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RESILIENCE

CHASE SAPPHIRE®

Business Case Analysis

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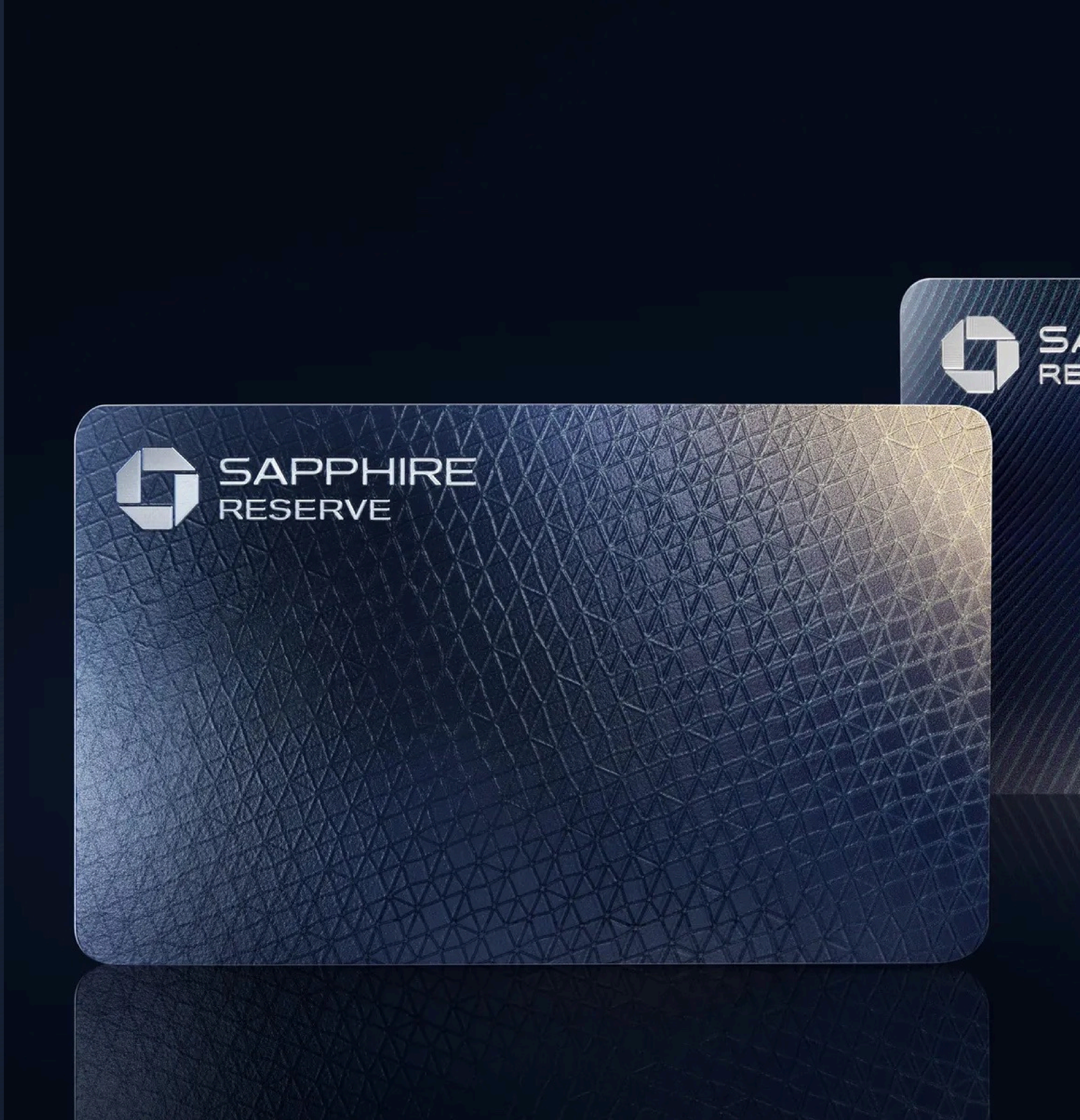
Agenda

- About Chase Sapphire
- Business Need
- Key Factors
- Recommendation
- Trade-Offs



About Chase Sapphire

- Chase Sapphire is a collection of credit cards under JPMorgan & Chase that serves different market segments and offers varying levels of benefits based on annual fees.
- Cards include: Sapphire (No fee), Sapphire Preferred ($95/year), and Sapphire Reserve ($450/year).
- The Sapphire Reserve launch in 2016 hit its 12-month revenue goal in two weeks, but the cost-per-acquisition was higher than projected and revenues dipped in 2017.
- After a set amount of time, Chase reduced their revolutionary sign-on bonus from 100,000 points to 50,000 points.

Exhibit 4 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

Business Need

01

Profitability + Retention of the Sapphire Reserve

Chase needs to transition the Sapphire Reserve into a sustainable, profitable product by retaining current customers as the first $450 annual fee renewals approach and continuing acquisitions. Chase also needs to strengthen and deepen customer relationships to encourage retention and loyalty while preventing customers from becoming "dormant."

02

Differentiating between Chase Sapphire Products

Chase needs to clearly define each of the Sapphire products (Sapphire, Sapphire Preferred and Sapphire Reserve) to serve the varying customer segments, guiding them to the best product for them and capitalizing on the Sapphire Reserve's growing momentum while remaining competitive in the current market.

> "Our objective is to build lifelong engaged relationships with our customers."
>
> **EILEEN SERRA**

Key Factors

Chase's position in the U.S. Market

In 2016, JP Morgan Chase led in market share (21.7%), followed by Amex (19.9%). At this time, Chase earned 70% from interest payments and 30% from cardholder and interchange fees. Over 50% of affluent U.S. households lived within two miles of a Chase branch or ATM.

Target Customer Segment for Reserve

The affluent/high net worth customer segment represents 15% of 200 million U.S. cardholders while generating 50% of total spending. The “new affluents" are 25-44 years old with incomes of $150,000+. They are authentic travelers and savvy about rewards, and they like to make the most of every trip. Capturing and retaining this segment is critical for profitability.

Launch of Chase Sapphire Reserve

The 100,000-point bonus (worth ~$1,500 in travel) helped Chase grow quickly but cost over $1,000 per new customer, more than double industry standard of $250-$500. Many joined for the bonus and canceled after redeeming points. Emerging Affluent Millennials (about 50% of new users) value personal experiences and an interesting cult status more than short-term rewards.

Credit Card Churners

Credit Churners & Dormant Users are one of the largest threats to Chase's profitability and are the least profitable segments.

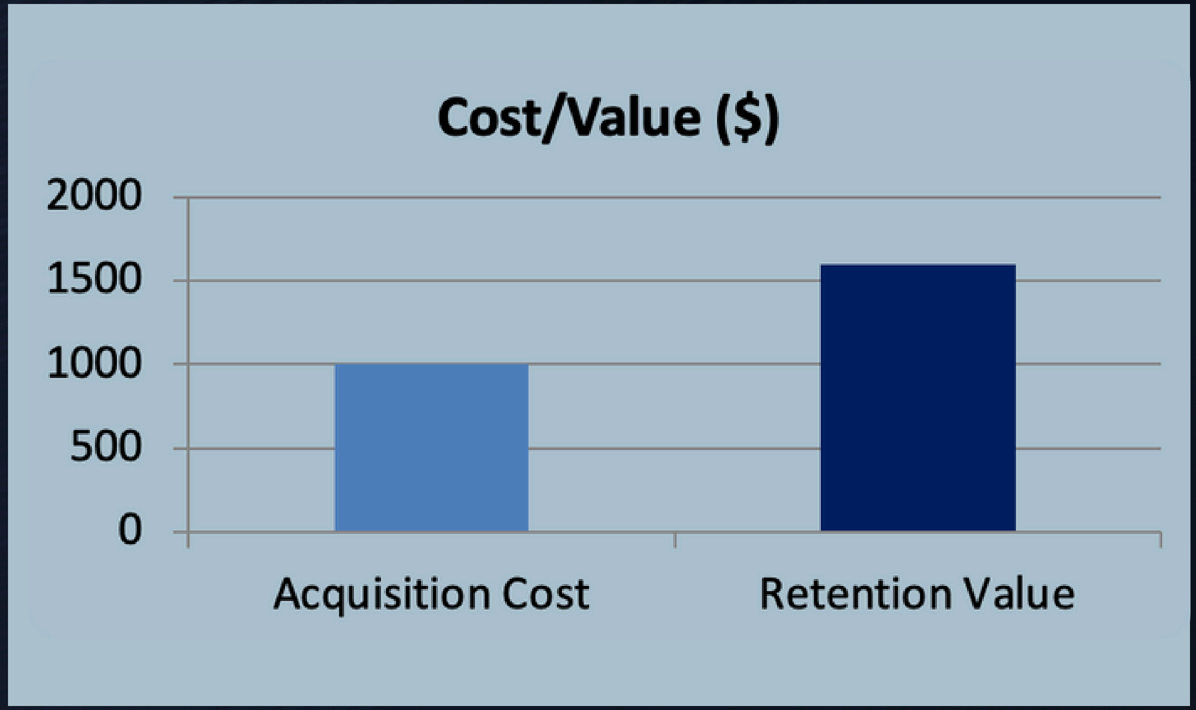
Customer Acquisition vs. Customer Loyalty

Early Months on Book (EMOB) is a critical period for Chase. Credit card renewal rates for premium cards were traditionally 60%–90% and the anniversary is approaching for current users to repay their $450 fee. "You expense the acquisition costs over 12 months. The benefit comes over seven years."

Sapphire & Sapphire Preferred

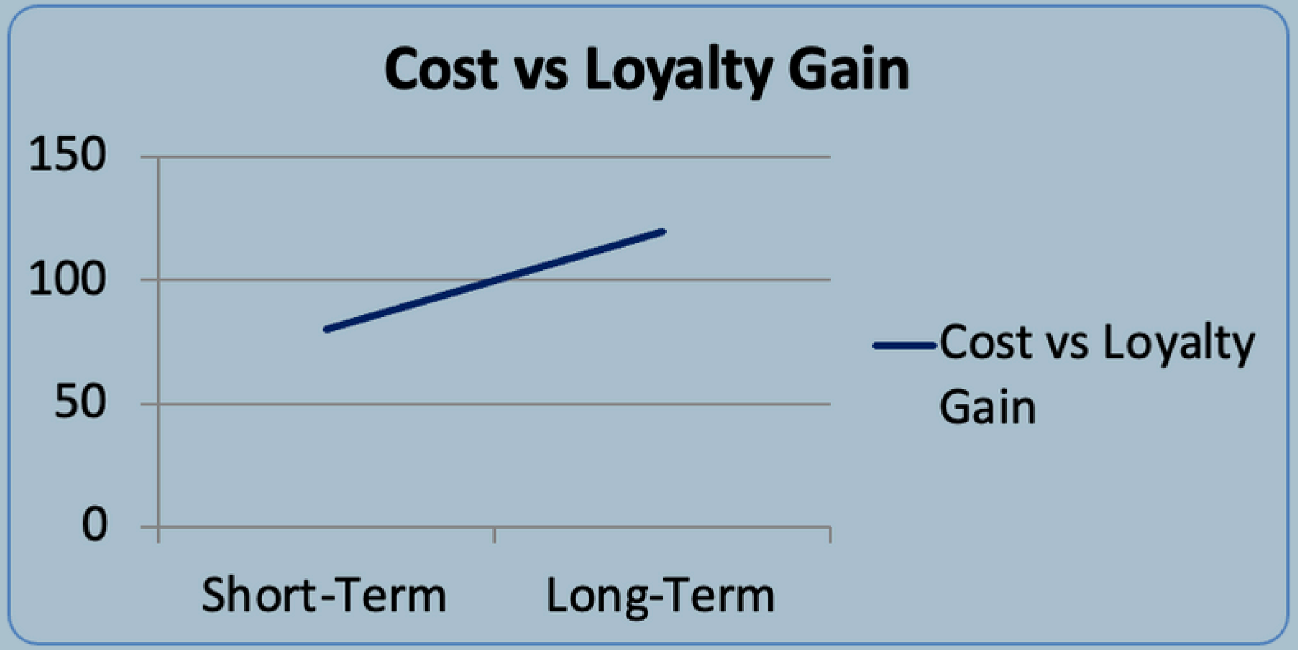
By 2016, Sapphire Preferred represented more than half of Sapphire's total accounts and sales. Lisa Walker states: "Reserve is not the right product for everyone, but with all the hype...a lot of folks got Reserve who might be better suited to Preferred." Chase is scaling back marketing for the no-fee card and not actively acquiring customers.

> "One of our biggest challenges is churners."
>
> **PAM CODISPOTI**



Recommendation

Given the high acquisition cost for Chase Sapphire Reserve and the ongoing threat of Churners, it is recommended that Chase **offer Reserve Customers who renew a 10% point bonus and direct Sapphire Reserve customers who don't want to renew to downgrade to Preferred**. This strategy will deepen relationships, encourage annual renewals, guide customers to the appropriate product for their life stage, and continue to cultivate the interesting cult-like brand-equity Chase has established for the Sapphire Reserve.



Trade-Offs

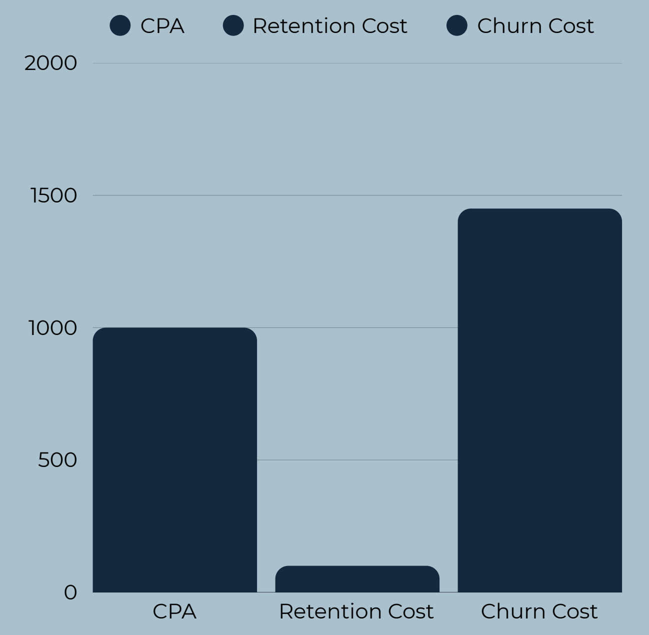
01 Tight Competition & Rewards Race

Ongoing competition from Amex and Citi could trigger another “rewards race,” forcing Chase to keep raising perks and bonuses, which may cut into margins and profits. Industry profit margins had dropped from 31% in 2011 to 25% in 2016 due to factors like increased competition and technology costs.

02 Cost of Retention vs. Churn

Implementing a loyalty bonus will come with new costs and affect already squeezed margins. However, Chase’s financial model is built on a long customer life vs. the 12-month period when a customer could easily exit before the next period, representing a massive loss. By implementing a loyalty bonus or downgrading Customers to Preferred, Chase would be creating future value combating the threat of Churners while guiding clients to a more appropriate product based on their spending.

Cost of Acquisition vs. Retention vs. Churn



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Thank You

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