



enhance

In association with Priority Collection

for people involved in payment card marketing and product development

[Pass Enhance on to a colleague.](#)

Issue Three, November 2006

In The News

Pity the poor banker

There has probably never been a tougher time to be a banker. The pressure comes from all sides: from costs, from regulators squeezing income streams, from falling response rates.... And to these worries, we can add new competitors.

In the past few weeks, the UK has seen reports that supermarket giant Tesco is adding business cards and medical insurance to its existing comprehensive roster of financial services, while department store chain John Lewis has registered a trademark covering a whole range of financial products from travellers' cheques to insurance, banking and real estate. On top of that, banks from Iceland, India and Belgium are scooping the headlines with market-leading rates on savings accounts.

Small wonder that smart bankers are searching ever more intensely for cost-effective solutions to a question that gets tougher by the day: How do I attract and retain profitable customers?

In this issue:

Coping with the commoditised credit card:
Using relationships to build profitability

Business card marketing:
Is there a case for product enhancement?



Suppose there were a way of making your card desirably different from the competition, so much so that people would use it first.

Coping with the commoditised credit card: Using relationships to build profitability

Ask a friend to take a look at the credit cards in his wallet. Chances are, he has a whole raft of them. Now ask which one he mostly uses, and why.

You'll probably get a variety of answers, ranging from habit, through to loyalty rewards. What you're very unlikely to hear is that "I use this one because it works better than the others."

It's a fact that since 1950, when New York businessman Frank McNamara used the first ever payment card, the customer experience, from purchase transaction right through to statement settlement, has stayed much the same. For sure, there have been changes at the margin: PIN rather than signature authorisation, (though not all customers would see this as an improvement), electronic presentment and settlement of statements – but, despite the huge and costly efforts they represent, for the cardholder these changes are little more than fine-tuning. The result? Customers see no difference at all between one card and another.

And when one product is indistinguishable from its competitor, marketers have only one weapon to use: price.

Enter Dragon Number One. In markets around the world, regulators are taking aim at the payment card industry, shrinking its revenues, sniping at its fees. (And if they haven't started in your market yet, you can be certain that they're thinking about it). Against this background, price competition is the last route you want to take.

Enter Dragon Number Two. Alternative payment media: Google, PayPal, contactless technology, mobile phone operators – they're all considering how they can muscle in on the card operators' territory. And why not, when

cards all do much the same job?

Of course, commoditisation was the problem the loyalty programmes were set up to solve. The difficulty was that, like all good ideas, they were quickly copied. And too often, the copies were rushed out on the Ready, Fire, Aim principle, so that the market became crowded and customers became bored. How else explain the recent finding in the US that 70% of award redemptions are for gift cards?

Time was that programmes like Air Miles could point to real consumer value in programme awards. The advent of the low cost airlines has holed that model below the waterline: why should your customer struggle to use your points to find a seat on a high cost carrier, when for far less effort, and often it seems more cheaply, he can get a ticket with the local budget carrier?

Hence the success of gift cards: rarely great value, but simple to understand, easy to get, and flexible to use.

But surely as an industry we can do better.

Savvy marketers are already finding new ways of marketing their products. Sometimes it's building new business by canny segmentation: for example, car insurers who offer special deals to multi-vehicle owning families. Sometimes it's hanging on to customers by offering truly good service: financial services company "more than" start their pet medical cover claim process by saying how sorry they are that Rover has been unwell. Others hang on to business by making it more difficult for customers to move to a new product: they encourage recurring payments, such as magazine subscriptions, utility bills, or broadband payments, to be charged to their card.

Suppose there were a better way. Suppose there were a way of making your card desirably different from the competition, so much so that people would use it first – and, who knows, might value it so much they would even pay a fee for being able to use it?

Once, affinity cards seemed to answer the value question: but too many issuers do the deal with the club or group, and then forget about it. But that way, everybody loses: the group feels short-changed, the issuer sees little growth, and potential customers see no compelling reason to apply for the card.

Here's a case in point: I'm a mildly enthusiastic owner of a well-known make of Italian car (to spare everyone's blushes, I won't say which). The energetic Owners' Club has worked with an issuer to create an affinity card for us. But, apart from a small kickback to the Club, there's absolutely nothing in it for me – and I already have a wallet full of cards. So why should I apply for another?

Now, if the issuer and the Owners' Club worked together to do a deal on insurance, or spares, or petrol, or servicing, or savings on new models, I'd be very interested in applying for and using the card.

So here's the lesson:

1. Customers see little difference between one card and another (and the same goes for many other financial services products, incidentally)
2. Customers have many relationships outside the financial services arena which are important to them
3. Those relationships can offer important clues on how to make our products interesting again – interesting because it's worthwhile to own them, worthwhile because they offer benefits which are real, valuable, and relevant

Let's go back to our original question; how do we cope with the commoditised credit card? There's a proven answer; harness the power of relationship marketing.



Why not start by offering a business card that builds in relevant and desirable features that the small businessman will value?

Business cards: Helping an Ugly Duckling become a Swan

Many bankers still shy away from business cards: "Payment cards for small businesses? What about bad debt? Aren't small firms a big credit risk?"

These are typical reactions whenever the business card topic comes up – but they're wrong. There's a growing body of evidence suggesting that, properly managed, business cards have as good a credit record as other card products. Research also confirms that they can be a lot more profitable:

1. Spend per card is higher than any other product
2. Average purchase transaction values are higher than on the consumer card
3. Average cash withdrawal values are higher than on the consumer card

There's another aspect, too. Owners and managers of small businesses know that they need additional financial services: insurances of all kinds, investment advice, help with cash flow, equipment leasing, ways of accepting payments – the list is virtually endless. But they simply don't have time to deal with these needs.

Here's where smart issuers spot an opportunity.

They know that there's a big potential market out there – and they also know that most of these customers would prefer to put all their additional business with a bank they already deal with, a bank they trust. Properly managed, it's a business bonanza in which everyone wins: the customer, who gets great service and the products he needs, and the bank, which gets a whole new stream of profitable income.

But how to get the customer's attention in the first place?

Well, why not start by offering a business card proposition that, on top of the usual payment and protection benefits (after all, that's exactly what your competitors are offering), builds in relevant and desirable features that the small businessman will value? It might be golf club benefits, access to big company travel privileges, a concierge service... the possibilities are as various as your customers.

But it's a safe bet that the issuer which is first to market with a business card that actually does what its customers want it to do will be the one which gets the best of the business.

In your experience

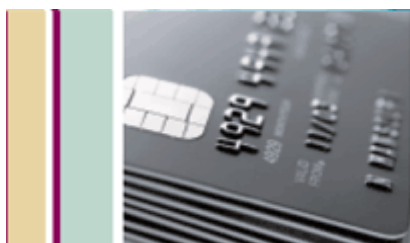
Swisscard endorses Priority Pass™

Switzerland's leading card issuer has endorsed the effectiveness of Priority Pass, an airline lounge access programme operated and marketed by Priority Collection Ltd.

Swisscard Head of Product Management Patrik Planzer explained "We selected Priority Pass as a strategic enhancement to the Swisscard product to offer an exclusive service to our customers: most are frequent flyers, and they tell us they very much appreciate having access to top quality airport lounges around the world."

In fact, Swisscard was so pleased with the response of its existing American Express Platinum cardmembers to Priority Pass, that it became an integral part of the launch package for Centurion Card in 2000, and of the new MasterCard Platinum product which came to market in 2005.

Mr Planzer went on to comment that "Our Priority Pass members value the service highly, and make active use of it. From a management point of view, we also welcome the effective co-operation we receive from Priority Collection."



Coming next: Beyond borrowing: What makes a credit card profitable

Message From The Editor

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.

In previous issues of Enhance we covered:

[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?

[The Power of Data-Driven Marketing:](#) Using information to build profitability

[Maximise the Returns from your Marketing Budget:](#) What effective card marketing programmes all have in common

[Click here](#) to download.



Roy Stephenson, Consulting Editor

Consulting editor bio note

Roy Stephenson, a former VP and General Manager with American Express, is a banking and payment card consultant and a member of the MasterCard Advisors pool. He is the author of Marketing Planning for Financial Services (Gower Publishing).

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

Make sure your card
comes out first.



[email:enquiries@prioritycollection.com](mailto:enquiries@prioritycollection.com) [tel:+44 \(0\)20 8253 5086](tel:+44(0)2082535086) www.prioritycollection.com