Cards International

Benchmark intelligence on cards-based financial services

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Asian operators must prioritise retention

Getting new customers was the easy part. Now the challenge for Asia's credit card companies is getting the right customers - and holding onto them.

The reason is simple: Asia's wallets and purses are bursting with credit cards. In Singapore and Hong Kong many consumers carry four or more cards - almost as many as their counterparts in the US and the UK. That counts as saturation. And it completely changes the dynamics of the regional credit card industry.

The dramatic and easy growth of the past decade is slowing. In its place is fierce, ruthless competition. This is already evident in Singapore, where the major banks are attempting to outdo one another by offering cut-price rates to customers who defect from a competitor. **Standard Chartered** charges an APR of just 1.99 percent on transfers that last at least 12 months; **ABN Amro** offers an APR of 3.33 percent for transfers for at least six months.

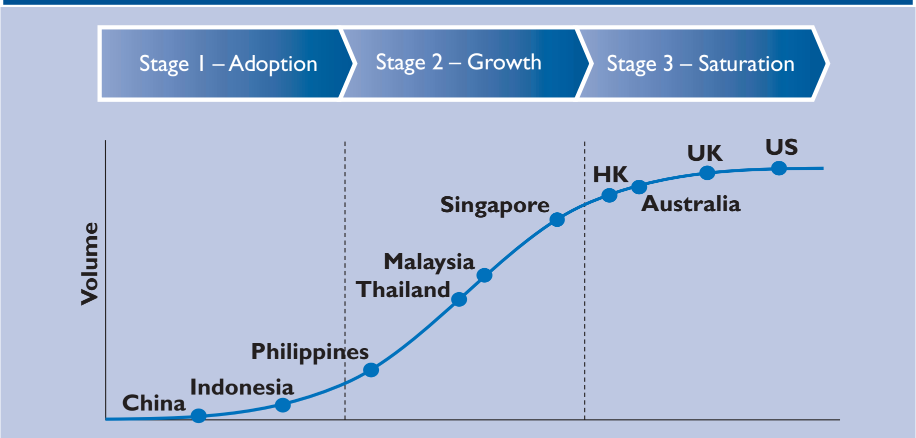
You think that's bad for the bottom line? It can – and probably will – get a lot worse. In the US, 0 percent balance transfer offers are now the norm, accounting for some 60 percent of all offers in mid-2002, up from less than 20 percent just a year earlier. The aggressive pricing is likely to spill into the existing customer pool as well. Standard APRs in the US have fallen significantly over the past two years, dropping from an average of more than 14 percent to less than 10 percent.

So how should credit card issuers respond? First, companies must squeeze out cost savings from their own operations, so they can pass them on to customers. Multinational players are rapidly centralising their Asian processing operations, and in some cases looking to add US and European volume as well. Having operations in multiple countries around the world also gives them the ability to arbitrage costs and technology.

But there's another, more important resource to consider: customers. The best way to win in the increasingly cutthroat environment is to develop a loyal customer base. Some issuers have already begun to recognise this, and are offering more generous reward programs to their best customers. In Singapore, for example, **DBS** has aggressively launched a black **American Express** card for consumers with a minimum annual income of S$ 48,000. The Black Amex offers double reward points on all spending for life, along with other extensive privileges, such as priority parking and free workouts. DBS has also waived the first year annual fee.

But developing a loyal customer base, and making the most of that loyalty, can be complicated. It helps to follow a few simple rules.

Asian card markets are evolving to a saturation point



Stage 1	Stage 2	Stage 3
• Low penetration	• Rapid growth	• Lower growth
• Limited competition	• Increasing competition	• Fierce competition
• Single product offerings	• Product innovation	• Focus on loyalty

Know the breakdown of your customer base

Not all customers are created equal. Typically, just 30 to 40 percent of customers generate over 100 percent of profits. Issuers need to identify and protect their most profitable customers - particularly high spend transactors, credit-worthy revolvers and overseas spenders. Taking good care of these crucial customers is key.

Once a customer comes on board, it is critical to get that customer to use the card early and often. Our research has found that those who use the card immediately tend to become the best customers over the long term. Generally, between 5 percent and 20 percent of active customers voluntarily cancel their card in the first twelve months. When you compare this with inactive customers, where cancellation rates can be as high as 80 percent, the importance of activating customer spending is paramount. While engaging customers early may be hard it is also a potential source of cost effective growth.

Given the importance of finding – and keeping – active customers, it's worth

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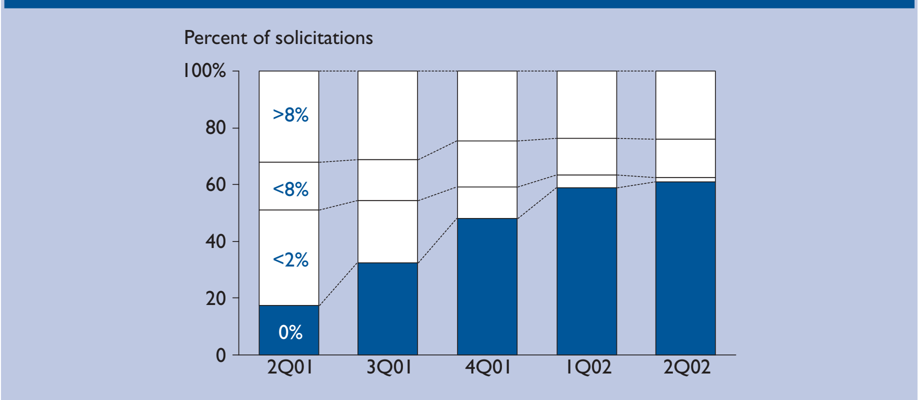

committing more of your marketing resources to this goal, even if it means cutting back elsewhere.

Many credit card companies still operate as if they were living in the industry's infancy. They focus 80 percent or more of their spending on acquiring new customers. This is the case even in mature markets, where acquisition campaigns are becoming increasingly sophisticated - and expensive. Such spending can be misguided, given what we know about acquisition costs and usage patterns.

For one thing, it usually takes between two and three years to recoup the cost of acquiring a customer. For many Asian issuers, typically up to half of these new customers will not stick around long enough to justify the cost of their acquisition. Conversely, turning a new customer into an active one is worth two to three times as much in profits than simply acquiring the average customer. The numbers are even more dramatic when you consider what you can do with the customers you already have. Retaining and deepening an existing customer relationship can be worth five to ten times as much as acquiring a new one.

Track customer loyalty – not just spending

To run a successful operation, it's critical to know which sales teams and which marketing efforts are bringing in the right kind of customers and convincing them to use the card regularly. Customer relationship management tools can help identify efforts that are most successful by measuring how each customer stacks up in terms of receivables, revenues and profits.

In the US, MBNA is well aware of the importance of loyalty and generously rewards those that inspire it. The company posts customer-oriented performance metrics on public notice boards and funds employee bonuses on days when the company as a whole hits more than 90 percent of its targets. At **Bank of America**, performance-based pay is now measured by the extent to which customers use its products, rather than just how many products are sold.

Tracking loyalty can also help on the other end of the equation by telling you who is not generating loyalty. If a company knows which distributors, employees - and customers - are not up to scratch, it can take actions to remedy the programs, products or channels that are generating the sub-par performance.

Don't wait – take action now

There's one more thing: as Asian credit card markets mature, they are likely to follow the lead of the US and consolidate dramatically. That makes it all the more important to hold onto key customers. Consider this: In the US, the top ten credit card issuers now account for 90 percent of the market. That's a dramatic and rapid shift: In 1990, the top ten players accounted for just 45 percent of the market.

The leading issuers tend to be those players that can adapt quickly to the new competitive situation, by shifting their focus purely from growth to loyalty. Beyond just continually acquiring customers, they focus on loyalty - and as a result are able to enhance their strategic and financial performance.

In short, if you play the loyalty card - you'll likely enjoy rich rewards.

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