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|  | Alpen Bank: Launching the Credit Card in Romania |
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| 5/25/2017 | Marketing and CRM – Group Assignment |
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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**

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| **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 |

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| **Credit Card Issuances, Romania (2006)** | **Credit Cards** | **Credit Card Utilization** | **Utilization Number** |
| Romanian Commercial Bank (BCR) | 180,000 | 10% | 18,000 |
| Raifeissen 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 |

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| **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 |

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| **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**

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| **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**

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| **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** |

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| **Impact on Targeting Affluent Customers** | | |  |  |  |
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| 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** |

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Deriving Break Even and Profit Cut-off

### For Middle class and Affluent segment

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| **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.

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### For Affluent segment only

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| **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**

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