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Credit Card Direct Marketing Update

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Direct Marketing Overview

- Mail volumes in the credit card arena are at record highs and response rates are at record lows.
- Loyalty is only as strong as the last offer received.
- Offers that shrink margins are commonplace:
 - no annual fee
 - 0% introductory rates
 - 7.9% fixed rates
 - incentives including 5% cash rebates
- Credit is a commodity market today.
- To compete on dimensions other than price, we must identify benefits valued by customers we want to acquire and retain.

List and Segmentation Strategy

- Segmentation should be used to identify the most profitable credit customers and prospects.
- We should work with RMS to move high-potential customers up the profitability curve and avoid spending scarce marketing dollars on unprofitable customers.
- New technology makes segmentation and implementation of one-to-one marketing strategies a viable option for our best customers.
- Contrary to conventional wisdom, we cannot interact with our best customers too often if we use every contact to build relationships.

Creative and Positioning Strategy

- With current levels of competition and noise, positioning and creative offer opportunities to boost response.
- To build good balances, we must own a position that creates top of mind awareness among the best credit prospects and customers.
- For each product, we need a powerful positioning statement or Unique Selling Proposition.
- We should continually test creative approaches to convey our positioning message and optimize response.

Offer and Targeting Strategy

- A market dominated by huge issuers, low fixed and introductory rates, no annual fees, rebates, affinity programs and co-brands does not lend itself to selling me-too products via look-alike marketing initiatives.
- Adopting a genuine customer focus and zeroing in on benefits valued by the credit users U.S. Bank wants to attract and retain are necessary prerequisites for success.
- We can gain a sustainable competitive advantage by analyzing purchasing behavior to determine what our best customers want and designing products that deliver it.

Maximize Direct Mail Results

- Own a position.
- Make our message unique and compelling.
- Avoid complexity and confusion.
- Sell benefits, not features.
- Test single variables to improve control packages.
- Make timely decisions based on recent test results.
- Lists, offers and creative must work together.
- Direct mail should be part of an integrated marketing communications strategy.
- Increase shareholder value by focusing on profitability rather than cost alone.

Customer Retention and Cross-Selling

- Marketing initiatives should be based on relationships as well as individual transactions.
- Multiple relationships make customers' switching costs higher.
- Cross-selling can be a powerful retention strategy.
- Access to customer purchasing history can be used to gain a sustainable competitive advantage.
- Through RMS, we have access to proprietary data which allows us to customize offers that appeal to our best customers.
- U.S. Bank should test home equity offers based on credit card debt consolidation as retention strategy.
- Goal is to maximize lifetime customer value for the Bank.

Maximize Efficiencies

- Consolidate as many RPS mailings as possible in 1999
- Combine mailings across product groups to leverage U.S. Bank purchasing power
- Piggyback on non-competitive direct mail campaigns by leveraging vendor buying power
- Standardize package components such as BREs and purchase in quantity
- Consolidate print, creative, DP, lettershop, mail house at "preferred" vendors

Maximize Efficiencies II

- Do more targeted campaigns, using RMS data to identify those most likely to respond
- Increase the proportion of customer versus prospect lists mailed
- Target customers with most recent, frequent and high volume account activity
- Develop a customer marketing plan that automatically triggers customer offers at pre-set intervals based on behavior
- Test, rather than assume, optimum contact level of customers with highest PTB

Maximize Efficiencies III

- Institute an activation strategy within 30 days of acquisition
- Combine a welcome message with an upsell offer within the first 30 days of acquiring a new account
- Since it is cheaper to retain than reacquire an existing customer, introduce a proactive retention strategy
- In estimating lifetime customer value, factor in that the value of multiple relationships is frequently more than additive
- Cross-sell to raise switching costs and retain customers
- Focus on increasing share of customer as well as market share
- Reward high value customers with relationship based pricing
- Focus an increasing share of marketing dollars on high value customers
- Invest in retaining high value customers with high potential to attrite
- Invest in moving high potential customers up the value chain
- Do not invest in low value, high risk, low potential customers