Table of Contents

Industry Overview and Competition

Long Term Industry Trends

Traditional Advertising Strategies

Effects of Crash on Frequency and Strategy of Credit Card Ads

Primetime Data Analysis

Post Crisis Industry Trends

Outlook
Industry Overview
Why We Chose This Is Industry

- Wide industry encompassing both credit card issuers and credit card processors
- Interest in possible correlations and patterns in the industry
  - multiple target markets
  - diverse ad campaign strategies
  - different reward options
  - APR rates
Industry Snapshot

Credit Card Issuing

Revenue $93.1bn
Profit $17.2bn
Businesses 239

Credit Card Processing & Money Transferring

Revenue $58.1bn
Profit $8.2bn
Businesses 2,561
Key External Drivers

Issuing
- Aggregate household debt
- National unemployment rate
- Prime rate (sharp increase expected in 2016)
- Households earning more than $100,000 (big ticket item purchases)
- Per capita disposable income

Processing
- Consumer spending
- Consumer confidence index
- E-commerce sales
- Per capita disposable income
- Regulation for the credit card processing and money transferring industry
Credit Card Issuing

Industry Revenue Growth

[Graph showing revenue growth from 2005 to 2016, with a peak around 2008 and a decline starting in 2009, followed by a recovery in 2014 and 2015.

Industry Overview and Competition

Long Term Industry Trends

Traditional Advertising Strategies

Primetime Data Analysis

Effects of Crash

Post Crisis Industry Trends

Outlook
Target Market

- Both markets growing as more consumers use electronic transactions
- Constant demand as young consumers come of age
- Companies target certain types of cards with certain benefits for each group
  - Low or no interest cards, cash back cards, etc

### Customer Segmentation ($58.1bn)

- Government: 62%
- Banks: 32%
- Merchants: 6%

### Customer Segmentation ($93.1bn)

- Businesses: 59%
- Individuals aged 60 and over: 15%
- Individuals aged 18 to 26: 15%

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Industry Overview and Competition

- Long Term Industry Trends
- Traditional Advertising Strategies
- Primetime Data Analysis
- Effects of Crash
- Post Crisis Industry Trends
- Outlook
Credit Card Money Flow

1. Customer
2. Merchant
3. Credit Card Processor
4. Credit Card Associations
5. Credit Card Issuing Bank
Major Products/Services

Issuing
- Cardholder fees
- Interchange fees
- Interest income

Processing
- Credit card services
- Debit card services
- Check processing
- Prepaid card services
Major Competitors

Issuing
- American Express
- Citibank
- Capital One
- Bank of America
- American Express

Processing
- PayPal
- Visa
- MasterCard
- American Express
- Discover

Industry Overview and Competition
Long Term Industry Trends
Traditional Advertising Strategies
Primetime Data Analysis
Effects of Crash
Post Crisis Industry Trends
Outlook
Moderate Market Concentration

Issuing
- Dominance of major players
- Increasing number of industry participants
- HHI: 1,209.89

Processing
- Rather divided industry
- Dominance of major players
- Rise of e-commerce allows more competition
- HHI: 448.2

MARKET SHARE
- American Express, 18.60%
- Chase, 16.90%
- Bank of America, 16.60%
- Capital One, 13.50%
- Discover, 7.50%
- Citi, 8.20%
- Other, 18.70%
- Other, 49.80%

MARKET SHARE
- Visa, 13.60%
- American Express, 10.80%
- PayPal, 9.20%
- MasterCard, 8%
- KKR & C., 8.60%
- Other, 49.80%
High Barriers to Entry

Issuing
• High and Steady
• Includes:
  • Tight regulations
  • high firm concentration
  • large capital requirements
  • loyal customer bases due to loyalty program

Processing
• High and decreasing
• Includes:
  • Tight regulations
  • High infrastructure costs
Long Term Industry Trends
Trends in Technology

• Advances in electronic payment methods
• Increased mobile in credit industry could result in more
  • Credit users due to easier access
  • New competitors
  • Specialized employees
• Major mobile players rely on
  • Mobile providers
  • Processing companies
Security

- High spending to combat security threats
- Fear of information being stolen from retailers
  - Study by Bizrate shows 62% consumers believe brick-and-mortar are source of data breach and aren’t doing enough to protect
- More information on line → higher threat of fraud or identity theft
- Fear of threats to privacy may deter consumers
  - 1/3 of online shoppers hesitate to buy due to credit card data thefts
Traditional Advertising Strategies
Advertising Strategies

- Most common strategies:
  - Persuasive
  - Informative
- Techniques:
  - Humor
  - Celebrity Endorsement
  - Emotional Appeal
## Credit Card Sponsorships

<table>
<thead>
<tr>
<th>Visa</th>
<th>MasterCard</th>
<th>Chase</th>
<th>Capital One</th>
<th>Discover</th>
<th>American Express</th>
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<td>US Open</td>
<td>NCAA</td>
<td>NHL</td>
<td>Coachella</td>
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<td>UEFA</td>
<td>Stanley Cup</td>
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<td>PGA Tour</td>
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<td>MSG</td>
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<td>US Open</td>
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<td>American Football</td>
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<td>FIFA</td>
<td>French Open</td>
<td>MSG</td>
<td>Orange Bowl</td>
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<td>Visa Triple Crown</td>
<td>Carnegie Hall</td>
<td>NASCAR</td>
<td>SXSW</td>
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<td>Olympics</td>
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<td>Alliance with Disney</td>
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</tbody>
</table>

## Industry Overview and Competition
- Long Term Industry Trends
- Traditional Advertising Strategies
- Primetime Data Analysis
- Effects of Crash
- Post Crisis Industry Trends
- Outlook
Brand Strategies

- Persuasive ads employing humor to appeal to the everyman
- “Because there’s a freak in all of us”
- “What your idea of what a card should be”
- “Life flows better with Visa”

- Persuasive and complimentary ads employing humor and celebrity appeal
- Curates a brand image of exclusivity
- “Official card of the classics”
- “Are you a card member?”

- Persuasive ads that employ humor and emotional appeals
- Emphasizes feel good family values like vacation and ball games
- “Priceless”
Brand Strategies

- Persuasive ads employing humor to appeal to an every man audience
- Incorporates informative message on the features of their card (monthly fico report)
- “We treat you like you’d treat you”
- Persuasive ads featuring celebrity endorsements
- Some informative information on card rewards (% monthly cash back, % annual bonus)
- “What’s in your wallet”
- Informative ads sometimes employing humor and emotional appeal
- Provides info on the attributes of their cards and their banking services (apps)
- “So you can”
- “Your choice your Chase”

Industry Overview and Competition
Long Term Industry Trends
Traditional Advertising Strategies
Primetime Data Analysis
Effects of Crash
Post Crisis Industry Trends
Outlook
Brand Perception Map
Primetime Data Analysis

- Industry Overview and Competition
- Long Term Industry Trends
- Traditional Advertising Strategies
- Primetime Data Analysis
- Effects of Crash
- Post Crisis Industry Trends
- Outlook
Yearly Ad Frequency

- American Express
- Bank of America
- Capital One
- Chase
- Citi

Industry Overview and Competition
Long Term Industry Trends
Traditional Advertising Strategies
Primetime Data Analysis
Effects of Crash
Post Crisis Industry Trends
Outlook
## When Are We Watching?

### 2013-14 Season-to-Date Primetime TV Usage by Day of the Week

<table>
<thead>
<tr>
<th>Day</th>
<th>Persons with Sets in Use</th>
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</thead>
<tbody>
<tr>
<td>Monday</td>
<td>120M</td>
</tr>
<tr>
<td>Tuesday</td>
<td>114M</td>
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<tr>
<td>Wednesday</td>
<td>113M</td>
</tr>
<tr>
<td>Thursday</td>
<td>112M</td>
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<tr>
<td>Friday</td>
<td>107M</td>
</tr>
<tr>
<td>Saturday</td>
<td>108M</td>
</tr>
<tr>
<td>Sunday</td>
<td>125M</td>
</tr>
</tbody>
</table>


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**Nielsen**  
An uncommon sense of the consumer™
Total Advertising Spending 2014

- American Express: $336
- Capital One: $317
- Citibank: $214
- Chase: $200
- Bank of America: $139
- Discover: $132

Industry Overview and Competition
Long Term Industry Trends
Traditional Advertising Strategies
Primetime Data Analysis
Effects of Crash
Post Crisis Industry Trends
Outlook
Top 5 Shows

American Express
- American Idol
- The Voice
- Hell’s Kitchen
- Blacklist
- America’s Got Talent

Capital One
- America’s Got Talent
- NCIS
- Saturday Night College Football
- Two and a Half Men
- 20/20
Advertising & Audiences—Primetime by Genre

Source: Nielsen
Personal vs Business Cards on Different Programs (2010)

- SITUATION COMEDY
- DRAMA/ADVENTURE
- TALK
- FEATURE FILM
- INSTRUCTION/ADVICE
- NEWSCAST (LOCAL ONLY)
- NEWS DOCUMENTARY
- NEWSCAST (CABLE/NETWORK ONLY)
- GOLF
- NEWS EDUCATIONAL/INSTRUCTIONAL

<table>
<thead>
<tr>
<th>Industry Overview and Competition</th>
<th>Long Term Industry Trends</th>
<th>Traditional Advertising Strategies</th>
<th>Primetime Data Analysis</th>
<th>Effects of Crash</th>
<th>Post Crisis Industry Trends</th>
<th>Outlook</th>
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</thead>
</table>
Industry Overview and Competition
Long Term Industry Trends
Traditional Advertising Strategies
Primetime Data Analysis
Effects of Crash
Post Crisis Industry Trends
Outlook
Effects of Crash
# 2006 Credit Card Ad Graveyard

<table>
<thead>
<tr>
<th>AAA Diamond Advantage</th>
<th>Personal Credit Card</th>
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<tbody>
<tr>
<td>Access Moneyflow</td>
<td>Pre-Paid Card</td>
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<tr>
<td>Advanta</td>
<td>Business Credit Card</td>
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<tr>
<td>Advanta + Platinum</td>
<td>Business Credit Card</td>
<td>MasterCard</td>
</tr>
<tr>
<td>American Express &amp; Denver CDTP</td>
<td>Combo</td>
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<tr>
<td>American Express</td>
<td>Business Credit Card</td>
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<tr>
<td>American Express</td>
<td>Pre-Paid Gift Card</td>
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<td>American Express Gold &amp; Platinum</td>
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<td>American Express Gold</td>
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<td>Pre-Paid Gift Card</td>
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<td>Whitney Bank Points Plus</td>
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</table>

## Industry Overview and Competition

- Long Term Industry Trends
- Traditional Advertising Strategies
- Primetime Data Analysis
- Effects of Crash
- Post Crisis Industry Trends
- Outlook
2010 New Credit Card Ads ( Ranked by 2010 Ad Frequency)
Largest Increase in Ad Frequency 2006 to 2010

- United Mileage Plus: Personal Credit Card: Visa
- Openforum.com Webcast: Online
- RushCard: Pre-Paid Card: Visa
- Chase: Personal Credit Card
- American Express Delta Skymiles Gold: Personal Credit Card
- Discover Card: Personal Credit Card

Gain 2010 2006
Largest Decrease in Ad Frequency 2006 to 2010

- MasterCard
- American Express
- Visa
- Visa Signature
- Chase Freedom
- American Express Platinum
- MasterCard
- Capital One

- Business Credit Card
- Personal Credit Card
- Personal Credit Card
- Personal Credit Card
- Personal Credit Card
- Business Credit Card
- MasterCard & Visa

Effects of Crash
Movement Away from Providers

Industry Overview and Competition
Long Term Industry Trends
Traditional Advertising Strategies
Primetime Data Analysis
Effects of Crash
Post Crisis Industry Trends
Outlook
Crash Effect on Business Card Ad Frequency

- JP Morgan Chase & Co
- Discover Financial Services
- Mastercard Intl Inc
- Visa Usa Inc
- American Express Co

Industry Overview and Competition
Long Term Industry Trends
Traditional Advertising Strategies
Primetime Data Analysis
Effects of Crash
Post Crisis Industry Trends
Outlook
Increase in Issuer Debit Card Ad Frequency
Decrease in Provider Debit Card Ad Frequency

<table>
<thead>
<tr>
<th>Year</th>
<th>Mastercard Intl Inc</th>
<th>Visa Usa Inc</th>
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<tbody>
<tr>
<td>2006</td>
<td>3000</td>
<td>9000</td>
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<td>2010</td>
<td>2000</td>
<td>6000</td>
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</table>

Bar graph showing the decrease in ad frequency for Mastercard Intl Inc and Visa Usa Inc from 2006 to 2010.
Changes in American Express Ad Strategy
Post Crisis Industry Trends
## Major Ad Campaigns Post Recession

<table>
<thead>
<tr>
<th>Company</th>
<th>Before</th>
<th>After</th>
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<tbody>
<tr>
<td>American Express</td>
<td>“Membership has its privileges”</td>
<td>“Don’t Take Chances, Take Charge”</td>
</tr>
<tr>
<td>Visa</td>
<td>“Life takes Visa”</td>
<td>“Let’s Go”</td>
</tr>
<tr>
<td>Discover Network</td>
<td>“Discover What If”</td>
<td>“Get Cash Back: This One’s on Me”</td>
</tr>
</tbody>
</table>
Post Crisis Advertising Trends

- During the recession most financial advertisements shifted from emotional ads to informative
  - Communication strategies traditionally change during changes in economic environment
- 19% decline in actual advertising released (main cause budget cuts)
- Unlike bank, investment, and insurance companies, credit cards did not follow this shift and still emphasized emotional appeals in their ads
- Ads focused on image of card user, social aspects of card, or fun of having the card
“Indeed, financial products have become more dangerous in part because financial advertising may be a way to obfuscate rather than to inform and persuade. Terms hidden in the fine print (e.g., obscure information about financial risks, charges, and expenses in the advertising disclosures) or obscured with incomprehensible language (e.g., relying too heavily on selective performance figures) may lead ordinary consumers to make suboptimal economic decisions” (Lee 2011).
Post Crisis Gov. Regulations

- Increased regulations since 2008
- CARD Act – 2009
- Dodd Frank Act – 2010
- Resulted in industry wide rise of operational costs
CARD Act cont.

- Stopping mal-practice
  - 45-Day Change-in-Terms Notice
  - 21-Day Rule for Delivery of Periodic Statement
    - Allowing enough time for mail and to respond to billing
  - Repayment Disclosure – minimum payment info

- College Students
  - No ‘free lunch’ for sign up
  - Full disclosure to FED regarding college campus engagement
    - 2009 – issuers spent $83 million on college promotions to gain 53,164 credit cards
    - Average student credit card debt $4,1000 with 4 cards (Sallie Mae)
      - $217,972,400 → quite the return
  - Chase = #1 w/ $13 million spent
Debt Epidemic = Revenue

- Average household has $130,922 debt, $15,762 on credit cards
  - $12.12 trillion :$733 billion -> Not all debt created equal
  - Paying $6,658 in interest per year, ~9% of avg. household income
- Borrowers under report by 155% → industry gap is $415 billion
Outlook
Are credit cards helping finance life as cost of living outpaces income growth over time, or are they psychologically taking advantage of consumer’s lack of financial expertise, and slow economic wage growth?
Industry Investment Outlook

• Negative
  • Credit card debt growing 3-5% yoy
  • Near term good for credit card revenue → not sustainable
  • Eventually could cause contraction
Appendix 1.

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