Factsheet: Margin creep

Margin creep is the tendency of companies to focus only on high-end and high-margin products, even if customers are more interested in value-oriented products and services. The margin of a product (or service) is the difference between its cost and the retail price. The higher the difference, the higher the margin. But a policy of margin creep is often not sustainable for the provider and can lead to long-term cost implications for the customer.

A few months ago, I got a call from a client who was booking a trade with Frank exXchange when a competitor called. He told them the details of the transaction and the rate we were quoting. The competitor then quoted a rate that saved my client £50, so he put them on hold and rang me to find out why.

Frank eXchange aims to show the time-stamped Inter Bank rate on all transactions, so I asked him to check their rate against this rate. It turned out that they were quoting below the market rate, which meant that they would lose money on the transaction, a position that was not sustainable for them.

As he had an account with the provider, I suggested he book the transaction with them as it was likely to be the best rate available on this occasion. But I also suggested that next time their quote would not be as good, which proved to be true.

Unfortunately, it is not uncommon practice among non-bank foreign exchange providers to call up, ask what rate you had on a previous transaction then give you a quote that makes your rate look bad, even if it means they lose money. Then, once you are trading with them, they expand the mark-up (margin) to make back the money they lost initially and maximise the profit on all their accounts. This is **margin creep**.

At Frank eXchange we do not engage in margin creep. Instead, we aim to show our mark-up on every quote, order and confirmation. This means our clients would know if we were constantly expanding our mark-up.