



# Successful Marketing Strategies for Your Payment Products

May 19, 2009

# OUR MARKETING MISSION TODAY

- Review of the current landscape and consumer behavior for both credit and debit products
- Identify the marketing challenges credit unions are facing
- Apply best practices to help retain and grow your membership's payment product usage



# The “State of the Consumer”

## Anxious for Control

- One of the most important factors in psychological and physical health—a consumer’s sense of control—is threatened due to marketplace uncertainty
- 82% of surveyed consumers say they are experiencing economic anxiety, which can cause them to engage in counterproductive and irresponsible purchasing behaviors

## Three in Five U.S. Adults Have Cut Spending Because of Economy

- 58% of Americans say they are spending less than a year ago as a direct result of the economy
- Americans in their prime earning years, Gen Xers (29 – 42) and Younger Boomers (43 – 52), are the most pessimistic about the state of the economy
- Still, 45% of consumers expect their financial situations to improve; optimism is most common among affluent consumers (\$75K+ income) and Gen Yers (18 – 28) who’ve yet to work through a recession



# The “State of Credit Union Marketing” What Are YOUR Challenges?

- Reduced marketing budgets
- Reduced staff
- New product and campaign development
- Differentiating from banks
- Focus from the front line



# Polling Question

- How has the economy impacted your marketing efforts?



# How Do You Reach Consumers in a Down Economy?

- Offer products and services that enable members to regain a feeling of control
- Differentiate your credit union as a reliable financial partner
- Show members how to spend and shop smarter, and provide incentives or rewards for doing so

*Payments products are the tools that provide control, differentiation, and incentives.*



# Leading Credit and Debit Card Acquisition and Activation Trends

- **Customization in:**
  - Products – credit and debit
  - Rewards – standalone and relationship
- **Rate and Fee Management** – what is happening in account acquisition
- **Channel Optimization** – leveraging the channels in place, primarily branches, to market payments
- **Segmentation and Target Marketing** – better offers to the consumer, reduced expenses for the issuer
- **Responsible Usage and Payment Messaging** – key message throughout all channels



# Understanding Your Members' Wallet Strategy

	Strict Credit (28%)	Credit + Pocket Cash (10%)	Debit & Credit (18%)	Strict Debit (26%)	Checks & Cash (11%)	Cash Heavy (7%)
Travel/Vacations	98%	89%	76%	45%	74%	49%
				42%		
Restaurant Meals	98%	77%	51%	91%	65%	89%
			26%			
Groceries	94%	67%	86%	94%	41%	87%
					38%	
Clothing	99%	99%	54%	94%	49%	91%
			39%		28%	
Gasoline	97%	91%	49%	87%	46%	83%
			36%		35%	
Household Items	99%	95%	59%	90%	42%	75%
			30%		31%	
Entertainment	98%	91%	50%	75%	74%	90%
			31%			
Planned Major Purchases	97%	89%	72%	42%	67%	43%
				39%	27%	23%
Small Purchases	89%	60%	67%	88%	58%	85%
		36%			24%	
Impulse Splurges	95%	86%	41%	79%	40%	67%
			33%		23%	

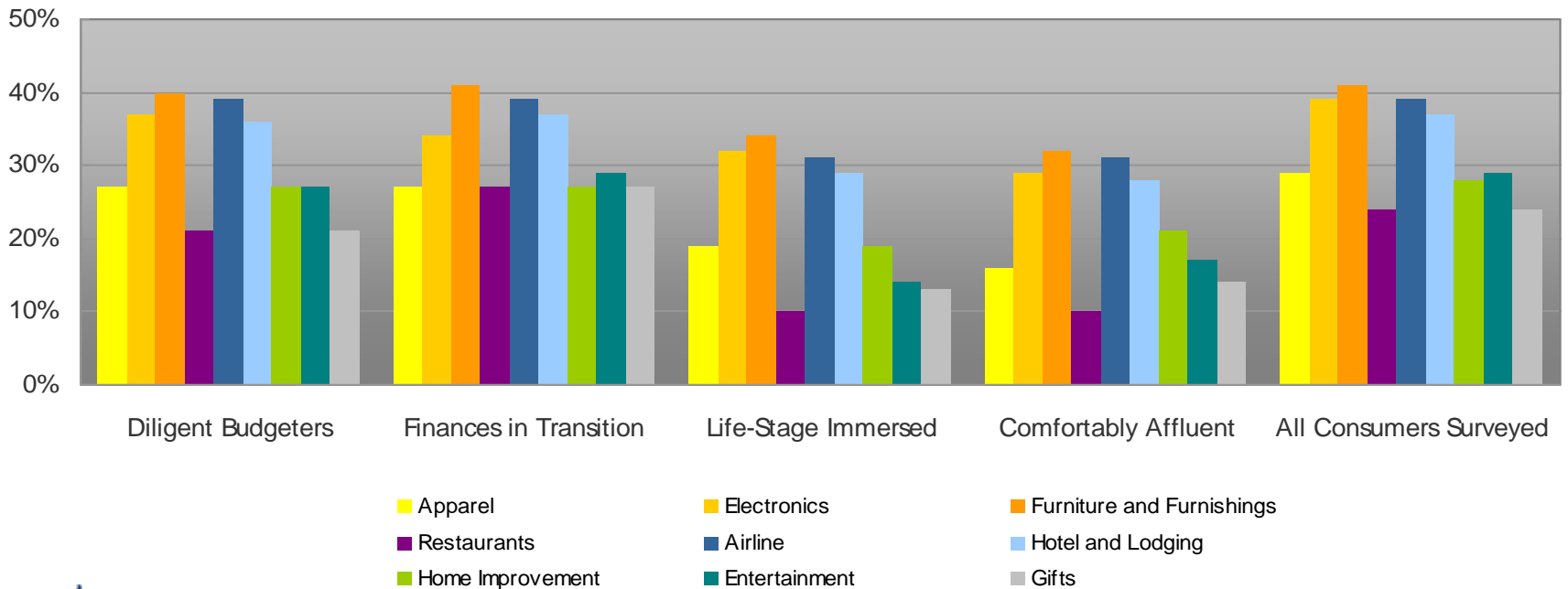
% = proportion who prefer the payment method for the specified occasion

Source: MC Involve Study; July 2008



# About Your Credit Users

- Electronics, furniture/furnishings, and travel (hotel/airlines) are the categories consumers are targeting for reductions.
  - 40% of these categories spend is on credit cards **YIKES!**
- Less impact is anticipated on smaller ticket purchases such as restaurants, entertainment, and gifts.



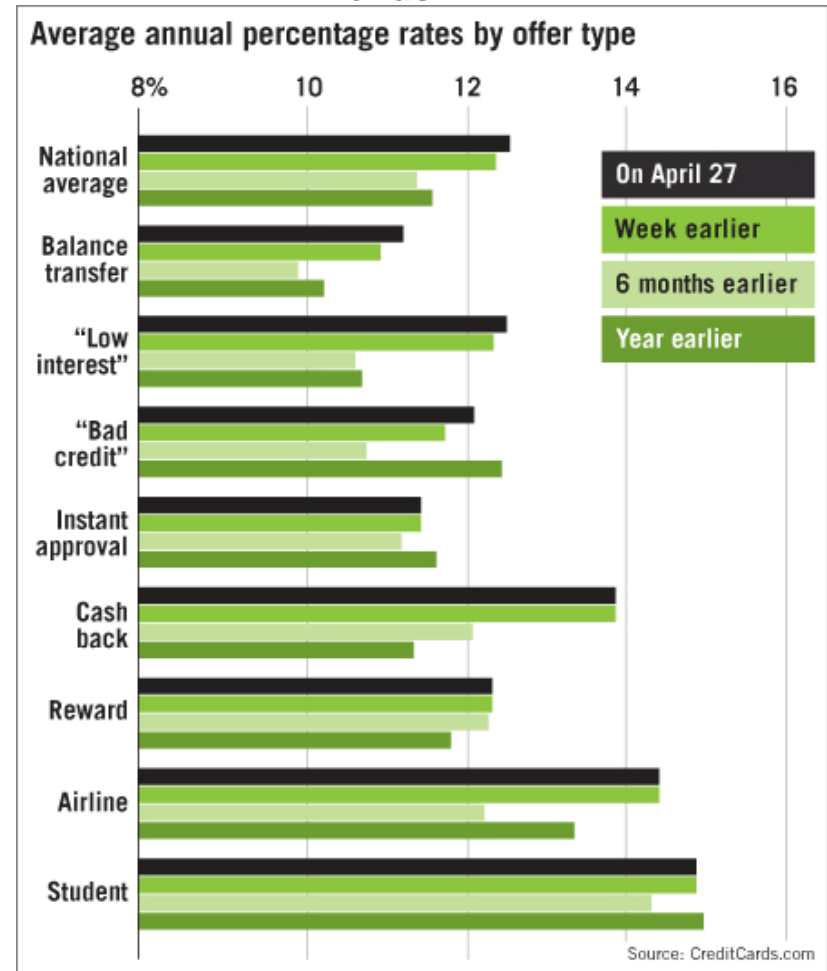
Source: August 2008 MasterCard Payments Panel Survey



# Trends in Credit Card Account Acquisition Rates and Fees

- Rates for Cash Back cards have jumped significantly as issuers attempt to recoup expenses
- Low Interest offers have virtually disappeared in the last 6 months
- Trends show issuers incenting transactors to keep interchange revenue stream steady with some increases in rates to increase interest income
- Annual fees would become common if legislation is passed that eliminates or reduces punitive fees

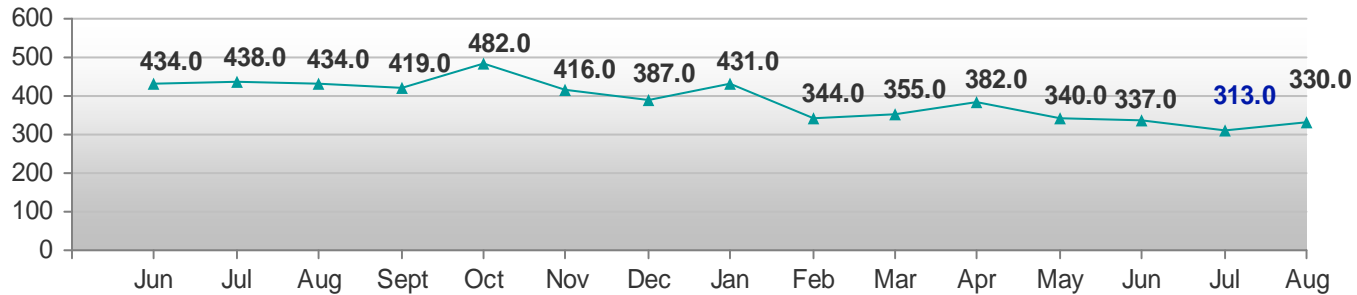
Trends in APR



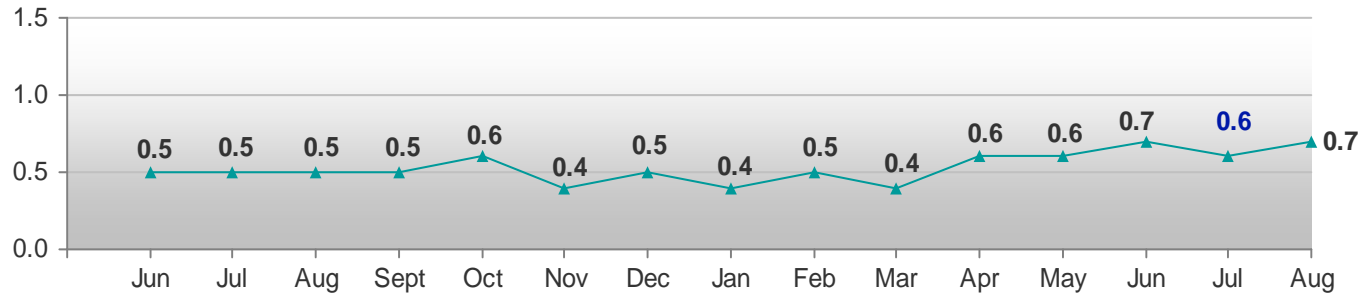
# Trends in Credit Card Account Acquisition

## Direct Mail

Credit Card Direct Mail Monthly Volume  
(in Millions)\*



Average Monthly Responses Rate



\*Effective 1/01/08, reflects increase in population from 112 million to 113 million.  
Source: Synovate Mail Monitor, through August '08



# WHAT IS A CREDIT UNION MARKETER TO DO?



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# To Do List

- Segment your membership for targeted account acquisition
- View your portfolio marketing through the lens of lifecycle management
- Communicate your credit union and product benefits – repeatedly!



# Segmenting Your Member Base

- **3 Basic Types**

- Demographic – proximity to the member service center, # products with the credit union, age, income
- Psychographic – Urban Achiever, American Dreamer, Simple Pleasures
- Behavioral - # of times they visit the member service center, online transactions, or product usage

- Demographic and Behavioral elements provide easiest segmentation for payments products



# Segmentation Best Practices

- Segmentations should be designed to solve a specific marketing challenge or problem
- Segments should be easily identifiable
- Segments should be stable
- Avoid creating segments that lack substantial member size
- Segments should be measurable
- Segments should be actionable versus interesting



# Segmentation = Strong Acquisition



- 7 Segments, 1 Control
- 60,000 pieces mailed
- Mentioned existing relationship
- 2.5% response rate overall – compared to 0.7% industry response
- Highest responding cell had 3 products, including deposit account
- Focus on relationship and product benefits



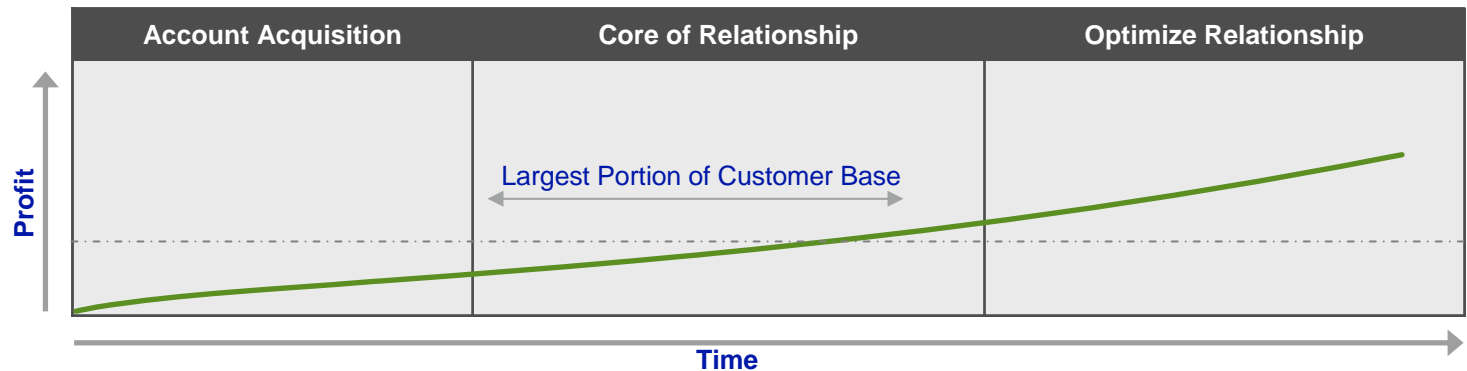
# Strong Acquisition = Channel Optimization

- Client: **Security Service Federal Credit Union**
- Objective:
  - Educate new members from indirect loan channel about the benefits of membership
  - Promote acceptance of the credit card to pre-approved member base
  - Provide warm leads to SSFCU team regarding other credit union products and services
- Campaign:
  - Provide monthly files of new indirect loan accounts, divided into pre-approved and non pre-approved lists based on their credit score
  - Place an outbound call to member during time credit score is still valid
  - Address them individually, including referencing the type of vehicle purchased
- Results:
  - In first year of campaign, SSFCU was able to cross sell one or more products to 22% of the members reached
  - 7% of the sales were acceptance of pre-approved credit cards, resulting in an additional 530 accounts



# What To Do After You've Acquired the Account

## Lifecycle Management



<b>Account Strategy</b> <b>Card Strategy</b>	<ul style="list-style-type: none"> <li>Acquire &amp; Effective Onboarding</li> <li>Education &amp; Trial</li> </ul>	<ul style="list-style-type: none"> <li>Efficient Account Management</li> <li>Establish Behavior, Accelerate Drive to Full Potential &amp; Sustain Usage Levels, Upgrade</li> </ul>	<ul style="list-style-type: none"> <li>Improve Profitability, Consolidate &amp; Retain</li> <li>Grow Utilization</li> </ul>
<b>Channel Focus</b>	<ul style="list-style-type: none"> <li>Mass Media, Branch, Internet, Call Center, Direct Marketing</li> </ul>	<ul style="list-style-type: none"> <li>Direct Marketing (E-mail, SMS, Mail, Statement)</li> </ul>	<ul style="list-style-type: none"> <li>Direct Marketing, Branch, Call Center</li> </ul>
<b>Payments Business Objective</b>	<ul style="list-style-type: none"> <li>Card Activation &amp; Purchase Active</li> </ul>	<ul style="list-style-type: none"> <li>Maximize Payment Profitability</li> </ul>	<ul style="list-style-type: none"> <li>Retain &amp; Maximize Relationship Profitability through Cross-sell &amp; Consolidation</li> </ul>



# Welcome the Member to the Product Education and Activation

- Develop a high touch relationship from the beginning
  - Include information in new account welcome packets
  - Place outbound calls to welcome new members and educate about the credit card product

## Welcome Call Case Study:

- **3% higher** account utilization
- **24% lower** first pay default
- **6% higher** average transaction amount
- **16% higher** number of transaction



## Polling Question

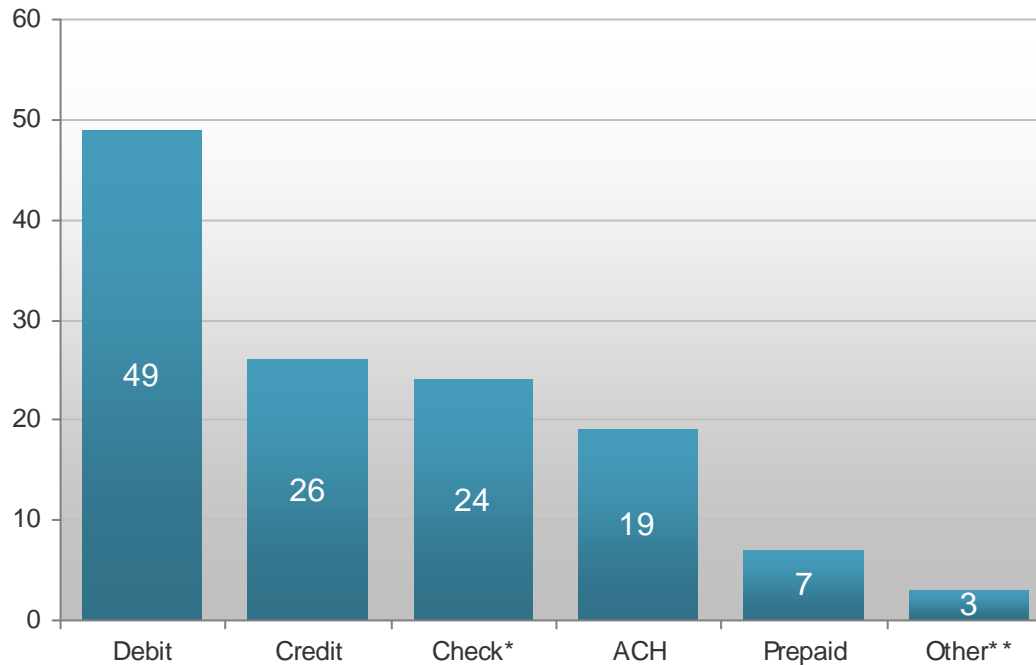
- What campaigns or techniques have you implemented to promote your credit card products?



# And now, DEBIT...

## By 2010, Debit will be the leading non-cash payment

2010 (in Billions)



\*Refers to checks paid and excludes checks converted to ACH for clearing. Also includes travelers checks and money orders

\*\*Includes EBT, EMT, book entry transfers, and wire transfers

Source: McKinsey May 2007



# About Your Debit Users

- Growth segments for new accounts and incremental transactions
  - Younger, independent singles and young nester
  - Over-index on travel, entertaining, and entertainment
  - Desire greater control
  - Motivated by rewards
- Less likely to make spending cuts in restaurants, entertainment, and nondiscretionary spending such as bill payments and some retail
- Typical heavy user is Female (57%), Married (67%), With Children (46%), Employed Full Time (67%), and about 40 years old



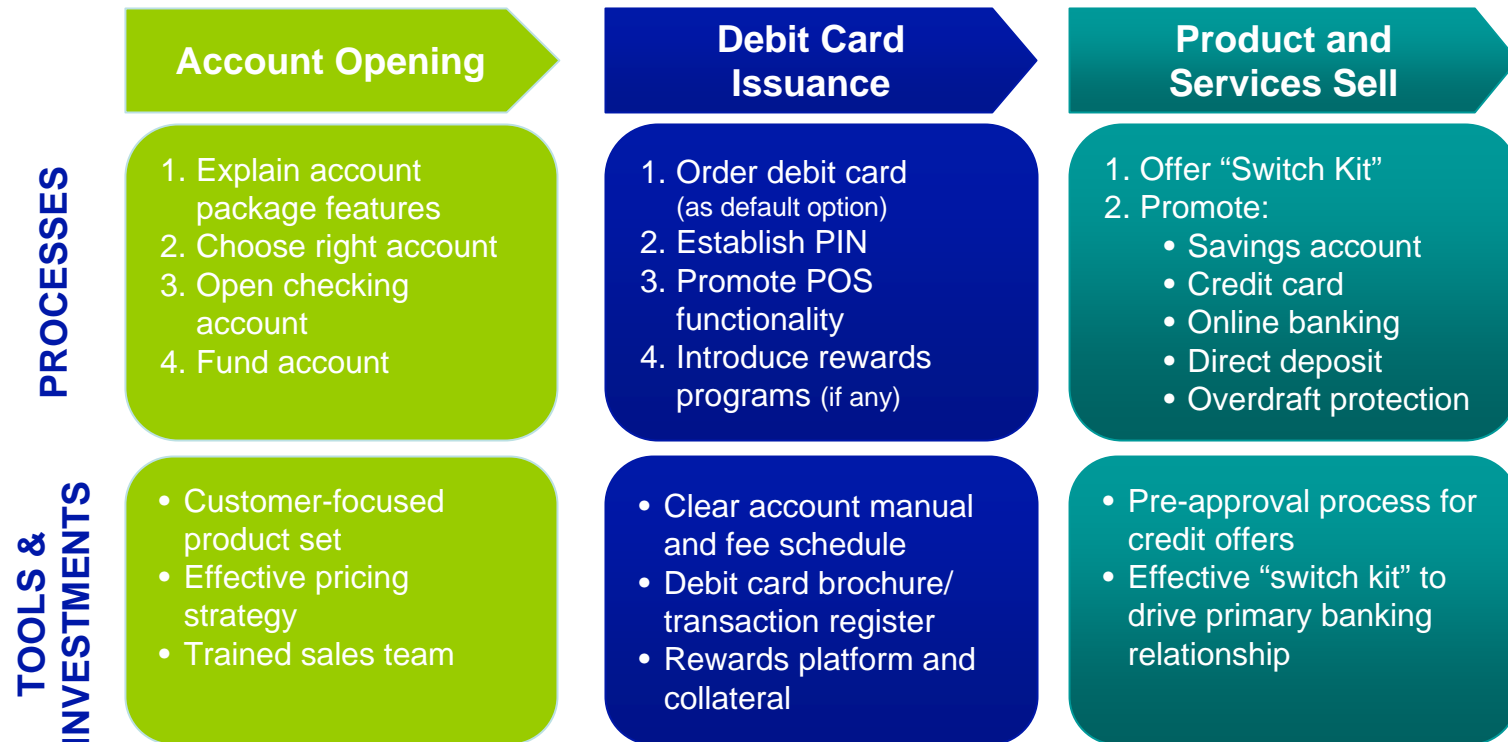
Source: Visa Payment Panel Study

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# Lifecycle Marketing Account Acquisition

- Build credibility and educate



# Lifecycle Marketing On Boarding New Accounts

- Secure usage – early!

PROCESSES

## Account Engagement

1. D1—welcome e-mail
2. Online banking enrollment
3. Welcome note
4. Day 7–10 mailing
5. Checks
6. Product/service brochures

## Debit Card Activation & Stimulation

1. D3–7: debit card carrier package
  - Card overview, FAQs
  - Rewards brochure
  - Activation incentive
2. Day 30 mailing/e-mail
  - Activation message to inactives
  - Usage stimulation offers to actives

## Ongoing Call-Center Support

1. D5–7: Welcome Call
2. VRU opt-out sales call after card activation
  - Credit card
  - Direct deposit
  - Online banking
  - Overdraft protection

TOOLS & INVESTMENTS

- Customer-focused product set
- Effective pricing strategy
- Trained sales team

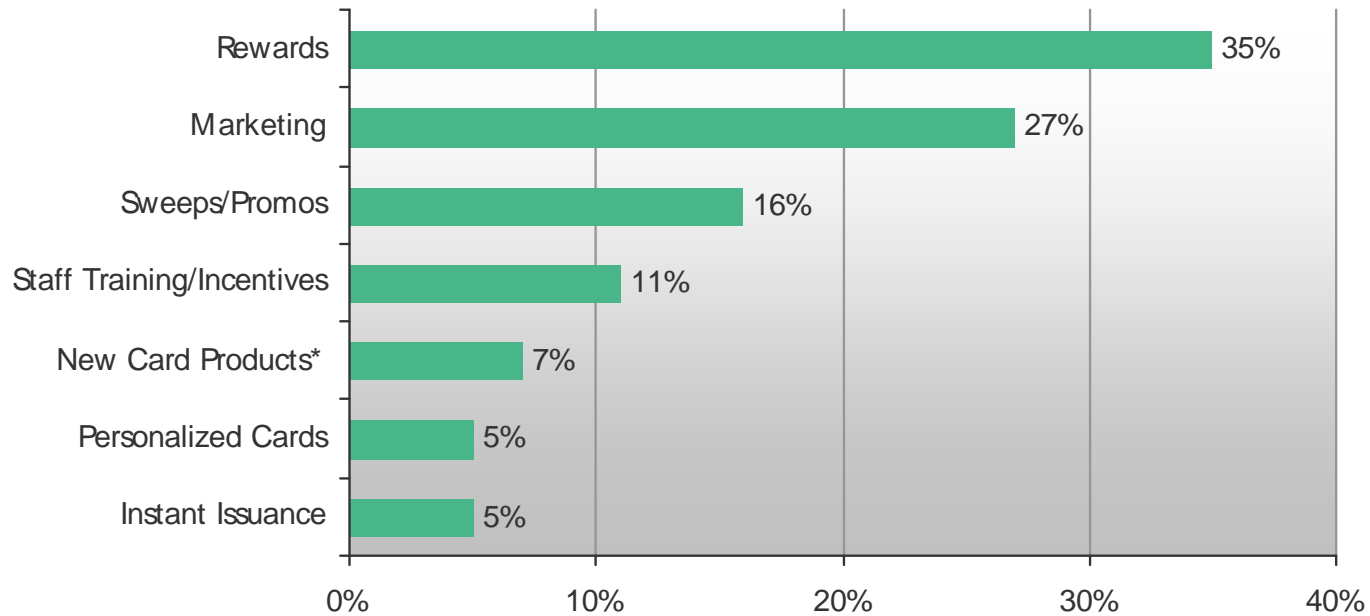
- Rewards platform
- Actionable portfolio management platform
- Automated activation & stimulation contact generation

- Welcome call scripts
- X-sell propensity model
- Debit card activation & utilization offers
- Align cross-sell objectives & sales incentive strategy



# What's Next?

As organic growth has slowed, beyond acquisition, issuers are evaluating alternative growth strategies for debit portfolios.



\*Includes business debit cards, gold cards, and contactless cards.  
Source: Pulse Debit Issuer Study



# Integrating Your Payments Marketing Strategy

Leverage Successful Strategies to Benefit Credit and Debit Card Product Lines



# Comprehensive Rewards Strategy

- Rewards is a “cost of entry” for credit products and is becoming more popular in debit
  - Credit – 75% of cardholders own a rewards card; 75% of those cardholders used the card in the last month
  - Debit – 20%+ of cardholders own a rewards card; 75% of those cardholders used the card in the last month
- Average monthly spend for rewards cardholders is higher
  - Credit -- \$717 with rewards vs. \$363 without
  - Debit -- \$738 with rewards vs. \$637 without



Source: Visa Payment Panel Study

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# Rewards Product Trends

- Points-based rewards still #1 with 46% of cardholders choosing this option
  - 31% prefer cash back (.25% of value)
  - 14% prefer airline miles
- Key Features:
  - Flexibility
  - Achievable redemption levels
  - Easy redemption options
- Merchant funded rewards or shopping promotions
- Integrated “Relationship” Rewards



Source: Visa Compelling Rewards Study

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# Building a Relationship Rewards Strategy

*Financial institutions capture 28% of total spending when a cardholder owns a debit and credit card from the same FI, compared to 23% for debit-only and 13% for credit only*

- Identify products or behaviors to be included
- Tier points and promotions based on key drivers for your credit union
- Show how points were earned to reinforce behavior
- Determine rewards product ownership – and cost/liability accrual structure
- Report points earned by product and define the role of each line of business
- Get buy in from ALL parties – CEO to front line
- Develop a long term plan to evolve the product, tie it in with front line promotions and overall growth strategy of the credit union



## Polling Question

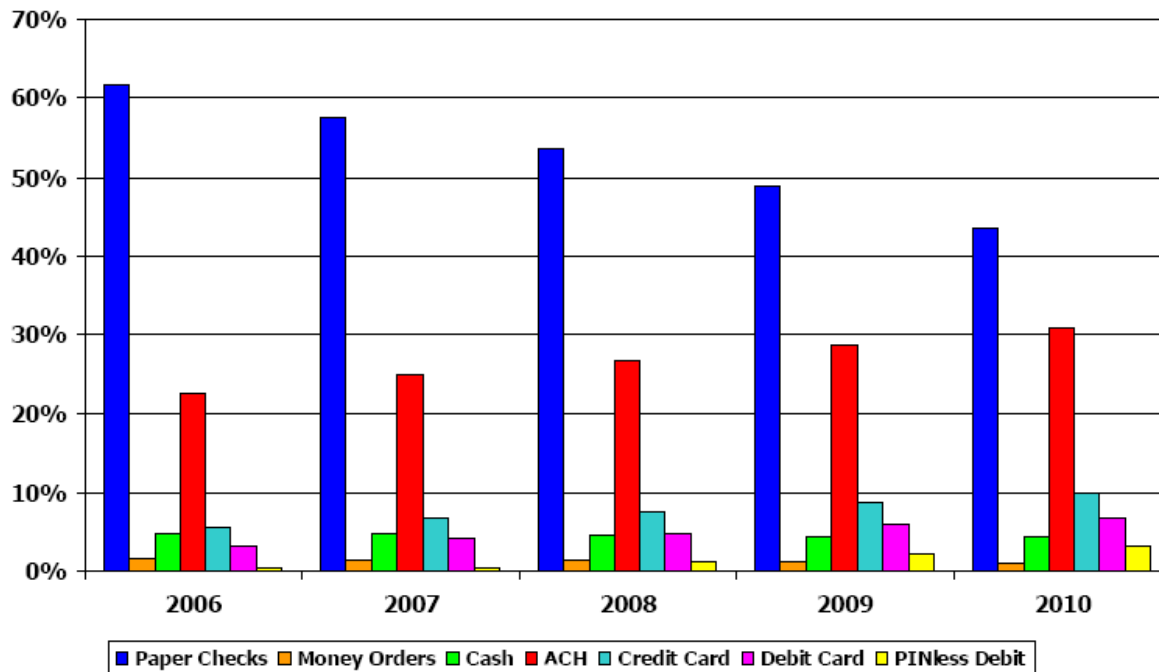
- Do you have, or are you considering, a relationship rewards program?



# Secure Ongoing Card Activity with Bill Payment

## Bill Payment Trends

Percentage Growth By Payment Type



### Recurring Payment Cardholders:

- Less likely to attrite
- More likely to use the card frequently
- Prefer the card to all others



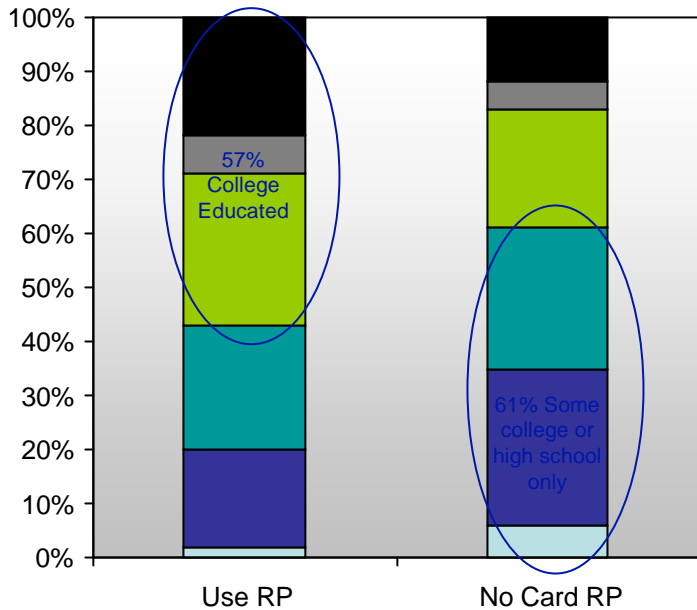
Source: TowerGroup, Celent, Aite Group

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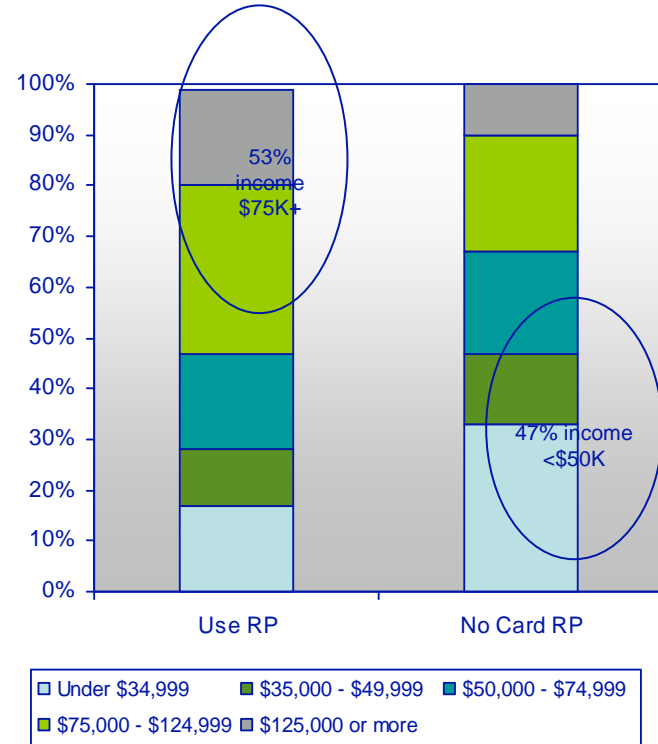
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# Recurring Payments Users Tend to be More Educated and Have Higher Income



- Received a graduate/advanced degree
- Some Graduate school
- Graduated from college
- Some college
- Graduated from high school
- Some High School



... and are likely to be qualified, long term members who will recommend you to others.



Source: MasterCard Recurring Payments Study 2008

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# Leveraging Your Branches = Channel Optimization

- 92% of surveyed members visit a branch regularly
  - 82% prefer to open new accounts in a branch
- Branch performance (credit accounts):
  - 52% of new credit card accounts originate in branch
  - 10 = average # of new credit card accounts per branch per month
  - 55% = % of issuers that report branch-originated accounts have a higher ROI than overall portfolio



Source: Visa Consumer Credit Card Issuer Benchmark Study

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# Making the Connection, Reducing Expenses

*In Branch Sourced Accounts Cost Significantly Less to Acquire (includes marketing and processing costs)*

- **In Branch = \$47**
- Indirect = \$68
- Internet = \$71
- Outbound Telemarketing = \$122
- ITA Direct Mail = \$166
- Preapproved Direct Mail = \$171



# An Engaged Front Line = More Satisfied, Profitable Members

- Educate, educate, educate!
- Make it EASY to cross sell
  - Debit card as key selling feature
  - Note credit preapprovals in the system
- Encourage them to become USERS of the products
- Reward them for their efforts



# Lessons Learned

- **Know your members**

- Segmented marketing is more effective and reduces costs
- Be their financial partner – not just in products but in the approach to those products

- **Know your products**

- Identify how they give your members control of their finances
- Provide the features and benefits your members are looking for

- **Know you can be successful!**

- Leverage your branches to acquire new accounts and promote your payments products
- Understand how to balance the appetite for sustainable, high quality growth with the day-to-day challenges of the business



# Lessons Learned

**MISSION:**  
**possible**



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