

A stylized logo featuring a mountain range with three peaks and three clouds above them, all rendered in a light blue-grey color. The text 'Alpen Bank' is overlaid on the left side of the logo.

Alpen Bank

Case Study 2.1

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Case Study Introduction

The year is 2006 and Gregory Carle, the country manager for Alpen Bank in Romania, is dwelling on whether he should recommend the launch of a credit card business.

Alpen management had rejected the idea previously due to poor economic conditions in Romania and population's inexperience with consumer credit.

However, Romania is now undergoing a period of economic growth after joining the European Union and Carle believes it is time to reconsider the credit card business possibility despite some skepticism within the Zurich headquarters.

Case Study Introduction

That being the case, Carle is now facing important decisions before he can present his plan to the head of International Consumer Businesses, in order to convince them that choosing this business direction is a safe bet.

Problem:

Gregory Carle must decide whether to launch a credit card business in Romania and if so, how to position the credit card, **what should be the target audience for the service** and how to acquire new customers effectively (*Direct Mail, Take-ones, FSIs, Direct Sales* and *Branch cross-selling*), while calculating the repercussions of any missteps. Carle needs to assure the launch of the credit card would add €5 million of annual profit to the Consumer Bank segment within two years.

Credit Card Business Background

| Networks (card associations) | Merchant acquirers | Merchants | Card issuers |
|---|--|--|---|
| Payment system backbone | Sales and distribution party | Parties that accept cards | Direct relationship with cardholders (e.g.: Banks) |
| Transactions by connecting the other 3 parties | Usually associated w/ banks | Retailers, restaurants, gas stations, etc. | Authorise and process payments |
| Visa and MasterCard are the most dominant and extensive | Sign merchants and provide support to them | | Decide on positioning, branding, pricing and loyalty programs |

As a potential card issuer, Alpen Bank can generate revenue through **interchange** and through **annual fees**, **penalty fees** and **interest income**. The latter is applied to customers who do not pay off their balance each month. Alpen Bank can profit from having these “revolver” customers but this potential must be managed against the risk of default, which can be significant during economic downturns.

Credit Card Market in Romania

Underwhelming credit card market scenario in Romania

- Romania **lacked credit-card growth** potential in comparison to other emerging markets. Consumer spending was mostly cash-based and card payments weren't popular among merchants. The Romanian consumers also **lacked experience in managing credit**, which made it difficult to determine credit limits and set interest rates that would attract customers.

Promising economical landscape in Romania in early 2000s

- However, the economical signs of the first half of the decade were promising. Economical growth and rising incomes had massively increased total disposable income. Interest in luxury goods and in EU imported products also increased a lot. Consumers were now using card over cash very often, but despite this such growth, the market was still underpenetrated compared to other European countries.

Credit Card

- Card issuers were still not benefiting from the business as they would like since most circulating cards were **debit cards** and many cardholders used their cards **strictly for cash withdrawals**, which slowed down revenue from its full potential. Nevertheless, other banks were optimistic about further growth in credit cards marketing and Carle and his team believed in this prospect.

SWOT Analysis

Strengths

- Profitable consumer banking business
- Loyal wealthy customers
- Build stronger reputation

Weaknesses

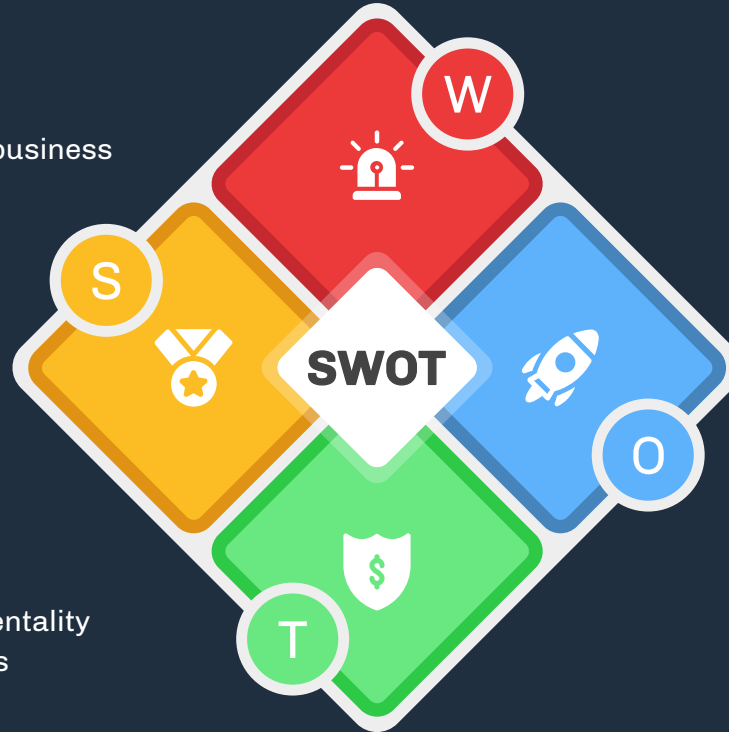
- Low business popularity among middle class people

Threats

- Risk of default
- Strict cash based spending mentality
- Strong competition in business

Opportunities

- Improve payment system
- Growing interest in luxury goods
- Increasing disposable income for middle class



I. How should Alpen position its card?

What should be the segments considered if it intends to launch it?

Alpen Bank has established a **respectable and solid image** and holds the **reputation of serving an affluent customer base**.

The traits of an affluent client

- Credit card revenue would derive from multiple streams: joining/annual fees, penalty fees for late payments, interest payments and interchange. These affluent targets represent the top 10% of the population which has almost 24% of the wealth. They are career oriented active professionals and represent an attractive target, since they are **less sensitive** to annual or joining fees, more experienced with low consumer debt and very prone to **using their cards very often** and for higher-average “tickets”.

The reasoning and benefits of focusing on an affluent customer base

- Catering to this prosperous client base could lead to **higher interchange rates**, which means positioning the card as a **high-end product** would be beneficial as the bank would gain a share of the market which would **stick to the card**.
- Carle and his team believed that they could rely on the bank's image to use above-average joining and annual fees without significantly hurting uptake, which would be a strategy that favors the wealthier potential clients.

I. How should Alpen position its card?

What should be the segments considered if it intends to launch it?

Middle class prospect and traits

- However, the middle class also holds **potential**, especially if the size of market is taken into account. The promising middle-class households are a mix of young professionals and families that **value quality**, but are more inclined to compromise and make **price-driven decisions**.

Potential downfalls of focusing on middle class

- Despite the interest of many in owning credit cards, Alpen Bank's experience in other emerging markets show that card utilization was significantly lower for middle-class customers than for the affluent. Serving them could lead to **lower-average tickets**, lower **interest income** and therefore lower **interchange** rates for the banks.

Decision analysis

- Deciding to capitalize on the affluent class would be the more **reserved and safer bet**, but would be **neglecting the middle-class** which in some cases may become the affluent class in the future.
- The decision of whether to target strictly the affluent class or middle class depends on the revenue they generate **solely or combined**. The final goal of our analysis is to identify the profit generated if Alpen Bank decides to serve **only the one** or **both classes**.

2. What is the cost of customer acquisition?

To enter the credit card market and build a customer base, one of the investments Alpen Bank has to make is in direct marketing. The strategies considered involve the usage of five different marketing channels, each one with different characteristics:

| | |
|--------------------------|---|
| Direct Mail | Can reach many potential customers and has a relatively high effective hit rate. Unfortunately, it is rather costly. |
| “Take-one” | Can also reach many potential customers, but has a considerably lower effective hit rate while being less costly. |
| FSI’s | Free-Standing Inserts (FSI), can reach many potential customers and has a lower effective hit rate while being even less costly than “Take-one”. |
| Direct Sales | As it’s targeted towards people who are very likely to become customers, the number of potential customers is low, but the effective hit rate is high while being very cheap. |
| Branch Cross-Sell | Like direct sales, the number of potential customers is low, but it has the highest effective hit rate out of the five channels, while also being the cheapest. |

2. What is the cost of customer acquisition?

Taking into consideration the possible marketing strategies, involving different segments and marketing channels:

| Segments | Channels | Customers | Total Cost | Cost/Customer |
|---------------|--|-----------|------------|---------------|
| All Customers | All channels | 91,162 | 1,705,000€ | 18.70€ |
| | No direct mail | 52912 | 455,000€ | 8.60€ |
| | Top 3 (Direct Mail, FSI's, Branch Cross-Sell) | 70762 | 1,475,000€ | 20.84€ |
| Affluent | All channels | 58,968 | 1,080,000€ | 18.31€ |
| | No direct mail | 39,843 | 455,000€ | 11.42€ |
| | Top 3 (Direct Mail, Direct Sales, Branch Cross-Sell) | 45,900 | 705,000€ | 15.36€ |

3. What are the economics of each customer? What is the breakeven number of customers (consider the different relevant scenarios)? Is this achievable? In what time period?

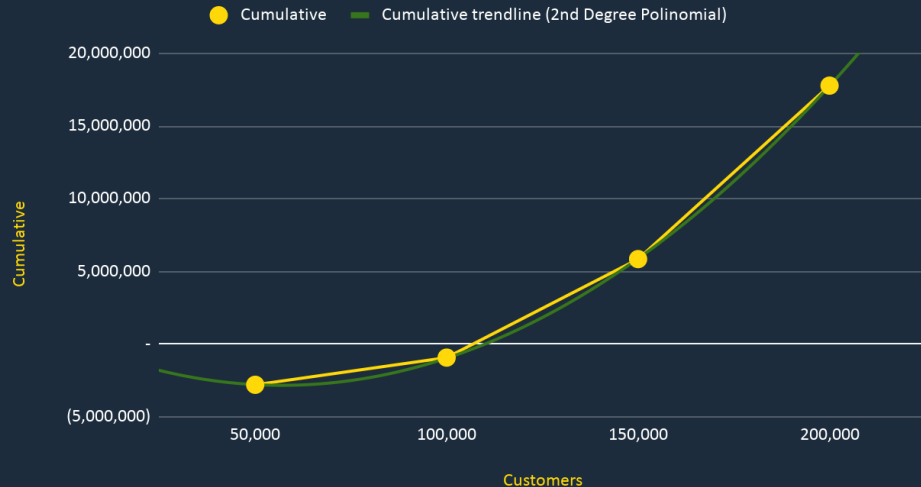
All Customers

All Channels

| | |
|-----------------------------|---------------|
| Breakeven (customers) | 106,744 |
| Time required (months) | 14.1 |
| | |
| Expected profit | €5,000,000.00 |
| Expected Profit (customers) | 143,662 |
| Expected Profit (months) | 18.9 |



Cumulative Profit in comparison with Nr Customers



3. What are the economics of each customer? What is the breakeven number of customers (consider the different relevant scenarios)? Is this achievable? In what time period?

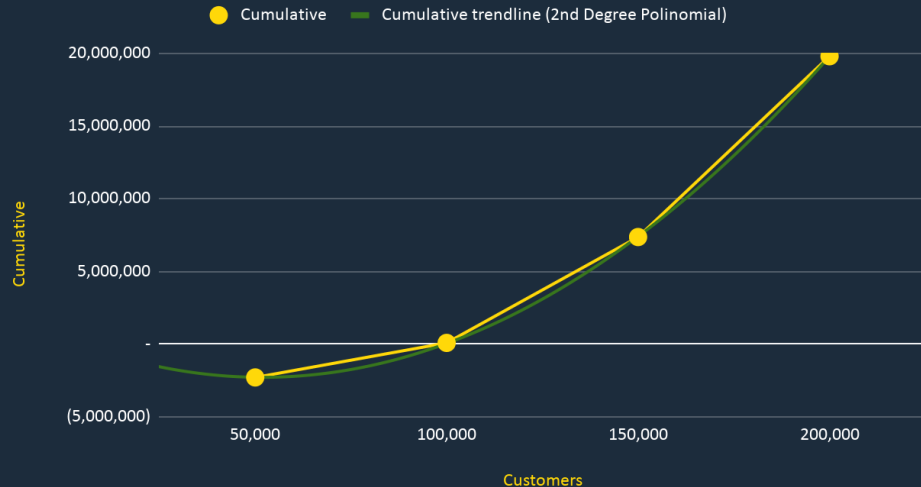
All Customers

No Direct Mail

| | |
|-----------------------------|---------------|
| Breakeven (customers) | 97,958 |
| Time required (months) | 22.2 |
| | |
| Expected profit | €5,000,000.00 |
| Expected Profit (customers) | 133,689 |
| Expected Profit (months) | 30.3 |



Cumulative Profit in comparison with Nr Customers



3. What are the economics of each customer? What is the breakeven number of customers (consider the different relevant scenarios)? Is this achievable? In what time period?

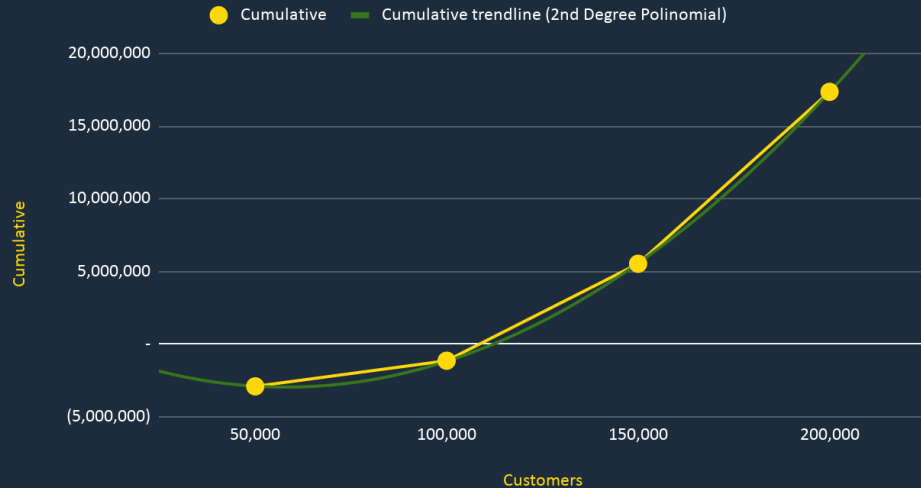
All Customers

Top 3 Channels

| | |
|-----------------------------|---------------|
| Breakeven (customers) | 108,459 |
| Time required (months) | 18.4 |
| | |
| Expected profit | €5,000,000.00 |
| Expected Profit (customers) | 145,970 |
| Expected Profit (months) | 24.8 |



Cumulative Profit in comparison with Nr Customers



3. What are the economics of each customer? What is the breakeven number of customers (consider the different relevant scenarios)? Is this achievable? In what time period?

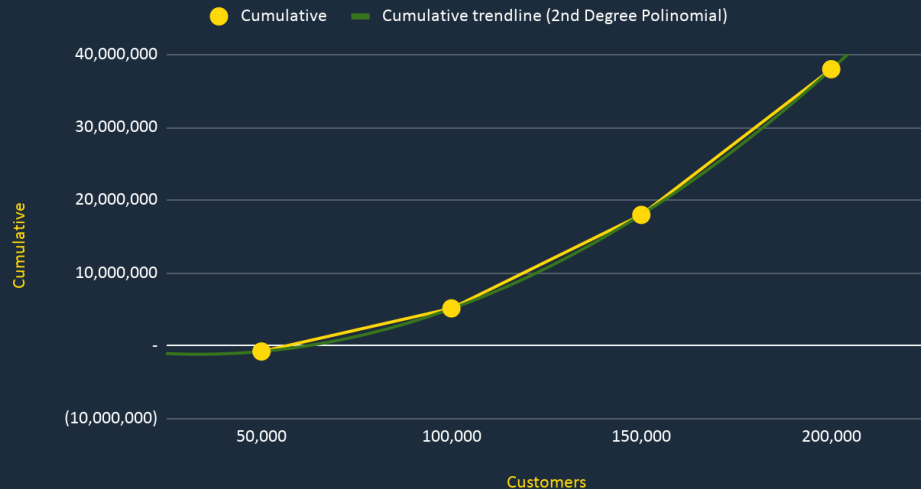
Affluent Only

All Channels

| | |
|-----------------------------|---------------|
| Breakeven (customers) | 56,339 |
| Time required (months) | 11.5 |
| | |
| Expected profit | €5,000,000.00 |
| Expected Profit (customers) | 98,600 |
| Expected Profit (months) | 20.1 |



Cumulative Profit in comparison with Nr Customers



3. What are the economics of each customer? What is the breakeven number of customers (consider the different relevant scenarios)? Is this achievable? In what time period?

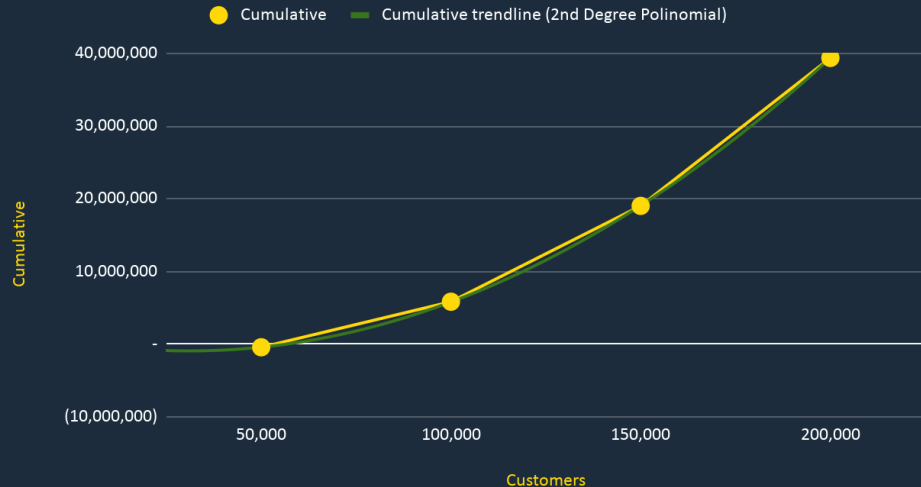
Affluent Only

No Direct Mail

| | |
|-----------------------------|---------------|
| Breakeven (customers) | 53,237 |
| Time required (months) | 16.0 |
| | |
| Expected profit | €5,000,000.00 |
| Expected Profit (customers) | 93,170 |
| Expected Profit (months) | 28.1 |



Cumulative Profit in comparison with Nr Customers



3. What are the economics of each customer? What is the breakeven number of customers (consider the different relevant scenarios)? Is this achievable? In what time period?

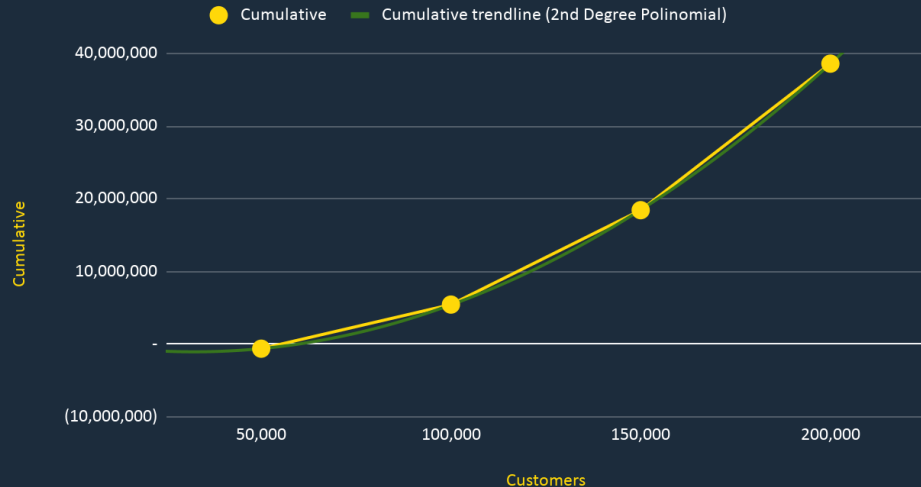
Affluent Only

Top 3 Channels

| | |
|-----------------------------|---------------|
| Breakeven (customers) | 54,966 |
| Time required (months) | 14.4 |
| | |
| Expected profit | €5,000,000.00 |
| Expected Profit (customers) | 96,197 |
| Expected Profit (months) | 25.1 |



Cumulative Profit in comparison with Nr Customers



4. Should Alpen launch the credit card? Why? To which target segments? With which marketing strategy?

In how much time will we reach 5M in Profit?

Should Alpen launch the credit card?

Yes, it is profitable enough to meet management demands

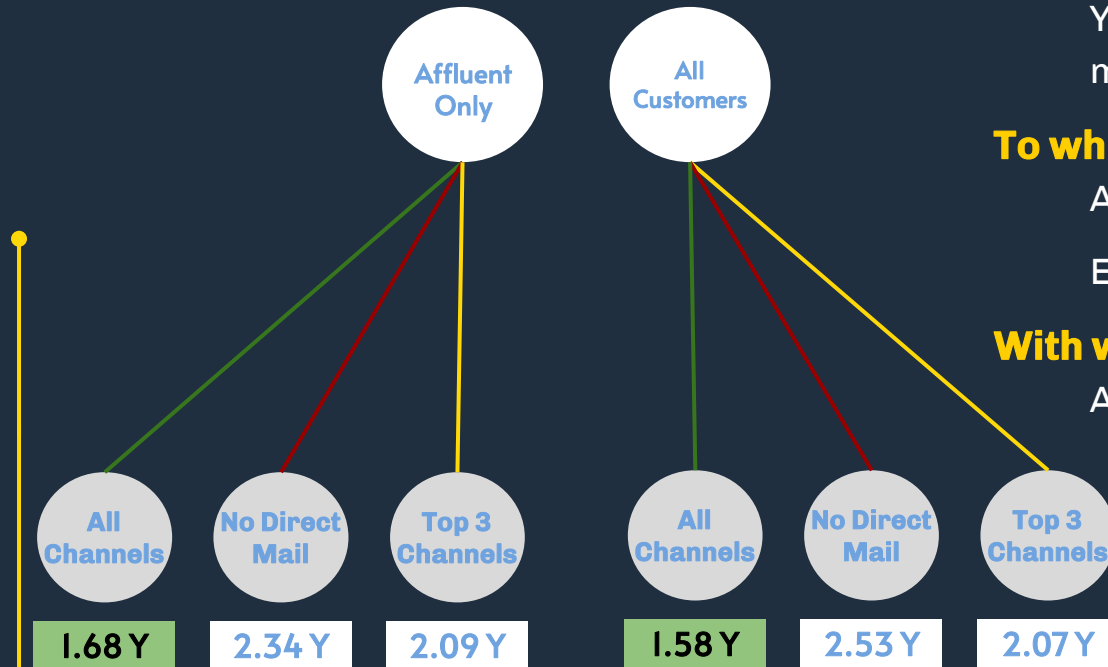
To which target segments? (next slide)

Affluent Only

Emerging Upper Middle Class

With which marketing strategy?

All Channels



4. Should Alpen launch the credit card? Why? To which target segments? With which marketing strategy?

(Affluent Only / All Channels) The best of the options

- Two options stand as valid, meeting the requirements set by management. Both marketing through All channels, either to Affluent Only Customers or to All Customers. We aim to avoid the disruption and synergise of what is our core business. The safer alternative is focusing on the market segment already encompassed by Alpen Bank's activities. An introduction focusing on a wider audience might be a step towards alienation of the Alpen Bank's affluent customers.

Careful growth of our customer base

- Romanian middle class will thrive with entering the European Union. By focusing on the upper-middle class, stickiness of financial service providers in emerging markets can be overcome. As clients look for more premium financial products Alpen Bank should offer a premium alternative to the national banks. Our credit card and international outreach will be a positive driver as more Romanians will purchase goods and services from other EU countries.

Conclusion

Gregory Carle has two viable options in order to achieve a profit of 5,000,000€ in two years:

1. Extend the credit card to all customers via all channels.
2. Restrict to affluents only, while resorting to marketing via all channels.

His commitment to focusing on core business means that, from our point of view, the option to market this new credit card to the core business' target audience (affluent) is a better fit for Alpen Bank.

Alpen Bank's credit card launch in Romania is a profitable venture, synergizing well with our core business, and we recommend it.