



for people involved in payment card marketing and product development

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Issue Nine, January 2008

## In The News

### Prepaid – the next big thing

Success story of 2007? Many industry observers are pointing to the prepaid card as being the year's standout winner.

Probably the most important factor driving prepaid's storming performance this year is its versatility. Among many other applications, the technology is being used to support:

- Gift cards
- Pocket money for teenagers
- Urban transport payments
- Newspaper subscriptions
- Employee wage payments
- Coffee chain loyalty cards
- Business travellers' petty cash
- Payment card facilities for the unbanked
- Insurance claim payouts
- Holiday cash

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**Rewards: most things to most men**  
Just decide what behaviour you want to encourage

**Keeping only the best**  
Retention is a good thing – but it's not for everyone



The second success dynamic for prepaid, which has had bankers rubbing their hands, has been the high level of fees which the product generates: many customers are charged each time they load or reload their cards with money, while some issuers even level a fee when the card is dormant or under-used. There have also been instances of expiry dates being applied to prepaid cards. It's unlikely this rewarding state of affairs can last long: consumer advocates have already identified unreasonable prepaid fees as a campaigning target, but even so, there's still a big and profitable opportunity. What's more, in today's climate of liquidity squeezes when many banks are scrambling to raise cash, there are clear attractions in a prepaid card forecast to generate €120 billion spend in Europe by 2010<sup>1</sup>.

On a slightly less upbeat note, another popular use for prepaid is as an employee incentive: so it's disappointing to have to record that an American Express survey reports that recipients found a cash gift card nine times more exciting than having dinner with the boss...Now, who would have thought that?

<sup>1</sup> Edgar, Dunn



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### Rewards: most things to most men

The beauty, too rarely recognised, of rewards programmes is that they are a multi-purpose tool. Conventionally, card issuers deploy them simply to boost overall spend or (and this is a more useful measure) increase share of wallet. Well-managed rewards programmes do a great job in this regard, but their range runs much wider.

The following table sets out ways in which leading issuers today are using rewards programmes to stimulate other forms of profitable behaviour

Behaviour	Offer additional points to...	Benefit for issuer
Try a new product	Test drive a new car	<ul style="list-style-type: none"> <li>• Supports preferred merchant</li> <li>• Builds value for customer</li> </ul>
Buy another product	Take out pet or house insurance	<ul style="list-style-type: none"> <li>• Builds cross-sell</li> <li>• Deepens customer relationships</li> </ul>
Use the card to make regular recurring payments	Charge Internet provider bills to card	<ul style="list-style-type: none"> <li>• Increases spend</li> <li>• Reduces attrition via increased "stickiness"</li> </ul>
Spend more with selected merchants (chosen to match spend patterns)	Fly with (for example) American Airlines	<ul style="list-style-type: none"> <li>• Increases spend</li> <li>• Supports preferred merchants</li> <li>• Together with special offers,</li> </ul>

		builds relevance and value
Spend more over particular periods	Double points in the Hilton Spring Special	<ul style="list-style-type: none"> <li>• Increases spend</li> <li>• Deepens customer relationships</li> </ul>
Buy “green” goods and services	Double-glaze your house	<ul style="list-style-type: none"> <li>• Broadens spend categories</li> <li>• Contributes to Corporate Social Responsibility programmes</li> </ul>
Boost enrolment in value-added programmes	Sign up for Wine Club	<ul style="list-style-type: none"> <li>• Increases spend</li> <li>• Reduces attrition via increased “stickiness”</li> <li>• Builds sale of higher margin services</li> </ul>

What’s more – and it’s a point too often forgotten – rewards programmes work just as well with commercial cards. Certainly, especially with big corporates, care has to be taken to allow the client to decide whether or not employees should be allowed to participate in the programme. But with business cards, aimed at small and medium sized enterprises where the boss and the owner are often the same person, there’s a good deal of evidence to show that carefully chosen rewards can do a powerful job in acquisition, activation, usage and retention.

What sort of rewards are likely to find favour with small businessmen? Well, in the first place, ways they can save money: discounts at office equipment and services suppliers are an obvious place to start. But don’t forget the human element: entry to golf clubs, access to private lounges at the airport, concierge services, personalised travel arrangements, all make life a little easier and richer for the harassed businessman.

**“No matter what the card type or target market, some behaviours are more profitable than others.”**

It’s a clear lesson: no matter what the card type or target market, some behaviours are more profitable than others. All that’s needed is to engineer a programme that rewards them.



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## Keeping only the best

Loyalty comes in many forms: unquestionably the first rule is to provide the right product at the right price in the right place at the right time. Here’s an example: I routinely use the same hotel when I stay in London – and it has no rewards offering of any kind. But it does offer a great value fixed price for comfortable accommodation and a convenient location. So I go back there time after time.

Card programmes aren’t as fortunate: their prime functions – making payments and providing a credit facility – are effectively a commodity, and have to compete on price. And, despite the best efforts of marketing folk, many customers do decide, for one reason or another, to cancel their accounts.

What happens then?

If the customer calls in, or otherwise notifies us, most issuers have a Retention Unit, whose goal is to try to keep the customer’s business.

Two questions: Do the Retention Unit’s staff have the tools to:

- Focus only on profitable customers?
- Provide a range of relevant and compelling offers?

### 1. Focus only on profitable customers

Easy to say, tough to do.

To start with, what do we mean by “profitable”? Many accountants argue that, in the case of a card business which draws upon corporate services, the best measure is what contribution the card group makes to overall profitability once all its own direct expenses have been met. But there’s often room for debate about how this formula works out at product and account level.

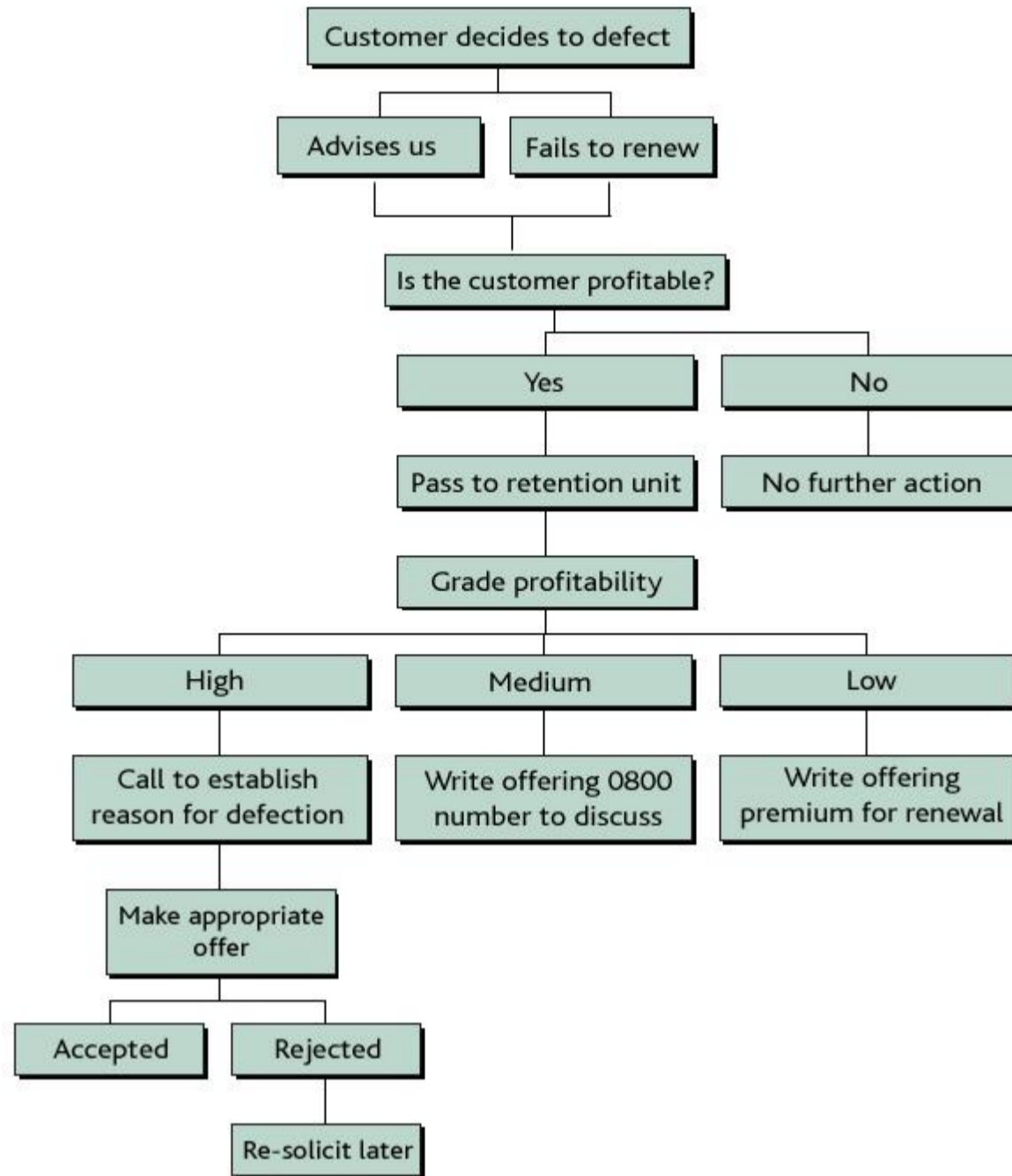
**“Despite the best efforts of marketing folk, many customers do decide, for one reason or another, to cancel their accounts. What happens then?”**

Also, does “profitable” mean just as a card customer? Because it could be that a customer who generates little or no card income could hold a range of other products which make him or her very profitable from the point of view of the bank as a whole.

The debates around these topics can sometimes seem tedious, but they’re essential groundwork to put in place before developing our marketing response to the attriting customer.

### 2. Provide a range of relevant and compelling offers

First of all, let’s review what the customer management process might look like:



That's one way for the retention flow chart to work. Now let's take a look at the second question: what might the retention offers be?

**CUSTOMER RETENTION OFFER MATRIX**

The following matrix is being successfully used by a South American card issuer for profitable Gold Card customers who are threatening to cancel. The specific offer to be used is selected by the Retention Unit agent on the basis of the customer's comments, the account's profitability, and the cost of the offer. For example, a customer who said that she was cancelling because she no longer wanted to pay a fee for a card which she rarely used would be offered a downgrade to a free basic card.

ACCOUNT PROFITABILITY		
High		Low
Grade A Customers	OFFERS TO Grade B Customers	Grade C Customers
Upgrade to Platinum tier at no extra cost	Year's fee waiver	Downgrade to a no-cost no-frills card
Supplementary cards at no extra cost	Free membership of payment protection/virus protection/extended warranty	Free membership of card protection/virus protection
Year's fee waiver		
Bonus rewards points		
Free membership of rewards programme/card protection/payment protection/virus protection/extended warranty		

Note, however, that even this large and sophisticated institution cannot take a whole customer view.

Armed with these tools, one issuer's Retention Unit recently hit a very creditable 45% of profitable accounts retained.

Even better, of course, is to get to customers before they attrite – but that's a story for another day.



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## And finally...

Wherever you are in the world, Enhance offers you the compliments of the holiday season, and its best wishes for you to have a happy, healthy and prosperous 2008.



Roy Stephenson, Consulting Editor

## Consulting editor bio note

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### 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?

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**Emerging markets:** How different are they really?

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**The world is changing – and banking is changing with it:** There are huge prizes out there, if you're fast and flexible enough

**Is there life beyond balance transfers?:** How to stop customers walking out of the door when the interest rate changes

**We have ways of making you pay:** Who said that fees were a thing of the past?

Make sure your card comes out first.



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