cash advance and the portion of the service charge which exceeds the amount owed to the principal bank (details in Chapter IV). Master Charge agent banks in Great Falls also have a portion of the revolving charge from retail sales credited to their accounts.

The Mountain States Bankcard Association serves mainly to expedite the interchange of bank card sales drafts among its members. This association also furnishes most of the operating capabilities such as authorizations, billings,

issuing of credit cards, group advertising, automatic collection notices, security assistance, legal advice and supplies.¹ The BankAmericard Center in Denver provides these same services for the Great Falls National Bank.

¹Thomas L. Barley, "The Unique Role of the Bank Card Association," Banking, October 1970, p. 34.

CHAPTER III

THE BANK CREDIT CARD MARKET IN GREAT FALLS

The population of Great Falls, according to the 1970 census, is 60,091 (this figure does not include 8374 people living at Malmstrom Air Force Base). Retail sales for Great Falls during 1970 were estimated to be \$175,755,000.¹ Per capita income in 1969 was reported to be \$2,970 with a per household estimate of \$9,332.² The total net cash income for the city of Great Falls in 1969 was approximately \$235,024,000 and the retail sales for that year accounted for sixty-eight percent of that figure.³ A sizable current and potential market for this area is indicated by these estimates.

There have been over 25,000 bank credit cards issued in Great Falls since May of 1968 (Table I). Data for 1970 from two of the local agent banks reveal that an average of 12.78 percent of all their outstanding credit cards were considered active. This figure represents an increase from a little under ten percent in January to a high in August

¹"Market Guide," Editor and Publisher, 1970, p. 270.

²"1970 Survey of Buying Power," Sales Management, June 10, 1970, p. C-66.

³Ibid.

TABLE I

CARDHOLDER INFORMATION

Category	BankAmericard Affiliated	Master Charge Affiliated
Cardholders in Great Falls	11,000	15,972
Cardholders in United States	35,000,000	36,356,000 ^a
Active Cardholders in Great Falls (billed in August)	not available	3,720
Active Cardholders in the United States	not available	7,395,000 ^a
Percent of Cardholders Active in Great Falls	not available	12.78%
Percent of Cardholders Active in United States	not available	20.3%
Committed Credit Line for Bank Credit Cards in Great Falls	not available	\$8,607,100
Average Bank Credit Card Purchase in Great Falls	not available	\$21.00
Average Bank Credit Card Purchase in United States	\$19.00 ^b	\$19.00 ^b
Average Amount Outstanding Per Active Account in Great Falls	not available	\$37.50
Average Amount Outstanding Per Active Account in United States	\$185.00 ^c	\$180.00 ^c

Source: All information except that footnoted was extracted from the bank records of either the local BankAmer-

^cAndrew F. Brimmer, New Horizons in Credit Card Banking, A Federal Reserve Publication, September 23, 1969, Table 10.

of a little over sixteen percent (Table II). While the 12.78 percent local average falls far short of the 20.3 percent Master Charge national average (the BankAmericard figure was not available) it has been increasing steadily in Great Falls.

TABLE II

CARDHOLDER ACTIVITY

(1) Month (1970)	(2) Cards With Activity This Month	(3) Cards On File	(4) Percentage of Cards Active
January	1202	12,282	9.78%
February	1277	12,514	10.20%
March	1389	12,709	10.92%
April	1472	13,289	11.07%
May	1601	13,462	11.89%
June	1878	13,493	13.91%
July	2045	13,645	14.98%
August	2224	13,739	16.18%
September	2121	13,831	15.33%

Source: Two sample banks.

Notes:

A card was considered active if it was used in the prior month.

The figures represented in column four are rounded to the nearest hundredth of a percent.

The average amount outstanding per local Master Charge account of \$37.50 falls far short of the national Master Charge average of \$180.00. One important fact to remember here is that Master Charge has only been operational in Great Falls for a little over one year and thus local accounts have not had as long as the national average to accumulate outstanding balances.

Great Falls has approximately six hundred retail merchants and about four hundred and thirty-five of these merchants are affiliated with at least one bank credit card plan (Table III). There are fifty retail merchants in the Holiday Village Shopping Center and thirty-four of these honor at least one bank credit card. Twenty-one of the thirty-four stores are affiliated with both plans.⁴

Almost everything in Great Falls can be purchased with a bank credit card. The service departments of all the automotive dealers accept bank credit cards as their only credit medium. All major brands of gasoline can be purchased with a bank credit card. Airline tickets, hotel reservations, rental cars and meals can all be charged on these cards.

⁴Personal interviews with merchants at Holiday Village Shopping Center, September, 1970.

TABLE III

MERCHANT INFORMATION

Category	BankAmericard Affiliated	Master Charge Affiliated	Total For Great Falls
Total Affiliated Outlets in the United States	700,000	882,000 ^a	
Total Affiliated Outlets in Great Falls	285	397	435 ^b
Gas Stations	55	34	149 ^c
Hotels and Motels	15	31	54 ^d
Restaurants	5	6	72 ^e
Other Retail	210	326	325 ^b
Average Merchant Discount Fee	5% ^b	3.75% ^b	4.25% ^b

Source: Four sample banks.

^aInterbank Facts, p. 1.

^bEstimated figure.

^cGreat Falls and Northern Montana Telephone Directory, Mountain States Telephone and Telegraph Company, Revised to December 9, 1970, pp. 182-186.

^dThe City Directory, R. L. Polk and Company, 1970, pp. 105 and 114.

^eIbid, pp. 125-126.

Bank credit card sales have almost doubled since January of 1970. These cards have accounted for over a million dollars in sales the first eight months of 1970 (Table IV).

TABLE IV

TOTAL BANK CREDIT CARD RETAIL
SALES IN GREAT FALLS

Month (1970)	Total Sales
January	\$ 126,796.61
February	95,178.53
March	122,477.79
April	124,120.36
May	138,197.63
June	154,005.92
July	184,618.64
August	196,761.38
Total	<u>\$1,142,156.86</u>

Source: Four sample banks.

Bank credit cards are becoming more widely accepted and used in Great Falls. A higher percentage of cards are being used and the average amount outstanding is increasing every month. The committed credit line for Master Charge in Great Falls is over eight and one-half million dollars.

CHAPTER IV

BANK CREDIT CARDS AND THE BANKING COMMUNITY

Mr. Richard O. Hopkins, senior vice president of the Marine Midland Trust Company of Western New York, stated, "There are very few banks with the ability to break out the true profit contributed by the various lending areas."¹ This statement is considered to be a very accurate account of conditions found when interviewing the bank credit card officials of the four local agent banks. All of the banks kept limited records that were provided by their association or bank card center, but only one bank made any attempt to calculate bank credit card operating expenses and none could state their programs current profit position.

When these officials were asked why their banks decided to join a bank credit card plan, each responded with a different answer. The four answers that were cited were; (1) the bank cards provided the ability to penetrate new customer and merchant markets, (2) the fear of exposing their merchant and individual accounts to competition from banks that offered bank card plans, (3) the bank cards

¹Richard O. Hopkins, "Do You Know Your Profits," Banking, October 1970, p. 41.

increased the opportunity for promoting other bank services, and (4) finally the bank cards offered the ability to provide a new bank service without a major investment.

Bank credit card programs offer three main sources of revenue to the agent bank; merchant discount fees, the service charges assessed on cash advances, and the service charges placed on retail sales that remain unpaid for a period of twenty-five days.

The merchant discount fee is the amount charged to the merchants account for each bank credit card purchase made at his establishment. This amount is figured by taking the estimated discount rate on the amount of the credit card purchase. The local BankAmericard agent bank receives merchant discounts only when BankAmericard sales are made at its merchants' stores by Rocky Mountain region cardholders.² The local Master Charge agent banks receive merchant discounts from all Master Charge sales made at their merchants' stores. The merchant discount decreases as the merchants total sales and average ticket size increase. The discount assessed also varies according to the credit card program with the average fee being 3.75 percent for Master Charge and five percent for BankAmericard merchants and an overall average for Great Falls of 4.25 percent.

²The Rocky Mountain region includes Montana, Colorado, New Mexico, Wyoming, and western Nebraska.

Master Charge agent banks must pay 2.79 percent of each of their merchants bank credit card sales to their principal bank for a processing fee. They receive, however, the amount of merchant discount assessed which is in excess of this amount. The same is true of the BankAmericard agent bank but, they must pay the first 2.75 percent of their merchant discount.

The merchant discount is the major source of revenue for the newly established bank credit card program.³ In Great Falls the merchant fee accounts for 81.40 percent of the total revenue for the BankAmericard agent bank and 58.09 percent of the total revenue of two Master Charge agent banks (Table V).

Although the merchant discount makes up the largest source of revenue, it also contributes to one of the largest portions of bank card expense. Two and three quarters percent of all BankAmericard retail sales and 2.79 percent of all Master Charge sales must be paid to their principal banks. This leaves the BankAmericard bank with an average of 2.25 percent of their retail sales and a lot less, if any, from their larger volume merchants who pay smaller discount fees. The same can be said of the Master Charge agent banks who receive on the average only .96 percent of their merchants retail sales. The merchant discount fee is basically a

³Robert Johnston, Credit and Credit Cards, A Federal Reserve Bank of San Francisco publication, Revised 1969, p. 5.

TABLE V

RATIOS BASED ON BANK CREDIT CARD TOTAL REVENUE

(1) Month (1970)	(2) <u>Merchant Discount</u> Total Revenue		(3) <u>Service Charge</u> Total Revenue	(4) <u>Cash Advance</u> Total Sales		(5) Total Revenue
	<u>BA</u>	<u>MC</u>	<u>MC</u>	<u>BA</u>	<u>MC</u>	
January	81.83	55.43	32.71	7.12	26.88	\$ 3,042.90
February	66.58	80.63	16.31	13.88	32.56	5,370.77
March	78.99	40.29	55.79	8.37	22.53	3,479.39
April	82.73	43.28	53.29	6.70	20.58	3,805.72
May	83.35	60.05	38.72	6.00	14.96	4,715.03
June	81.90	67.43	30.78	7.03	16.15	6,794.98
July	79.06	49.66	47.35	8.34	13.31	5,486.48
August	96.79	67.93	30.67	2.44	13.43	7,512.51
Average	81.40	58.09	38.20	7.49	20.05	\$40,207.78 (total)

Source: Three sample banks

Notes:

Total Sales equals Retail Sales plus Cash Advances.

BA is BankAmericard.

MC is Master Charge

breakeven affair for the Master Charge agent banks. On the other hand, it does constitute the major source of revenue for the BankAmericard agent bank.

The second main source of revenue is the service charge which is collected on their cardholders retail sales that are put on the revolving credit plan. The service charge, which amounts to one and a half percent a month, is assessed on the balances which remain unpaid for more than twenty-five days. One local Master Charge agent bank receives one half of the service charges collected from their overdue sales while the other two Master Charge agent banks are allowed only one quarter of the collected service charges. The local BankAmericard agent bank does not share in any of the revolving charges.

One local Master Charge agent bank estimated that seventy-five percent of its retail sales were put on the revolving credit plan. Another Great Falls Master Charge affiliated bank estimated this figure to be between fifty and sixty percent. These same two banks estimated that sixty percent of their cardholders participated in the revolving credit plan. Nationally, the percentage of cardholders that pay service charges on their purchases is estimated to be seventy-eight percent.⁴

⁴Paul O'Neil, "A Little Gift from Your Friendly Banker," Life, March 27, 1970, p. 49.

The third major source of revenue is interest earned on the cash advance. Cash advances to cardholders contributed little to total revenue but have accounted for an average of 7.49 percent of BankAmericards total sales and 20.05 percent of the Master Charge total sales figure. Cash advances equaled approximately 14.0 percent of the total bank credit card sales in Great Falls for 1970 (derived from the figures in column 4 of Table V and weighted by the Master Charge and BankAmericard sales data). The national average of this category was approximately seventeen percent in 1968 and sixteen percent for the first seven months of 1969.⁵

The Master Charge agent banks make one dollar on each of their cash advances plus share (in the same proportions that they share the revenue from the service charges on the retail sales of their cardholders) in the service charges. This service charge is imposed on each cash advance from the date it is made, therefore, the Master Charge agent banks always receive their share of the service charges that are collected on each of their cash advances.

The BankAmericard agent bank receives four percent of each cash advance made to cardholders of its region. This bank does not share in the service charges collected from its cash advances.

⁵Brimmer, Table 7.

Service charges generally increase in significance as a source of credit card revenue over the life of the plan.⁶ The service charge accounted for 38.20 percent of the total revenue for two sample banks.

The total bank credit card outstanding category has increased from a mere 1.85 percent of total consumer installment credit outstanding in September of 1967 to 6.42 percent in August of 1970 (Table VI). The comparable figure for Great Falls increased from 4.51 percent in January of 1970 to 9.66 percent in August. The latter figure was approximately the same amount attained by the banks in the Federal Reserve Twelfth District in 1969.⁷ (The Twelfth District includes Washington, Oregon, California, Idaho, Utah, Nevada, and most of Arizona.) These figures reveal that bank credit card credit as a percentage of consumer credit has been increasing significantly in Great Falls during the first eight months of 1970.

⁶Donald M. T. Gibson, The Strategic and Operational Significance of the Credit Card for Commercial Banks, A Doctoral Thesis for Harvard University, October 1967, p. 185.

⁷Johnston, p. 3.

TABLE VI--Continued

(4) Total Consumer ^b Installment Credit Outstanding Great Falls (thousands)	(5) Total Bank ^b Credit Card Outstanding Great Falls	(6) Column (5) as a Percent of Column (4)
\$5,641	\$254,423	4.51
5,317	289,262	5.44
5,275	313,351	5.94
5,348	344,769	6.45
5,288	376,339	7.12
5,330	420,270	7.88
5,290	462,324	8.74
5,335	515,246	9.66

Three sample banks experienced unpredictable flows of revenue from merchant discounts and cash advances (Table VII). Merchant discount fees reached a high in August of \$5,427.85. Cash advance revenue seems to move between the two hundred and four hundred dollar levels. Service charges have been a steadily increasing form of revenue. They reached a high in August of \$1,959.67.

TABLE VII
MAIN SOURCES OF BANK CREDIT CARD REVENUE

Month (1970)	Merchant Discount	Service Charges	Cash Advance ^a Revenue
January	\$1,977.71	\$ 639.09	\$430.10
February	4,217.95	745.19	407.63
March	1,778.94	1,397.84	302.61
April	2,008.25	1,540.53	256.94
May	3,048.21	1,466.22	200.60
June	4,733.29	1,771.03	290.66
July	3,136.68	1,934.34	415.46
August	5,427.85	1,959.67	124.99

Source: Three sample banks.

^aCash advance revenue includes only the amount originally collected by the bank and does not include any of the revolving charges collected from cash advances.

There are two other sources of revenue, the imprinter rental fee and the merchant membership fee. These sources contribute such an insignificant amount to total revenue that further discussion of them is not justified.

One of the main sources of expense for the bank credit card plan agents is the merchant discount that is payable to the principal banks. Indirect costs include salaries and advertising expense items. Due to the difficulty of allocating indirect expenses, the figures that appear for this category in Table VIII are estimates.

Interviews with the vice presidents of two local agent banks revealed that charge-offs (losses) equalled .134 percent of total bank credit card outstandings. The national average for 1969 amounted to 2.67 percent of total bank credit card outstandings.⁸ The averages show that charge-offs are not a typical factor of bank credit card plans and locally they are even less of a factor than they are nationally.

The local BankAmericard agent bank charges their merchants an initial sign-up fee of thirty-five dollars. The local Master Charge agent banks do not charge their merchants a sign-up fee and end up paying their principal banks an initial fee of three dollars and seventy-five cents per merchant.

⁸Louis J. Asterita, "Four Aspects of Installment Credit," Banking, October 1970, p. 40.

TABLE VIII
 MASTER CHARGE REVENUE AND EXPENSE
 FIGURES FOR TWO SAMPLE BANKS

	Bank A	Bank B
<u>Revenue</u>		
Merchant Discount	\$ 3,288.55	\$19,237.93
Service Charge (Sales plus Cash Advances)	12,246.30	10,505.48
Total Revenue	\$15,534.85	\$29,743.41
<u>Expenses</u>		
Merchant Discount and Service Charges (cash advances and sales)	\$ 9,071.88	\$21,577.10
Freight and Supplies	467.74	796.70
Merchant Sign-up Fee	307.50	205.00
Charge-offs	388.56	340.00
Indirect Costs ^a	12,000.00	9,600.00
Total Expenses	\$22,235.68	\$32,518.80
Profit (Loss)	(\$ 6,700.83)	(\$ 2,775.39)

Source: Two sample banks.

^aEstimated figures.

Sales drafts, window decals and small advertising displays are provided free of charge by the agent banks. Certain other displays like the large metal signs (for gas stations and motels) are paid for by the agent banks. The agent banks absorb all the freight charges if supplies must be mailed to their merchants.

Neither of the local Master Charge agent banks for which data are provided (Table IX) operated profitably during the first nine months of 1970. These two banks, however, maintained positive operating profits, gross yields and net yields. Bank A had a higher operating profit because it had smaller direct cost expenses (both in absolute and relative terms). Bank B had higher gross yield and net yield percentages due to the fact that its credit card outstandings were only approximately \$40,000 higher while the revenue that was generated was almost twice as large as that of Bank A. Bank B is in a better profit position because it has more credit card outstandings and has been able to generate more revenue primarily because its cardholders are more willing to use their borrowing privileges and extend their balances over the twenty-five day grace period. The other Master Charge agent bank estimated a profit of twenty-two hundred dollars for 1970 (no figures were available to evaluate this estimate). The local BankAmericard agent bank did not disclose any indirect cost figures but stated that 1970 would be the first year that their plan would show a modest profit.

TABLE IX

BANK CREDIT CARD PLAN PROFITABILITY
(January through October of 1970)

	Bank A	Bank B
Total Revenue	\$15,534.85	\$29,743.41
Operating Profit ^a	34	23
Gross Yield ^b	6.3	10.3
Net Yield ^c	2.1	2.4

Source: Two Master Charge sample banks

$$^a \text{Operating Profit} = \frac{\text{Total Revenue} - \text{Direct Costs}}{\text{Total Revenue}}$$

$$^b \text{Gross Yield} = \frac{\text{Total Revenue}}{\text{Credit Card Outstandings}}$$

$$^c \text{Net Yield} = \frac{\text{Total Revenue} - \text{Direct Costs}}{\text{Credit Card Outstandings}}$$

Note: All definitions were taken from Gibson, p. 207. The credit card outstandings for the above mentioned banks are a portion of the aggregate displayed in Table VI.

Presently the bank credit card does not rank as one of the top profit producers in any of the portfolios of the four sample banks. The two banks depicted in Table IX achieved net yields of less than 2.5 percent for their bank credit card plans.

Summary

The net yields for the local Master Charge agent banks credit card plans will increase in the future as the proportion of their sales volume that is put on the revolving plan increases or as direct cost decreases. Presently around sixty percent of the local bank credit card sales are put on the revolving credit plan. (Figure for two sample banks based on their individual percentages and weighted by their bank credit card sales.) This figure is below the national average of seventy-eight percent so there is some room for improvement. Also an increase in the local cash advance (as a percent of total sales) from fourteen percent to the national average of sixteen percent will increase revenue and net yield.

The only way the local BankAmericard agent bank will increase total revenue to any great extent will be to participate in the service charges from their retail sales and cash advances.

CHAPTER V

MERCHANT SURVEY

A survey was conducted during the months of October and November of 1970 of merchants who were associated with one or both bank credit card programs. The 1970 Market Guide breakdown of retail sales (Table X) was used as a basis for classifying merchants into sales categories. When possible the merchants were selected on a random basis from the Great Falls Telephone Directory. Certain categories contained a limited number of merchants who honored bank credit cards, therefore, the randomness of the selection in these categories was somewhat restricted.

A subjective sample of forty merchants was interviewed. Thirty-four of these merchants (85 percent) offered other forms of credit to supplement their bank credit card programs. The survey totals reveal that 18.7 percent of the total sales of these merchants was made on credit and 5.88 percent of their total sales was accounted for by bank credit cards (ungrouped average). If the airlines, rental car agencies and the motels were omitted the bank cards would account for only 3.56 percent of the total sales.

It was revealed by the survey that 87.5 percent of the sample merchants claimed their bank credit card program

TABLE X

RETAIL SALES BREAKDOWN FOR GREAT FALLS
(1970 ESTIMATES)

Category	Sales (Thousands)	Percent of Total Sales
Apparel	\$ 8,987	5.11
Automotive	39,000	22.19
Drugs	6,257	3.56
Restaurant and Bar	16,351	9.31
Food	38,261	21.77
Furniture	9,450	5.37
Gasoline	11,573	6.58
General Merchandise	22,884	13.03
Lumber and Hardware	11,629	6.62
Other	11,363	6.46
Total	\$175,755	100.00

Source: Market Guide, p. 270.

increased their total sales (Table XI). A small majority of these merchants (57.5 percent) stated that the bank credit card was replacing their other forms of credit. They felt that the reason behind this switch lay in the fact that their customers found it more convenient to charge with their bank credit cards and thus consolidate their bill payments.

TABLE XI

QUESTIONS RELATING TO THE SAMPLE MERCHANTS •
BANK CREDIT CARD PROGRAMS

<u>QUESTION</u>	<u>ANSWER</u>	
	Percent Yes	Percent No
Does the bank credit card increase your total sales?	87.5	12.5
Does the bank credit card replace your other forms of credit?	57.5	42.5
Would you convert your entire credit function to bank credit cards?	52.5	47.5
Did you have to increase prices to cover your merchant discount fee?	10.0	90.0

Source: Forty sample merchants

Slightly more than half of the merchants (52.5 percent) declared that they would convert their entire credit function to bank credit cards. They stated that it would be cheaper for them to handle only bank credit cards and by doing so it would increase their cash flow by converting their accounts receivable into instant cash. The 47.5 percent who were against the total conversion stated that they desired a more personal relationship with their clients and they felt that their own credit cards accomplished

this goal. Another reason against the conversion was that some of their customers could not qualify for or did not like bank credit cards.

Ninety percent of the merchants interviewed alleged that they had not increased their prices to compensate for the merchant discount which they had to pay on all their bank credit card sales. They stated that they had not increased their prices because they had to remain competitive.

When asked why they became affiliated with a bank credit card program the sample merchants' responses could be summarized under six main reasons (Table XII). The largest percentage of the merchants declared that they had joined in order to provide a customer service. This answer was also cited by many of the other merchants as a secondary reason for accepting bank credit cards. The threat of competition offering a bank credit card plan encouraged twenty-five percent of the merchants to associate with the bank cards. The fact that bank cards made available a potentially larger credit market induced fifteen percent of the merchants to become affiliated with bank cards. Twelve and one-half percent of the merchants joined because these cards offered a cheaper means of financing accounts receivable. A smaller percentage associated with bank cards because they were the only means of credit which they could offer. Finally, five percent of the merchants became affiliated

with bank credit cards because they provided a means of converting their accounts receivable into immediate cash.

TABLE XII

MAJOR REASONS WHY MERCHANTS ADOPTED
BANK CREDIT CARD PLANS

1. To provide a customer service	32.5%
2. Competition was offering a bank credit card plan	25.0%
3. The bank credit card offered a potentially larger credit market for retail sales	15.0%
4. The bank credit card was a cheaper means of financing accounts receivable	12.5%
5. The bank credit card was the only means of credit the merchant could offer	10.0%
6. The bank credit card provided a means of converting accounts receivable into immediate cash	5.0%

Source: Forty sample merchants

Information sought in the study concerned the percentage of the total retail sales in each business grouping which were accounted for by bank credit card retail sales. Each category was sampled until the findings were thought to be characteristic of that category. The findings were totaled and a weighted average was established (of the percentage of sales accounted for by bank credit card sales)

for each grouping based only on the data received from the sample merchants (Table XIII). The percentage of merchants in each grouping who were affiliated with a bank credit card plan was estimated (Column 1, Table XIV). These data were used to estimate the percentage of total retail sales in each grouping that were made by these merchants (Column 2, Table XIV). Adjustment was made to the original weighted average to reflect the entire retail community of each category (Column 3, Table XIV).

Segmentation of retail sales into ten categories was shown in the 1970 Market Guide. The food category was eliminated because the percentage of food sold on bank credit cards was insignificant. Only a few of the small retail food merchants were associated with bank credit card plans. Most of the food retail business is generated by supermarkets which operate on such a small margin that they cannot absorb the merchant discounts and still retain competitive prices.

The apparel field was expected to account for approximately five percent of the retail sales for Great Falls in 1970 (Table XIII). The merchants in this field stated that bank credit cards were used for 4.4 percent of their retail sales. This field is dominated by small, independent merchants who usually pay the maximum merchant discount fee because of their low volume. For this reason they do not usually encourage their customers to use bank credit cards

TABLE XIII

THE PERCENTAGE OF SAMPLE MERCHANTS' RETAIL SALES WHICH
WERE ACCOUNTED FOR BY BANK CREDIT CARD SALES^a

(1) Category	(2) Number Sampled in Category	(3) Percentage of Sales on Bank Cards	(4) Percentage of Great Falls Retail Sales	(5) Column (3) Times Column (4)
Apparel	4	4.4	5.11	22.48
Automotive	2	1.5	22.18	33.27
Drug	3	2.5	3.56	8.90
Restaurant and Bar	3	4.0	9.30	37.20
Food	0	0.0	21.76	00.00
Furniture	4	1.5	5.37	8.06
Gasoline	3	3.3	6.58	21.71
General Merchandise	4	3.3	13.02	42.97
Hardware and Lumber	3	1.0	6.61	6.61
Other	14	3.0	6.46	19.38
Total	32 ^b			200.58
Percentage of Sample Merchants' Bank Credit Card Sales				2.01 ^c

Source: Forty sample merchants

^aThe data shown in columns three, four and five are estimates.

^bThe eight merchants in the travel field (airlines, car rental agencies and motels) were omitted from the calculation because their weight in the Other category was not known.

^cRounded figure.

TABLE XIV

THE PERCENTAGE OF RETAIL SALES ACCOUNTED FOR BY BANK CREDIT CARDS IN GREAT FALLS

Category	(1) Percent of Merchants Honoring Bank Credit Cards	(2) Percent of Volume Generated by Column (1)	(3) Adjusted Percent Bank Credit Card Sales	(4) Percent of Great Falls Retail Sales	(5) Column (3) Times Column (4)
Apparel	100	100	4.40	5.11	22.48
Automotive	100	100	1.50	22.18	33.27
Drug	100	100	2.50	3.56	8.90
Restaurant and Bar	6	5	9.30
Food	5	1	21.76
Furniture	25	30	.45	5.37	2.42
Gasoline	100	100	3.30	6.58	21.71
General Merchandise	75	40	1.32	13.02	17.19
Hardware and Lumber	25	25	.25	6.61	1.65
Other	75	75	2.25	6.46	14.54
Total	56	52			122.16
Percentage of retail sales accounted for by bank credit cards					1.22

Source: Data are estimates based on merchant survey.

Note: All figures are estimates.

as a means of extending credit. Virtually all of the merchants in this category are affiliated with a bank credit card plan, therefore, the 4.4 percent shown in Tables XIII and XIV is considered a good estimate of the percentage of total apparel sales paid for by bank credit cards.

All of the automotive dealers have transferred their credit function for parts and service exclusively to bank credit cards. This will be the largest single retail sales category for Great Falls in 1970 (no adjustment was attempted to reflect the GM strike). The dealers stated that the parts and service portion of their business accounts for approximately twenty-two percent of their total sales, but only seven percent of this figure is paid by bank credit cards. Bank credit card sales, therefore, account for less than two percent of the automotive dealers total sales. The survey revealed that these dealers switched to bank credit cards primarily because it was a cheaper means of financing their accounts receivable.

The drug industry, which is expected to contribute only about 3.56 percent of the total retail sales for Great Falls in 1970, does very little of its business on bank credit cards. Only 2.5 percent of the sampled merchants' business were made on bank cards mainly because the average ticket sale was so small that customers were reluctant to use their credit and would pay cash. Approximately all of the drug stores in Great Falls offer bank card credit,

therefore, the 2.5 percent estimate represents the entire category. This study revealed that drug stores chose affiliation with bank credit card programs to provide an additional service for their customers.

The merchants interviewed from the restaurant and bar segment disclosed that four percent of their sales were made on bank credit cards. Although this category is expected to claim 9.3 percent of the total retail sales for Great Falls in 1970, less than five percent of the categories' total volume will be conducted by use of bank credit cards. Because of this figure, adjustment of the four percent estimate to reflect the average percent of sales accounted for by bank credit cards for the entire category would result in a very insignificant amount.

Approximately 5.37 percent of the total retail sales for Great Falls in 1970 will be for furniture. Merchants in this category stated that bank credit cards were used in only 1.5 percent of their total sales. Twenty-five percent of all the merchants in this category have a bank credit card program. These merchants account for thirty percent of the volume in this field, thus the overall categories' percentage of bank card sales is reduced to a low .45 percent. This figure is small because the average ticket size for this segment is higher than most and thus the merchant must pay quite a large amount, in absolute terms, for their merchant discount. This amount would cut excessively into

their profits so they do not encourage the use of bank credit cards. These merchants offered this form of credit primarily as a convenience to their customers.

Approximately 6.58 percent of the retail sales for Great Falls in 1970 will be made in gasoline service stations. Bank credit card sales accounted for an estimated 3.3 percent of the sample merchants business in this category. This figure is characteristic of the entire category because almost all of the gas stations in Great Falls honor bank credit cards. Oil company credit cards dominate this field and claim over ninety percent of the credit extended.

General merchandise is a category which consists mainly of department store sales. These stores will account for about 13.02 percent of the retail sales for Great Falls in 1970. The sample merchants in this category stated that 3.3 percent of their sales were made on bank credit cards. About three quarters of the merchants in this category offer bank card credit but these merchants claim only about forty percent of the available general merchandise sales. Over half of the larger merchants in this category (Penneys, Wards, Sears, and the Paris) extend credit only on their own cards. Based on the above mentioned estimates 1.32 percent of sales for this entire segment would be made by use of bank credit cards.

The hardware and lumber sample merchants stated that only one percent of their sales were written up on

bank credit cards. This segment will comprise about 6.61 percent of the total retail sales for Great Falls during 1970. The hardware portion of this segment is similar to the drug category in that the average ticket size is small and customers are reluctant to use credit. The lumber yards deal basically with builders who have credit accounts with them and thus use very little bank card credit. Only about twenty-five percent of the merchants in this category have bank card programs so an adjusted figure of .25 percent is an estimate of the portion of sales made on bank credit cards for the entire category.

The other category is a residual grouping and will account for approximately 6.46 percent of the total 1970 retail sales for Great Falls. This classification mainly includes small, independent merchants who offer bank credit cards as their only means of credit. A large number of merchants in this category were sampled because it does contain many divergent fields of business.

Eight of the merchants surveyed in this category were related to the travel field. Both airline clerks stated that thirty percent of their sales were made on bank credit cards. The car rental agencies claimed twelve percent bank credit card sales while the hotels and motels asserted that bank cards were responsible for 7.2 percent of their sales. Sales figures could not be obtained for any of these travel segments so a weight could not be assigned to their

figures. It is believed, however, that this segment accounts for a sizable portion of the sales for this category and the adjusted figure for this entire category reflects their averages.

The other merchants interviewed in this last category were mainly small, independent single proprietorships. These merchants stated that about three percent of their total sales were attributed to bank credit card sales.

It is estimated that approximately seventy-five percent of the merchants in this category are affiliated with one or both bank credit card plans. This would mean that approximately 2.25 percent of the sales in this category were made on bank credit cards.

Summary

The merchants comprising the sample revealed that two percent of their sales were accounted for by bank credit cards. Approximately fifty-six percent of the total number of merchants in Great Falls are affiliated with one or both bank credit card plans. These merchants account for an estimated fifty-two percent of the total retail volume, therefore, approximately 1.22 percent of the total sales in Great Falls for 1970 will have been financed by bank credit cards.

It is felt, however, that the figures just presented were understated due to errors in estimating and sampling.

There are approximately four hundred and thirty-five bank credit card affiliated merchants out of about six hundred total merchants in Great Falls. This would mean that an estimated seventy percent of the local merchants are affiliated with a bank credit card plan. It is believed that these merchants account for approximately sixty percent of the retail volume. This would require an adjustment of the bank credit card share of total sales upward to around 1.40 percent. If they account for seventy percent of the retail volume then the bank credit card share would increase to 1.60 percent. If eighty percent of the retail volume were accounted for by bank credit card affiliated merchants then the share would increase to an estimated 1.85 percent.

If the estimate for the percentage of sales accounted for by the bank credit card affiliated merchants in the general merchandise category was thirty percent instead of the forty percent previously mentioned, the bank credit card share of total sales would decrease to 1.18 percent. On the other hand, if the estimate were increased to sixty percent the bank credit card would account for 1.31 percent of the total sales.

The estimate for the other category may also be inaccurate. If the merchants in this category account for fifty percent of the retail sales instead of the estimated seventy-five percent, then the bank credit card would achieve 1.17 percent of the total retail sales for Great Falls.

In conclusion, it is estimated that seventy percent of the local merchants are affiliated with one or both bank credit card plans and the percentage of total retail sales accounted for by bank credit cards lies in the 1.10 to 1.85 percent range.

CHAPTER VI

SUMMARY OF FINDINGS

Impact of the Bank Credit Card on the Banking Community

Great Falls agent banks have issued over 25,000 bank credit cards since May of 1968. Total bank card credit outstanding for two local agent banks has increased from 4.51 percent of total consumer installment credit outstanding in January of 1970 to 9.66 percent in August of the same year. Total revenue for local bank credit card programs has exceeded forty thousand dollars during the first eight months of 1970. Two local agents showed modest profits from their operation while the remaining two banks recorded losses. The two banks experiencing unprofitable operations reported net yields from their bank credit card programs of a little over two percent. Therefore these plans do not rank highly in these banks' earning opportunities. These net yields, however, are expected to increase in the future as a higher proportion of bank credit card sales are put on the revolving credit plan. Sixty percent of the local bank credit card sales from two local banks are

presently put on the revolving plan and this figure is expected to increase to around eighty percent in the next few years.

Bank credit card retail sales have almost doubled since January of 1970 and they reached a peak in August of almost two hundred thousand dollars. In order to increase sales financed by credit cards the local banks will have to improve upon their rate of use of cards presently held. Two sample banks reported that only 12.78 percent of their cardholders could be considered active. This figure is expected to increase to around the national average of twenty percent in a year or less. One local bank is already approaching this figure.

Local bank credit card programs, though presently not a large scale operation, will steadily increase in their importance as a vehicle of consumer credit. This research has revealed that the next few years will bring increased cardholder activity and revolving credit usage thus higher net yields. The two agent banks that are incurring losses predict that their operations will be profitable in two years.

Impact of the Bank Credit Card
on the Merchant Community

Approximately seventy percent of the local merchants are affiliated with a bank credit card program. These

merchants generate an estimated sixty percent of the local retail sales volume. The percent of total retail sales accounted for by bank credit cards lies in the 1.10 to 1.85 percent range. Therefore, bank credit cards are responsible for only a very small portion of the local merchants total retail sales.

While almost ninety percent of the merchants interviewed contended that their bank credit card sales were increasing, only 52.5 percent stated that they would convert their entire credit function over to bank credit cards. Unless some changes are made, the bank credit card will be prevented from making further progress in the local as well as national merchant community. It is believed that merchant discounts will have to decrease so that bank credit cards will be competitive with major department store credit cards. Once this happens these larger volume merchants will offer bank credit cards as a supplementary means of credit to take advantage of the potentially larger credit market that these cards will make available. The smaller merchants would then also find bank credit cards more profitable and stress their use to a greater extent. Decreasing the merchant discount fee will increase the percentage of sales generated by bank credit cards and make available a more competitive means of consumer credit.

Recommendations for Further Research

Due to the limitations that were imposed upon this topic, it is not believed that there are many aspects of the bank credit card that deserve additional research. Possible areas of consideration, however, are:

(a) A feasibility study on bank credit cards and the Armed Forces Base Exchange System.

(b) A feasibility study on methods of generating revenue from the convenience user of bank credit cards.

(c) The effects that legislation has and will have on the progress of the bank credit card.

(d) The designing of a national bank credit card sales authorization system.

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APPENDIX A

THE QUESTIONNAIRE SUBMITTED TO LOCAL AGENT BANKS

1. What type of relationship do you have with Master Charge (BankAmericard)?
 - a. Who gets the merchant discount?
 - b. Who carries the service charge?
 - c. Who issued the cards?
 - d. Who recruited the cardholders and merchants?
2. Which of the following credit card services do you offer your cardholders?
 - a. Limited revolving line of credit?
 - b. Instant cash?
 - c. Check-cashing guarantees at member merchant outlets?
 - d. Automatic overdraft privileges for an overdrawn checking account?
3. What services do you offer your merchants? Do you provide them with a mailing list of your cardholders for promotional purposes?
4. How many cardholders and merchants are affiliated with your credit card plan?
5. Which of the following reasons were instrumental in your decision to adopt a bank credit card plan?
 - a. Information reflecting the fact that already established plans were profitable.
 - b. View that credit cards were a first step toward the electronic funds transfer system.
 - c. The fear of exposing your commercial and individual accounts to competition from a bank that offers a bank credit card plan
 - d. The ability to offer a new bank service without a major investment.

- e. The ability to penetrate new customer and merchant markets.
- f. Increase the opportunities for promoting other bank services.
- g. Uphold the banks reputation for being an innovator.

What was your major reason?

- 6. When did your present plan become operational? Why did you select one plan over the other plan?
- 7. Was any market study done before your plan was adopted?
- 8. How much did your plan cost originally? How much does it cost now per month?
- 9. Which of the following did you receive for your leasing payments?
 - a. An operations manual.
 - b. Advertising and public relations guidance.
 - c. A credit card computer program or computer services provided by your franchisor.
- 10. I need the following monthly data (1969-70) for analysis purposes:
 - a. Total consumer installment credit outstanding.
 - b. Total credit card credit outstanding.
 - c. Total credit card retail sales and cash advance volume.
 - d. Total credit card revolving lines of credit.
 - e. Total revenue from the credit card plan (broken down into the following categories).
 - (1) Merchant discounts.
 - (2) Service charge on cash advance.
 - (3) Customer service charge.
 - (4) Merchant membership fees.
 - (5) Other income.
 - f. Direct costs for your credit card plan.
 - g. Losses (charge-offs).

11. What percent of your total loanable funds is absorbed by your credit card program?
12. How does the credit card rank in comparison to the bank's other investments?
13. How long will it (or did it) take your plan to become profitable?
14. Did you transfer any of your small loan function to the credit card program? If so, did you realize any cost savings?
15. Is the cash advance a big feature of your plan? Is it increasing in importance?

Questions pertaining to your cardholders:

1. Have you done any studies on the characteristics of your cardholders?
2. What are the important characteristics you demand your applicants to possess before they can become cardholders?
3. What method was used to obtain cardholders? If mass mailings were used, were pre-mailers sent out? Were mass mailings essential to obtain the desired share of the market? Did you utilize any mailing lists?
4. What is the average line of credit extended to your cardholders? What process does a bank go through to determine an individual line of credit? What is the floor limit on purchases before a check is run on the cardholder?
5. What percent of your cardholders are considered active? (Used their card in the prior month.) Is this percentage increasing?
6. How much is the average credit card purchase? Is this amount increasing?
7. How much is the average monthly credit card statement? Is this amount increasing?
8. What percent of your credit card sales are put on the revolving credit plan? Is this percent increasing?

Questions about merchant members:

1. How are merchants selected?
2. How are the merchants differentiated as far as merchant discount fees are concerned? Who receives the largest and smallest discounts? How much is the average merchant discount?
3. What percent of your merchants operate in the following fields?
 - a. Gas stations.
 - b. Hotels and motels.
 - c. Restaurants.
 - d. Other retail.

APPENDIX B

THE QUESTIONNAIRE SUBMITTED TO LOCAL BANK CREDIT CARD AFFILIATED MERCHANTS

1. What discount do you pay on your bank credit card sales? Do you feel that this amount is excessive?
2. What percentage of your sales are made on credit? What percentage of your sales are accounted for by the bank credit card sales? Does the presence of a bank credit card plan tend to increase your credit sales or merely replace your other forms of credit?
3. What does it cost you to run your own credit operation? Would you consider converting your entire credit operation over to bank credit cards?
4. Does the merchant discount tend to be inflationary and exert an upward pressure on your prices?
5. Was any of the following the major reason behind your adoption of your bank credit card program?
 - a. Conversion of accounts receivable into immediate cash.
 - b. Fear of losing customers to competitors who offer bank card credit.
 - c. The bank credit card was a cheaper means of financing your accounts receivable.
 - d. To provide a customer service.
 - e. The bank credit card offered a potentially larger credit market.
 - f. The bank credit card was the only means of credit which you could offer.

APPENDIX C

LIST OF MERCHANTS INTERVIEWED

Apparel:

Dale Stapp for Fashions
Kaufman's Clothing
The Petite Shop
Village Shoes

Automotive:

City Motors
Western Motors

Drug:

Oscos Drugs - Holiday Village
Skaggs Drug - Holiday Village
Western Drug - 10th Ave. South

Restaurant and Bar

Gordons Restaurant
Howards Pizza
The Red Lion

Furniture (and appliance):

American Furniture - downtown
Andy's
Carpet Furniture Barn
Montana TV and Appliance

Gas Stations:

Courthouse Chevron Station

76 - 620 57th St. South
Texaco - 2324 - 10th Ave. So.

General Merchandise:

Anthony's
Buttrey's - both stores
Coast to Coast
Gamble's

Hardware and Lumber:

Scheels Hardware
Walsh Anderson Lumber
State Lumber

Other:

Electric City Radio Supply
Happy House
Montana Photo - Holiday Village
Spencers
Strobel's A-Z Rental
Zales Jewelry Store - downtown
Airlines - Northwest Orient
and Western
Car Rentals - Avis and Hertz
Hotels and Motels - 400
Imperial, New Shasta,
Rainbow, and Sahara