



Top Chilean retailer counts on cards to boost sales

success story:
customer management



Client	Cencosud Administradora de Tarjetas, the financial arm of Chilean-based Cencosud, one of Latin America’s largest retailers
Challenge	Grow the business by deploying targeted, risk-focused credit strategies to millions of customers
Solution	FICO® TRIAD® Customer Manager, FICO™ Model Builder
Results	<ul style="list-style-type: none"> • Better credit management—in one portfolio, the average monthly credit line increased by six-fold, while reducing risk by 25%. • Increased retail sales—in one portfolio, every percentage point of line increase translated into one percentage point growth in customer spend • Lowered collections and other losses • Improved customer service, operational efficiencies and decisioning speed • Reduced attrition rates



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—Tomás Casamayor,
manager of Business Intelligence,
Cencosud Administradora de Tarjetas

Chilean retailers like Cencosud are redefining the concept of “one-stop shopping.”

To meet retail demand, the country’s top retailers are transforming their core businesses to include finance retailing, allowing them to introduce diverse financial services with great success. The use of retail cards in Chile has surpassed that of bank cards.

Cencosud has become a major champion of this trend. Its subsidiary, Cencosud Administradora de Tarjetas, is devoted to credit card management, and focuses on developing world-class analytics and decision management tools to increase sales with effective risk management. Central to this effort are FICO® TRIAD® Customer Manager for account management, and Model Builder for scoring model development.

“Our use of the TRIAD system and FICO™ Model Builder has enabled us to take a technological lead in managing customers and controlling risk,” explains Félix Soto, assistant manager of Project Development, Cencosud Administradora

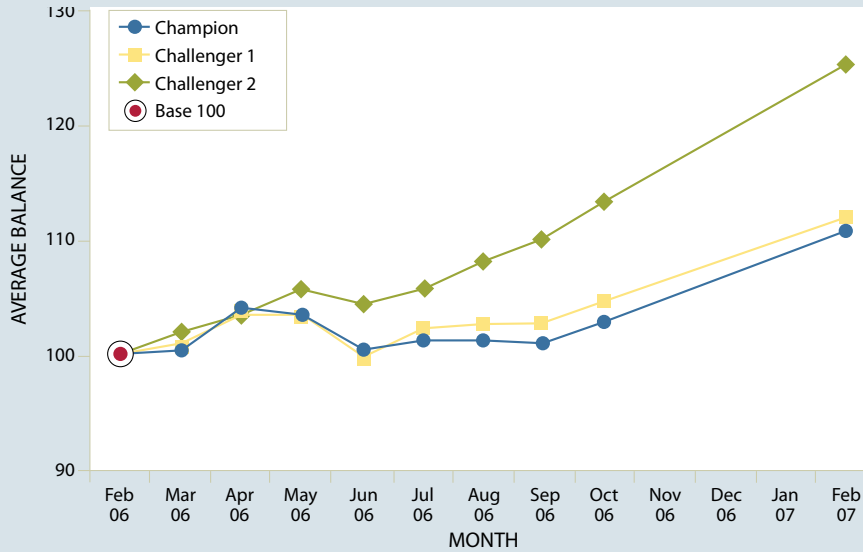
de Tarjetas. “The Chilean private credit card industry is highly competitive and sophisticated, and has a number of unique conditions that were challenging to overcome—but we did so successfully with the help of FICO.”

» Using cards to grow sales

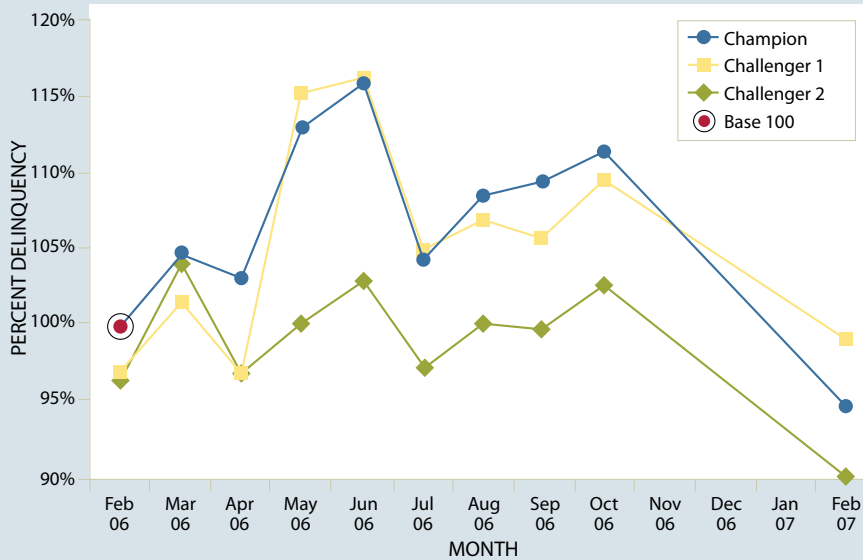
Cencosud is one of Latin America’s largest retailers, encompassing several types of stores—from hypermarkets and supermarkets to home improvement stores and shopping centers, among others. In 2005, the company acquired department store chain Almacenes Paris, which had been using the TRIAD system since 2000 to manage its Paris credit card.

Cencosud Administradora de Tarjetas saw excellent results with the TRIAD system. The solution was efficiently managing credit lines in a portfolio of more than 2.5 million active customers. The company was able to increase the average monthly credit line by six-fold, while reducing risk by 25%.

Credit Line Strategies Drive Higher Card Balances, Lower Losses Average Balance—Base 100



Percent of 2+ Cycle Delinquency—Base 100



This chart shows results from 2006 credit line strategies in the Paris card portfolio. Champion/challenger testing allowed Cencosud to more cost-effectively evaluate strategy performance and deploy the winning strategy sooner.

More importantly, the line increases significantly impacted bottom-line sales. For every percentage point of line increase, customers increased spending by one percentage point. And greater risk control allowed the retailer to explore opportunities within riskier customer segments, thereby expanding its universe of customers. This translated into greater levels of sales and profits, while controlling portfolio risk.

In addition, the FICO® TRIAD® Customer Manager was improving customer service. For instance, an automated overlimit balance strategy enabled point-of-sale decisioning, so only the most complex, highest-risk cases were submitted for manual review.

“Our authorization strategy is just one example where we have been able to break bottlenecks in customer service,” states Tomás Casamayor, manager of Business Intelligence, Cencosud Administradora de Tarjetas. “The TRIAD system

has allowed us to take a proactive approach with many credit processes. This has helped us improve relationships with our best customers, so fewer of them are leaving us for competitors.”

With such good results on the Paris portfolio, Cencosud Administradora de Tarjetas began using the TRIAD system for other credit card portfolios. These include Jumbo Mas card for its Jumbo supermarkets and the Mas Easy card for its Easy home goods chain. The retailer currently uses several TRIAD decision areas, including for collections, credit facilities, authorizations and marketing communications.

“We have very large portfolios to manage,” says Soto. “The retail business requires quick and effective decisioning, making it ineffective to tackle manually on a case-by-case basis.”

For all portfolios, Cencosud Administradora de Tarjetas now generates better credit line strategies and authorizes overlimits at point-of-sale, where customers require quick decisions. The TRIAD system also enables the company to apply more effective collection strategies and better segment accounts for outside collection agencies.

In addition, TRIAD system’s features like champion/challenger testing are adding considerable value.

“Champion/challenger testing provides the flexibility to try new strategies on more restricted portfolio segments, which is much less costly in cases where a strategy doesn’t work out,” says Casamayor. “The TRIAD system allows for ongoing monitoring of results, which gives us a quick understanding of what works well and what doesn’t. And it facilitates the centralization of large-scale customer processes, greatly reducing mistakes related to inconsistent treatment.”

» Improving results with analytics

Cencosud Administradora de Tarjetas also believed that stronger analytics could boost its decisioning efforts to another level.

“Our objective was to leverage our data to know our customers better,” says Soto. “Analytics transform large amounts of customer

data into knowledge that can be used to make the right decisions—such as whether or not to originate an account.”

“We first learned about FICO™ Model Builder at FICO’s InterACT conference a few years ago. We thought that if FICO, a world leader in model development, was using it, then it was the solution for us.”

Cencosud Administradora de Tarjetas decided to purchase both the software and FICO “technology transfer” consulting, which included hands-on staff training on developing models through Model Builder. Since then, Cencosud’s internal team has used the solution to build many models, including origination, behavior, projected payment, product response and attrition models.

“Model Builder helps us build models quickly and efficiently, and has impressed us with its simplicity of use,” says Casamayor. “We can generate more competitive strategies and react in a timely matter.”

» Winning in a competitive market

While the huge growth of Chilean retail has attracted global interest, Cencosud and other local retailers have remained extremely competitive—in some cases, preventing large global retailers

from breaking into the local market.

One key reason for this success has been the ability of Cencosud Administradora de Tarjetas to combine global best practices in risk management with knowledge of the local market. This approach has led it to capitalize on greatly increased demand from low-to-middle income customers.

“FICO consultants and InterACT conferences have helped us access the rich experience and best practices of other world leaders,” states Soto. And Casamayor adds, “FICO has been an excellent partner for the development of our credit business.”

Continuing its goal to implement global best practices, Cencosud Administradora de Tarjetas plans to transition from account to customer management.

“Today, a holistic view of customers across products is increasingly essential to grow our business and create new opportunities,” says Soto. “This is a significant challenge, but we are confident in the expertise of our people and the constant support we have always received from FICO.”

Decision Yield

Precision

With FICO® TRIAD® behavior scores, Cencosud can develop and constantly refine targeted credit strategies. FICO™ Model Builder enables the retailer to build stronger predictive models for even further improvements.

Consistency

The TRIAD system allows the retailer to centralize large-scale customer processes, greatly reducing mistakes related to inconsistent customer treatment.

Agility

To respond to changing economic or competitive conditions, TRIAD features allow Cencosud to test and adjust strategies as needed, and Model Builder helps it build models much more quickly and efficiently

Speed

Automation and analytics increase decisioning speed, leading to better customer service. For instance, the company can decide whether to originate accounts and authorize overlimits at point-of-sale, where quick decisions can strengthen customer ties.

Cost

Champion/challenger testing of new strategies on select portfolio segments is much less costly in cases where a strategy doesn’t work out. The retailer is also realizing cost savings from improved operational efficiencies and risk management, including collections.



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