



for people involved in payment card marketing and product development

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In The News

A card is a card is a card.....



A payment card is a piece of plastic issued by a bank that sits in customers' wallets. Right?

Wrong – or at least, wrong in Kenya. In that fast-growing African economy, a payment card can be a SIM card – the one that sits, not in your wallet, but in your mobile phone. And here's another difference: many of the people who use it to make payments don't have a bank account at all.

The system is called M-PESA, and it's proving a big hit with Kenyans who can't rely on having an ATM or a bank branch just around the corner. Instead, M-PESA customers turn to filling stations, corner shops or a fast growing network of retail outlets who verify the customer's identity and then credit or debit the account as needed.

Wondering about security on mobile payments? Well, M-PESA has its own safeguards in place, but over in the US, VoicePay has developed technology that allows it reliably to recognise and authenticate a user's voice print. Forgery, apparently, is effectively impossible, as it relies on the physical characteristics which produce a particular voice. Sounds like a natural for the world of m-commerce.

Backed by heavyweights like telecoms giant Vodafone and Safaricom, a Kenyan mobile operator, and endorsed by the UK's Department for International Development, M-PESA has already enrolled around 150,000 customers and some 500 service points.

And the part that banks play in the M-PESA initiative? None at all – except holding the float.

Is this the face of payments systems to come? It may be, if the European Commission has its way: in a couple of years, it envisages the emergence of "Non-bank payment institutions" to compete with today's players for the card business.

Finally, just a couple of facts to consider when thinking about the future of payment systems:

- The World Bank estimates that the sub-Saharan middle class will be 43 million strong by 2030, up from 12.8 million in 2000. Though the bulk of the continent's middle-class consumers are in South Africa, growing markets in such countries as Zambia, Nigeria, Kenya and Ghana are attracting attention from investors around the world.
- McKinsey research suggests that, by 2011, China should have a lower middle class of 290 million people; by 2025, the upper middle class will be 520 million strong, with staggering disposable wealth.



Price-led or Product-led?

It's a conundrum which is only too familiar to card marketers: "To meet my new card acquisition targets, I need to launch a new product. Should I aim to compete on price? Or should I look to build in new and attractive benefits?" Putting it in the jargon, should the new offering be price-led or product-led?

Of course, part of the answer will depend on the competitive context and the customer segment you're looking at. Even so, it's a choice which will have to be made in one form or another.

Let's start with price-led products – and with a definition: in the payment card industry, a price-led product may be said to be one which bases its competitive appeal on either a lower-than-the norm APR or, in those markets where they exist, a reduction in card fee.

Price has always had a powerful pull with bargain-hunting customers. In today's Internet era, when comparison sites let prospective clients compare prices as fast as they can move a mouse, it's even more compelling.

Leave aside the rather important question of whether headline prices alone represent good value for customers: we're all in a hurry, and we want simple answers fast. Very few consumers want to sweat over complicated comparisons of handling fees, days' grace, what's credited when, and the like. It's a simple question: who charges least?

But value for the customer isn't the only question we should be concerned with. An equally important question is whether price-led products are good value for the issuer.

Simple arithmetic suggests that they aren't.

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Consider the following case: it shows how a relatively small cut in price really damages the bottom line, to the point where you need to double your customers to get back to the original level of total profits. And how likely is that?

	Cut price by 10%		
	Today	New	% change
Costs	80	80	Nil
Sale price	100	90	10% worse
Profit	20	10	50% worse

Another argument against leading with price is that it's not just you who can do it – all your competitors can. Right after you hit the market with the low price product that you've worked on so hard, your toughest competitor will launch one that's even cheaper. Unless you have a deliberate strategy to start a continuing price war – and that means being absolutely sure that your costs are much lower than your competitors', which is rare in the financial services industry – price-cutting isn't a smart move. It's not for nothing that a low price strategy is sometimes known as the "Last Man Left Standing" option.

Let's sum up at this stage:

On the upside, low prices are easy to do, and will certainly generate new accounts/attract new customers. But many of these new customers will be footloose, actively looking for the next great offer, and some will have poor credit histories. Above all, there are no barriers to entry: it's a policy that anyone can copy – for a short time at least.

So what's the alternative? In a competitive market, it's tough to raise prices. How about developing a different product, one that's innovative, affordable, relevant to your target market, and unique?

It's an approach with downsides: it means researching your customers and competitors to find out where there's a gap in the market. If you can find a gap – and there usually is one – it may require finding a provider who can reliably and affordably fill it, and who is prepared to sign an exclusivity agreement with you. All of this will take time, and cost money, resources which are often in short supply.

But if you can pull it off, it's an approach which will build profitability, stand the test of time, create loyal customers, and establish a position in the market which you can defend.



Let's hear it for rewards programmes

It's an old story: yesterday's hero is tomorrow's zero. Take the case of rewards programmes: at one time, everybody who had claims to being at the leading edge of marketing had to launch one. If you didn't, it was clear that you didn't "get it".

Today, rewards programmes are widespread – and equally widely criticised. And, it's true to say, sometimes quite fairly criticised: there are programmes in the market which offer poor value for the customer and poor value for the issuer. To illustrate the point, one very large bank was spending 80% of its considerable marketing budget on a rewards programme, and couldn't point to a single business measure that had been improved by it.

"Too many loyalty programmes are configured simply to reward level of spend – not its contribution to business profitability."

That's an object lesson in how not to run a rewards programme. But there are programmes out there that generate real return on scarce marketing dollars, and provide valued incentives for customers.

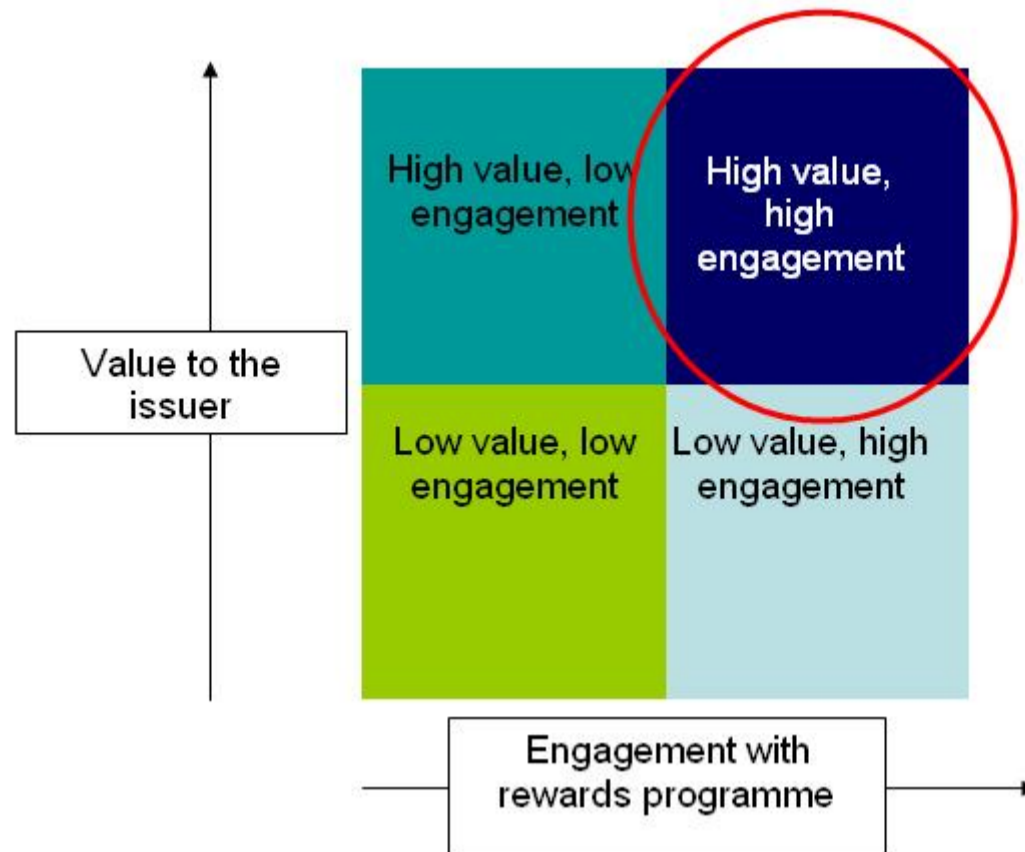
Here's a real case in point:

KPI	Enrolled in rewards programme compared with those not enrolled
Gross Active rate	8% better
Debit Active rate	31% better
Annual spend	290% better
Average interest bearing balance	23% worse

On average, customers enrolled in the rewards programme were considerably more active than those who weren't, they spent more than three times as much and, contrary to the usual fears about rewards programmes, they borrowed. A smaller proportion of their spend, admittedly, but still not far off their peers in the control group.

To be sure, it would be wrong to suggest that all the difference in portfolio performance came only from the rewards programme: but careful customer research showed that the vast majority of those enrolled in the rewards programme assigned it a high value when comparing competing card products.

Why did the programme work so well? In the first place, clearly it offered rewards which customers found attractive and relevant to their needs. In the second place, it was actively managed, using the following matrix to determine where most marketing resource should be invested:



And this is where the crucial difference comes in: all too many loyalty programmes are configured simply to reward level of spend – not its contribution to business profitability.

Here's an example. I shop regularly in two supermarket chains, and my weekly bill in each is about the same. In one chain, I shop for basic needs: a very large percentage of my spend is on special offers, two-for-ones, and discounted lines in general. In the other, I shop for higher-end through to luxury items: most of my trolley is filled with own brand items, treats and high margin lines. Each week, the spend is roughly the same: but guess which chain would value me more as a customer?

The point is, that with nine out of ten rewards schemes, both chains would treat me in exactly the same way.

Not so with the issuer above: they work very hard to ensure that their best offers, their most attractive deals are targetted at their most profitable customers. The less profitable they are, the less attention they get.

Result? A highly successful rewards programme that shows real added value to the issuer.



And finally...

What's in a name?

The pace of change in business is matched only by the pace of change in the words we use.

Generally, the aim seems to be to wrap up plain speech in something more elaborate. The reason's not clear, but here are a few examples:

New speak	Old speak
Customer Insight	Market research
Alliance	Agreement
Business development	Sales
Granularity	Detail
High end	Expensive
Impact	Affect (verb), effect (noun)
Leverage, deploy	Use
Net revenue, net income	Profit
On a daily basis	Daily
Populate (a form)	Fill in
Ramp up	Increase
Space	Business

Suggestions from readers to add to the list will be very welcome.



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).

Contact him at roy.stephenson@prioritycollection.com

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

Green cards: From Zero to Hero?

Vive la différence: Lose the cookie cutter!

The language of rewards: What does it all mean?

Make sure your card comes out first.



email:enquiries@prioritycollection.com tel:+44 (0)20 8253 5086 www.prioritycollection.com

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