

ALPEN BANK: LAUNCHING THE CREDIT CARD IN ROMANIA



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Marketing and CRM – Group Assignment

Group 1

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Alpen Bank: Launching the Credit Card in Romania

PROBLEM SUMMARY

Carle, Alpen Bank – Premium Bank, country manager for Romania, had to perform market analysis for introducing Credit Card Business in Romania and Prove the Hypothesis that Credit card Business will yield profit of € 5 Million in 2 Years, which would help him to get buy in form Headquarters.

GROUND STUDY

Romanian Credit Card Market in 2000,

- Romania was emerging from Recession and Average Per Capita Income was 3500 RON (1700 €)
- Middle class was growing slow

Between 2000 and 2005

- There was a boom in macro-economic trends
- Rapid economic growth and rising incomes, particularly among the emerging middle- and upper-middle class.
- over one-third of Romanian households were likely to purchase branded imports from the EU.
- Bucharest there was growing interest in luxury goods.

Starting 2006,

Market became very Prospective for card business

UNDERSTANDING CREDIT CARD BUSINESS

4 Players

1. Networks/card associations
2. Merchant acquirers
3. Merchants
4. Card issuers <- Role of Alpen Bank

Card will encourage customers to spend more

“**Merchant discount**” is shared by Card issuer with merchant acquirer and network association, it is what is revenue, and Other revenues are,

+ **annual fees**

+ **penalty fees**

+ **interchange rates**

+ **Interest income** : Basically from "revolving "customers, potential risk of becoming defaulters. It can be a downturn

DATA EXPLORATION AND ANALYSIS

Alpen Bank Romanian Consumer Segment Performance (€ millions)

	2003	2004	2005
Net revenue	66	82	87.5
Fees/commissions/insurance	4	6.9	13.1
Customer net revenue	70	88.9	100.6
Net credit losses	9.8	11.5	14.4
Credit collection	3.3	3.9	4.9
Total credit cycle	13.2	15.5	19.3
Delivery expense	47	54.5	57.9
Other revenue/(expense)	-4.9	-5.5	-6.7
Earnings before tax	4.9	13.4	16.7
Customer liabilities (€M)	2343	2745	3000
Customer assets (€M)	1640	1922	2400
Average total assets (€M)	1875	2232	2573
Full-time equivalent employees	564	611	705
Number of accounts (000)	209	256	297
Number of customers (000)	157	179	201
Number of branches	12	13	15

Credit Card Issuances, Romania (2006)	Credit Cards	Credit Card Utilization	Utilization Number
Romanian Commercial Bank (BCR)	180,000	10%	18,000
Raiffeissen Bank	200,000	70%	140,000
Bancpost	29,000	6%	1,740
Romanian Bank for Development (BRD)	606,000	27%	163,620
Others	695,000	3%	18,640
Estimated total credit cards, Romania	1,710,000	20%	342,000

Debit Card Distribution - For Knowing Total Card Customers

Total Debit and Credit Cards, grew by	35%
Both Credit and Debit cards	9500000
Number of ATM	8000
Point-of-Sale	150000
Total Debit cards	7,790,000

Income & Segment Study

Distribution of Annual Income, Romania (2005)

Annual Income (€)	% of Population	Segment	Earning Adults	Price Sensitivity	Utilization
<1,500	23.20%	Lower Class	4315200	N/A	N/A
1,500 - 2,000	11.90%	Lower Class	2213400	N/A	N/A
2,000 - 3,000	18.80%	Lower Class	3496800	N/A	N/A
3,000 - 4,500	18.20%	Middle Class	3385200	High	Low
4,500 - 6,000	15%	Affluent	2790000	Medium	Medium
6,000 - 7,000	6.60%	Most Affluent	1227600	Low	High
7,000 - 10,000	3.80%	Most Affluent	706800	Low	High
10,000 - 15,000	1.20%	Most Affluent	223200	Low	High
>15,000	1.30%	Most Affluent	241800	Low	High
Total Most Affluent			2399400		
Total Most Affluent and Affluent			5189400		
Total Middle Class and All Affluent			16163400		
Potential Card Holders population			18600000		

Revenue Study

Segment	Interest Revenue €	Other Revenue €	Annual Revenue €
Middle Class	37.13	23.5	60.63
Affluent	86.63	36.75	123.38
Most Affluent	148.5	61.25	209.75

Segment	# of people	Interest Revenue €	Other Revenue €	Annual Revenue €
Middle Class	3385200	€ 125,692,476.00	€ 79,552,200.00	€ 205,244,676.00
Affluent	2790000	€ 241,697,700.00	€ 102,532,500.00	€ 344,230,200.00
Most Affluent	2399400	€ 356,310,900.00	€ 146,963,250.00	€ 503,274,150.00
All Customers				€ 1,052,749,026.00
Affluent Customers				€ 847,504,350.00

Revenue per Customer - All Customers	€ 122.78
Revenue per Customer - Affluent Customers	€ 163.31

Cost Study

Impact on Targeting Affluent & Middle class Customers

Promo	Unit Cost (€)	Prospects Reached	Response Rate	Qualification Rate
Direct Mail	0.5	2,500,000	3.00%	60.00%
Take	0.1	2,000,000	2.50%	30.00%
FSIs	0.05	3,500,000	1.50%	30.00%
Direct	€3000/rep	60,000	25.00%	60.00%
Branch	1	50,000	50.00%	90.00%
Total		8,110,000		

Promo	Responses	Qualified	Est., conversion (85%)	Cost	Cost per Customer
Direct Mail	75000	45000	38250	€ 1,250,000.00	32.68
Take	50000	15000	12750	€ 200,000.00	15.69
FSIs	52500	15750	13388	€ 175,000.00	13.07
Direct	15000	9000	7650	€ 30,000.00	3.92
Branch	25000	22500	19125	€ 50,000.00	2.61
Total	217500	107250	91163	€ 1,705,000.00	18.70

Impact on Targeting Affluent Customers

Promo	Unit Cost (€)	Prospects Reached	Response Rate	Qualification Rate
Direct Mail	0.5	1,250,000	3.00%	60.00%
Take	0.1	2,000,000	2.50%	15.00%
FSIs	0.05	3,500,000	1.50%	15.00%
Direct	€3000/rep	60,000	25.00%	60.00%
Branch	1	50,000	50.00%	90.00%
Total		6,860,000		

Promo	Responses	Qualified	Est., conversion (85%)	Cost	Cost per Customer
Direct Mail	37500	22500	19125	€ 625,000.00	€ 32.68
Take	50000	7500	6375	€ 200,000.00	€ 31.37
FSIs	52500	7875	6694	€ 175,000.00	€ 26.14
Direct	15000	9000	7650	€ 30,000.00	€ 3.92
Branch	25000	22500	19125	€ 50,000.00	€ 2.61
Total	180000	69375	58969	€ 1,080,000.00	€ 18.31

(cont...)

DERIVING BREAK EVEN AND PROFIT CUT-OFF

For Middle class and Affluent segment

Middle Class and Affluent		Year 1	Year 2
Customers		50000	100000
Revenue	Per Customer	€ 122.78	€ 122.78
Fixed Cost	Overhead Cost	€ 5,000,000.00	€ 5,750,000.00
	Advertising	€ 2,000,000.00	€ 2,000,000.00
Variable Cost	# New customer	50000	50000
	# Existing customer	0	50000
	Direct Cost/Customer	€ 20.00	€ 17.50
	CoA/Customer	18.7	18.7
	Total cost: New Customer	€ 38.70	€ 36.20
	Total cost: Existing Customer	0	€ 17.50
		€ 1,935,000.00	€ 2,685,000.00
Total Cost		€ 8,935,000.00	€ 10,435,000.00
Total Revenue		€ 6,139,000.00	€ 12,278,000.00
Profit		€ (2,796,000.00)	€ 1,843,000.00

Second Year Profit is only € 1,843,000.00, which is less than expected € 5,000,000.00, So we need not have to focus on Middle class and Affluent Class together.

(cont ...)

For Affluent segment only

Affluent		Year 1	Year 2
Customers		50000	100000
Revenue	Per Customer	€ 163.31	€ 163.31
Fixed Cost	Overhead Cost	€ 5,000,000.00	€ 5,750,000.00
	Advertising	€ 2,000,000.00	€ 2,000,000.00
Variable Cost	# New customer	50000	50000
	# Existing customer	0	50000
	Direct Cost/Customer	€ 20.00	€ 17.50
	CoA/Customer	18.31	18.31
	Total cost: New Customer	€ 38.31	€ 35.81
	Total cost: Existing Customer	0	€ 17.50
		€ 1,915,500.00	€ 2,665,500.00
Total Cost		€ 8,915,500.00	€ 10,415,500.00
Total Revenue		€ 8,165,500.00	€ 16,331,000.00
Profit		€ (750,000.00)	€ 5,915,500.00

Observations and recommendation

1. In the Year 2 we are Exceeding the Expected Profit of € 5 Million.
2. In year 1, Alpen faced overall loss of € 750000 and so Break even can be achieved only in second year and customer should be more than 50K.

Break even calculation

$$REVENUE - COST = 0$$

$$REVENUE = 8165500 + 163.31 * X$$

$$VARIABLE COST = 875000 + 35.81 * X$$

$$FIXED COST = 7750000$$

$$So, X = 3604$$

BREAK-EVEN ACHIEVED WHEN # OF AFFLUENT CUSTOMER REACHES 53604

3. From the Analysis, we can know that it is Affluent Segment that Alpen bank has to target on for its credit card business.