

Example: Situation

A private sector example demonstrates how the *innovation lab* was used to develop the strategy required to get ahead in the marketplace.

- **Service Industry:**
 - Provider of consumer and small business financial services and products - I.e. credit cards, lines of credit, insurance products
- **Competitive Situation:**
 - Overall, 15.4% CAGR of credit card loans in previous 4 years
 - Top 6 banks account for more than 80% of all cards outstanding
 - Client currently ranks 11th with only 1.5% of card share (number of cards) and ranks 9th in terms of annual charge per card
 - No issuers are currently using segment-based offer strategies; however, new players are entering the market and/or are considering alliances with other banks
 - Credit bureau information is limited (both access and availability) and often not very accurate
- **Customer Base:**
 - Client offers tend to attract less credit-worthy prospects
 - Customers charge annually \$1,186 while top competitor's customers charge \$3,485 annually
- **Client Objectives:**
 - Develop tactics that ensure sustained growth of at least 25% in accounts and 30% in average net receivables for the next 3 years at current investment levels accompanied by increased profitability
 - Develop strategy and tactics that will reposition Client Company as 1 of top 3 bankcard providers
 - Effectively put price and product offerings in the market that are ranked, differentiated, targeted, actionable, profitable
 - Develop an economic model that can predict cardholder profitability in a reliable manner

Example: Approach

For this client, we used a two-phased approach ... Phase I to pre-test offers and Phase II to test in-market those high-value offers identified during the pre-test.

Phase I: Pre-test

- **Objective:** Help Client profitably grow its credit card business by designing offers for each customer segment by taking into account: choice and use drivers of current and prospective cardholders, economic implications, and possible competitive reaction
- **Approach:**
 - Implement pre-test survey to ascertain self-stated credit card choices, activation, usage, and demographic, lifestyle perspectives
 - Utilize experimental design to develop tested credit card options
 - Test 128 offers directly, but able to make inferences about 256+ offers
 - Develop models to predict segment-based take-rates, delinquency, balloons, usage, and activation
- **Output:** Use estimated NPVs from economic model to rank order tested offers and identify top 6 offers to test in-market for current and prospective customers

Phase II: In-market test

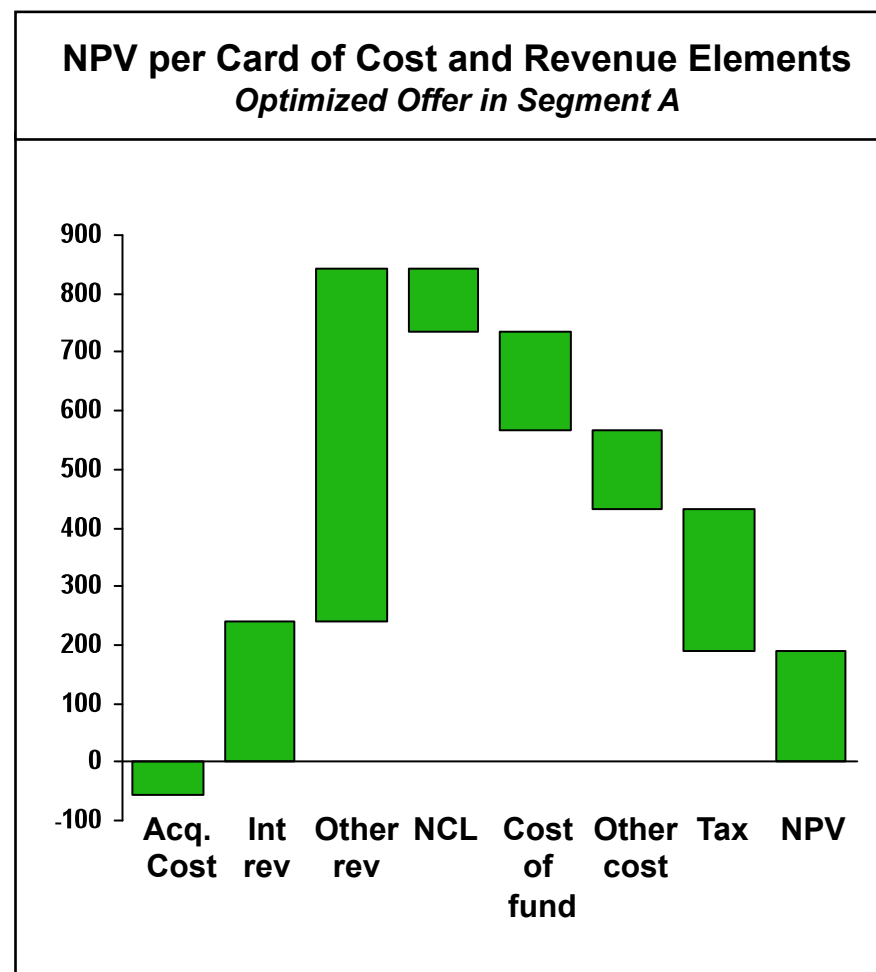
- **Objective:** Assist Client to get high-potential offers into the market, prepare to capture appropriate information, and outline a structure to support an on-going testing and learning cycle
- **Approach:**
 - Review and flesh out offers to test in-market
 - Utilize experimental design to develop tested credit card options
 - Test 42 offers directly, but able to make inferences about 125+ offers
 - Develop models to predict segment-based take-rates, delinquency, balloons, usage, and activation
- **Output:** Use estimated NPVs from updated economic model to make decisions regarding offers - ie. Continue testing, modify testing, stop testing, launch larger-scale

Example: Phase I Output

During the pre-test detailed economic analysis was performed in order to prioritize the offers.

**Profit Maximizing Offer
(Segment A)**

Card Type	Gold
Annual Fee	\$129
Credit Limit	\$5,000
Annual Interest Rate	Variable, 12.9%
Rewards	Not included
Travel Insurance	Not included
Photo Card	Included



Example: Phase I Output

Optimal offers were identified for prospects across a variety of differentiators (e.g. segment, credit score) and for existing customers. These results were used to develop the Phase II in-market tests.

Profit Maximizing Offer 10			
Profit Maximizing Offer 2 ...			
Profit Maximizing Offer 1 Segment B			
Card type	Gold		
Annual Fee	\$129		
Credit Limit	\$5,000		14.9%
Ann interest rate			
Profit Maximizing Offer 10			
Profit Maximizing Offer 2 ...			
Profit Maximizing Offer 1 Segment C			
Card type	Gold		
Annual Fee	\$129		14.9%
Credit Limit	\$5,000		14.9%
Ann interest rate			
Profit Maximizing Offer 10			
Profit Maximizing Offer 2 ...			
Profit Maximizing Offer 1 Segment D			
Card type	Classic		
Annual Fee	\$29		14.9%
Credit Limit	\$1,000		14.9%
Ann interest rate	Variable, 13.9%		
Rewards	Not included		
Travel insurance	Not included		
Photo card	Included		

Profit Maximizing Offer 10			
Profit Maximizing Offer 2 ...			
Profit Maximizing Offer 1 Existing Customers			
Card type	Gold		
Annual Fee	\$129		14.9%
Credit Limit	\$5,000		14.9%
Ann interest rate	Variable, 14.9%		
Rewards	Not included		
Travel insurance	Not included		
Photo card	Included		

Profit Maximizing Offer 10			
Profit Maximizing Offer 2 ...			
Profit Maximizing Offer 1 Credit Score Group 1			
Card type	Gold		
Annual Fee	\$129		14.9%
Credit Limit	\$5,000		14.9%
Ann interest rate	Variable, 12.9%		
Rewards	Not included		
Travel insurance	Not included		
Photo card	Included		

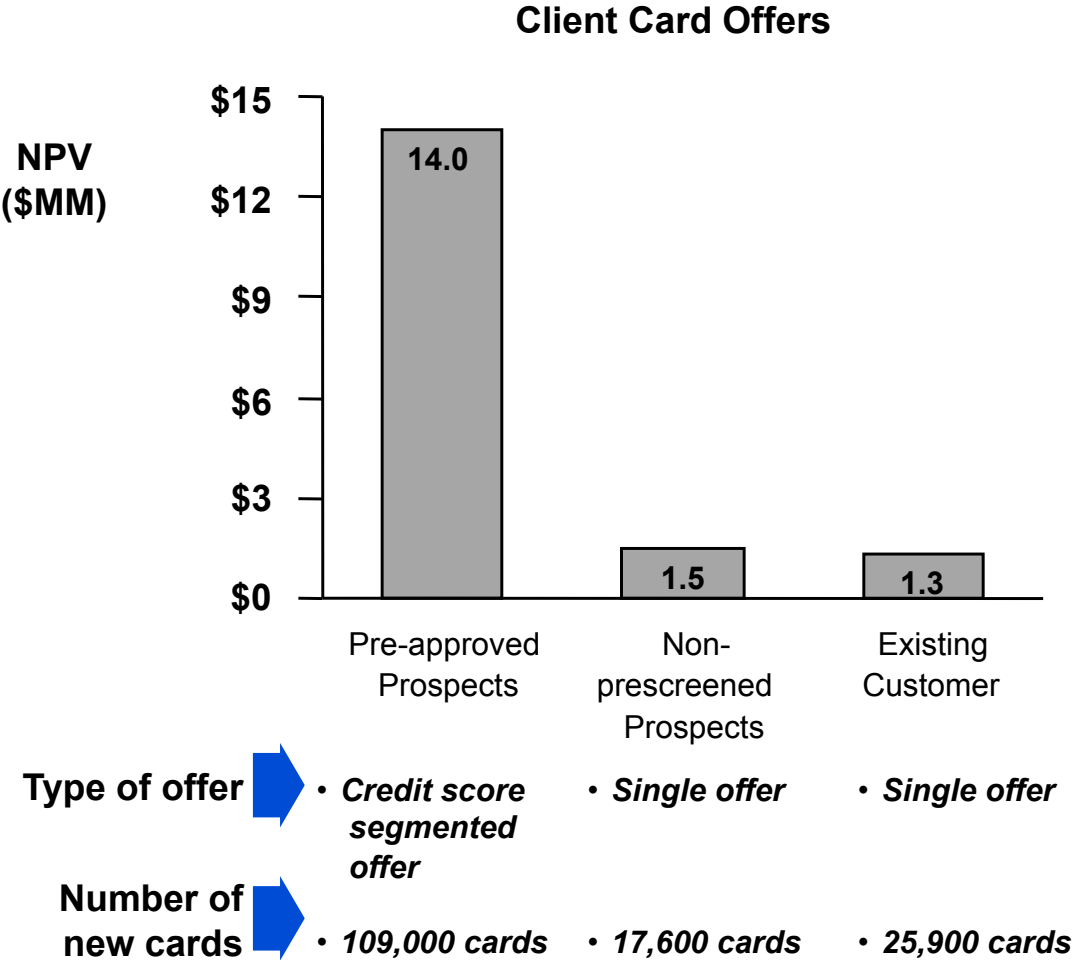
Example: Phase I and Phase II Savings

The resulting savings demonstrates how experimental design and in-market testing can be a very powerful combination.

		In-market Testing			
		Original planned test and control	Actual experimental design	Mailing Savings	% Mailing Savings
Scheduled tests	Segment 1	• 270,000	• 140,213	• 129,787	• 48.1%
	Segment 2	• 30,000	• 12,077	• 17,923	• 59.7%
		• 300,000	• 152,290	• 147,710	• 49.2%
Non-scheduled tests	Segment 3	• None planned	• 487,000	• NA	• NA
	Segment 4	• None planned	• 46,500	• NA	• NA

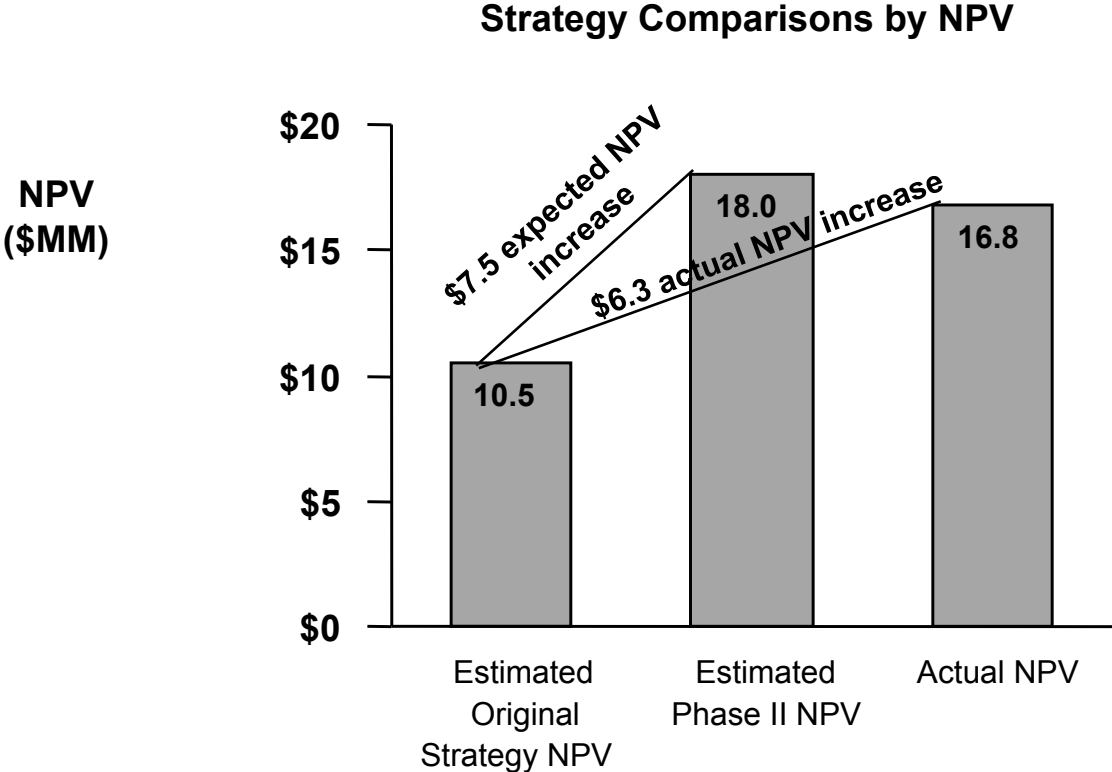
Example: Phase II Output

Based upon the in-market tests, we were able to develop different offer strategies for each of the existing and prospective customer groups.



Example: Phase II Output

Overall, Client was able to increase NPV by 60% using this approach.



Summary: Where is the client today?

Today the Client continues to utilize the test acceleration to make better decisions about card offers and develop a segment-based strategy.

- **Three year tactical plan developed and Client continues to progress toward original goals**
 - Sustained growth of at least 25% in accounts
 - 30% increase in average net receivables
 - Reposition Client Company as one of top bankcard providers
- **Continue to effectively use our optimization approach**
 - Put price and product offerings in the market that are ranked, differentiated, targeted, actionable, profitable
 - Economic model is regularly updated and used to predict cardholder profitability in a reliable manner
- **Pre-test and in-market test approach was embraced by the organization and broadly communicated and duplicated across European and North American offices**