Cobrand Cards Marketshare Challenged by Loyalty Cards, Says Edgar, Dunn & Company 2004 Survey

New Consumer Preference Study Urges Cobrand Partners To Reassess Their Card Programs

New York - April 5, 2004 - Edgar, Dunn & Company (EDC), a global strategy consulting firm, announced today that from 2000 - 2003, consumers' preference for loyalty card's grew 150% while cobrand card's preference grew 32%, indicating that loyalty cards have become a strong emerging competitor to cobrand cards, according to its newly released PaymentDynamics 2004 Preferred Card Study. Loyalty cards are issued solely by the banks without a specific partner and include rewards such as free airline trips on any airline. The survey shows loyalty cards gaining consumer preference compared to cobrand cards which feature both the partners' and issuers' brands with rewards limited to the featured partner.

"This is a wakeup call for partners not to let their cobrand card market share and its benefit to their core business gradually slip away," said F. Alan Schultheis, director, Edgar, Dunn & Company. "Understanding the changing competitive environment, and consumer motivation and behavior are critical for partners to maintain the strength of their cobrand programs and essential if these cards are to remain in the number one preferred position in the customers' wallet."

The PaymentDynamics Survey is the first survey ever to analyze the entire wallet of cards consumers own and use, including cobrand, loyalty, affinity, standard credit, debit and smart cards, and do so with an emphasis on understanding the value the partner adds and, in return, realizes in strengthened customer relationship and increased sales.

The study identifies why a payment card reaches the status of "preferred" in a consumer's wallet by benchmarking shifts in consumer attitudes, behavior, card churn, types of purchases and usage patterns against a very dynamic competitive environment. Compiled in late 2003, EDC's consumer study was developed from a survey sampling of more than 6,500 U.S. payment card customers analyzing consumer trends in behavior, attitude and usage that drive bank issuers' and their marketing partners' card program profitability.

Historic Popularity of Cobrand Cards

The inclusion of cobrand partners has been one of the most influential and significant factors in changing the card industry over the last 20 years. Partners have played a major role in re-energizing the industry by creating valuable cobrand card products, which are affiliated with a particular for-profit company (such as General Motors, American Airlines or Starwood Hotels), but are also sponsored by a major credit card company (such as American Express or issuing banks with Visa or MasterCard). Affinity cards, another type of multi-brand card, are affiliated with non-profit organizations such as Duck?s Unlimited, the Sierra Club, university alumni groups, and memberships groups such as AARP and the AFL-CIO.

As an important part of building their core business, the cobrand partners have invested heavily in strengthening their brand equity and customer relationships. Card issuers have successfully leveraged these assets through cobrand card programs where the partner's brand loyalty and consumer relationships have had a direct impact on card acquisition, average spending, number of transactions and revolving. For example, the survey shows that the partner's brands and relationships are typically three times more important to the acquisition decision than the issuer's brand thus reducing the issuer's cost per new account. The survey also shows that while 63% of consumers say the partner provides unique value to the card program, including the rewards, nearly the same percentage, 60%, report that the partner does not provide any unique value when the rewards are removed from consideration. So while the partners are important to consumers, the data suggests that the partners could be doing more to cement a long-term relationship with these important customers.

Churn Between Cobrand and Loyalty Cards

The EDC survey also shows a definite shift in consumer preference that is challenging even the strongest cobrand programs. For example, in the highly successful airline cobrand segment, the consumer preference for cobrand airline cards grew by a strong 73% from 2000-2003, which was still less than half of loyalty cards' 160% growth. A deeper look reveals further card churn patterns between cobrand and loyalty cards that should be of real concern to the cobrand partners:

- Loyalty cardholders are canceling or reducing the use of about 40% more air cobrand cards than they are adding, while
- Air cobrand cardholders are adding about 140% more loyalty cards than they are canceling or reducing.

The net effect of these trends is that air cobrand's position is weakening within the loyalty group while loyalty's position is strengthening within the air cobrand group.

"It's time for partners to better leverage their brand equity, customer relationships and contact opportunities to find new and powerful ways to differentiate their cobrand products from loyalty cards in order to retain existing customers and win new ones," said Mr. Schultheis.

Listening to Consumers to Leverage Brand Equity
While the survey shows that loyalty cards are a challenge to cobrand's market share, it also clearly identifies the positive impact the partner's involvement in the cards has on revenue of both the card issuer and the partner's core business. Consumers report that, on average, they purchase 60% more of the partner's goods and services if they hold one of their cobrand cards. Consumers also had firm opinions on the value and features cobrand cards provided them:

- 93% of consumers say the value and features of the cobrand cards prompt them to use the card more than other cards.
- 63% confirm that the card provides unique value versus other credit cards.
- Over 40% identify the partner as responsible for the cards unique value while only 30% say that this value is attributable to both the partner and card issuer and very few credit just the card issuer.

The survey also shows that from the consumer's perspective the partner's value contribution basically ends with rewards. When asked what additional value the card could provide, consumers are clear. Surprisingly, it's not increased rewards that consumers want. According to the survey, consumers say that better product communication and differentiated service are their first and second choices to strengthen the value of the cobrand card, all areas in which the partner is uniquely positioned to deliver.

"It's clear that partners need to understand this changing competitive environment and listen to their customers to identify what they need to do that could potentially offset the shift in preference toward loyalty cards, win new customers and retain market share," said Mr. Schultheis. "Cobrand cards are a real asset to the partners that can and should be protected, just like any other asset on their balance sheet."

About PaymentDynamics 2004 Preferred Card Study
The PaymentDynamics[SM] 2004 Preferred Card Study from Edgar, Dunn & Company was fielded in late 2003 and benchmarked against data gathered from the comparable 1999-2000 study.

Research data compilation is derived from a national probability sample of more than 6,500 respondents who are card owners, credit card decision makers and who reside in a household with greater than $20,000 income. Survey data is obtained from on-line, opt-in surveys, with Directive Analytics providing the research and analysis expertise, and Greenfield Online conducting the actual fieldwork.

The survey study profiles demographics, psychographics, recent card acquisitions and activation, card ownership details, behavioral information, preferred benefits and enhancements, communication preferences, and consumer value received from and delivered to the partner. Market segments reported on in both the 2000 and 2004 studies include cobrand, (airline, auto, retail, Internet, hotel) loyalty, affinity, and standard credit cards; debit cards, and smart cards. The survey is part of EDC's PaymentDynamics[SM] Intelligence Platform, designed to enable market-based assessments of the critical elements in consumer behavior that drive card program profitability.

About Edgar, Dunn & Company
Edgar, Dunn & Company (EDC) is a global strategy consulting firm specializing in financial services. Founded in 1978, the firm is widely regarded as trusted advisors in the payments industry providing a full range of strategy consulting services, expertise and market insight through in-depth industry and consumer benchmarking including its proprietary data intelligence platform, PaymentDynamics[SM] . Additional areas of expertise include new financial services channels, technologies and retail financial services. EDC's offices are located in San Francisco, New York, Atlanta, London, Frankfurt and Sydney and serve clients in over 30 countries on six continents. More information can be found at www.edgardunn.com.