



for people involved in payment card marketing and product development

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In The News

Consider the Internet: everybody gets it, don't they? Finding information, buying online, it's a worldwide phenomenon which is changing the way we all do business. Right?

Well, up to a point. Leaving aside the varying levels of access to the Web discussed in the last issue of enhance, there's the whole question of whether customers all use it in the same way. And it turns out that they don't.

A recent survey¹ highlighted the fact that consumers in a range of markets have sharply different attitudes to the online experience. In Italy, for example, only 14 percent of people who use the internet say they are comfortable providing their email addresses to an organisation. Reactions are similar across Spain, Greece and Portugal, where people are also less likely to use interactive tools and put their information on the Web.

In Sweden, by contrast, 42 percent of the population are relaxed about giving their email addresses and signing up for online marketing promotions.

Implications for the marketer? Never assume that because a communications channel exists, it's going to do the job you want it to: make sure that your prospect at the other end is willing to take the action you're looking for.

¹05 April 2007 DM Weekly



Green cards: From Zero to Hero?

Around the world, card issuers are weighing up whether they should launch a green card – and, if so, what form it should take. And, with over €1 trillion estimated in the European ethical wealth management market alone, the question is also being asked by marketers responsible for financial services across the board.

First to market in Europe is Dutch issuer Rabobank: each time their credit card clients in the Netherlands use the Rabocard, the bank will pay into a range of climate improvement projects approved by the WWF. And there's a clever twist: the amount paid will be calculated according to the transaction paid for on the Rabocard. So, because filling up with petrol generates a much greater emission of CO2 than buying tulips at the florist, the contribution made by the bank will reflect this.

There are other approaches: in the UK, Barclaycard has plans to launch a green product this summer. Details were sketchy as enhance went to press, but a spokesman claimed that they would be the first "leading" bank to offer a card that will help customers reduce carbon emissions, donate to green causes and offer incentives to buy green products. Across the Atlantic, Wells Fargo has developed a suite of green card rewards initiatives, and says that, as a result, at year-end 2006, according to the Environmental Protection Agency's "Green Power Partnership" programme the bank was the largest purchaser of renewable energy in the USA. Down under, Australia's Westpac has launched a new "green" initiative in partnership with Easy Being Green for its Altitude credit cardholders. Altitude customers can now use the reward points they earn with their credit card to offset their greenhouse gas emissions and become "carbon neutral".



Maybe it's too soon to say, but although financial services institutions are happy to boost their green credentials product offerings, it's noticeable that nobody is yet claiming any great commercial success with them.

Part of the answer may come from consumer research which enhance has seen recently: in a series of focus groups, cardholders were quick to endorse the general idea of "green-ness", but much more reluctant actually to change their lifestyles to help slow down climate change. For example, they would be happy if the carbon emissions of their holiday flights were being offset, but less comfortable with the idea that they would have to pay for this.

Perhaps it's a case of "Make me green, Lord, but not just yet".

Apart from conflicting attitudes among customers, there are also difficult questions about just how to implement a green card. Rabobank and Wells Fargo, for example, have taken very different approaches, and the jury is still out on which will prove more effective with customers – let alone actually make a difference in the real world. And pity

the poor marketer who tries to understand what the options are in carbon offsetting: you'd better get ready for a windstorm of acronyms, a jungle of competing standards, and a whole crowd of national and international regulators.

What's more, there's no certainty, even if you struggle through the jargon, decide a green approach for your card, and successfully launch your product, that you'll satisfy every green requirement. Because it's clear that, if card customers simply continue to follow their previous spending patterns, even the most effective green/carbon offset programme will simply stop things getting worse. A significant school of thought argues that a fully green approach would provide customers with incentives to change behaviour – and maybe even disincentives for actions believed to be the most damaging. And that may be a step too far for many issuers.

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There's a further level of complexity as well: beyond simply developing green products and getting them out into the market place, there's also the issue of how green your organisation is in the way it conducts its business overall. Often managed under the banner of “Corporate Social Responsibility”, this will almost certainly involve company-wide initiatives to change long-established processes. There's a real possibility that, unless you get every one of these aspects right, you'll be accused of “greenwash” – talking the talk, but failing to walk the walk.

And at the end of the day, even if you do manage to jump all these hurdles, be prepared for a final challenge: the diminishing, but still noisy, group of people who insist that, even if the climate is changing – and they say it may not be – it isn't happening as a result of human activity.

Oh, and one last thing: do make sure that the card is bio-degradable...



Vive la différence!: Lose the cookie cutter!

Marketing has no more tired truism than “Listen to the customer”.

But like all truisms, it's true. It's also very easy to forget.

Recent research² underlines the point that different markets have very different preferences when it comes to making payments. Across Europe, Germans demonstrate a continued support for cash, with 57% preferring this payment method compared with 36% of Britons. French consumers are also the biggest supporters of using cheques (10%) against just 1% in Britain and Italy. Only 6% of Italians favour paying with pre-payment cards followed by 4% in The Netherlands.

Astonishingly, an estimated 400,000 Europeans said they preferred to barter rather than use conventional payment methods.

Marketers who learned their trade in what we might call the Anglo-centric countries of North America and the UK, where debit cards were introduced long after credit cards, are often surprised to learn that in many other markets the opposite pattern holds: debit cards are king and credit cards have only relatively recently gained a toehold. For instance, in Spain, what many customers call a credit card is actually a deferred debit card. In France, there is still considerable customer resistance to the idea of putting routine expenses on a credit card; many people there would see it as irresponsible and perhaps even embarrassing to pay a supermarket bill with a credit card. For sure, attitudes are changing, but it's a long way from being an overnight process.

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Similarly, markets in what we might loosely call Eastern Europe have historically been focussed around debit and charge products. Citibank broke into the Polish market with a credit card in 1997, but only in the past few years have local banks taken up the challenge. Again, different approaches to product positioning in this region mean that Platinum and Gold cards still have considerable prestige among customers, rather than being squandered as an acquisition device as they have been in more “mature” markets. Not coincidentally, these prime products carry a hefty fee, which issuers support by bundling into their card offerings a substantial range of product enhancements. But, as competition takes a hold and customers become increasingly sophisticated, there is a strong likelihood that these relatively undifferentiated and costly products will have to be much more carefully segmented to meet evolving market requirements

Responsible for sales in 14 countries stretching from the Balkans to the Baltic, picking his way through a labyrinth of languages, legal systems, cultures and ways of doing business, Tim Darby, Priority Collection's point man in Eastern Europe, is in no doubt about the need to respond to local needs. In fact, for him the one common factor that runs throughout his territory is that no two parts of it are the same.

Even in the cases of neighbour countries which share a common recent history, there can be significant differences. Take Estonia and Latvia, for instance: both Baltic states, both once part of the USSR, they have taken contrasting paths in terms of financial services marketing. Estonia has concentrated on electronic product delivery through the Internet and mobile banking, while Latvia has focussed on premium product offerings for high net worth customers. Accidents of history can play their part, too: in Croatia, an American Express or Diners Club card is much more an entry level product than would be the case in other markets.

That said, even in a region as diverse as this, there are some shared characteristics. Tim points to the importance of personal relationships: ever since he first started doing business in Poland, over a decade ago now, he's been very alert to the fact that business here starts from a firm foundation of friendship. Once that basis of trust is established, then it becomes possible to move on to the selling process proper.

At every level, then, there's a clear message: cookie-cutter marketing doesn't cross borders. Successful strategies are those which respond most effectively to local conditions.

²ESTA/Taylor Nelson Sofres October 2006



The language of rewards: what does it all mean?

Like any other specialised area, rewards programmes have generated a jargon all their own, which is often confusing for marketers coming new to it.

For the benefit of so many of us who from time to time have listened to an expert and thought “I hear the words, but I don’t know what they mean”, the following is an attempt to throw some light on the language of loyalty.

Rewards? Loyalty?

Let’s start with a definition. The terms rewards programme and loyalty programme are often used interchangeably. In fact, they are quite different. A loyalty programme can, and should, involve pricing, value, customer service, and every way in which a business interacts with its customers. Accordingly, a rewards programme is only a subset, and not necessarily an essential one, of a loyalty programme.

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Rewards programme goals

Traditionally, these were set for retailers as lift, shift and frequency – desirable changes in customer behaviour. For a credit card, they would be rather different:

- Lower acquisition costs
- Increased usage, ideally driven by increased share of wallet
- Reduced attrition rates

Increasingly, programmes are now focussing on acquiring and retaining the most valuable customers. To do this, operators are making more and more extensive use of the transaction data generated as a result of the loyalty programme.

Rewards currency

The points issued by the programme operator to the cardholder, who uses them to exchange for awards. Points can be “heavy” (400 Airmiles needed for London/Paris return), “light” (50,000 frequent flyer miles needed for an entry-level US domestic flight), or somewhere in between

Currency validity

Points can be “evergreen” (never expire: Travel Club in Spain) or expire after as little as 18 months (some US frequent flyer programmes). Often continued validity is conditional on meeting a preset criterion, such as purchase or redemption activity.

Earn rate

The rate at which the customer earns points.

Burn rate

The price in points for an award.

Breakage rate

The percentage of points issued but not redeemed. Where the programme operator sells points to a third party, this can be an important source of income.

Liability for unredeemed points

The programme operator must always allow for the risk that unredeemed points will be redeemed at some time. This liability, which can involve billions of dollars, must be shown on the balance sheet, and is often the subject of protracted negotiation with auditors and the tax authorities. It is one of the main reasons for limiting the life of points.

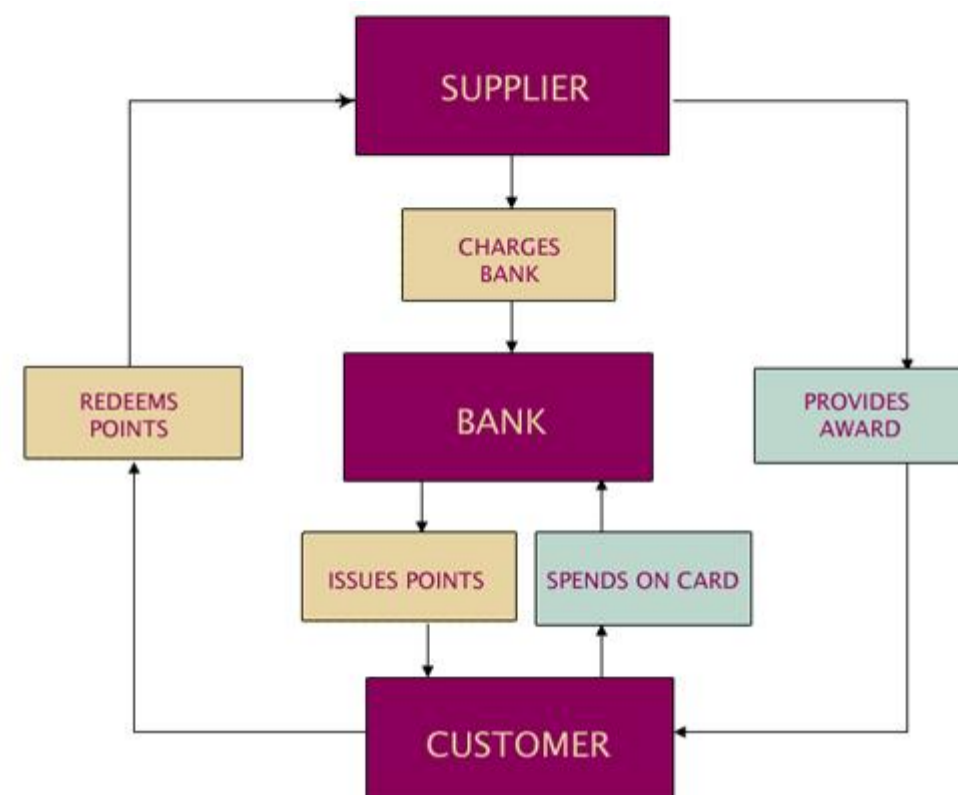
Redemption rate

The rate at which customers redeem, or exchange, their points for awards. Usually a closely-guarded data point, the redemption rate must strike a balance between being too low (the programme is failing to engage customers), or too high (the programme is too expensive).

Provisioning (sometimes funding) rate

Effectively the outcome of the interplay between earn, burn and redemption rates, this is the cost to the operator of running the programme. For a card issuer, it is usually expressed as a percentage of spend on the card, such as 0.5% (or 50 basis points – bps). The squeeze on card income has put the provisioning rate under constant pressure. It should include not only the cost of awards, but also marketing, customer service, fulfilment and operation. Again, a closely-guarded data point.

Rewards programme schematic



And finally...

An irate travel rewards programme member was complaining to a call centre agent recently that the programme website didn't feature Auckland, New Zealand. Puzzled, the agent said, "But I'm looking at the relevant page, and it's giving me 204 different flight options." Turns out the customer wanted to go to New Zealand because she was a huge fan of "The Lord of the Rings" which was filmed there – and she was spelling Auckland "Orcland".

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?
- Conflicting signals from co-brand cards:** The rules that successful issuers are following
- Emerging markets:** How different are they really?
- Channel optimisation:** 6 rules for getting the most value out of your card acquisition budget
- What happened to all the good ideas?:** Maximising profit the right way

In the next issue of Enhance:

- "Can I interest you in...?":** Savvy banks use telemarketing to increase sales
- Data-led marketing vs. creativity:** Getting the balance right between numbers and ideas

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Consulting editor bio note

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