

ARE COBRANDED TRAVEL CARDS REWARDING ENOUGH?



THE CREDIT CARD MARKET is intensely competitive. In the United States alone, the ten largest issuers offer some 140 cobranded travel rewards credit cards. Cobranded travel cards are popular with consumers, who receive points that they can use for free flights and hotel stays; and with travel suppliers, as a means to grow their share of a travel market that totals \$1 trillion annually in the US, according to the US Travel Association. But their popularity may be in danger, as bank-issued rewards cards offer incentives that may have more appeal than current cobranded travel card offers.

Most airlines and hotel chains offer a cobranded card. It's no surprise that they do, as cobranded travel cards have been shown to solidify brand loyalty and increase consumer share of wallet – by two or three times as much for airlines and up to seven times as much for hotels, compared to what the average travel consumer spends with an airline or hotel chain. But the sheer number of rewards-based cards makes it a struggle to stay ahead of the pack. Furthermore, generational and technology changes are emerging that will require travel suppliers to innovate as never before if they want to keep their cards in travelers' pockets.

RAMPING UP REWARDS

Credit card holders do value cobranded travel cards, according to an extensive survey we recently conducted of the US cobranded card market: 80 percent of card holders believe that they offer as much or more value than bank-issued rewards cards. But consumers also are willing to switch when the grass appears greener: 40 percent change their primary credit card at least every two years.

This leads to a critical question for airlines and hotels – how do they persuade consumers to acquire their specific cobranded card, spend with it, and not switch to the next card that comes along? The data tells us that better rewards are the reason for half of primary credit card switches. Even customers who carry a balance month-to-month are more likely to switch because of rewards than due to a lower interest rate. Not that interest rates don't matter – cobranded travel card holders are twice as sensitive to higher interest rates than those who

hold bank credit cards, and high-frequency travelers are four times as sensitive as low-frequency travelers.

So the answer to the question above appears to be better and differentiated rewards and benefits, as these exert the greatest influence by far on a consumer's decision to acquire a cobranded travel card, together with moderate interest rates. Card attributes such as issuer, network, and sign-up bonus are taken into consideration as well by consumers, but count considerably less in decision making.

To create offers that "stick" with consumers, travel suppliers will need to carefully consider the needs, preferences, and travel and purchasing behaviors of their target customers, and use these inputs to develop differentiated and innovative rewards packages. Benefits like discounts on in-flight meals and room service or elite-level qualifying points for purchases are popular among travelers. But they are becoming increasingly common as well.

Our research suggests companies need to take a harder look at rewards that are highly personalized, experience-based, offer more choices, or that are perceived as exclusive, particularly for higher-spend card users. Such rewards might include flight simulator tours, suite upgrades at prized properties, or private dinners with renowned chefs. Creating products that combine both better rewards and interest rates is another route to consider, as these would appeal to customers who carry a balance. The effort would be worth it: Such customers account for more than 80 percent of credit card profits for partner banks; these in turn underwrite travel suppliers' rewards programs.

At the same time, airlines and hotel companies must continue to maintain strong travel rewards redemption programs, as over half of cobranded travel card holders are infrequent travelers and primarily want to earn and redeem reward points for flights and rooms.

NEXT-GENERATION CONSIDERATIONS

In addition to increasing the appeal of their cobranded travel cards for current travelers, travel suppliers need

to think seriously about the future. In particular, how will they deal with generational shifts in consumer preferences and payment behavior?

Today, only a third of credit card-carrying Millennials (the generation aged roughly 18-34) hold a cobranded travel card, compared to half of credit card users who are their parents' age. These tech-savvy consumers value different features and use credit cards in a different way than older generations. For example, Millennials like being able to customize physical card designs. They also expect credit card payment capabilities and other features to be wholly integrated with their digital lives.

Millennials are two and a half times more likely than the overall market to use mobile wallets as their primary spending method. Features like keyless check-in and an invisible payment experience within the travel supplier's mobile application are the starting line for this segment. Winning the wallets of this generation as they age will require figuring out what rewards and experiences they most value. The good news for travel companies is that Millennials exhibit a passion for travel, spending a greater share of their income on flights and hotels than any other age segment.

In summary, cobranded travel rewards credit cards are an incredibly powerful financial- and brand-boosting tool for travel suppliers. To counter

growing competition and ensure that their cards continue to be relevant, airlines and hotels will need to design rewards programs that balance strong travel points redemption options, differentiated and novel benefits, and interest rates. And they must start crafting strategies now to deliver next-generation cobranded travel card programs that can encompass evolving technology and changing consumer lifestyles.

INDERPREET BATRA

Partner
inderpreet.batra@oliverwyman.com

DOUG CARLUCCI

Partner
douglas.carlucci@oliverwyman.com

JESSICA McLAUGHLIN

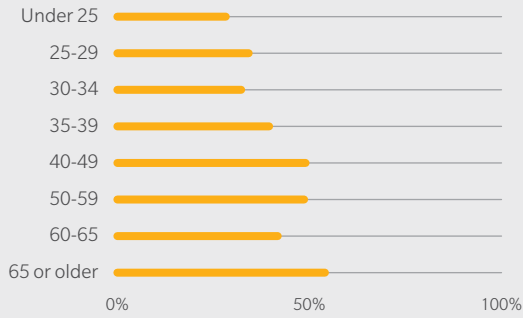
Partner
jessica.mclaughlin@oliverwyman.com

Chris Hartman and Jeff Marx, both Engagement Managers in Oliver Wyman's Transportation Practice, contributed to this article.

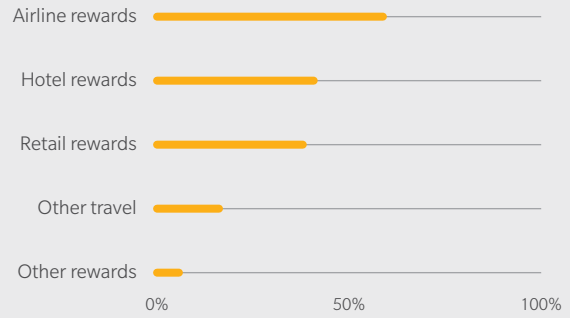


COBRANDED CARDS: SURVEY HIGHLIGHTS

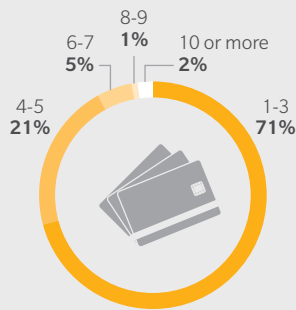
DO YOU HAVE A COBRANDED CARD?



WHAT TYPE OF COBRANDED REWARD CARD WOULD YOU CONSIDER APPLYING FOR?



WHAT IS THE MAXIMUM NUMBER OF CREDIT OR CHARGE CARDS YOU WOULD BE COMFORTABLE CARRYING?

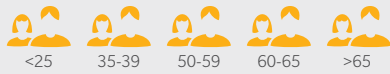


IN THE FUTURE, WOULD YOU CONSIDER APPLYING FOR A COBRANDED CARD?

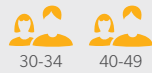
77%
of people answered yes

WHAT NEW FEATURES WOULD YOU BE MOST INTERESTED IN SEEING IN A NEW COBRANDED REWARDS CARD?
Preferences by age group

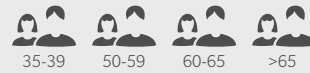
#1 preference



#2 preference



Discounts on reservations with the cobranded merchant (e.g., discounted tickets, room rates)



Elite-level qualifying miles or points



Upgrades to existing reservations



Accrual benefits from other card issuer products (e.g., checking account, mortgage)



TRENDING:

RANKED MORE STRONGLY BY <35 AGE GROUPS

- Increased options for card designs
- Merged mobile app for issuer and cobranded merchant
- Mobile/innovative payment capabilities

Source Oliver Wyman 2016 Cobranded Travel Rewards Credit Cards Study