

MERCATOR
ADVISORY GROUP

**The Marketing Opportunities Among Affluent Rewards Credit
Cardholders**

Sponsored by Discover Financial Services

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TABLE OF CONTENTS

TABLE OF FIGURES.....3

Introduction and Study Objectives.....4

I. Methodology.....5

II. Key Findings

Spending Characteristics.....6

T&E Spending.....7

Segment Demographics.....9

Economic Outlook.....10

III. Strategic Implications.....11

TABLE OF FIGURES

Figure 1: Credit Line and Spending Characteristics6

Figure 2: Average Monthly T&E Spending.....7

Figure 3: Average Number of Overnight Trips in Last 12 Months.....8

Figure 4: Segment Demographics.....9

Figure 5: Economic Outlook.....10

Figure 6: Selection Of Primary Card.....11

Introduction and Study Objectives

This study identifies and explores the characteristics of a segment affluent credit card users defined to correspond with the target profile of the Discover Network Premium Card product. This analysis is based on data from a large scale U.S. consumer survey of credit cardholders, and uses the segment profile outlined on page 5.

Key questions addressed in this analysis include:

- How different are the spending patterns of target segment households?
- Are travel and entertainment spending patterns different, in particular?
- How different are the card-based borrowing capabilities of the target segment?
- Are there uniquely valuable household demographics of the target segment that might offer value to marketers?
- What are the key loyalty elements involved in the target segment's selection of a primary card for the majority of their transactions?

Highlights Of Findings

1. An identified target segment of affluent rewards cardholders spends a monthly average \$3,235 on all their general purpose cards, 2.9 times the amount of cardholders not in this segment.
2. These target cardholders spend nearly five times the amount of other households in the key personal T&E category of airline/ hotel/ car rental.
3. Target cardholders are particularly likely to travel, averaging 4.7 overnight personal trips per year, with an average 1.9 with air travel.
4. Family-related spending is a key attribute of the target segment, with monthly household expenses more than twice those not in the segment, and half of target households having dependent children at home.
5. Target segment consumers were optimistic in their 2006 household economic outlook, and were less likely to hesitate in making a major purchase.
6. Loyalty to using rewards-based credit cards is high within the target segment.

I. Methodology

This study was based on a custom analysis of consumer survey data from the *2006 TNS Global Consumer Card Strategies Research Program*. This nationally representative survey of 4,030 household respondents is based on a sample stratified by age, income, and region, with results projectable nationwide within +/-1.6%. The study collects detailed payment card ownership and usage information from a national survey panel using a 24 page mailed questionnaire.

Data from this study representing 3,202 respondents holding general purpose credit cards was extracted. A series of custom sub-segments were analyzed in order to identify if the characteristics of affluent rewards-card users were significantly different from other credit card users. It was determined that a target segment of cardholders with the following household characteristics does in fact have unique card usage, spending, and demographic characteristics:

Target Segment Definition

- \$100,000 or more in annual household income
- Card considered the “primary” card is a credit or charge product
- The “primary” card features a rewards program as one of its characteristics

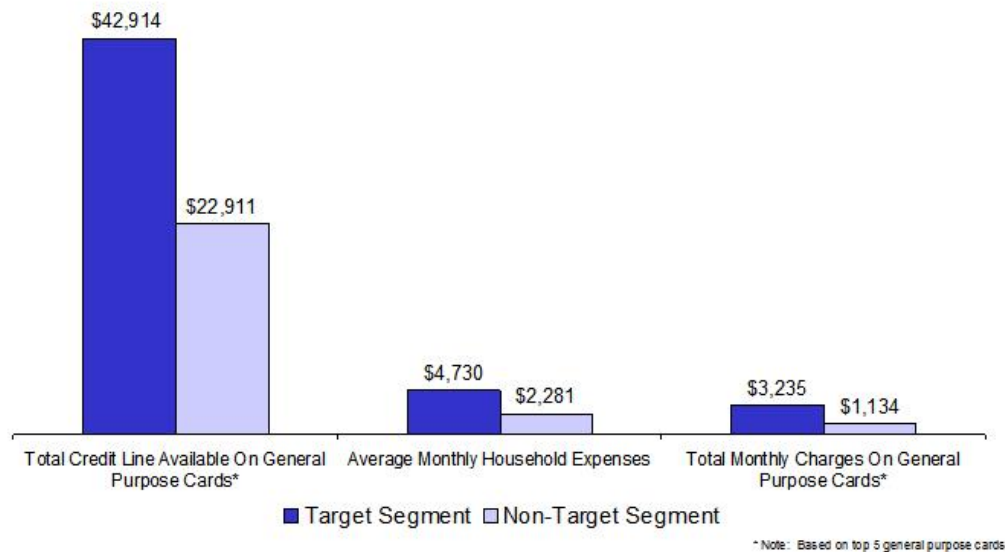
As the Section II will illustrate, this target segment of affluent rewards card users shows distinctive behavior patterns as compared with owners of general purpose cards who do not match the segment definition. These target segment behavior patterns, in turn, can offer strategic marketing advantages to both merchants and card issuers.

II. Key Findings

- **Spending Characteristics**

In terms of their core spending and borrowing abilities, affluent rewards cardholders present a valuable opportunity for merchants and card issuers alike. Members of the target segment spend 2.9 times the amount each month (\$3,235) on all their general purpose cards when compared to other cardholders. These households certainly have strong purchase capacity with their credit cards, having nearly \$43,000 in total credit lines available among their top five cards. On average, these households spend \$4,730 on total expenses each month, more than double that of other cardholders.

Figure 1: Credit Line and Spending Characteristics



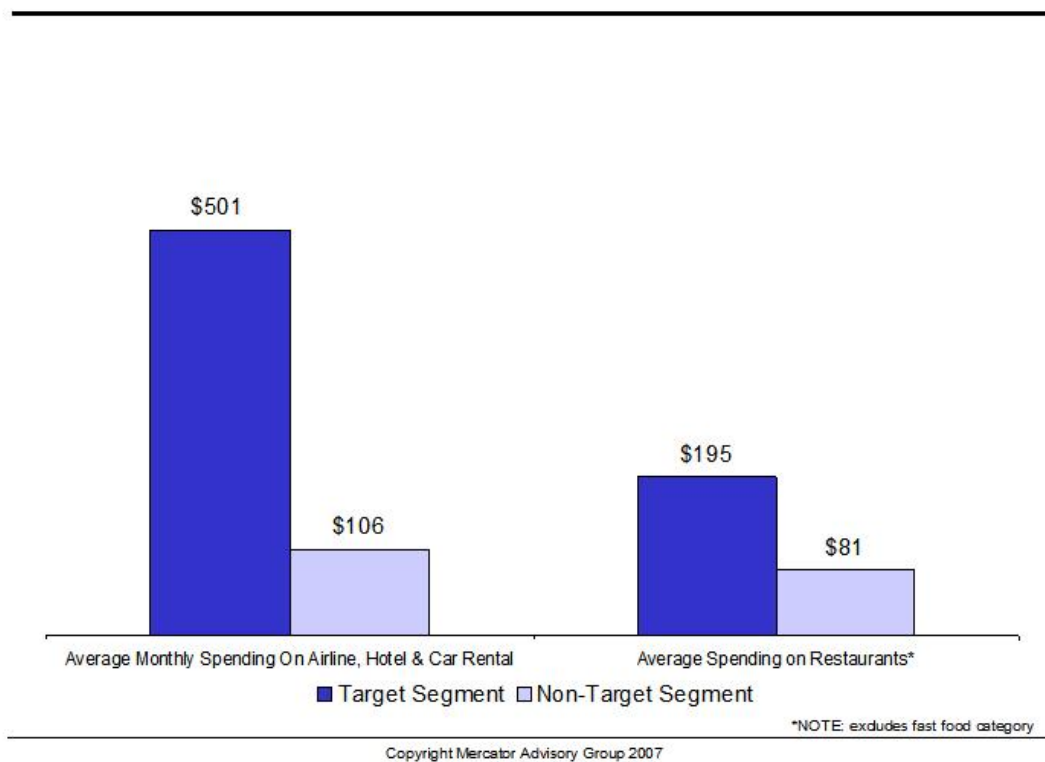
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Across the general purpose cards in their wallet, target segment households are also frequent transactors, with an average 27.5 total transactions per month among all these cards, versus 12.7 transactions for those not in the target segment. Average general purpose card ticket size for the target segment is also 32% larger than those not in the segment at \$117.64, versus \$89.29.

- **T&E Spending**

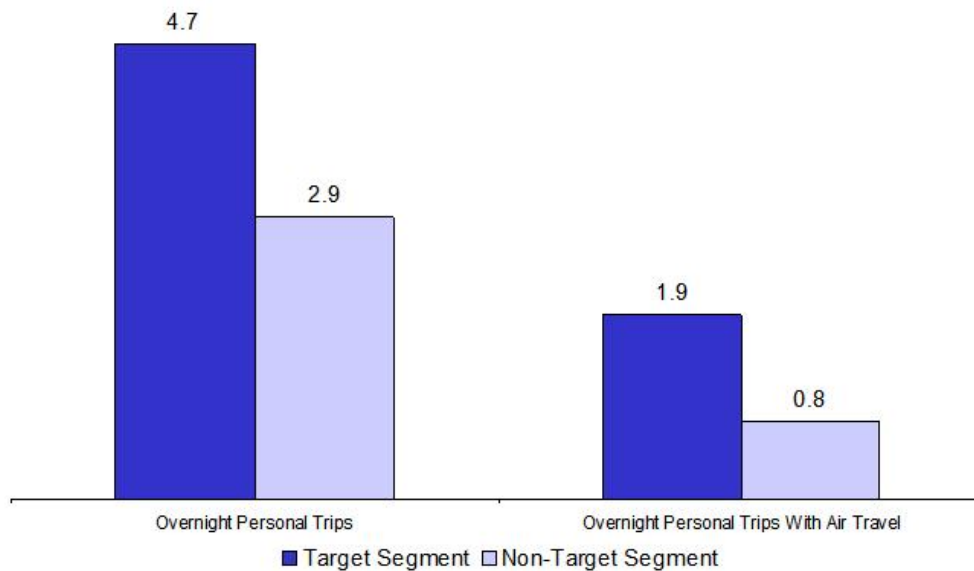
Within the target segment, travel and entertainment spending is particularly strong. With an average of \$501 in total monthly spending on airline tickets, hotels, and car rentals, affluent rewards cardholders spend nearly five times that of other households. Their spending patterns also favor restaurants, where total monthly spending is over twice that of other households.

Figure 2: Average Monthly T&E Spending



Looking in greater depth at travel patterns, the reasons for the strong T&E spending patterns of the target segment are apparent. These consumers are more likely to take personal overnight trips (average 4.7 per year), and are more than twice as likely as non-target consumers to take trips involving air travel (average 1.9 vs. 0.8 trips per year).

Figure 3: Average Number of Overnight Trips In Last 12 Months



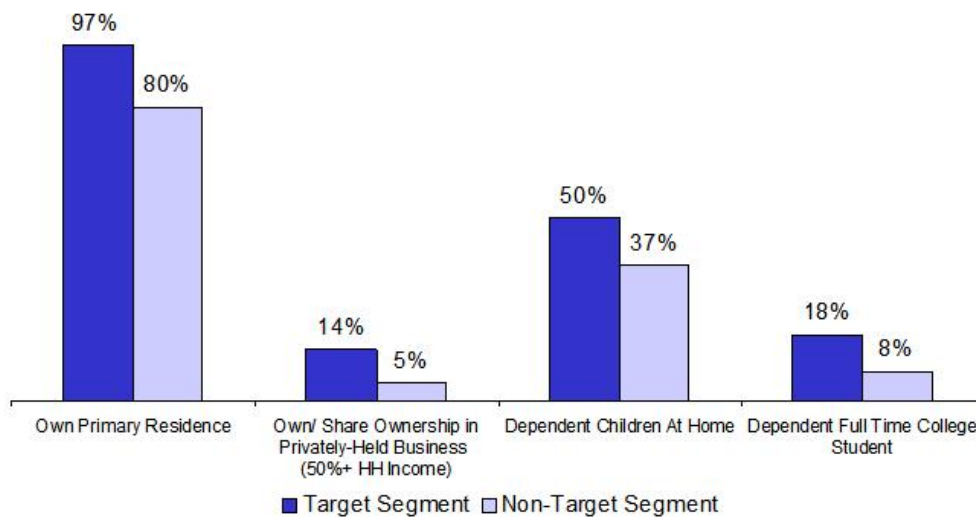
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- **Segment Demographics**

In addition to their overall credit card spending patterns, members of the target segment have demographic characteristics that make them likely consumers of a number of goods and services. Nearly all own their primary residence, as compared with eight in ten other cardholders. Ownership of privately held businesses is nearly three times more likely in the target segment, opening merchant opportunities to a range of business-related spending.

Family-related spending is a key attribute of the target segment. Overall, 89% of these cardholders are married (as compared with 66% of other cardholders), and half have dependent children at home. Among target households, over twice as many support full time dependents in college (18% vs. 8% non target households).

Figure 4: Segment Demographics

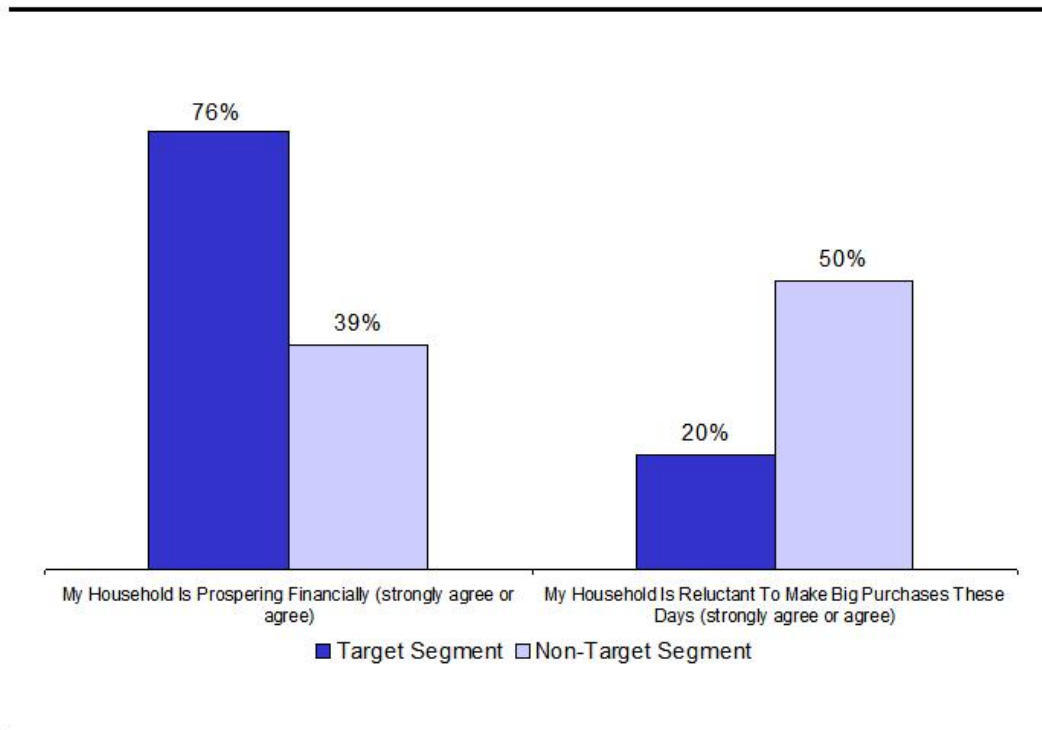


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- **Economic Outlook**

As of mid-year 2006 when the survey was conducted, members of the target segment were optimistic in terms of their household economic outlook. Three fourths saw their household as financially prosperous, and only one in five expressed hesitation to make large purchases. By contrast, half of other cardholders expressed concern about making large purchases.

Figure 5: Economic Outlook



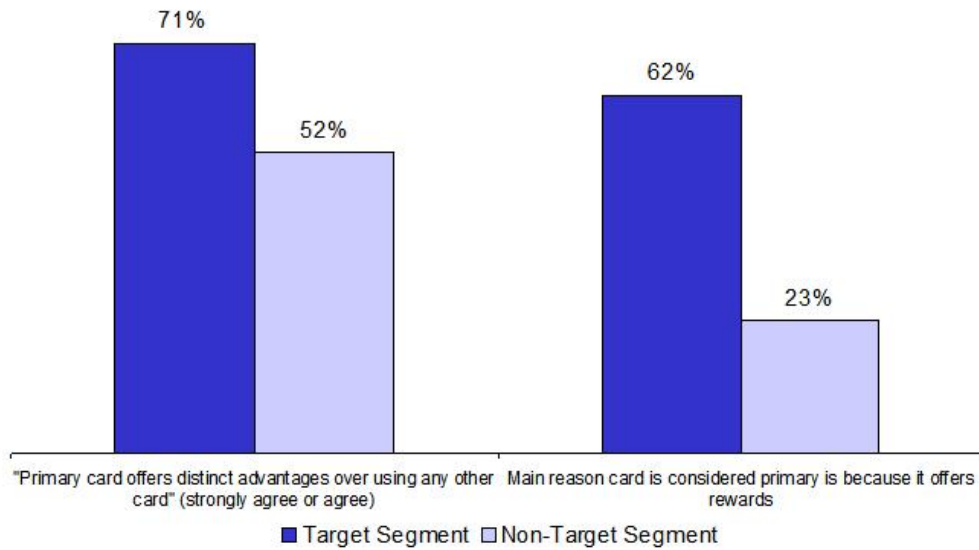
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III. Strategic Implications

More than offering just higher spending levels, affluent rewards cardholders comprise a valuable segment for a variety of retail merchant sectors. Consumers targeted by card programs for affluent, rewards-oriented individuals are particularly likely to be predisposed toward T&E spending, and to have a natural affinity for home improvement and children's merchandise spending. With less inhibition to delay major purchases, and having significant card-based credit capacity, these individuals should offer merchants a greater up-sell and cross-sell opportunity.

With these attractive consumer characteristics comes a degree of loyalty to using the rewards card. Among those in the target segment, 62% say that the fact their primary card offers rewards is the main reason they consider it their primary card, as compared with just 23% of other cardholders. These cardholders are also more likely to feel that their "primary card offers distinct advantages over using any other card" (71% agree or strongly agree, versus 52% of other cardholders).

Figure 6: Selection Of Primary Card



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Merchants accommodating the payment preferences of these cardholders should therefore reap benefits in terms of cardholder demographics, spending capacity, and perhaps most importantly, tap into the motivation to use a preferred rewards card.