

# [Cash connection case analysis essay](https://assignbuster.com/cash-connection-case-analysis-essay/)

The current United States economy is and has been in a slump for several years now. This added financial pressure continues to take its toll on Americans who live pay check to pay check or face adversity. Adapting to the market, payday loan companies are seeing all-time high profit margins. However, these same flourishing companies are coming under great scrutiny by many borrowers and stakeholders alike. There short term high interest loans allegedly trap borrowers into a vicious cycle of debt.

What is Cash Connection’s strategy? Cash Connection is one lending company which has received allegations of predatory lending. Their business strategy is to target low income areas, specifically where people live paycheck to paycheck. They then offer quick and easy loans with few requirements. However, they charge astronomical interest rates. Some interest rates are as high as 400 percent annually. By trapping people into this month to month cycle of interest they are able to make a profit and keep customers loyal.

Which of the five generic competitive strategies discussed in Chapter 5 most closely fits the competitive approach that Cash Connection is taking? Cash Connection uses a differentiation strategy. A differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy (McGraw-Hill).

Cash Connection does this by emphasizing customer service. They claim to have a friendly and knowledgeable staff that clearly sets them apart. What evidence suggests that Cash Connection’s strategy and business model are ethical and beneficial to customers and to society at large? There are few situations in which Cash Connection’s business model is both ethical and beneficial. The only argument is that in a few emergency situations they may be able to provide quick cash to those who can easily afford the interest.

What evidence suggests the company’s strategy and business model are neither ethical nor beneficial to customers and that the entire payday lending industry has few if any redeeming qualities? Cash connection claims to have a very customer friendly business model, which focus on a helpful staff. However, the business model as a whole contradicts this. Cash connection preys on the poor and allows those who cannot afford it to take loans wish ridiculous interest rates. This is unacceptable as it leads to a cycle of constantly growing debt, and eventually bankruptcy.

What are the dominant economic characteristics affecting the payday lending industry? The U. S. economy is and has been in a slump for several years now. This has led to high employment and underemployment. As the recession drags on and people are pressed to drain there savings, it is becoming more and more enticing to take pay check loans. This combined with the unstable banking and housing industries have caused many people to lose credit and be forced to rely on other means. What are the strength ratings on each force that makes up Porter’s Five Forces Model?

Cash Connection has both strengths and weaknesses on Porter’s Five Forces Model. While there are several other companies in the same industry, Cash Connection has little threat of new entry into the market. This is because Cash Connection’s customers commonly find themselves trapped in a debt cycle with few options to switch companies. The threat of a substitute product is also low. This is because Cash Connection’s loans are aimed at those who have no choice and are desperate for money. Customers have no real barraging power. Cash Connection holds all the cards when it comes to lending money.

They are entitled to apply whatever contract they choose. The barraging power of suppliers however, is high for these same reasons. Rivalry is also high as there are more than are more than 23, 000 payday loan stores in the U. S. What do these strength ratings reveal about the overall attractiveness of the payday lending industry? The payday industry is very attractive at a glance. They are a quick and easy way to get cash; especially for those with few or no other options. However, a closer look reveals a dangerous and unethical industry.

Trapping people in debt with outrageous interest rates is wrong. What are the Driving Forces that are currently affecting the payday lending industry? Many forces affect the payday industry. The poor economy perhaps, is the largest. Never before in our lifetimes have so many Americans faced foreclosure and bankruptcy. Never before have so many needed cash quickly, at any expense. This has opened up a new booming industry, but at what cost? Until people are informed or the government steps in the payday industry will continue to pray on those living pay check to pay check.