Managing the Cardholder Lifecycle

Building stronger customer relationships at every stage

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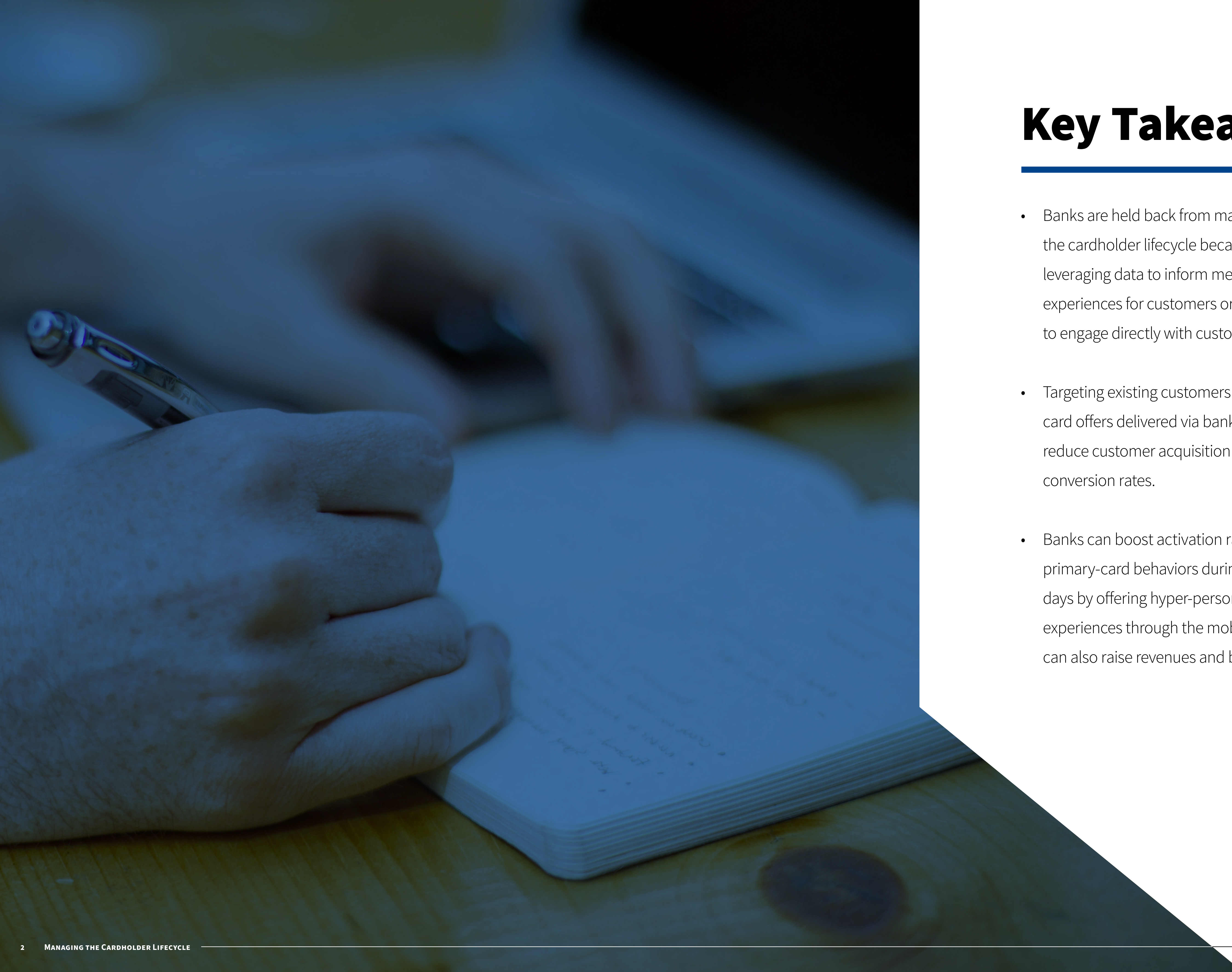


Key Takeaways

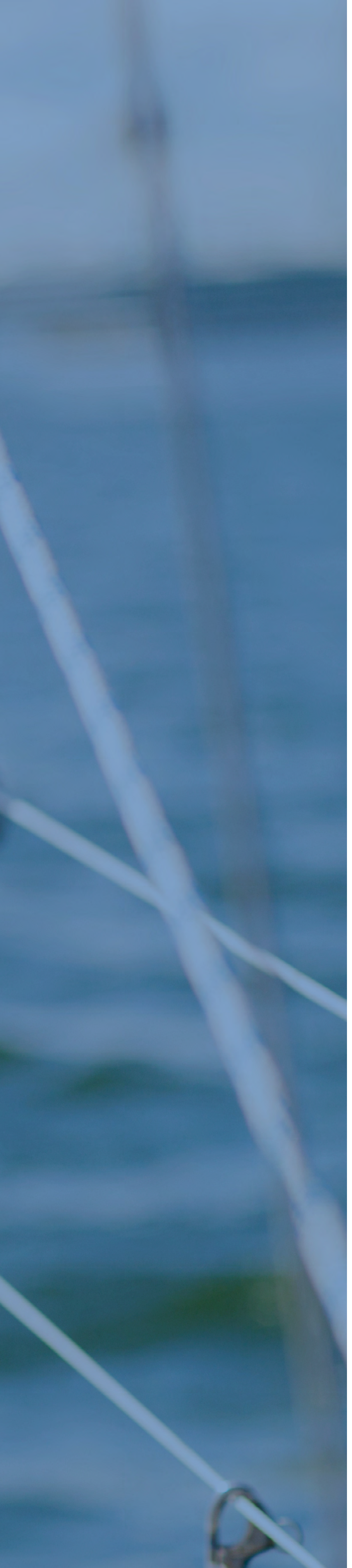
- Banks are held back from maximizing value across the cardholder lifecycle because they aren't adequately leveraging data to inform meaningful and contextual experiences for customers or using their app effectively to engage directly with customers

- Targeting existing customers with personalized credit card offers delivered via bank-owned channels will reduce customer acquisition cost (CAC) and increase conversion rates.

- Banks can boost activation rates and set profitable primary-card behaviors during the vital first 60-90 days by offering hyper-personalized incentives and experiences through the mobile app. Similar strategies can also raise revenues and build loyalty and

Introduction

Customer needs are never static. They evolve over time as life situations change and context shifts. To ensure that banking products stay top of mind and top of wallet, banks' customer experiences must evolve, too. For banks, one area of opportunity for evolution is the cardholder lifecycle, which consists of four distinct stages.



Acquisition

The bank acquires a new customer or deepens its relationship with an existing customer by inviting them to open a new credit card account.

Activation and Early Month on Book (EMOB)

The bank encourages the customer to activate their new card by offering incentives and/or reinforcing the card's value proposition. Habits set in the next 60-90 days (also known as the "early month on book," or EMOB) will define the customer's relationship with the card through the rest of the lifecycle.

Usage

The bank incentivizes top-of-wallet behaviors like diverse category spend to strengthen loyalty and increase lifetime customer value. If successful, this is where the bank recoups acquisition costs and generates revenue.

Retention

The bank reduces churn by targeting cardholders who have become inactive or who show other signs of having opened another card elsewhere. Besides this reactive retention strategy, some banks proactively prevent churn by reinforcing card value proposition and anticipating misalignment between the card's rewards and fee structures and the customer's needs.

Most banks have a limited toolkit for optimizing results across the cardholder lifecycle. Wedded to expensive, traditional third-party marketing channels like direct email or paid advertising, banks struggle to scale meaningful communication with end customers that will guide them successfully through the lifecycle phases.

Applying intelligent audience targeting to deliver high-touch personalization is also out of reach. Banks' own data is often siloed within LoBs, and most also lack the infrastructure to incorporate real-time contextual data from outside sources, such as customers' smartphones. All of this means missed opportunities to build stronger customer relationships and add value across the cardholder lifecycle.

Nurturing these relationships is especially important as banks face growing competition from fintechs and big tech. Products like eWallets, subscription services, and P2P payments apps make it easier for customers to transact without ever pulling a physical card from their wallets. This erosion of banks' interface with the customer means that every touchpoint across the cardholder lifecycle counts more than ever, and banks have to be strategic and proactive about how they can offer value beyond the transaction.

However, things don't have to be this way. If banks break down silos across LoBs to assemble customer data, and start augmenting that information with contextual data, they can target hyper-personalized messaging that is delivered to the customer at a relevant moment. By leveraging existing bank-owned digital channels, such as a mobile app, they can also cut through the noise and communicate directly with customers, boosting conversion rates.

Banks can adapt their strategies in this way to ensure their offerings evolve with their customers across the lifecycle, adapting as their needs shift. They can also deliver more hyper-personalized experiences, content, and offers that are more likely to convert, which can increase activation, lift usage, build balances, and maximize retention.

Optimizing results at every stage of the cardholder lifecycle

Once banks have set up infrastructure to support and implement hyper-personalized campaigns, an entire arsenal of tactics is unlocked to strengthen customer relationships. Below are just a few ways banks could optimize their marketing across the four phases of the cardholder lifecycle: acquisition, activation and EMOB, usage, and retention. Tactics like upselling and activation incentives aren't new, but hyper-personalization gives every touchpoint added impact by facilitating a tight value exchange between the bank and the consumer with more relevant communications for the customer and, thus, higher conversion rates for the bank.

STAGE 1
ACQUISITION

This phase has historically been expensive for banks, with CAC ranging up to $150 per customer depending on the card product and channel. Continued reliance on interruptive, third-party channels such as direct mail, online ads, and email is one reason costs remain so high and conversion rates so low.

Banks can generate stronger results by targeting existing customers who are already reachable via bank-owned channels. For example, when customers log into their banking app, they already have banking on their minds. They're more likely to be receptive to marketing messaging in that moment, when banks already have their attention. By assembling data across LoBs, banks can judge which credit card product would be the best fit and make the customer a tailored offer that actually adds value to their experience.

Both of these changes shift banks' marketing away from an interruptive marketing paradigm toward a permission-based one. Permission marketing offers the customer actual value in exchange for engagement — for example, by providing relevant offers or useful information. It has a greater likelihood of lifting conversions and building trust.

Improved product fit means less need to offer expensive sign-up bonuses and other incentives to get customers to convert. It also ensures stronger card alignment from the beginning, reducing the risk of churn. Customers attracted by product fit are less likely to defect once the sign-up deal is finished or when a competitor offers an even better sign-up deal, since they're not just in it for the bonus. When a bank does offer a sign-up bonus, it can be personalized to the customer's habits and preferences.

Actions taken at acquisition can also set banks up for success at consequent phases of the lifecycle. And for net new customers or existing customers who don't have the mobile app yet, banks can incentivize app download at acquisition to open a direct line of communication with the customer in the future.

Campaign Type	Personalized sign-up bonus	Contextually driven credit card offer
Trigger	A customer's checking account balance starts to rise via direct deposit. They could benefit from a credit card with a rewards program as they start to spend more.	A checking account customer keeps dipping below their minimum required balance and incurring fees. A credit card would let them spend as needed without worrying about the minimum.
Action	The customer buys coffee at Starbucks daily. In the morning, when they're most likely to crave coffee, send them a credit card offer with a sign-up bonus of $50 to cover their next 10 coffees.	The next time the customer's balance gets close to the minimum, target them with a personalized credit card offer.
Purpose	Increase share of wallet (SoW) and build a trusted relationship with a likely primary-card customer.	Increase share of wallet (SoW) and build a trusted relationship with a likely primary-card customer.

STAGE 2
ACTIVATION & EMOB

The days or weeks between acquisition and activation are high-stakes for banks. Industry average activation rates hover at only 57%, and the chances of activation go down each additional day the customer has to wait for the card to arrive in the mail (Source).

To keep the card at the top of the customer's mind as they wait, banks can use hyper-personalized messaging to reiterate the card benefits most relevant to the customer. They can also draw on contextual real-time data to deliver personalized activation incentives at the right place and time, increasing the likelihood of activation.

Once the credit card is activated, banks can set themselves up for success at the next stage, usage, by encouraging customers to establish good spending habits from day one. Such EMOB strategies pay huge dividends: A recent McKinsey study found that engaging cardholders frequently in the first 90 days made them up to three times as valuable in the long term. Customers who receive EMOB messaging also activate their card five days faster than average (Source).

1. In particular, banks should incentivize five key primary card behaviors during EMOB, according to McKinsey:
2. Rapid initial transactions — in particular, a second transaction within one week of their first
3. Spend across more than one category
4. At least one large transaction (over $100)
5. Mass retailer purchases
6. Use of specialized products, such as bill pay

Bank-owned mobile channels are particularly fertile ground for EMOB campaigns due to their high touch and real-time delivery. Drawing on properly assembled customer and contextual data, banks can pair messaging with incentives that are relevant to the customer in the moment, further boosting engagement potential.

Campaign Type	Personalized activation incentive	Card on file prompt
Trigger	A customer who hasn't activated their card yet is near a partner retailer.	A customer who has activated their card in the past 90 days is at the gas station, and they don't yet have their new card on file within the merchant's mobile app.
Action	Send a notification offering bonus points that are redeemable at that retailer if the customer activates their card.	Send a notification prompting the customer to add the card to their gas app to earn extra points.
Purpose	Encourage activation and reinforce the card's value proposition (relevant rewards).	Reinforce the card's value proposition (relevant rewards) and encourage primary card behavior (card on file).

STAGE 3 USAGE

Usage is generally the most profitable stage of the cardholder lifecycle for banks. Even if good habits have been set during EMOB, however, this period when the card is in regular use is no time for banks to rest on their laurels. By monitoring under-performing and high-performing segments, banks can identify

opportunities to incentivize sticky, profitable behaviors and proactively address potential card misalignment before it results in churn.

Redemption of points and other benefits is the most important signal of customer loyalty and satisfaction, and when cardholders use their benefits, their spend jumps 40% (Source). Banks can drive the use of benefits via loyalty communications that push redemption with personalized offers. They can also encourage spend by regularly reporting a customers' rewards balance and giving them a nudge when they're close to a rewards redemption threshold.

Banks should also continue to encourage primary card behaviors during the usage phase. For example, banks could target a customer who regularly orders food delivery with an incentive to add the card to an order-ahead or merchant loyalty app, increasing stickiness by putting the card on file. Even just enabling smart recommendations, like nudging a customer when they're close to a merchant partner, can increase spending by 5-10% (Source).

Campaign Type	Benefits reminder	Diverse category spend incentive
Trigger	A customer buys a flight with their card for the first time.	A customer who only uses their card for groceries is near a location of a partner restaurant chain.
Action	Deliver in-app content highlighting the card's free in-flight Wi-Fi perk.	Send a notification offering double points on orders from that restaurant.
Purpose	Reinforce card value proposition (relevant rewards) and encourage benefits use.	Encourage primary card behavior (diverse category spend).

STAGE 4 RETENTION

Credit card misalignment is a major problem for banks. About one-fifth of Americans hold a misaligned card, with rewards and fee structures that don't match their spending (Source). That means that many banks are wasting money marketing to customers who simply don't have the right card in their wallet and don't see value in using it.

Most banks lack the tools to address misalignment proactively and effectively. They may not identify misalignment until they see red flags like reduced spend and stoppage of recurring

payments — signs that the customer has already acquired another card. Tempting the customer back at that point is likely to be expensive and unlikely to be successful.

Banks can fight misalignment proactively in two main ways. By clearly and regularly communicating benefits, fee structure, and redemption opportunities, banks can ensure customers understand their card's value proposition.

At the same time, banks can also monitor usage for warning signs like low rewards redemption and compartmentalization (spending limited to just a few categories, indicating a shift in lifestyle). Then they can take action before misalignment causes churn by offering a card better aligned with the customer's needs.

In addition, banks should consider risk profile data when designing a retention strategy.

When a customer is under economic duress, paying off a credit card is usually lower priority than paying other banking products like a mortgage or car loan, increasing the risk of default. As a customer's balance rises, they also become a retention risk, since they're more likely to be tempted away by a balance transfer offer or other incentive from another bank.

If a customer shows signs of being over-extended, it may not be in the bank's best interest to encourage additional spending. The bank can use risk data to exclude that customer from campaigns to increase spend, and instead steer them toward less risky financial behaviors. For example, the bank could sending them a nudge whenever a bill is close to due.

By proactively addressing credit card misalignment and economic stress, banks can reduce churn and build trust and loyalty with customers.

Campaign Type	Retention incentive	Reactive retention strategy
Trigger	It's 60 days before a cardholder's one-year anniversary.	A customer starts to pay down their balance on a card with high monthly fees, indicating that they might be about to switch to a competitor's product.
Action	Send a notification reminding the customer they're about to pay their annual fee and informing them of upcoming discounts and perks.	Offer the customer a term loan or balance transfer to a card with lower fees. Since this is a decision they will need to think about, time the offer to be delivered when the customer is home in the evening.
Purpose	Reinforce card value proposition to encourage renewal.	Retain a customer whose card has become misaligned with their needs.

Harnessing The Power of Hyper-Personalization

By engaging customers with contextually-triggered, hyper-personalized campaigns, banks can maximize value across the cardholder lifecycle and provide a more streamlined customer experience that can be delivered in real time. They can also counteract competition from fintechs and big tech companies by rebuilding their interface with the customer and providing a tight value exchange based on customer needs and contextual insights.

However, these results won't emerge until banks take action to modernize their internal systems. By breaking down silos between LoBs and incorporating contextual data, banks can build the foundation they need to harness the power of hyper-personalization to boost engagement and improve the customer experience.

To ensure they're meeting customers in the right place at the right time, banks also must shift the focus of their mobile channels away from servicing and towards 1-to-1 marketing. By communicating with customers directly, they'll cut through the noise and build stronger customer relationships at scale, without increased costs.

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