

Table 3-6
U.S. Market for Debit Cards, Purchase Volume, 2003–2007
(in millions of dollars and percent change)

Year	Dollar Volume	Percent Change

Compound Annual Growth Rate (CAGR) = 21.5%
Source: Packaged Facts

It must be noted that debit card purchase volume and credit card receivables are not strictly comparable, although they do illustrate consumers' payment preferences. In addition, growth in the debit market involves increased usage in certain payment categories in which store cards do not typically compete. Packaged Facts' research shows that just about all of the major issuers promote the use of debit cards for automatic or manual payment of recurring bills of the basic varieties such as cable, telephone, insurance, wireless, Internet, and utilities. Everyday purchases like groceries, gasoline, and drugstore items are also becoming a mainstay, and micro-tickets are also driving the market. Such expenditures do not encroach much on the traditional realm of the private-label credit card market.

Market Factor: The Economy

Drop in consumer spending drags down GDP

Real gross domestic product (GDP) decreased XX% in the third quarter of 2008 compared to the second quarter, the worst decline since the third quarter of 2001, during which time the 9/11 attacks occurred. GDP is defined as the output of goods and services produced by labor and property in the U.S.; it is considered the most accurate measure of the overall health of the U.S. economy.

Consumer spending accounts for XX% of the GDP. Indeed, the third-quarter dip reflected a sharp downturn in personal consumption expenditures (PCE) of XX%. MarketWatch.com and CNNMoney.com report this to be the first such decrease since 1991, and the largest since 1980. Durable goods, a category that includes furniture and household equipment, plunged XX%. Every segment of every category contributed to the decline in consumer spending.

[Tables 3-7 and 3-8; Figure 3-4]

Target's "best of both worlds" sends mixed message

The branding of Target, and the marketing of the brand, has been nothing short of brilliant. The chain's claims of duality—"upscale discounter," "Expect More, Pay Less"—are borne out in everything from its attractive, shopper-friendly store layout to its product mix that includes exclusive designer merchandise to its attractive prices. Target has effectively positioned itself against the likes of Wal-Mart and Kmart on the one hand and JCPenney, Sears, and Kohl's on the other (i.e., "cheap chic").

One problem for the chain in a declining economy is that price-fixated shoppers have retreated from "chic" and its connotations of costliness and flocked to "cheap" and its connotations of, well, cheap. As the Minneapolis-St. Paul *Star Tribune* observed, in the past year Wal-Mart has become "a magnet for tightfisted consumers who don't want to pay even pennies more for a tube of toothpaste" (December 15, 2008).

Aggressive price promotions spur sales, but erode profits

Facing quarterly sales losses in the double digits, retailers have been slashing prices with increasing vigor. Shortly after the disappointing 2008 back-to-school season, Home Depot started slashing prices by as much as XX% on about XXX of its roughly XXX SKUs. Macy's offered its "lowest prices of the season" during a one-day, pre-Thanksgiving sale. Kohl's Thanksgiving weekend sale offered XX% discounts.

Other stores have relaxed their financing deals; Sears, for one, has reinstated its layaway program nearly 20 years after eliminating it. Office Depot and Chase Card Services launched a card-specific promotion in which customers who made a purchase of \$XX or more with their Chase Worklife Rewards Visa Credit Card on-site or online wouldn't have to make a payment until January 2010. Newly minted cardholders also received a \$XX bonus rebate after the first purchase.

"Doorbuster" bargains offered over the four-day Thanksgiving weekend that kicked off the 2008 holiday season successfully drove shoppers into stores—but the price cuts were so staggering, retailers' bottom lines will undoubtedly take a big hit. Furthermore, shoppers didn't browse but rather made careful and strategic purchases, and foot traffic peaked on Friday.

This jaw-dropping discounting is not sustainable for any length of time, and whether it is productive remains to be seen. Does the practice serve to re-accustom skittish consumers to