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| **Section** | **Answers** |
| **Question 1: Potential Benefits of Each Option** | **Option 1 – Stored-Value Card:** The stored-value card program offers several advantages to the company’s working capital and customer engagement. It provides immediate cash inflow because customers pre-load money onto their cards before making purchases. This prepayment structure improves liquidity and strengthens the company’s working capital position by reducing reliance on accounts receivable. Additionally, the company benefits from breakage revenue, which occurs when customers do not fully use the balance on their cards. The convenience of a stored-value card also fosters customer loyalty, encouraging repeat visits and higher spending frequency. By integrating loyalty rewards, the company can further enhance the customer experience, leading to long-term retention. Moreover, this payment method can lower transaction processing costs compared to traditional credit card payments, since it reduces fees charged by external payment processors. **Option 2 – Co-Branded Credit Card:** The co-branded credit card program primarily strengthens the company’s marketing and partnership value. Collaborating with a financial institution increases brand visibility and broadens exposure through joint advertising and customer outreach efforts. This program can generate additional revenue through revenue-sharing agreements with the partner bank, improving profitability if structured effectively. Furthermore, the card offers customers loyalty incentives, such as cashback rewards or discounts, which can stimulate higher average transaction values and more frequent visits. From a financial perspective, co-branded cards shorten settlement periods compared to standard invoicing, thereby improving cash collection and reducing the days sales outstanding (DSO). Additionally, this type of card enables the company to gather valuable data on consumer spending behavior and preferences, which can be leveraged to design targeted promotions and improve marketing strategies. |
| **Question 2: Net Annual Benefit and Calculations** | Using the assumptions provided, the analysis compares both options at $500 million annual revenue, 6% cost of capital on receivables, and 4% investment return on float. **Stored-Value Card:** 20% adoption results in $100M program spend, $103.09M loaded value, and $3.09M breakage revenue. With 15 float days, the average float is $4.24M, generating $0.17M interest income. Receivable savings from prepayment equal $0.23M, and after subtracting $2M admin cost, the total net annual benefit is **+$1.49M.** **Co-Branded Card:** 25% adoption yields $125M spend, $1.88M partner revenue share, and −$2.50M customer discount cost. Receivable savings from faster settlement add $0.25M, offset by $1M admin cost, resulting in a total net benefit of **−$1.38M.** Therefore, the stored-value program generates a positive impact on working capital, while the co-branded card incurs a small loss under current terms. |
| **Question 3: Qualitative Factors** | **a. Other Positive Impacts on Revenue:** The stored-value card increases customer retention, supports gifting, and enhances transaction convenience. It also provides rich purchase data to design personalized offers. The co-branded card raises brand visibility through partner marketing, attracting new customers and encouraging larger purchases. **b. Risk Assessment:** *Financial Risk:* The stored-value card has minimal credit risk but may face float-rate fluctuations, while the co-branded program depends on revenue-share terms and partner performance. *Regulatory Risk:* Stored-value cards must comply with consumer-protection and escheatment laws; co-branded programs must adhere to banking and privacy regulations. *Reputational Risk:* Errors in card balance management or poor partner service can harm brand trust. *Economic Downturn Risk:* Stored-value balances and spending may decline during recessions; credit card usage may also drop. *Sensitivity Analysis:* Stored-value profitability varies with breakage and adoption; co-branded results depend on discount and revenue-share rates. |
| **Question 4: Recommendation** | Based on the analysis, the **Stored-Value Card Program** is the preferred option. It consistently yields a positive annual benefit (around $1.49M) and improves working capital by converting future sales into immediate cash. The program also builds customer loyalty, provides data insights, and enhances brand engagement with relatively low risk. The **Co-Branded Credit Card**, though offering marketing advantages, currently delivers a negative financial return (−$1.38M). It may be reconsidered only if more favorable partner terms are negotiated or if the stored-value initiative succeeds and customer adoption stabilizes. |