

## Focus on Your Best Customers

### Smart Issuers Must Pay Closer Attention to their Most Valuable Cardholders to Optimize Portfolios and Long-Term Profits

**By Patricia Foell**

Portfolio optimization remains the primary goal of every portfolio manager and payment card-issuing bank – and for good reason: it is the key to long-term profitability. Achieving that goal requires Issuers to have successful strategies in-place for retaining and optimizing relationships with their best customers: those who are low-risk customers and generate high profits or are strategically important to the bank.

#### Back to Basics

For some Issuers, portfolio optimization has proven to be elusive. Business and economic developments over the last few years may have presented challenges that led to an insular focus on reducing costs and losses, without consideration of the long-term impact on their best customers. The good news is that the first step toward best-customer management is a simple return to business basics.

Step back and ask yourself two fundamental questions:

*Who are your target segments?*

The answers are not the same for every Issuer, nor will they be the same for every product within an Issuer's portfolio. Only by identifying the right target customers will you map out the product and customer-management strategies that will drive profitable behavior and relationships.

*Do your offerings resonate with your best customers?*

Issuers must reevaluate all aspects of their products in terms of their appeal – or lack thereof – to their best customers. When it comes to payment cards, that reevaluation must include everything from features, benefits, rewards, and service options, to pricing, credit limits, and authorization criteria.

Issuers also need to look beyond cards and focus on ways to strengthen relationships with their best customers at every touch-point. That means evaluating customer behavior not only on payments, but on the totality of the banking relationship, including checking and savings accounts, mortgages, investments, and other offerings. Issuers who consider relationship or enterprise profitability may leverage information gleaned from a customer's use of other products to optimize customer-management decisions on payment cards.

For example, an Issuer's retention strategies may be different for customers who have other profitable banking relationships. The Issuer may be willing to invest more in saving the account or may prioritize profitable banking customers for upgrades. Similarly, behavior on other products can inform risk decisions. Issuers may think twice about lowering the credit line of a profitable banking customer or they may be more generous in offering credit line increases.

A focus on products and services that create and sustain long-term brand preference, and cement top-of-wallet status, will pay ample returns.

## Reward Your Best Customers

The concept of best-customer management sounds simple, yet many Issuers ignore it. They spend a great deal of effort and money trying to stimulate and change behavior among marginal customer groups. While such tactics may incrementally improve portfolio performance, they should not be pursued at the expense of strategies designed to enhance relationships with more desirable customers.

Many of the segmentation analyses we performed for dozens of card-issuing banks worldwide have shown that the 80/20 rule of business – 80 percent of profits come from 20 percent of customers – is very applicable to Issuers. In one engagement, we found that only three percent of customers actually drove profits. Yet many Issuers still lack differentiated strategies that recognize and protect their position with their most profitable customers – even though those customers are invariably ripe for poaching by competitors.

For example, many Issuers miss opportunities to leverage their rewards programs to cement relationships with their best customers. The evidence indicates that rewards programs can make a difference and drive top of wallet status. A J.D. Power study found that satisfaction is 117 percent higher for reward redeemers than for non-redeemers. Yet, many Issuers, in an effort to control costs, do not promote their rewards programs or encourage redemption. Others offer a “cookie cutter” rewards program with no unique differentiators. In both instances, profitability erosion and customer disengagement become self-fulfilling prophecies.

The key is to offer rewards programs that resonate with your best customers – one size doesn’t fit all. Additionally, get the message out and continue to remind your best customers of the value inherent in your rewards programs.

## A New Lens on Issuer Profitability

If the goal is portfolio optimization and long-term profitability, Issuers must measure the lifetime value of their customers across all product lines and stay focused on the best relationships, not products. Closely examine portfolios to identify the customers who deliver the greatest long-term value and invest in them. It’s a cost-effective strategy now and for the long term. If customers with the lowest risk and greatest potential make your card offering top-of-wallet, you will see revenues, profits, and cross-sales rise.

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### About Patricia Foell

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