

APP 95



H. Eugene Lockhart
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done!
8/8/95

① Len L - excellent synopsis!

② AJH - a lot of history w/ the air simulation project. This note explains why.
- the product non-billy people will need to take this on board

~~_____~~ you should read this

@ J DeRESIER - FYD

GOVERNMENT DEPOSITION EXHIBIT 786

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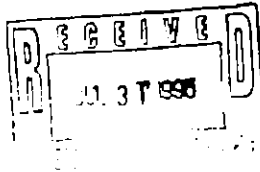
P-0486

Date
July 27, 1995



Memorandum

To
H. Eugene Lockhart
Allan Heuer
Brantley Orrell



From
Len Lauer

Subject
Global Consumer Payments Research Project Update on Analysis of the 1993 Credit Card
Segmentation Data

Copies To
Anne Ko
Michael Heller

As you know, in order to build linkages between our Global Consumer Payments Research Project and the existing 1993 US Credit Card Segmentation, we launched an effort to re-analyze the data from the 1993 study. Specifically, Paul Green and Abba Kreiger, the professors from the Wharton School who are assisting with our study, have been reanalyzing the 1993 Credit Card Segmentation data to:

1. Confirm the statistical validity of 1993 Credit Card Segmentation results
2. Develop an "efficient" method to link the 1993 Credit Card Segmentation to future studies (particularly, the Global Consumer Payment Study)
3. Quickly identify any new insights which we can leverage by applying new approaches and by more deeply analyzing the trade-off or consistent data. Specifically, we asked Green to:
 - Assess the relative value of the features and attributes in the conjoint data
 - Evaluate each segment's response to alternative card offers
 - Characterize the relative performance/attractiveness of MasterCard, Visa, AMEX and Discover
 - Identify any insights into consumers' interest in acquiring a new card
 - Comment on consumers who behavior patterns (e.g., revolvers, transactors, etc.)
4. Use these insights to begin to structure analytical approaches to be used in the 1995 Global Consumer Payments Study

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Below are highlights of the results of our re-analysis of the 1993 data to date:

1. The 1993 segmentation seems to be statistically viable. Green and Kreiger were largely able to reproduce the five segments (i.e., established, utilitarian, rebates/discounts, prestige, credit adverse). There are some data quality issues with respect to scaling and cleaning of the data; however, these should not raise significant concerns about continued use of the segmentation and study results.
2. The number of survey questions needed to tag a household has been reduced to 25 questions. Green and Kreiger identified 25 questions from the 1993 survey that can be used to slot households into the credit card segments. This is a significant improvement over the former 60 to 80 question scoring process or DFA currently in use and will be useful for linking the future studies to the old segmentation at much lower costs. These 25 questions have been included in the Global Consumer Payments Study survey.
3. The attitude-based credit card segments do not differentiate on relative importance of card attributes (e.g., pricing, credit limit, discounts) or perception of brand performance. The attitude-based segments developed in the 1993 study react similarly to each other in the card attribute trade-off analysis. Additionally, the segments do not differ in their perceptions of performance of Visa, MasterCard, American Express and Discover. This suggests that the segmentation would not be particularly helpful in targeting consumer preferences or customizing value propositions. Therefore, we should be cautious about claims regarding the US Credit Card segmentation's accountability and usefulness for these applications.
4. The data can be used to develop models to predict impact of performance and perceptions on share. Green has applied a proprietary customer satisfaction model which analyzes the relative importance of attributes and characterizes the performance of competition. Highlights of this model's results are:
 - The model simulates share relationships based on consumers' ratings of attribute importance and brand performance. Using the ratings of importance and competitive performance from the 1993 study, the model was able to approximate share surprisingly well:
 - MC 32.5%
 - Visa 42.2%
 - Amex 16.0%
 - Discover 9.3%
 - Note: Overall, consumers rated Visa higher than MasterCard on every card attribute.
 - This simulation model will be useful for estimating impact of alternative positionings or messages on share. Therefore, we will likely employ a similar model as we integrate the findings from Global Consumer Payments and the Ammirati & Puris Brand Positioning studies.

Kreiger *

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Trade-off/Conjoint results to date:

In general, the trade-off data was limited because relatively few attributes were tested and those tested were at a very high level. Specifically, the card attributes included in the trade-offs were:

- Interest rate at three levels (12%, 16%, and 20%)
- Annual fee at three levels (\$0, \$20 and \$60)
- Credit limit at three levels (\$2,500, \$5,000 and \$10,000)
- Brand at two levels (MasterCard and Visa)
- The following enhancements were tested as "on or off": seasonal discounts, security, replacement, frequent flier miles, ATM cash access, and extended warranty

The analysis of this 1993 data suggests the following high level conclusions:

1. Despite the higher scores Visa received (as noted above), there is virtually no difference in the perceived value of MasterCard vs. Visa. In other words, this research indicates that although consumers rate Visa higher than MasterCard, consumers would not pay any more or be any more likely to accept a Visa card rather than a MasterCard, as long as the cards had equivalent pricing and features. Every other attribute in the trade-off analysis outweighed brand (i.e., the choice between Visa and MasterCard) by a significant margin. This insight may be particularly useful for inclusion in a response to the Visa Brand Equity document. Additionally, this finding is supported by virtually all of the qualitative research we have conducted to date as part of the A&P brand positioning study.
2. Of the attributes tested, interest rate and annual fee dominate consumers' preferences in acquiring new credit cards.
3. As noted above, the credit card segments have similar patterns and valuation of most card attributes. This would suggest that this segmentation framework should not be used to anticipate differences in behavioral patterns. However, the following slight differences were identified:
 - the prestige and established segments show relatively higher importance for interest rates
 - the rebates and discounts segment shows relatively higher importance for enhancements
 - the utilitarian segment shows relatively higher importance for annual fees.
4. All else being equal (e.g., pricing, features), customers are significantly more likely to choose a card offered by their primary financial institution than any other institution. Consumers rate the most attractive attributes of their primary financial institution as: main bank, checking account, convenient, and reputable (of those attributes tested). This could be useful in developing cross-sell strategies for the retail bank customer base.

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Next Steps

As such, we plan to continue to leverage the 1993 data to assist in analysis for the Global Payments Study, but do not plan to continue with any deeper analyses of the 1993 data. Our reasons are:

- Green and Kreiger performed other high-level analyses to develop insights into other behaviors (e.g., interest in acquiring a new card, differences between gold and standard card users, insights into revolving v. transacting behavior). These analyses were problematic due to the level and quality of the data collected.
- The data set from the 1993 US Credit Card Segmentation is limited and is approaching two years old.
- We expect to begin analysis of the Global Consumer Payments Study survey results in August/September.

However, if any of the above comments/insights are interesting or if there are other specific issues that you would like us to "deep dive" into, please let me know and we will continue analysis.

Additionally, Green and Kreiger have given us several of the simulation models which they used to analyze this 1993 data and which we will continue to refine with the Global Consumer Payments results. If you would like to see demonstrations of these simulation models, I would be pleased to show them to you.

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