

Premium Cards – Form Over Function or Function Over Form?

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The world is turning an ever-increasing shade of Platinum

Granted, this is somewhat of an exaggeration, but that's certainly the way it looks and feels if you're in the cards or payments business. The march towards premiumisation - a term coined solely to describe this phenomenon - seems unstoppable and, for issuers, raises the age-old threat versus opportunity conundrum.

Premium products, certainly in the form of platinum cards, are nothing new. Yet, after decades as an exclusive high-end offering targeted largely at the affluent segment, we've seen unprecedented change driven by a range of commercial pressures and the relentless pursuit of market share and bottom-line growth. All of a sudden, premium, and platinum in particular, has gone mass. Exclusive is becoming all-inclusive.

The dilemma now facing the industry is how can premium possibly be niche and mass at the same time - surely a contradiction in terms. Indeed, does the platinum card have a future or, in the pursuit of short-term gains, could it be that the industry has inadvertently killed the golden (sorry, platinum) goose?

To try and answer this, it's worth stepping back for a moment and considering what has been driving the premium card paradigm shift and, if anything, why the pace of change is likely to accelerate further before we see any signs of it abating.

We need to understand just why are issuers pushing out more and more of their plastic in the form of premium products, especially platinum cards? Similarly, why are cardholders snapping them up?

Is this veritable feeding frenzy actually a good thing in the long term? Does platinum have a future in the premium card space or, is it soon to be consigned to the past, to be replaced by something bigger and better?

Why everybody loves all things Platinum (or do they?)

It's been a heady mix of accelerating competitive forces and, more recently, the introduction of premium card interchange rates by Visa and MasterCard that has been driving the premiumisation of the cards business by issuers. This, coupled with the gradual lowering by Visa and MasterCard of the previously stringent requirements that platinum card issuers had to meet (presumably in order to win market share from each other - something that both they and issuers may come to regret), have transformed the premium card space in recent years.

"...are we about to see the premium card bubble burst?"

On the other hand, changing attitudes amongst consumers coupled with a near-obsessive pursuit of all things materialistic, together with an increasingly brand-motivated society, have given issuers a ready market for their wares. At least it has until now, but are we about to see the premium card bubble burst?

To begin to answer this question, it's first important to understand the basic psychology of consumers and what motivates them, both consciously and sub-consciously, in their decision-making process. Whilst the gold card was *the* original premium card product, times have moved on and the colour spectrum for premium cards now includes everything from black to titanium. However, there's no doubt that platinum remains the preferred colour of choice and the dominant force in the premium card space.

In the same way that people have traditionally aspired to own a Rolex and to drive a BMW, they wanted to hold a platinum card. In all of these cases, there are cheaper alternatives available that perform essentially the same function. A Sekonda watch tells the time, a Ford will get you from A to B, so why do people want, and why are they prepared to pay for, more expensive options? Some of this is attributable to rational value, things such as improved performance and better after-sales service. But, it's at least in part explained by more intangible motivations. Whether you call it brand-image, pose-value or bragging rights, several years ago issuers realised that issuing more platinum cards was a new and relatively inexpensive way of retaining existing customers via product upgrades whilst, at the same time, also attracting new business. That, coupled with the fact that issuers can now make anything up to 50% more from interchange income on premium card products, has turbo-charged platinum card business growth over the last several years.

However, whilst it might sound controversial, it could be argued that the whole platinum concept is not unlike a giant pyramid scheme. Of course there are major differences, but it's hard to deny that the premise is largely predicated on the platinum card maintaining an air of exclusivity rather than on rational value. For as long as the product remains aspirational and therefore beyond most peoples' reach, the structure will remain sound.

“Starbucks is a mass brand attempting to command a premium price for an experience that is no longer special”

Source: “How Starbuck’s Growth Destroyed Brand Value”. John Quelch, HarvardBusiness.org, July 2008

However, at the point it goes mass, the whole structure begins to wobble and, unless it is shored up with something new, will start to crumble and eventually come crashing down. You don't have to look too far to find examples of where this has happened. Take the recent case of Starbucks, once the darling of the aspirational set, but more recently forced to retrench now that some of the panache of the brand has worn off on the back of over-expansion.

Granted, this is a little dramatic, and there's no immediate risk of platinum programs collapsing, but it hopefully makes the point that programs do face very real threats in terms of their long term viability.

Gold rush or fool's errand

Given the financial rewards on offer, the premium card space is a potentially lucrative one, but who will be the winners and who will be the losers in the card industry's version of the gold (sorry, platinum) rush?

In any market, irrespective of geography and whether mature or developing, issuers face a very real struggle to differentiate themselves and win in the increasingly crowded premium space. So, what will mark out the winners from the losers? First and foremost, an ability to get the basics right:

- *Define a clear and logical portfolio segmentation strategy*
Accept that mass ie. one-size-fits-all is out, segments are in.
- *Understand the competition*
Understand them better than they understand themselves. More importantly, be ready to anticipate their next move rather than waiting for it to happen.
- *Know your customers*
Their attitudes, aspirations, behaviours and needs. Better to invest and do this properly than second-guess.
- *Build a suite of products*
Build products to match the needs of your various customer constituencies. Make sure the products are sufficiently distinct from each other so as to not confuse.
- *Price-value equation*
Be sure to quantify and articulate the price-value equation.
- *Wow factor*
Make sure your products - especially your premium products - have enough "**Wow Factor**" to stand out from the crowd (more about this later).
- *Don't under-deliver*
Don't under-deliver on benefits and customer service but, on the other hand, don't over-deliver. This comes back to understanding the customer and also financial due-diligence with product-level P&Ls.

To all intents and purposes, a premium card product of some sort is largely de-rigueur in most issuer portfolios nowadays. Recognising that success isn't defined solely by the number of cards issued, what are issuers to do to build a profitable premium card business over the long term?

Today's issuer's biggest challenge is in meeting the profitability expectations of its shareholders while at the same time developing new, exciting card products that will attract and encourage cardholders to keep its card front-of-wallet and frequently used.

Platinum for the developing world

“There’s no going back once platinum has become commoditised, it’s a one-way street.”

If we think about customer motivations, in some markets, particularly emerging/developing markets, it may still be sufficient to issue a piece of platinum-coloured plastic with little regard to benefits, service or functionality. The idea being that customers would snap these up simply in order to get a platinum card in their wallet or purse. However, experience in more mature markets has already shown that this approach is not sustainable. Almost certainly, cardholders will have little engagement with the product or the issuer and, eventually, across the market as a whole, platinum will become a commodity product with little or no perceived value. There’s no going back once platinum has become commoditised, it’s a one-way street.

This is not to say that platinum doesn’t still have growth potential in certain parts of the world. Asia, CEMEA and Latin America all have growing pre-affluent and middle-class populations for whom platinum cards would resonate very well as a testament to peoples’ personal success stories. Because of this, the short-term opportunity for large-scale premium card issuance is predominantly with platinum rather than with the relatively unknown likes of Visa Infinite, World MasterCard and World Elite MasterCard.

However, and it’s a big however, whilst the temptation is to go down the path of least resistance, issuers must think long term and develop platinum products that are positioned to stand the test of time.

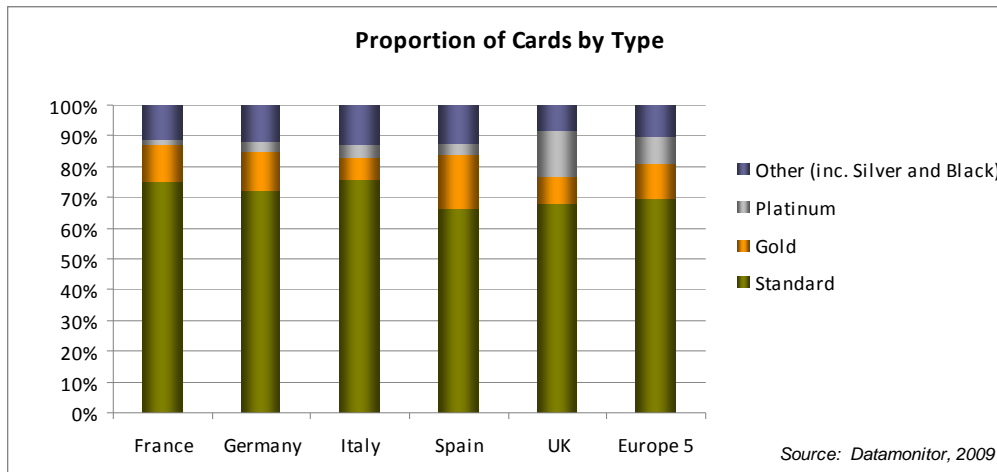
Take the case of American Express which has in many ways, through its flagship platinum charge card and, more recently, its centurion card, been the custodian of the platinum standard and led the industry in terms of how to build and, more importantly, safeguard at all costs one of its core strategic assets. No product dilution from Amex, no fee waivers, no lowering of qualifying criteria and virtually no marketing. All of which are designed to maintain the exclusivity and therefore the desirability of the product and, of course, to protect the product’s bottom line contribution.

This is not to say that American Express has not faced tremendous pressure from competitive forces as more and more ‘wannabe’ platinum cards (at least in Amex’s opinion) hit the market in ever increasing numbers. No longer is it able to rely so heavily on brand kudos, but it’s been forced to reinvigorate and revitalise its products - including the introduction of arguably less-prestigious platinum credit card products - to stave off loss of market share. Whether it has the will, skill and wherewithal to be able to stand unbowed against this competitive tidal wave, only time will tell.



Beyond Platinum in developed markets

In Europe, premium cards now account for between 25%-30% of total credit and charge cards in issue (depending upon which definition of premium you use) with platinum rapidly catching up with gold as the premium product of choice. In the UK, platinum now accounts for a whopping 10.4mm cards, or 14.9% of all credit and charge cards in circulation.



So what does the future hold? Is platinum now naff? Is it becoming so common that it's uncool? Issuers are up against a two-fold problem of perfect-storm proportions largely, it has to be said, of their own making.

Firstly, what to do with the top-end of their portfolios, the 20% in the 80:20 rule. Mass-market platinum, maybe better called peoples' platinum, simply won't cut it in the long term. These customers want to feel special and to be treated accordingly. They don't want, and will not accept, what everybody else has. This requires a multi-faceted, yet not overly-elaborated, plan of attack. In fact, the reality is that it's about getting just three things right; the so-called three S's - segmentation, servicing and sex-appeal.

- The first and most important thing, and the cornerstone to any premium card strategy, is to sub-segment these customers, ideally creating a new and more exclusive product for them, something that clearly puts some distance between them and the platinum pack. Another platinum product is one option but, even with the introduction of an improved benefits suite, it may not be enough. It's still, after all, a platinum card. This is why developed markets, at least in the card sense, where the allure of platinum may have largely worn off, present potentially much richer pickings for the likes of Visa Infinite, World MasterCard and World Elite MasterCard than developing markets where the platinum story has still to fully play out.
- Issuers must then ensure that these customers receive premium servicing across every touch point within the organisation, everything from the written correspondence they receive to the way they're handled when calls come into the issuer's telephone service centre. So often issuers fall at this first hurdle, failing to deliver after building and exciting customers with a new product proposition.
- Lastly, and the thing that will best help issuers drive long-term engagement and loyalty, is to create the aforementioned "Wow Factor".

So what is this Wow Factor? Why is it key to succeeding in the premium card space?

To begin to answer this, it's important to first emphasise the pivotal role that loyalty plays in the card business. No issuer, no matter how effective their acquisition efforts, can afford to lose too many good, profitable customers out of the back door. Instead, in an increasingly competitive environment, issuers are under ever-greater pressure to find financially sustainable ways to retain their profitable customers and, over time, to maximise their share of each customer's total plastic spend. This is where customer loyalty becomes critical. But let's not confuse loyalty programs and customer loyalty here, they're different. You do not need loyalty programs to drive customer loyalty. Sure, they can help, but they're also expensive, a challenge to administer and can be easily replicated and even bettered by the competition.

The other thing to appreciate in the premium space is the challenge and risk in trying to engage customers solely through the provision of rational value. By definition, rational value can be measured and quantified thereby allowing for like-for-like comparisons which, in turn, risks commoditising the underlying offer.

“...introduce real sex appeal to the rather stuffy world of cards.”

Therefore, a different solution is required which leverages the one thing that customers in the premium space have in common, namely they're wealthy. Given this relative affluence, within reason, they can go out and buy pretty much whatever they like. So, just how relevant are discount-type offers, free travel insurance and other types of traditional product features and marketing offers in the premium space? The answer is that, like loyalty programs, some people, irrespective of how wealthy they are, like them and they therefore have a role to play.

However, building a winning card proposition in the premium space based solely on rational value and loyalty programs is simply not a viable proposition whether in economic terms or as a driver of sustainable competitive advantage.

Instead, issuers need to think less about rational value and tangible benefits and more about lifestyle and experiential value. Everything from birthday programs to lounge access, from concierge services and healthclub membership to exclusive events.

These “money can't buy” experiences are the proverbial nectar to the wealthy and therefore the things that will differentiate one issuer from another, that will generate the aforementioned Wow Factor, that will introduce real sex appeal to the rather stuffy world of cards.



The power of partnerships

So, just how do issuers build this type of premium value proposition at an affordable cost? The answer is by leveraging the power of partnerships.

Let's outline a simple fashion event to illustrate this point:

- Issuer partners with a leading fashion house to host a closed-door event.
- Choice of partner is critical - need to consider both brand reputation and management ethos.
- Event itself might be the launch of a new season's collection.
- Proposition to the cardholder is their card being the means by which they gain exclusive entry.
- Cardholder gets to preview the collection before the public at large - the important thing that money alone cannot buy.
- Issuer keeps it relevant and targets only cardholders who, based on their historic spend behaviour, would appreciate this type of event.
- Press should also be present, if possible - despite the usual protestations, most people actually like to see their faces in the papers and society magazines.
- Proposition for the partner is access to a target group of existing, and potentially new, customers - in this case, affluent fashionistas.

The key predicator to the whole concept of building profitable partnerships in the premium space is for issuers to appreciate the value that they bring to the negotiating table. A portfolio of high-spending customers coupled with a strong data mining capability has a strong dollar value attached to it. Rather than try and sell this in absolute dollar terms, partnerships can be forged on a barter-style basis with each entity putting their proverbial skin in the game. In the case of the issuer, it's obviously access to their customers. This leaves the partner to pay for the event itself, everything from hiring an event management company, providing catering services and producing invitations.

Of course, there's nothing to stop several partners participating in a single program or event as a means of driving even more incremental value or sharing some of the cost. The possible permutations are, to all intents and purposes, limitless.

A final thought (or two)

Clearly, it's far too broad-brush a statement to say that platinum has had its day and is finished. Far from it, there are still large parts of the world - which we would loosely characterise as developing markets - where, in relative terms, it's only just getting started and platinum is set to dominate in the premium card segment for years to come whilst the likes of Visa Infinite, World MasterCard and World Elite MasterCard will play largely supporting roles. Or, there are other markets - both developing and developed - where, even today, gold continues to have more panache than platinum. Interestingly, at the time of going to print, silver was trading at US\$13 per ounce, gold at US\$921 per ounce, platinum at US\$1,143 per ounce and rhodium at US\$1,430 per ounce. Does this suggest that rhodium is the new platinum...? Titanium, on the other hand, was a relative laggard at only US\$2 per ounce but has the highest strength to weight ratio of all metals. So, maybe it's better placed to usurp platinum...?

In fact, the whole issue of colour, and the question of platinum versus non-platinum, should be of secondary importance to issuers.

Instead, issuers should be focused on making sure their entire premium card strategy is driven by a clearly articulated gameplan built around four pillars of success.



The benefits of getting it right are plain to see. However, what's not so apparent is the opportunity for issuers to buck a widespread industry trend and lock-in card fee revenues or perhaps even introduce them for the first time. The latter is not as crazy as it sounds; it's been shown repeatedly that customers are willing to pay for such things as luxury and convenience - you only have to look at the American Express Centurion Card or Quintessentially both of which are far from cheap but who both have loyal and growing customer bases. Food for thought...

About Insight

Founded in 1999, Insight is a boutique consultancy, which specialises in advising banks and payment organisations on strategic and tactical issues across all major payment products and services, covering:

- Consumer & Commercial Card Issuing & Acquiring
- Credit, Debit, Prepaid Card Solutions

Headquartered in the UK, with representative offices in Singapore and the US, we operate across the world, with particular focus on the UK & European market place. We also operate in Asia Pacific, Middle East and Africa, Latin America, the Caribbean and North America.

We are industry experts in traditional and emerging payment market segments and solutions.

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