



Case Study  
Discover Card  
Innovations in Cash Back

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Discover Card – Innovations in Cash Back

Every industry that has been around for 25 plus years has its share of fiefdoms, dogma, and biases. Loyalty Marketing is no different. As a young man, I remember my grandfather instructing me that "Cash is King". With our current economic meltdown well underway, we are hearing the same message emphasized by financial pundits everywhere.

It seems that **only in Loyalty Marketing do we disagree.**

The most fundamental of Loyalty Marketing best practices calls for creation of value propositions that are motivating for the customer, but maybe just a little tough to dissect. Prying open the gap between perceived value and actual reward cost is good for all parties involved, including the sponsor, customer, and solutions provider.

For that reason, punch cards that reward "the 10th one free" and Cash Back discounts are treated as solutions that are chosen only when the strategy team has a loyalty planning version of writer's block. The criticism of Cash Back is warranted on several fronts:

- For consumers, there is no mystery to the "spend and receive" equation. Consequently, everyone can label a Cash Back program as 1%, 2%, etc. Competitive comparisons require minimal research and copy-cat programs are easily enabled.
- For sponsors and solutions providers, there is little to no breakage in a typically structured cash-back program. Automatically generated certificates or account deposits ensure full redemption by program members. By adopting the construct, sponsors knowingly forfeit a beneficial financial driver of Loyalty programs for their own account.

- Since merchandise, gift cards, travel, or experiential rewards are not part of the rewards offering, administration is simplified. Program sponsors can easily rationalize a "DIY" solution, cutting out a big piece of the economic pie from Loyalty solutions providers.

In the face of the criticism and cash-back snobbery, **I increasingly admire Discover Card**. In case you don't keep track, Discover is the sixth largest card issuer in the US with over \$49 Billion in receivables and is the largest revenue producer within the Discover Financial Services corporate umbrella.

In the January 30, 2009 Discover Financial Services Financial Community Briefing, Harit Talwar – EVP, Card Programs & Chief Marketing Officer - reinforced the importance of their cash-back strategy, stating "*Clearly, rewards leadership is the core of Discover*". He went on to say, "*Cash is the most preferred rewards category, and in that most preferred rewards category, we clearly dominate*".

There is a lot to be said for owning a category. When you think of everyday low prices, you think Walmart. When you think of one-of-a-kind reward events, you think American Express. When you think of cash-back for using your credit card, you think Discover. The company has carved out its niche and stuck to its knitting.

The question that begs for an answer is: *how long can they remain one of the leading US card issuers with this one-trick-pony approach?*

Evidence of Discover's interest in experimentation is easily witnessed by a visit to their clean and approachable web site ([www.discovercard.com](http://www.discovercard.com)). On the home page, there are 4 card products highlighted, Discover More, Discover Open Road, Discover Motiva, and Miles Discover Card.

I won't engage here in a full blown comparison of features and benefits for these four products, but point out that all but the Miles card start with an innovative take on cash-back and enhance the basic offer with an online mall (delivering 5% to 20% back), and the ability to "Turn your Cashback Bonus into bigger rewards" through the conversion of cash rewards into gift cards.



Each product featured has a signature value proposition:

#### **Discover More Credit Card**

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- Offers 1% on everyday purchases and 5% back in popular categories available in specific months of the year
- The current calendar offered airlines, hotels, car rentals and cruises, January - March, home and fashion between April - June, gas, hotels, and theme parks in July - September and grocery, restaurants and movies during the last quarter of the year.

#### **Discover Motiva Card**

- Offers rebate of one month's accrued interest on any revolving balance for paying on time in 6 consecutive months. Pay on time all year long and you effectively reduce your interest rate by 16.7%.
- Assuming a \$5,000 balance and enjoy the 3.99% introductory rate, cardholders stand to earn \$33.25 for the year. That might pale to 1-5% on the spend that led to the \$5K revolving balance, but it does encourage good financial management habits.

#### **Discover Open Road Credit Card**

- Earn 5% Cashback Bonus on your first \$100 in gas and auto maintenance purchases each month.
- The purchase limit is set at \$1,200 per year

The nuances in these three products support Mr. Talwar's statement that *"Cashback Bonus from Discover is a differentiated branded program and not a commodity"*. He added, *"Over the last over 20 years, we have built a lot of brand equity into this. And this brand equity has been built by a series of actions that we take every day and which have a certain amount of consistency"*.

His statements are validated by cardholder behavior. Customer have to opt-in to receive benefits and they *"have to call into the call center or go to the website and proactively enroll, which is a very strong measure that they like the program and therefore want to enroll. It has been a resounding success in terms of the growth rate. It is today a multi-billion dollar program with millions of cardmembers calling in or visiting the website to enroll every quarter. And what we've been seeing is a tremendous lift not just within that category, but also beyond"*.



## Case Study Discover Card Innovations in Cash Back

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Discover has built its brand on Cash Back and extended the brand through the introduction of additional card products that leverage the core concept. The impact has been felt enterprise-wide as Mr. Talwar describes *"What we've also been seeing is sales lift not only during the promotion period, but afterwards. And what we've been seeing is a deepening of the loyalty and engagement with our cardmembers through the program"*.

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If Discover is feeling any pressure to move beyond Cash Back to stay competitive and/or to reach additional demographic groups, the only hint is offered by the Miles Discover Card. Somehow, in the midst of multiple innovations around Cash Back, offering a traditional air miles card that is on par with many others in the market, seems out of place.

At my Loyalty Marketing alma mater Frequency Marketing, we shared the mantra **"We do One thing and we do it Well"**. This slogan could decorate coffee cups at Discover meetings as well, but moving out to embrace air miles, merchandise, and more gift cards could jeopardize the differentiating strategy that Discover has taken years to create.

If some of the noises cardholders are making during the current recession about their use of credit cards takes hold in new attitudes towards payment products, Discover could find itself with a very solid business, but one with less than attractive growth potential. Yes, they own the PULSE network and can benefit from increased debit card usage, but the question posed here is how much further Discover can extend the current Cash Back product stable.

In every focus group I have ever observed, consumers cite Cash Back as one of their favorite rewards. The current wave of merchant-funded rewards programs that are helping banks decrease reward program expense and program liability have Cash Back at their core. Discover has capitalized on its laser-like focus on Cash Back rewards, and should be applauded for knowing their audience and sticking with a strategy that serves them well.

It will be fascinating to watch the evolution of product development at Discover Card as their executives seek to maintain their brand advantage.

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*Footnote:*

*All quotations of Discover Card Executives were obtained from the transcribed text of the Discover Financial Services Financial Community Briefing Transcript held on January 30, 2009 and published by Seeking Alpha*

*The specific URL for source quotations is: <http://seekingalpha.com/article/117703-discover-financial-services-financial-community-briefing-transcript>*

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