

2015

STAR RATINGS REPORT



Business Rewards



BUSINESS Rewards

February 2015



Foreword

Everyone likes to be rewarded, and that includes business owners. The credit card rewards market is popular and continues to grow, with a couple of new rewards programs entering CANSTAR's rating this year.

Overall there are plenty of reasons for companies to partake in rewards programs: they're a chance to turn the dreaded expenses process into a good thing for a start! Benefits on offer include frequent flyer points, handing the company a cash-saving on business travel, as well as straight cash back rewards that can assist cashflow by simply saving companies money.



Mitchell Watson,
Research Manager

Not all businesses will benefit from a business credit card rewards program, of course. Smaller companies with lower annual spending habits could well profit from lower credit card interest rates, for example, rather than a rewards program. So too could businesses that don't pay off their credit card balance in full each month. For all others though, credit card rewards can offer something for (almost) nothing.

This year we have rated 33 credit card rewards programs from ten providers to determine which ones offer outstanding value for businesses. This research has been done across three separate business spending levels, being \$60,000 per annum, \$120,000 per annum and \$250,000 per annum. The good news is that there are a number of rewards programs offering outstanding value at each level.

CONDITIONS COOL BUT OPPORTUNITIES REMAIN

As the mining boom continues to decline and the economy slowly rebalances, there are good reasons for small-to-medium enterprises (SMEs) to take a cautious approach to the year ahead - but there are also good reasons to be optimistic.

According to NAB Group Economics, technology will continue to remove barriers that once put SMEs at a disadvantage, giving them access to an audience that was unimaginable a few years ago. Cloud computing, for instance, is an example of a technology that continues to replace expensive software and servers, allowing smaller businesses and microbusinesses to use the technology systems of larger businesses.



NUMBERS RESHUFFLE

The number of actively trading businesses in Australia has been on the decline over the past couple of years. According to the Australian Census, there were 2,079,666 businesses operating as at June 2103. This was a decrease of 61,614, or 2.9%, of businesses from the year before.

There were also more businesses shutting up shop than there were start-up companies. New businesses coming on to the scene decreased by 2.3% - from 13.5% to 11.2% during the 2012-2013 financial year. This is quite a hike, compared to a decrease of only 0.4% in the previous year.

The entry rate (11.2%) of businesses was eclipsed by the exit rate (14.1%), resulting in a decrease in the number of overall businesses actively trading in Australia.



AND NOW THE GOOD NEWS

If there's one thing business can be certain of these days, it's uncertainty. The fluctuating Australian dollar, demand for goods and services, supply issues, cash flow drought and more all contribute a palette to the business landscape. SMEs have a distinct advantage here, as they are quick to adapt to changes in operating conditions and are much more nimble than their counterparts in the big end of town.

REWARDS SNAPSHOT

Across the business rewards credit and charge cards we rated, the types of rewards on offer are as follows:

- 13 have a Cashback/Shopping voucher rewards program
- 9 have a Velocity rewards program
- 8 have a Qantas rewards program

It goes without saying that choosing the type of rewards you're interested in is paramount. For instance, why would you accumulate flight rewards if you never go near an airport?

Here's what interest rate range you can expect on business rewards cards, along with annual fees.

	Interest Rate	Annual Fees
Minimum	14.35%	\$40.00
Maximum	20.74%	\$300.00
Average	18.84%	\$142.38



ARE THE REWARDS GOOD ENOUGH?

Keeping a tab on outgoings is part of the overall profit process and it's hard to top a credit card for convenience when it comes to paying business expenses. Banks are keen for a slice of your business and are constantly tailoring cards that offer substantial rewards in this area. Is the card and rewards program you are using giving you the maximum bang for your buck?

CANSTAR makes it easy to compare because we put all business rewards cards under the microscope. We look at three annual spend levels - \$60k, \$120k and \$250k. The latter dollar amount has been added to our calculations this year to reflect the growing number of businesses who put a larger amount through their card in the course of their yearly operations. We drill the cards down into Frequent Flyer and Cash Rewards

categories to determine those that offer outstanding value. We test the Frequent Flyer cards across commonly used domestic and international routes. We also find out what the real net reward return is for cards offering cash – whether that's cashback or shopping vouchers.

The result points you in the direction of the rewards card that will fit with the way you do business and will add value to the bottom line. And if you are already using a business rewards card, find out how it stacks up in our Star Ratings system.

THREE STEPS TO ACQUIRE MORE REWARDS

The new kid on the business rewards block is Qantas Acquire, a rewards program that allows users to earn Acquire points on everyday business expenses and convert them to Qantas Frequent Flyer points at a rate of 1:1. The scheme is open to all Australian-based businesses and has been designed to benefit everyone from sole traders to small to medium businesses. Acquire is a three step process – earn, convert and redeem. With a wide range of partners and benefits, Acquire members can earn Acquire points from many of the things the business already does, like purchasing office supplies, printing, banking, parking, renting a car and flights.

Convert your Acquire points to Qantas points through any Qantas Frequent Flyer account at the rate of 1:16. Then use your Qantas points to save money by booking Award Flights and hotel accommodation. You can also buy from the online Qantas Store, or reward your employees by converting points directly to their individual Qantas Frequent Flyer account. Once Acquire points have been converted to Qantas points, they can be used for flight bookings, upgrades and hotels for work and play, plus shopping from the Qantas Store.



American Express has jumped on board, announcing that holders of its Qantas Corporate Card can join the program and earn double Acquire Points on top of the rewards and benefits they already receive. There are also a raft of additional offers too numerous to mention here but more can be found on www.acquire.com.au

Acquire doesn't appear in the CANSTAR ratings, as it is a Corporate card but we expect to see this concept evolve over time – the business model may even be rolled out to other business cards. Watch this space.

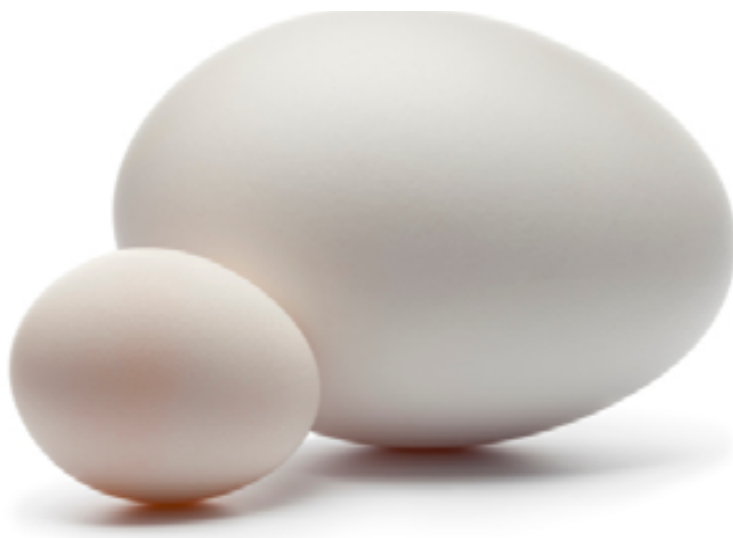
BIG SPENDERS GET **BIGGER**

This time around, we have added a new top tier of \$250,000 into the spend levels for our Business Rewards Star Ratings. This higher amount reflects the fact that many businesses, particularly those trading in global goods, are putting increased dollars through their cards on an annual basis. These spenders should by rights expect to get more rewards for their spend - but are they?

As a general rule of thumb, you want a points earn rate that will outweigh your card's annual fee. The cards in our comparison deliver on this, even at the lower \$60,000 spend level.

There are added considerations with all cards. For instance, there is normally a restriction on the number of additional cards you are allowed. Some providers charge a fee, others don't. You may have a team of execs or you may be a solo operator. The provision of additional cards should be considered when choosing what's right for your operation.

Another point of contention could be where the points go. Because it is a business card, points accrued don't necessarily stay with the card holder. They may automatically go to the owner or manager. Working this out before you send a team of sales people into the marketplace could save a lot of angst later.



BEWARE THE CAP TRAP

Points capping puts a lid on earning capacity with rewards cards. What is points capping? It's when lenders dictate the maximum number of points you can earn in a single year. In short, what they will pay out on and what they won't. Points capping typically kicks in when you start spending from the \$100-\$150k mark. It has the most effect on the larger spend profile we researched - \$250k - and overtakes the importance of a high earn rate.

The more you spend on a business rewards card, the more points you could potentially clock up. However, your plans could be derailed if you haven't paid any attention to the rules on what ceiling your points can build up to before they no longer deliver any payback.

To illustrate this we've looked at two scenarios on a card that gives you 2 points per dollar spent, capped at 200,000 points per year and a redemption rate of 200 points per \$1.

On an annual spend of \$60,000, here's the reward return calculation.

$\$60,000 \times 2 = 120,000$ points earned per year
 $\$120,000 / \$200 = \$600$ cash earned per year
 $\$600 / \$60,000 = 1\%$ Reward Return

On an annual spend of \$120,000, here's the reward return calculation.

$\$120,000 \times 2 = 240,000$ points earned per year but this is capped at 200,000
so,
 $\$200,000 / \$200 = \$1,000$ cash earned per year
 $\$1,000 / \$120,000 = 0.83\%$ Reward Return

The percentage return continues to decrease the more you spend if you are hampered by points capping. If your business spends a large amount through business credit, the following lenders offer cards with uncapped earnings.

- | | | |
|--------------------|--------------------------|---------------|
| • ANZ | • Bankwest | • Diners Club |
| • American Express | • Coastline Credit Union | • Hume Bank |



WHAT ARE THE FIVE STAR RATED PRODUCTS?

From the 33 rewards programs we looked at we identified two at each spend level, across both cash rewards and frequent flyer rewards, that stood out due to a combination of high points earn rate and a host of features and beneficial partnerships which translate to a better potential offering.

Congratulations to **Coastline Credit Union**, **American Express**, **Westpac** and the **Commonwealth Bank**.



CASH REWARDS

\$60,000 Commonwealth Business Platinum Awards - Amex
Westpac Altitude Business Platinum Rewards – Amex

\$120,000 Commonwealth Business Platinum Awards - Amex
Westpac Altitude Business Platinum Rewards – Amex

\$250,000 Coastline Credit Union – Business Rewarder
Westpac Altitude Business Platinum Rewards – Amex



FREQUENT FLYER

\$60,000 Commonwealth Bank Business Platinum Awards Amex
Westpac Altitude Business Platinum Rewards – Amex

\$120,000 Commonwealth Bank Business Platinum Awards Amex
Westpac Altitude Business Platinum Rewards – Amex

\$250,000 American Express Velocity Business Rewards
Westpac Altitude Business Platinum Rewards – Amex



Business Rewards Award

METHODOLOGY



What is the CANSTAR Business Rewards Ratings?

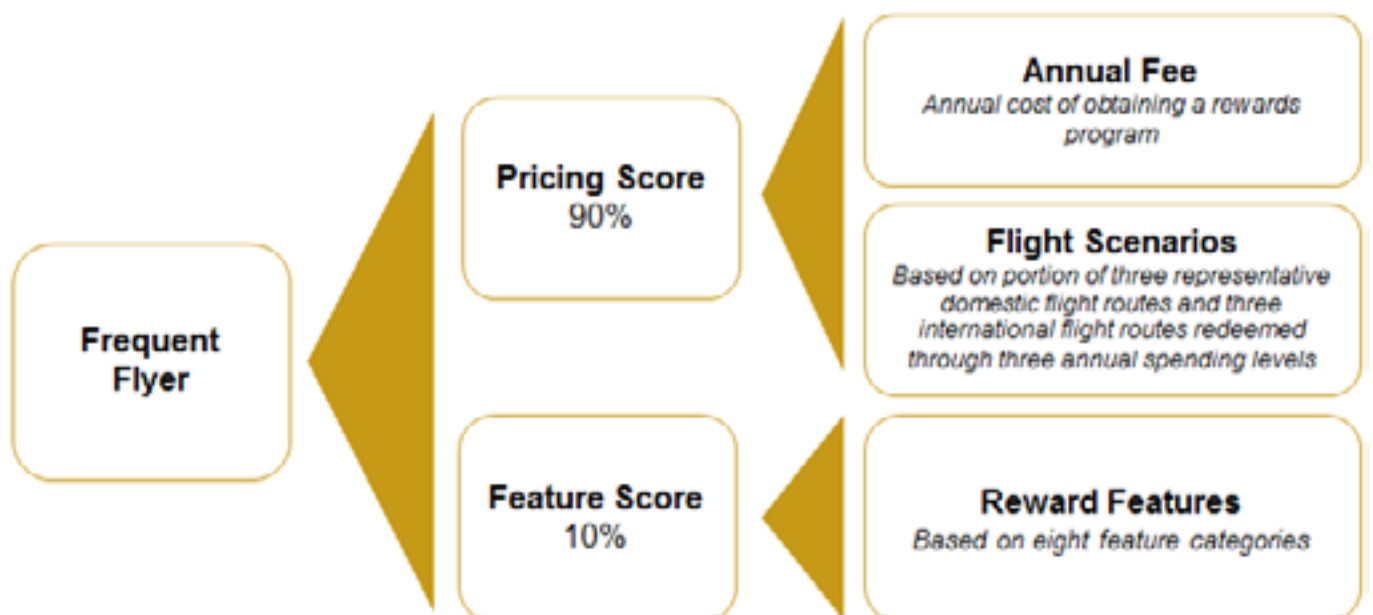
CANSTAR Business Rewards Star Ratings are a consumer-friendly benchmark or value index. CANSTAR star-rated products represent a shortlist of financial products. This shortlist narrows consumers' search to products that have been independently assessed and ranked. All star-rated rewards programs rated from one to five achieved a grade suitable for consumers to consider, with five-star products awarded a rating of "Outstanding". Products where the value of the rewards earned is known to be lower than the cost of obtaining the program are limited to one star for that profile, reflecting the fact that the full benefit of the rewards program is not seen at the particular spend level. The CANSTAR Rewards Star Ratings are a transparent analysis comparing both the Cost and Features across all rewards programs.

The results are reflected in a consumer-friendly five-star concept, with a five-star product denoting outstanding value.

How is the CANSTAR Business Rewards Ratings calculated?

The ratings are assessed by taking the product with the best score from the Frequent Flyer or Cash Rewards Methodologies at three different spend levels: \$60K, \$120K and \$250K.
Each rewards program is assessed differently to reflect the characteristics of each program.

Frequent flyer rewards methodology



Pricing Component

The pricing score is calculated using the score for two components; Annual Fee and Flight Scenarios. The weighting for both components is distributed as follow:

Price category	Annual Fee	Flight Scenario
\$60K Spend	40%	60%
\$120K Spend	20%	80%
\$250K Spend	10%	90%

Annual Fee

The annual fee is the sum of the card annual fee and any additional rewards or frequent flyer program fees.

Flight Scenarios

The flight scenarios look at the portion of the flight earned in a year based on \$60K and \$120K spend levels. Free flights are awarded in the flight scenarios calculations when offered without additional purchase or conditions. There are six scenarios: three domestic and three international:



Feature Component

Each reward feature is categorised into nine different categories and allocated points. The total feature score for each category (i.e. earning policies) is ranked and weighted with each category contributing to the overall features score.

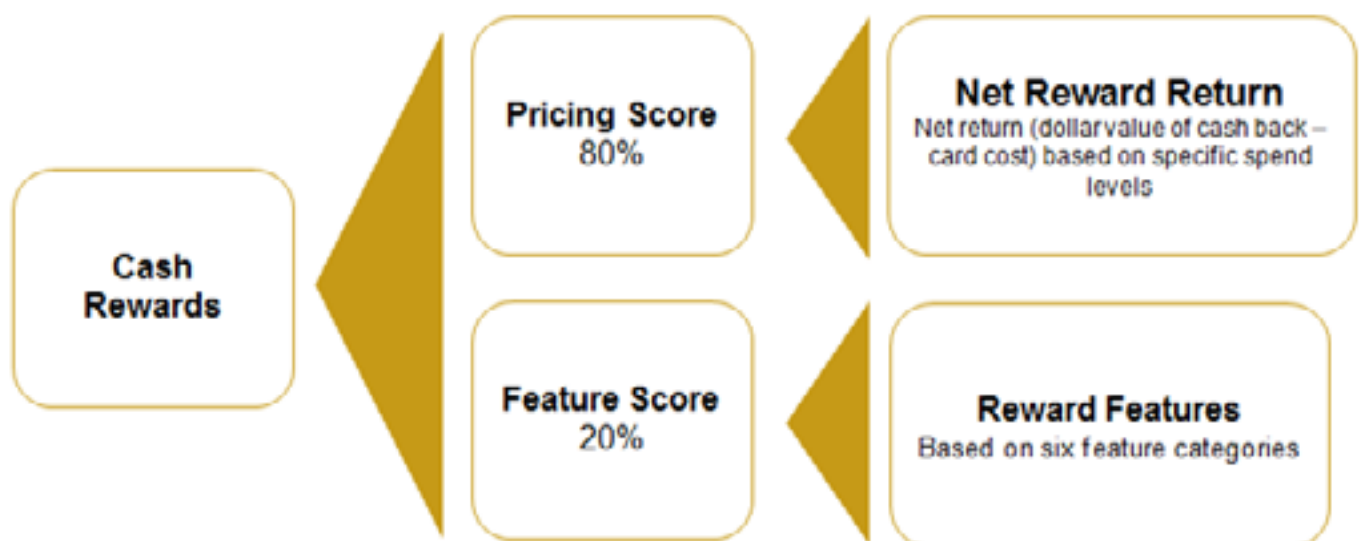
Feature Category

Earning Policies
Points Capping
Frequent Flyer Conditions
Frequent Flyer Partners
Instant Rewards Information
Travel Rewards
Customer Service Information
Top-up Policies
Account Status Information
Point Expiration Policies

Feature Weight

15%
10%
15%
10%
5%
15%
5%
10%
5%
10%

Cash/Shopping voucher rewards methodology



Pricing Component

Price score is determined through assessment of net reward return – the dollar value of cash back less cost of the card based on the two spending levels, \$60K, \$120K and \$250K.

Where companion programs (American Express/Mastercard/Visa) exist the weighted score is used based on 60% Visa/Mastercard and 40% American Express

Feature Component

Each reward feature is categorised into six different categories and allocated points. The total feature score for each category (i.e. earning policies) is ranked and weighted with each category contributing to the overall features score.

Feature Category	Feature Weight
Earning Policies	20%
Points Capping Information	20%
Instant Rewards Information	5%
Bonus Points Partners	5%
Account Status Information	10%
Points Expiration	10%
Points for Cash/Credit	30%

How many products and financial institutions are analysed?

In order to calculate the ratings, CANSTAR analysed 31 rewards program products from 10 financial institutions in Australia.

How often are products reviewed for star ratings purposes?

All ratings are fully recalculated every 12 months, based on the latest submissions from each institution. CANSTAR also monitors changes on an ongoing basis.

Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers, who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at www.canstar.com.au if you would like to view the latest star ratings reports of interest.



- Account based pensions
- Agribusiness
- Business Banking
- Business Life Insurance
- Car Insurance
- Credit Cards
- Deposit Accounts
- Direct Life Insurance
- Health Insurance
- Home & Contents
- Landlord Insurance
- Life Insurance
- Managed investments
- Margin Lending
- Online Share Trading
- Package Banking
- Personal Loans
- Pet insurance
- Reward Programs
- SMSF loans
- Superannuation
- Travel Insurance