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Project Sample

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cardworld

January 16, 2004

Building a Business on Providing the Latest "Must Have" Card Product

The gift card market has been an enormous success story in the US and is probably going to show a similar growth profile in Europe.

A company that is taking full advantage of the trend has developed a world-wide card manufacturing business in the promotional and retail card market. It is Versatile Card Technologies.

Headquartered just outside Chicago, US, VCT was established in 1986 to service the direct marketing industry "mailing cards out by the million" according to president, Nicholas Cooney. Now, with customer service or production facilities on four continents, VCT has become a multi-national manufacturer of all types of plastic cards and related services. Its strategy is to make full use of new processes, materials and marketing opportunities as they arise.

In 1989, VCT became Visa and MasterCard certified for bank and retail credit cards. Then in the nineties, it moved into telephone, gift and loyalty card business, together with key tags to manage supermarket loyalty programmes. VCT now produces over 800 million cards annually.

Cooney predicts that in the next couple of years there is going to be a big growth in the European gift card market. In the US, the stored value systems such as First Data ValueLink and ComData have picked up most of the business because they have the platforms and have been in the business since 1994. But now it is a brand new business, with a different business case. Cooney explained: "This is a US\$350 — 400m a year card market in the US now, and for card manufacturers, it is worth US\$100m in terms of dollar volume. The way the industry is developing is that as a



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retailer, you don't have to go to a ValueLink or a similar system any more. You could develop one of your own systems for your own group of stores. The market is still dominated by ValueLink and StoredValue (owned by ComData) but others are emerging. WalMart, for example, now has a gift card, and the same could be said for all the major retailers.

This is big business, but is it profitable business?

"It is a very competitive market and only the young and the brave survived," said Cooney.

VCT, has prospered because of a strategy that focuses on competing for business in a commodity market, which means providing product quickly and economically. But there has also been a concerted effort to move into new markets, and adopt new technologies.

While in some markets, such as loyalty, gift cards and EMV, Cooney sees steady growth, he maintains that there is always a need for manufacturing change. "We have to find a way of producing cards more economically. Every day this is our challenge. There are a lot of things that are changing, such as card substrates, as a result of the market. This means that equipment needs to change too. Only the good guys are going to survive. Efficiency can only come about by improving the technology. We have to produce cheaper than we do now, or there will be a fall out."

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Versatile is very proud of its odd shaped cards, including the mini card, but will we see them in general use?

"Change comes very slowly. We are getting a lot of enquiries, especially in Asia, and even in the US, Bank of America is a major issuer of a mini card. They have issued 20,000 over the past two years. Banks in South America are also very keen on the card," said Cooney. "It is unlikely however that they will supercede the ISO payment card, because of its functionality."



So what is the business case behind mini and unusual shaped cards? "The marketing people at the issuers have to keep their businesses on top and to do that you have to move to the latest new thing to differentiate. It is a particularly strong product in Asia and India, where people love products that are different. The number of people asking questions about mini and unusual shaped cards in these regions is enormous. These markets are developing very differently, from say, Europe, which is more traditional.

So does the irregularly shaped card cause any manufacturing problems?

"The card is not ISO so of course there are problems with personalisation. We are working with DataCard on data compression to increase the running speeds. There are also higher reject rates. The issue is that time as always, is money."

VCT is also moving into smart card production, especially for contactless cards.

A recent product has taken VCT into the world of sport. This is a stored value chip card that can handle concessions, purchases and membership entry cashless at ballgames, concerts and other crowded venues.

"We are already seeing some professional football teams utilising the stored value chip card technology and we expect this to change the way concessions are purchased," said Cooney.

VCT has recently entered into a joint collaboration with Jet LithoColour to promote, license and protect intellectual property rights of patents for the production of foil laminated transaction cards.

VCT's Qualteq division owns patents for methods of making foil faced transaction cards with graphics, and Jet LithoColor owns patents for the method of producing foil laminated cards with double-sided printing. The Qualteq division of VCT will manage the licensing with respect to the property rights of the patents.

"The foil laminated card is another trend for our savvy card customers because the metallised film provides a mirror-like finish that is perfectly printable for thermal transfer printers or offset printing technologies for personalisation," said Cooney.

VCT, headquartered in the US, has facilities in Turkey, Germany, Mexico, Singapore, South America and India. They employ 200 people in the US, 120 in New Jersey, 15 in Europe, and 200 in Asia. They have a printing plant in India.

Said Cooney: "There is not a lot of difference between the US and the European market for us. Cards are replacing vouchers, there is no doubt about it, and we see Europe moving towards the gift card in the same way as has happened in the US. The US won't go for EMV. There is no fraud reason why they should. But contactless smart cards are big business."

Cooney is not discounting the EMV business however. "We are interested in EMV for our partners in Asia and Europe. There are major projects in process through 2005 that will come to fruition in 2005."

In 2002, VCT made a major acquisition when it took over US company Qualteq. Cooney explained: "This was a fine company that needed direction and investment. It was right for us, with a good facility of 50,000 square feet which meant we were able to double our capacity. It is exciting to merge cultures, and has been very positive for the company."

Qualteq had been in existence for 20 years and had produced over two billion cards in this time. Importantly for VCT, it was Visa and MasterCard certified for the production of financial cards, and so fitted in seamlessly with current production requirements.

Asked if there were going to be any more mergers, Cooney said: "We are always looking. We know there are some opportunities out there in the industry and in this business, acquisition is the best way to grow. It may be an interesting 2004."