**FINGERHUT**

*A US retail chain specialized in marketing consumer goods (shoes, TVs computers etc.) to the low-income or “Bottom of Pyramid” segment. They maintained a large customer data base and mailed out customized brochures. Almost all the customer’s purchases were on credit. However, the terms of credit set by the store were such that the total payments made were much more than the cash price of the same goods in other stores, often more than twice as much. For example, the total payment for a pair of sports shoes was over $100 on a store credit plan, but the same shoes were available for $54 cash at another store. The retail chain also offered an (in-store) credit card to customers. To get this card, customers had to hand over their own cash in advance (e.g. $200) and the store would then in effect “lend” them back their own money to make “credit” purchases. The store charged the customer interest and fees on those purchases. The card user was therefore in effect agreeing to pay the store, in order to have an opportunity to raise their own personal credit-score (which is considered important in the USA in order to have access to yet other forms of credit). When a legal case was filed against the store, an executive insisted that the company was “socially conscious and ethical”.*

**Discussion**

The initial reaction is that this is an obvious case of unethical exploitation of the poor. The company makes the “poor pay more” so they become even poorer and inequality is thereby increased. It is another example of a dynamic that drives increasing economic inequality. Despite this, it is still possible to justify (i.e. explain and try to persuade people to accept) the viewpoint that the company “*is* socially conscious and ethical”. It is obviously a stretch, but it can be done.

**“We *are* Ethical”**

The viewpoint that the company is socially conscious and ethical can be justified by making systematic reference to selected *right*-poles of the stable framework, as follows:

* We are providing customers with a chance to own and use goods like computers that they simply cannot get anywhere else (due to their lack of *ability to pay*). For example, a customer might need to be well-equipped and dressed for a job interview. That is how we serve society.
* Possession of our products contribute to our customers genuine *well-being.*
* The customers are free to sign up or decline (*contractarianism, utility*). It is their own choice and we don’t use hard-sell tactics.
* The *information* about products and payments is made available prior to purchase.
* The same applies to the in-store credit card. It creates an *opportunity* for our customers to redeem themselves with respect to their credit history. Poor people need opportunities above all else.
* We are a profitable company serving our shareholders; we work hard to accumulate financial capital on behalf of our shareholders which can then be put to good social use later (*ethics later*). We didn’t design the system of Capitalism or business-as-usual and we cannot change it.
* The idea that people with bad credit histories pay more is fundamental to the history and theory of trade, finance and capitalism. The lender has to make judgements about the likelihood of repayment and the individual’s credit history is a valid indicator of this. The risk-premium simply covers the (statistical, expected) losses form this consumer market segment.

**“They are *not* ethical”**

The more obvious conclusion that the company is indeed *un*ethical and harmful to society can then be justified by making systematic reference to selected *left*-poles of the stable framework, as follows:

* The fundamental problem is that buying goods on credit for immediate consumption is harmful. The proper way to give poor customers access to goods like computers is to and encourage cash purchases with competitive cash prices. This is especially so if the desire for the “goods” was created by deceptive advertising. The current strategy is similar in some respects to that of a drug pusher: getting customers “on the hook” or “hooked”. An ethical company would stand against this limitation of markets and encourage saving and the virtue of patience. Credit purchases should only be offered for products that are likely to be used productively (computers, work-clothes etc.).
* As things are, the store is exploiting customer *preferences* and weakness-of-will in a way that is very likely to reduce harm the customers’ well-being, over time. By adding to customers’ debt they are fostering a psychological condition of “learned helplessness”.
* The company *does* use hard-sell tactics, with its tailored brochures and frequent mail-outs.
* The marketing tactics are *deceptive*: the company conceals or obscures the details of the cash price and credit payments in small print that is hard to find. More technically it is exploiting their purchasing heuristics and cognitive limitations: they are ‘framing by framing’ (Singer *et al* 1991).
* 5 The in-store credit card should not charge interest on the customers own money (see below).
* Overall, this company is *exploiting* the customers’ current lack of ability to pay, without compensating for any of the other KLMBS. It is not treating customers the way the managers themselves would like to be treated. It is also violating *Contractarian* justice principles by making the poor even poorer (i.e. “the poor pay more”).
* If the company was really “ethical and socially conscious”” it would understand that business, government, NGO’s and wealthy individuals should work together to try to ensure that all people have their basic health and survival needs met so they feel safe and empowered and able to pursue opportunities..

**Synthesis & ways forward**

In this case, there are several quite “obvious” practical ways of augmenting the business strategy, which would probably be acceptable to all the stakeholders.

* The store should make the terms of credit and total payments very clear. It should not be hidden in the small print.
* The store should require a larger cash deposit with only a small proportion on credit. Goods for short term consumption should be available cash only.
* Any justification for fees and interest would start with accurate disclosure of the marginal cost of the credit card operation, net of the additional interest income to the business. This would almost certainly reveal that the in-store credit card need not charge interest. The repayments should be at most “principal only”.
* The store should invite personal finance advisers to operate in the store. Help people to budget and establish priorities.
* The store should buy good low-end products in bulk (using the market power of a store chain) but should also try to enforce written terms of engagement with its suppliers to encourage them to follow ethical production practices,
* The company should engage in political activity intended to create a more just society where poverty is ended (see chapter 5). Furthermore, it is highly likely that a low-end consumer goods business would prosper under those social arrangements. For example, they would find that their target market has an increased ability to pay, whilst the business would no longer have to deal with private and public agencies that try to help poor individuals and families in case-by-case emergencies.