Chase Sapphire Case

MBA 6210 - Section 070

Danny Moncada

CARLSON SCHOOL OF MANAGEMENT

UNIVERSITY OF MINNESOTA

1. What is your assessment of the Chase Sapphire Reserve card? Is this a good product for JPMC? For the Sapphire brand? Why or Why not?

The Chase Sapphire Reserve is a good product for JP Morgan Chase because it fits in well with their overall brand and image as a company; when JPMC restructured their card portfolio in 2009 into five main sub-brands, they maintained the Chase name on all of cards under the product line to install a sense of trust, credibility, and security to their consumers [Avery, et. al, pg. 5]. Trust and credibility are extremely important for the market segment that they were targeting with the card; high income consumers don't want to spend time thinking about their card, they simply want convenience and reliability [Avery, et. al, pg. 14].

The Chase Sapphire Reserve card is a great product for the Sapphire brand because it was designed perfectly for the market segment they targeted with the brand, affluent/high net worth "...consumers interested in travel and dining" [Avery, J. & Santana, S. & Snively, C., pg. 5]. Pam Codispoti (President of Chase Branded Cards) and Eileen Serra (former CEO of Chase Card Services) successfully **segmented** the market to identify the right consumer group, **targeted** a specific group to address, and **positioned** the Chase Sapphire Reserve correctly in the minds of their selected consumers [Dolan, pg. 7]. They started by segmenting the current credit card market, and here are some of the key demographic and behavioral attributes they identified [Avery, et. al, pg. 3]:

- Adults between the ages of 26 to 60 comprised 59% of the market
- *Wealthy* (take home income of $500K to $1m) and *Affluent* households (take home income of $100K to $500K) preferred to make most expenditures on cards
- Most consumers didn't pay an annual fee but those that did valued *rich rewards*

They conducted additional market research to "... deeply understand the various segments in the market, what features were attractive to those segments, and what kinds of products [they] wanted to build for those segments". [Avery, et. al, pg. 4] Through this extensive research, they identified and affirmed the attractiveness of affluent/high net worth (AFF/HNW) consumers, who generated 50% of total spending on credit, even though they comprised only 15% of the 200 million US card holders [Avery, et. al, pg. 4], They were confident they could compete for these affluent consumers, improve on Chase's 15% of the market share [Avery, et. al, pg. 4], and build the right product with the right positioning.

2. How has the Chase Reserve been so successful in acquiring customers? Will this success continue? Why or why not? What changes would you make to the customer strategy?

The Chase Reserve card has been successful in acquiring customers because Codispoti and Serra crafted the product to deliver on their value proposition for the AFF/HNW consumer segment. Product offerings change and evolve over time, and this was an example of *trading up* [Dolan, pg. 22], and offering a similar product to the Chase Sapphire card but with more exclusivity associated with it. When they launched the Reserve card, the rewards were best in class and the Reserve brand was compelling because it reflected the desires of their target segment - a flexible, convenient product geared towards those individuals who wanted to collect experiences while offering accelerated rewards (100,000 bonus points for signing on & 3 pts per dollar for travel and dining expenses) [Avery, et. al, pg. 8].

They took a new approach to reach their target segment, using media platforms and influencers that were more in touch and relatable to their target consumers; they wanted to "...create this sense that it was limited, you had to be in the know to get it." [Avery, et. al, pg. 8]. They recognized that this consumer segment was likely comprised of *emotional* decision makers (driven by the heart) [Gourville & Norton, pg. 5], as fine dining and travel tends to be something done for pleasure versus a real physical need for those experiences. Social media exerts an enormous impact on the decision-making process of consumers because most consumers consult their network of friends before making a buying decision [Gourville & Norton, pg. 28]; Serra and Codispoti astutely used social media to their advantage to generate buzz during the initial product launch.

While the initial product launch was incredibly successful, it seems very unlikely that they will be able to acquire customers with the same velocity that they saw during the initial launch. Within the first ten days of launching, they ran out of the metal alloy used for making cards, and after only *two weeks*, they reached their **annual** new customer acquisition goal; as Codispoti mentioned, it was a once-in-a-lifetime outcome [Avery, et. al, pg. 9]. Regardless of any changes they make to their strategy, that kind of success is not sustainable for the long term - a marketer's challenge isn't just acquiring new customers but making customers active ambassadors for the brand [Dolan, pg. 1].

One change that Serra and Codispoti could make to their customer strategy is targeting the *Emerging Affluent* consumers, who are likely to reach the AFF/HNW segment in 5 to 10 years. Chase is in a place where they must delicately balance their existing Preferred and Reserve consumer base to provide them the best product [Avery et. al, pg. 12]; they can manage this proactively by identifying which of their Preferred consumers belong to the *Emerging Affluent* segment that might actually benefit from changing over to being a Reserve member, and provide them with an incentive for making the switch, by giving those new Reserve members bonus points for making the conversion, or offer a discounted interest rate for their first year.

In addition, they should focus on the first two of Porter's Five Forces, *industry competitors* and *potential entrants* [Avery & Steenburg, pg. 5]; focus on competitors as whole to see how the Sapphire Reserve card stacks up with comparable cards in terms of price and the rewards being offered, and also watch out for any new entrants to the market that could come in offering better or more favorable rewards to consumers in their target segment.

3. How should competitors respond to the Chase Sapphire Reserve? How should Chase position itself to be ready for these competitive responses?

Some of Chase's competitors responded immediately to the success of the Sapphire Reserve card. In 2016, American Express introduced a new design to their Platinum card, upgraded their rewards and benefits, and increased their spending on marketing. In 2017, Citibank increased the sign-on bonus for its Prestige card to 75,000 points for a limited time (only after a customer spent $7,500 in the first three months) and offered a $250 credit for airline purchases [Avery, et. al, pg. 10]. American Express did see some success as a result of these changes, ending the year with a record number of Platinum card holders and a 13% increase in new account acquisitions (millennials accounted for 35% of this growth) [Avery, et. al, pg. 10].

However, American Express still has some work to do to change how consumers in this segment view using an Amex; one consumer mentioned "...An Amex says you're rich, but this [Chase Sapphire Reserve card] says you're interesting." [Avery, et. al, pg. 10]. What competitors could do to be competitive with this segment is to adjust their reward strategy and provide more rewards for certain types of purchases; offer an additional 4 points bonus on travel purchases during very busy travel periods, or lowering interest rates for high net worth individuals to entice them away from the Chase Sapphire Reserve card. One thing that was interesting to note is that airline miles were incredibly popular for consumers who had their cards for ten plus years [see Appendix]; this could offer a clue that allowing consumers to build airline miles through rewards can enhance a consumer's loyalty.

Chase can position itself to handle competitors upgrading their product offerings by conducting continuous environmental scanning to compare it with their original market research. They can use this baseline [Avery & Steenburg, pg. 8] to learn from their successes and failures; what things went well during the launch? What potential pitfalls could they avoid going forward? For example, they severely underestimated the demand of the card and ran out of the metal alloy used to make the cards, and many disappointed customers were sent plastic cards until they were able to build more [Avery, et. al, pg. 9]; this could have potentially been disastrous if disappointed customers were airing out their frustrations on social media.

4. How successful will Chase be at retaining Chase Sapphire Reserve customers into their second year? What should they do to retain these customers?

Chase will be very successful in retaining their Chase Sapphire Reserve customer into their second year because they built a powerful brand when developing the product. Serra and Codispoti kept the original value proposition for Chase Sapphire "*...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.*" [Avery, et. al, pg. 5] at the forefront of their consumers' minds and constructed an optimal value proposition based on their brand's DNA: strong rewards, premium travel redemptions, and exceptional customer service [Avery, et. al, pg. 7]. Following the launch of the card, market research showed that the Sapphire Reserve had strong brand associations with modernity, was viewed as a more contemporary card, and that it understood the way that consumers travel [Avery, et. al, pg. 11].

While this may seem counterintuitive, they need to focus specifically on the early months on book (EMOB) consumers to retain them in the second year; on average, consumers carry 2.35 credit cards in their wallets but only use one on a regular basis [Avery, et. al, pg. 2]. For this reason, making this card the "top of wallet" is very important for retention of consumers - renewal rates for these types of cards were traditionally 60-90% but Chase needs to reinforce the notion that this is not a typical card. They need to continue to create equity around what the brand is about and remind consumers why they signed with the Sapphire Reserve in the first place - to get rewarded for their experiences and to make them worthwhile.

5. What marketing conclusions and lessons can be learned from this case's positives and negatives?

This case was a perfect example of what good marketing is; finding, developing, and profiting from opportunities that arise in a market [Avery & Steenburg, pg. 7]. Codispoti noticed that Sapphire Preferred customers were more affluent than the rest of Chase's proprietary portfolio, and included "newly affluent" consumers who were between the ages of 25 to 44 with incomes of $150,000+; they recognized the opportunity to build on the momentum and brand equity of Sapphire and create a product extension to compete in the ultra-premium, high-fee segment [Avery, et. al, pg. 7]. They developed a brand that lead to new Sapphire accounts growing at a double-digit compound annual growth rate from 2011 to 2016, with sales growing at an even faster rate!

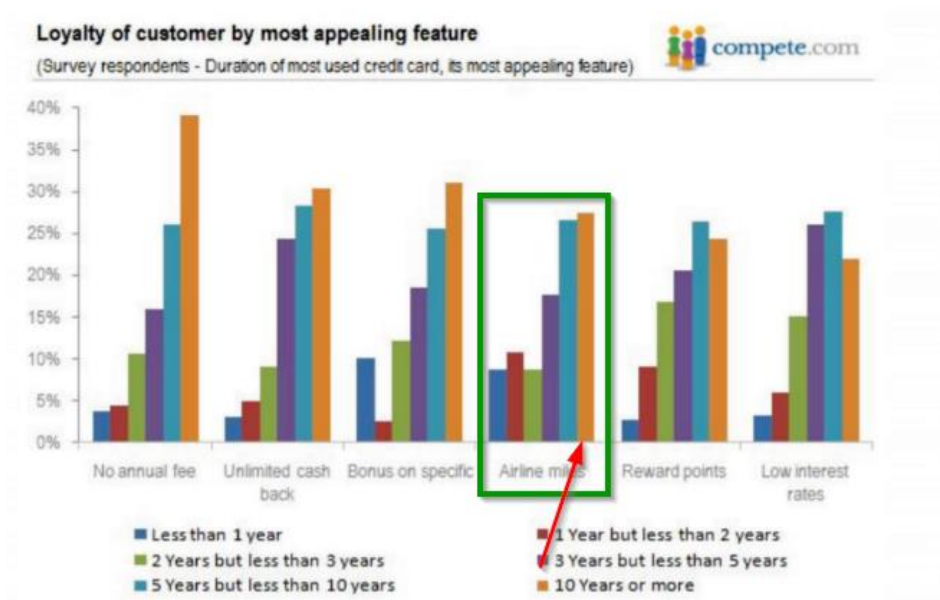
Another lesson that can be learned is that in a highly segmented market, sub-branding won't dilute the value of brand and instead can be used to a marketer's advantage. Sub-branding speaks directly to the product's target segment and positions the product to meet the needs of consumers by "...making it more relevant to more segments of consumers." [Avery, et. al, pg. 5]. In a digital and hyper connected world, making customers brand ambassadors is incredibly important [Dolan, pg. 24]; Sapphire had consumers lead their brand, as evidenced by consumers uploading "unboxing" videos of their Reserve card on YouTube, and getting #SapphireReserve to trend on Twitter [Avery, et. al pg. 1].

A conclusion that can be reached from this case is that making assumptions about a consumer group can be very costly; one of the best quotes came from Serra who mentioned that "... you sometimes have to challenge conventional wisdom. Everyone said that millennials won't pay a high fee for anything. And then, you realize well, that's not actually true. They'll pay for value." [Avery, et.

al, pg. 9]. Millennials will pay if you make it meaningful and worth the investment. Finally, one of the most powerful lessons in the case, is that, as a marketer, "...you must be fluid, and give yourself space to expect the unexpected"; don't short change your product and the value that it could generate by limiting yourself solely on short-term potential [Avery, et. al, pg. 9].

Appendix

Exhibit 3 Consumer Behavior by Type of Credit Card



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