



enhance

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for people involved in payment card marketing and product development

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Issue 13, November 2008

In this issue

Weather the storm – or outrun It?
Some suggestions for meeting the current crisis

Brave new world
The promise of technology, and its dangers.

In the news

The Perfect Storm

No question about what has to be the news story in this issue: dominating the financial services industry horizon for the past several months has been what some observers are calling the perfect storm.

In a crisis, you rarely lose an audience by being too pessimistic, but no-one can seriously deny that our industry faces extremely testing times, from which few institutions will emerge unchanged. Accordingly, Enhance reflects the turmoil we are passing through by devoting much of this issue to a consideration of how card marketers may want to respond to the turbulence around them.



[back to top ^](#)

Weather the storm – or outrun it?



It's doubtful whether any of us in our lifetimes have ever seen the scale of the disruption now roiling the world's financial industry.

The US has seen the world's largest ever bank failure as Washington Mutual found refuge with Chase Morgan – which, almost by accident, found itself suddenly the nation's largest card issuer. At the other end of the fall-out scale, financial services institutions in countries such as Spain and Australia that have so far seen relatively little damage from the tumult are using the opportunity to pick up banking assets for very attractive prices.

The plain fact is that there is very little which most of us who work in the industry can do to affect these huge changes. Our task is to concentrate on the products and projects for which we are responsible.

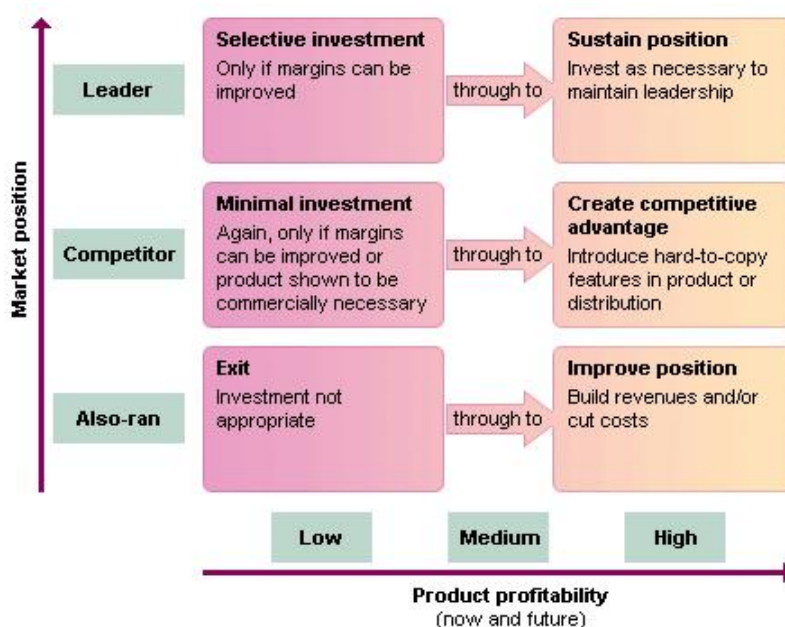
The least we can do is to ensure their survival. But the best we can do, and this is what we should be aiming at, is to see the current crisis as a great opportunity to steal a march on the competition so as to ensure that when the current crisis ends – as it will – we come out as winners. For sure, there will be problems: budgets will be frozen or cut, our customers will be more picky – and there will be fewer good ones to keep or acquire. But the prize is to come out of the storm not just intact, but ahead of the competition.

Question is, how to do it?

Suggestion 1: Prioritise, prioritise, prioritise

Your resources will be limited, so it makes sense to allocate them to the products and services which stand the best chance of optimising the return on the investment.

Exhibit 1



"In a down turn, the truly innovative even find compelling reasons to increase spend"

Suggestion 2: Managing costs is good, cutting costs is bad

What's the difference? Well, cutting costs implies that you are taking an axe to every expense you see, regardless of what it relates to. Managing costs suggests that you're being smart about them – deciding what expenses can safely be reduced without damaging your competitiveness, and those which you have to sustain to maintain your market position – and ideally come out ahead when the good times return, as they will.

In a down turn, the truly innovative even find compelling reasons to increase spend on products which come on the right hand side of the Exhibit 1. Why? Because they are the outstanding individuals who are managing for the future. And there is a school of thought which argues that many of our present woes have come about because of too great an emphasis on the short term.

Suggestion 3: Keeping your best customers – and getting new ones – is even better

Customer loyalty: it's an old story. But today's twist – and it's more important now than ever before – is the emphasis on keeping your best customers. And the flipside of that is that it means letting the not-so-profitable accounts walk out of the door. Now, this needs to be handled with care: the last thing in the world that you want is to create negative PR, along the lines of "X Bank is throwing innocent customers out on to the street".

For example, if you decide to cancel accounts which have been inactive for, say, a year, it will be crucial to check and double-check that you haven't by accident included active accounts, and that you stop any acquisition activity on them. (It has been known for an account to receive a notice of closure in one day's mail and an invitation to open a new one in the next day's.) So you will have to be very careful in your decision-making and implementation.

But once that is done, you can then concentrate on the much more rewarding task of identifying your most profitable customers, and ensuring that you maximise your chances of keeping them.

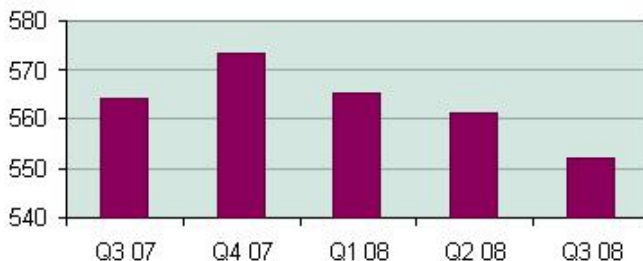
With that in mind, consider these statistics – admittedly from the US, but likely to be representative of what's happening in your market:

"You can then concentrate on the much more rewarding task of

Exhibit 2

identifying your most profitable customers, and ensuring that you maximise your chances of keeping them"

US CREDIT CARD ACCOUNTS mn (Visa, MasterCard, Discover and American Express)



Clearly, the total number of cards in issue is in steep decline: for example, compared to the same quarter in the previous year, Citibank’s credit card account base fell by 2.5% while Capital One reported a 7.8% decrease¹. New cards issued showed even steeper falls. Of course, much of this decrease will be due to accounts being cancelled for cause, either by the issuer or the customer; but the implication is that the remaining base will be more profitable, and therefore more desirable to competitors.

At this point, it’s reasonable to ask why we need to do anything to retain customers who show no signs of leaving us. The answer is two-fold:

- First, we have no idea what these customers are really thinking
- Second, every one of our competitors will be fighting to attract them

In other words, it may be wiser to assume that your best accounts are actively considering switching their business to a competitor, and figure out what it would take to make them stay.

To start with, get the basics right – the hygiene factors of price, service and distribution. But, in parallel with the hygiene factors, pay equal attention to the Three Customer Commandments:

1. Know Your Customer
2. Motivate Your Customer
3. Communicate with Your Customer

Exhibit 3



Follow these rules, and you will stand a better chance than most of not just limiting the damage, but coming out of the storm ahead of your competitors.

¹ - CardData



[back to top ^](#)

Brave new world



Despite all the doom and gloom, there is still a lot to get excited about out there. The financial crisis certainly won't halt the march of technology, for example.

By way of illustration, reports from China suggest that over 73 million people, or 29% of all Internet users in the country, use mobile phones to get online. And the number of people doing so grew by 45% in the six months to June—far higher than the rate of access growth using laptops, according to the China Internet Network Information Centre². The implication of that is that probably most people who access Internet banking in China will do so through a mobile phone rather than a computer. And with 600 million mobile phones in the country already, that makes for a market that no financial services institution can afford to ignore.



Moreover, the pattern in China is repeating itself in other markets: last year, Issue Seven of Enhance reported on the success in Kenya of M-PESA, the mobile phone-based banking service. Encouraged by its ready acceptance in Kenya, Vodafone, which owns the service, has rolled it out in Tanzania and Afghanistan, and plans to introduce it in India. Similar initiatives have also proved popular in South Africa and the Philippines. Tower Group, a research organisation, expects that mobile phones will do for financial services what Apple iPods did for music³.

The likelihood is, in fact, that developing economies are likely to embrace these new technologies faster than mature ones, which have to struggle with their legacy infrastructure and the inertia which comes with size.

Just to add to the complexity of life, what is your organisation's viewpoint on Web2.0? To its fans, it's the next generation of the Internet, allowing users much more freedom to shape the Web to their needs: applications will no longer reside on the user's PC but in a so-called cloud, Internet banking capability can be customer-determined, access to your bank account may be permanently available as a widget on the screen of a mobile phone or laptop.

Less radically, in Finland local store chain Halpa-Halli has launched a credit card with a bar-code, which ingeniously combines with a bar-code enabled mobile phone to provide customers with loyalty functionality, discounts and promotions in real time.

But the challenge with all these developments will be security.

Countries Hosting Phishing Sites in March 2008	
United States	38%
Russia	11%
France	6%
Germany	5%
United Kingdom	4%
China	3%
Lebanon	2%
Canada	4%
Italy	4%
Republic of Korea	4%

International watch-dog organisation the Anti-Phishing Working Group reports⁴ that "The number of crimeware-spreading URLs detected rose from 3,362 in January to a record 6,500 in March. This rise represented an increase of nearly 86% from the previous record of 3,500 in November, 2007. The number of crimeware-spreading URLs reported at the end of this period was 337% higher than the same period in 2007."

It would be a great mistake to underestimate the ingenuity of hackers: in a notorious case recently, drive-by crooks exploited insecure wireless communications between a store chain's tills and servers to steal passwords, card numbers and other sensitive information.

For sure it's a brave new world – but be careful out there!

² - *The Economist*, 4 September 2008

³ - *CardFlash*, 15 August 2008

⁴ - http://apwg.org/reports/apwg_report_Q1_2008.pdf



[back to top ^](#)

And finally...

How green can you get?

The new "AB Biodegradable Card" is made from plants such as alfalfa, beets, corn, potato skins, grass and wheat. The cards are produced using 100% renewable energy, and can be composted. Not to be outdone, another manufacturer is promoting gift cards and hotel key cards which are made out of wood.

Does size matter?

In what must surely be the winning entry in the Enhance "Which Card has the Longest Name?" competition, the New Mexico Department of Workforce Solutions Bank of America Unemployment Insurance Prepaid Debit Card comes in at a staggering 14 words. Hats off to the good folks who dreamed that one up – and let's hope we never need to use their services.

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?

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?

Price-led or product-led?: The dangers of focussing on price-cutting

Let's hear it for rewards programmes: How savvy issuers get value from loyalty

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?

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

Call it the flight to quality: Managing for the credit crunch

To charge or not to charge, that is the question: When is it right to charge a fee?

Managing for growth in a crisis: Value is the answer - for you and your customers

In tough times, be systematic: Got a problem? Think it through

The value of loyalty: How much is your rewards programme worth?

The (too often) ignored opportunity: Here's a new source of profitable business.

Make sure your card
comes out first.

Find out how to use our card enhancement products to
achieve your business objectives:



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