here are two main ways to go about to determining the marketing needs of a credit union credit card program: Either focus on portfolio based marketing—understanding the performance and profitability metrics of a strong credit card portfolio—or cardholder based marketing—trying to analyze cardholder usage and sway cardholder behavior. People are creatures of habit and naturally resistant to change, including their credit card usage behavior, so, trust me, you will never sway cardholder behavior.

Here is another credit card fact. There are two types of cardholders: those who carry a balance (revolvers) and those who pay in full every month (transactors). It is that simple. Too often the industry attempts to complicate this very simple premise. This article will focus on the benefits of portfolio based marketing tactics.

Does Marketing Really Understand Credit Card Portfolio Analytics?

Typically, credit union marketing departments are responsible for marketing credit cards—along with every other credit union product—by default. When executive teams want to grow balances, marketing teams start working on balance transfer or account acquisition campaigns without delving into portfolio metrics. Usually, even the most creative efforts produce mediocre results.

I am a staunch believer that the person who best knows and understands portfolio performance metrics should direct credit card marketing campaigns. While I have enormous respect for marketing professionals, if they don’t know basic credit card portfolio metrics, I don’t believe they are qualified to market a credit card program. With appropriate supervision, however, portfolio metrics can be learned well enough for the marketing pros to understand the basics and develop effective campaigns.

So, what actually drives portfolio growth and income for credit unions?

By Ondine Irving, Owner of Card Analysis Solutions and CreditCardConnection.org
Would your Marketing department, or whoever is responsible for growing your credit card portfolio, be able to answer the following questions or know how to get the answers?

- What is our current average credit line? $9,500 is ideal when you average the highs and lows across the entire portfolio.

- What is our average balance by program? $2,600 should be your target.

- What is our credit line utilization ratio? Any number below 35% is good.

- What is the ratio of our credit card loans as compared to total loans? If it is ten percent or higher, you’re in good shape.

- How have our card loans increased in the past? Is it true organic growth, which comes from new balances, or is it coming from existing finance charge and fee income? In other words, do your payments exceed sales leaving the job of growth to finance charge and fees?

- How is our credit card program income—finance charge, interchange fees, or other fee income—allocated? Ideally, your target should be: 70% finance charge, 15% interchange fees, and 15% other fee income.

- What percent of accounts carry balances? You should strive for 60% or more.

- What percent of accounts generate finance charges? The ideal is 50% or greater.

- What percent of credit card accounts have never been activated? This answer may well surprise you. Check out your “Accounts Not Activated” report that is available from all processors. Take a look at your Debit accounts while you’re at it. This report lists all of the accounts never activated by the cardholder via the activation sticker yet are included on your total inactive account lists.

- What percent of accounts are frozen, lost, stolen, replaced, closed, or blocked yet still remain in the system, inflating your total accounts and outstanding credit lines on file? Many credit unions have as many as 40% of their total accounts in some sort of permanent blocked status making them unusable to the cardholder, but still part of their total inactive account lists.

Lack of database management will distort overall portfolio analytics. In addition, many credit card portfolios have excess credit line liability from credit lines still assigned to closed accounts, thereby distorting the average credit line. By taking time to understand the strengths and weaknesses of your credit/debit card portfolio your marketing requirements will become crystal clear.

My biggest beef with many outside marketing advisers—consultants, analytic companies, processors, etc.—is that they promise to increase balances and income for your credit union by selling you the latest and greatest cardholder behavior and analytic tools. You know who I’m talking about, the BIG Data buzzword people.

We don’t need BIG data; we need credit union staff to understand basic credit card analytics. The sum of the whole not individual metrics provides the best marketing direction. A fact based portfolio analysis will tell you the complete story and quickly identify credit card portfolio marketing needs.

The #1 Factor Affecting All Credit Card Marketing Campaigns

The secret to achieving marketing results that yields increased balances and higher income remains with the credit union—the issuer—because it controls the credit lines! You can spend all kinds of marketing money and be promised all kinds of results, but if your credit line is less than adequate no amount of marketing will grow your program. Any marketing effort will get mediocre—if any—results when credit lines and an overall portfolio credit line utilization ratio exceed 35 percent,
a number indicating most cardholders don’t have the capacity to act on your promotions. Don’t waste your marketing dollars when your overall credit utilization ratio is too high and credit lines are too low. Review credit lines and try to get them up to the five-digit range for qualified cardholders. Credit line assignment will drive portfolio growth more than any other marketing campaign.

Would you believe me if I told you that any promised method of growing your card loans is a lost cause whenever a credit union’s average credit card line (all lines outstanding divided by the number of accounts on file) is just $4,800, the average balance hovers at $2,200 and the average credit line utilization ratio is pushing 45%?

Would you use a credit card with an average line of $4,800? Perhaps you would use it as a back up—like a department store card. If banks are offering 5 digit credit lines with better perks, it is easy to understand how credit lines play a big role in growing balances, loyalty and income. It is all about perception and the value it represents to members. But that is another article for another day.

The single most effective strategy credit unions can initiate right now is to review their average credit line, average balance and current credit line utilization ratio. If your existing credit line utilization ration is above 35%, guess what? Even the best marketing campaigns will have little effect on your portfolio balances. Instead, implement a credit line increase! Depending on the size of the program, credit line increase costs run a few thousand dollars.

Scoring and evaluating cardholders for line increases is where you should be spending your marketing dollars. And yes, this is permissible under the CARD ACT. The income verification offered by income estimators at most credit bureaus has been deemed acceptable as proof of income.

How Is Your Total Card Program Revenue Apportioned?
Apart from the credit lines, balances and utilization factors, revenue allocations are another great indicator of what your card portfolio may require.

For credit unions as a whole, card program revenue is typically apportioned 70% finance charge income, 15% interchange fees and 15% fee income. I am beginning to see a downward shift of 5% in the finance charge category due to the CARD ACT. This metric, which will clearly shift according to card type, should be measured for each program: rewards, non-rewards, premium and secured programs.

The results by program may surprise you and offer a relatively easy way to boost your numbers. For example, if you have a rewards program where just 45% of revenue is derived from finance charges, why not offer these cardholders a balance transfer offer they can’t refuse? Why keep drilling them with usage campaigns when interchange is only a fraction of the total card program revenue required to maintain profitability?

On the other hand, if your entire portfolio suffers from low finance charge income, it doesn’t take a rocket scientist or a BIG DATA firm to tell you to increase your balances. And yes, interchange is nice, but other than offsetting some expenses, don’t expect interchange to add much to your bottom line. The big number for credit unions is finance charge income—the core of your program’s profitability. Generous, responsible credit lines will bring in the balances needed to boost finance charge income—the main driver of your bottom line.

So ask your marketing people if they know what percentage of your card program revenue is derived from finance charge income. I bet we both know what their answer will be. Marketers should have a good basic understanding of credit card portfolio metrics. Let your analytical people drive the decisions for credit card marketing when marketing doesn’t know the answer.

Don’t Fall Prey to Consumer Analytics on Cardholder Behavior
Please, please, please make sure your credit union has a complete grasp of its credit card portfolio performance and key metrics. Insist that your staff understands the story behind the numbers before getting knee deep into some crazy cardholder behavior analytic program. If you can be sure that those two factors are covered, then—and only then—I might recommend that a credit union begin delving into cardholder behavior.

I am a huge cynic of how effective cardholder based marketing with credit card portfolios can be. Remember, there are just two basic users—revolvers and transactors—and the credit union controls the usage and growth potential through credit line management. Certainly there are strategies that can be tailored and applied to specific groups at specific times
such as offering revolvers promo rates for holiday purchasing, transactors reward program strategies, and post holiday balance transfers for everyone. Just remember, while these strategies might make members feel good, they have limited revenue-generating potential.

Credit unions must learn to stay focused on acquiring balances rather than transactional usage. Fancy and expensive cardholder behavior analytic programs may increase usage for transactors, thereby increasing interchange income, but don’t forget that interchange income typically represents just 15% of total card program revenue.

You derive your bread and butter from acquiring and retaining balances. Because 70% of your card program revenue is derived from finance charge income your core focus should be kept on increasing credit card loans. Cardholder based marketing focuses on transactional usage and will do little to really move your bottom line. With cardholder analytic based marketing, usage may or may not increase and the interchange might offset the marketing expense, but you’re still left with no organic balance growth.

There are many resources out there pushing us to “change cardholder behavior” and “dig deep into cardholder transactional data”. While some credit unions may be fine with this approach, I’m not a huge fan of this type of analysis. In fact, I think it is a big waste of time, resources and money for most credit unions. Why? Because most credit unions don’t really understand what it takes to grow their credit card program or increase usage. Forget cardholders and just focus on the bottom line: Look at what is best for your portfolio and what will make it more profitable and perform better for the greater benefit of your credit union and its member owners.

Before committing to any overpriced marketing campaigns or cardholder data analytic programs, make sure your credit union has a complete grasp of its credit card portfolio performance metrics. The control remains with the credit union and your bottom line is to continue minimizing expenses and maximizing overall profitability so that you can continue offering your members fair and ethical credit cards.

Ondine Irving founded Card Analysis Solutions (www.cardanalysissolutions.org) in November 2003 after a 12-year career at Baxter Credit Union, 5 years at Certegy Card Services (now FIS) and a short time with Raddon Financial Group and in 2010 worked for Suze Orman. Ondine is the creator of the original “School of Credit Card Program Management” which debuted in 2008. These popular classes sell out 60 days in advance. Upcoming sessions include Chicago December 16-18, 2013 and Las Vegas January 27-29, 2014. Her focus is to teach credit unions in an objective manner the expense savings and income opportunities of the credit card portfolio and strongly believes credit unions should issue and manager their own card programs.

In 2010, Ondine created www.CreditCardConnection.ORG—a tool for consumers to find fair and ethical credit union card programs. This is the largest aggregation of Credit Union Credit Cards on the Internet with over 1,064 fair and ethical credit union card program options for consumers.