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Chase Sapphire: Creating a Millennial Cult Brand

One morning in July 2017, Pam Codispoti (HBS MBA '93), President of Chase Branded Cards, and Eileen Serra, Senior Advisor and former CEO of Chase Card Services for JPMorgan Chase, shook their heads in astonishment. They had launched the Chase Sapphire Reserve Card in August 2016, and the card exceeded its 12-month sales target in two weeks. Half of the new customers were under 35 years old, building on the strong millennial cohort that was initially attracted to the Sapphire brand. These millennial consumers were proudly posting photos of their new Chase Sapphire Reserve cards on social media. Some were uploading "unboxing" videos on YouTube when they received their Reserve card. #SapphireReserve was trending on Twitter. One customer, initially denied the card because she had opened too many new credit card accounts, wore a handmade Chase Sapphire Reserve costume for Halloween in a social media-fueled attempt to persuade the company to approve her application.

The product's pièce de résistance that drove social media and word of mouth surrounding the launch was its 100,000-point sign-on bonus. The size of the bonus was unprecedented for Chase, and had garnered the attention of prominent bloggers and affiliates such as Brian Kelly, aka The Points Guy, who declared the Chase Sapphire Reserve "the must-have card of 2016, if not the most appealing card ever."[1] It also captured the attention of competitors, who saw it as a shot across the bow in the arms race of reward programs.

While Codispoti and Serra were pleased with the progress to date, they knew that their hard work had just begun. As planned, the company had reduced the introductory 100,000-point bonus to 50,000 points in January 2017. Now they had to ensure that the flood of new customers became profitable to the firm.

As the company approached the one-year anniversary of the Reserve launch, Codispoti and Serra wondered how many of their enthusiastic consumers would remain with the brand, renew their cards for another year, and pay the $450 annual fee now that their promotional inducement was gone. They had to assess how the drop to 50,000 bonus points would impact the rate of new customer acquisition—particularly given the enhanced richness of American Express's and Citi's rewards programs—and to design new features and benefits for the Chase Sapphire Reserve card to maintain its competitive differentiation. They also wanted to return their attention to the broader Sapphire portfolio, which included two other products—Sapphire and Sapphire Preferred. How should the products be differentiated to ensure they did not cannibalize each other? Were there other new products that could address the needs of new customer segments to capitalize on the momentum of the Reserve launch?

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JPMorgan Chase: Consumer and Community Banking

JPMorgan Chase operated four lines of business: Commercial Banking, Corporate & Investment Bank, Asset & Wealth Management, and Consumer & Community Banking (CCB). Under the leadership of CEO Gordon Smith, the CCB division served as the face of the company to the general public. In addition to credit cards, CCB also included merchant acquiring, payment processing, small business and consumer banking services (including Chase's 5,200 retail bank branches), mortgages, and auto financing.

In 2016, CCB counted nearly half of all U.S. households as customers and generated $44.9 billion in revenue, with net income of $9.7 billion. Chase was ranked #1 or #2 in credit card issuance, credit and debit payments volume, and merchant acquisitions. It boasted the highest-rated mobile banking app and the largest ATM network (with 18,000 locations), and was the most visited banking portal. Over 50% of affluent U.S. households lived within two miles of a Chase branch or ATM.

The U.S. Consumer Credit Card Market

There were five primary players in the credit card industry. *Issuers* were banks that issued credit cards to consumers and businesses, extended loans in the form of credit lines, and absorbed the resulting credit risk. *Cardholders* repaid charges made on their cards, often in monthly installments, paying interest on the unpaid portion. *Merchant Acquirers* signed up and managed relationships with *Merchants* so that merchants could accept credit cards as a form of payment. *Network Providers* (e.g., MasterCard and Visa) processed payments between consumers and merchants. Under the "open-loop" system operated by MasterCard and Visa, an issuer, such as JPMorgan Chase, marketed and issued cards to consumers and businesses, MasterCard or Visa processed the transactions, and a merchant acquirer enrolled merchants to accept issuers' cards running on the network provider's system.[2] In contrast, American Express (Amex) and Discover served as their own network providers and merchant acquirers in a "closed-loop" system. Each of the partners received a small percentage of the value of each customer's purchase (i.e., "transaction"). (See **Exhibit 1** for a summary.)

In 2016, the U.S. general purpose credit card industry sales totaled ~$3 trillion.[3] In Q4 2016, the market was dominated by six issuers that accounted for 78% of industry sales. JPMorgan Chase led in market share (21.7%), followed by Amex (19.9%), Citigroup (11.5%), Capital One (11.0%), Bank of America (8.9%), and Discover (4.7%).[4] The industry experienced 1.1% annual revenue growth between 2011 and 2016, and was expected to grow 4.5% annually between 2016 and 2021.[5] Industry profit margins had dropped from 31% in 2011 to 25% in 2016 due to lower interest rates, increased competition, greater regulation, and security/technology costs.[6] Customer acquisition in the industry was competitive and expensive. Costs to acquire a new cardholder ranged from $250 to $500.[7]

American consumers held 636 million credit cards[8] and 38% of households carried credit card revolving debt, which averaged roughly $11,000.[9] On average, people carried 2.35 credit cards in their wallets (14% held seven or more cards)[10] but generally only used one on a regular basis. Thus, issuers strove to make their cards the preferred choice, or "top of wallet." Generally speaking, Amex network cardholders charged $1,687 per month on their cards, while Visa cardholders charged $843.[11]

Issuers had three main sources of revenue: cardholder fees, interest paid by consumers on unpaid card balances, and interchange fees, which were paid by merchants as a percentage of each transaction amount. The contribution of each revenue source varied greatly from one issuer to another. For example, Amex, which required its charge card customers to pay all purchases in full each month, earned 21% of its revenue from interest payments and 79% from cardholder and interchange fees,[12] while JPMorgan Chase earned an estimated 70% of its revenue from interest payments and 30% from cardholder and interchange fees.[13] Across the industry, about 30% of all customers were *transactors* (those who paid their balances off in full each month to avoid paying interest fees), 43% were *revolvers* (those who did not pay off their balances in full each month), and 28% were *dormant* (those who carried, but did not use their cards frequently).[14]

Market Segmentation

Issuers segmented the market in different ways in order to identify different types of consumers. Common segmentation strategies included demographic, behavioral, and psychographic methods.

Demographic segmentation separated consumers based on their life stage, assets, or credit score.

- *Life Stage*: Young adults (ages 18–26) accounted for 15% of industry revenue.[15] The 26–60 age group accounted for 59% and tended to be more loyal.[16] Senior citizens accounted for 15%, and the remainder (11%) was derived from business accounts.[17]

- *Assets/Credit*: The *wealthy* segment consisted of households with $500,000 to $1 million in assets, the *affluent* segment $100,000 to $500,000, and the *emerging affluent* segment consisted of those not yet affluent, but likely to be so within five to ten years.[18] Affluent and wealthy consumers preferred to put most of their spending on credit cards and were a little less likely to carry revolving debt than the average consumer.

Behavioral/attitudinal segmentation provided insight into how consumers used their cards and how much they valued rewards and/or what types of rewards they preferred (cash back, miles, points), as well as their channel preferences. For example:

- *Annual Fee*: While most consumers did not pay an annual fee for credit cards, some issuers offered cards with annual fees of $25–$550 to attract consumers that valued rich rewards and benefits.

- *Rewards*: Rewards were one of the key features consumers considered when selecting and using a credit card. There were currently three types of rewards cards in the market:

  - Cash Back on Purchases: Cards that offered cash back attracted consumers who didn't want to spend time planning for and redeeming reward points. Some products offered higher percentages of cash back on spending in particular categories.

  - Proprietary Rewards on Purchases: Issuers offered rewards in the form of points accumulated based on spending; point multiples varied for different categories of purchases. Points could be redeemed for travel benefits, merchandise, or other perks.

  - Cobranded Rewards on Purchases: Issuers partnered with particular hotels, airlines, retailers, and other merchants to offer cobranded cards that offered rewards affiliated with that partner. Points earned would typically be transferred to the cobrand partner's loyalty program. These cards carried both the partner and the issuer brands.

  Recently, some issuers had increased their level of rewards and cobrand partner remuneration to a point where the costs of the rewards were approaching the interchange fee the issuer earned on the purchase.

- *Interest Rates or APR*: Low interest rates appealed to consumers who wanted the option to extend payment on card purchases over time. Average interest rates varied by card type and could range from 12.88% to over 20%.[19]

- *Credit Lines*: Some heavy spenders were drawn to cards with high credit lines that allowed them to access credit for big-ticket purchases in categories such as travel and home improvement.

- *Creditworthiness*: Consumers with low credit scores were attracted to cards that offered a high likelihood of approval. These cards often carried higher interest rates and/or annual fees to compensate for the higher level of risk the issuer incurred.

A segmentation approach based on consumer psychographics offered yet another way to group consumers. McKinsey & Company identified five prominent segments based on consumers' beliefs about and attitudes toward credit (see **Exhibit 2** for segment descriptions and **Exhibit 3** for how consumer behavior differed by card type).[20]

A New Strategy for Chase Consumer Credit Cards

In 2006, despite the size and profitability of Chase Card Services, JPMorgan Chase CEO James "Jamie" Dimon (HBS MBA '82) believed that more should be done to strengthen Chase's proprietary products and to build a stronger presence for the company in the affluent market. In 2007, he hired Gordon Smith from Amex to become the CEO of Chase Card Services. Smith and Serra, who had also recently joined Chase, created a new strategy that rationalized the company's product portfolio and identified the need to create new Chase proprietary products to compete in the affluent market.

Serra launched a 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," she explained. The research confirmed the attractiveness of the affluent/high net worth (AFF/HNW) customer segment. According to company research, this group represented ~15% of the ~200 million U.S. cardholders, generating ~50% of total spending on credit cards, of which Chase was capturing ~15% market share. Sixty percent of AFF/HNW individuals lived in the top 15 markets in the U.S. that were well-served by Chase branches.

Competition in the affluent space was formidable. Travel cobranded credit card products, such as those for United and Delta Air Lines, had always been strong in the affluent market, but competition for proprietary issuer cards had been dominated by Amex. In 1984, Amex had introduced its Platinum Card, initially available by invitation only, with a $250 annual fee. It offered 24-hour customer service, access to exclusive clubs, and special amenities at high-end hotels, resorts, and restaurants around the world.[21] In 2007, Amex increased the annual fee to $450, but its extensive slate of rewards and perks allowed savvy users to recoup most of this cost.[22] The Platinum Card's value proposition included exclusivity, rewards, and access. Amex referred to its customers as "card members," and all cards were embossed with a "member since" date, which for many served as a badge of honor that marked the arrival of financial success and stability. "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," explained the *New York Times*.[23] However, after reviewing consumer insights from her research, Serra questioned just how relevant the Amex brand was to the younger, emerging affluent consumer. She felt confident that Chase could compete for these affluent consumers with the right product and positioning.

Chase Sapphire: A New Sub-Brand Is Born

In 2009, JPMorgan Chase consolidated its Chase proprietary card portfolio into five primary sub-brands to address distinct market segments: JPMorgan (for private banking customers), Chase Sapphire (for affluent consumers interested in travel and dining), Chase Ink (for small business owners), Chase Freedom (for those consumers interested in cash back), and Chase Slate (for consumers interested in building financial responsibility). The Chase brand was used on all products as an endorser brand, which gave consumers a sense of trust, credibility, and security, according to Chief Brand Officer Susan Canavari, while each of the sub-brands carried its own unique meaning. Serra recounted the discussion: "There were people who felt that all of our products should just be called 'Chase.' That just didn't make sense to me. 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."

In August 2009, Chase launched Chase Sapphire, its first Chase proprietary card marketed to the affluent consumer. A company statement articulated the value proposition of this new offering: *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.* To enter the market, the team decided to offer a card with no annual fee. Consumers earned 1 point per dollar on general spend and 2 points per dollar on airline travel booked through Chase. Customers also received 10,000 bonus reward points after they spent $500 on the card during the first three months.

To support all Chase proprietary products, including Sapphire, Chase launched Ultimate Rewards, a proprietary rewards program with a simple and transparent online portal where customers could manage their rewards, offers, and redemptions. It included a user-friendly landing page containing all of the information that a customer might need: point tracking, progress toward program goals, and redemption options with point conversions listed so that customers could easily see the value of their points. It was a clear differentiator, according to Canavari. "Over the course of time, if you use the product, you will fall in love with it. It's not like other cards that offer you things and when you try to use them, you can't actually redeem them. When you go to redeem your points with us, you're going to be able to redeem them for great value at really great places." Lisa Walker, General Manager of Chase Sapphire Branded Cards, added, "Consumers believe that we deliver significant value and they like the elevated experiences and the simple nature of our rewards program. It is easy to understand and easy to redeem: no gotchas, rewards are automatically credited to your account. You don't have to do anything." (See **Exhibit 4** for images of the Ultimate Rewards website.)

All Chase Sapphire calls were answered by a live advisor. As Walker noted, "You don't have to push any buttons. You don't have to enter your credit card number. You simply call the number on the back of your card and someone answers the phone and says, 'Thank you for calling Chase Sapphire. How can I help you?' That is unique today in the credit card industry." Chase staffed the lines with experienced, high-performing representatives to improve customer satisfaction. The teams had a goal of answering 85% of calls within 20 seconds and resolving customer issues within one call. "It's certainly a more expensive way of servicing our customers . . . but there is a clear connection between the service experience improvements, net promotor score improvements, and customer retention," said Tom Horne, Head of Credit Card Operations. "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." He continued, "Direct-to-advisor is attractive to many customers. These customers are very busy, and so their immediate reaction is 'I'm going to get a quick answer to my question.'"

The card had a minimalist design (see **Figure 1**), differentiating it from competitors' cards, which were filled with numbers and graphics.

Figure 1 Chase Sapphire Credit Card

Source: Company documents.

The market response was promising. A customer survey at the end of 2009 revealed that 90% of cardholders reported overall satisfaction with the card, and 85% would recommend it to others.[24]

Expanding the Product Portfolio with Chase Sapphire Preferred

By 2011, the economy was showing signs of recovery. Although Sapphire had generated consumer excitement and was performing well, Serra was anxious to make stronger inroads into the AFF/HNW segment. The team decided to leverage the Chase Sapphire sub-brand and launched the Chase Sapphire Preferred card. It carried an annual fee of $95 and offered cardholders 50,000 points after they spent $4,000 during the first three months. The card also provided a 1.25% points-to-dollar conversion rate toward travel if points were redeemed on the Ultimate Rewards website (for example, when 50,000 points were redeemed, consumers would receive $625 in value against their travel purchases). Cardholders could earn 2x points on travel and dining, and received a 1:1 point transfer to frequent flier programs, such as United Mileage Plus. Preferred customers also had access to exclusive, curated Chase Experiences such as exclusive packages to the Sundance Film Festival, private dining series at acclaimed restaurants, and access to the Sapphire Lounge at New York City's Madison Square Garden, where customers could meet athletes and talent before games and shows.

One of the card's defining characteristics was its weight. Unlike molded plastic cards, Chase Sapphire Preferred had a metal core sandwiched between two pieces of plastic, giving it more heft. While a standard plastic card generally cost $1 to produce, this card cost significantly more. However, the team felt that the satisfying "thunk" it made as a consumer put it down for payment was an important quality signal. Remarked Walker, "When I look at my P&L, that's a pretty big cost of goods number. But it has an intangible value. When I take my Chase Sapphire Preferred card out of my wallet and hand it to someone in a store, they make a comment about it. It isn't showy, but it is a conversation piece." A NerdWallet writer explained, "I have the Chase Sapphire Preferred, and virtually nothing gives me more pleasure when I pay and the cashier notices how gorgeous that card is. 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."[25] A consumer noted, "They've managed to take something from being a stupid card you carry in your wallet to a part of your identity."[26]

In 2014, Chase stopped actively acquiring customers and began throttling back marketing efforts on the no-fee product, focusing marketing on the Sapphire Preferred product instead. Some no-fee consumers migrated to Preferred, but others stayed with the no-fee card, moved to one of Chase's other sub-branded cards, or left the company.

By 2016, Sapphire Preferred represented more than half of Sapphire total accounts and sales. The Sapphire Preferred card had also won several awards. Consumers were enthusiastic about the brand and eager to share it with their tribe. Said Canavari, "When you are passionate about something, you want to share it with your community and with like-minded people because that's what makes you really proud to be part of a brand."

By 2014, Citi had also entered the premium credit card segment with its Citi Prestige card. The Prestige card, marketed primarily to travelers, carried a $450 annual fee and access to Priority Pass airport lounges.[27] Cardholders received an annual $250 air travel credit, automatically applied to flight-related expenses. They also received a free fourth night at a hotel in the form of a statement credit when booked through the Citi Prestige Concierge,[28] a sign-up bonus of 50,000 ThankYou points after spending $5,000 within three months of being issued the card, and three points per dollar spent on air travel and hotels, two points per dollar on dining and entertainment, and 1 point per dollar spent on other purchases.[29]

The Launch of the Chase Sapphire Reserve Card

Codispoti joined Chase in 2014, after more than 18 years at Amex. She quickly noticed that Sapphire Preferred customers were more affluent than the rest of Chase's proprietary portfolio, and included a segment of "new affluents" that were 25–44 years old with incomes of $150,000+. They were authentic travelers and savvy about rewards, and they liked to make the most of every trip, whether it was around the corner or across the globe. The team believed there was an opportunity to build on the momentum and brand equity of Sapphire to create a line extension to compete in the ultra-premium, high-fee segment.

Product Design Strategy

Codispoti explained, "Launching a new credit card product is a complex series of trade-offs. We have to construct a value proposition comprised of the optimal mix of rewards, benefits, services, experience, interest rates, annual fees, and more. Throughout the new product development process we are constantly doing analysis to determine which set of features will deliver the most value for consumers, provide clear differentiation from competition, and yield the best returns for our company."

Since the new offering would carry the Chase Sapphire brand, it needed to reflect the brand's DNA: strong rewards, premium travel redemptions, and exceptional customer service. In addition, not only did it need to differentiate itself from other ultra-premium cards in the market, it also needed to be distinct from the Chase Sapphire Preferred card to generate incremental customers. (Refer to **Exhibit 5** for a summary of each Sapphire product's features.) Codispoti also knew she needed to account for and overcome two significant industry dynamics in developing a new product: millennial attitudes toward credit cards and churners.

First, by 2013, only 37% of Americans aged 35 and under carried credit card debt, the lowest level since 1989.[30] Millennials, many of whom carried significant student loan debt, were wary of revolving credit and tended to use debit cards or pay off their full balance each month. Their spending habits differed from past generations, as they tended to favor collecting experiences instead of things, and much of their spending occurred in places that were not traditionally included in reward programs. However, while some had sworn off credit cards, others were attracted by rewards. The *Wall Street Journal* noted, "Credit cards, and the prizes they earn, are the hot new collectibles for millennials."[31] Millennials capitalized on rewards to stretch their finances, hacking the system to maximize the points they earned and the value at which they redeemed them.

Second, an increasing number of consumers were churning credit card offerings for large personal gains. This small subset of customers known as "churners" signed up for multiple credit cards to take advantage of acquisition sign-on bonuses, first-year free offers, or low introductory interest rates and then canceled the account or allowed the card to sit unused and became part of the dormant segment. Prominent bloggers offered ingenious methods for consumers to maximize the benefits of their credit cards. As Codispoti noted, "We work hard to deliver compelling ongoing benefits well beyond the sign-on bonus so our cards remain top of wallet for the long term."

The new Chase Sapphire Reserve card was launched in August 2016 and carried a $450 annual fee. Cardholders earned 3 points per dollar spent on travel and dining, a 1.5% points-to-dollar conversion rate toward travel on Ultimate Rewards redemptions, a $300 annual travel credit, and access to the Chase Experiences platform. At launch, Chase Sapphire Reserve offered a market-leading 100,000-point sign-on bonus, which was earned after a customer spent $4,000 within their first three months. The bonus offer alone was worth $1,500 in travel redemption credits on the rewards site.

For Codispoti, what made the Sapphire brand so compelling was that it reflected what young, successful consumers wanted—a flexible product that allowed them to set their own rules and that provided convenience, relevance, and choice. "For millennials, 'travel' might mean a once-in-a-lifetime trip around the world or it could mean taking a Lyft to a hole-in-the-wall restaurant in Chinatown and then riding the subway to karaoke, and then catching a taxi home. So we decided to give customers accelerated rewards on all those purchases. Reserve provided millennials even more of what they loved about Sapphire. This is a card for accumulating experiences," she explained. "The emphasis is on what you can do, rather than what you can buy." She added, "Our card is for those on a lifelong journey of exploration, as opposed to a card that serves as a badge of arrival. Our card is meant for people who want to be viewed as interesting, not rich."

At launch, the Sapphire team created a new approach for marketing and communications. They recognized that affluent millennial consumers were consuming media differently, so rather than investing in traditional television advertising, they turned to media platforms and influencers that were more pertinent to them. They engaged relevant influencers, who spread the word within their communities, partnering with model/producer/director Nigel Barker, designer Kelly Wearstler, and model/TV personality Chrissy Teigen to help generate large-scale reach (see **Exhibit 6**). The celebrities shared their Chase Sapphire Reserve experiences through more than 20 unique and highly engaging pieces of social content delivered to their millions of followers on social media, and hosted a media event to discuss their unique perspectives on the evolution of travel. Chase blanketed its extensive branch network with point-of-sale material promoting the product, featured the card on its chase.com website, and advertised with online video content on sites like VOX media that featured actor and comedian James Corden interviewing cutting-edge masters of travel and dining in unique venues. Said Canavari, "I think the way we went to market was really smart. We created this sense that it was limited, you had to be in the know to get it. We didn't start with mass advertising . . . We wanted it to feel a little bit exclusive."

Market Response

In August 2016, The Points Guy wrote, "When I first heard the details of the new Chase Sapphire Reserve Card, I had to sit down, because it sounded way too good to be true."[32] Fueled by social media and online forums, news about the new card spread quickly to "points junkies" eager to apply for the card and spread the word. Demand skyrocketed, overwhelming Chase's call centers. Some consumers called in just to ask if the 100,000-points offer was real. Within 10 days of the launch, Chase ran out of the special metal alloy required to make the cards. Disappointed customers were sent plastic versions until their metal cards were ready. The Associated Press commented, "Enthusiasts extol its virtues all over the Internet. Millennials are clamoring for it. It's not a new video game, or some fancy food craze, or even Apple's latest iPhone, but a credit card. Calling it plastic doesn't do it justice. It is a high-end, high-fee, high-reward card made of a metallic alloy that gives it a satisfying heft and an impressive *thunk* when you toss it onto the table to pick up the check."[33]

The card reached its annual new customer acquisition goal within the first two weeks of launch. Codispoti described it as akin to "catching lightning in a bottle," a once-in-a-lifetime outcome. Serra agreed, saying, "We didn't start out to create a cult brand. Our goal was really to understand consumers and identify where there was emotional space to talk to them." She added, "One thing we learned is 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."

While the cost of acquiring an individual customer was as anticipated, the higher-than-expected take-up rate drove total customer acquisition costs above the team's projections. Chief Financial Officer of Card Services Catherine Hogan recalled closely watching the financial implications of the 100,000-point offer shortly after the card introduction: "Wow, how do we ride this momentum? The numbers were big. We designed this to be an ultra-premium card—more of a niche product—but it took off beyond anybody's expectations."

Codispoti explained, "We didn't expect to drive as much demand as we did. We didn't plan to have the 100,000-point offer last as long as it did. But, as things unfolded, we pivoted. We don't make investment decisions based on short-term potential. We saw this customer base as attractive for the long term and so we decided to lean into it . . . as a marketer, you have to be fluid, to give yourself a little space to expect the unexpected."

In January 2017, Chase preannounced that the 100,000-point sign-on bonus would be reduced to 50,000 points, effective later that month. The cutoff date was extended to March 2017 for customers who applied in person in one of Chase's bank branches. As Codispoti explained, "We kept the 100,000-point introductory offer up longer than we originally anticipated to continue to capture the momentum in the marketplace. And then, like with all promotions or introductory offers, we decided it was time to bring that premium down."[34] Consumers appreciated Chase's transparency, which granted them a chance to respond before the offer was reduced. Chase's online application volume surged again and consumers took long road trips to apply in person at the nearest Chase bank branch, determined to get the offer before it expired.

From the launch of Sapphire Preferred in 2011 through the Reserve launch in 2016, total Sapphire new accounts had grown at a double-digit CAGR, with sales growing at an even faster rate during that same time period.

Chase's Competitors Respond

Chase's success with the Reserve card was difficult for competitors to ignore. In 2016, Amex announced a new design for its Platinum Card, a 60,000-point sign-on bonus, and a significant upgrade in rewards and benefits. The annual fee was increased to $550. This was in addition to a significant increase in spending on marketing and promotion and card member engagement in 2015 and 2016. These efforts were bearing fruit; Amex's new account acquisitions were up 13%, with millennials accounting for more than 35% of the growth, and the company ended 2016 with a record number of Platinum Card holders.[35]

In July 2017, Citibank announced a number of changes to its Prestige card, including increasing the sign-on bonus to 75,000 for a limited time after a customer spent $7,500 in the first three months (refer to **Exhibit 7** for a summary of the changes to the Amex Platinum and Citi Prestige cards).

However, Chase seemed to be winning the minds and hearts of millennial consumers. Said Bryan Denman (35), a Sapphire Reserve customer, "Everyone's brought up to distrust their credit card company. I am a complete fanboy [of Reserve]. I'm telling everyone to get this card. When I go to dinner, there might be three cards that get thrown down. They're all Chase Sapphire."[36] When asked during a focus group which card they would use to pay for dinner, one consumer proclaimed, "I don't think it would be American Express . . . I feel like that would be braggy, like I'm trying to prove I'm a big shot."[37] A fellow consumer added, "I'd probably use this [the Chase Sapphire Reserve card]. An Amex says you're rich, but this says you're interesting."[38]

Creating Value from Chase Sapphire Reserve Customers

On July 14, 2017, JPMorgan Chase reported its second quarter earnings. In a conference call with analysts and investors, the management team discussed the current state of the Chase Sapphire Reserve product. Following record card sales volume growth, the strongest the company had seen in a decade, JPMorgan Chase was experiencing a dip in its net revenue rate[a] for Card Services. Responding to an analyst's question, Marianne Lake, Chief Financial Officer, remarked:

> [The first three quarters from launch] were extraordinary in terms of the number of accounts we acquired . . . These are extraordinarily good customers, their characteristics, their engagement, their spend, these are the customers that everybody wants to acquire. We now have them and we intend to deepen relationships with them . . . It's still very early on Sapphire Reserve . . . it's not even a year old yet and these are portfolios that develop and season over time.[39]

Dimon reminded analysts that JPMorgan Chase played the long game when it came to credit card marketing. He explained, "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."[40]

Managing a rewards program was a delicate balancing act. Lorraine Hansen (HBS MBA '91), Head of Ultimate Rewards, explained, "We strive to provide consumers with superior choice and value while also managing the economics of the program." Hansen was optimistic that the rewards were enough to engender loyalty. She explained, "You want to see how a bundle of rewards and benefits works to

[a] Net revenue rate represents Card Services net revenue (annualized) expressed as a percentage of average loans for the period. A significant portion of credit card new account origination costs were recognized as contra revenue, and reduced net revenue instead of increasing expense.

change the net present value of a customer—how they engage with their card in ways that increase their customer lifetime value."

As they approached the launch's one-year anniversary, Codispoti and Serra wondered if the customers who had flocked to Reserve would be as eager to renew their accounts. Credit card renewal rates for premium cards were traditionally 60%–90%,[41] but the Reserve card was no ordinary card. Remarked Codispoti, "Our objective is to build lifelong engaged relationships with our customers. One of our biggest challenges is churners. They use the points and leave and then go on to another card." Serra continued:

> Unlike other categories, there are very low barriers to switching credit cards. Someone can just go online and put two pieces of information in and hit "submit" and get a new card. You're always going to have people who are just going to go with the newest shiny object. What we're trying to do is create equity around what this brand stands for and deliver on customer expectations. We want people who are aligned with the brand and feel that the brand says something about them in terms of who they are and what they value.

Managing the Chase Sapphire Brand Portfolio Going Forward

Meanwhile, the team considered how to best manage the overall Chase Sapphire portfolio. Which bundle of features and benefits should each card carry in order to keep customers retained and engaged with the brand?

Market research showed that the Chase Sapphire brand had many strong brand associations, including *modern, more contemporary, understands me, understands the way I travel*, and *not my father's credit card,* and was performing well with affluent consumers (see **Exhibit 8**). Walker summarized the research: "Consumers say that Chase Sapphire understands me and supports me in the things I'm going to do. We are not a finger-wagging brand. We do not say, 'Let us show you the way.' Our customers are doing very interesting and exciting things. They have great life experiences and we have created products that understand them and support them." Canavari concurred: "I believe that the reason people are so loyal to Chase Sapphire is because it is a great product that is true to its brand positioning. Customers know what to expect from it and it lives up to the way we talk about it. We tell consumers, 'We know you're in the know and it is our mission to go out into the world to understand what the next cool thing is going to be that you are interested in, and then we're going to let you in on the secret and let you take advantage of it with your rewards.'"

As they approached the first anniversary, the team debated how to reinforce the total value of the product and present more opportunities for customers to engage with the brand. Codispoti's team was laser focused on EMOB (early months on book consumers). She explained:

> Because most people carry multiple cards, the EMOB period is the most critical time. If we don't engage a new customer in the first few months, the customer might just put the card in their drawer and not use it. We built this portfolio faster than we ever thought we would, so now we're hunkering down and doing everything we can to delight our customers and build a strong affinity to the brand.

Serra also expressed caution about raising the stakes in the rewards arms race:

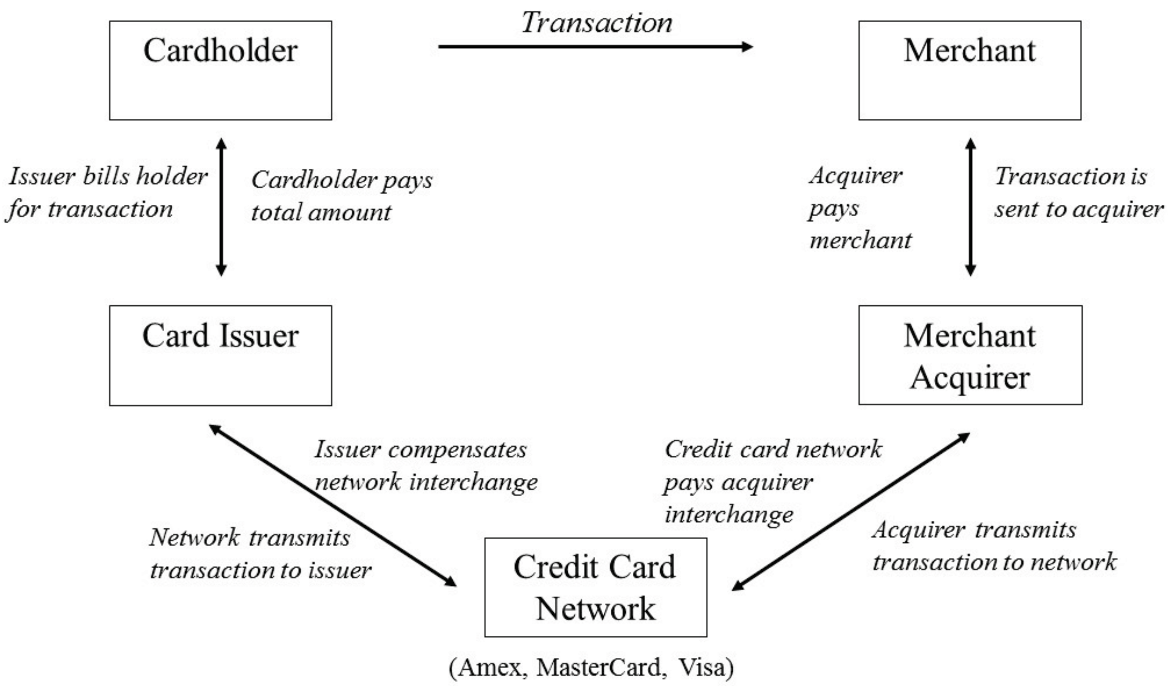
> This is a dynamic industry with strong competitors and savvy consumers. Issuers are continually fine-tuning their products looking for opportunities to enhance their rewards

> propositions so that they can gain a competitive edge. As the market leader, at some point you have to say "enough is enough." Our goal is to have a brand that people connect with emotionally and that delivers a great customer experience. This has to be a relationship that works for both parties.

Going forward, they also had to reevaluate the Chase Sapphire Preferred product to ensure that it was clearly differentiated from Reserve. Walker explained, "We're trying to understand how to optimize between the two big pieces of the portfolio, Preferred and Reserve. How should we jointly manage the two and guide customers to the best product for them? Reserve is not the right product for everyone, but with all the hype around the launch, a lot of folks got Reserve who might be better suited to Preferred." They also had to decide what to do with the no-fee Chase Sapphire. They considered whether they should reinvest in it as a way to attract customers who were not willing to pay a fee.

Finally, Codispoti wanted to explore additional product innovations for the Sapphire portfolio. She explained the strategy: "We want the Sapphire brand to be the wingman of your life. Not a brand that talks at you, but a brand that is an enabler. A brand that can unlock the life experiences you want and help you achieve your financial and personal goals. We're here to help our customers make the most of their lives. Our brand doesn't lead them, they lead our brand."

Exhibit 1 The Economics of a Credit Card Transaction



	Open-Loop Transaction (e.g., Visa/ MasterCard)	Closed-Loop Transaction (e.g., American Express & Discover)
Consumer Spend (as an example)	$100.00	$100.00
Less Interchange Fee to Issuer[a]	$1.50	$2.45
Less Merchant Acquirer Fee	$0.30	N/A
Less Network Provider Fee	$0.20	N/A
Balance Provided to Merchant	$98.00	$97.55

Source: Company documents; and casewriter, adapted from "How a Credit Card Transaction Works," Swisscard AECS, https://www.swisscard.ch/en/media/the-swiss-card-market/rs-how-they-work/, accessed September 2017.

[a] Issuers could earn higher interchange fees, up to 2.2% of the consumer spend, on their premium-level cards.

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%

Prosperous and Content: High income people with strong credit ratings who pride themselves on keeping their finances in order, they spend liberally on their credit cards, seek rewards for spending, and are opposed to revolving debt. They do not spend time thinking about their card and desire convenience and reliability. They are twice as likely to have a premium card.

Deal Chasers: Highly involved cardholders who confidently manage their usage to obtain the best deals, moving balances across cards to obtain the most advantageous rates and points. They do not mind paying an annual fee as they find a way to amortize the cost through rewards. They are satisfied with their cards, but see themselves in friendly competition with issuers. They carry more debt than the prosperous and content, but feel confident that they can service it.

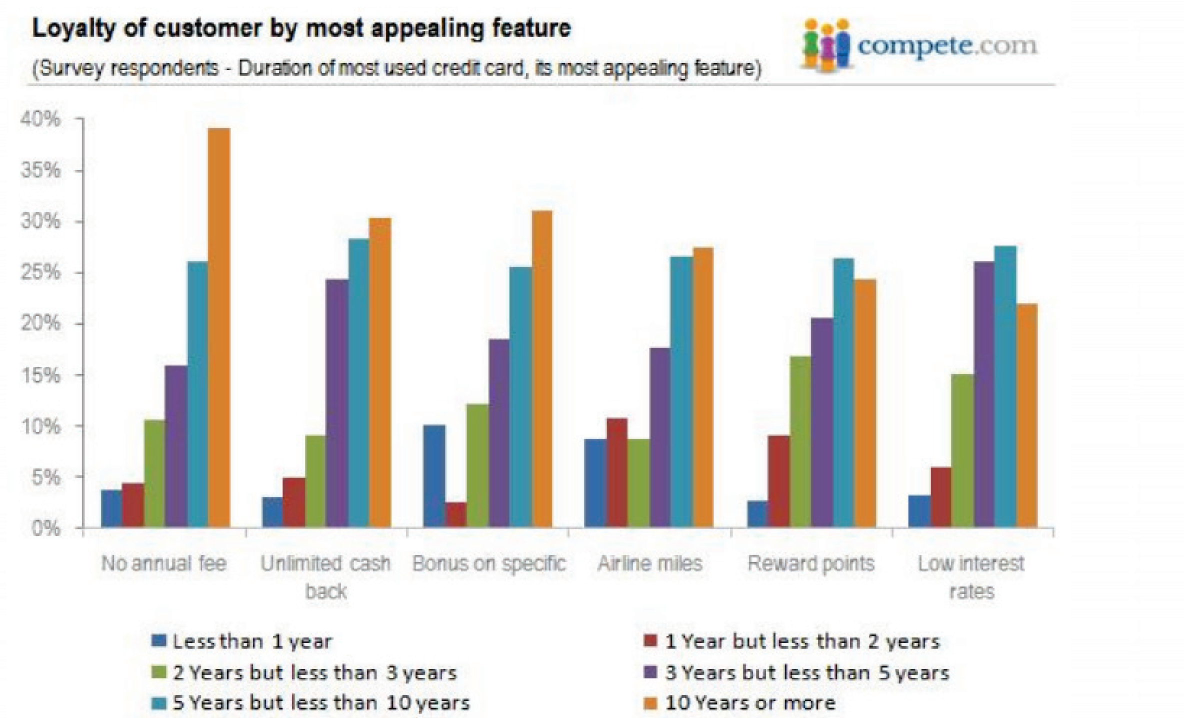
Financially Stressed: These cardholders carry high levels of card debt and feel pessimistic about whether they will ever get their finances in order. They are worried about the economy and their situation, and feel stuck with their current issuers, unable to shop around for a better deal due to their poor FICO scores. The segment includes both those with a need to use credit cards to pay for essentials and those who do not have control over their spending and thus spend more than they can handle. They value simplicity and transparency in fees, rates, and terms, and wish that they did not need to rely so much on their credit cards.

Recovering Credit Users: These cardholders are wary of issuers and avoid regularly using credit cards. They are careful to keep their finances in order and are rarely swayed by promotional offers, perceiving them to be traps to attract unsuspecting consumers. Active and conscientious, they want tools to help control spending, but blame issuers, not themselves when debt piles up.

Self-Aware Avoiders: These consumers feel that credit cards are risky, given their spending habits. They avoid using credit and rely on cash and debit cards that pull directly from their bank accounts to curb their spending. Purchasing on a credit card makes them feel out of control. They blame themselves, not issuers, when they get into trouble with their credit cards.

Source: "New Frontiers in Credit Card Segmentation: Tapping Unmet Consumer Needs," May 2014, McKinsey & Company, www.mckinsey.com. Copyright (c) 2017 McKinsey & Company. All rights reserved. Reprinted by permission, accessed June 2017.

Exhibit 3 Consumer Behavior by Type of Credit Card



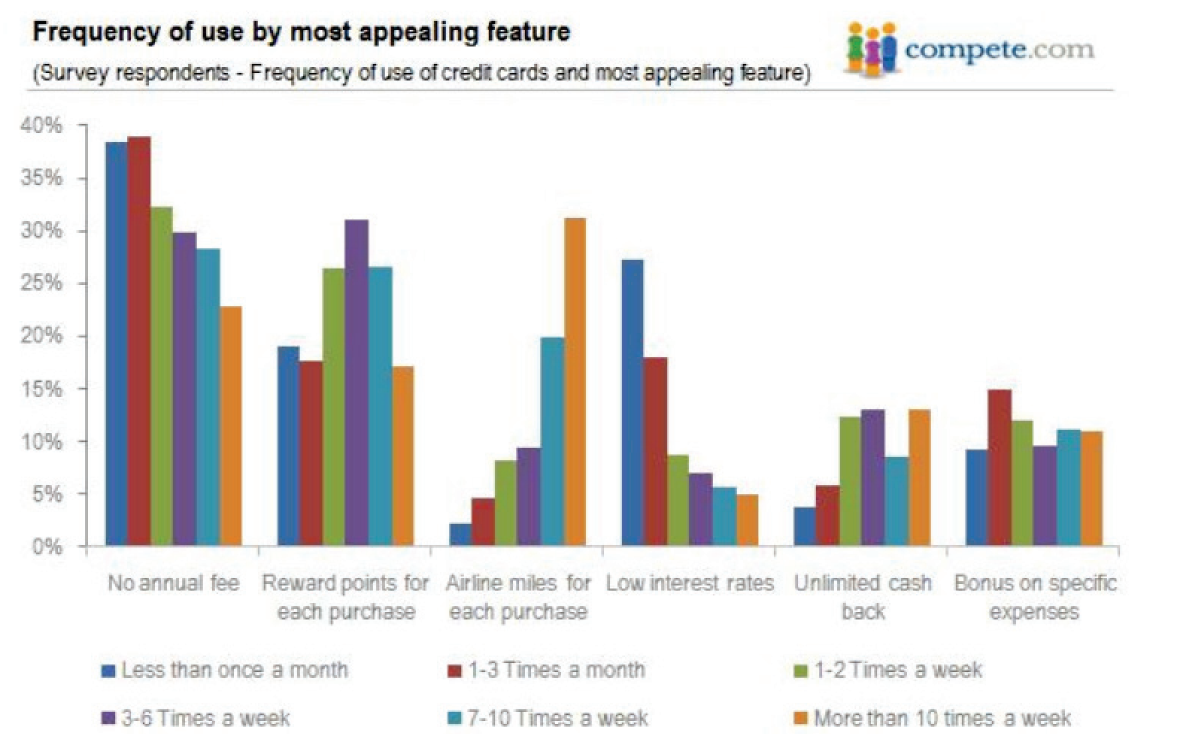
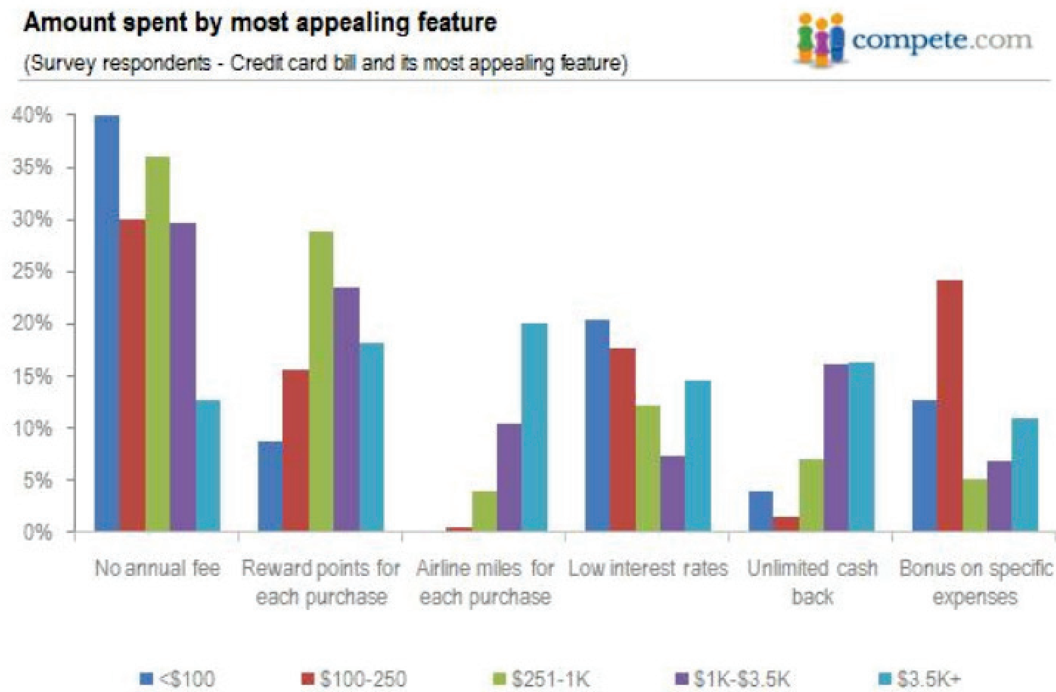
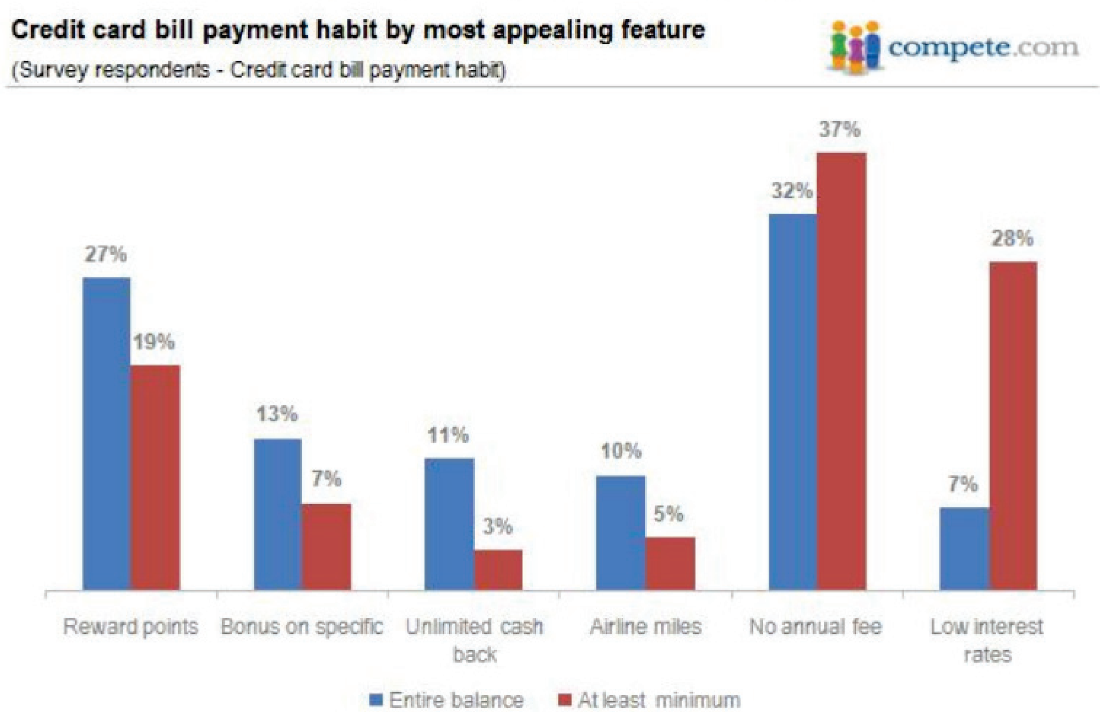


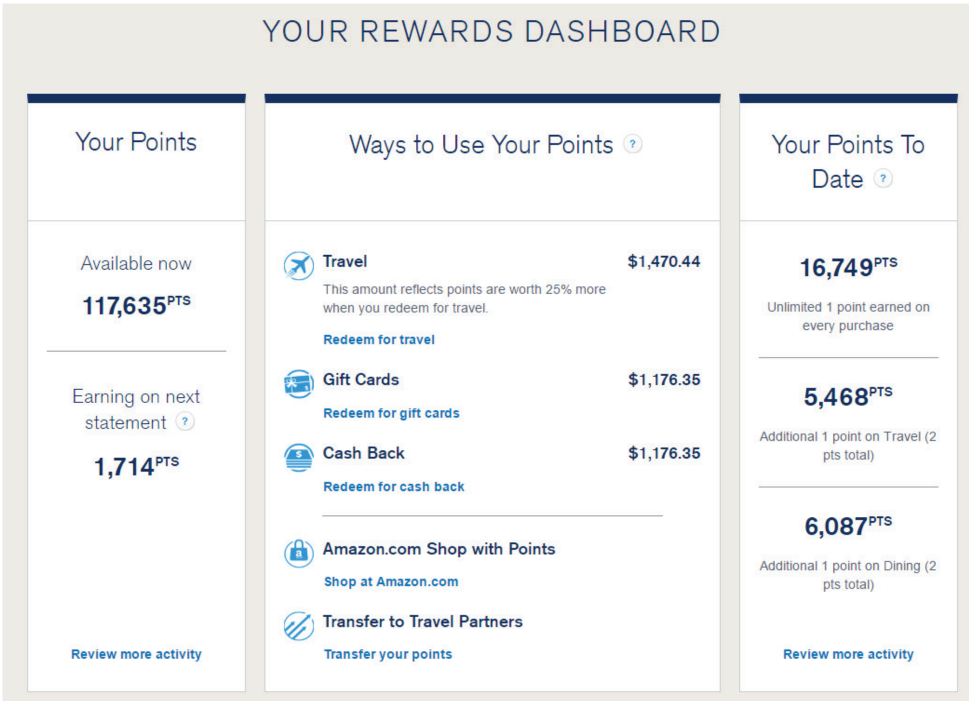
Exhibit 3 (continued)



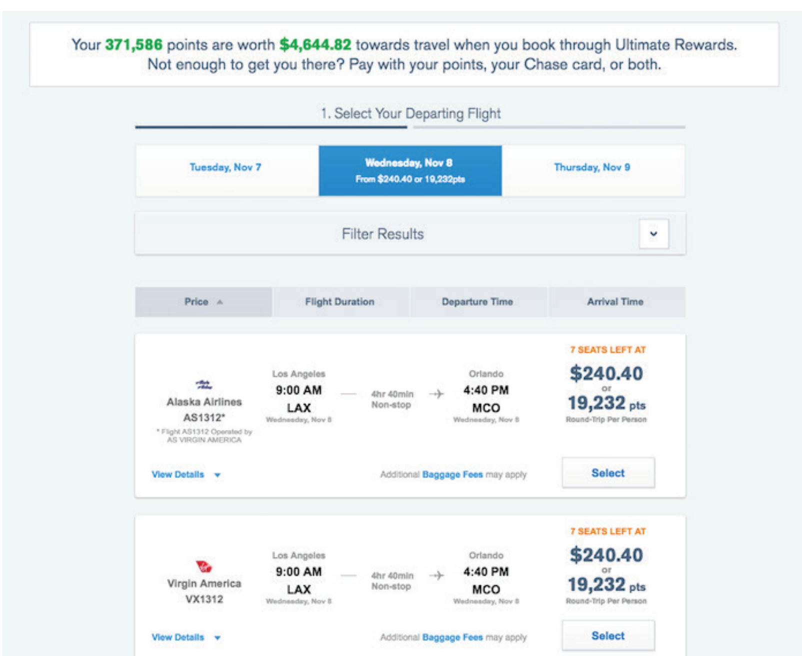


Source: "The Wallet Wars," Compete, http://www.compete.com, via Catherine Prince, "Card Programs that Attract Multiple Consumer Segments," FIS, July 30, 2013, https://www.aba.com/Products/Endorsed/Documents/FIS_July2013.pdf, accessed August 2017.

Exhibit 4 Chase Sapphire Ultimate Rewards Screen Shots



Flight Purchase:



Source: Company documents.

Exhibit 5 Chase Sapphire Product Portfolio

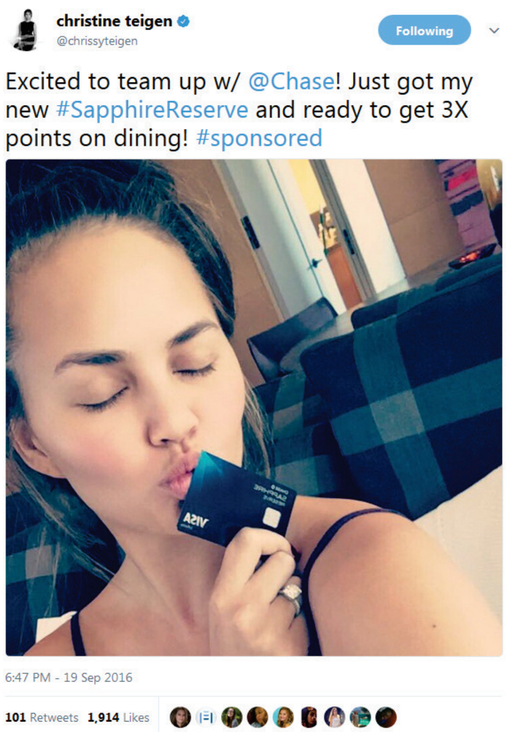
	Sapphire	Sapphire Preferred	Sapphire Reserve
Annual Fee	$0	$0 first year, then $95	$450
APR %	15.24%-15.99%	16.99%–23.99%	16.99%–23.99%
Bonus Requirement[a]	$500	$4,000	$4,000
Ultimate Rewards Sign-Up Bonus	10,000	50,000	50,000
Travel Credits	$0	$0	Up to $300 annually for most travel expenses
Points Earned by Category			
Airfare and Hotels	2x	2x	3x
Dining	2x	2x	3x
Entertainment	1x	1x	1x
Everyday Spend	1x	1x	1x
Redemption Value per Point for			
Airline Tickets	1	1.25	1.5
Hotel	1	1.25	1.5
TPG Valuations[b] (in cents)	N/A	2.1	2.1
Additional Perks			
Airline Perks	None	None	None
Hotel Perks	None	None	Luxury Hotel & Resort Collection
Hotel Elite Status	None	None	None
Global Entry/TSA PreCheck Credit	None	None	1 credit every 4 years
Car Rental Elite Status	None	None	Privileges at Avis, National, and Silvercar
Additional Perks	Trip cancellation/ interruption insurance	Trip cancellation/ interruption insurance Chase Experiences	PriorityPass Select airport lounge access; trip cancellation/ interruption insurance Chase Experiences

Source: Compiled from company documents; and "Points Valuations," The Points Guy, https://thepointsguy.com/category/points-valuations/, accessed August 2017.

[a] Sign-Up Bonus is the amount of spending necessary within three months to receive extra reward points.

[b] The Points Guy valuation states the value of that card's point per cent(s).

Exhibit 6 Chase Sapphire Reserve Celebrity Influencers



"Reserve What's Next" Web Series with Comedian and TV Host James Corden

Source: Company documents; and Twitter screen shots, https://twitter.com/chrissyteigen/status/777987476887437312?lang=en, https://twitter.com/chrissyteigen/status/781599161284108288?lang=en, accessed August 2017.

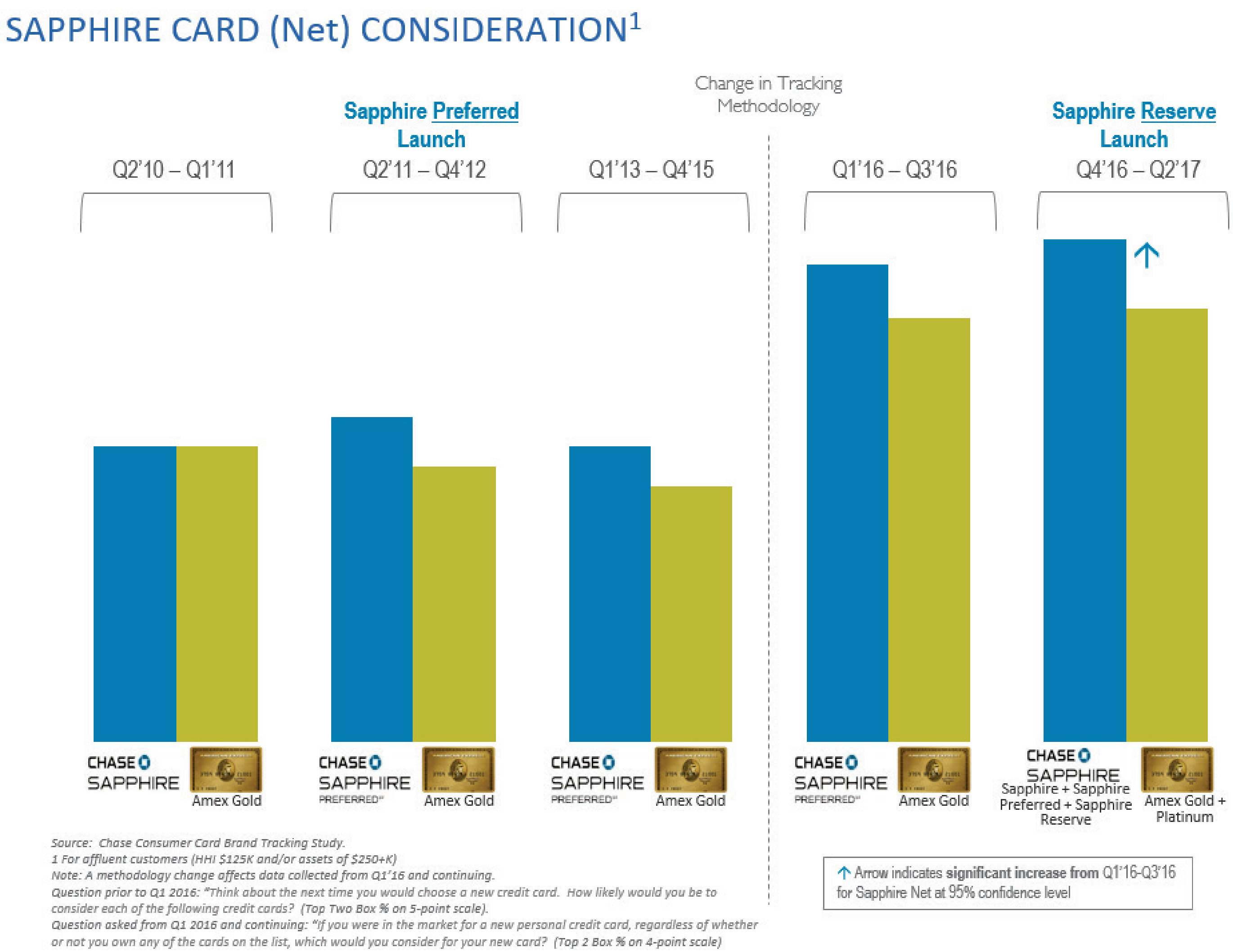
Exhibit 7 Premium Credit Card Competitive Product Comparison

	Chase Sapphire Reserve	Amex Platinum (prior to Reserve launch)	Amex Platinum (after Reserve launch)	Citi Prestige (prior to Reserve launch)	Citi Prestige (after Reserve launch)
Annual Fee	$450	$450	$550	$450	$450
APR %	16.99%–23.99%	N/A	N/A	16.24%-24.74%	16.74%-24.74%
Bonus Requirement	$4,000	$3,000	$5,000	$2,000	$5,000
Sign-Up Bonus	100,000 (50,000 from Jan 2017)	40,000	60,000	30,000	50,000
Travel Credits	$300 for most travel expenses	$200 for select airlines	$200 for select airlines; $200 in Uber rides	$250 for airline purchases; free fourth night in hotels	$250 for airline purchases; fourth night stay credited for avg. nightly rate
Points Earned by Category					
Airfare and Hotels	3x	1x	5x [2]	3x	3x
Dining	3x	1x	1x	2x	2x
Entertainment	1x	1x	1x	2x	2x
Everyday Spend	1x	1x	1x	1x	1x
Redemption Value per Point for					
Airline Tickets	1.5	1	1	1.6 (AA), 1.33	1.25
Hotel	1.5	0.7	0.75	1	1
TPG Valuation (in cents) [a]	2.1	1.9	1.9	1.6	1.6
Additional Perks					
Hotel Perks/Status	Lux. Hotel/Resort Collection	Starwood Gold Status	Starwood Gold Status	None	None
Global Entry/ PreCheck	1 credit every 4 years	TSA PreCheck or Global Entry statement credit	TSA PreCheck or Global Entry statement credit	Global Entry ($100) statement credit	Global Entry ($100) statement credit
Car Rental Status	Avis, National, and Silvercar	Avis, Hertz, and National	Avis, Hertz, and National	None	None
Lounge Access	PriorityPass	PriorityPass; Delta Sky Clubs	PriorityPass; Delta Sky Clubs; Escape Lounges; Centurion	PriorityPass Select; Admirals Club	PriorityPass Select

Source: Company documents.

[a] The Points Guy valuation states the value of that card's point per cent(s).

Exhibit 8 Chase Sapphire Brand Performance



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