



enhance

In association with Priority Collection

for people involved in payment card marketing and product development

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MEET THE EDITOR



The Consulting Editor for Enhance is Roy Stephenson. A twenty-five year veteran of the card industry, Roy headed American Express card businesses in Europe and then Latin America and the Caribbean. Subsequently, he built a marketing consultancy which serves issuers and associations from Russia to South Africa and from Canada to Argentina, with most major markets in between.

Roy is a member of the MasterCard Global Advisors Pool, and is the author of *Marketing Planning for Financial Services (Gower, 2005)*. Visit his website at www.roystephenson.co.uk.

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Your best customers:

How to find and influence them

The search for the Holy Grail

How do I make more profit from the customers I already have?

Welcome to the launch issue of enhance

Around the world, the payment card industry is facing unprecedented competitive and regulatory challenges. Now as never before managers need to find marketing responses that are innovative and effective. Enhance is Priority Collection's contribution to the debate: every two months, we'll share our global experience and success with card marketers everywhere.

Our aim is to be relevant, thoughtful – and occasionally provocative. Our scope is worldwide: we are as interested in emerging markets as we are in those where the industry is said to be nearing maturity. Although our principal focus will be on personal cards, we will also have time for the challenges and opportunities faced by products designed for businesses.

Above all, we want to throw light on the practical problems and opportunities faced by today's card marketers. In whatever country you operate, whether your budgets are large or small, the challenges you face are essentially the same:

- How can I acquire profitable new customers more effectively?
- How do I make more profit from the customers I already have?
- How do I stop my most valuable customers defecting to my competitors?

Questions like these face marketers in most industries. The solutions they find often have potential for the card industry. Enhance will pick out the best and bring them to you.

Our first lead feature tackles the most fundamental issue of all: How do I reach my most valuable customers?

Roy Stephenson, Consulting Editor
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"Many card portfolios follow the 80/20 rule – that is, that 20% of account holders generate 80% of the profit... One study even found that 15% of customers generated 110% of portfolio profit" – the remaining 85% of customers actually lost the issuer money.

Your best customers: How to find and influence them

How times change. Not so very long ago, card marketers were judged by how many new accounts they generated. No-one checked whether they were profitable, or how long they stayed on the books. Bringing them in through the front door was enough – and if they did nothing while they were with us, or left through the back door not long after they'd arrived, well, we had quite enough to do getting them in the first place.

Those days have gone.

Today's smart marketers know, first, that not all customers are profitable: experience suggests that many card portfolios roughly follow the 80/20 rule – that is, that 20% of account holders generate 80% of the profit. (One study even found that 15% of customers generated 110% of portfolio profit). Second, they understand that it's cheaper to hang on to an existing customer than to acquire a new one. Best practice now focusses scarce marketing resources on:

- Attracting customers who are likely to be profitable
- Encouraging profitable account usage
- Targetting retention efforts only on profitable customers

But profitable isn't simply a question of counting the dollars and cents. Hand in hand with quantity of earnings must go quality of earnings. Opinion leaders in the card industry are coming around to the view that it's better to have a stable flow of income from loyal, financially secure customers than a high but erratic flow from cardholders who are likely to be tempted away by the next zero rate balance transfer offer. Hence the renewed interest in prime and super prime offerings – cards targetted at the mass affluent. Why? The numbers tell the story: according to the Nilson Report, in the US, premium cards make up only 1.5% of consumer credit cards, but account for 20% of spending. Average annual charges run at eight times the \$3,400 spend on mass cards.

Unfortunately, like many good things, focussing on the most valuable customers is simpler to say than to do. Just to start with, it means being able to define and calculate profitability right down to account level – and then make the results available to users as diverse as marketers planning future campaigns, and Retention Units dealing with customers in real time. Systems to accomplish this are available from specialist software providers, but they are totally dependent on data that is comprehensive, accurate and available. They also need to be fully and carefully integrated into user workflows. The difficulty and expense of making all this happen should not be under-estimated.



"The lesson is that diversity and responsiveness to customer needs have to be structured right into today's successful programmes."

The results, however, are formidable. With these tools, the marketer can identify, not only who his most valuable customers are, but how they behave and where to find them. Best of all, knowing where to find them, he can talk to them, and understand what they value, and what influences them to buy or use this card rather than that. And in this area there has lately been a good deal of controversy. Most recently, a survey conducted for Catalina Marketing suggested that customers rank price higher than any other element of the marketing mix. (*Marketing Week, 17 March 2006*).

Now, these surveys arrive as regularly as day follows night. But they rarely tell the same story. The reason for the conflicting responses? It's simple: different types of consumer want different things. As a sweeping generalisation, the more affluent customer prefers to be wooed with aspirational, lifestyle benefits, while the less well-off will be looking to make the housekeeping budget go further.

Beyond this comes another layer of complexity: even the better-off don't all want the same thing. Frequent travellers set a high store on comfort during a trip, while golf enthusiasts will be delighted at a chance to play a prestigious course. The lesson is that diversity and responsiveness to customer needs have to be structured right into today's successful programmes.

To sum up: All customers are not equal. It makes sense to concentrate limited resources on the best ones. A growing consensus agrees that "best" means profits that are stable as well as substantial. In the emerging flight to quality, the marketing advantage, as always, will go to those issuers who give their customers what they want.



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The search for the Holy Grail

On one thing, all financial services marketers are agreed: the importance of cross-selling. After all, the customer who trusts you enough to buy one product from you is at least open to the idea of buying another one. Should be easy, then. But is it?

Apparently not.

According to research conducted by CCB among a panel of 4,000 UK consumers, the bank most successful at cross-selling is Halifax – yet it has only managed to persuade 41% of its current account holders to take on a Halifax mortgage. The other major providers do worse. Only 28% of Abbey's current account holders have an Abbey mortgage; this figure drops to one-quarter for Alliance & Leicester; 19% for RBS; and 18% for NatWest. (*Precision Marketing, 31 March 06*).

The prizes for getting cross-selling right can be enormous: in the US, Wells Fargo attributes a truly astonishing 80% of its revenue growth to the sale of multiple products to each customer. The bank says its average retail customer uses 4.8 products, and its average business customer uses 5.7 products. Even this stellar performance falls far short of the potential. One survey recently suggested that "The average UK household owns ten to 12 financial products, of which key providers - that is, banks - provide, on average, 2.3." (*Precision Marketing, 20 January 06*). It's easy to see how selling just one more product on average would increase revenues by 50%.

So how to get from A to B? Try thinking of it in terms of the 3 Ps: Product, Process and Persuasion.

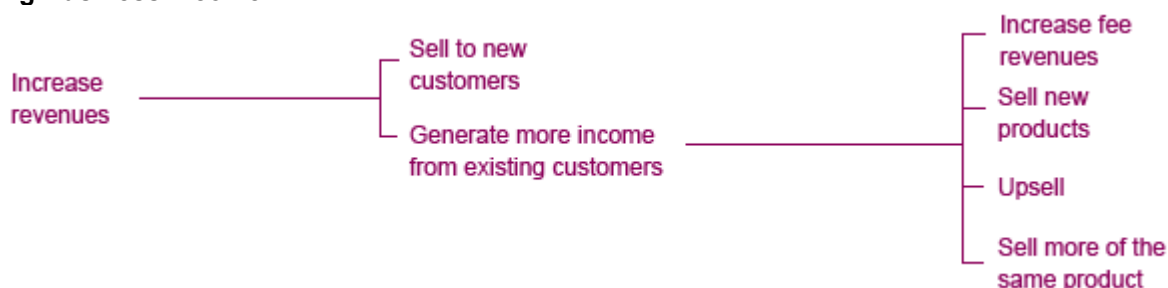
Product: Get the products – and crucially, the links between them – right: Barclays claim that their integrated Openplan proposition increased average customer holdings over 75% to 4.4 products per customer, and attracted 1 million Openplan customers in the first year.

Process: Time your pitch for when it's relevant to the customer. Make it easy to take up the offer. Know when to take No for an answer.

Persuasion: Make it in the customer's interest, by offering a price, convenience or added value benefit. Remember, the selling staff need to be motivated, too!

Worth doing? You be the judge: according to the Wall Street Journal, 20% of Citigroup's consumer bank revenues come from cross-selling.

Building Business Income



Coming next:
Maximise the return on your marketing budget:
what effective card marketing programmes all have in common.

In your experience

In this feature, we would love to hear from you: your successes, maybe your failures, your thoughts and questions on new trends in the industry. Of course, we will respect your commercial confidence, but if you have a case study or a point of view you feel you would like to share, this is your space.

We start with some comments from Sydbank in Denmark:

“For our upscale Platinum MasterCard launch, we were looking for a differentiator which would be unique in our market. After reviewing propositions from a number of providers, we selected Priority Traveller from Priority Collection: many of our potential customers are golfers and we knew this programme would appeal to them. Acquisition results have been excellent, and we have had to expand our original commitment to the product.”

Thanks to Malene Morsing, Project Leader at Sydbank.

And finally...

From the If Only Department

In Dubai, Finance House has launched a MasterCard with a simple value proposition: refer a friend and Finance House will give you 1% of his spend as a cash reward for the life of the account. Now, if only we had a friend like the American Express customer who spent US\$5 million in just one year...

Please contact me, Roy Stephenson, Editor at roy.stephenson@prioritycollection.com

Make sure your card
comes out first.



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