

Providers' outsourcing arrangements

Introduction

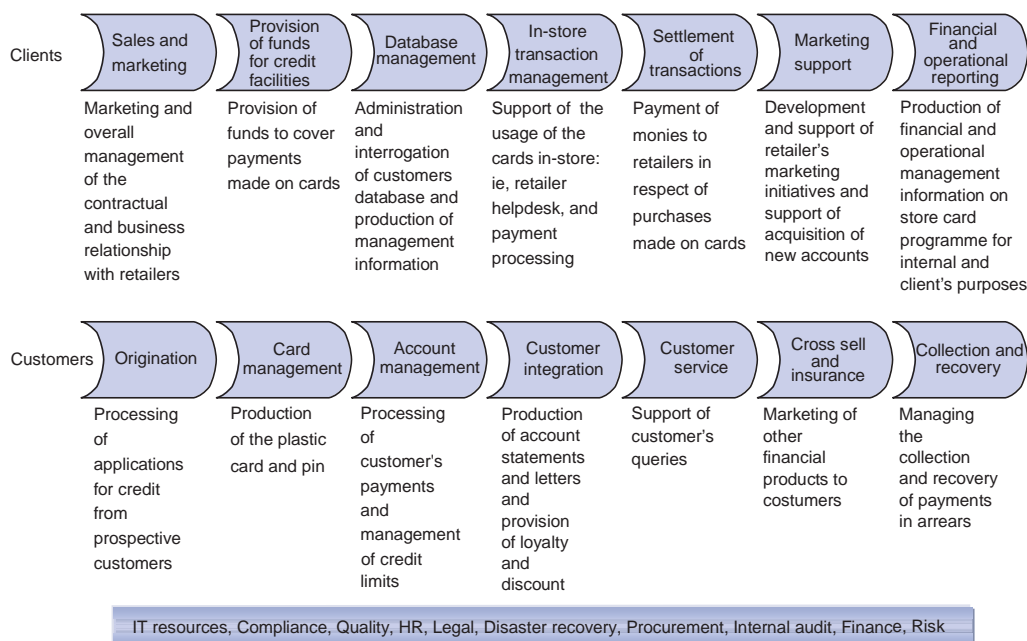
1. This appendix presents an analysis of the activities performed by providers to develop, market and manage store card programmes, vis-à-vis clients and customers, and outlines which activities are outsourced and to whom.
2. The analysis covers four providers: [X]
3. The appendix summarizes the activities providers perform for clients and customers, describes the main tasks constituting each activity, provides a classification of activities, outlines current outsourcing arrangements by provider and concludes with a summary of providers' approaches to outsourcing.
4. We have not tried to assess whether providers' outsourcing approaches are in line with and support their overall business strategy, nor have we analysed the impact of outsourcing arrangements on providers' operational efficiency and profitability.
5. Main parties and some outsource providers (ie, Experian and Equifax) have told us that the minimum requirements for a hypothetical new player to enter the store card sector would be access to finance, knowledge of the retail sector and capabilities in relationships management. Our analysis of providers' approach to outsourcing supports this view—and in practice providers keep in-house all activities related to these capabilities. These include: the marketing and management of the contractual and business relationship with retailers, the provision of funds for credit facilities, the development and support of retailer's marketing initiatives, the production of financial and operational management information on store card programmes, credit risk policy and analysis, and the cross-selling of other financial products to costumers.

Providers' activities

6. Figure 1 illustrates the main activities providers perform to supply store cards and store card services to clients (retailers) and customers.

FIGURE 1

Providers' activities



Source: CC analysis based on main parties' submissions.

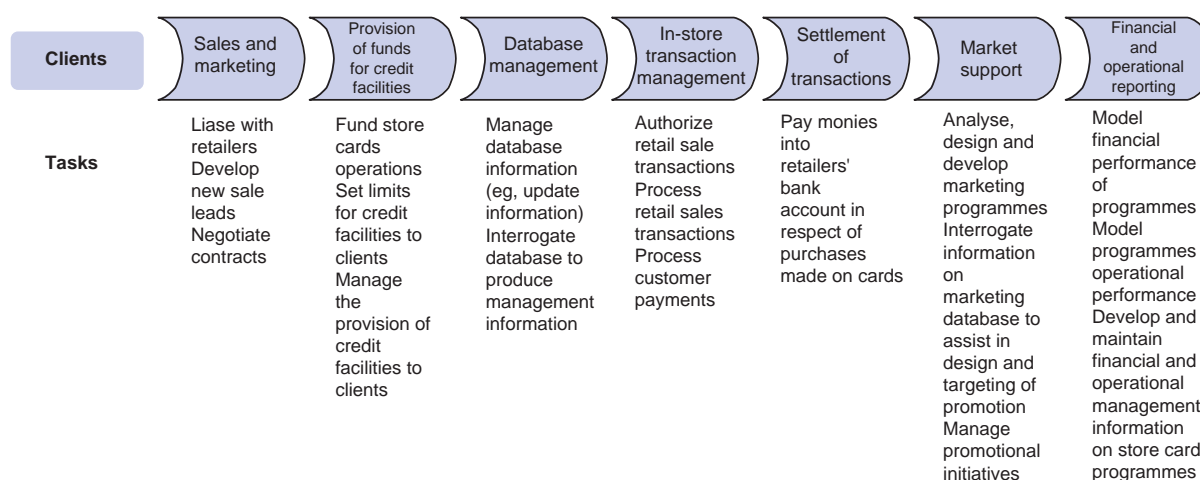
Note: General activities are presented here for completeness but will not be analysed further.

Main steps of activities performed for clients

- The activities performed by providers for clients and customers are composed of a set of tasks. Providers can decide to outsource a whole activity or some tasks.

FIGURE 2

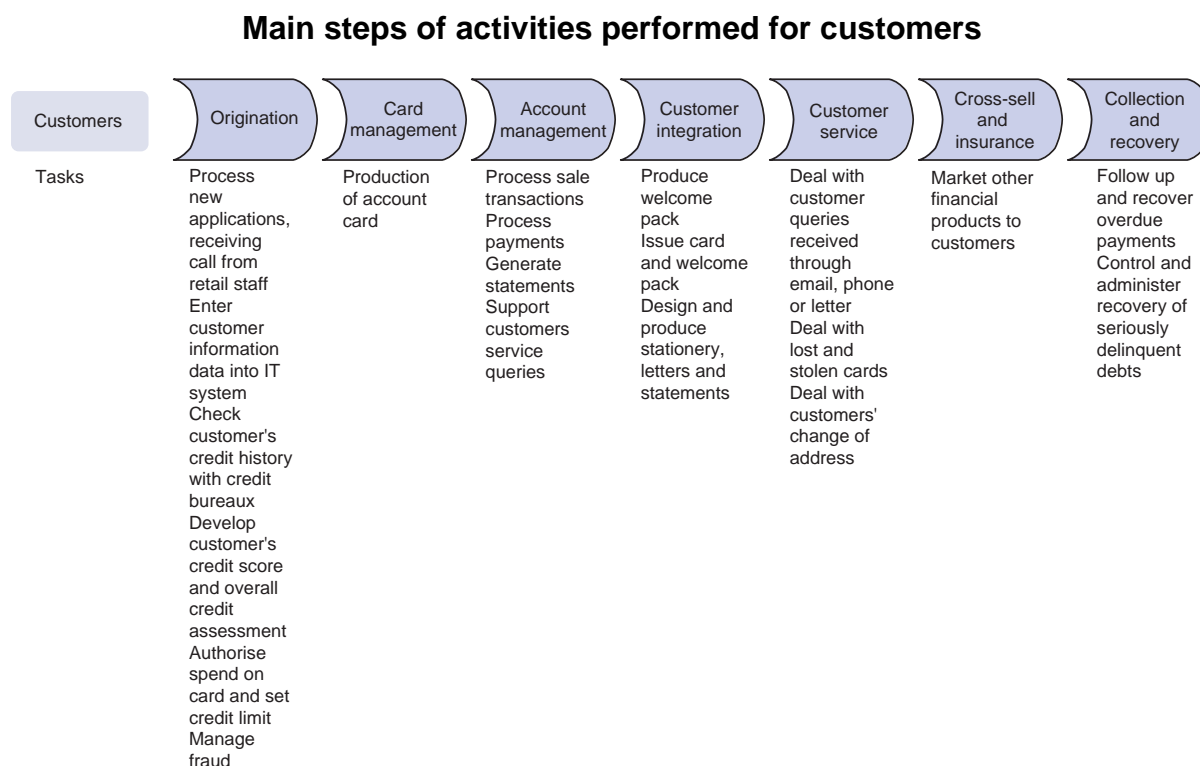
Main steps of activities performed for clients



Source: CC analysis based on main parties' submissions.

Main steps of activities performed for customers

FIGURE 3



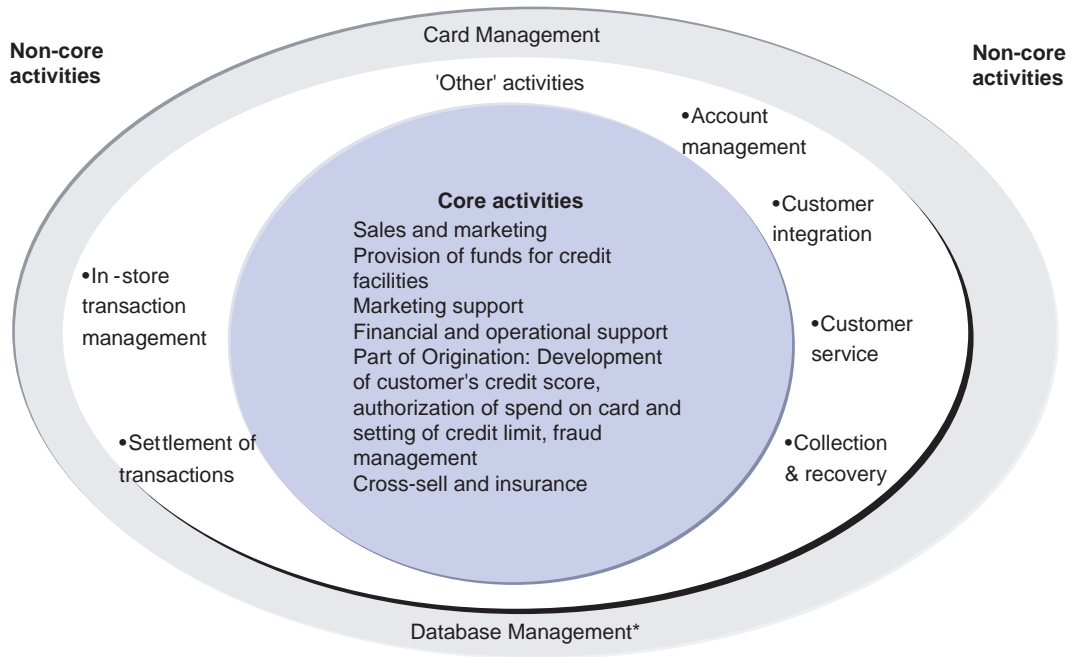
Source: CC analysis based on main parties' submissions.

Core, non-core and 'other' activities

8. Our analysis of current outsourcing arrangements shows that some activities are run in-house by all providers and others are outsourced by all (or virtually all) providers.
9. We have defined the former as Core activities, or activities which reflect providers' core competencies, and the latter as non-core activities or activities which are not considered as being part of a provider's core competencies.
10. We have classified as 'other' a group of activities in relation to which providers have made different strategic choices, with some providers deciding to outsource them while others perform them in-house or plan to perform them in-house.
11. 'Other' activities include: In-store Transaction Management, Settlement of transactions, Account Management, Customer Integration and Customer Service.

FIGURE 4

Groups of activities

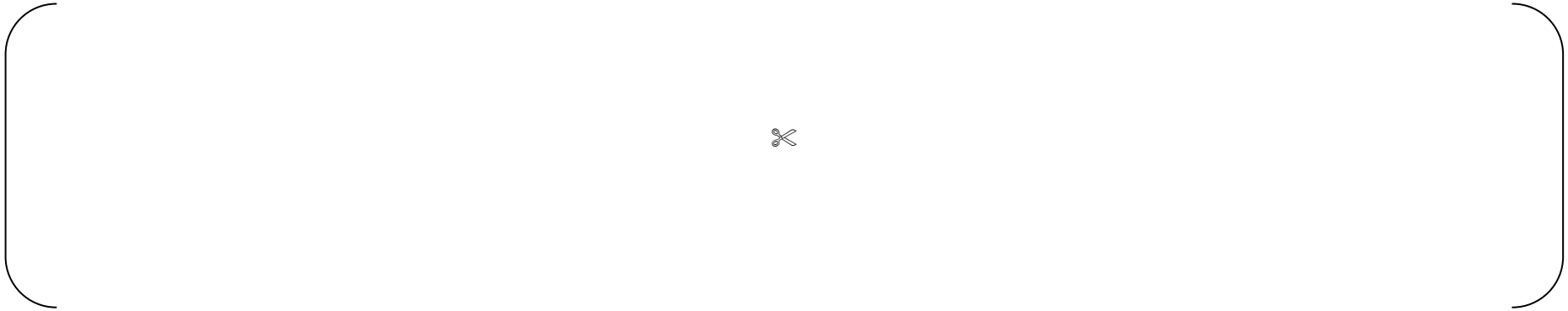


Source: CC analysis based on main parties' submissions.

*Only [X], who considers CRM its key differentiating factor, keeps all database management activities in-house.

FIGURE 5

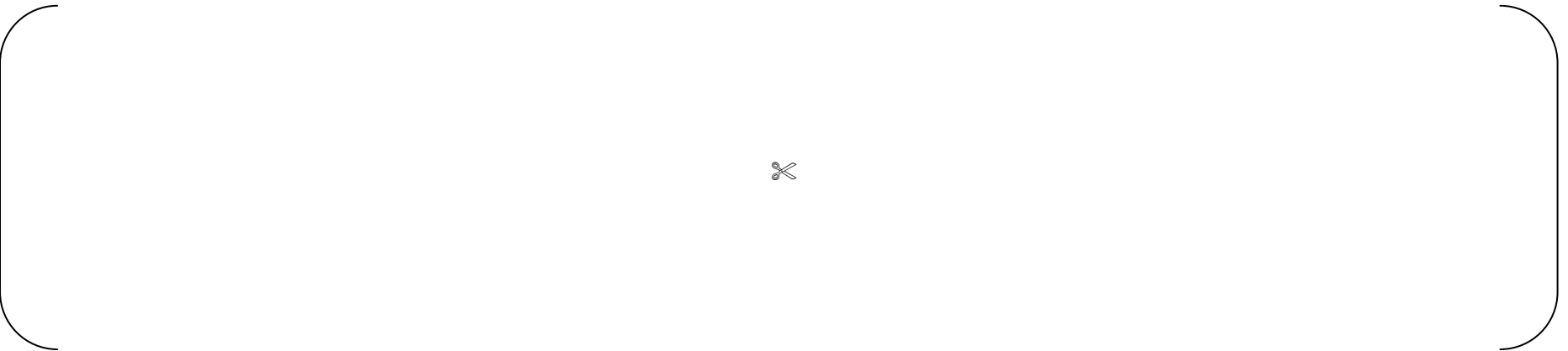
Outsourcing arrangements by provider



Source: CC analysis based on main parties' submissions.

FIGURE 6

Outsourcing arrangements by provider

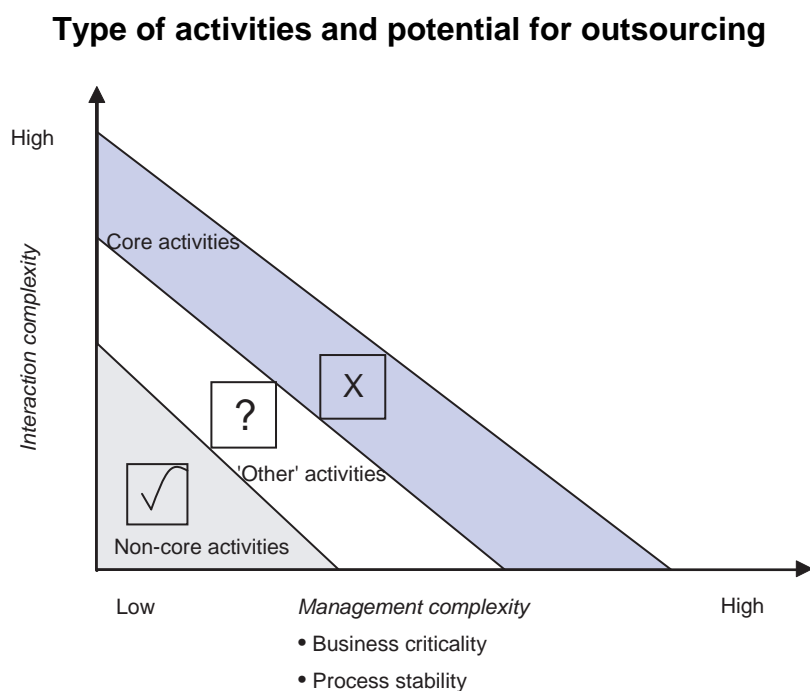


Source: CC analysis based on main parties' submissions.

Conclusions

12. All four providers retain direct control over the marketing and overall management of the contractual and business relationship with retailers, the provision of funds for credit facilities, the development and support of retailer's marketing initiatives, the production of financial and operational management information on store card programmes for internal and client's purposes, the origination of applications (credit risk policy and analysis) and the marketing of other financial products to customers.
13. These are activities that are core to the business, require significant personal interaction, change frequently, or involve high levels of customization and, therefore, are not ideal candidates for outsourcing (see Figure 7).
14. Conversely, Card Management and Database management, activities with a very low interaction complexity, are outsourced by most providers. Only [X] and [X] perform these activities in house. [X] told us that it aimed to differentiate itself by offering a more bespoke CRM approach and therefore considered Database management a business critical activity.
15. Providers' approach to the outsourcing of 'other' activities, ie activities that lie in the middle of the spectrum of management and interaction complexity, varies (see Figure 8). [X] and [X] tend towards a mixed approach, outsourcing most of the development and management of IT systems supporting these activities but performing the activities themselves in-house, [X] outsources all 'other' activities and [X] plans to bring them virtually all in-house and is developing an IT system to support this strategy.

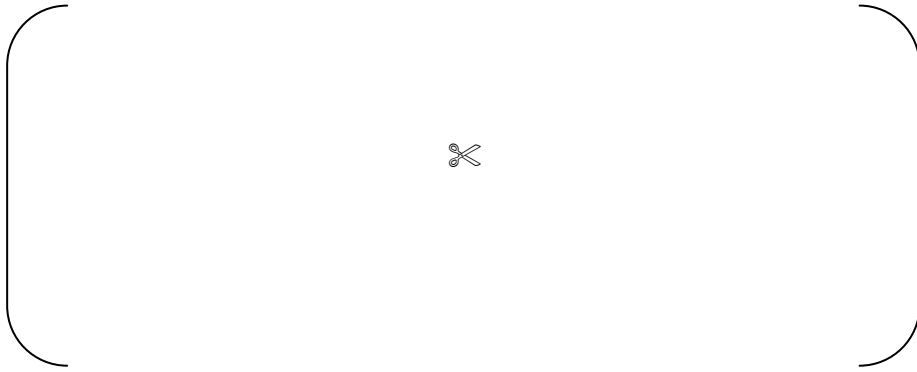
FIGURE 7



Source: CC analysis.

FIGURE 8

Use of outsourcing arrangements



Source: CC analysis of providers' data.