

Alpen bank: launching the credit card in romania

[Finance](#), [Banking](#)



Alpen Bank: Launching the Credit Card in Romania Written Analysis of Case Presented to: Miss Tania Hassan Presented by: * Case Overview: Alpen bank has to make a crucial decision whether or not they should launch the credit card business in Romania. The bank had to come up with a market strategy that can generate at least €5 million in profit within 2 years. Prior to introduction of the credit card in the market the Bank has to analyze whether an opportunity exists for the launch of the credit card. It has to further decide how to position the card in the market, what should be the target audience for the service.

The bank has currently established a premium image by targeting the affluent class. Core Problem: Whether to launch credit card if it adds € 5million profit to consumer bank segment within 2 years. The Alpen Bank seems hesitant to launch the credit card due to the existence of following problems: * Low per-capita income levels. * The population seemed inexperience with the usage of credit card. Consumer spending was cash based and merchant acceptance of card payments was low. Analysis: Opportunity: Considering the economic and market conditions as explained in the case, Alpen Bank should launch a credit card.

It seems that Alpen Bank has an opportunity as economic environment in Romania had changed from 2006 after it joined European Union. The economy there was developing; a growing trends of luxury purchasing emerged, there was also an increasing likeliness of using card instead of cash and lastly other competitors had already taken similar strategies in the market. The credit and debit card market of Romania is also seen to grow at a good pace of 35% in 2006 and about 9. 5million cards were being used in

the market. Apart from certain positives there are certain problems in credit card market too.

People use cards generally for withdrawing cash rather than for buying products or services so there is less revenue driven from transactions. Even merchants are still ignorant in accepting credit cards and prefer payments through cash. Thus it shows that Alpen has an opportunity to cash on the credit card but it would require efforts especially in marketing the card. Positioning: Alpen Bank has established a premium image and reputation of serving the affluent clientele. The bank should focus on its current strength rather than penetrating into a new customer base.

The affluent class represents the top 10% of population which has about 24% of wealth. They are priced less sensitive and thus positioning the card on high end would be beneficial for the bank. They are career oriented; active professionals who would like to use their cards frequently for making purchases. Moreover, for countries like Romania, it is seen that credit cards are somewhat stickier as compared to the developed countries. This shows that if Alpen positions its card as a high end product, it will gain a share of market which would stick to its card. The middle class is also a potential market for the credit card.

The middle class also has a huge potential especially in terms of the size of market however they are more price-focused and would only welcome this new credit card if the interest rates are low. They also have a monthly income which supports them to have a credit card. Based on the attitudes of customers in other emerging economies it can be said that customers in middle-income class have a lower actual utilization rate when compared with <https://assignbuster.com/alpen-bank-launching-the-credit-card-in-romania/>

affluent class. If Alpen Bank currently emphasize on Affluent class it would be safer for it rather than it focuses on middle class. As today's middle class may become affluent class of tomorrow.

The decision whether to target affluent class or middle class depends on the revenue they generate solely or combined. The final objective of the analysis is to identify the profit generated if Alpen Bank serves Affluent class solely or it serves both. For this purpose we have analyzed the financial data provided to us in the case.

Target Segment	Annual Income	%age of Potential Card Holders	Potential Card Holders	Annual Revenue	Total Revenue
Middle Class	3, 000-4500	18. 2%	3385200	60. 63	205244676
Affluent	4500-6000	15%	2790000	123. 38	344230200
Most Affluent	6000+	12. 9%	2399400	209. 5	503274150
Total					8574600 1052749026

Total Population Qualify for credit Card = 18. 6million Revenue Per Card Holder (all three classes) = 122. 78 Revenue Per Card Holder (Affluent+ Most Affluent)= 163. 31 In the above scenario we have first calculated the value of each segment. Given in the case is that the population of Cardholders is 18. 6 million. Through exhibit 5 we determine the percentage of potential cardholder for each segment give in the above table column 3. Through that we determine the Potential card holder. After that we multiply the population of each segment with that of annual revenue.

After summing up the total revenue we divide once it with the population of combine three segments to derive Revenue Per card holder, and once with the population of Affluent + Most affluent to derive at the value of Revenue per card holder of affluent and most affluent. Customer Acquisition for All Customers | Unit Cost| Prospect Reached| ResponseRate| Qualification Rate|

Conversion Rate| No. of Customer| Total Cost| Cost per Customer| Direct Mail| 0. 50| 2500000| 3%| 60%| 85%| 38250| 1250000| 32. 68| Take One| 0. 10| 2000000| 2. 5%| 30%| 85%| 12750| 200000| 15. 69| FSIs| 0. 05| 3500000| 1. %| 30%| 85%| 13388| 175000| 13. 07| Direct Sales| 3000/rep| 60000| 25%| 60%| 85%| 7650| 3000| 3. 92| Branch Cross-Sell| 1| 50000| 50%| 90%| 85%| 19125| 50000| 2. 61| | | | | | 91163| 1710000| 18. 75| No. of Customer= $2500000 * 0. 03 * 0. 60 * 0. 85$ In case of Affluent Class the Number of Customer will be reduced by 50% for Direct Mail, Take One and FSIs so the cost per customer for Affluent class will be 18. 31 Profit Calculation All Customers| 50, 000| | 100, 000| Revenue(122. 78)| 6, 139, 000| Revenue(122. 78)| 12, 278, 000| Acquisition Cost(18. 75)| (937, 500)| Acquisition Cost(18. 5)| (1, 875, 000)| Direct Cost (20)| (1, 000, 000)| Direct Cost (17. 5)| (875, 000)| Revenue| 4, 201, 500| Revenue| 9528000| Less| | Less| | Fixed Cost| 5, 000, 000| Fixed Cost| 5, 750, 000| Advertising Expense| 2, 000, 000| Advertising Expense| 2, 000, 000| Total Profit/(Loss)| (2, 798, 500)| Total Profit/(Loss)| 1, 778, 000| Through the above calculation of profit we can identify that Breakeven is occurring in between 50, 000 and 100, 000 customers. So now we calculate the breakeven. X in the following formulae is assumed to be additional customers. $122. 78 (X+ 50, 000) - (5, 750, 000+2, 000, 000) - (50, 000*17. 5 + 36. 5*X) = 0$ $X= 28, 758$ Break Even = $50, 000+ 28, 758= 78, 758$ At 150, 000 customers we are generating revenue of greater than 5million so to identify the no. customer at which we get 5million profit we develop the following formulae $122. 78(X+100, 000)- (650, 000+2, 000, 000) - (100, 000*15 + 33. 75*Y) = 5, 000, 000$ No. Of Customer = 130, 574 We apply the same process to the affluent class. Break

Even: $163.31(X + 50,000) - (5,750,000 + 2,000,000) - (50,000 * 17.5 + 35.81 * X) = 0$
 $X = 3,604$ Break Even = 53,604
Revenue Analysis: $163.31(X + 50,000) - (6,500,000 + 2,000,000) - (15 * 100,000 + 35.81 * X) = 5,000,000$
 $X = 42,820$

No. of Customer = 92,820
Recommendations: After doing the further breakeven and revenue analysis we recommend ALPEN bank to launch credit Card. The Bank is able to generate the profit as required. The bank should Position Credit Card as a high-end premium product in the initial stages. Firstly it is easy for bank to cater the need of the existing customers. By positioning the product in the affluent class the Bank is able to reach breakeven point in less number of customers. After getting a strong foothold in the market the Bank should focus of targeting the middle class as they are affluent class of tomorrow.