



# Catch and Reward

**Lucrative incentives lure big-fish consumers to credit and debit card offerings**

By Lauri Giesen

**H**ow does a community bank compete with free airline trips, accommodations at luxury resorts, expensive electronic giveaways and cash-back incentives offered to high volume spenders by the largest issuers and financial entities like American Express? Carefully, and after much consideration, that's how.

Community banks can, and do, match such offers, of course, but playing the one-upmanship game gets real expensive real fast and isn't worth pursuing if the goodies

offered to appease customers with a wealth of options, meet or exceed the additional revenue gained from such accounts.

There isn't a one-size-fits-all solution.

Programs should be competitively packaged to attract top spending customers. But banks should also emphasize other intangibles, like customer service, experts say.



The first step is to identify just whom the bank is trying to reach, say experts. And that might not translate into the traditional definition of affluent customers. Banks have historically defined “affluent” in terms of net worth. But an elderly couple that has ample funds but lives a simple lifestyle may not generate a lot of activity on credit and debit cards. As a result, attracting their card business won’t generate much interchange fee revenue—the funds that banks get every time customers use their credit or debit card.

On the other hand, a person with a modest income and net worth who travels for business extensively and uses her card to cover both personal

In putting together a new offering or revitalizing an existing program, a community bank should first conduct an evaluation of its customer base and its card operations to determine what it is going to take to attract customers and what it is going to cost to get those customers.

“Banks need to have a model created for them that shows what lift can be expected from a particular rewards program and, as a result, what increase in revenue can be expected. Then they know what they can afford to spend on rewards,” says Mark Shipley, global leader of MasterCard Advisors loyalty services, which puts together such models. These models should not only consider the likely



“Marketing programs offered through the associations and card companies put community banks on par with the big card players.” – *Brian Riley, bank card analyst*

and business expenses is just the individual the bank may want to attract with a high-limit credit card offering.

“You need to look at the annual spending of customers on cards,” says Paul Weston, president of TCM Bank, the credit card processor for ICBA Bancard. “Some customers may only spend a couple thousand dollars a year while some may spend \$2,500 or \$5,000 or more each month.”

### Defining the Market

For First National Bank of Scotia, N.Y., the goal was to attract small business owners and professionals to its card program. Of particular interest were the employees of nearby GE Global Research Center, which retains a number of scientists with heavy work-related travel schedules. First National Bank of Scotia developed a Visa gold card that had an attractive rewards program to pursue this market.

But in looking for new customers who might be big spenders, community banks should not overlook existing customers. A strong rewards program can provide incentives to get consumers to use one bank’s card over another card that is also in their wallets, says Jennifer Schultz, vice president of consumer credit products for Visa USA.

“A top-of-wallet strategy is as important as a new-customer-acquisition strategy when pursuing high spenders,” Schultz says.

lift that can be expected in the first year of a new rewards program, but also forecast year by year so that banks get the best long-term return on investment from their rewards offerings.

To be sure, rewards are important in attracting these high spenders. Visa research shows that while only 50 percent of credit cardholders overall have a rewards card, that number climbs to 90 percent when only the affluent and high spenders are polled.

Those who do not feel they can develop reward programs on their own can take advantage of cooperative programs offered through ICBA, Visa and MasterCard.

### The Right Reward Mix

In deciding among specific rewards packages to attract high spenders, community banks should throw out some old ideas about what affluent customers want. Many banks used to believe that free airline travel was always a sure fire way to attract this set, banking on their disposable income as a precursor for vacation expenditures. But while free airline tickets can motivate a large number of customers to use a particular bank’s card, there is still a large segment of the population that is not interested in travel-related rewards, notes Weston. This has become especially true in recent years. With blackout dates becoming more common and airline travel in general becoming more onerous,

consumers may be less excited by the prospect of earning a free trip, he suggests.

“There is a segment of high spenders that prefer lifestyle-related rewards, such as golf schools or spa visits, while there is a segment that prefers home-related items, such as grills, TVs or other electronic items,” explains Weston. “And there is a segment that wants gift cards to restaurants or retail establishments. If you only offer airline miles or gift cards to a particular retail chain, you will have limited appeal.”

By contrast, programs that allow consumers to accumulate points that can be redeemed for a variety of goods and services, including travel-related offerings, have wider interest, Weston says.

That is the appeal of First National Bank of Scotia’s offering, which allows cardholders to choose from a variety of gifts based on a points-based rewards program. “We used our board of directors as our test market. We asked them what they wanted for rewards, and they all wanted something different. Yet they all agreed that this program, because it let them choose, was the best alternative,” says John Buhrmaster, bank president. The program the bank uses was offered through the ICBA Bancard.

One way to figure out what your customers want is to do a quick survey of the purchases made on their current cards. Customers who have a lot of retail store purchases are more likely to be swayed by rewards involving points toward retail goodies, while customers who have a lot of travel expenses are more likely to be swayed by free airline travel or hotel stays, Visa’s Schultz says. Even if your bank offers both options, you might want to market the program to each type of consumer separately, she adds.


## Debit, Cash and Service

Community banks also should not limit rewards programs to credit cards. An increasing number of banks today offer rewards on their debit cards as well, says Brian Riley, a Tower Group bank card analyst. “Debit cards are actually a means to access other bank products, and getting consumers to want your debit card can go a long way in promoting other bank products.”

First National Bank of Scotia currently only rewards credit card use but is actively looking at adding the rewards option for debit cards, says Buhrmaster. “We’re trying to steer our customers away from check use and toward electronic pay-

ments such as debit cards. We think rewarding debit card use is a good way to discourage check use.”

Experts are split on the merits of cash-back rewards. While most focus group studies show consumers like cash—why wouldn’t they?—banks should not automatically conclude that it’s the best offering, most experts caution.



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For one, cash-back incentives can be the most costly reward program for banks to implement. With cash back, unlike other rewards programs, consumers rarely fail to redeem their rewards, Weston explains. So, to make the program affordable, some institutions have put a cap on how much consumers can collect. But that can be risky as well, Weston says, as consumers will use that bank’s card until they reach their cash-back limit for the year and then switch to another card.

Cash-back programs also force banks into competition with other card issuers in terms of who offers the most—which again can add up quickly. “Unless you can offer the highest amount in your market, your cash-back offering may not attract much attention or market share,” Shipley says.

Indeed, competing with the big national offerings of such players as American Express and Capital One can seem tricky. These card issuers’ offerings often appear to be more lucrative than community banks’ offerings, and these issuers often have greater resources available to bankroll more expensive rewards packages. But community banks don’t necessarily have to shell out a lot of cash to meet or beat these deals.

“You’ll never match those people who are giving away the store as there will always be someone willing to give away more than you can afford,” says Buhrmaster. “We offer a quality product at the right

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**“With card programs, it makes more sense to look at personal spending and go after high spenders than to consider the net worth of the customer.”**

**– Paul Weston, TCM Bank**

price that offers good rewards, but we don't try to beat out everyone else in offering the most expensive goods.”

Community banks trying to compete against the national programs could also do well to emphasize their service rather than try to out-reward the competition.

“Affluent customers and high spenders are often swayed by the ability to talk directly with the bank that issued the card and they prefer good service that is handled locally,” Weston says.

“As part of the loyalty pitch,” he adds, “banks need to make their cardholders feel like VIPs. If you upgrade a customer from a standard card to a platinum card, he is likely to use that card more and increase his spending.”

One way to emphasize service is to have the bank incorporate its own offerings into the available rewards. “A bank might offer a free financial planning session with one of its top advisors to cardholders who reach a certain threshold of spending,” says Shipley. “Not only does that make the card offering more attractive, but it provides the bank with the opportunity to have a beneficial conversation with the customer about maximizing [her] investments.” **ib**

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