



# enhance

In association with Priority Collection

for people involved in payment card marketing and product development

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## In The News

### The latest challenge for card issuers: Are interest rates becoming negotiable?

In a new threat to issuer profitability, word reaches us from the US that cardholders are now pretty much able to negotiate their own interest rates.

A new study by Synergistics Research of Atlanta, Georgia, has found that more than three out of four U.S. credit cardholders who ask for a cut in their interest rate have been given one. Of those who didn't get a reduction, around 10% cancelled their card. What came as a surprise was that 24% of transactors (those cardholders who always or nearly always pay off their balance in full each month) also asked for a rate reduction. Planning for a rainy day, perhaps.

The survey's one consolation for hard-pressed American issuers is that only 44% of revolvers have asked for a reduction: that leaves 56% who haven't – so far...

Happy New Year to card marketers everywhere!

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### Conflicting signals from co-brand cards: The rules that successful issuers are following

Dissatisfied with poor ROI on scarce time and money, a number of leading European issuers are quietly ending their partnership programme marketing efforts. Justifying the decision, senior managers point to low activation levels, disappointing volumes, and an unacceptable level of transactors as compared with revolvers. The consequence is that, even when asked to pitch on a RFP (Request For Proposal), some issues are finding ways to decline politely.

On the other hand, Bank of America, which 10 months ago bought MBNA, famous for its affinity card programmes, has signalled its enthusiasm for the partnership concept by launching affinity banking. Starting in late November 2006, BofA now offers custom-built banking products online to organisations such as the New York State Bar Association, the National Wildlife Federation and an array of other membership bodies.

Who's right? Can these conflicting policies be reconciled?

Perhaps they can.



Two words contain a lot of the answer: relevance and commitment.

Relevance in the sense that successful partnership marketing relies heavily on how important or striking the offer is to the target market. For instance, building on the proven attraction of frequent flyer miles to their customers, airline

co-brand cards often have enviable levels of volume: as an illustration, it's been estimated that members of airline frequent flyer programmes in Canada and Germany spend around five times more on their cards than the national average. And, since many of those are charge cards and most carry hefty fees, relatively lower levels of revolve are less of a challenge.

But take a look at other co-brand or affinity card products. How many have the same compelling and differentiated appeal to their customers? The honest answer would be, too few.

The other part of the difference lies in commitment: once again using airline co-brand cards as an example, for the most part airlines work hard to keep the offer fresh. They have low seasons to promote, new routes to introduce, new levels of cabin service to launch. And, naturally, they target the hard core of frequent flyers to do the job.

Too often, these pre-requisites for success of relevance and commitment are lacking in affinity card offers: in the rush to meet new card acquisition targets, issuers set up deals without a proper understanding of the partner's potential, there's a flurry of activity at launch, and then silence – often because there is no equivalent of frequent flyer miles to promote to the customer, other than a promise to share some of the revenue with the partner. And that's not enough.

What's needed is a much more considered approach.

Here are four simple rules for success in the co-brand space:

### **Rule One: Choose the partner organisation carefully**

Look for:

- Sufficient size to make the potential number of new customers financially viable at realistic levels of application and approval
- Membership lists that have been kept up to date: one bank paid \$6 million in up-front fees to launch a co-brand card programme with a national airline, only to find that its frequent flyer records were a complete mess
- Members who:
  - Share a passion strong enough to make them change established ways of behaving
  - Are comfortable in using credit cards
  - Are likely to be creditworthy.

### **Rule Two: Make sure the organisation understands and is motivated to actively and consistently endorse the programme**

Too often, group decision-makers are simply looking for a quick additional source of income: once the card is launched, they do little or nothing to support it. Be alert to this risk.

### **Rule Three: Craft an offer which is affordable, not available elsewhere and is genuinely motivational for this group**

If the offer is compelling enough, you can even charge a fee. Think of golfers, frequent travellers, the “cash-rich and time-poor”: they all have needs which they're prepared to pay to have fulfilled.

### **Rule Four: Keep at it**

Affinity group cardholders frequently fail to activate, or spend less than had been hoped. This is a management problem, not a customer problem: it can be fixed – but only by working at it!

In the final analysis, co-brand and affinity cards can be a distraction from the mainstream business – or a solidly profitable route to market. The choice is yours.

**“One bank paid \$6 million in up-front fees to launch a co-brand card programme with a national airline, only to find that its frequent flyer lists were a complete mess.”**



## Emerging markets: How different are they really?

Time was when the accepted wisdom about card operations in emerging markets ran something like this: “Building a business in Ruritania is completely different from anywhere else. Approaches that work well in mature markets simply won’t succeed here.”

With all due respect to this long-established school of thought, it’s wrong in at least one important respect. Because in fact you could make a very good case for arguing that the marketing challenges for a card issuer are exactly the same in Ruritania as they are in developed markets: acquisition, activation, usage and retention. What certainly is different is that the tools aren’t always there.

Take acquisition, for example.

In countries where the payment card industry is long-established, the marketer is used to being able to call up lists which are not only segmented by every possible combination of demographic, psychographic and behavioural characteristics, but have also been pre-screened for credit-worthiness. In emerging markets, only very rarely can the card issuer draw upon this level of assistance. Many times, credit bureaux with a full range of marketing, predictive and scoring tools simply don’t exist. In one very large market, for instance, the local bureau is legally allowed only to keep negative histories, and then for no more than five years.

And, looking at the business more widely, it’s not only the marketer who is affected: risk management suffers from the same lack of data.

The result? Many times the issuer must turn to other sources for prospect lists. Often, the primary group to be targeted will turn out to be the bank’s own customers. Even within the institution, though, address bases aren’t always updated as frequently or accurately as they should be. Accordingly, there’s a heavy reliance on branch sales and recommendations, which restricts sales, and can lead to internal fraud. In any event, lists grow tired, and there is a limit to how often one can solicit the same customer – incidentally, note here the need for detailed account mailing histories.

By definition, of course, the bank customer resource isn’t open to monoline issuers. Accordingly, they often turn to affinity groups. This certainly has the benefit of speed to market, and, where professional groups are concerned, to some extent acts as a proxy for credit-worthiness, but has clear weaknesses. Similarly, many issuers utilise Member Get Member campaigns to extend their reach among the target audience. On a different tack, one Brazilian issuer has successfully pioneered the use of upscale magazine subscription lists.

**“The point is that the task of acquisition is the same, whether it’s being carried out in London or Latvia: it’s simply that the resources are different.”**

The point is that the task of acquisition is the same, whether it’s being carried out in London or Latvia: it’s simply that the resources are different. A review of activation, usage and retention efforts would throw up a similar picture: same job, less choice of tools to do it with.

One other imperative remains a constant, too: that’s the need to provide customers with a distinctive and desirable product. It’s quite wrong to assume that customers in emerging markets have only limited understanding of what is available in the credit card arena; they travel, and are often highly knowledgeable about what is on offer in other countries. It would also be wrong to assume that, simply because a product benefit isn’t offered in the market today, that it will never be. Competition will ensure that, sooner or later, an issuer will feature it and, as always, advantage goes to the first mover.

All the more reason, therefore, to reach out for proven approaches when they are available locally.



Some of the most effective, in fact, are ways of thinking about the business: the importance of seeing the customer in the round, the value of an orderly, consistent approach to the marketing task, the “Measure, measure, measure” mantra.

Others can be built, over time, within the business: the ability to measure profitability at account level, the use of segmentation tools, building predictive modelling capabilities.

Still others will be found outside the business: card associations and specialist vendors can keep you up to speed with best practice and benchmark your efforts, or support you with advice and strategies for customer acquisition and retention. In fact many times the tools they offer, even in the most recently-created markets, are exactly the same as those used with great success by the most sophisticated issuers in the world.

So, let’s return to our original question: “Is doing business in Ruritania completely different from everywhere else?”

Maybe the answer ought to be, “Yes – but not as different as all that.”



## And finally...

Possibly the most oddly conceived loyalty programme we were ever invited to review was in a Latin American country. The issuer – and to spare it embarrassment, we'll leave it nameless – was concerned that its card loyalty scheme just didn't seem to motivating its customers in the way that had been hoped.

It didn't take long to spot the problem: in a bid to hold down costs, some challenging earn and burn rates had been set. As a result, the typical award took the average customer four years' spending to achieve. Unfortunately, the points expired after three years.

### 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

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

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

**In the next issue of Enhance:** Retention and how to maximise it.

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