

To: Senior Management
From: Chad Meadowcroft
Re: Utilization of Balance Transfer fees Memo

Background

The market in question is dynamic, any competitor may change their business model and rates based on our changes and could do so at short notice. This makes for a more complicated decision-making process that involves predicting a number of moves in advance the actions of our competitors. Since we are operating in such a fluid environment it should be noted that any changes to our offers are likely to induce customer and profit figure changes relatively quickly, which is perfect for my proposal.

The market also relies heavily on one factor of the whole card package, that is the teaser period where the customer pays no interest. This is an attractive headline and the customers value it as an important figure when they choose a card, especially the gamers who stand to profit from not moving their credit as often. For the credit card company however it is unprofitable to have too long of a teaser period as they are lending money with no return. A factor less important to customers is the balance transfer fee, a one time fee paid as a percentage of the credit transferred into the account. This is the reason credit holders don't move their money all the time but it is not as important to the customer as it is usually only around 1-2%. However it has potential to be very profitable to the card company if they have a large number of transfers, each with a large balance in their account.

Proposal

Essentially my proposal is to raise BT fee and increase the length of teaser period while reducing the post teaser APR.

Using the supplied Market figure model I have created a proposal that involves utilizing the balance transfer fee as a primary source of income to become market leaders in a short amount of time.

I propose a raise of our teaser length to 1 month higher than the competition at the time, at the same time we should raise the balance transfer fee to around 2% and lower our post teaser APR to around 18%. The post teaser APR could easily be lowered further as it is a relatively small aspect of our profits.

For a teaser length of 12 months we should be making a total profit of £217.8M. We would also be market leaders, giving us 2,500,000 customers with an average balance transfer of £3,817. While being the market leaders we will also attract around 50% gamers but this doesn't affect our profits in any discernable way as the bulk of our profit is through balance transfers so gamers are almost as profitable as regular customers.

This change is most likely going to trigger a reaction from our competitors; my future proposal is to raise our teaser length to always be the top length up to a maximum of 24 months, after which a new proposal should be drafted. We should raise the BT fee accordingly, with a teaser length of 24 months and a BT fee of 4% our profits sit at £88.6M, a BT fee of 5% gives us a profit of £192.8M which is nearly half the total market profits.

With this model we should be conscious of the type of business we are encouraging, looking for maximum number of transfers possible while customers staying on the program for longer become only marginally profitable.

Key Risks

This is a high-risk proposal as it recommends a large shift in our current model. The main risk is gamers and customers not seeing a long teaser period as worth the transfer fee. Customers with a high balance may be less likely to transfer, as we will be taking a larger cut of the transfer.

If marketing of the scheme is successful and we obtain the top market position then there is a risk of a high number of initial transfers giving us a lot of short-term wealth but then the number of transfers could be very low for however long our teaser period is. We should be careful to spread our spending from the initial payload and also to encourage transfers.



Another risk we should be very careful to avoid is a price war within the market, this proposal is quite aggressive and our competitors are likely to try to match us, which will induce us to take our teaser longer. This could change the market permanently to a high BT fee, long teaser length situation. This would be profitable in the short term but could easily turn the market down once the customers are settled and have all paid their initial fee.

Justification of approval:

This proposal is radical in some ways and the risks associated are valid and should be monitored closely but if we could reduce them the market position we hold and profits that come with it are substantial.

There is a disconnect between the importance of a factor of our deal to the customers and the amount of money they will be spending. We would be taking advantage of this disconnect taking a large profit from an area that customers are relatively unfussy about and keeping the customer happy with a long teaser period.

The proposal involves moving our profit field from post teaser APR to almost entirely balance transfer fees. The reason this is so profitable is that the customers in the market value the teaser length highly compared to the BT fee. We can have a high BT fee to bring our profits in while attracting most of the customers with our teaser length and post teaser APR. It is important that we are as close to market leaders as possible for this proposal to be profitable, this is because the profit stream relies heavily on the amount of balance being transferred. Market leaders will attract customers with a larger balance; these customers are exactly our target market.