



## An EMI Industry Intelligence Report

### Taking Early Advantage of the Business Turnaround to

# Drive Profitable Growth from Business Cards

By: Campbell Edlund and Mark Ronan

The recent financial crisis devastated the card industry, and the business credit card sector was hit particularly hard. Advanta, one of the US's largest issuers of small business cards, over-extended credit and was forced by extraordinary charge-offs in 2009 first to shut down card usage, then file for Chapter 11.

The other leading business card issuers — American Express, Bank of America, Capital One, and Chase — experienced historic charge-off levels of more than 10% and quickly scaled back virtually all small business credit card acquisition and usage marketing.

In recent quarters, however, economic recovery has started to build momentum. In recent weeks, bank leaders have reported significant growth in small business loan originations, such as JPMorgan Chase's 57% year-over-year increase in the first quarter. Similarly, as business owners across the US have started to re-invest in business growth, card leaders are stepping up their offers to address renewed demand.

But the competitive landscape has radically changed. The financial institutions recommitting to lending have made an important strategic shift: most no longer merely focus on meeting the immediate funding needs of their clients and prospects. Rather, they have a different, and more challenging objective.

Find out what they're doing, and how you can leverage these market conditions.

*A report for Financial Professionals in Retail and Business Banking who develop cross-product marketing and sales strategies to maximize the performance of branch, service center and online sales channels*

# The New Focus: Relationship, Relationship, and Relationship

Short-term thinking is out. Fostering a profitable long-term client relationship is in. The focus now is to earn recognition from clients that the institution can deliver on its promise to be the “trusted advisor” who delivers sound, valuable and customized financial solutions.

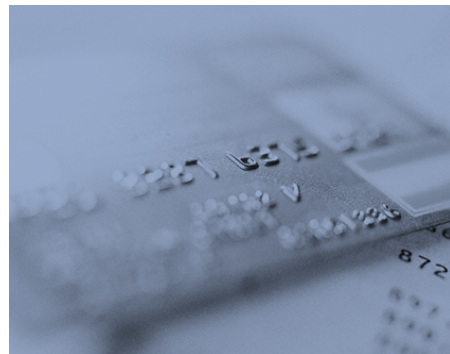
In this changed environment, all financial institutions that are ramping up their business card marketing need to rethink how they approach their marketplace if they want to sell effectively, manage ever-present risk, beat the heated competition, and support a stronger client relationship.

## Seven Actions to Help Accelerate Business Card Marketing and Profitability

### Tip 1: *Reposition credit card as a cash management tool*

Chastened by their experience in recent years, most small businesses are wary of offers perceived as providing overly easy access to credit. Most business owners want more than just a short-term working capital solution. They need a more comprehensive approach to better manage cash flow and support renewed business growth over time.

As financial institutions provide answers, business credit cards certainly have an integral role to play as the lead payment component. But they are only one aspect of the cash management suite — not the total answer. Bankers need to present not a standalone card but a set of alternative funding options which they can tailor to address each client’s situation. Increasingly, bank issuers are presenting business and corporate cards as integral to cash management and payment solutions.



### Sentiment indicators show growing small business

**confidence.** The NFIB’s Small Business Optimism Index recovered to 94.5 (February 2011) from its low of 81.0 in early 2009.



NFIB Small Business Economic Trends, April 2011

### **Tip 2: Create an integrated go-to-market approach with internal stakeholders**

Financial institutions must engage sales, marketing and service teams by demonstrating the strategic importance of getting their business clients to sign up for and actively use their business credit cards. Business and commercial cards not only represent a significant source of net interest and noninterest income, but also help to block competitors from gaining a foothold with clients. From a business banker's perspective, cards should be positioned as an entry-level lending product that can evolve into more advanced cash management solutions to meet increasingly complex financial needs.

### **Tip 3: Ensure the product portfolio is customer-centric and segment ready**

One card does not fit all. There are increasing options for customization based on firmographics, card usage patterns and spend control needs.

- A trade terms card like The Plum Card® from American Express makes sense for businesses with high inventory or slow-pay clients.
- Mileage cards with double points capability like Capital One's Venture<sup>sm</sup> for Business appeal to heavy T&E users.
- Cash back offerings like Chase Ink Cash<sup>sm</sup> provide companies with heavy purchasing the opportunity to earn significant rebates.
- TD Bank's Simply Flexible<sup>sm</sup> Business Visa® card rewards less risky clients by adjusting their APR each month, based on the percentage of the outstanding balance paid.

Plain vanilla business cards won't foster success anymore. Business and commercial clients have been educated by increasing industry marketing and product development to expect features and benefits that match their needs — whether their priority is pricing, rewards, convenience or spending controls. However, experience shows that banks don't need to offer best-in-class products across all these features ... because most business customers would prefer to carry a card from their primary bank, to simplify servicing and enable a single point of contact.

By analyzing customer data carefully, financial institutions can develop product pipelines to match the potential of segments in both their current client base and priority growth markets. Don't be swept away by the temptation to match or beat every competitive offer as a strategy. Rather than over-invest in costly offers or feature wars, target precisely and leverage relationship.



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**Tip 4: Factor the banking relationship into underwriting ... but be prepared to downsell**

When card is viewed not as a solo product but as contributing to relationship growth, underwriting criteria can reach beyond FICO and behavior scores. Decisioning should give weight to facts that are only available to the owner of the banking relationship: longevity, other products used, profitability decile, recent growth and growth potential.

Business banker reluctance to offer credit cards is based on justified fear that a rejection by underwriting will undermine the entire banking relationship. But this can be addressed. Start by creating higher approvals through branch technology that enables platform staff to know when clients are qualified. Pre-qualification and pre-approval can help, even where instant decisioning technology investments have not yet been made. And prepare bankers with a strong suite of downsell options — secured or even charge card options are viable choices for many businesses and broaden your customer universe.

**Tip 5: Take advantage of optimal timing for making an offer**

Experience proves that new clients are most receptive to a card offer, particularly within the first 3 to 6 months. Bundle card with core deposit and lending products, at least in sales execution if not as an integrated package. As the business opens a primary DDA account or applies for a line of credit or a loan, a linked credit card offer has a strong likelihood of client interest, acceptance and usage.

For the established client base, be sure to incorporate business cards into service-to-sales initiatives. Outreach to clients during new product onboarding or annual reviews — in addition to client-initiated service requests — provide excellent opportunities to aggressively cross-sell, but should always be based on customer need and product usage patterns. Client accounts should be scored and flagged for creditworthiness, with credit cards factored into these service-to-sales initiatives, both face-to-face at teller and platform, but especially during inbound calls to the customer service center.

Service and support personnel should be trained on when and how to start a business card exploratory conversation. Diagnostics and talk tracks can be provided to unearth spending patterns and payments needs, determine card feature priorities, and surface the facts needed to assess ROI and cost savings from using the right card.



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**Tip 6: Develop a comprehensive loyalty strategy**

To optimize the client relationship, a systematic approach should be adopted to reward the right behaviors. Desired and profitable cardholder behaviors include:

- Meeting spending volume hurdles – especially important for newly acquired cards
- Longevity – anniversary bonuses based on annual usage levels
- Multiproduct ownership – cross-product bonuses
- Category spend in designated categories, not simply rewarding every purchase transaction
- Pricing: APR reductions, fee waivers and well-priced balance transfer offers should recognize the primary DDA relationship or other good behaviors such as auto-payments of card balances from a linked DDA, or maintenance of an average monthly balance hurdle in the DDA



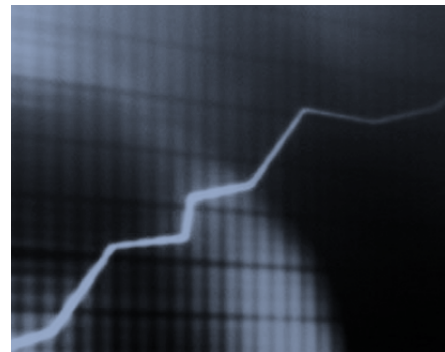
The best loyalty programs embody elements that reward activities across the institution.

## Tip 7: Leverage the full range of marketing channels — including social media

While direct mail used to be the default marketing channels for business credit cards, today other online and offline channels can be more cost-effective for both acquisition and portfolio marketing. Consider the following:

- Tools and training to leverage your investment in commercial bankers and treasury officers; card features are complex and rich enough to warrant a consultative conversation between banker and client. And the human channels are too often forgotten in the marketing mix.
- Business decision makers are online. So meet them there, with information, advice and suggestions on how to use card products to improve their business. A great example is the robust series of small business workshops hosted by BB&T Payment Solutions, along with their webinars on topics like “Integrating payables and receivables to unlock working capital” to “Maximize your cash flow; minimize your effort.”
- EMI research shows 30% of business financial decision makers have used social media in the past year to research banking providers. American Express has been at the forefront in developing a strong small business-focused social media presence, through initiatives like its OPEN Forum. Amex has reported that Forum now has between 500,000 and 1.5 million visits daily, and more than half are from prospects, not customers.

More recently, its Small Business Saturday program resulted in 100,000 small business owners downloading promotional materials from a new “Small Business Saturday” campaign’s Facebook page. 200,000 cardmembers enrolled for the statement credit offered in that campaign and 10,000 merchants enrolled for an offer of \$100 towards Facebook advertising. The program has been so successful to date — registered cardmembers spent 3.5 times more at small businesses in 2010 than they had in 2009 — that Amex forecasts continuing it as a holiday promotion in late 2011.



# Best Practices: What the Leaders Are Doing



## CHASE INK<sup>sm</sup> CASH CARD

Streamlined the extensive bank-branded product set, addressing key business segments' wishlists, with exclusive relationship pricing to benefit business DDA clients sold through the branches



## THE PLUM CARD<sup>®</sup> FROM AMERICAN EXPRESS OPEN

Created a unique niche product priced for businesses that receive early-pay discounts at suppliers, or need to delay payments due to significant work-in-progress inventories and late-paying customers



## PNC BUSINESSOPTIONS VISA<sup>®</sup>

Developed a spend-control-focused OneCard to address middle market customers' desire to expand card usage through their company, while using a simplified single card system for purchasing, T&E and fleet



## US BANK FLEXPERKS<sup>sm</sup> VISA<sup>®</sup> CARD BUSINESS CASH REWARDS

Integrated loyalty rewards with spend rewards through category spend bonuses, anniversary bonuses, plus an annual bonus for multiple product ownership



## Business card marketing is a new game today

Success requires each financial institution to reassess its channels, product mix, branch technology and decisioning enablement, and even the very structure of the card organization. Card is a vital contributor to the client relationship — in ways more important than straightforward revenue contribution. The institutions that embrace card's new role will only succeed when they take actions to instill that understanding throughout their bank.

If you need help in assessing and redirecting your sales channels, improving your branch processes or systems, developing segment-specific products or offers, or creating educational content for online and offline use, EMI Strategic Marketing has experts who can work with your teams to quickly get you to market.

### **About the Author**

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### **About EMI**

EMI has been working with Fortune 500 companies and financial services leaders to drive results through our clients' sales and service channels. For more than 20 years, our strategic programs, combined with our industry expertise, have helped companies achieve greater growth and increased customer loyalty.

To learn more about what EMI can do for your company, call 617-224-1101 or visit us on the web at [emiboston.com](http://emiboston.com).

Graphics are sourced from websites as of April 2011