Maximize ROI from Customer Retention & Loyalty (Rewards) Programs in the Credit Cards Industry

Match incentives/rewards to customer profiles and Identify those that can be converted to Friends and Champions by leveraging Their "Inherent Loyalty Intensity" measured from their rational as well as emotional/psychological drivers for decision making

Credit card issuers face tough challenges in the intensely competitive marketplace. The competitive environment is exacerbated by the slow economy where issuers have to accurately identify and get their share of business from a shrinking pool of economically desirable customers. A particularly daunting challenge is customer churn due to the low barriers to switching their business to other credit cards. Credit card issuers have adopted various approaches to dealing with retention and churn issues. Prevalent among them are monitoring communications to improve customer care and offering incentives on fees and terms and interest rates where applicable when an imminent switching action is suspected. More recently, a tool that some issuers have adopted to try and combat churn and build long term relationships with customers is Rewards Programs also referred to as Customer Loyalty Programs. These programs offer points based on account balances which can be accumulated and redeemed by applying them towards products/services of affinity partners ranging from airlines and hotels to a wide variety of retailers.

Recent research, conducted by C-Metrix and other industry sources, about consumer banking industry customer retention and rewards programs as well as customer attitudes and actions reveal the following interesting and illuminating facts:

What banks believe: The effective way to retain customers is to increase satisfaction by improving service aspects, e.g., increased coverage, better customer care and giving more discounts.

What customers do: Eighty per cent of customers say that they are satisfied with their bank, yet, only thirty two per cent say that they would not switch.

Conclusion: Greater satisfaction does not lead to higher retention. Satisfaction beyond a certain level does not provide an acceptable ROI.

What banks believe: customers can be retained by monitoring complaints and other communications and taking pre-emptive action.

What customers do: About 80% of customers who switch do not complain or communicate their intention to switch.

Conclusion: Monitoring complaints and communications yields limited results.

What some banks think: Spending based rewards programs are an effective way to prevent switching and build "loyalty".

What customers say: Less than 30% of customers with average monthly balance less than $1500 say reward programs would have any impact on their switching decisions.

More than 50% of customers with average monthly balance of more than $1500 say rewards programs may be a positive incentive for them to stay with a provider. These customers are three times more likely to switch than those with average monthly balances of less than $1500. This means the rewards given to these customers would have to be always better than the competitors'.

Conclusion: customers who stay for rewards also leave for rewards. Rewards programs may boost retention temporarily, but, they can turn out to be a net loss for the provider over time.

What customers say: A significant majority of customers (55%) say that they consider the social awareness and contribution of a provider as a factor in forming a "bond" with them.

What banks do: Only a few providers are taking significant action to establish a bond with the subscriber at an emotional level.

Conclusion: customers with emotional ties to a provider tend to stay even if they feel that they can get a better deal with another. Emotional ties include ties to the community, social programs and causes such as the environment.

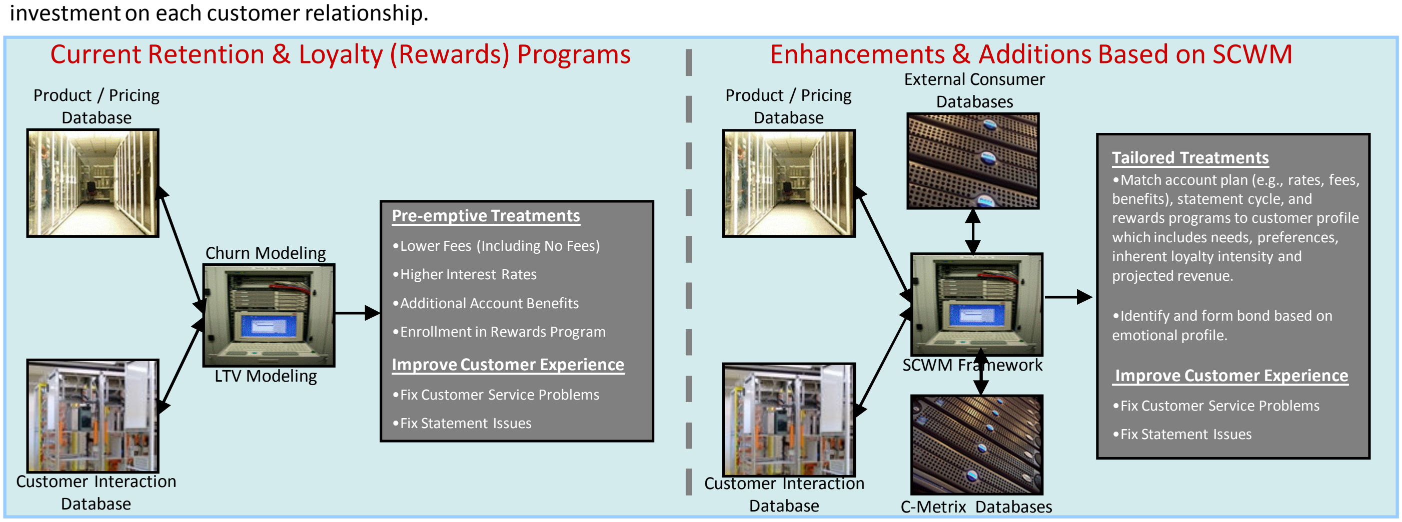
What banks assume: All customers have the same internal propensity to switch and hence behave the same way when faced with service and customer care issues, pricing, & discounts.

What customers are: Each cardholder has different reaction to different external stimuli based on their psychological/emotional profile.

Conclusion: It is essential to consider the psychological/emotional profile of a cardholder to maximize ROI in the relationship.

One unmistakable conclusion from the above facts is that customer retention and rewards (loyalty) programs, as structured and applied today, do not enable the establishment of a "bond" with customers to leverage them as friends and champions for their banks. As friends they would stay with the provider and spend more. As champions, they would entice others to do the same. Research indicates that friends and champions can reduce customer acquisition and retention costs by as much as 80%.

C-Metrix has developed breakthrough solutions based on our unique framework SCWM (Strategic Customer Worth Management) which have achieved phenomenal results in maximizing the effectiveness of retention and rewards (loyalty) programs in the consumer banking industry. A description of SCWM, success story and some of our thought leadership pieces focusing on it are provided in the following page. Below is a schematic of how SCWM is applied to retention and rewards programs in the consumer banking industry to maximize return on investment on each customer relationship.



Strategic Customer Worth Management (SCWM)

What is SCWM?

SCWM is a proven enterprise solution based on our unique *"true customer worth"* evaluating framework that determines the optimal treatment and rewards to offer to acquire, retain, or expand business with each customer.

Why is SCWM useful?

SCWM maximizes ROI on each customer, getting maximum "bang for your buck" from marketing, customer acquisition, retention, and win-back expenditures.

How is SCWM different from other solutions?

•SCWM is based on the *inherent loyalty orientation* of each customer and their current and/or potential revenue stream
•SCWM is focused on being *predictive* rather than reactive

Success Story : Leading Consumer Bank

Background

- Client was losing a significant fraction of the "wallet share" of profitable consumer customers to out-of-region banks and local competitor banks due to the introduction of internet banking and relaxing of interstate banking regulations.
- Offering of no-fee checking accounts and other incentives e.g., rewards programs, reduced account closures, but, since the size of their accounts became smaller, number of unprofitable customers rose.

Approach

- We applied SCWM to the client's customer information data.
- Evaluated customers based on their banking preferences, e.g., technology orientation, inherent switching propensity, and revenue potential and determined their "true worth" score for the bank.
- Matched programs i.e., type of account, fee structure, and channels to each customer based on their needs, preferences and "true worth" score.
- Assisted the client in selecting and implementing a multi-tiered web and telephone banking platform which will integrate all the consumer services of the bank via a phased multi-year program.

Results/Benefits

- Profitable customers increased by 6% since our programs matched customer needs and preferences more precisely and they did not feel the need to deal with multiple banks.
- Up-sale increased by 10% and cross-sale increased by 8%.
- Average customer profitability increased by 11% because of the increase in up-sale and cross-sale to profitable customers and many unprofitable customers leaving the bank.

Our Full Spectrum Solutions & Services for Banks

C-Metrix has worked with a number of banks to enhance their customer acquisition, retention, expansion, and churn management capabilities.

We employ **innovative strategies**, effective **data & analytics** and **necessary technology** to address priority business issues of the bank with proven results in reducing costs and improving bottom line performance.

Cost Management

►Cost/ROI Analysis
- Core Banking Operations
- Sales
- Marketing Programs / Campaigns
- Retention / Rewards / Loyalty Programs
- Credit & Collections

►Profitability Analysis
- Product Profitability Analysis
- Customer Profitability Analysis
- Lifetime Customer Value Analysis

Process & Operations Transformation

►Core Banking
►Marketing/Sales/Customer Service
►IT
►Shared Services

Customer Relationship Optimization

►Customer Segmentation & Profiling

►Customer Churn Optimization

►Rewards / Loyalty Programs
- Program Impact and ROI Assessment
- Program Design, Execution & Optimization

►Customer Experience Optimization
- Branch / Online / Phone / Direct

►CRM / BI Platforms & Technology
- Assessment & Roadmap Development
- Package Evaluation, Selection, Implementation

Risk Management

►Compliance: OCC; Basel II
►Fraud
►Credit & Collections

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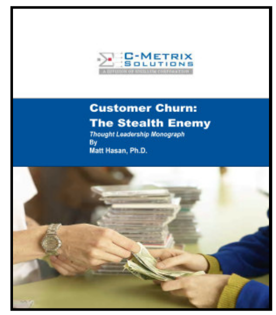
The Seven Common Myths about Customer Loyalty and the Realities Behind Them

There are many different and often conflicting notions about issues related to customer loyalty that are being held as business truths.
This thought piece takes a look at some of the commonly held beliefs in light of both the intuitive logic regarding the issues and the evidence gathered from experience in a number of industries. The goal is to gain a clear understanding of the why's and how's of the evolution of the myths about customer loyalty and to establish the realities behind them.



Customer Churn: The Stealth Enemy

Customer churn is a critical business issue in most industries, particularly the ones with huge customer bases. If not managed properly, customer churn will ruin a company and may have a severe adverse impact on the industry and the economy as a whole.
This paper takes an incisive look at the fundamental aspects of customer churn e.g., customer acquisition, retention and loyalty and describes a breakthrough framework and methodology for optimally managing churn by matching the total treatment of a customer to their true lifetime worth which is based on their inherent loyalty propensity.

Hit or Myth: Meaning of "Loyalty" Misunderstood

Myth: Companies should do the most for their most loyal customers. Many companies in variety of industries have loyalty programs. The practice, which is based on rewarding frequent buyers, started with airline industry almost two decades ago, was then adopted by other members of the travel industry, and has now spread to other industries ranging from telecom to retail trade.
The article discusses the myth at the foundation of these programs, that providers should do the most for their loyal customers, and puts forward a new paradigm where loyalty is defined as an intrinsic customer quality as opposed to the outcome of marketing efforts.