

Winning the Card Game

Expand your earnings with effective card strategies

By Laurie Solheim

You generally need skill and luck to win a game. When it comes to playing the “bankcard game,” skill is certainly involved. Luck? Well, a little good luck is always welcome. But after 28 years of experience working with community banks, with more than 20 years focused in the card industry, I’ve seen what makes a winning bankcard program. Community bankers should: (1) set realistic goals and objectives; (2) empower a motivated product manager; (3) offer a competitive product; (4) foster a sales culture that rewards cross-selling; and (5) partner with a strong, experienced card processor.

Another critical element of success is recognition from the top players in your organization that this is a valuable, viable business for your institution. Our company currently processes card programs for nearly 7,000 commu-

nity financial institutions representing more than 12 million accounts. Since the early ’90s, the credit card has graduated to become a mainstream consumer product offering for thousands of community banks just like yours.

Set Goals, Measure Your Success

One of the first steps to take when offering a new card product is to set growth goals—reasonable ones. Most card issuers strive to attain a 35 percent penetration rate within their customer base within three to five years. Include all customers—from checking and saving account holders to borrowers.

The credit card game is truly a numbers game—by opening more card accounts, you increase your transaction volume. This drives revenue for you in several ways.

First, you earn a percentage of every transaction dollar charged to your customers' accounts. This is called interchange revenue. For most institutions, this becomes a healthy stream of non-interest income, second only to the finance charges you accrue.

On average, even with underwriting policies that are more conservative than large national card issuers, community banks see about 60 percent of their active cardholders revolve balances. These outstanding balances produce the lion's share of your card revenue from finance charges. Other incremental income is derived from fees that you set, such as late payment or over-limit fees.

Once your card program is established, you should closely track the following: number of accounts, number of transactions per account, outstanding balances, finance charges and fee income. There are many proven marketing strategies in place to help you boost each of these. Acquisition programs build your account base; activation, loyalty and retention programs increase transactions and outstanding balances. Continually measure your growth and profitability against your goals. Be nimble and refocus your original strategy if necessary.

Identify Your Product Champion

Any successful project needs a motivated, knowledgeable and energetic leader. This is especially true when you choose someone to be your card program plan manager. Over the years, I have witnessed a range of talent successfully applied to this position—from head tellers and customer service representatives, to loan officers and branch managers. Usually, these individuals have other duties when they start out; later some programs grow to support a full-time plan manager.

Ideally, your plan manager has some product knowledge and, more importantly, a marketing bent. Critical are strong project management skills and the ability to motivate others to support the card pro-

"I can't compete!" is a phrase I often encounter. But you can. You can design a program with pricing and card enhancements to meet the needs of your customers. Besides pricing and fees, you can offer 24-hour card issuance, personal customer service for your VIPs, and tie-ins to your local community. You may want a portion of proceeds to go to a local school, charity or historical monument; such affinity programs are particularly well-suited to a community bank, which already has strong ties to local organizations. Cardholders will look at the whole package.

Design a card that you would be proud to carry and use yourself—as would your directors and employees. It used to be that

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gram in your organization. And, to be successful, your plan manager needs support from the top.

only the large, national issues had the volume and clout to design great offers. But now, you can pick and choose from an array of card enhancements that encourage customers to accept your card and use it.

Don't forget to consider what your competition is offering. Call institutions in your area and compare your offerings to theirs. How about the offers coming in to your own mailbox? What cards do your employees carry, and why? You might even consider replying to a solicitation so that you can evaluate the customer experience. All of this information helps you create card programs that your cardholders will value—and cards that they will use above all others.

To determine your growth opportunities, start by identifying your customer segments. For instance, one customer segment may be driven by a card's rate and fee structure, while another is more interested in the card's bells and whistles. Match the right card products to the right

Design a Competitive Offer

Turning a Profit with Cards

It only takes about 400 credit card accounts to break even, on average, based on a random sample of community banks that process direct with Equifax. Individual banks may experience slightly different results; however, this sample gives you a general idea of how easy it is for community banks to make a profit from card programs. If you look at a larger, modestly achievable card base of 3,000 card accounts, you can see how lucrative the card business is—even for a small community bank.

Card Program Profitability	Break Even	Potential
Account Base	397	4,750
Average Outstandings	\$446,131	\$2,644,541
Direct Revenue	\$59,429	\$372,584
Interest	\$42,873	\$273,780
Interchange	10,235	68,521
Other Fees	4,703	12,724
Annual Fee	1,423*	17,246
Retail Product	195	313
Direct Expense	(\$32,530)	(\$186,067)
Transaction Processing	\$2,635	\$20,920
Monthly Processing	6,696	27,631
Cost of Funds	17,845	105,782
Charge-off losses	5,354	31,734
Net Income	\$26,899	\$186,517

Source: Equifax Card Services, Inc., December 2000.
 *In this random sample, some banks charge an annual fee while others do not. Therefore, this figure underestimates income from annual fees for banks that charge this fee, and is overstated for banks that don't.

customers.

Then spread the word in print. Every customer that steps foot in your lobby or visits your Web site should know that you offer superior card products. Continual reminders in checking statements and newsletters are a must. And, don't forget to add a short plug to your on-hold voice message system. Even a poster in your drive-through window or ATM will be noticed.

Lead with a Home Equity Line Card

While thousands of community banks are already offering successful credit card programs, some bankers remain uncomfortable offering unsecured consumer credit. You could start by offering a home equity line of credit that is accessed via a credit card. Cardholders have the convenience of using plastic, while the bank holds the collateral and sets the account limit.

Once your home equity card program is underway, consider adding a debit card program that's tied to a customer's checking account (See "Debit Cards: The Future is Now," *Community Banker*, February 2001, page 18). After gaining experience with these programs (and seeing how profitable they are), you may be ready to offer an unsecured credit card program.

When setting up an unsecured program, take steps to minimize risk. Consider risk-based pricing. This can be as simple as matching APR offers to your customer credit scores. Other risk-management tools include Falcon, a behavior-modeling tool that alerts issuers to unusu-

cross-selling your card products. Staff that opens new accounts should suggest your credit and debit cards. Loan officers should present a pre-approved card account at every closing. But are they motivated to cross-sell your cards?

Enthusiasm is contagious. When this zeal is transferred to your bank staff, there's no telling how far your card program can go. To add even more encouragement, offer staff incentives for new card applications. You can introduce a sales incentive program while remaining true to your institution's overall mission and company values. Start small by rewarding staff for the most approved applications and throwing a pizza party for the winning person's department or team. You can pay for each account opened and consider a grand prize—a get-away vacation for two is always a hit.

Profitability is measured by the sum of all parts. Successful community banks cross-sell many products to each customer, thereby cementing the relationship. Card accounts provide an excellent cross-selling opportunity—it's the final link that binds each customer to your bank.

The Future Is Bright for Cards

Why use card products to increase revenue? Why not promote checking accounts or loans to generate income? While checking and loan products are valuable, nothing compares to cards when it comes to growth potential and importance.

For at least half a decade, forecasters have been pointing to the World Wide Web's

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al purchasing activity—saving an issuer from potential losses. You know your customers best; you can tailor your programs to meet their needs while still being prudent in your approach.

Cross-Sell Solution

Your customers already know your bank and trust your advice. So, it makes sense to start with your existing account base when

potential for commerce. Now, recent studies suggest that the e-commerce of the future is finally here—online card use is lifting off.

What does this mean for issuers? If your cardholders are among the millions who surf the Net regularly, look for a noticeable increase in interchange revenues over the next few years. The Web's potential to boost interchange revenues can be shown with a

Take Control as a Direct Issuer

If you don't currently offer a card program, it's time to get in the game. And you need to be a key player. By taking control as a direct issuer, you determine pricing and product design, you choose to whom you offer cards, and—perhaps most importantly—you preserve control of your customer list. Settling for an agent program (where you are simply a marketing agent for another issuer's product) takes away most of your control and your revenue.

If you think you can't stack up against the "big guys," think again. Thousands of community banks have successfully launched and built revenue-generating card programs. Don't be lured into settling for an agent program or into selling your hard-won portfolio. Why would companies look to buy community bank card portfolios? These competitors recognize the revenue potential associated with the card product itself, plus the revenue they intend to reap when they cross-sell other products to your customers.

A community banker wouldn't dream of selling DDA or savings account relationships. But essentially that's where you are headed when you either sell your credit card portfolio or establish an agent program. And you lose an opportunity to deepen your customer relationships when you don't offer a card program at all.

It's surprising that any bank would sell a portfolio, especially when you consider that it only takes about 400 accounts to break even on operating costs. (See the sidebar "Turning a Profit with Cards.") Calculate your potential opportunity by multiplying the 35 percent penetration goal times your total customer relationships to see how far your bank's earnings could expand.

With your own card account base, you also have an opportunity each month to communicate via printed statement messages or inserts about card benefits or to cross-sell other bank products. This is an excellent relationship-building tool and a monthly chance to reinforce your brand identity.

The community bank advantage in the card game is that you know your customers better than anyone, and you've built your product to appeal to customers in your local market.

single statistic: In 1998, cards were used for about 25 percent of in-store and mail order/telephone order purchases but for virtually all online purchases. In other words, the more your cardholders shop on the Web instead of at stores, the more your interchange revenue will rise.

As consumers become familiar and comfortable with the Web, they come to rely on e-commerce—and their cards—more and more. According to *Credit Card Management* magazine, 61 million U.S. consumers will purchase in excess of \$41 billion online by 2002. And, 61 million U.S. consumers represent

only 20 percent of the U.S. population. Clearly, cards will gain popularity as the payment method of choice in the future.

Then consider the account relationship factor. As cards become more important to consumers, the service provider becomes more important, too. Today, checking accounts are commonly known as the “anchor” account. But, many believe that card accounts will replace checking as the anchor account. In fact, that trend is already underway.

Play Your Winning Hand

The cornerstone of every community bank

is the superior service you provide. And superior service is rewarded with loyalty. With a loyal customer base and the hometown advantage, community bankers are in a prime position to win the card game. All you have to do is play the game to win. And your cardholders will be winners, too. **■**

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