



# Boost Acquisition ROI by Looking in Your Own Back Yard

Finding New Opportunities Among Your Bank's Current Customers

By Margot Vaughan

**A**s consumers struggle with debt, issuers have—quite appropriately—refocused their acquisition efforts. U.S. issuers reduced their direct mail credit card offers 27 percent in 2008, some by as much as 61 percent.<sup>1</sup> But going too far in that direction can lead to lost market share and portfolios with high inactive rates and losses.

Instead, card acquisition efforts now should largely focus on finding opportunity among the bank's existing customer base as a reliable way to add more profitable customers to the

portfolio. Tapping into the retail customer base can deliver strong results at lower costs and with less risk. Based on what banks know about direct deposits, balances, monthly transactions, product ownership, vintage, and payment history—in conjunction with segmentation schemes and propensity models—they can identify those customers who are most likely to be profitable cardholders.

## **IT'S ABOUT BUILDING RELATIONSHIPS**

Offering credit cards to existing bank customers is smart for several reasons: Armed with greater insight into these customers' needs, banks can more easily deliver relevant,

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appealing products, thereby boosting marketing ROI, and enhancing customer loyalty as well. After all, every time cardholders take out a bank-branded credit card to make a purchase, they are reminded of their relationship to that bank.

Yet the opportunity to build stronger banking relationships on a foundation of cardholder loyalty is often neglected—because the bank’s retail and card businesses seldom share the same goals and objectives. Likewise, card managers rarely tap into demand deposit account (DDA) holders as potential cardholders. Both sides overlook the potential synergies, sometimes simply due to incompatible IT systems that don’t talk to one another. This must change—because bank profitability in this new era is about relationships, not product silos.

### **WHAT’S NEEDED: A SMARTER ACQUISITION STRATEGY...**

Before targeting another prospect, banks need to align their acquisition goals with their business models. Ask yourself: Does your organization have the operational and risk management expertise to execute against these models? Mass market acquisition tactics should be curtailed, with increased cross-selling efforts taking their place. Just to cite one example, zero percent offers are prohibitively costly—and risky—in the new economy. Instead, it’s time to start tailoring offers to targeted customers. Balance transfer offers will work for some segments, rewards for others. Some issuers are tying incentives to usage so as to build loyalty and reduce acquisition costs. Consumers who sign up for the Citi Platinum Select® / AAdvantage® World MasterCard® card, for example, receive 25,000 bonus miles with American Airlines when they make \$750 in purchases within four months.

How does an issuer uncover and cultivate its best prospects? Segmentation is key, but in our experience many issuers employ segmentation criteria—such as “affluent” or “small business”—that are too broad to be useful. We live in a diverse world where people’s attitudes, lifestyles, spending priorities, and behaviors vary greatly, even within the same demographic group or postal code. That’s why sophisticated segmentation

and profitability analyses can help issuers better understand which customers are most likely to deliver long-term profits. Once you have identified the best prospects, conduct smaller campaigns, perform disciplined testing, and take the time to analyze results and refine execution.

### **...AND SMARTER VALUE PROPOSITIONS**

No matter which segments an issuer targets, the products offered should match the cardholders’ needs and align with the issuer’s own business models. To accurately price card products that deliver value while earning a profit, tailor card features, rewards, interest rates, credit lines, and fees to fit smaller cardholder segments. Is your target audience comfortably affluent, knowledgeable about finances, likely to make large purchases, and attracted to enhanced rewards? That customer should be offered a very different product from the budget-minded consumer who spends half as much each month and only on essentials—and who may prefer a product that rewards on-time payments.

Equally important, tailor marketing communications to each segment, and to each individual customer when possible. If a branch employee helping a couple knows that the household currently owns three of the bank’s products—a checking account, a money market account, and an auto loan—he or she might recommend a credit card to better manage their spending. Such knowledge can be put to use not only in the branch, but in outbound telemarketing as well. In these times, attitudes are changing and consumers are looking for tools that help them become smarter about their spending, deal with tighter budgets, and gain more control over their financial lives.

Configuring the product features in a way that is tailored to customers’ unique needs while optimizing profitability is now more important than ever. At current loss rates, issuers may not be able to afford to offer rewards to most cardholders, and those who do want rewards may have to start paying for them. Product pricing will also have to take into account changing credit card regulations and legislation, which will change the risk-revenue dynamic for issuers. As an example, no-fee cards may no longer be viable for some segments.

### IT'S TIME TO SWITCH THE CHANNEL

As acquisition costs keep climbing, along with the expanding number of media channels, selecting the right channels for new card acquisitions is critical. While response rates to direct mail offers have reversed their downward trend recently, direct mail costs—lists, postage, paper, etc.—continue to climb. In our experience, costs range from a low of \$75 per acquired account to as high as \$400. Cost alone makes a persuasive case that issuers should seek to maximize yield from other channels.

Furthermore, channel preferences and acquisition requirements vary for each market: While direct mail has been the primary North American channel for many years, consider the experiences of banks in other markets, which have effectively used their branches or outbound telemarketing to cross-sell their current customers. Naturally, a country's infrastructure—the footprint of the branch network, the reach of the postal system, or Internet or mobile phone penetration—also determines which channels will be most efficient, along with such factors as the availability of bureau scores and prospect lists.

Issuers should use the mix of channels that produce the best results, and the way to do that is by tracking how customers are acquired and monitoring their value over time. By capturing this information, issuers can learn which channels are delivering valuable cardholders and which need improvement. For example, we often find that cardholders acquired in branch have higher rates of inactivity when branch personnel are not sufficiently knowledgeable about the card products they are offering. Special offers made at the point of sale or at sporting events may also yield less-engaged cardholders. But that doesn't mean these channels don't work; banks in Europe, Latin America, and other markets are quite successful with branch and retail acquisitions. By measuring long-term profitability for each acquisition channel, issuers can make improvements where necessary and boost their revenue and return.

### THE GOLD STANDARD: LIFETIME CUSTOMER VALUE

Selling products with terms and conditions tailored to discrete segments isn't easy, but it's more profitable in the long run. What's required now, to come out successfully on the other side of this financial crisis, are three essential strategies:

1. Employ lifetime customer value models to guide lending policies, terms and conditions, and value propositions.
2. Leverage insights about current customers to segment card offers, design product features, and deliver cross-sell messages that have the greatest appeal.
3. Look at customers with an integrated, bank-wide perspective, so that marketing, risk, collections, and the retail bank are all pursuing the same strategy and goals.

The mantra for everyone in your organization should be to optimize total customer value across the household and across all products. Deepening relationships with current customers is one of the most cost-effective ways to acquire profitable cardholders. ●

1 Synovate Mail Monitor, January 30, 2009.



Margot Vaughan is the Global Practice Leader for MasterCard Advisors' Acquisition and Online practice. She and her team support issuers globally in profitably acquiring new customers for all credit products through a wide array of channels—branch, direct mail, online, telemarketing, direct sales, and direct TV/radio. Based in Purchase, N.Y., Ms. Vaughan can be reached at: [margaret\\_vaughan@mastercard.com](mailto:margaret_vaughan@mastercard.com).

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