



On-Demand Payment Cards and Personalization

New business model offers choice to cardholders while mitigating risk to card issuers.

By George Wolbert

The current economic contraction, increased consumer choice enabled by digital technology, and consumers' more discerning consumption patterns set the platform for the personalization trend and its adoption across industries, including financial services. Innovation is all the more imperative as credit card issuers face negative annualized returns for the first time in over 30 years. This report outlines the benefits to financial institutions (FIs) of implementing end-to-end, on-demand and personalized payment card strategies to meet niche markets and mitigate operational risks, such as excess inventory. The benefits aren't limited to large FIs alone, but also extend to small- and mid-sized issuers with existing payment card program portfolios and to those either entering the market for the first time or re-entering it.

The first section of this report highlights the effects of the current economic climate on FIs that are being forced to reevaluate their portfolios to respond to changes in consumer behavior. Next, this report will demonstrate the value of offering personalized payment cards including credit, debt or prepaid. The pinnacle of affinity, personalized cards lift rates of cardholder acquisition and retention while attaining front-of-wallet status by leveraging consumers' greater expectations of choice. Finally, this report will discuss the new on-demand card manufacturing model (ODCM) for personalized card fulfillment, which offers advantages over the expense and the significant lead time required by the traditional fulfillment model. The integration of ODCM and personalization provides three key benefits for FIs, including (1) centralized program billing, (2) a single point of contact for issue resolution and (3) cost reductions across the card production lifecycle. Together, personalization and ODCM provide FIs with a strategy that will energize that bottom-line growth that has been elusive during these leaner economic times.

On the brink of change: meeting the post-recession consumer's expectations

Economic indicators suggest the country is slowly emerging from recession. In the wake of the financial crisis, however, unemployment levels are hovering at historic levels, homeowners are adjusting to the new reality of upsidedown mortgages and lawmakers are passing new legislation on credit lending practices in an attempt to prevent similar scenarios in the future. Meanwhile, some consumers seem to be harboring a lingering sentiment of mistrust toward FIs.

The American Bankers Association estimates that "10,000 payment card transactions are made every second around the world."¹ The Federal Reserve recently reported that U.S. consumer revolving debt has decreased by approximately 18 percent from \$958 billion in 2008 to \$790 billion in August 2011. (superscript 2) Today's picture doesn't look quite as rosy for FIs as in the past. According to a recent TowerGroup report, consumers have responded

to the financial crisis by saving "at historic rates of over six percent." Now limiting their dependence on credit cards, consumers' use of payment cards is shifting from credit to debit. Additionally, the amount loaded on prepaid cards is on the rise.

Unemployment rates are lingering at new heights near 10 percent and consumer confidence remains low.³ These key indicators directly correlate with more discriminating consumer consumption patterns and higher sensitivity to prices. At the same time, Web 2.0 is increasingly providing consumers the platform for seeking out the best prices, access to customer reviews and the ability to customize products to better reflect their distinct preferences or passions. In other words, as consumers tighten their purse strings, they have become more discerning with product purchases. They are seeking out unique products that are more reflective of their preferences and passions, and they are using technology to find them.

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Consumers' post-recession decline in discretionary spending will impact profitability across industry verticals, including FIs and payment card issuers.³ In this new economic environment, differentiated products that heighten consumer choice and resonate with the increasingly digitally-versed consumer will buttress FIs struggling to drive growth.

CHOICE: HIGHLY VALUED, NOT OPTIONAL

The digital age propels the expectation of choice

Choice and personalization are the new norms across industries. The trajectory of the digital age has enabled access to a broad array of information and highly influenced consumer expectations. Organizations continue to innovate with products and services, reducing time to market and often delivering 'real-time' solutions. The rise in popularity of social media and networking tools, such as YouTube, Twitter and blogs, reflect consumers' desires for self-expression and access to niche segments. Limited choice has been replaced by consumer-centric business strategies and models allowing consumers to design products and services. For example, M&Ms offers personalization to chocolates and, at snapfish.com, consumers upload photos that will adorn mugs and holiday cards. Dan Butler of the National Retail Federation emphasizes that "products designed specifically for customers will better meet their needs."⁵ Indeed, the marketing of personalized products lifted sales 41 percent for Lenox Inc., the china company.⁴

A recent Maritz Poll found that consumer loyalty toward FIs tightly correlates to demographics. "The majority of Gen X and Y consumers have considered changing, or actually have changed, their primary banking institutions in the past two years," according to the poll.⁶ This is significantly higher than the 37 percent of Baby Boomer customers who switched. Maritz attributes this difference to the online and mobile technologies that have raised consumers' expectations, especially for the younger generations that are now accustomed to accessing products and services "anytime and anywhere." According to Maritz, "Banks need a strategy to attract and retain prospective customers who rarely step into a banking office."⁶

The combination of choice and broad access to technology suggests that FIs that offer personalized payment cards will effectively engage with today's, digitally-oriented, highly expressive consumers — a proven strategy for attracting and retaining customers.

Financial institutions derive value by offering choice with payment cards

This new expectation of choice and personalization extends to FIs. BBVA Compass Bank offers "Build to Order Free Checking."⁷ Capital One's CardLab program allows consumers choice and control of credit card features, including the option of creating one's own card design. In discussing the positive influence of the CardLab program

on card activations, Pam Girardo of Capital One stated, "We're... putting consumers in control and offering them choices. We believe choice increases loyalty, which translates into [card] usage."⁸

Metrics of Success for Personalized Card Products

Cardholder acquisition

- 15% increase in acquisition rates for new credit card holders over non-personalized card acquisition rates

Activation rates

- A 50%+ increase over the non-personalized card activation rates

Cardholder retention

- 3% lift with rates of cardholder retention

Increase 'share of wallet'

- 30%+ increase of transactions
- 10% increase of balances
- 15-20% increase of card usage

Source: Serverside Group

The value proposition for FIs offering choice with payment cards is compelling. The closer cardholders are designing their own cards, the higher the propensity will be to use and carry a balance over non-personalized cards.

On-demand technology enables automation of the card design process, enabling FIs to offer personalized payment cards, including those that allow a customer to upload their own image or pick from a gallery of photos or digital images. Upon choosing and uploading the design to the front of the payment card, it is produced "on-demand."

Card personalization: an emotional appeal that drives results

With over 2,500 different affinity cards on the market, representing approximately 25 percent of payment cards held by Americans, choice within the payment card market — whether credit, debit or prepaid — is abundant.⁹ Affinity cards allow a consumer to display one's enthusiasm for and connection with a particular sport, celebrity, organization, animal breed or school, for instance. As a result, card personalization shifts the cardholders' mindset toward the payment card from one of convenience to one meaningfully linked to self expression and pride.

The confluence of contracted market conditions and consumers' newly discerning consumption patterns means that card issuers need to innovate with further differentiated payment products. Recent findings suggest that "Members upload their own image 80 percent of the time versus choosing from the image library."¹⁰ Offering cardholders choice in card design and, thus, self-expression

is a compelling value proposition for personalized payment cards. Today's on-demand technology supports personalization in an economically viable model while reducing the associated operational risk.

Designing a better bottom line

Personalization is economically feasible and a compelling value proposition considering the lift across key program metrics and the straightforward return on investment. The following testimonial highlights the emotional investment and loyalty to personalized cards common among cardholders: "Love the card and especially having a picture of my grandson on the front. I get many comments. I always tell people where I bank. It's fun to pull out and use."¹⁰

In addition to presenting a stronger emotional appeal to cardholders, personalized card programs are proven to contribute to a card issuer's bottom-line growth.

The success associated with launching and implementing a personalized card program is measured by lifts in rates of cardholder acquisition, activation and retention, as well as increase of share of wallet.

Card personalization lifts acquisition rates

The emotional appeal of card personalization appears to deepen the relationship between card issuer and cardholder, a platform for converting cardholders to new products and services. A recent finding by Aite Group states:

"Sixty-six percent of U.S. card issuers surveyed listed personalization as 'important to extremely important' to acquiring new customers."¹¹

One issuer reported a 15 percent increase in acquisition rates for new credit cardholders as a result of personalization.¹² For example, for a small- to mid-size financial institution acquiring an average of 1,000 cardholders a quarter, this translates to 150 new customers per quarter, a significant increase in the effectiveness of the cardholder acquisition program.

Card personalization improves retention

In an industry where tomorrow's consumers hold lower levels of loyalty to banks, strategically personalized cards contribute to cardholder retention. FIs have found that, despite the global market contraction, retention rates for personalized cards surpass those of non-personalized ones.¹² One leading bank's program experienced a three percent lift in cardholder retention over non-personalized retention levels.¹³

Card personalization increases share of wallet

Personalization is a proven strategy for increasing an issuer's share of wallet — the card industry metric that is specific to card usage or frequency of transactions and the increase in revolving balances. The global value of annual credit

card transactions is estimated at \$2.5 trillion.¹⁴ Card usage generates substantial interchange fees for the FIs while revolving balances generate revenue based on the annual percentage rate (APR) terms. A 15 to 20 percent increase

"[Those cardholders of] personalized credit cards will make 68 percent more transactions per month and carry a 10 percent higher balance on their credit cards."¹⁰

in transaction volume was reported by a leading regional bank among card holders switching from traditional to customized cards.⁸

Online cardholder acquisition is "179 percent more profitable"

The primary communication channel for new payment card offers has historically been direct mail, but this too has been affected by the digital era. The volume of direct mail peaked in 2005 at six billion pieces. And, even more recently, direct mail offers declined 67 percent.³ This fact should not be surprising since 167 million consumers are online.¹⁵ Correspondingly, consumers' online engagement with FIs is on the rise. Offering an online personalized card program is simple and secure for consumers — whether an existing customer or a new one. Special software or downloads are not required. Plus, without the need to transmit personal data, the online customer interface is a secure environment.

For FIs, online acquisition of cardholders is more cost effective and profitable — costing 92 percent less than direct mail. One leading financial institution claims that cardholders acquired online are "179 percent more profitable than those acquired through direct mail."¹⁶ For FIs the online program management system provides reporting and analytics for their personalized card programs. The online interface for FIs provides valuable tools that support marketing managers' key questions, such as, "What is the most successful card design or category of designs?" or "Is my new campaign effective?" Specifically, the online interface enables FIs to easily activate or deactivate design images, monitor campaigns through real-time response volumes and number of cards issued, analyze profitability by card design and optimize a program by adjusting it in real time.

Value proposition of personalization extends to all payment cards

It is imperative that FIs identify payment products that will meet consumer consumption patterns while energizing bottom-line growth by lifting acquisitions or usage rates. "For Q1 2009, U.S. credit card issuers reported their first negative annualized return on assets since the 1970s,"³ according to the TowerGroup. This indicates that FIs need to look across payment card portfolios for innovations as changing market dynamics affect credit card usage. The personalized ODCM model can be applied to a broader

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spectrum of payment cards that extends beyond credit cards to debit cards and prepaid cards, which includes gift cards. Each card product holds its own compelling value proposition as it relates to the case of ODCM and personalization.

Debit cards

Consumers are scrutinizing their monthly spending. While limiting their dependence on credit cards — as evidenced by a double-digit decrease in revolving balances — consumers are using their debit cards more.³ According to a March 2009 Javelin Survey, the number of consumers who used credit cards declined from 97 percent in 2007 to 72 percent in 2008. Consequently, debit card usage over the same period increased from 57 percent to 66 percent of consumers.¹⁷ The number of active debit cards reached 355 million at the end of 2008, nearly twice the 181 million credit cardholders forecasted for 2010.¹⁸ These figures indicate a significant shift in consumers' payment preferences from credit to debit. According to the TowerGroup, consumers' preferences toward debit cards is a trend on the rise, with potentially adverse effects for credit card profitability.³

The inclusion of personalized debit cards in a product portfolio is a move that may provide benefits well beyond revenue from overdraft and interchanges fees. According to a leading credit union, the launch of personalized debit card programs generated 54 percent more transactions. This same credit union experienced balances for personalized debit cards that were eight percentage points higher than balances for non-personalized cards.¹⁰ One bank's personalized debit card program generated an incremental \$45 annually per card.¹³

Value Proposition of Personalization by Payment Card Type

Credit cards

Personalized cards generate higher monthly transactions and carry a higher revolving balance.

Debit cards

Personalized debit cards generate more transactions and higher balances. Additionally they generate incremental revenue per card.

Prepaid or gift cards

Personalization increases prepaid card sales and the value of credit loaded.

Prepaid Cards

The key measurements of success for prepaid cards are volume of cards sold, the amount of load and the breakage rate. Personalization of prepaid cards is a compelling proposition since it positively influences these key measurements. Overall, the 'load' — or the total amount

loaded on a prepaid card — is on the rise. Most recent figures reported by the Mercator Advisory Group suggest total annual load equates to \$247 billion.¹⁹ For one leading provider of prepaid cards, personalization resulted in "...an increase of over 45 percent in the total number of prepaid card sales."¹⁰ Another provider of prepaid cards found personalization to increase the value of credit loaded by 23.4 percent.²² In addition to a 22 percent conversion rate — from a prepaid balance to a personalized prepaid balance — this provider also experienced a 20 percent breakage after 180 days, almost double the typical breakage rate of non-personalized prepaid cards.²²

CHALLENGES WITH THE TRADITIONAL FULFILLMENT MODEL

The traditional affinity payment card manufacturing process is expensive. It is cost effective primarily for higher volume runs and the card lifecycle is considerably lengthy in duration. These are the factors contributing to the fulfillment challenges and unfavorable economics of personalization through a traditional model. To illustrate, let's take a look at a hypothetical case. If a card issuer is a sponsor of a multi-sport event such as the Summer Olympics, many risks are inherent in the traditional affinity fulfillment model. A card issuer, for instance, may choose designs based on all or some of the summer sports. The cards are manufactured for a niche market segment, specifically consumers with an affinity toward the 100-yard sprint or high jumping. The low run quantity per card is significantly more expensive. Furthermore, unexpectedly lower demand for the design may lead to fewer than expected enrollments resulting in the issuer paying card destruction or low usage fees.

An inefficient model: high per card production costs and long lead times

The total costs associated with the current fulfillment model limit FIs from offering personalized cards that are cost effective. Currently, the cost per card (CPC) for low quantities can be as high as \$10.00. The economics are inefficient for low quantities associated with extremely niche market segments, commonly referred to as micro-affinity, or personalized design offers.¹⁰ In our hypothetical case, if 5,000 cards are manufactured at a CPC of \$1.00, but only 2,000 cards are fulfilled, the true CPC increases to \$2.50. Table A illustrates the associated 'real' costs for a hypothetical quantity of 5,000 cards.

Quantity	Cost Per Card (CPC)		
Forecast: 5,000 cards	Forecasted CPC: \$1.00 Total: \$5,000	Forecasted CPC: \$0.50 Total: \$2,500	Forecasted CPC: \$0.30 Total: \$1,500
Actual: 2,000 cards	True CPC: \$2.50	True CPC: \$1.25	True CPC: \$0.75

Table A: The forecasted versus true cost per card based on a traditional fulfillment model

The traditional model is not only expensive, but requires significant planning. It requires approximately 8 to 16 weeks to launch a new card design. ODCM improves the economics by reducing the CPC, regardless of production quantity and by reducing the time to launch new payment card designs from months down to just days.

Just-in-time manufacturing redefined

Historically, companies relied upon holding inventory, and managers acquired inventory based on forecasted customer demand. Just-In-Time Manufacturing (JITM) is the “philosophy of complete elimination of waste.”²⁰ Specifically, Toyota, the pioneer of this business practice, defines JITM as “making only what is needed, when it is needed and in the amount needed” with the goal of reducing inefficiencies.²⁰ This philosophy reduces inventory and the expenses tied to it, often enhancing a product’s return-on-investment (ROI). Dell is one of the most widely recognized companies known for following this model. The JITM model improved the company’s “cash-conversion cycle” — the time period between payment to suppliers and collections from customers — to a negative 36 days as of 2007. In other words, Dell is operating with “negative working capital” as the brand builds and ships machines within a four day period.²¹

The on-demand model is newer than JITM, but the gains in operational efficiency across scheduling and budgets are analogous to JITM and are, therefore, quite compelling for today’s FIs — whether small, mid-size or large. The value of shifting payment card production from traditional manufacturing to ODCM is clearly focused on deploying resources as they are needed, when requested by the customer.

Key Benefits of On-Demand Card Production

- 1> Production of small quantities economically. Plus, creation of card designs is limitless and low risk.
- 2> Quality is comparable to non-personalized cards including security measures and features.
- 3> Cost reductions across the card lifecycle — from design to destruction
- 4> Significant reduction in lead time for new product launch
- 5> Drives down risk and improves return-on-investment

Value of “scaling down:” cost reductions across the card lifecycle

The capability now exists to store digital images and produce a personalized payment card when a cardholder requests it. The benefits and efficiencies are instrumental in creating a stronger ROI for the overall payment card programs.¹⁰

ODCM allows FIs to economically market micro-affinity cards to niche markets and personalized payment cards for multiple market segments while meeting a key business or program metrics — the lift in acquisition, activation and retention rates, as well as increase in share of wallet.

ODCM Payment Card Lifecycle Cost Reductions

1> Plastics manufacturer sourcing

The cost associated with selecting and managing a plastics manufacturer is eliminated by the ODCM model.

2> Manufacturing

With the ODCM model expense is limited to cards produced based on actual demand versus forecasts — eliminating over production costs.

3> Storage

The ODCM model eliminates low usage and excessive stock fees.

4> Inventory management

Without the need to track and maintain inventory levels, the ability to eliminate this time intensive process reduces costs.

5> Destruction of excess stock

ODCM eliminates the time, costs and efforts associated with excess card destruction.

Source: TSYS

Key benefits across the ODCM lifecycle are four-fold. ODCM applies digital printing technology to payment card manufacturing which makes the production of one card for one customer — a process referred to as “scaling down” — economically feasible. Plus, the creation of card design is limitless. In addition, the quality is comparable to that of conventional payment cards. In fact, ODCM utilizes the same equipment, quality controls and security features as those followed for production of non-personalized cards. Specifically, ODCM adheres to traditional security measures, including separate parties handling the financial and image data, and includes the issuer marks and holograms, standard features of payments cards. Third, ODCM significantly

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reduces the lead time for new products or new designs from the standard 8 to 12 weeks to 7 to 10 days. Fourth, ODCM reduces costs across the payment card lifecycle, from design through destruction of excess card inventory — a key advantage this report explores in further depth in the next section.

ODCM significantly reduces expenses in five cost-intensive stages of the eight total stage payment card lifecycle. These five stages include: plastics manufacturer sourcing, manufacturing, storage, inventory management and destruction of excess stock.

The ODCM model eliminates the need for plastics manufacturer sourcing

Plastic sourcing costs — those associated with the conventional model of selecting and managing a plastics manufacturer — are avoided with the ODCM model since it is no longer necessary to source raw materials. For smaller FIs without dedicated resources or the level of purchasing power enjoyed by the larger nationally or globally-focused peers, this is particularly attractive and beneficial.

The ODCM model reduces card lifecycle manufacturing costs

Typically, traditional manufacturing costs per card for low-run or small orders range from \$0.35 to \$1.00 and up. With the ODCM model, the manufacturing expense is based on actual demand rather than forecasted volumes. In essence, the total per card cost will be the same or lower than the traditional model, eliminating costs associated with over production.

The ODCM model eliminates expenses for storage, inventory management and destruction

The ODCM model eliminates low-usage and excessive stock fees incurred for cards not inducted in a timely manner, typically within 180 days of production. Specifically, the ODCM model eliminates the risk associated with large-volume orders based on volume forecasts inevitability associated with some level of variance. Contrary to the traditional manufacturing and fulfillment model, ODCM eliminates the inventory management process, a time-intensive process often overseen by dedicated executives. It is estimated that 30 percent of all cards produced are destroyed,²² a figure that adversely affects a card program's ROI. Reasons for destruction may include changes in card design, a logo or other branded elements. Other reasons for destroying cards may include a change or loss of affinity partner or avoidance of excessive stock and low usage fees associated with unfulfilled enrollments. ODCM eliminates the time, costs and efforts associated with card destruction.

CONCLUSION: Value of an end-to-end ODCM and personalization strategy

The availability of an end-to-end solution presents an opportunity for FIs to recalibrate operational processes. An integrated solution enables issuers to deploy a personalized card strategy leveraging an ODCM process without engaging multiple vendors for a more cost-effective approach. The integration of ODCM and personalization provides three key benefits for FIs. First, centralized program billing reduces the time and costs normally associated with management of multiple vendors. Second, holding relationships with fewer vendors provides a single point of contact for issue resolution while encouraging stronger relationships with valued partners and providing consistency across marketing initiatives by supporting the card programs. Third, and most importantly, an end-to-end solution offers favorable economics by reducing costs across the card production lifecycle and lowering the cost per card expense.

As FIs seek to improve their bottom lines, innovation across product portfolios has been proven an effective strategy. The integration of card personalization and ODCM will deepen existing customer relationships and cultivate new ones. For FIs, this offering, coupled with its operational efficiencies, is a point of differentiation and, economically, a competitive advantage in these times of tighter margins.

The current economic contraction, increased choice enabled by digital technology, and consumers' more discerning consumption patterns have set the platform for the personalization trend and its adoption across industries, including financial services. Previously, card personalization has struggled for a variety of reasons, primarily those associated with fulfillment challenges and the high costs of manufacturing small quantities. Issuers now have an economically favorable end-to-end solution that integrates the process of personalization with ODCM. For issuers, personalization of payment cards — whether for credit, debit or prepaid — positively impacts a card program's success by lifting rates of cardholder acquisition and retention, card activation and share of wallet.

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ABOUT TSYS OUTPUT SERVICES

George Wolbert, Director, Business Systems, leads the Output Services Project Management Office (OSPMO). The OSPMO is responsible for managing medium- and large-scale projects within Output Services, specializing in new products, processes and services. TSYS Output Services is a division of TSYS with operations based in Columbus, Ga. The division is a cornerstone of the company's global service offering and delivers client solutions backed by TSYS' widely recognized industry expertise across the payments spectrum.

TSYS (www.tsys.com) is one of the world's largest companies for outsourced payment services, offering a broad range of issuer- and acquirer-processing technologies that support consumer-finance, credit, debit, healthcare, debt management, loyalty and prepaid services for FIs and retail companies in the Americas, EMEA and Asia-Pacific regions.

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