

[Avery, J. & Santana, S. & Snively, C.]

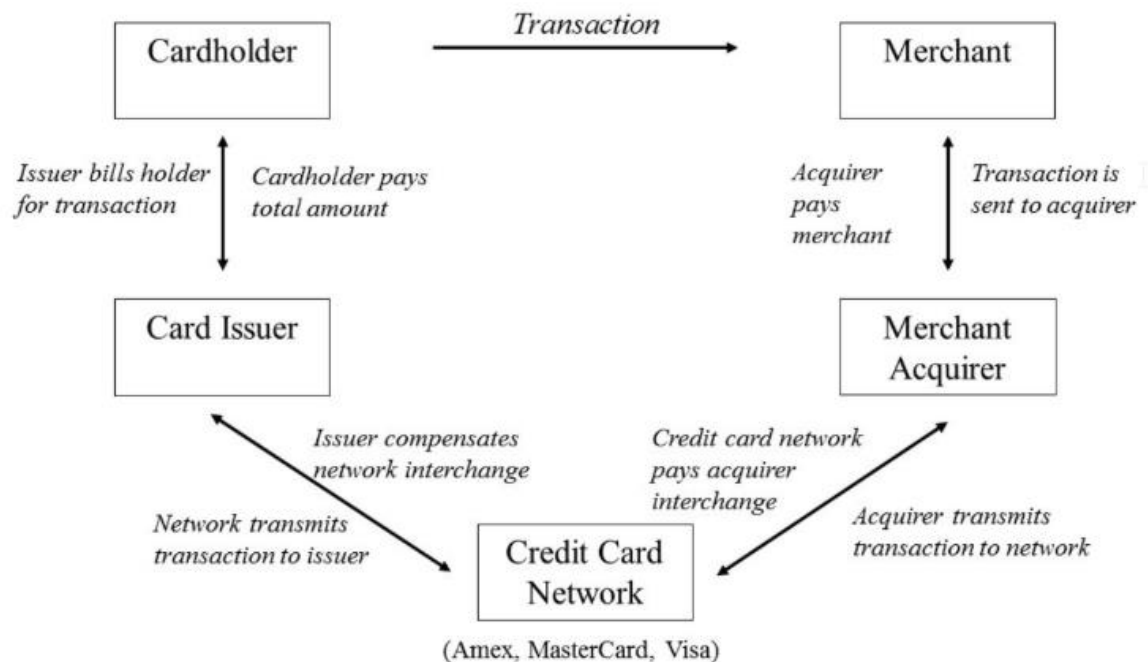
**[Pg. 1 notes]:**

- Major players: Pam Codispoti - President of Chase Branded Cards; Eileen Serra - Senior Advisor, former CEO of Chase Card Services
- Chase Sapphire Reserve card launched in August 2016, exceeding 12-month sales target in *two weeks!*
  - ½ of new customers were under 35 (building on strong millennial cohort)
  - Posting of photos of new Reserve card, unboxing videos on YouTube, #SapphireReserve trending on Twitter
- 100,000 point sign-on bonus was driver of activity
  - Size of bonus was unprecedented
  - Brian Kelly (Points Guy) declared "the must have card of 2016, if not the most appealing card ever."
  - Captured attention of competitors as a warning shot
- Remaining issues after initial success
  - Reducing bonus to 50,000 pts in January 2017
    - Assess how this drop impact rate of new customer acquisition (especially with enhanced richness of AMEX and Citi rewards programs)
  - How many enthusiastic consumers would remain and renew card with \$450 annual fee
  - Design new features and benefits to maintain **competitive differentiation**
  - Return attention to broader Sapphire portfolio to ensure products were differentiated and not cannibalize each other.
    - Sapphire
    - Sapphire Preferred

**[Pg.2 notes]:**

- Consumer & Community Banking (CCB): included credit cards, merchant acquiring, payment processing, small business and consumer banking (Chase 5,200 retail banks) mortgages, and auto financing
- In 2016, nearly ½ of all US households as customers and \$44.9 billion in revenue, net income of \$9.7 billion.
- Chase ranked #1 / #2 in credit issuance, credit and debit payments volume, and merchant acquisitions. **Highest-rated mobile banking app** and largest ATM network.
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- 5 players in credit card industry:
  - *Issuers*: banks issuing credit cards to consumers and business, extending loans, absorbing credit risk
  - *Cardholders*: repaid charges on cards (typically monthly), paying interest on unpaid
  - *Merchant Acquirers*: signed up and managed relationships for ->
  - *Merchants*: could accept credit cards as form of payment
  - *Network Providers*: processed payments between consumers and merchants

**Exhibit 1** The Economics of a Credit Card Transaction



- (2016) Credit card industry sales = \$3 trillion
- (Q4 2016) Market dominated by six issuers (78% of sales)
  - 1. JP Morgan Chase - 21.7%
  - 2. Amex - 19.9%
  - 3. Citigroup - 11.5%
  - 4. Capital One - 11.0%
  - 5. Bank of America - 8.9%
  - 6. Discover - 4.7%
- (2011 - 2016) Market experienced 11% annual growth
  - Expected to grow 4.5% annual between 2016 to 2021
- **Customer acquisition was competitive and expensive; profit margin dropped 31% in 2011 to 25% in 2016 due to lower interest rates, increased competition, greater regulation, and security/technology costs.**
- Issuers strived to make cards preferred choice ("top of wallet")

**[Pg. 3 notes]:**

- Chase earned 70% revenue from interest and 30% from cardholder & interchange fees
- Industry-wide:
  - 30% customers were *transactors* (paid balance in full each month to avoid interest fees)
  - 43% were *revolvers* (who did not pay off balance in full each month)
  - 28% were *dormant* (carriers who did not use cards frequently)

*Market Segmentation*

## Demographics

- *Life stage:*
  - Young adults (18-26) were 15% of industry revenue
  - **26-60 were 59% and more loyal (target this population)**
  - 60+ were 15%
  - Business accounts made up remained 11%
- *Assets/Credit:*
  - *Wealthy:* households with 500K - \$1m
  - *Affluent:* \$100K - \$500K
  - *Emerging Affluent:* not yet in the range but likely to reach in 5-10 years (target this population)
  - First two groups preferred to most expenditures on cards (knowing they can pay it back)

## Behavioral/Attitudinal

- How consumers used cards and how much they value rewards/types of rewards (cash back, miles, points)
- *Annual Fee:*
  - Most consumers didn't pay annual fee, ranged from \$25 to \$550 to attract consumers who valued rich rewards
- *Rewards*
  - Cash Back on Purchases (Cash back for consumers who didn't want to redeem points)
  - Proprietary Rewards on Purchases (Points for travel benefits, merch, other perks)
  - Cobranded Rewards on Purchases (issuers partnering with hotels, airlines, retailers, etc)

## [pg. 4 notes]:

- *Interest Rates/APR*
  - Lower interest appealed to consumers who want to pay card purchases over time
  - Average from 12.88% to over 20% (yuck!)
- *Credit Lines*
  - High credit lines for big ticket purchases like home improvement / travel
- *Creditworthiness*
  - Consumers with low credit score wanted cards with high approval ratings (but carried higher interest rates and annual fees to compensate for higher risk)

## New Strategy for Chase Consumer Cards

- Serra launched substantial market research project
  - **"It was clear we needed to deeply understand the various segments in the market, what features were attractive to those segments, and what kinds of products we wanted to build for those segments."**
- Research affirmed attractiveness of affluent/high worth (AFF/HNW) customers
  - Represented ~15% of 200 million US cardholders
  - Generated ~50% total spending on credit (Chase only captured 15% market share)
  - 60% lived in top 15 markets in US being served by Chase branches
- Amex had been dominated with their Platinum card; **value proposition** was exclusivity, rewards, and access
- "For more than 30 years American Express has reaped enormous profits by telling its customers that they are successful, elite, the cream of the moneyed crop and... that there's no

better way to make certain everyone knows just how special you are than by pulling an Amex out of your wallet." *New York Times*

- Serra felt confident Chase could compete for affluent consumers, especially younger emerging consumers.

#### [pg. 5 notes]

Chase Sapphire: New Sub-brand is born

- Chase split into 5 components
  - JPMorgan (private banking)
  - Chase Sapphire (for affluent consumers wanting to travel/dining)
  - Chase Ink (small business owners)
  - Chase Freedom (cash back)
  - Chase Slate (financial responsibility)
- 
- **"The market is highly segmented. Sub-branding allows you to speak directly to each target segment. I think it strengthens the Chase brand, broadening it and making it more relevant to more segments of consumers."**
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- August 2009 Chase Sapphire was launched
  - **Value proposition:** *For today's savvy affluent consumer, Chase Sapphire is the new, next generation rewards card that combines the premium service and travel benefits high-end consumers expect with practical features, so that they can always get more of what matters most.*
  - No annual fee, earn 1 point per dollar on general spend and 2 points per dollar on airline travel booked on Chase, 10,000 bonus reward points after spending \$500 on card during first three months
- Ultimate Rewards, proprietary rewards program
  - User friendly landing page
  - Point tracking
  - Progress toward program goals
  - Redemption options with point conversions listed
  - "Consumers believe that we deliver significant value and they like the elevated experiences and the simple nature of our rewards program."
- All calls were answered by live advisor, experienced high-performing reps for improving customer satisfaction
  - Goal to answer 85% of calls in 20 seconds and resolving issue in one call
  - **"More expensive way of servicing our customers...but there is a clear connection between the service experience improvements, net promoter score improvements, and customer retention."**
  - **"The savings you get from pulling back on your service levels to save a few dollars is not worth the risk of lower customer satisfaction, which always leads to higher attrition."** - Tom Horne, Head of Credit Card Operations

#### [pg. 6 notes]

- Minimalist design
- 2009 survey: 90% overall satisfaction, 85% would recommend to others
- To make stronger inroads into AFF/HNW, launched Chase Sapphire Preferred
  - Annual fee: 95%
  - 50,000 pts after spending \$4,000 in first three months

- 1.25% points-to-dollar towards travel if redeemed with Ultimate Rewards
  - Sundance Film Festival
  - Sapphire Lounge at MSG
- Constructed with metal to be heavier and make the "thunk" sound when being used to make a purchase
  - "When I looked at my P&L, that's a pretty big cost of goods number. **But it has an *intangible value.***"
  - NerdWallet poster: "Chase has basically realized that the weight raises customers' dopamine levels. **Being able to get into my brain every single time I swipe a card - there's literally nothing better a marketer could want.**"

#### [pg. 7 notes]

- In 2014, stopped getting new customers and peeled back marketing on no-fee product, focusing on Sapphire Preferred instead
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- 2014, Citi entered with Citi Prestige card (competitors)
  - Segment: travelers
  - \$450 annual fee
  - Priority Pass airport lounges
  - \$250 air travel credit, applied to flights
  - Free fourth night in hotel (with statement credit)
  - Sign-up bonus of 50,000 ThankYou points after spending \$5,000 within 3 months
  - 3 pts per dollar on air travel and hotels, 2 pts on dining and entertainment, 1 pt everything else

#### Launch of Chase Sapphire Reserve Card

- Codispopoti noticed Sapphire Preferred customers were more affluent
  - Included segment of "new affluents", 25-44 years old with incomes of \$150,000+
  - Authentic travelers and savvy about rewards (making most of their trips)
  - Opportunity to build on momentum and brand equity of Sapphire to create ultra-premium, high fee segment

#### Product Design Strategy

- Must construct value proposition comprised of the optimal mix of rewards, benefits, services, experience, interest rates, annual fees, and more."
- "Determine which set of features deliver most value for consumers, provide clear differentiation from competition, and yield best returns for our company."
- New offering required brand DNA:
  - Strong rewards
  - Premium travel redemptions
  - Exception customer service
  - Distinct from Chase Sapphire Preferred to generate incremental customers
  - Over two significant industry dynamics: millennial attitudes towards credit cards and churners

#### [pg. 8 notes]

- By 2013, only 37% of Americans under 35 carried CC debt, lowest level since 1989 [pg. 7]
- Millennials:

- Carrying significant student loan debt, wary of revolving credit, used debit cards or paid in full every month
- Collecting **experiences** instead of things
- Spending occurred in places not traditionally included in rewards programs
- Capitalized on rewards to stretch finances, hacking system to maximize points earned and value which could be redeemed
- "Churners":
  - Signed up for multiple cards to take advantage of acquisition sign-on bonuses, first-year offers, low introductory interest rates and cancelled account or allowed card to sit unused
- Chase Sapphire Reserve launched in August 2016
  - \$450 annual fee
  - Earn 3 pts per dollar spent on travel/dining
  - \$300 annual travel credit
  - Chase Experiences
  - 100,000 point sign-on bonus (market leading) after spending \$4,000 within first three months; this was worth \$1,500 in travel redemption credits
- Sapphire Brand was compelling because it reflected young, successful consumers desires:
  - Flexible product that let them set their own rules, provided convenience, relevance, choice
  - Provided millennials accelerated rewards on accumulating experiences - what you can do vs. what you can buy
  - New approach for marketing and comms, turning to media platforms and influencers more pertinent to them
    - Celebrities shared experiences through 20+ unique social content delivered to millions of followers on social media
    - Hosted media event to discuss unique perspectives on travel
  - "We created this sense that it was limited, you had to be in the know to get it. We wanted it to feel a little bit exclusive"

### [pg. 9 notes]

#### Market Response

- Fueled by social media and online forums, news spread quickly to "points junkies"
  - Demand skyrocketed, overwhelming Chase call centers
  - Within 10 days of launch, Chase ran out of metal alloy for cards
    - Didn't recognize demand would be so major for this type of card
- Reached *annual* new customer acquisition goal within *first two weeks* of launch
  - "Catching lightning in a bottle"
  - "Everyone said that millennials won't pay a high fee for anything. And then you realize they'll pay for value."
- Higher-than-expected take-up rate drove acquisition costs above team projections
  - How do we ride this momentum? Designed this to be more of a niche product
  - "Didn't plan to have 100,000 point offer last as long as it did". We saw this customer base as attractive for the long term, and decided to lean into it... as a marketer, you have to be fluid, to give yourself a little space to expect the unexpected."
- From launch of Sapphire Preferred in 2011 through Reserve launch in 2016, new accounts grew at double-digit CAGR, sales growing at faster rate during the same period

### [pg. 10 notes]

#### Chase Competitors Respond

- Amex (2016)

- New design for Platinum card
- 60,000 pt sign on bonus
- Upgrades to rewards and benefits
- Annual fee increased to \$550
- Increase in spending on marketing/promotion/card engagement
  - New account acquisitions up 13% (millennials were 35% of that growth)
  - Ended 2016 with record number of Platinum Card holders
- Citibank (2017)
  - Prestige card
  - Increasing sign-on bonus to 75,000 after customer spent \$7,5000 in first three months
- Despite changes, Chase seems to be winning millennial customers
  - "I'd probably use this [the Chase Sapphire Reserve card]. An Amex says you're rich, but this says you're interesting."

### **Creating Value from Reserve Customers**

- July 2017, second quarter earnings: record card sales volume growth, strongest in decade, experienced dip in net revenue rate for Card Services
- "You expense the acquisition costs over 12 months. The benefit comes over seven years. So we make huge investments all the time based on economics."
- Delicate balancing act, provide consumers with superior choice and value while managing the economics of the program

### **[pg. 11 notes]**

### **Managing Chase Sapphire Brand Going Forward**

- Market research showed Chase Sapphire had strong brand associations:
  - Modern
  - More Contemporary
  - Understands me
  - Understands the way I travel
  - Not my father's credit card
- Chase Sapphire is great product because it is true to brand positioning. Customers know what to expect from it and it lives up to way we walk about it.
- Laser focused on EMOB (early months on book consumers)
  - The EMOB is most critical time; if a customer puts card in drawer, its over.
  - Built portfolio quickly and need to delight customers and build strong affinity to brand

### **[pg. 12 notes]**

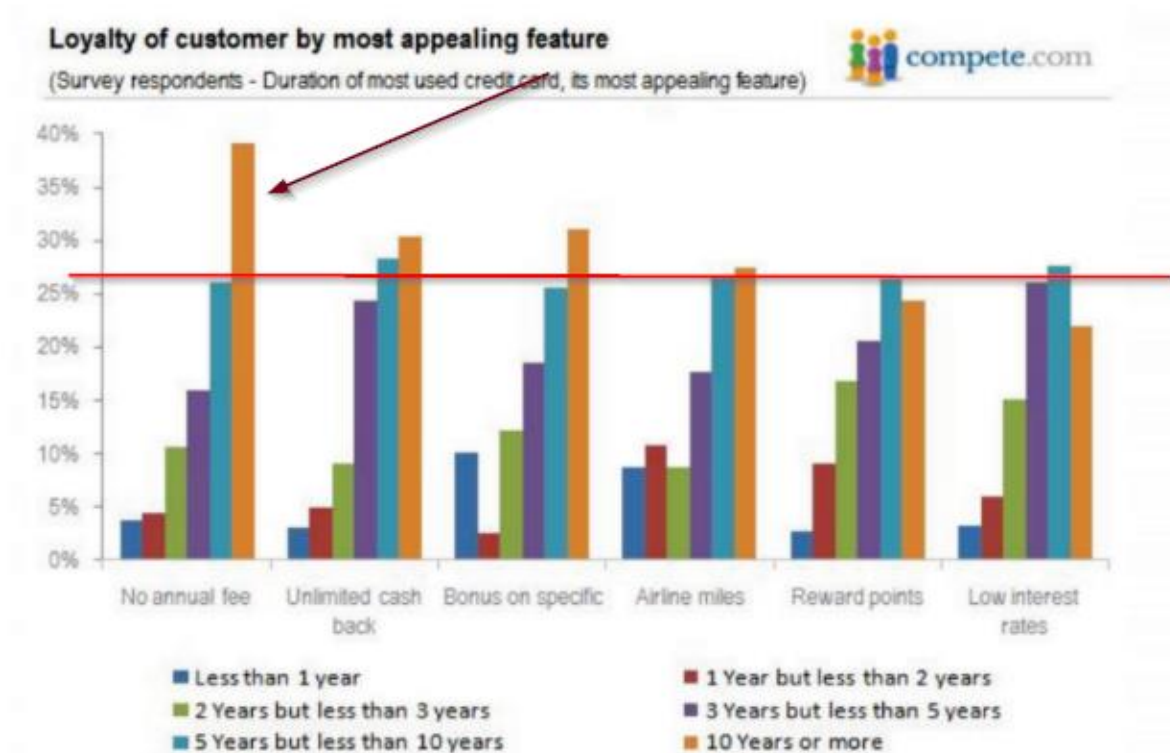
- "Dynamic industry with strong competitors and savvy consumers. Goal is to have a brand that people connect with emotionally and that delivers a great customer experience, a relationship that works for both parties."
- Reevaluate Chase Sapphire Preferred to ensure it was clearly differentiated from Reserve
  - Guide customers who might be better suited to Preferred
  - Decide what to do with no-fee Chase Sapphire
- "Sapphire brand to be wingman of your life. A brand that is an enabler. Brand that unlocks life experiences you want and achieve financial/personal goals. Our brand doesn't lead them, they lead our brand."



**Exhibit 2** Credit Card Psychographic Segmentation

	Prosperous and content	Deal chasers	Financially stressed	Recovering credit users	Self-aware avoiders
Percent of U.S. credit card holders in segment	23%	18%	19%	22%	18%
Median annual household income	\$85,000	\$65,000	\$45,000	\$45,000	\$55,000
Percent of segment with revolving credit card balance	29%	81%	93%	64%	64%
Mean credit card revolving balance per household	\$890	\$3,802	\$7,453	\$1,726	\$1,969
Most-used instrument for POS payments	Credit	Debit	Debit	Debit	Cash
Share of credit card in POS spending	59%	24%	20%	11%	19%
Most-used credit card does not earn rewards	8%	37%	52%	45%	43%

**Exhibit 3** Consumer Behavior by Type of Credit Card





## Frequency of use by most appealing feature

(Survey respondents - Frequency of use of credit cards and most appealing feature)

