MasterCard International

GOVERNMENT DEPOSITION EXHIBIT 1510

Targeting Customer Profitability

Using Customer Information To Develop Payment Strategies

P-0472

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Letter from the CEO

To Our Members,

As you well know, our world is changing. Now, more than ever, consumers want instant access to their money – anytime and anywhere. Technology is opening new opportunities and the payments industry is rapidly growing through new products, markets, and acceptance areas. At the same time, competition and profitability pressures are intensifying. This environment presents significant challenges as well as important opportunities.

MasterCard's role remains to promote our members' success in this changing world. Fulfilling this role requires us to provide our members with leading-edge information and insights to ensure that we actively manage our future.

We launched the *Global Consumer Payments Research Program* to develop a unique, cutting-edge base of data and insights into how consumer payment and banking behavior is evolving and how these changes are impacting your profitability. We found that understanding consumers' attitudes and perceptions of value is critical for developing actionable strategies. This brochure reviews some of our insights to date. The results reveal how you can use the wealth of customer data you already have to develop payment and delivery strategies that enhance your profitability.

MasterCard's *Global Consumer Payments Research Program* is helping us develop new ways to pay – products that are profitable for you and that deliver value to your customers. This research and unique approach to segmentation will help you leverage these products to maximize your profitability. By working as partners to stay ahead of the changes and seize the opportunities, MasterCard and its members will continue to shape the future of money.

H. Eugene Lockhart
President and CEO, MasterCard International

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The payments industry provides an abundance of opportunities for banks

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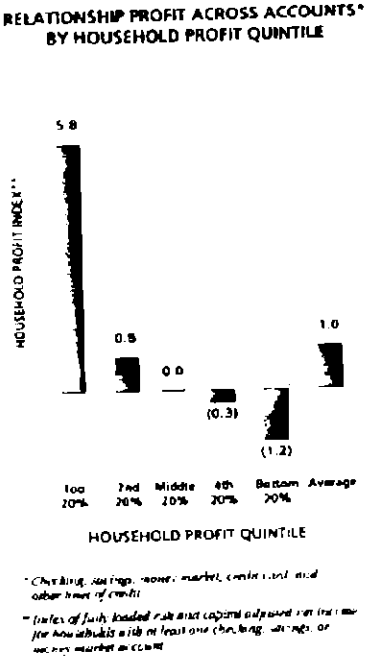
The payments industry provides an abundance of profit-enhancing opportunities for banks. But in a world of rapid change, identifying and leveraging these opportunities is a challenge. Competition is increasing. Acquiring new customers is expensive. Technology is opening up new doors. And, consumers are more demanding. They want immediate access to their money — and to get it, they are increasingly willing to adopt new ways to pay and bank. Now is the time to capitalize on these changes.

Banks that actively manage these changes have an unprecedented opportunity to increase profits. Issuers have more information than ever about their customers — the way they access and use their accounts, the fees they pay, and the balances they keep. The key question is how to leverage this information to capitalize on changing behavior, thereby enhancing profitability.

Figure 1

Profitability Varies Widely Within a Typical Bank's Customer Base



* Checking, savings, money market, credit card, and other lines of credit

** Index of fully loaded risk and capital adjusted net income for households with at least one checking, savings, or money market account

MasterCard is committed to helping members stay ahead in this changing world. As part of our effort to help members improve profitability, MasterCard is conducting ongoing, leading-edge research into the drivers of consumer payments behavior and profitability. This summary highlights some of our key findings to date.

Profitability varies widely within a typical bank's customer base. When a bank's households are ranked based on profitability, it becomes apparent that the vast majority of a bank's profits are generated by the top 20% of its households (see Figure 1). Managing these large profit differences has been challenging. Cross-selling, for example, has been a popular tactic for boosting profitability and strengthening relationships. For a typical bank, however, the least profitable customers have been cross-sold almost as much as the most profitable customers (see Figure 2). Promoting and offering nonbranch channels to reduce costs is another strategy that is producing mixed results. Rather than replacing their branch activity with nonbranch activity, many customers who have adopted these less expensive channels continue to use the branch as much as before.

Why have these strategies fallen short? Because managing customer profitability is a complex, multi-step process that, for a typical bank, initially involves gathering and integrating data at the household level that cuts across numerous lines of business — a task that is by no means trivial. The bank must then develop analytical and statistical techniques to identify and isolate the primary behaviors that drive customer profitability.

Merely identifying the behaviors that drive profitability is not enough. To improve profitability, banks need to motivate customers to change these behaviors. As Figure 3 illustrates, this requires understanding the links among what customers do, what they value, how they feel, and who they are. Although each individual dimension of the consumer is important, an effective profit management strategy must incorporate all dimensions, presenting a formidable challenge for any institution.

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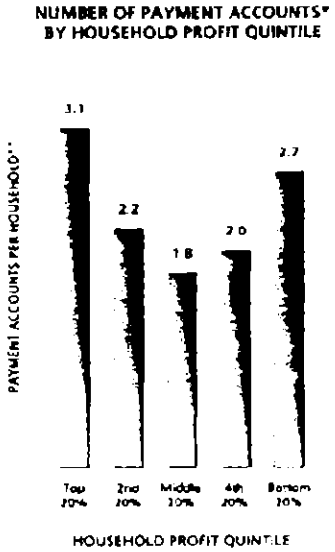
Figure 2

Cross-sell Strategies Produce Mixed Results



* Consumer card activity, as well as the balances of revolving payment accounts, drive payment accounts on a daily basis: checking, savings, money market, credit card, and other lines of credit

** Households with at least one checking, savings, or money market account

Applying traditional approaches, such as segmentation analysis, to extensive databases of customer behavior is one way for banks to develop the insights they need to manage profitability. Segmentation enables bankers to identify sizeable groups of similar customers to efficiently develop strategies and actions. Segmentation can also be used to highlight behavior patterns that drive profitability and to understand the preferences and attitudes that influence these behaviors. By using segmentation to explore the relationships among profitability, behavior, preferences, attitudes, and demographics, banks can uncover a host of new and unique opportunities to strengthen customer relationships and improve overall profitability.

To broaden our understanding of the drivers of consumer payment account profitability and to develop information and tools to assist members in developing payment strategies, MasterCard launched the ***Global Consumer Payments Research Program***. Thirteen major U.S. retail banks participated in the first phase of the program, providing data on over 180,000 households and over 20 million transactions. We supplemented the data with primary market research on behavior, attitudes, and preferences of over 2,300 households of the 180,000, as well as a sample of 1,000 households representative of the U.S. (see Figure 4)

Our analysis of payment behavior and profitability leads to the following insights.

- ***Only a few consumer behaviors significantly affect payment account profitability, and issuers should develop techniques to isolate and focus on them.***

  The overall profitability of a customer relationship depends on a limited set of patterns of product ownership, balance levels, risk, and channel activity. Credit card profitability depends on a limited set of patterns of revolving balances, transaction volumes, and risk.

- ***Consumers have distinct preferences and attitudes that motivate these behaviors.***

  By identifying these preferences (i.e., how consumers define value) and attitudes and incorporating them into product development and positioning (i.e., image and communication), banks can motivate profitable behavior.

* Consumer card activity, as well as the balances of revolving payment accounts, drive payment accounts on a daily basis: checking, savings, money market, credit card, and other lines of credit

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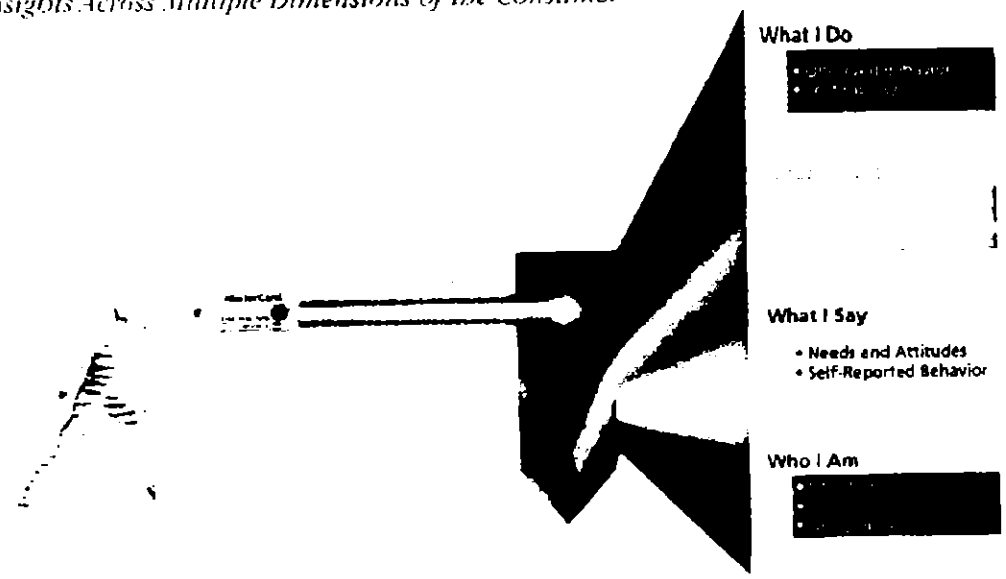
Figure 3

Developing Effective Strategies Requires Combining Insights Across Multiple Dimensions of the Consumer



- ***There are new, important opportunities for banks to enhance profitability by leveraging the data they already have about consumer behavior.***

For example, a strong correlation between the behaviors that drive credit card profitability and overall relationship profitability points to new ways for banks to fine-tune cross-selling strategies. Understanding delivery channel behavior leads to important profitability insights — since the cost of serving any customer is a function of channel choice and activity levels. Understanding channel behavior can also help banks determine how to reach, sell to, and serve the most profitable customers.

Profiting from changes in consumer behavior will require understanding and exploring the links among consumer attitudes, preferences, demographics, behavior, and profitability. Segmentation is a valuable tool for developing this understanding. Although any one segmentation scheme is unlikely to meet all needs, an integrated and flexible approach to segmentation can help banks capitalize on the changes in the payments industry.

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Figure 4

What Makes Our Approach Unique?

To understand the implications of changes in consumer payment and channel behavior on profitability, we amassed and analyzed data across four dimensions of a consumer.

We collected data from three different sources:

- ***Thirteen major U.S. retail banks*** provided detailed product and transaction information for a sample of 180,000 households*, representing 500,000 payment accounts and over 20 million transactions, to calculate customer profitability and determine the behaviors that affect profitability ("What I do")
- ***Primary market research***, both qualitative (focus groups) and quantitative (consumer survey of over 3,000 respondents*), was conducted to determine the factors that influence consumer behavior ("What I Want" and "What I Say").
- ***Outside vendors***, specifically, credit reporting agencies and demographic information providers, were used to capture additional information on the 180,000 households ("Who I am").

We applied five distinct segmentation approaches to profile consumers' profitability, behavior, preferences, attitudes, and demographics and explored the relationships among them.

1. ***Profit Driver*** — groups consumers with similar behavior patterns that drive profitability
2. ***Behavior*** — groups consumers who have similar behavior patterns (e.g., channel usage)
3. ***Value Definition*** — groups consumers who trade off features or attributes similarly when evaluating a new product
4. ***Needs and Attitudes*** — groups consumers with similar needs and attitudes.
5. ***Demographic*** — groups consumers based upon demographic characteristics

This multi-dimensional approach results in a much more complete picture of consumers. It provides information on how consumer behavior, preferences, and attitudes affect profitability – which is necessary to design and execute profitable payment strategies.

* Each household included in MasterCard's database was required to have at least one of the following accounts: non-interest bearing checking account, interest bearing checking account, savings account, or money market account

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Why Focus on Payments and Channels?

Consumer payment and channel behaviors are changing, creating challenges as well as opportunities

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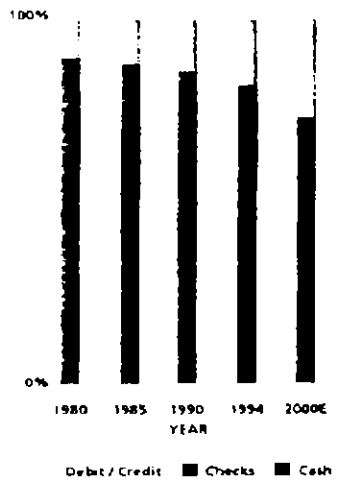
Consumer payment and channel behaviors are changing. Banks that focus on and successfully manage these changes create opportunities to increase profits. With respect to payments, the primary change has been that plastic card use has been expanding rapidly. As Figure 5 illustrates, consumers have been replacing cash and check payments with credit and debit card payments at an accelerating rate.

The growing use of payment cards has important bottom-line implications. The average credit card portfolio, for example, earns an after-tax return on equity well in excess of the hurdle rate required to create shareholder value. Despite increasing margin pressures and fluctuating asset quality, credit cards can be expected to deliver attractive returns well into the future. New payment products (e.g., debit, stored value cards) and new channels for card acceptance, such as the Internet, will offer new opportunities for increased revenues.

Figure 5

Plastic Card Use Is Expanding Rapidly



Source: Remington Research

The value of payment cards to issuers, however, extends well beyond their revenue and profit-enhancement potential. Plastic is, in many respects, the best vehicle for capturing useful data on consumer behavior. Simply by using their cards, customers convey valuable information about who they are, what they want, and how they want it. This data is often captured at a rich level of detail that is readily accessible.

With respect to channels, the most significant change has been that a growing majority of bank transactions have been occurring outside of the branch. From 1993 to 1995 the percentage of nonbranch banking transactions increased from 56% to 68%. Consumers' growing comfort with technology is evident from the widespread use of ATMs and computers — 66% of consumers surveyed report using ATMs and 46% own a computer.

Are branches still important? Absolutely. Although the number of customers who use only branches has declined, most consumers (60%) report using a mix of branch and nonbranch channels. Today, the average branch-only customer (one who does not use the ATM) is more profitable than other customers. However, as Figure 6 illustrates, this situation is not likely to continue. Currently, the higher profitability of branch-only customers can be largely attributed to older, traditional customers who tend to maintain higher deposit balances. Within younger segments, self-service customers (those who do not use the branch) are more profitable than branch users. As these younger consumers grow older, accumulate wealth, and become more profitable, they are likely to continue to rely on nonbranch channels for servicing.

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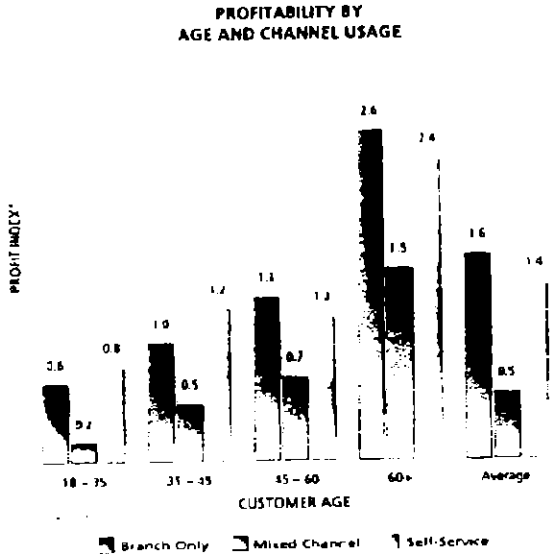
Figure 6

Nonbranch Channels Are Important for Servicing Younger Profitable Customers



*Index of fully loaded risk and capital adjusted net income for households with at least one checking, savings, or money market account (average = 1.0).

The shift to nonbranch channels presents a new challenge: How can banks solidify relationships with and sell to customers they rarely see? Payment cards can help banks manage this challenge. In a remote environment, a payment card is both a way to access an account and a constant reminder to the consumer of where he maintains his banking relationship.

Issuers have an opportunity to increase profitability by capitalizing on changes in consumer payment and channel behavior. The key is to actively manage these changes, thereby motivating profitable behavior. The first step is to understand the behaviors that influence profitability.

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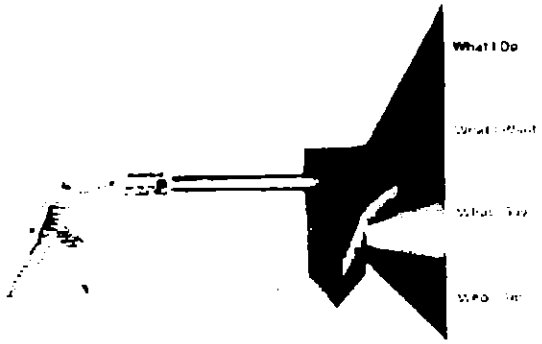
What Behaviors Matter?

Although many factors affect customer payment account profitability, only a few have a significant impact



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It would be extremely difficult to incorporate all of the factors that influence customer profitability into a practical profit-management strategy. Fortunately, it is also unnecessary. We found that, although many factors affect customer payment account profitability, only a few have a significant impact. For a typical bank, combinations or patterns of product ownership, balances, channel behavior, and risk explain differences in household profitability. We developed a technique to group customers by these behavior patterns. Our relationship profit driver segmentation is summarized in Figure 7, which shows seven customer segments characterized by the key behavior patterns that make their payment account relationships profitable or unprofitable to banks.

As expected, we found three segments, ***High Liability Balance***, ***Traditionalists***, and ***Heavy Borrowers***, that are profitable because of the balances kept in either deposit or credit accounts. We also identified two segments, ***Branch Lites*** and ***Gamesmen/Heavy Branch***, whose profitability is distinguished by their interaction with the bank, specifically, transaction and fee activity. ***Credit Challenged*** customers are less profitable because they have a combination of very low balances, the heaviest transaction activity, and, when they do borrow, extremely high credit risk. Finally, ***Dormants*** are distinguished by their very low balances, fees, and transaction activity.

Understanding the relative importance of the profit drivers leads to more targeted profit-enhancing strategies. Understanding the impact of channel behavior, for example, is critical not only for managing costs, but also for assessing sales and servicing strategies. For instance, banks should target strategies to reduce branch expense carefully to avoid adversely affecting high-profit customers. Similarly, although expanding branch service hours can strengthen relationships and access for high-profit customers, a bank should be careful not to destroy the profitability of marginally profitable customers.

The use of segmentation for highlighting the key drivers of profitability can also be applied to a specific product. We used this technique to analyze credit card profitability and found that segments of credit card users have distinct patterns of revolving balances, transaction volumes, and risk that drive their profitability. Figure 8 presents the resulting segments which are distinguished by behaviors that make their credit card relationship profitable or unprofitable to issuers.

Figure 7

Focus on the Key Behavior Patterns that Drive Relationship Profitability

RELATIONSHIP PROFIT DRIVER SEGMENTS	% OF HHs AT A TYPICAL BANK	PROFIT INDEX*
High Liability Balance Very high deposits, low loan balances, very creditworthy, low transaction volume concentrated in the branch	16%	5.3
Traditionalists High savings balance, low/average transaction volume concentrated in the branch	13%	1.8
Heavy Borrowers High revolving balances	7%	1.6
Branch Lite Low branch use, heavy nonbranch use	18%	0.3
Gamesmen/Heavy Branch Fee avoiders, heavy branch use	10%	(0.4)
Credit Challenged Low balances, high credit risk, heaviest transactors	17%	(0.8)
Dormant Low balances, few accounts, few if any transactions	19%	(0.3)

*Index of fully loaded risk and capital adjusted net income for households with at least one checking, savings, or money market acct (unit average = 1.0)

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Figure 8

Identify the Key Drivers of Credit Card Profitability

CREDIT CARD PROFIT DRIVER SEGMENTS	MICRO-SEGMENTS	% OF HHs*	ANNUAL TRANSACTION VOLUME	AVERAGE REVOLVING BALANCE	RISK SCORE**	CARD PROFIT INDEX***
Heavy Revolvers	Heavy Revolvers	16%	$2,200	$3,800	683	14
	Very Heavy Revolvers	4%	$4,100	$7,900	713	67
Light Revolvers	Creditworthy; Light Revolvers	9%	$2,000	$600	722	(1)
	Creditworthy; Light to Moderate Revolvers	6%	$2,000	$1,200	738	7
Heavy Transactors	Creditworthy; Very Heavy Transactors	6%	$9,000	$100	767	5
	Creditworthy; Heavy Transactors	13%	$3,700	$200	749	(8)
Credit Challenged	Poor Credit Risks; Moderate Revolvers	5%	$1,700	$2,000	652	(10)
	Poor Credit Risks; Heavy Transactors; Moderate Revolvers	1%	$4,800	$1,900	640	(83)
Dormant	Dormant	40%	$300	$0	763	(6)

* Credit card customers who also maintain at least one checking, savings, or money market account at the same bank

** Fair Isaac's Equifax score (higher scores reflect lower credit risk)

*** Index of fully loaded risk and capital adjusted net income for households with at least one checking, savings, or money market account average = 100

As expected, revolving activity dominates profitability. Relative to the average cardholder, ***Heavy Revolvers*** are extremely profitable. Although these customers have a range of transaction volumes, their revolving balances drive their profitability. ***Heavy Transactors*** tend to be less profitable than the average cardholder, except for those with such high transaction volumes that they generate enough interchange to offset costs. High-risk ***Credit Challenged*** customers tend to be even less profitable — particularly when their heavy revolving balances are combined with heavy transaction activity. The extremely low balances and volumes of ***Dormants*** almost never offset their costs.

Does this type of analysis merely confirm expectations about what drives credit card profitability? In fact, it does much more. It reveals the key behavior patterns of the most and least profitable cardholders and allows us to quantify the portion of the portfolio they represent. More importantly, this segmentation provides insights into how banks might reach other profitable prospects and identifies opportunities to cross-sell. For example, we explored whether there was any correspondence between credit card and overall relationship profitability. There is. Relationship ***High Liability Balance*** and ***Traditionalist*** customers, for instance, are more likely to fall into the credit card ***Heavy Transactors*** or ***Dormant*** segment and less likely to be credit card ***Heavy Revolvers***. Not surprisingly, relationship ***Heavy Borrowers*** tend to fall into the credit card ***Heavy Revolvers*** segment (see Figure 9).

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Figure 9

Explore the Relationships Among Segments To Identify New Opportunities

RELATIONSHIP PROFIT DRIVER SEGMENTS	CREDIT CARD PROFIT DRIVER SEGMENTS MORE LIKELY TO BE*	LESS LIKELY TO BE*
High Liability Balance	Heavy Transactors Dormant	Heavy Revolvers Credit Challenged
Traditionalists	Heavy Transactors Dormant	Heavy Revolvers Credit Challenged
Heavy Borrowers	Heavy Revolvers Credit Challenged	Heavy Transactors Dormant
Branch Lite	Light Revolvers Heavy Transactors	Heavy Revolvers
Gamesmen/Heavy Branch	Credit Challenged	Heavy Revolvers
Credit Challenged	Credit Challenged	Heavy Revolvers
Dormant	Dormant Light Revolvers	Heavy Revolvers Credit Challenged

*Relative to the total sample

These relationships point to important insights for banks to consider when fine-tuning strategies. For example, a bank would want to be cautious about imposing fees to improve the profitability of ***Heavy Transactors***, since these individuals are more likely to be profitable ***High Liability Balance*** customers. Additionally, issuers can leverage information about how a customer uses one product to anticipate usage of another product. For example, we have found that individuals who keep above-average balances in non-interest bearing checking accounts are more likely than the average consumer to be ***Heavy Borrowers***. This suggests that non-interest checking account customers with above average balances might be ***Heavy Revolvers*** and therefore good prospects for credit card cross-sales.

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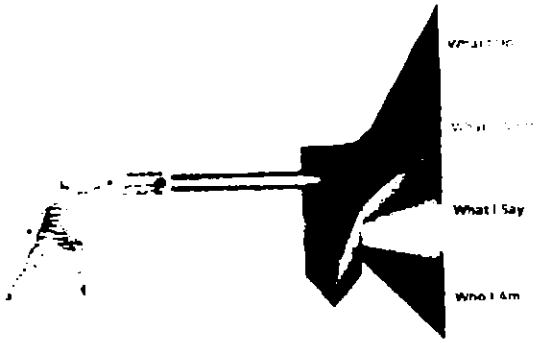
How Can Banks Motivate Profitable Behavior?

Understanding the links between consumers' value definitions, attitudes, and behavior can lead to opportunities to motivate behavior changes



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How Can Banks Motivate Profitable Behavior?

Our profit driver segmentations help to identify the key behaviors that drive customer profitability. The question then becomes: How can banks motivate customers to behave profitably and discourage them from behaving unprofitably? One solution is to coordinate product design and positioning so that they appeal to the right segments and motivate the right behavior. To do that, banks need to understand consumers' attitudes and definitions of value. Segmentation is also useful for these efforts.

We segmented consumers on the basis of their reactions to specific features in new product offers in order to determine how they define value. We used conjoint analysis to understand which features consumers value most for credit cards and found, not surprisingly, that segments of consumers define value differently. Our credit card value segmentation is presented in Figure 10. We also tested how consumers value debit cards and checking accounts and found that consumers value these features differently for each payment product. For example, an individual who cares little about checking account fees may be strongly averse to credit card fees.

These distinct value definitions also point to different predictable behaviors for each segment. ***Fee Shoppers***, for instance, have the lowest revolving balances (on average $800), whereas ***Rate Sensitive*** cardholders tend to be heavy revolvers ($1,800 on average). ***Cash Access Seekers*** tend to be higher credit risks. Understanding the links between how customers define value and how they behave can lead to opportunities to attract consumers with specific behaviors and motivate behavior changes.

Is there a link between what consumers value and their overall profitability to a bank? The short answer is yes. ***High Liability Balance*** customers, for example, are more likely to be credit card ***Fee Shoppers*** and ***Line Shoppers*** and less likely to be ***Rate Sensitive***. ***Heavy Borrowers*** are more likely to be credit card ***Rate Sensitive*** and ***Line Shoppers*** and less likely to be ***Fee Shoppers***. By exploring the relationships between these segmentations, banks can both design the right products to appeal to target consumers and understand what types of customers existing products and strategies have been attracting.

Figure 10

Understand What Your Customers Value To Develop Attractive Products

CREDIT CARD VALUE SEGMENTS	MORE IMPORTANT FEATURES*	LESS IMPORTANT FEATURES*	% OF NATIONAL HHs
Fee Shoppers	Annual fees	Statement enhancements Cash access Stored value	21%
Rate Sensitive	Interest rates	Statement enhancements Cash access Stored value	21%
Cash Access Seekers	Cash access	Annual fees Interest rates	8%
Line Shoppers	Credit line size	Cash access Statement enhancements Home bill payment	22%
Feature Shoppers	Grace period Repayment method Rewards and discounts Provider Home bill payment Stored value	Annual fees Interest rates Cash access	28%

*Relative to the total sample

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Understanding consumer attitudes is crucial for developing the right images and appeals for products. We segmented consumers on the basis of their needs and attitudes. Since the way people feel does not always influence the way they act, we focused our analysis only on those attitudes that most strongly correlated with behavior. Our attitudinal segmentation is presented in Figure 11.

Is there a link between the way people feel about payments and their overall profitability to the bank? Once again, the answer is yes. Our analysis shows that in general, ***High Liability Balance*** customers tend to be ***Easy Streets*** with a strong sense of financial security (see Figure 12). ***Traditionalists*** may also be ***Easy Streets***, or they may be ***Nervous Nellies*** — shunning credit and exercising caution in financial decisions. ***Branch Lites*** tend to perceive themselves as ***Electronically Savvy***. This kind of analysis provides valuable insight into how banks should communicate their products and programs to these segments.

Figure 11

Understand How Your Customers Feel To Position Products and Communicate Effectively

ATTITUDINAL SEGMENTS	DESCRIPTION	% OF HHs*	PROFIT INDEX**
Poor Me	• Feel they live paycheck to paycheck • Want help managing bills and expenses • Do not feel they have enough credit or a good credit rating	16%	(0.4)
Electronically Savvy	• Comfortable with electronic banking • Like using financial management software • Think they are good at managing money; always compare rates and fees • Feel they have enough credit • Do not feel banks are best place for money • Prefer applying for loans over phone	16%	1.2
Anonymously Borrowing	• Prefer nonbranch channels • Comfortable borrowing money • Like credit cards with rewards and high lines • Feel they are not good at saving	19%	(0.2)
Nervous Nellie	• Credit adverse • Do not feel knowledgable about finances; cautious about financial decisions • Prefer branches • Uncomfortable with electronic banking • Do not like using financial management software	15%	1.0
Struggling for Control	• Feel they have difficulty controlling spending • Feel financially squeezed • Want help managing bills and expenses • Prefer cash and checks • Prefer branches • Would change credit cards for lower rates or fees	16%	(0.2)
Easy Street	• Feel financially secure and carefree • Do not think they are good at managing money but do not want help • Feel they have enough credit and a good credit rating	18%	3.1

* National sample

** Index of [illegible] and capital adjusted net income for [illegible] checking, savings, or money market account [illegible]

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Figure 12

Leverage the Relationships Among Segments To Identify Positioning and Communication Opportunities

RELATIONSHIP PROFIT DRIVER SEGMENTS	ATTITUDINAL SEGMENTS MORE LIKELY TO BE*	LESS LIKELY TO BE*
High Liability Balance	Easy Street	All Others
Traditionalists	Easy Street Nervous Nellie	Poor Me Anonymously Borrowing
Heavy Borrowers	Anonymously Borrowing Struggling for Control	Easy Street Poor Me
Branch Lite	Electronically Savvy Anonymously Borrowing	Struggling for Control Nervous Nellie
Gamesmen/Heavy Branch	Easy Street Nervous Nellie	Poor Me Anonymously Borrowing
Credit Challenged	Poor Me Struggling for Control	Easy Street
Dormant	Poor Me	Electronically Savvy

*Relative to the total sample

What is the significance of the links among these segmentations? By similarly segmenting customers on the basis of profit drivers, value definitions, and attitudes, banks can begin to develop rich profiles of consumers that help clarify and tailor product offerings and positionings. For example, to reach ***High Liability Balance*** customers, an issuer might offer a no-fee card through a marketing campaign that appeals to security and comfort (***Easy Street***).

Of course in practice, the process is not that simple. The relationships among behavior, values, and attitudes are not absolute. Even among ***High Liability Balance*** customers some individuals describe themselves as ***Poor Me***. Although this appears counterintuitive, it highlights the breadth of opportunities for banks to define unique strategies based on differentiated products and compelling marketing programs.

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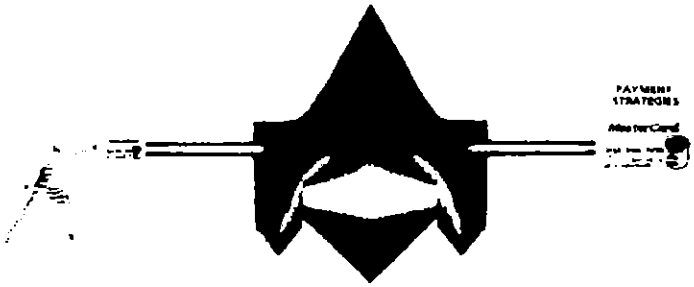
Putting It All Together

To be effective, profit management strategies must incorporate an understanding of all four dimensions of the consumer and how these dimensions are interrelated



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The changes in the ways consumers are making payments and accessing their bank accounts have opened up a wealth of opportunities for banks to improve profitability. Capitalizing on these opportunities, however, requires a full understanding of what consumer behaviors drive profitability and what factors motivate these behaviors.

To be effective, profit management strategies must incorporate an understanding of all four dimensions of the consumer and how these dimensions are interrelated. Understanding all the dimensions requires accessing and integrating data from multiple sources: in-house data, primary market research, and outside overlay data vendors (see Figure 13). Segmentation is a useful tool for analyzing these dimensions, highlighting opportunities, and efficiently developing and implementing strategies.

No single segmentation scheme will be effective for understanding all dimensions and addressing all issues. However, a flexible and integrated approach to segmentation, such as the one we have described, can help banks find better solutions (see Figure 14). By exploring the links among profitability, behavior, attitudes, value perceptions, and demographics, banks can develop a complete picture of who their most and least profitable customers are and identify opportunities to influence their behavior.

MasterCard's Global Consumer Payments Research Program demonstrates the exciting opportunities banks have to capitalize on changes in the payments industry. Our unique approach to segmentation will enable banks to better understand customers, differentiate products and positionings, modify consumer behavior, and maximize profits.

Figure 13

Leverage and Integrate Data From Multiple Sources

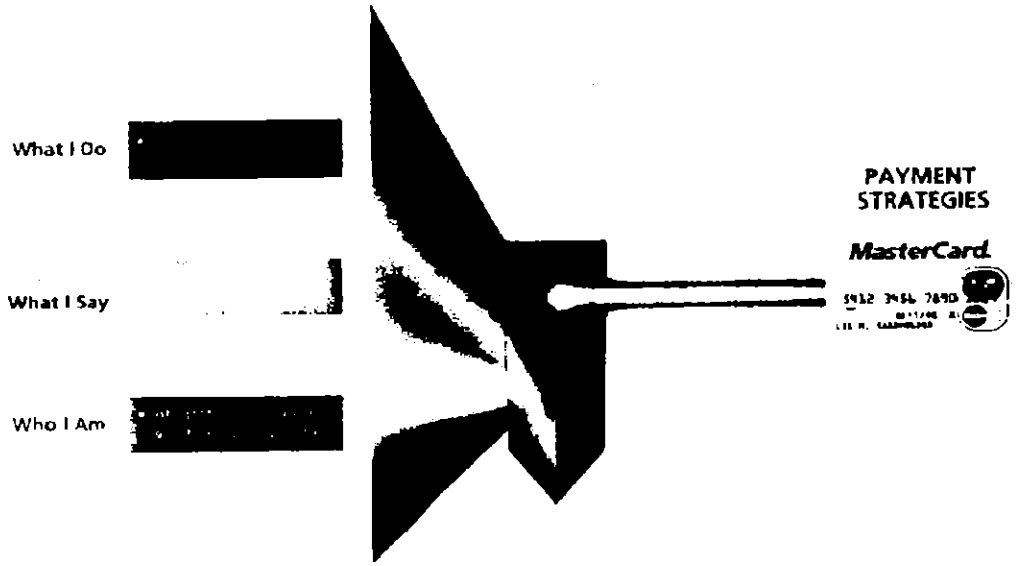

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Figure 14

What Is The Right Way to Activate Dormant Accounts?

An integrated segmentation approach can be extremely useful for developing a strategy to address a key challenge for card issuers: credit card dormancy. For many issuers, dormancy rates can vary from 30% to 50% — and a typical dormant* account can lose over $30 of fully loaded risk and capital adjusted net income. Given the increasing cost of acquiring new customers (direct mail response rates are now less than 1.5%), there are obvious advantages to activating dormant accounts — selectively, since not all dormant credit card accounts would be profitable if activated.

Segmentation gives issuers a framework for such selective activation. Below are the basic steps an issuer might follow:

1. ***Determine who dormant account holders are.*** Our credit card profit driver segmentation, for instance, is one way to highlight who the dormant account holders are and quantify what portion of the portfolio they represent.
2. ***Identify dormants who are likely to be profitable if activated.*** Issuers can leverage information about the behavior of active cardholders to predict the behavior of dormants if they are activated. Issuers could target only those dormant accounts that share similar characteristics with profitable accounts.
3. ***Determine which product attributes high profit-potential targets are most likely to prefer.*** Using a value segmentation, issuers can identify which product features appeal to groups of profitable, active cardholders. By extrapolation, they can identify product features that appeal to dormants sharing similar characteristics.
4. ***Develop product alternatives.*** Issuers can use conjoint analysis to assess the attractiveness of each product to the high profit-potential households.
5. ***Prioritize opportunities.*** After narrowing down the range of products, issuers can prioritize their offerings by modeling anticipated changes in consumer behavior and the impact on profits for each product alternative.
6. ***Position products to appeal to target segments.*** Using segmentation, issuers can determine the needs and attitudes of active, profitable cardholder segments. By extrapolation, they can predict what attitudes the targeted dormant account holders are likely to have and position the newly designed products accordingly. For example, if dormants in one target segment view themselves as "Struggling for Control," an issuer might showcase a product's user-friendly statement that lets cardholders see at-a-glance how they are spending.

In practice, each of these steps is complex; however, selective activation often leads to greater profits than a broad-based, wholesale activation strategy.

* *Not necessarily strictly dormant, but having very low revolving balances and purchase volume*

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MasterCard's Commitment: Helping Shape the Future of Money

The changes that are transforming the payments industry present MasterCard with an unprecedented opportunity to help members grow their payments business and increase profits

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MasterCard's Commitment: Helping Shape the Future of Money

The changes that are transforming the payments industry present MasterCard with an unprecedented opportunity to help members grow their payments business and increase profits. By deepening our understanding of the drivers of consumer behavior through ongoing initiatives such as the ***Global Consumer Payments Research Program***, we can create opportunities for members to strengthen relationships with their customers. In short, we can help members shape the future of money by providing consumers with the choices, convenience, and security they want.

Our extensive research has helped us to validate and quantify key industry beliefs and trends, as well as develop new and compelling insights. Our analysis of the drivers of consumer payment account profitability will help us develop new and profitable ways to pay — so that we can continue to meet consumer demands for convenience in the changing payments world.

The unique application of segmentation and analytical techniques that we employed in the study provides members with a framework for analyzing the drivers of profitability in their own portfolios. Our enhanced understanding of and appreciation for the value of a flexible, integrated approach to segmentation will enable us to work with members to develop new payment options, customize products, and tailor marketing initiatives to improve the profitability of their current customer bases and reach new customers.

First and foremost, MasterCard is committed to helping members increase profitability. The ***Global Consumer Payments Research Program*** gives MasterCard and its members the insights and an approach to leverage information about consumer behavior to shape the future of money.

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