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# How to increase acceptance and use of debit cards in emerging markets

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### Problem

A “catch-22” scenario can be observed in emerging markets — as consumers are not asking to make debit card payments, merchants do not promote them.

### Solution

By leveraging the five-step framework developed by MasterCard Advisors, acquirers can drive growth by adopting an acceptance strategy to capture the shift in debit card spending.

Emerging markets have presented a dilemma for acquirers hoping to stimulate debit acceptance and card usage. Consumers in those markets can't find acceptance points at merchants, merchants don't see demand from consumers. Acquirers can disrupt this standoff by gradually building both acceptance and consumer demand. But first they need to understand the stages of debit card use and the stimuli underlying them. Getting that right will reduce the prominence of cash in emerging economies and increase financial inclusion.

Here's the “catch-22” of the payments scenario in emerging markets: On one side, consumers believe merchants prefer cash — a perception that would appear to be confirmed by the limited acceptance of debit cards. On the other side, merchants struggle with the financial benefit to themselves in accepting debit cards and don't see any convenience to consumers.

In this standoff, the missing actor is the acquirer.

Around the world, the number of debit card transactions is close to double the number of credit card transactions. In developed markets, debit transactions are notably higher than credit transactions in what might be called “everyday spend” categories, like groceries and transportation — purchases for which a consumer does not need to save or borrow. In emerging markets, these categories hold the greatest potential for acceptance expansion.

Widening the acceptance of debit cards is a gradual process, whether in emerging markets or in developed ones. It starts really simply: get consumers to make one debit card transaction, then make them aware of additional locations that welcome debit

Figure 1: Key Trigger Categories (Emerging Market)

Step	Key Merchant Categories by Stage	% of Population	Avg. # of Transactions per Month
0	No POS utilization	20–40%	0
1	<ul style="list-style-type: none"> <li>Planned one-off / large ticket: Travel &amp; household appliances</li> <li>No alternative: Internet</li> <li>Essentials: Groceries</li> </ul>	10–30%	1–3
2	<ul style="list-style-type: none"> <li>Fuel and do-it-yourself (DIY)</li> <li>Occasional grocery shopping</li> </ul>	20–30%	3–6
3	<ul style="list-style-type: none"> <li>Grocery stores</li> <li>Electronics</li> </ul>	10–20%	6–10
4	<ul style="list-style-type: none"> <li>Travel</li> <li>Socializing</li> </ul>	5–15%	10–20
5	Purchases wherever/whenever	0–5%	>20

Source: MasterCard Advisors analysis, 2013

In developed markets, debit transactions are notably higher than credit transactions in “everyday spend” categories

cards. Consumer research shows that, contrary to conventional wisdom, debit card payment maturity is driven by the number of merchant categories in which consumers are comfortable using their debit cards, not by the actual number of transactions completed.

**Figure 1** illustrates a consumer's journey from cash only (step 0) to debit devotee (step 5). In steps 0–1, debit usage is hampered by the lack of merchant acceptance. After the consumer's first purchase in "everyday spend" categories, steps 2–3, focus on categories that trigger broader acceptance opportunities given their size (trigger categories). In step 4, habitual users complete all their purchases in the "everyday spend" categories with debit cards and begin to expand their use to new categories like travel and socializing. In step 5, consumers expect to pay with debit cards for all transactions.

The structure of this analysis varies by country but, as a general rule, consumers move across the continuum one step at a time. Understanding where they are and the underlying consumer and merchant attitudes will help acquirers more efficiently target their sales efforts and value-added service offerings and identify specific actions to increase debit usage.

The five-step framework is also beneficial to acquirers in developed markets, with one big difference. In developed markets, card acceptance — and consequently usage — are more advanced than they are in emerging markets because steps 2–3 have typically been completed. The opportunity for applying the framework is primarily in the later steps of the model.

The opportunity for acquirers in emerging markets is in all five steps and can be efficiently tapped by applying the five-step framework as follows **(1)**:

**1 Understand consumer behaviors and attitudes.** Before acquirers can develop a strategy they must first determine spend characteristics by population and transaction counts for trigger categories. Start by distributing a country's population according to its place on the five-step framework. Then assess average transactions per month in each merchant category. This will begin to identify the most promising categories for acceptance.

In **Figure 1**, for example, fuel and do-it-yourself categories look most attractive from the perspective of population size. But travel and socializing have the most number of transactions. Acquirers will have to weigh other factors to identify the most important merchant categories — namely a consumer's experience, a merchant's mindset and how both shape market growth and card usage.

**2 Understand consumer experience at merchants.** Consider, for instance, information about acceptance and merchant preference based on the attributes described in **Figure 2**. Broken out by merchant category, these can determine point-of-sale penetration, card acceptance promotion at POS, success rate of electronic transactions and, finally, whether merchants are positive or negative about acceptance.

This kind of analysis establishes the acquirer's baseline for expansion opportunities. For instance, fuel may appear to be offering the best merchant experience, but other categories like grocery and food stores may offer bigger opportunities to improve consumer experience and subsequently spend.

**Figure 2**  
Overview of Acceptance, Signage and Attitude

**Figure 2: Overview of Acceptance, Signage and Attitude**

Merchant Categories	% POS Penetration	% Successful Transaction	% Visible Signage	% Negative Reaction from Merchant
Grocery and Food Stores	50–60%	45–55%	20–30%	20–30%
Fuel	70–80%	65–75%	50–60%	10–20%
Health and Personal Care Stores	30–40%	30–40%	10–20%	10–20%
Socializing	40–50%	40–50%	20–30%	30–40%

Source: MasterCard Advisors analysis, 2013

**3 Understand merchant perceptions of electronic payments.** For a deep understanding of the merchant experience, in-depth interviews should be conducted with merchants from targeted categories. The objective of the interviews would be to assess merchant perceptions of debit cards based on actual payments and real experiences.

Combining insights from both merchants and consumers creates a dynamic analysis that can address the question of acceptance — its drivers and its barriers. The goal, of course, is identifying whether the target merchant categories fall in the upper right quadrant (willing to accept cards) or the lower right quadrant (reluctant to accept cards) of **Figure 3**. Knowing the answer helps acquirers determine the factors driving card acceptance and usage.

**4 Understand revenue potential of categories.** The size of a category is the essential factor in developing an acquirer’s expansion plan for an emerging market. Current acceptance and usage levels by category, seen in the context of overall market size, are good proxies for estimating potential volume and transaction penetration — and for establishing targets.

**Figure 4** illustrates how acquirers can drive sales plans by defining categories by size (“tiers” 1, 2 and 3) and future growth. Both measures are given context by empirical card-usage data. Understood in this way, categories can drive an understanding of the revenue potential from acceptance and profit opportunity from acquiring activities.

**Putting it all together to develop the acquiring roadmap.**

Acquirers are always wrestling with the question of how to focus their efforts. Which categories are primed for acceptance? Which have acceptance transaction history and hold further revenue opportunity from high card use? Thinking in the steps described above guides acquirers in answering these questions.

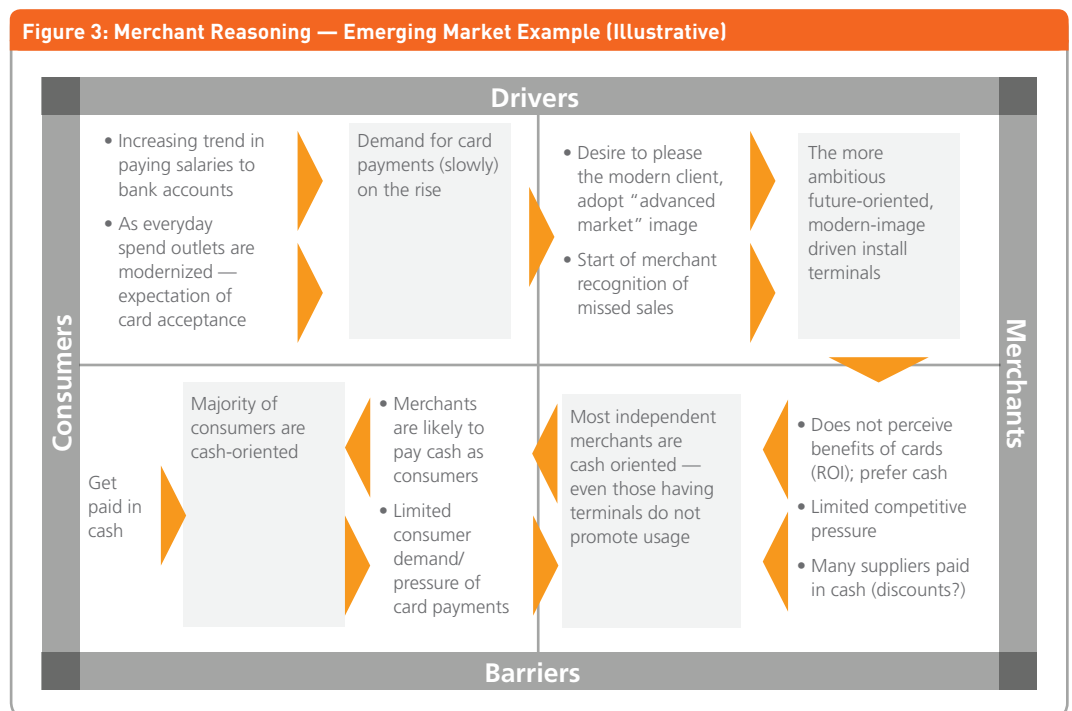
For example, in the emerging-market example, fuel appears ripe for higher use of debit cards. A big portion of the population — 20–30% — is expected to use debit for fuel merchants regularly and there’s favorable merchant experience: 70–80% POS penetration. And yet, usage appears to be low. Similarly, grocery may be the category where acquirers focus on driving acceptance — usage is high as reflected by a high number of transactions, but POS penetration appears low (50–60%).

The point is that, by combining dynamic analyses with an acquirer’s knowledge of its portfolio and capabilities, acquirers can not only create a very targeted list of tactical actions, but also create their longer term strategy.

There are several things acquirers should keep in mind as they plan to implement their strategy for driving debit card acceptance and usage in emerging markets:

**1 Incentivize first-time card usage** by running promotions with issuers. Leveraging the merchant base and the issuers’ customers (the target audience) creates a clear incentive to boost transactions at little or no cost to the acquirer.

**Figure 3**  
**Merchant Reasoning**  
**— Emerging Market**  
**Example (Illustrative)**



Source: MasterCard Advisors analysis, 2013

**2 Increase sales-force focus** to explicitly cover expanding debit-payment points. Normally, sales forces are largely dedicated to winning and retaining the largest current acquiring customers.

**3 Develop affordable acquiring packages** to drive merchant acceptance and preference. Take a holistic approach to the merchants total cost of accepting payments. This approach should bring together the right set of value-added services for each merchant category and eliminate the merchant's focus on fees.

For a long time, acquirers have sought to improve profitability by increasing debit card usage for point-of-sale transactions. It can be done efficiently with a thorough understanding of consumer and merchant attitudes and behaviors. The reward can be genuinely significant growth.

**SOURCES**

1. Drawn from emerging-market research conducted since 2012

Figure 4

**Market Size, Growth and Card Penetration**

**Figure 4: Market Size, Growth and Card Penetration**

Category	Category Size*	2010-2012 Growth	2013-2018 F/C Growth	Indicative Card-usage
<b>1</b> Grocery & Food Stores	Tier 1	Below CPI	Medium	Medium
<b>2</b> Fuel	Tier 1	Above CPI	High	Medium
<b>3</b> Health & Personal Care Stores	Tier 2	Negative	Low	Medium
<b>4</b> Socializing	Tier 2	Above CPI	High	Medium
<b>5</b> Clothing & Shoes	Tier 3	Above CPI	Medium	High

\* Estimate of category size: Tier 1 is significantly > than Tier 2, which in turn is significantly > than Tier 3

Source: MasterCard Advisors analysis, 2013