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Chase Bank, a commercial and consumer banking subsidiary of the largest U.S. bank, JPMorgan Chase, offers services such as personal banking, credit cards, mortgages, and auto financing. Chase Bank is known for its high customer satisfaction rating, ranking the highest among the six largest U.S. banks. Serving nearly half of U.S. households, Chase Bank has over 93 million cardholders and 5000 branches nationwide.

In 2006, Chase Bank initiated a substantial market research project in order to strengthen its credit card operations. The project focused on deeply understanding the various consumer segments in the credit card market. When segmenting the market, credit card companies often use two types of demographics: age group and asset amount. In addition, credit cards are differentiated by factors such as the annual fee, rewards such as cash back and proprietary rewards (points), and factors such as interest rates, credit lines, and creditworthiness. Chase's market research project showed that competing in the affluent customer segment of the consumer credit card market would be valuable in building a stronger presence for the company. According to the research, this demographic represented 15 percent of U.S. cardholders at the time but generated over 50 percent of total credit card spending.

In 2009, Chase Bank introduced five primary sub-brands in its credit card portfolio to address different market segments. These included JP Morgan for private banking customers, Chase Sapphire for affluent consumers, Chase Ink for small business owners, Chase Freedom for consumers who prioritized cash back, and Chase Slate for consumers focused on paying off credit card debt. Chase Sapphire appealed to affluent consumers by offering competitive rewards and top-tier customer service. At the time, this portion of the market was dominated by American Express. Amex's Platinum Card offered perks such as 24-hour customer service, access to exclusive clubs, and amenities at hotels, resorts, and restaurants worldwide. These features were attractive to the businesspeople and vacationers who made up a significant portion of the affluent segment. To gain entry into the market, Chase offered Sapphire with no annual fee. Customers earned 2 points per dollar spent on airline travel and 1 point per dollar spent elsewhere. Customers who spent \$500 on the card during the first three months would also receive 10,000 bonus points, easily redeemed for rewards on a user-friendly web page called Ultimate Rewards. In addition, all calls made by Chase Sapphire cardholders were answered by live advisors without customers having to enter their credit card number. By the end of the year, over 905 of Sapphire cardholders reported overall satisfaction with the card, and 85 percent indicated they would recommend it to others.

Building on the success of Sapphire, Chase introduced a new card called the Chase Sapphire Preferred in 2011 to obtain a larger share of the affluent market. This new card had an annual fee of \$95 but offered cardholders 50,000 points if they spent over \$4,000 in the first three months. Preferred cardholders also enjoyed better points-per-dollar conversion rates on dining and travel and could redeem points for exclusive events called Chase Experiences. Unlike most credit cards at the time, the Chase Sapphire Preferred card had a metal core between the two plates of plastic, making it heavier and more substantial. Customers reported that the card made a satisfying "thunk" when placed down for payment, giving the card a unique identity.

The cornerstone of the Chase Sapphire portfolio, the Sapphire Reserve card, came about when further research showed that a portion of consumers within the affluent segment, mainly 25- to 44-year-olds with incomes of more than \$150,000, heavily prioritized travel benefits and utilized point rewards. Chase not only had to design its new card to distinguish it from the Sapphire Preferred card but also had to appeal to Millennials and deter the behavior of those it called "churners." By 2013, many Millennials were careful about applying for new credit cards because of the significant student loan debt they had amassed. However, Chase found that Millennials were also attracted by reward systems and that a substantial enough incentive could change their attitude. Churners were those who signed up for multiple credit cards to take advantage of sign-on bonuses and low introductory rates; these credit cards would often go unused after the rewards were spent.

The new Chase Sapphire Reserve card was launched in August 2016. It carried a \$450 annual fee, offered 3 points per dollar spent on travel and dining, a greater points-per-dollar conversion rate toward travel, annual travel credit, and access to Chase Experiences. For Millennials, this represented a credit card that was flexible and perfect for a traveling lifestyle. At launch, Chase offered an unprecedented 100,000-point bonus, earned after a customer spent \$4,000 within the first three months. Chase recognized that Millennials were more easily persuaded by social media influencers than traditional television advertising. To advertise the card Chase partnered with directors, designers, and models to deliver their shared experiences across social media, which created a greater sense of exclusivity than mass advertising.

Demand for the Sapphire Reserve card greatly exceeded Chase's expectations. Within 10 days of the launch, Chase had run out of the metal alloy sandwiched within their cards. Call centers were overwhelmed with interested applicants. The card reached its new customer acquisition goal within two weeks of launch. The high sign-on points bonus racked up big costs for Chase. Months later, Chase announced that the sign-on bonus would be reduced to 50,000 points. However, Chase viewed the costs as an investment that dedicated and engaged customers would pay off in the years to come. This sentiment was confirmed after one year, when Chase revealed that the Reserve renewal rate was extremely high at approximately 90 percent, thus addressing the churner issue.

Chase found itself at the top of the premium credit card market through understanding the behavior and demographics of its target customers. Chase recognized that Millennials were bargain minded and that they looked for experiences over material things. The Sapphire line perfectly addressed this—from the weight of the card to the excellent customer service and market-leading rewards programs. Chase created a cult-brand by designing an attractive product that fit into the Millennial lifestyle.<sup>36</sup>

## Questions

1. Who are the customers targeted by Chase with the Sapphire card? What are the key value and profile characteristics of these customers?
2. What value does the Sapphire card create for customers? From a customer's perspective, what are the pros and cons of the Sapphire card compared to other credit cards?
3. What role did promotional incentives such as the bonus points play in creating customer demand? Would Millennials remain loyal customers once they had taken advantage of the initial offer? Would the Sapphire card continue to be attractive to Millennials if its promotional incentives were reduced and became similar to other credit card offerings?



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