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## **HSBS CREDIT REWARDS PROGRAM**

### **INTRODUCTION**

Headquartered in London, HSBC was one of the world's largest banking and financial services organizations, the Asia-Pacific region, Americas, Middle East and Africa. HSBC offered a comprehensive range of financial services, including personal financial services; commercial banking; corporate, investment banking and markets and private banking.

HSBC was positioned as a global bank that leveraged its local expertise to better serve its customers. In 1997, HSBC did not have an integrated or unified brand image. Rather, it was a collection of regional brands, including Hong Kong Bank in the Asia-Pacific Region. In 1998, HSBC undertook a global branding strategy under the tag line "Your world of financial services," and began to prominently display the hexagonal logo as part of its branding approach.

In the second phase of its global branding campaign from 2001 to the present, HSBC has positioned itself as "The world's local bank" to emphasize the bank's global size and reach, and its understanding of and adaptation to host country markets and cultures. HSBC leveraged its expertise across 77 country markets to provide financial solutions backed by the highest ethical standards and supported by advanced information technologies.

## DEVELOPMENT REWARDS PROGRAM

In 2006 HSBC was developing marketing strategy for credit card products, Over the past 10 years, HSBC credit cards had gone from being rated worst to rated. HSBC cardholders had increased their purchases by an average of 24 per cent per year. The average growth rate in cards in circulation was 13 per cent per year, and the customer attrition rate had fallen by an average of one percentage point per year.

HSBC now held the leadership position in the Hong Kong market in both the number and value of transactions. The current issue was how to sustain HSBC success.

The credit card market was important to HSBC because its very profitability, also its role in acquiring new customers and building customer relationships. Customer acquisition was facilitated by the low entry barriers associated with the product and the fact that the credit cards could be tailored to specific target segments, such as young adults. Once a consumer adopted an HSBC credit card.

HSBC was able to develop a profile of the person that could be used to cross sell other products, such as investments and insurance.

**The Marketing department** in HSBS Bank was responsibility for Rewards Program, which controlled reward partners, the number and types of rewards, and redemption levels.

The effective operation of the program required support from Regional Card Systems (RCS), Group Purchasing Unit (GPU) and the Customer Service Department (CSD). Managers from these departments met with marketing personnel to generate ideas, identify potential problems and suggest solutions for current problems. The program was updated quarterly, and major changes occurred on a yearly basis.

RCS worked closely with marketing to implement enhancements and changes to the rewards program, such as the introduction of a new redemption partner or rewards feature. When such changes occurred, RCS worked with information technology (IT) to ensure that the change was integrated with customer service systems and other credit card-related systems, such as phone banking and the Internet. Finally, changes needed to be understood by retail banking personnel to ensure that program features and benefits could be explained to customers who visit HSBC branches.

GPU was responsible for the procurement of the redemption items. And CSD was responsible for many of the daily operational of the program.

The important role of Customer Service in the day-to-day operation of the reward.

## REWARD PROBLEM CASES

- HSBC credit card program started to surface in mid-1997. Practical items, such as electrical appliances, were the most redeemed but often went out-of-stock because of supply issues.
- HSBC did not have guaranteed supply contracts with vendors.
- Some of the most popular redemption items became outdated and unattractively priced before the year-long program ended.
- Consumer electronics often fell dramatically soon after the launch of a rewards catalogue because of short product life cycles and fierce retail competition.
- HSBC customers faced long waiting periods for redemptions because the Operations Department.
- insufficiently staffed to handle the increasing redemption volumes.
- Competitors began offering cash vouchers and items with significantly lower redemption thresholds than HSBC. As a result, customer dissatisfaction and complaints, due to the bonus point program, increased.
- HSBC management became disillusioned with the program because of the huge costs involved, and the difficulties associated with measuring program success.
- Anticipated increased complaints because when customers points all expired on the same date.
- The rewards program would be overloaded causing delays and stock-outs.
- Withdrawal from the program was seriously considered because the rewards program was a visible source of customer dissatisfaction and complaints.
- Credit cards were a limited growth area that was outside of HSBC strategic focus.
- The program remained uncompetitive because of the limited selection of rewards.
- Bonus points could be converted into a cash credit to offset a card purchase when the chip interacted with point-of-sale (POS) terminals installed at participating merchants.

## KEY PROBLEM SOLVING

- HSBC began aggressively expanding its market share through large-scale acquisition and usage campaigns.
- Improve the rewards program's competitiveness as well as customer satisfaction.
- Focus group research confirmed that rewards programs were a key driver of customer usage and loyalty.
- New rewards catalogues were issued.
- Catalogue widened the range of merchandise. The cost per point, or funding ratio of the rewards, remained largely unchanged to meet cost containment objectives set by senior management.
- New bonus point expiry logic was also introduced.
- Whereby points were set to expire within the cardholder's card expiry month.
- Customer's perceptions gradually improved.
- Reaction to bonus-point catalogues in general was lukewarm, and most consumers claimed that they preferred direct cash rebates or instant cash back.
- Several key players realized that the cost of the bonus point program created a burden on their bottom line and started to cut back on the funding ratio to reduce costs.
- Issuers began mailing the catalogue only to select customers.
- new program launched in a wide range of attainable, practical items with the aim of increasing appeal to the mass customer base.
- New features were introduced to enhance the richness and attractiveness of the program,
- Rewards Multiplier, which offered redemption discounts to cardholders based on the length of their relationship with HSBC.
- Cash Multiplier, a cash-rebate scheme for cardholders who achieved a specified spending level.
- Special of the Month items for redemption with 40 per cent discount on the points required to redeem the item.
- Point Share, which allowed the pooling of points from friends and family to redeem higher value.

## ANALYSIS – MISSING INFORMATION

The best method to analysis HSBC case is to use SWOT analysis, which is aim to analyze and explore the strengths, weaknesses, opportunities and threats of HSBC bank:

### **Strengths**

One of the most important strengths is collocating card spending data of their customers to develop profiles of the consumers that could be used to cross-sell other products. Since usually banks focus on their existing customer base as the primary target market for their credit card products, for that HSBC bank has the advantage over other banks. Also using direct methods of marketing to reach HSBC customers to market credit cards, by using demographic information about customer's incomes & life stage to identify the market segmentations. For that, HSBC increased the verity of credit cards types and levels to target each segment effectively, also provided high security for their customers in online spending. HSBC bank has built up partnerships with prestigious retailers who had a big customer base along with their own loyalty program, to enable HSBC to acquire new customers, which was helpful to find acceptance of credit cards in retail outlets was the main factor that driving the growth of credit card market in Hong Kong. HSBC bank conducts a survey every year of their current credit cardholders in Hong Kong, to provide a comparison between HSBC and its direct competitors on features and benefits, which helped a lot on brand image and familiarity, which is factors that assisted in the success of HSBC in credit card market. With all factors mentioned helped to develop a good rewards program, which was updated quarterly to meet the satisfaction of the customers.

### **Weakness**

Weakness are the areas where HSBC can be improved upon, as for the initial of reward program, it was with limited number of branded household products that consumers could redeem points.

Limited selection of rewards

Supply issues, were HSBC didn't guaranteed supply contracts with vendors, for items such as electrical appliances which was the redeemed.

Short product life cycles which cause fell of price soon after the launch of a rewards catalogue.

High cost of reward program and the difficulties associated with measuring program success.

Delays and stock-outs of the program because of the overload that caused from the expiration of all customers on the same date.

Credit card market was outside of HSBC strategic focus, so which resulted with limited growth rate. Because of limited budget assigned to the reward program.

### **Opportunities**

HSBC can grow further in many of its existing markets.

The credit card market is a profitable market for HSBC, that way it is considered an important market and a good opportunity for HSBC.

Big opportunity in Hong Kong, credit card market was growing rapidly.

Reward programs were a key driver of customer usage and loyalty.

Targeting profitable customers, cardholders who carried balances for long periods, also targeting consumers based on their educational or social groups.

### **Threats**

Risk of cancelling the credit cards that were not frequently used.

Competition within the Hong Kong market was highly concentrated.

The reward program was a visible source of customer dissatisfaction and complaints, which brings to withdraw the program. In addition, the program can't be competitive because of the limited rewards.

Major competitors: American Express, Bank of China, Citibank, DBS, Hang Seng Bank Limited and Standard Chartered Bank.

## STATMNET THE PROBLEMS

- In mid-1997, the supply issues of viable objects, such as electrical apparatuses, which were the foremost received, led to appliances regularly, and went out of stock.
- HSBC did not have guaranteed supply contracts with vendors, resulting unsecured transactions.
- Short product life cycles and fierce retail competition causing most popular redemption items became outdated and unattractively priced before the year-long program ended.
- The operations department had insufficient staffs to handle the increasing redemption volumes, leading to more time devoured within the operations division causing HSBC clients a long waiting periods for redemptions.
- Competitors started advertising cash vouchers and items with altogether lower recovery limits than HSBC. As a result, clients' disappointment and complaints, due to the reward point program, expanded.
- The complications related with measuring program success and the enormous costs involved made the HSBC management very disappointed with the program.
- Customer's points all expired on the same date leading to increased complaints. Hence, the rewards program would be overloaded causing delays and stock-outs.
- Withdrawal from the program was seriously considered since the rewards program was a visible source of customer dissatisfaction and complaints.
- Credit cards were a limited growth area that was outside of HSBC strategic focus. Besides, the limited selection of rewards causing the program to remain uncompetitive.
- The instant redemption system was enabled by chip-based card technologies that recorded the bonus points earned on each card transaction.

## IMPLEMENTATIONS & CONTROL

Marketing team worked with promoting to implement advancements and changes to the rewards program, such as the presentation of a modern redemption accomplice or rewards highlight. When such changes happened, the team worked with information technology (IT) to guarantee that the change was coordinates with client benefit frameworks and other credit card-related frameworks, such as phone banking and the Web.

At last, changes required to be caught on by retail banking personnel to ensure that program highlights and benefits may well be clarified to clients who visit HSBC branches. Furthermore, television advertising campaign with 'Best In Town' proposition was taking into consideration to support their method.

A modern program propelled in 2002 included a wide run of feasible, commonsense items with the point of expanding request to the mass client base. Modern features were presented to improve the abundance and attractiveness of the program, including:

- Rewards Multiplier, which advertised redemption rebates to cardholders based on the length of their relationship with HSBC.
- Cash Multiplier, a cash-rebate plan for cardholders who accomplished a indicated investing level Extraordinary of the Month items for redemption with 40 per cent rebate on the focuses required to redeem the item.
- Point-Share, which permitted the pooling of points from friends and family to redeem higher value items.
- Quarterly redemption boosters including modern redemption items.

In spite of the fact that not all modern features within the 2002 program were similarly well gotten, client recognitions of the program appeared noteworthy change amid the year. In April 2002, cardholders in Hong Kong appraised HSBC's rewards program as the finest in the market.

## APPENDIX

### 1- HSBC CREDIT CARD PERFORMANCE IN HONG

	Year-on-Year Change					
	1999	2000	2001	2002	2003	2004
Total annual cardholder purchase	2	32	21	21	36	32
Average cards in circulation	2	25	34	7	3	5
Average annual purchase per card	0	6	(10)	12	31	26
Attrition rate *	0.3	(3.4)	2.4	(4.4)	(3.1)	0.1
No. of redemptions **	(51)	36	182	87	120	13

### 2- HONG KONG CREDIT CARD MARKET STATISTICS.

	1998	1999	2000	2001	2002	2003	2004
Number of transactions (millions)	105.4	126.5	170.9	206.8	219.2	223.6	
Transaction value(HK\$ millions)	101,003	114,132	141,917	163,204	168,100	169,781	
Number of cards in circulation (millions)	6.8	7.9	9.5	11.4	11.3	11.3	12.0 (Visa and MasterCard Only)
Number of accounts (millions)	4.1	4.8	5.9	7.2	7.1	7.2	10.9 (Visa and MasterCard Only)

### 3- NUMBER OF TRANSACTIONS PERSONAL CREDIT CARDS

	2001		2002		2003	
	(millions)	% Share	(millions)	% Share	(millions)	% Share
HSBC	46.8	24.4%	49.1	24.2%	50.0	24.1%
	23.7	12.4%	28.1	13.8%	33.9	16.4%
	30.3	15.8%	31.7	15.6%	31.7	15.3%
Hang Seng Bank Ltd.	26.2	13.7%	30.2	14.9%	30.6	14.8%
	21.7	11.3%	23.3	11.5%	24.1	11.6%
Standard Chartered Bank	14.2	7.4%	13.8	6.8%	12.1	5.8%
	Ltd.Bank of China	12.8	6.7%	12.0	5.9%	10.2
Citibank NA	16.2	8.4%	15.0	7.4%	14.7	7.1%
	191.9	100.0%	203.2	100.0%	207.3	100.0%

Bank of East Asia

DBS Bank (Hong  
Kong)Others

Total

4- VALUE OF TRANSACTIONS Personal Credit Cards

	2001		2002		2003	
	(HK\$ millions)	% Share	(HK\$ millions)	% Share	(HK\$ millions)	% Share
HSBC	28,458	21.5%	29,865	21.9%	30,272	21.9%
	23,543	17.7%	24,612	18.0%	24,569	17.8%
	13,654	10.3%	16,355	12.0%	19,430	14.1%
Hang Seng Bank Ltd.	17,341	13.1%	18,604	13.6%	19,188	13.9%
Standard Chartered Bank	15,336	11.6%	17,662	12.9%	17,819	12.9%
Ltd.Bank of China	11,383	8.6%	10,611	7.8%	9,014	6.5%
	7,007	5.3%	6,786	5.0%	5,956	4.3%
Citibank NA	15,939	12.0%	12,185	8.9%	11,714	8.5%
	132,661	100.0%	136,680	100.0%	137,962	100.0%

Bank of East Asia

DBS Bank (Hong  
Kong)Others

Total

5- RELATIVE IMPORTANCE OF ATTRIBUTES IN INFLUENCING  
OVERALLIMPRESSION OF KEY CREDIT CARD ISSUERS

### **Overall Market**

- Good service
- Welcomed locally
- Attractive and exclusive benefits
- Attractive rewards/bonus points program
- Innovative functions/benefits/promotions
- Prestigious
- Generous credit limits
- Competitive interest rates
- Suitable for young people
- Widely recognized globally
- Well-designed & good looking

### **Overall Impression of HSBC**

- Good service
- Attractive rewards/bonus points program
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- Attractive and exclusive benefits
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- Competitive interest rates
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