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BofA, Rivals Look to Get In on Groupon's Game

By ANDREW R. JOHNSON

Big banks, looking to drive cardholder use and scrounge up new revenue sources, are moving to out-Groupon Groupon by turning to deals services paid for by merchants and tailored based on customer activity.

The latest entrant into the merchant-deals game is [Bank of America](#) Corp., which is testing a service with employees in North Carolina, South Carolina and Nevada that delivers merchant offers directly to users within their online bank accounts.

The big differences: The deals are pegged to card activity and, instead of printing a coupon or downloading a bar code on a mobile phone that a retailer must scan, the customer opts into a deal by clicking on it within their list of purchase transactions. They redeem offers by swiping their debit or credit card at the merchant offering the deal.



Bloomberg News

Bank of America, which is using technology from Atlanta-based vendor Cardlytics, plans to roll the service out to all employees in mid-February but hasn't determined when to make it available to customers, Tara Burke, a spokeswoman for the Charlotte, N.C., lender, said Tuesday.

Customers "don't have to clip coupons," Ms. Burke said. "They're not [going] store to store to figure out who has the best deal. It's about deepening relationships with our customers."

Banks' fee income has been hampered over the past two years by new rules that cap debit-card swipe fees paid by merchants, customer opt-in requirements for some overdraft programs and credit-card regulations.

Many banks have scrapped or watered down debit-card rewards programs in response to the swipe-fee rules, which are expected to eliminate more than \$6 billion in annual revenue for big banks. Some are also trying to repair customer relations after tacking on new fees for checking accounts and attempting to charge cardholders for using a debit card.

Bank of America ignited a firestorm of criticism last year when it announced plans to charge customers \$5 in any month they made a debit-card purchase, a plan that Chief Executive Brian Moynihan recently said resulted in an "elevated" level of account closures. The bank eventually scrapped its plan.

"They're looking for ways to garner more revenue in the wake of having lost a lot of revenue opportunities over

the last year and a half and ... engender loyalty with consumers," said Madeline Aufseeser, a senior analyst with the research firm Aite Group LLC. "Loyalty in debit has obviously been hampered over the last year."

While so far not on par with the estimated losses from increased regulation, the revenue from the merchant-deals game could be a cash cow for banks: Aite Group last year estimated that merchant-funded rewards like the ones Cardlytics is offering to banks could generate \$1.7 billion in annual revenue for card issuers by 2015. Most vendors share a cut of a completed sale with a bank ranging from 5% to 10%, Ms. Aufseeser said.

[PNC Financial Services Group](#) Inc. and [Regions Financial](#) Corp. also use Cardlytics's system, said Scott Grimes, the vendor's chief executive. He declined to confirm whether his company is working with Bank of America.

Banks are going up against several daily-deals services, including [Groupon](#) Inc., LivingSocial and Gilt Groupe, offering consumers reduced prices at restaurants, department stores and other retailers. Unlike those services, which offer a discount at the time of purchase, Cardlytics's system delivers discounts in the form of cash back to the customer at the end of the month.

Companies like Cardlytics, as well as Cartera Commerce and FreeMonee, which are also pitching merchant-funded programs to banks, say their offers may have a higher chance of being redeemed because they are delivered to customers who have expressed an interest in similar retailers in the past.

Cardlytics's software allows merchants to tailor offers to target specific types of customers based on transaction data, said Mr. Grimes, formerly an executive with Capital One Financial Corp.

For example, a clothing retailer could offer 10% off to customers who have shopped at a competitor's store in the past several months within a certain ZIP Code. In addition to using cardholder-transaction data to target customers, it also uses online bill payments, Mr. Grimes said.

All transaction data are masked in such a way that doesn't identify cardholders, he said. BofA's Ms. Burke declined to discuss the specifics about how the service works but said Bank of America doesn't share customers' personally identifiable information with outside vendors or merchants.

About 500 merchants use Cardlytics's service, including Macy's Inc. and McDonald's Corp.

Under the Cardlytics system, offers are paid for by merchants, which hope the service will drive additional sales from new and existing customers, Mr. Grimes said. "We are able to bring their customers very valuable deals, much more valuable than you could ever do with debit interchange, at no cost to the bank," he said.

The service helps banks by tightening relationships with cardholders, he said. "We know as customers use our service they tend to become higher-quality online bankers," which "have lower attrition and tend to use [their] cards more and tend to be more receptive to cross-sell offers."

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