Buying Behavior of Credit Card Buyers

Keshav Agarwal, Anvi Suriya, Saumya Agrawal, RIa Marwah, Saanya Goel

Abstract:

Credit cards are an essential part of modern consumer finance, and understanding consumer buying behaviour related to credit card usage is crucial for banks and other financial institutions. The present study aims to explore the factors that drive credit card buying behaviour among consumers. The study used a factor analysis approach to identify the underlying factors that influence credit card usage behaviour. The data for this study was collected using a convenience sampling technique through a survey of 200 credit cardholders & students in India. The survey questionnaire included questions related to demographic characteristics, credit card usage patterns, and factors influencing credit card usage. The results of the factor analysis identified four key factors that influenced credit card buying behaviour. The first factor, labelled "Rewards and Benefits," was associated with the use of credit cards to earn rewards and cashback. The second factor, "Convenience," was associated with the ease and convenience of using credit cards for purchases. The third factor, "Credit Score Improvement," was related to using credit cards to improve one's credit score. The fourth factor, "Debt Management," was associated with using credit cards for debt management purposes. The findings of this study have several implications for credit card issuers and marketers. The rewards and benefits associated with credit card usage, such as cashback and rewards points, should be promoted to attract new customers and retain existing ones. Credit card issuers should also focus on providing a convenient and user-friendly experience for their customers. Additionally, credit card companies should educate consumers about the potential benefits of credit card usage for improving their credit scores and managing their debt. Therefore, the present study provides insight into the factors that influence credit card buying behaviour among consumers. The findings suggest that credit card issuers should focus on providing rewards and benefits, convenience, credit score improvement, and debt management to attract and retain customers. By understanding these factors, credit card issuers can develop strategies to better meet the needs of their customers and improve their overall satisfaction.

Introduction, Background and Scope:

Introduction:

Credit card usage has become an integral part of modern-day life, with millions of people worldwide owning at least one card. As a result, studying credit card buying behaviour has become crucial for banks and other financial institutions. Understanding the factors that influence credit card usage can help companies tailor their marketing strategies and improve customer satisfaction. Factor analysis is a statistical technique used to identify patterns in data. It helps to reduce a large number of variables into a smaller number of factors that are easier to interpret. In this report, we will use factor analysis to examine the factors that influence credit card usage.

Scope:

The scope of this report is to examine the factors that influence credit card buying behaviour using factor analysis. We will collect data from a sample of credit card users and use factor analysis to identify the underlying factors that influence credit card usage. Our study will focus on factors such as rewards, convenience, debt avoidance, status, and security.

Background:

Credit card buying behaviour has been the subject of many studies, with researchers examining various factors that influence credit card usage. Factors such as income, age, education, gender, and personality traits have been found to influence credit card usage. One of the most significant factors that influence credit card usage is rewards. Many credit cards offer rewards and incentives such as cashback, points, and discounts, which encourage consumers to use their credit cards more frequently. Research has shown that rewards are a significant motivator for credit card usage. Convenience is another factor that influences credit card buying behaviour. Consumers who find credit cards convenient tend to use them more frequently. The ease of use and accessibility of credit cards are essential factors that influence credit card usage. Debt avoidance is another factor that influences credit card usage. Consumers who are motivated by debt avoidance tend to use their credit cards less frequently. They are more likely to pay off their balance in full each month to avoid interest charges. Status is a factor that influences credit card usage. The social status associated with owning and using credit cards is an important motivator for some consumers. Credit card companies have capitalized on this by offering high-end credit cards that provide exclusive benefits and rewards. Security is another factor that influences credit card usage. Consumers who value security tend to use their credit cards more frequently. The security and protection offered by credit cards, such as fraud protection and liability coverage, are essential factors that influence credit card usage. Overall, studying credit card buying behaviour using factor

analysis can provide valuable insights into the factors that influence credit card usage. This information can help financial institutions to develop targeted marketing strategies and improve customer satisfaction.

Literature Review:

One of the earliest studies on the buying behaviour of credit card users was conducted by O'Cass and Grace in 2003. They used factor analysis to identify the factors that influence consumers' decision to use credit cards. Their results showed that four key factors influenced credit card use: convenience, reward points, interest rates, and credit limit. Convenience was found to be the most important factor, followed by reward points and interest rates. A credit card is a widely accepted form of payment that offers customers convenience, security, and various rewards. However, different customers may have different preferences for choosing a credit card. One of the most important factors affecting customer preferences for credit cards is the interest rate. Studies have shown that customers tend to choose credit cards with lower interest rates, as this can save them money in the long run (Rangaswamy & Bapna, 2006). Another important study was conducted by Lee and Kim in 2009. They used factor analysis to identify the factors that influence Korean consumers' credit card use. Their results showed that three key factors influenced credit card use: convenience, benefits, and interest rates. Convenience was found to be the most important factor, followed by benefits and interest rates. In addition, customers are more likely to use a credit card if they perceive the interest rate to be fair and reasonable (Chen & Lu, 2010). A study of Saudi Arabian Consumers (Kamal and Hassan, 2016) examined the factors influencing Saudi Arabian consumers' choice of credit cards. The findings revealed that interest rates, rewards, credit limits, and fees were the most critical factors affecting credit card selection. Additionally, the study found that demographic variables such as age, gender, and income influenced credit card selection. Another study on credit card preferences among Urban Indian Customers (Sengupta, 2016). The findings showed that cashback rewards, loyalty programs, and discounts on purchases were the most significant factors influencing credit card selection. Additionally, the study found that younger consumers were more interested in rewards and cashback offers than older consumers. A more recent study was conducted by Chua, Chang, and Teo in 2017. They used factor analysis to identify the factors that influence Singaporean consumers' credit card use. Their results showed that four key

factors influenced credit card use: convenience, reward points, fees and charges, and security. Convenience was found to be the most important factor, followed by reward points, fees and charges, and security.

Objective:

This study has been conducted with the following objectives:

1.   To understand consumer buying behaviour while purchasing credit card

2.   To investigate the important factors which influence the choice of credit cards in various age groups

3.   To provide some valuable suggestions with statistical data to increase consumer's knowledge

4.   Examine relationship of money attitudes, credit card use, age and gender on compulsive buying behaviour of Indian consumers & how it differs with western countries.

5.   This report will provide actionable recommendations for businesses to improve their marketing strategies and offerings to better serve their credit card customers.

Questionnaire Designing:

We started with formulating a research objective i.e. the attributes considered when purchasing a credit card. Next, we identified the target audience for the research. For us, it was the students who currently own a credit card or are considering getting one. Based on the research objective and target audience, we drafted a list of questions pertaining to various attributes linked to credit card buying decisions. We then reviewed the questions and refined them to ensure that they are clear, concise, as well as unbiased. Then, we finalised the questionnaire and created a Google Forms link. The factors we considered for the study are stated below:

1. Cashback
2. Lounge access
3. Fees/charges
4. Offers
5. Bank
6. Limit eligibility
7. Network (Visa/Mastercard/diners club/Rupay)
8. New/existing owner
9. Interest rates
10. Credit period
11. Markup fees in %
12. Co-branded car
13. Annual Percentage Rate (APR)
14. Loyalty points or Reward
15. Minimum Repayment
16. Introductory Interest Rates

Data Collection:

To collect data for studying the credit card buying behaviour, we used a combination of quantitative and qualitative research methods. The following are some of the methods that we used:

Surveys: Surveys are a common method used to collect data on any given topic. Surveys can be conducted online, over the phone, or in-person. We conducted our research through online survey. They are designed to collect data on a wide range of topics, including the frequency of credit card usage, the reasons for using credit cards, and the attitudes towards credit cards. Our data was collected using convenience sampling method through a survey questionnaire from a sample of 200 individuals. The survey consisted of 8 questions related to credit card usage and purchase behaviour. These questions covered various aspects, including demographic information, credit card features, rewards, fees, interest rates, and

customer service. We circulated the questionnaire among our peers and other college students i.e., our target audience.

Interviews: Interviews are another qualitative research method that was used to collect data on credit card buying behaviour. Interviews were conducted in-person as well as over the phone, and they provided more detailed insights into the motivations and attitudes of credit card users.

Secondary data analysis: Secondary data analysis involves using existing data sources to study credit card buying behaviour. This included analysing data from credit card companies, government agencies, or other sources that have collected data on credit card usage.

To ensure the accuracy and reliability of the data collected, it is essential to use appropriate sampling techniques hence, we used convenience sampling technique as well as used validated and reliable survey instruments. The sample size was 200 in order to ensure that the results are statistically significant and representative of the population of credit card users. Additionally, we ensured that the data collected was properly analysed using appropriate statistical techniques, such as factor analysis, to identify the underlying factors that influence credit card usage.

Modelling and Data Analysis:

In order to find out the main factors that people consider before buying a credit card, we conducted factor analysis. Factor analysis is a statistical technique used to identify underlying dimensions, or factors, that explain the correlations among a set of observed variables. In the context of purchasing a credit card, we are interested in identifying the key attributes that consumers consider when choosing a credit card. We began our data analysis by first converting the Likert scale responses to ranked variables, ranging from 1 to 5. We analysed the data using SPSS statistical software to find factors affecting the decision. In the software, we first entered all the attributes i.e., Variables in order to rename them. After renaming the variables, we selected the option of "Analyse". Under Analyse we chose Data Reduction and then clicked on Factor. We further selected 'Variables' under Factor analysis, under variables, we chose the 'Descriptive' option and then under correlation matrix, we clicked on 'Coefficients' and 'KMO and Bartlett's test of sphericity'. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity were performed to determine whether the data was suitable for factor analysis.

Table 1- KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.908
Bartlett's Test of Sphericity	Approx. Chi-Square	1129.116
	df	120
	Sig.	0

The KMO measure was found to be 0.908, which indicates that the data is suitable for factor analysis. Bartlett's test of sphericity was also significant at $p < 0.001$, indicating that the correlations between the variables were sufficient for factor analysis. For extraction, we chose the Correlation Matrix and for rotation we selected the Varimax Method. In addition to this, we used the Regression method for finding the factor scores. Scree Plot provided us with the number of factors (3 in our case) as these components had an Eigenvalue greater than or equal to 1. A scree plot is a plot of eigenvalues of factors arranged in descending order of magnitude from the left to the right side of the plot.
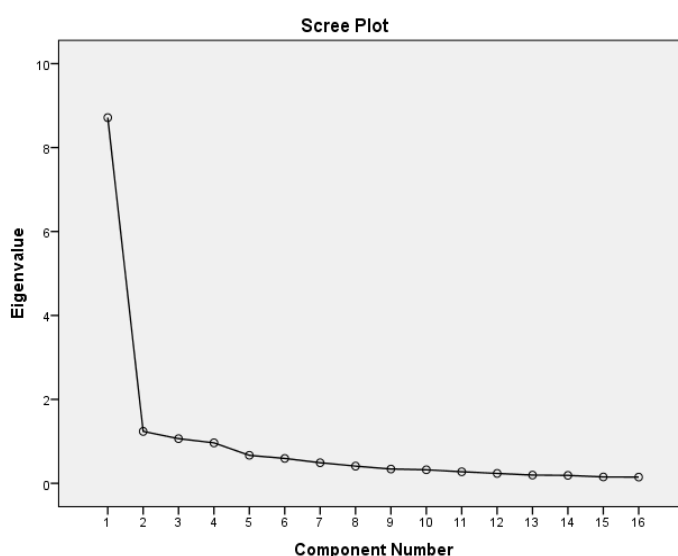

Figure 1

Further, we used the Component Score Coefficient Matrix which helped us to categorise the attributes into 3 major factors by taking the highest value of component in each attribute and categorising them into the respective component (factor).

Table 2

Component Score Coefficient Matrix

	Component		
	1	2	3
Cashback			0.431
Lounge_Access			0.538
Fees_or_Charges	0.338		
Offers			0.27
Bank	0.269		
Limit_Eligibility	0.224		
Network	0.177		
New_or_Existing_Owner			0.15
Interest_Rates	0.201		
Credit_Period	0.216		
Markup_Fees	0.188		
CoBranded_Card		0.301	
Annual_Percentage_Rate		0.356	
Rewards			0.17
Minimum_Repayment		0.361	
Introductory_Interest_Rates		0.348	

Table 3 – Ranking of Factors

1	2	3
Fees_or_Charges	CoBranded_Card	Cashback
Bank	Annual_Percentage_Rate	Lounge_Access
Limit_Eligibility	Minimum_Repayment	Offers
Network	Introductor_Interest_Rates	New_or_Existing_Owner
Interest_Rates		Rewards
Credit_Period		
Markup_Fees		

These factors were:

1.   **Bank and Charges:** The bank and the charges related to the credit card make up the first factor. The components included in this factor are –

a.   Fees and Charges – Amount of Fees and charges charged by bank annually, Quarterly or monthly w.r.t. the card issued (if any).

b.   Bank – The Bank issuing the card.

c.   Limit Eligibility – The Credit limit being offered to the customer.

d.   Network – The network on which the card is issued (visa/mastercard/diners club/etc).

e.   Interest Rates – The rate of Interest per month on Non/Late payment of Credit.

f.   Credit Period – The credit period offered by the card without interest (mostly between 20-50 days).

g.   Markup Fees – The fees (in %) levied on International transactions involving Forex.

2.   **Co-branding and Charges related to late payment:** The second factor is linked to the charges relating to late payment of credit, like

a.   Annual Percentage Rate of Interest – Annualised rate of Interest in case of non-payment of credit.

b.   Minimum Repayment amount – Minimum amount to be paid after statement generation to allow further usage of card.

c.   Introductory Interest Rates – Interest rates during the initial phase after issue, generally lower than the existing rates to promote usage of card.

d.   Co-branding of card – Partnering of bank with another company to issue a credit card generally with added benefits for spending on the issuing brand.

3.   **Credit Card Features and prior experience**: This factor Includes variables related to the features of credit cards, such as

a.   Cashback – Spend linked incentive wherein a certain percentage of spends is reimbursed to the card as cashback.

b.   Rewards – Points issued by banks as spend linked incentive, which can be used to purchase products/services, vouchers or convert to cash and reimbursed in the statement.

c.   Lounge access – Free access (minimum charge of Rs. 2 per entry) provided to access Railway or Airport lounge up to a certain limit.

d.   Offers – Purchase linked incentive wherein a product or service is offered at a discounted rate to users of a certain card or bank.

e.   Experience with credit card – Prior Experience with usage of Credit Card and its functioning.

These 3 major factors gave a total of 68.846 % of our variance as per Total Variance Explained Table. The Total Variance is shown in Table 4 below:

Table 4

Total Variance Explained

Component	Extraction Sums of Squared Loadings	Rotation Sums of Squared Loadings		
	Cumulative %	Total	% of Variance	Cumulative %
1	54.46	4.703	29.395	29.395
2	62.194	3.526	22.035	51.429
3	68.846	2.787	17.417	68.846
4				
5				

6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				

Findings:

Here are some of the key findings:

One of the most important factors that influences credit card buying behaviour is price sensitivity. This factor includes variables such as discounts, sales, and promotions, and it reflects consumers' willingness to switch brands or merchants in order to get a better deal. Another key factor that influences credit card buying behaviour is convenience. This factor includes variables such as location, store hours, and ease of payment, and it reflects consumers' desire for a hassle-free shopping experience. Many consumers are strongly influenced by brand loyalty when it comes to credit card purchases. This factor includes variables such as familiarity, reputation, and trust, and it reflects consumers' willingness to pay more for a product or service that they perceive as high quality. Consumers are also influenced by the specific features of the products or services they are considering purchasing. This factor includes variables such as design, functionality, and durability, and it reflects consumers' desire for products that meet their specific needs and preferences. Finally, credit card buying behaviour is often influenced by social factors, such as peer pressure, social norms, and cultural values. This factor reflects consumers' desire to fit in with their social group and to conform to social expectations.

Overall, factor analysis provides a useful tool for understanding the complex interplay of factors that influence credit card buying behaviour. By identifying these factors and exploring their relationships, researchers can gain insights into consumer behaviour that can inform marketing strategies and product development efforts.

Additionally, the results of the factor analysis suggest that the factors affecting the purchase of credit cards include credit card features, fees and interest rates and annual fees and charges. It can be observed that the cumulative percentage of component 1 comes out to be 54.46% which explains that approximately 54% of the target audience chose the first factor which is Fees and Interest Rates as the main reason they consider before buying a credit card. Hence, Credit card companies should focus on improving this factor to attract and retain customers. The results of this analysis can also be used to develop targeted marketing strategies to attract customers based on their preferences and needs.

Conclusion:

In conclusion, factor analysis can provide valuable insights into the factors that influence credit card buying behaviour. By identifying the key factors that shape consumer decisions, researchers and marketers can gain a better understanding of how to appeal to customers and develop effective marketing strategies. Price sensitivity, convenience, brand loyalty, product features, and social influence are all important factors that play a role in credit card buying behaviour. Consumers are often looking for the best deal, but also value convenience and brand reputation. Additionally, product features and social influence can also impact purchasing decisions. By considering these factors and understanding their interplay, businesses can develop effective marketing strategies that appeal to their target audience and build customer loyalty. Ultimately, understanding credit card buying behaviour is crucial for any business that wants to succeed in the competitive marketplace.