



**CATOLICA  
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# **Millennium bim managing growing demand**

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**Title:** Millennium bim managing growing demand

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## ABSTRACT

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Millennium bim, the Mozambican operation of Millennium bcp group, was the Company selected to serve as background for the development of a teaching case in Marketing. This case is followed by a teaching note, and is intended to be used as a pedagogical tool in undergraduate and/or graduate programs.

Even though Mozambique is still characterized by high financial exclusion, the number of people entering within the banking industry has been growing at a fast pace. Actually, the demand for financial products/services has been growing faster than the banks. Therefore, Millennium bim, the leading and largest bank operating in Mozambique, felt the need to find a solution that would allow it to manage its growing demand. After decided to work on the supply side, two main alternatives were identified: increase the bank branches network in a relevant manner (which was already the largest in the Country), or improve the mobile banking system launched in 2007 (which had been used below its full potential).

Students are presented with all the information needed to understand Millennium bcp internationalization strategy, the opportunities and challenges that a bank operating in a developing country might face, as well as to explore Millennium bim distribution alternatives. After this, they are challenged to recommend a strategy that would allow the Bank to manage its growing demand. The case also provides students with an opportunity to become familiar with market and competition analysis, consumer behavior, product life cycle, internationalization strategy, distribution alternatives and pricing strategies.

## RESUMO

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O Millennium bim, a operação Moçambicana do grupo Millennium bcp, foi a Empresa escolhida para servir de base ao desenvolvimento deste estudo de caso na área de Marketing. O caso é seguido por uma *teaching note*, tendo como objetivo ser utilizado como instrumento pedagógico em aulas de licenciatura e/ou mestrado.

Embora Moçambique seja caracterizado por um elevado nível de exclusão financeira, o número de pessoas a entrar no sistema bancário tem vindo a aumentar significativamente. Na verdade, a procura tem crescido mais rapidamente que o próprio setor. Mesmo sendo o maior banco a operar em Moçambique, o Millennium bim viu-se forçado a explorar possíveis estratégias para gerir esta crescente procura. Depois de decidir que iria atuar no lado da oferta, foram identificadas duas alternativas: aumentar exponencialmente a rede de balcões (mesmo já sendo a maior do país), ou melhorar o serviço de *mobile banking* disponível desde 2007 (dado a sua utilização estar abaixo do seu potencial).

Os alunos têm acesso à informação necessária para entenderem a estratégia de internacionalização do Millennium bcp, as oportunidades e desafios que um banco a operar num país emergente pode encontrar, assim como para explorarem as diferentes alternativas de distribuição do Millennium bim. Após esta análise, é-lhes pedido que recomendem uma estratégia que permita ao Banco gerir a sua crescente procura. O caso também oferece aos alunos uma oportunidade para se familiarizarem com análises de mercado e concorrência, comportamento do consumidor, ciclo de vida do produto, internacionalização e estratégias de distribuição e preço.

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## INTRODUCTION

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The main goal of this master thesis is to develop a teaching case in Marketing about a Portuguese based company that has faced an interesting Marketing problem. The case study will be followed by a teaching note that can be used as pedagogical tool both in undergraduate or graduate programs. Millennium bcp group will be the Company in which this case will be based on, while the Marketing dilemma will be related to its Mozambican operation.

Millennium bcp expanded its operations to Mozambique in 1995. Since then, Millennium bim – the Mozambican operation of Millennium bcp group – is the leading and largest bank operating in the Country. However, over the past few years its competitive advantage started being threatened by the growing demand for financial products and services. Actually, the demand has been growing faster than the Bank itself. Therefore, it reached a point in which Millennium bim had to decide how it would adapt its distribution channels to this new reality. The Bank started by transposing the mobile banking system developed by its mother company from Portugal, where this service was mature, to Mozambique, where the service was a novelty. Nevertheless, the strategy was not as successful as expected, and the situation became worst.

Millennium bim felt the need to look for other alternatives that might enable it to manage its growing demand. The Bank decided to work on the supply side, as the other alternative, work on demand side, would involve a price increase and as a result, it would be against Millennium bim mission: bring unbanked population into de the financial system. After carefully analyzed the main future strategic goals of the Bank, two possible paths were identified: increase the branch network in a relevant manner (which was already the largest in Mozambique), or improve the mobile banking system launched in 2007 (which had been used below its full potential).

The dissertation will be composed by two main sections: the case study and the teaching note. The case study will describe the Company; its internationalization strategy; the Mozambican banking industry and its competitive environment; the consumer behavior of Mozambicans in general, and of Millennium bim customers in particular; the distribution channels that have been used by the Bank, with a special focus on the mobile banking; as well as the several steps that Millennium bim followed in order to determine possible hypothesis to manage the growing demand for financial

products and services in Mozambique. The teaching note will include: the synopsis; the suggested assignment questions; the teaching objectives; the use of the case; the relevant theory; the analysis and discussion of the suggested assignment questions; and a description of what really happened to Millennium bim distribution strategy. The combination of the case study and the teaching note will provide students an opportunity to acquire more knowledge on market and competition analysis, consumer behavior, product life cycle, internationalization strategy, distribution alternatives and pricing strategies. As to the instructors, it will provide them a tool to lecture the general topics previously mentioned, while illustrating them with true company's experience.

## **CASE STUDY: Millennium bim managing growing demand<sup>1</sup>**

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*“We are always leading the market among financial institutions because our strategy is to be in line with the state of the market, the needs of our clients, and with the future needs of the Mozambican economy.”*

- Mr. Mário Machungo, chairman of Millennium bim

It was December 2012, João Cunha Martins was driving back to his office after a lunch with some shareholders of Millennium bim. During the trip, he was thinking about how the Bank would be able to deal with the growing demand that it has been facing over the past years.

Mr. Cunha Martins, Chief Financial and Marketing Officer of Millennium bim, was challenged to be part of Millennium bcp Mozambican operation in 2010. Before this invitation appeared, he worked as Chief Executive Officer at Bank Millennium Turkey. Thus, he had a great know-how regarding the development of banking activities in emergent economies.

Millennium bim, the leading and largest bank operating in Mozambique, was growing at a fast pace, however the demand for financial products and services within this market was growing even faster. Therefore, Mr. Cunha Martins was forced to think about some solutions that would help the Bank dealing with its growing demand, while ensuring the quality and reliability that used to characterize it.

The difficulty to deal with excess demand begun in 2006, the year in which the bank started reflecting about adapting its distribution strategy to the new reality. As the time passed the situation was becoming worst and worst, until a point in which it became chaotic. Queues in the branch offices and in the Automatic Teller Machines (ATMs) were becoming bigger each day. Some solutions were developed, nevertheless none of them showed to be able to solve the problem in a proper way. It was clear that something needed to be done, otherwise Millennium bim would lose its competitive advantage and consequently some clients.

After decided to work on the supply side, Mr. Cunha Martins started wondering “why not to improve the mobile banking system that the Bank currently has? Or, would

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<sup>1</sup> Francisca Malpique Lopes wrote this case under the supervision of Professor João Borges de Assunção and Professor Paulo Gonçalves Marcos as a dissertation submitted in partial fulfillment of requirements for the degree of International MSc in Business Administration, at Católica Lisbon, School of Business & Economics, Universidade Católica Portuguesa. It is intended to be used as basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case is based on real experiences. However, proprietary data has been disguised to preserve confidentiality keeping all the essential facts and relationships intact.

it be better to enlarge the branches network in a relevant manner?'. Next week a solution must be presented to the shareholders, nevertheless he needed to be sure that the decision taken would be the key to manage the increasing demand for financial products and services in Mozambique.

## **1 - Millennium bim Background**

### ***1.1 – Millennium bcp: where all started***

Millennium bcp, a well-known Portuguese based bank, was created in June 1985 under the name of Banco Comercial Português (BCP). During those times, the Portuguese banking system was facing a period of deregulation, which allowed private-capital commercial banks to be established. A group of more than 200 founding shareholders, as well as a team of experienced banking professionals, faced this deregulation as the opportunity to create an independent financial institution, whose main aspiration was to serve the underdeveloped Portuguese financial market in a unique way.

During the first nine years of its activity Millennium bcp, or Banco Comercial Português, was developed through organic growth, which allowed it to become a relevant player in the Portuguese financial market. After 1994, due to an increase of competition and in order to reach even more its target market – customers from mass-market –, BCP decided to acquire Banco Português do Atlântico S.A., a Portuguese Bank that offered complementary financial services. The joint tender offer for the entire share capital of this Bank, led to the establishment of a strong relationship between BCP and Grupo José de Mello. During those times, BCP decided to merge with Grupo José de Mello, since this entity was the major shareholder of one of the main Portuguese insurance companies – Império – as well as another Bank – Banco Mello. BCP decided also to acquire the controlling shareholder that Caixa Geral de Depósitos held in Banco Pinto & SottoMayor. By the end of 2000, the Bank was fully developed through this series of mergers and acquisitions (see **Exhibit 1**).

In 2003, BCP implemented a rebranding strategy that culminated with the creation of a single brand: Millennium.

### ***1.2 – Entering in Foreign Markets***

Millennium bcp was a reference in terms of customer service, innovation and products/services offering, which allowed it to achieve a leadership position, as the

largest Portuguese private bank institution. After this, BCP decided to set the foundation to expand its operations overseas.

The decision to internationalize relied on two main goals: increase growth and enhance profitability. In order to decide where to install its operations, Millennium bcp looked for countries in which there was some close historic link with Portugal or which had large communities of Portuguese descendants. Furthermore, it also privileged markets in which there was a strong commercial rationale for founding banking operations, as well as the presence of business models and technological platforms which were similar to the ones used by this Bank. As to the business strategy, Millennium bcp opted to use a single brand everywhere – Millennium. Nonetheless, it has been adapting its products and services according to specific needs of local populations. Likewise, it placed an entire value chain in each country where it was operating, while integrating the different activities and resources into an interdependent network of worldwide operations.

During 2012, Millennium bcp was known as an international renowned financial institution, which was focused on the retail distribution of financial products and services in two main markets: the European one, which comprised operations in Poland – *Bank Millennium* –, Romania – *Banca Millennium* – and Greece – *Millennium bank* –; and the African market, composed by Mozambique – *Millennium bim* – and Angola – *Banco Millennium Angola* –. As can be observed on **Exhibit 2**, Millennium bcp was also present in other geographies through different systems. By the end of 2012, Millennium bcp had 5.5 million customers spread across the five main continents, from which almost 22% were located in Mozambique, where Millennium bcp operated under Millennium bim brand.<sup>2</sup>

### ***1.3 – The Origins of Millennium bim***

Millennium bim, the largest privately-owned bank operating in Mozambique, was created in 1995 through a strategic partnership between BCP (known since 2003 as Millennium bcp) and Mozambique's Government.

In 2000, a change within the shareholder structure of Banco Comercial de Moçambique (BCM) made BCP the main shareholder of Banco Internacional de Moçambique (BIM). This allowed BCP to become an important shareholder of both BCM and BIM. However, these institutions felt the need to unify more its divisions.

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<sup>2</sup> Millennium bcp 2012, *Annual Report Millennium bcp 2012*, Annual Report, Millennium bcp, Portugal, viewed 1 March 2014, <<https://bo.millenniumvideos.net/documents/dwtwrSebaEXXRAVt.pdf>>.

Finally, in 2001 the merger between BCM and BIM were completed. They decided to maintain the name of one of the banks: Banco Internacional de Moçambique (BIM). BIM re-emerged as a new, modern and leading Bank.

Since the early beginning, BIM has been replicating its mother company's business model<sup>3</sup>. This way, in order to follow the single brand strategy undertaken by Millennium bcp, a rebranding strategy occurred in 2006, and BIM started being known as Millennium bim.

#### ***1.4 – Millennium bim up-to-date***

During 2012 Millennium bim was the leading and largest Bank operating in Mozambique. This position was established through an outstanding strategy that allowed this Institution to develop the necessary capabilities to support both the mass-market and companies' growth, while building strong market knowledge.

Regarding the shareholder structure, in 2012 Millennium bcp owned almost 67% of Millennium bim capital, while the second largest stake, approximately 17%, was held by Mozambique's Government (see **Exhibit 3**).

Having more than 1.17 million customers and almost 2.300 employees, Millennium bim was the highest taxpayer and largest employer within Mozambican financial system.<sup>4</sup>

Overall, Millennium bim can be described as an innovative Bank, which has been focused on customer needs and Country social-economic development, while employing state-of-the-art technology. Besides, this Bank has been a reference in terms of profitability, fact that was strongly correlated to its well-built competitive advantage.

## **2 – Distributing Financial Products and Services in Mozambique**

### ***2.1 – Mozambique's Banking Industry***

During the past years, Mozambique's economy has been growing at a fast rate, for example, during the second quarter of 2012, GDP recorded growth of 8%.<sup>5</sup> This had a direct effect on Mozambique's banking sector, as it stimulated the increase of banks

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<sup>3</sup> However, due to the political, economical, social and technological differences between Portugal and Mozambique the Bank adapted its strategy to the local needs of Mozambicans.

<sup>4</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

<sup>5</sup> Ibid.

presence, new product launches<sup>6</sup>, and a growing number of people entering into the financial system.

In 2005, Mozambique's financial sector was composed by 12 banks, from which 9 were commercial and 3 microfinance ones, moreover, it also had 6 credit unions.<sup>7</sup> Regarding the number of bank accounts, only 6,1% of Mozambique's population use to had it. As to the points of contact between banks and customers, the number of branches in 2005 was 219. Regarding the ATMs there were 4,7 for each 10.000 km<sup>2</sup>, whereas for the point-of-sales (POS) the number was 26,4 for each 10.000 km<sup>2</sup>.<sup>8</sup> This can be observed in detail on **Exhibit 4**.

By the end of 2012, Mozambique's financial sector was composed by 18 banks, 8 micro-banks, 7 credit unions, 1 institution of electronic money, 11 saving and credit associations and 199 microcredit operators. Furthermore, only 20,2% out of the 20.5 million people comprising Mozambique's population had access to bank accounts. This number showed that although financial exclusion has been reduced, it still an important issue to address. Particularly when one realized that even the poorest people ran small businesses such as selling fruit or fishes, and therefore had the need to perform financial operations<sup>9</sup>. In what concerns to the number of bank branches, it increased to 502, which led to a geographic coverage of 6,6 branches per each 10.000 km<sup>2</sup>. Regarding the geographic coverage of ATMs, there were 11,7 for each 10.000 km<sup>2</sup>, whereas for the POS the number was 106,3 for each 10.000 km<sup>2</sup>, as can be observed on **Exhibit 4**.<sup>10</sup>

The efficiency of Mozambique's banking system has been threatening by two main problems: the lack of points of contact between the bank and the customers and its concentration in the main cities. Actually, 79% of the bank branches were located in the main cities. Furthermore, 38% of the branches were located in Mozambique's capital city – Maputo – which made this Province a single example of a region in which all districts had at least one bank branch (see **Exhibit 4**). Regarding the ATMs, 80% of them were located on the main cities, as to the POS this percentage corresponded to 90%.<sup>11</sup>

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<sup>6</sup> Still, Mozambique's banking sector remained characterized by low product variety.

<sup>7</sup> Banco de Moçambique 2013, *Desafios da Inclusão Financeira em Moçambique - Uma abordagem do lado da Oferta*, Banco de Moçambique, Mozambique, viewed 28 March 2014, <[http://www.bancomoc.mz/Files/GPI/Desafios\\_Mocambique.pdf](http://www.bancomoc.mz/Files/GPI/Desafios_Mocambique.pdf)>.

<sup>8</sup> Banco de Moçambique 2012, *Annual Report 2012*, volume 21, Annual Report, Banco de Moçambique, Mozambique, viewed 28 February 2014, <<http://www.bancomoc.mz/Files/CDI/AnnualReport2012.pdf>>.

<sup>9</sup> When they were not able to access the bank, they used to carry the money by their own (their preferred manner), or sent it through friends or bus drivers.

<sup>10</sup> Banco de Moçambique 2012, *Annual Report 2012*, volume 21, Annual Report, Banco de Moçambique, Mozambique, viewed 28 February 2014, <<http://www.bancomoc.mz/Files/CDI/AnnualReport2012.pdf>>.

<sup>11</sup> Ibid.

Financial prospects anticipated more growth for the Mozambique's economy, which could be translated into more people entering in the banking system. This might represent a significant challenge for banks, since out of the 128 districts that comprised the 11 Provinces of Mozambique, about 50% did not have banking presence.<sup>12</sup>

Overall, it can be said that the economic environment of Mozambique has been favorable for banks operating in this Country: the economy has been growing, investors had more confidence and there were more business opportunities. However, challenges started appearing and something needed to be done.

## **2.2 – Competitive Environment: Millennium bim – the leading bank**

The banking industry in Mozambique was highly concentrated. In 2012 the top five players operating in this industry held 86% of the total assets circulating in the financial market. Besides, during 2010 the top three banks accounted for 74% of the entire sector revenues.<sup>13</sup>

As can be observed on **Exhibit 5**, over the past few years more and more institutions have been entering into Mozambique's banking industry. This happened since the demand for financial products/services has been growing, as well as due to the fact that this industry offered high financial margins. Although there had been new entrants, Mozambique's banking industry remained characterized by its lack of competition.

The majority of banks operating in Mozambique were held by foreign investors: by the end of 2012 the foreign capitals circulating into the banking sector represented 71,11%<sup>14</sup> of the total sector. These investors used to have a strong know-how regarding banking activities, which allowed them to transfer some of the best-practices to Mozambique. This has been playing a crucial role in the economic development of the Country, and in the modernization of some banking procedures.

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<sup>12</sup> Millennium bim 2013, *Financial Inclusion Award 2013 Application Document – Case 2*, Millennium bim, Mozambique.

<sup>13</sup> The World Bank 2012, *Mozambique – Diagnostic Review of Consumer Protection and Financial Literacy*, The World Bank, Washington DC, viewed 2 March 2014, <<http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Diagnostic-Reviews/Mozambique-Good-Practices.pdf>>.

<sup>14</sup> A Banca em Moçambique – Ontem, hoje e amanhã 2013, Inforbanca, Moçambique, viewed 1 March 2014, <[http://www.ifb.pt/c/document\\_library/get\\_file?uuid=059d0b31-da89-4f1c-ad54-9411398f6f59&groupId=11202](http://www.ifb.pt/c/document_library/get_file?uuid=059d0b31-da89-4f1c-ad54-9411398f6f59&groupId=11202)>.



|   | Market share - total assets (%) | Market share - deposits (%) | Market share - loans (%) | Number of customers | Number of employees | Number of branches | Number of ATMs | Distribution channels other than branches                       | Business Areas   |
|---|---------------------------------|-----------------------------|--------------------------|---------------------|---------------------|--------------------|----------------|---|--|
| <b>Millennium bim</b>                         | 32,01%                          | 30,59%                      | 33,13%                   | 1.173.000           | 2.300               | 151                | 385            | →POS<br>→Internet Banking<br>→Mobile Banking<br>→Contact Centre | →Retail Banking<br>→Corporate Banking<br>→Investment Banking                     |
| <b>Banco Comercial de Investimentos (BCI)</b> | 27,25%                          | 28,18%                      | 30,22%                   | 563.000             | 1.906               | 128                | 213            | →POS<br>→Internet Banking<br>→Mobile Banking<br>→Contact Centre | →Retail Banking<br>→Corporate Banking<br>→Investment Banking                     |
| <b>Standard Bank Mozambique</b>               | 16,51%                          | 19,37%                      | 12,38%                   | NA                  | 969                 | 44*                | 60*            | →POS<br>→Internet Banking<br>→Mobile Banking                    | →Retail Banking<br>→Corporate Banking<br>→Private Banking<br>→Investment Banking |
| <b>Top 3 players combined</b>                 | <b>75,77%</b>                   | <b>78,15%</b>               | <b>75,73%</b>            |                     |                     |                    |                |   |  |
| <b>Barclays Bank Mozambique, SA</b>           | 6,57%                           | 6,25%                       | 6,01%                    | 408.419*            | 900*                | 43*                | 92*            | →POS<br>→Internet Banking                                       | →Retail Banking<br>→Corporate Banking<br>→Investment Banking                     |
| <b>Moza Banco, SA</b>                         | 3,78%                           | 3,45%                       | 4,14%                    | 10.000              | 325                 | 29                 | NA             | →POS<br>→Internet Banking<br>→Mobile Banking                    | →Retail Banking<br>→Corporate Banking<br>→Private Banking                        |
| <b>Top 5 players combined</b>                 | <b>86,12%</b>                   | <b>87,85%</b>               | <b>85,88%</b>            |                     |                     |                    |                |   |  |

**Table 1: Main players in Mozambique's Banking Industry 2012**

Source: Case writer based on Banco de Moçambique, The World Bank and Companies data

NA: Data not available

\*Data from 2013

As can be observed in **table 1**, the main competitors of Millennium bim in 2012 were: Banco Comercial de Investimento (BCI), Standard Bank Mozambique, Barclays Bank Mozambique, SA, and Moza Banco, SA.

BCI, the second largest bank operating in Mozambique, was held by two Portuguese financial groups. This Bank was founded in 1996, as a small investment bank. During 2012, with a half of Millennium bim customers, it served them through similar distribution channels.

Standard Bank Mozambique, was a South African bank that had been leading the African market as whole in terms of total assets. It started operating in Mozambique in 1896. In terms of distribution channels, they were also quite similar to the ones used by Millennium bim.

Barclays Bank Mozambique, SA, was founded in 2002 through the acquisition of a Portuguese based bank, Banco Austral. Since those times, it has been targeting the same market segments of Millennium bim, however it did not have a mobile banking system neither a contact centre.

Moza Banco, started operating in Mozambique in 2008. Part of his capital was also owned by a well-known Portuguese bank – Banco Espírito Santo (BES). Since this integration, Moza Banco has been improving its performance.

Millennium bim was one of the most important financial institutions operating within the Mozambique’s banking system. In 2012, it reached a consolidated net income of 3.14 billion Meticaís<sup>15</sup> (MZN) (approximately 80 million Euros<sup>16</sup>). It was also during that year, that this Bank was elected “Bank of the Year” in Mozambique by the magazine *The Banker* of the Financial Times; “Best Bank in Mozambique”, distinguished by *Eneafinance* and by the financial publication *Global Finance*, among other awards and recognitions (see **Exhibit 2**).

According to Mr. Mário Machungo, chairman of the board of directors of Millennium bim, what made this Bank different from its competitors was its capacity to act as:

“(…) an active agent in the process of extending the participation of the population in the banking sector of Mozambique through the continuous expansion of its network of branches, the largest of the Country, consolidated its leadership in remote payment channels, promoting the increased total number of ATM and POS, and has launched innovative products and services designed to meet the needs of Mozambicans and the business sector of the Country.”<sup>17</sup>

In other words, Millennium bim was one of the most important agents contributing to the development of Mozambique’s banking industry. This was only possible since, as can be observed on **Exhibit 6**, the Bank has been bringing a growing number of customers into the system.

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<sup>15</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

<sup>16</sup> According to the Exchange rate of Banco de Moçambique at 31 December 2012.

<sup>17</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

### **2.3 – Consumer Behavior of Mozambicans**

The majority of Mozambicans participating within the banking industry used to have low product knowledge, being therefore considered as novices. Thus, they preferred to buy financial products/services through face-to-face distribution channels, as the perceived risk involved in this type of purchases was reduced during the contact with the salespeople. Regarding the other distribution channels, they used ATMs to cash withdrawal and to check account balance; the POS were rarely used; and the electronic banking systems (i.e. internet and mobile) were used to check account balance and to purchase airtime from Telecoms.

Another common behavior of Mozambicans was to withdrawal all of their salary at once, this way they could avoid the queues in the bank branches and ATMs, as well as the traveling costs<sup>18</sup>. Then, they hide the money in their houses or bury it in the ground.

The majority of Mozambican consumers had low income levels, and as a result were very price sensitive. Actually, when banks varied the price of their products and services, demand automatically varied too. Moreover, products such as cheques were not commonly used as they were considered very expensive. Nevertheless, when consumers have sufficient income, they were willing to pay bank commissions. This happened, since these institutions were the unique entities through which they could move their money on a reliable and safe manner: for example, customers were required to present an official identification document in order to perform operations through bank branches.

Consumer loyalty across Mozambican consumers was very high. The majority of customers only performed operations with a single bank. Regarding the bank choice there were several factors influencing it, namely: branches location (the most important factor), size of the institution, convenience and ease of transactions, and professionalism of bank collaborators (the least important factor).

### **2.4 – Millennium bim Customers**

To be able to ensure an effective and targeted interaction, Millennium bim segmented its customers in three main groups: mass-market (individuals and business segment), prestige (individuals and business segment) and corporate (see **Exhibit 7**).

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<sup>18</sup> In Mozambique, due to the low level of infrastructure development, the mobility of the population was precarious, and travelling the country was either very strenuous or extremely expensive.

The mass-market was the foremost segment, since it represented 98%<sup>19</sup> of Millennium bim total customers, thus it was crucial to improve the access of this segment to the Bank. In order to do so, Millennium bim has been engaged in opening more bank branches. Actually, out of the 15 branches opened in 2012, 14 belonged to the retail network<sup>20</sup>. Individual customers belonging to the mass-market segment were subdivided into two different groups: the lower mass-market (represented 95% of total segment) and the middle mass-market (represented the remaining 5%).

The prestige segment was composed by individual and corporate customers to whom Millennium bim wanted to provide a differentiated service. Since this group comprised the customers with more money, exclusivity, availability and exceptionality were crucial. Following this line of thought, the Bank developed special and unique branches, with a characteristic design and aesthetics that guaranteed comfort and convenience for these customers. Moreover, customers also had an account manager allocated, who was responsible to solve all customer needs either through telephone or through physical meetings.

The corporate banking was also an important market segment, as it comprised the largest companies operating in Mozambique. Therefore, each company had a manager and received individualized treatment.

#### *Consumer Behavior – individual customers<sup>21</sup>*

Millennium bim customers behaved very similarly to the majority of Mozambicans. Nevertheless, their behavior changed accordingly to the segment to which they belong.

Starting by the mass-market segment and more precisely by the lower mass-market, customers belonging to this segment used to have two different types of bank products: deposit accounts and debit cards. They went to the bank branch on average once a month, and the most common operations performed were cash deposits and withdrawals. Regarding the ATMs, the majority of customers used it four times per month. Further, their average account balance used to be comprised between 3.000 and 5.000 Meticaís (approximately between 77 to 128 Euros)<sup>22</sup>.

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<sup>19</sup> João Paulo Miranda, Head of Strategic Projects at Millennium bim, in a telephone interview on 19 March 2014.

<sup>20</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

<sup>21</sup> All the data presented in this subchapter was obtained through a telephone interview with João Paulo Miranda on 19 March 2014.

<sup>22</sup> According to the Exchange rate of Banco de Moçambique at 31 December 2012.

The middle mass-market was composed by customers belonging to mass-market segment, who had superior monthly incomes. Therefore, they were able to purchase more financial products and services, been the most common ones: deposit accounts, debit and credit cards, time deposits and cheques. Some customers also had loans, namely the ones working for Public Companies. Regarding the frequency of contacts with the Bank, as well as the most common performed operations, these customers behaved similarly to the ones belonging to the lower mass-market. Their average account balance used to be 30.000 MZN (approximately 765 Euros)<sup>23</sup>.

The prestige segment comprised customers with the highest income levels. Their average account balance used to be over 60.000 MZN (approximately 1.529 Euros)<sup>24</sup>. The most commonly purchased financial products/services, were: deposit accounts, debit and credit cards, time deposits, cheques, loans, house mortgages and car leasing. Since these customers had an account manager allocated and access to special branches, they went to the branch whenever they needed.

### ***2.5 – Millennium bim Distribution Structure***

Millennium bim has been a pioneer in what concerns to its distribution channels. It was the first Bank launching ATM, POS, internet and mobile banking in Mozambique. All of this aiming to meet the needs of its clients in geographical areas that had low penetration by the financial system.

By the end of 2012, Millennium bim had three main types of distribution channels: bank branches; ATMs; and remote channels and self-banking. Starting by the bank branches, Millennium bim had the largest branch network in Mozambique: it covered all Province Capitals, most major cities and a significant percentage of rural areas. This allowed the Bank to help Mozambique achieving a sustainable growth and development across all Country regions. Regarding the ATM network, it was crucial to reinforce Millennium bim commercial's strategy, as it allowed customers to had access to the Bank without the need to go to a branch. The remote channels and self-banking included internet banking, call centre, mobile banking and POS. The internet banking could be described as an "Electronic portal of the bank, which operates via the Internet and allows individual customers and companies to carry out a variety of financial operations, at any time on the portal (...)"<sup>25</sup>. The call centre was a:

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<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Millennium bim 2011, *Millennium bim Sustainability Report 2011*, Sustainability Report, Millennium bim, Mozambique, viewed 15 March 2014, <[http://old.millenniumbim.co.mz/RC/RSBIM\\_11\\_ING.pdf](http://old.millenniumbim.co.mz/RC/RSBIM_11_ING.pdf)>.

“Telephone banking service, through which it is possible to obtain information on products and services, consult account balance or movements, make transfers, request or cancel cards, order cheques, subscribe to insurance or leasing etc, in a fast and accessible manner, 24 hours a day, 365 days a year.”.<sup>26</sup>

The mobile banking permitted customers to have access to the Bank through a mobile phone device, 24 hours per day and 365 days a year. As to the POS, it was a terminal that enabled customers to make/receive payments through debit or credit cards.

|                         | 2008  | 2009  | 2010  | 2011     | 2012     | Average growth rate | Percentage of the banking system (2012) |
|-------------------------|-------|-------|-------|----------|----------|---------------------|---|
| <b>Branches</b>         | 101   | 117   | 126   | 138      | 151      | 11%                 | 30,08%                                  |
| <b>ATMs</b>             | 240   | 290   | 320   | 345      | 385      | 13%                 | 41,22%                                  |
| <b>POS</b>              | 2.300 | 2.600 | 2.660 | 3.025    | 4.058    | 63%                 | 47,75%                                  |
| <b>Internet Banking</b> | NA    | NA    | NA    | 54.231*  | 67.182*  | 24%                 | NA                                      |
| <b>Call Centre</b>      | NA    | NA    | NA    | 162.627* | 175.381* | 8%                  | NA                                      |
| <b>Mobile Banking</b>   | NA    | NA    | NA    | 480.992* | 561.391* | 17%                 | NA                                      |

**Table 2: Evolution of Millennium bim Distribution Network**

Source: Case writer based on Millennium bim Annual Reports and Banco de Moçambique data

Note: There was no information available for the NA.

\*Number of contracts between customers and Millennium bim.

As can be observed in **table 2**, Millennium bim distribution channels have been growing. However, this growth has been highly concentrated in the main cities, particularly in the capital city Maputo, where 47%<sup>27</sup> of Millennium bim customers lived. This made the access to the Bank very difficult to customers who lived across different regions of Mozambique (see **Exhibit 8**).

## **2.6 – Mobile Banking in Mozambique: a new reality**

The launch of mobile banking in Mozambique resulted from a win-win strategy undertaken by Millennium bcp and Millennium bim. When Millennium bcp launched its mobile banking system, in 2001, it was operating in a developed market – Portugal – therefore it had access to scientific knowledge and capacity to understand scientific principles, which were crucial to develop such an innovative service.

The product life cycle of mobile banking in Portugal was divided into three<sup>28</sup> main stages: introduction, growth and maturity. During the introduction stage, the service was quite unstandardized, which reinforced Millennium bcp positioning as an innovator. However, throughout the growth stage the demand for mobile bank expanded in a relevant manner and a certain degree of standardization took place. In reality, the number of banks offering mobile banking platforms within the Portuguese market,

<sup>26</sup> Ibid.

<sup>27</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

<sup>28</sup> At the date of the case writing, the declining stage of the Product Life Cycle had not been reached.

reached a point in which this “new” product became an industry standard. Hence, the maturity stage was attained. To continue growing, new markets needed to be explored. Following this rationale, Millennium bcp tried to replicate this service innovation in the other markets in which the group was operating, namely the Mozambican one.

The question to introduce or not, the mobile banking in Mozambique arose in 2007. Although Millennium bim was aware of the strong potential that the new service might have in managing its growing demand, it was somewhat afraid that the differences between the Portuguese and the Mozambican reality prevent success to occur. After all, one market was mature, whereas the other was emerging. In fact, Millennium bim was concerned with: the lack of skilled labor, the lack of technology, the difficulty to ensure safety procedures<sup>29</sup> and the low literacy indexes that used to characterize the Mozambican reality. Nonetheless, the Bank decided to be loyal its motto – “innovation and modernization” – and launched the mobile banking system.

#### *Millennium bim SMS*

The service launched was called Millennium bim SMS. It could be described as an electronic banking channel that allowed customers to perform banking operations through text messages exchanged between the customer’s mobile phone and the bank’s system. This service permitted customers to execute bank transfers, pay service bills, buy mobile-phone minutes, access account relevant information (balance, number), order cheques, consult exchange rates, among others, at a lower price than the one practiced in the bank branches and on the ATMs. The most common operations performed were: account balance check (58% of total operations), purchase of mobile-phone minutes from Mcel<sup>30</sup> (24,1% of total operations) and bank transfers (4,2% of total operations), as can be seen on **Exhibit 9**.<sup>31</sup> The target for Millennium bim SMS is described on **Exhibit 10**.

On average, during 2012, 700 thousand of monthly operations, involving more than 1 million Meticaís (approximately 25.484 Euros)<sup>32</sup>, were performed through Millennium bim SMS. Moreover, between 2009 and 2012 the usage rate of this product grew 159%.<sup>33</sup> Regarding the customer base, by the end of 2012 it reached a total of

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<sup>29</sup> Mozambique was characterized by high corruption and criminal rates.

<sup>30</sup> Mcel was a Mozambican network operator.

<sup>31</sup> Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique.

<sup>32</sup> According to the Exchange rate of Banco de Moçambique at 31 December 2012.

<sup>33</sup> Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique.

135.349 active users<sup>34</sup>. This represented a growth rate of 143%<sup>35</sup> during the past three years (see **Exhibit 11**). All of this led Millennium bim to conclude that a mobile banking system might have a strong potential to generate profits, while improving customers' access to financial products and services. According to João Paulo Miranda, Head of Strategic Projects at Millennium bim:

“Unlike the bank branches and ATMs, Millennium bim SMS has been serving customers across the entire Country. The geographical distribution of users can be described as the following: there are 53,2% in the South, 33% in Centre and 13,8% in North. The Provinces located in the centre have the highest rate of penetration, whereas Maputo ones have the lowest. This can be explained by the fact that the majority of Millennium bim physical contact points are located in Maputo region.”<sup>36</sup>

Furthermore, it was also serving customers from two different segments – mass-market and prestige – still, 96%<sup>37</sup> of total users belong to the mass-market, as it was easier to penetrate.

Another positive result of Millennium bim SMS was its capacity to help Millennium bim attracting new customers. In fact, the percentage of new customers subscribing the service had been growing on average at 12,4%<sup>38</sup> per year.

Still, Millennium bim SMS had several problems and limitations, “(...) which constrained it from being a substitute to the heavily-demanded branch network (...)”<sup>39</sup>. The service dynamic was quite confusing, particularly for a Country in which only 50,6%<sup>40</sup> of the population were educated. More precisely, in order to perform a single banking operation through Millennium bim SMS, the customer needed to first went to a branch and sign a contract subscribing this service. Later on, the customer had to dial a predefined code (which corresponded to a certain type of operation), then dial its personal code, after that send a text message for a certain number, and only then he was able to conclude the operation. Furthermore, the customer was also required to memorize the service password, as well as the different codes corresponding to the different types of operations.

Millennium bim SMS had also other problems: it was not intuitive; the text message was sent through an open channel, which might put in cause the security of the

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<sup>34</sup> Customers that had subscribed the service and used it every month.

<sup>35</sup> Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique.

<sup>36</sup> João Paulo Miranda in an e-mail interview on 10 March 2014.

<sup>37</sup> Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique.

<sup>38</sup> Ibid.

<sup>39</sup> Millennium bim 2013, *Financial Inclusion Award 2013 Application Document – Case 2*, Millennium bim, Mozambique.

<sup>40</sup> UNICEF 2013, UNICEF Mozambique, viewed 7 March 2014, <[http://www.unicef.org/infobycountry/mozambique\\_statistics.html](http://www.unicef.org/infobycountry/mozambique_statistics.html)>.



operation; it did not promote cross-selling, neither up-selling, actually it only promoted the repeated use, as the majority of customers only used to perform one type of banking operation; and it lacked some kind of transactions.

### *Millennium App for Smartphones*

In an attempt to solve some of the main problems of Millennium bim SMS, the Bank decided to launch four different types of apps: Millennium app for IOS (iPhone and iPad), Android, BlackBerry and for Java. These apps were a copy of the ones launched by Millennium bcp in Portugal, and allowed customers to perform the same operations as Millennium bim SMS, however they were safer, as the text message was sent in an encoded way. Another advantage was the existence of interface menus, which made the app user-friendly and did not require the customer to memorize the code of each type of operation. Nevertheless, this was not a good solution due to three main facts: first of all unlike what happened in Portugal, the majority of the customers did not have mobile phones compatible with the operating systems mentioned above; secondly, customers needed to be connected to the internet in order to download the app, and the majority of them did not have a mobile connection to the internet; thirdly there was a high number of mobile phones which were replicas of iPhone, BlackBerry or other Androids, and the mobile app did not work on this kind of phones.

Overall, it can be said that the mobile banking systems revealed strong potential to manage Millennium bim growing demand, yet they were not fulfilling customer needs in an efficient way.

## **3 – On the Road to the Solution**

### ***3.1 – Problem Background***

Millennium bim has been committed in developing solutions that would allow it to bring unbanked population into the formal economy, nonetheless by the end of the 2012 autumn almost 80% of people did not have access or did not use a formal banking system.

To be able to fight financial exclusion, Millennium bim needed to ensure a full geographic coverage of banking services. However, as already mentioned there were few contact points between the Bank and its customers. Mr. Miranda, complemented this fact arguing that “There are only 151 Millennium branches in Mozambique, whereas in Portugal there are 839, yet the Mozambique’s land territory is almost ten

times the Portuguese one”<sup>41</sup>. In addition, the few contact points that existed were always full of people:

“On average, customers use to spend one hour on the waiting line. This is such an immense amount of time, particularly when we think about the Portuguese case, in which there are so many branches that if the customer see someone in the line, he goes to the nearest branch”<sup>42</sup>.

Regarding the number of POS, it was also reduced. This was aggravated by the fact that the ones that existed did not always work.

During the past few years, the number of Millennium bim customers has been growing rapidly (see **Exhibit 6**). This happened, as the demand for financial services in general and for Millennium bim ones in particular, has been growing at a fast rate. At a first glance this appeared to be good, however as one can observe on **Exhibit 12**, the number of customers was growing faster than Millennium bim distribution channels (i.e. branches and ATMs), which aggravated even more the problems presented above.

### ***3.2 – The Dilemma***

In order to properly address the growing demand for financial products and services, it was evident that something needed to be done. Actually, there were two broad alternatives: work on the demand side or work on the supply side. Mr. Cunha Martins believed that the last alternative was more suitable to deal with excess demand. He believed this, because if the Bank decided to work on the demand side, it would need to reduce demand, and this could only be done through increasing prices. However, as the majority of Mozambicans had very low income, they would not be able to pay and consequently, the access to the banking system would be even more restricted. This would be against Millennium bim mission: improve the access of Mozambique’s population to financial services sector.

During the first quarterly meeting that occurred in April 2012, Mr. Cunha Martins and its team decided that the solution for excess demand would be reached through supply management. Still, they were very confused about the best way to do so. Some argued that the Bank should increase its branch network relevantly, whereas others claimed that the best approach was to improve its mobile banking platforms.

One thing was clear for everyone: the solution should meet Millennium bim strategic goals. First of all, it should reduce waiting lines both in the ATMs and on Millennium bim branches’. This was very important, since the low service levels had been damaging the Bank image towards its customers and other stakeholders. The

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<sup>41</sup> João Paulo Miranda in a telephone interview on 26 February 2014.

<sup>42</sup> Ibid.

second objective was to develop a profitable solution, which would allow Millennium bim to increase the number of transactions and the commissions charged. Thirdly, aware of the increasing power that Telecoms have been exercising in Africa, through the launch of mobile payments systems which had the potential to replace banks, Millennium bim wanted to ensure that the solution implemented would reduce the threat of substitute products. Actually, over the past few years these non financial companies have been directly competing with the majority of banks operating in African countries<sup>43</sup>. The other goals were: reinforce Millennium bim image as the leading bank; and increase customers' access to banking services, regardless of their geographic location.

After carefully analyzing Millennium bim strategic goals, Mr. Cunha Martins and his team considered two main alternatives: increase the branch network in a relevant way or improve the mobile platforms that have been used by the Bank.

### **3.3 – Bank Branches versus Mobile Banking**

#### *Bank Branches<sup>44</sup>*

Bank branches in Mozambique were a scarce resource, particularly when one compared it to other international operations of Millennium bcp (see **Exhibit 13**). Millennium bim was the bank with the highest number of branches in Mozambique. It had branches in all Provinces of the Country (see **Exhibit 8**), however it was also the Bank with the highest number of customers, reason why its branches used to be characterized by huge waiting lines. Consequently, there was a need to increase the number of branches across entire Country. To be able to do so, Millennium bim needed to decide where the branches would be located, the size they would have, as well as hire more staff.

Depending on its size, there were three different categories of bank branches – small, medium and large. The small branches employed 6 to 7 workers and were mainly located in rural areas. The medium size ones used to have 10 to 11 employees and were located both in rural and urban areas. The large branches had on average 15 employees and were only available in urban areas.

Regarding the branch costs (see **Exhibit 14**), besides depending on its size, they also depended on its location. Starting by the opening costs, they used to be very high in

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<sup>43</sup> Ondiege, P 2010, 'Mobile Banking in Africa: Taking the Bank to the People', *Africa Economic Brief*, vol. 1, no. 8, pp. 1-15, viewed 15 April 2014, EBSCOhost MegaFile Premier.

<sup>44</sup> All the quantitative data presented in this subchapter was obtained through a telephone interview with João Paulo Miranda on 19 March 2014.

urban areas, whereas almost inexistent in rural districts. Actually, in urban areas the cost used to be comprised between 12 to 15 million Meticaís (approximately between 305.810 and 382.263 Euros)<sup>45</sup>. In rural areas the opening costs were not significant since the branches were very scarce, and consequently municipalities used to donate the space where the bank would be located. As to the annual maintenance costs<sup>46</sup>, they were on average between 7 to 10 million Meticaís (approximately between 178.389 and 254.842 Euros)<sup>47</sup> both in urban and rural areas. Even if each individual cost was very different in both areas, the total costs were almost the same (for example, monthly rents use to be very significant in urban areas while almost inexistent in rural areas, however the logistic costs were very high in rural areas and low in urban areas).

During the past year, Millennium bim opened 15 new branches, nevertheless, Mr. Cunha Martins was aware that to deal with excess demand in an efficient way, a higher number of branches would need to be opened, both in rural and urban areas. However, due to bureaucratic procedures, as well as logistic constrains it took too long to open a branch in Mozambique. Furthermore, it also required strong capital and human investments. Even though these limitations did not exist, there would be a limited number of customers that might be served by the branches.

### *Mobile Banking*

Millennium bim mobile banking systems revealed strong potential regarding the use of branchless distribution channels in Mozambique. In fact, Millennium bim SMS served almost 500.000 customers spread across all regions of the Country (see **Exhibit 15**), from which 20% performed operations on a monthly base. It was used by customers belonging to the two main market segments - mass-market and prestige - and its utilization rate has been growing at a fast pace, both in terms of operations and customers (see **Exhibit 11**). Besides, it also attracted new customers to the Bank.<sup>48</sup>

Another fact that sustained the mobile banking future potential was related to the penetration rate of mobile phones in Mozambique. In 2012, 33%<sup>49</sup> of Mozambicans had

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<sup>45</sup> According to the Exchange rate of Banco de Moçambique at 31 December 2012.

<sup>46</sup> Excluding staff costs.

<sup>47</sup> According to the Exchange rate of Banco de Moçambique at 31 December 2012.

<sup>48</sup> Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique.

<sup>49</sup> Deloitte and GSMA 2012, *Sub-Saharan Africa Mobile Observatory 2012*, Deloitte and GSMA Sub-Saharan Africa, viewed 4 April 2014, <[http://www.gsma.com/publicpolicy/wp-content/uploads/2012/03/SSA\\_FullReport\\_v6.1\\_clean.pdf](http://www.gsma.com/publicpolicy/wp-content/uploads/2012/03/SSA_FullReport_v6.1_clean.pdf)>.

a mobile phone, whereas only 20,2%<sup>50</sup> had access to bank accounts. Thus, the mobile banking system could facilitate the access to the bank to people who had a mobile phone but was financially excluded.

After analyzed these data, Mr. Cunha Martins started speculating about the results that an improved version of a mobile banking platform might reach. But first, it was necessary to define how the Bank would improve it. All agreed that the improvement should result in a solution that was intuitive, based on user-friendly menus and easy to install. Moreover, it should encourage customers to perform their banking operations through the mobile platform whenever possible.

Following this line of thought, Millennium bim decided that the new mobile banking platform, if launched, should be based on a “low-tech” system whose main purpose was to provide a 24 hours, 7 days a week, flexible and easy service, through which all Millennium bim individual customers could perform banking transactions in every location with GSM coverage, without the need to install an app. Besides, it should also be available in different languages, be compatible with any type of mobile-phone device connected to one of the two main Mozambican network operators (Mcel or Vodacom) and should not require customers to memorize the service-specific short codes. Furthermore, if launched, the new channel should allow customers to perform two main types of banking operations: informational (e.g. consult current and credit account information and foreign exchange rates) and transactional (e.g. intra and interbank transfers, GSM airtime vouchers purchase, cheque-books requests, bill payments and pin changes). In order to solve one of the main problems of Millennium bim SMS, the new platform should have an effortless and intuitive service dynamic (see **Exhibit 16**).

Regarding the costs (see **Exhibit 14**), if launched, the system would be entirely developed through internal resources, so they would not be as relevant as in the case of the bank branches alternative.

It was evident that both alternatives had some pros and cons, ones with more impact than others. On one hand, the Bank Branches allowed Millennium bim to provide a better and safer service, however they were more expensive; on the other hand, the Mobile Banking was more efficient in bringing unbanked population into the financial services, nevertheless the Bank will be dependent of the network operators. All of this made the decision to be made very hard, complex and risky.

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<sup>50</sup> Banco de Moçambique 2012, *Annual Report 2012*, volume 21, Annual Report, Banco de Moçambique, Mozambique, viewed 4 April 2014, <<http://www.bancomoc.mz/Files/CDI/AnnualReport2012.pdf>>.

### ***3.4 – What is Next?***

Mr. Cunha Martins had just arrived to his office, and started reviewing the documents that contained all the pros and cons of each alternative. The improvement of the mobile platforms appeared to be the most suitable and efficient solution to manage the Bank growing demand. Millennium bim already had the know-how needed, as well as strong relationships with potential partners. Further, comparing to the branches alternative, it would represent lower costs per customer, while targeting a higher number of them. But would all customers be able to use the service? Would they understand its dynamics? And what about the safety issues, would customers trust 100% in the mobile system? Would not be better to open even more branches? They were safer, reliable and provide a face-to-face contact, which might be important particularly in a Country where literacy indexes were so low. Another question arose, was it a good idea to transpose the mobile banking system of a mature market – Portugal – to an emergent one – Mozambique? At the end of the day, only one thing became clear: he had one week to present the solution to the shareholders.

The week passed and the big day arrived. It was 9 am, Mr. Cunha Martins was having coffee in his office, while checking the details for the 3 pm meeting. Everything was settled, the room was booked and prepared, the agenda was defined and all shareholders confirmed their presence. Only one thing was missing, the slide correspondent to the final decision. Mr. Cunha Martins had just 6 hours to decide the future of Millennium bim distribution channels.

## EXHIBITS

### Exhibit 1: History of Millennium bcp at a Glance

| FOUNDATION AND ORGANIC GROWTH TO BECOME A RELEVANT PLAYER   | DEVELOPMENT IN PORTUGAL THROUGH ACQUISITIONS AND PARTNERSHIPS   | INTERNATIONALISATION AND CREATION OF A SINGLE BRAND  | RESTRUCTURING PROCESS INVOLVING THE DIVESTURE IN NON-STRATEGIC ASSETS   |
|---|---|--|---|
| <ul style="list-style-type: none"> <li>• <b>1985:</b> Incorporation</li> <li>• <b>1989:</b> Launch of NovaRede</li> <li>• <b>Until 1994:</b> Organic growth, reaching a market share of approximately 8% in loans and deposits</li> </ul> | <ul style="list-style-type: none"> <li>• <b>1995:</b> Acquisition of Banco Português do Atlântico, S.A.</li> <li>• <b>2000:</b> Acquisition of Banco Pinto &amp; Sotto Mayor from CGD and incorporation of José Mello Group (Banco Mello and Império)</li> <li>• <b>2004:</b> Agreement with CGD Group and Fortis (Ageas) for the insurance business</li> </ul> | <ul style="list-style-type: none"> <li>• <b>1993:</b> Beginning of the presence in the East</li> <li>• <b>1995:</b> Beginning of the presence in Mozambique</li> <li>• <b>1998:</b> Partnership agreement with BBG (Poland)</li> <li>• <b>1999:</b> Set up of a greenfield operation in Greece</li> <li>• <b>2000:</b> Integration of the insurance operation into Eureko</li> <li>• <b>2003:</b> Change of Poland operation's denomination to Bank Millennium</li> <li>• <b>2006:</b> <ul style="list-style-type: none"> <li>– Adoption of the single brand Millennium</li> <li>– BMA incorporation</li> </ul> </li> <li>• <b>2007:</b> Beginning of the activity in Romania</li> <li>• <b>2008:</b> Strategic partnership agreement with Sonangol and BPA</li> <li>• <b>2010:</b> Transformation of Macao branch from off-shore to on-shore</li> </ul> | <ul style="list-style-type: none"> <li>• <b>2005:</b> <ul style="list-style-type: none"> <li>– Sale of Crédilar</li> <li>– Sale of BCM and maintenance of an off-shore branch in Macao</li> <li>– Divesture in the insurance activity, following the partnership agreement with Ageas for the bancassurance activity</li> </ul> </li> <li>• <b>2006:</b> <ul style="list-style-type: none"> <li>– Sale of the financial holding of 50.001% in Interbanco</li> <li>– Conclusion of the sale of 80.1% of the share capital of the Banque BCP France and Luxembourg</li> </ul> </li> <li>• <b>2010:</b> Sale of 95% of Millennium bank AS in Turkey and sale agreement for the entire branch network and the deposit basis of Millennium bcpbank in USA</li> </ul> |

Figure 1: History of Millennium bcp at a Glance

Source: Millennium bcp 2012, *Annual Report Millennium bcp 2012*, Annual Report, Millennium bcp, Portugal, viewed 1 March 2014, <<https://bo.millenniumvideos.net/documents/dwtwrSebaEXXRAVt.pdf>>

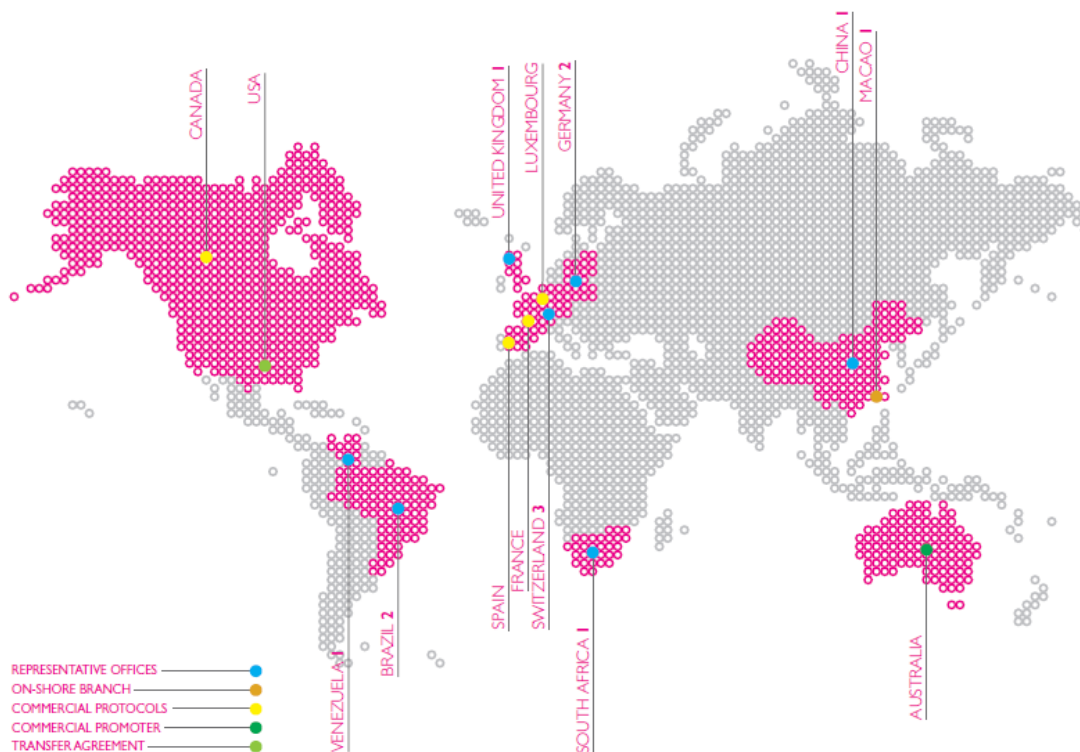
## Exhibit 2: Millennium bcp International Presence



Figure 2: Millennium bcp International Presence (2012)

Source: Millennium bcp 2012, *Annual Report Millennium bcp 2012*, Annual Report, Millennium bcp, Portugal, viewed 1 March 2014, <<https://bo.millenniumvideos.net/documents/dwtwrSebaEXXRAVt.pdf>>





**Figure 3: Representative offices, branches, commercial protocols, commercial promoter and transfer agreement (2012)**  
 Source: Millennium bcp 2012, Annual Report Millennium bcp 2012, Annual Report, Millennium bcp, Portugal, viewed 1 March 2014, <<https://bo.millenniumvideos.net/documents/dwtwrSebaEXXRAVt.pdf>>

The Bank had also presence on Greece, however in June 2013 it signed an agreement to sell the entire share of capital of Millennium bank – Greek operation. The same happened in Turkey (December 2010) and is expected to happen in Romania.

### Exhibit 3: Shareholder Structure of Millennium bim

| Shareholder Structure                          | (%)    |
|--|--------|
| Millennium bcp SGPS                            | 66,69% |
| Mozambique Government                          | 17,12% |
| National Institute of National Security (INSS) | 4,95%  |
| EMOSE - Empresa Moçambicana de Seguros, SARL   | 4,15%  |
| Foundation for Community Development (FDC)     | 1,08%  |
| Management, technicians and employees*         | 6,01%  |

**Table 3: Shareholder structure of Millennium bim (2012)**  
 Source: Case writer based on Millennium bim Annual Report 2012

\*1.637 investors, with individual holdings of less than 1%, acquired under the process of sale of Government Shares to the Workers.

## Exhibit 4: Evolution of Mozambique's Banking Industry

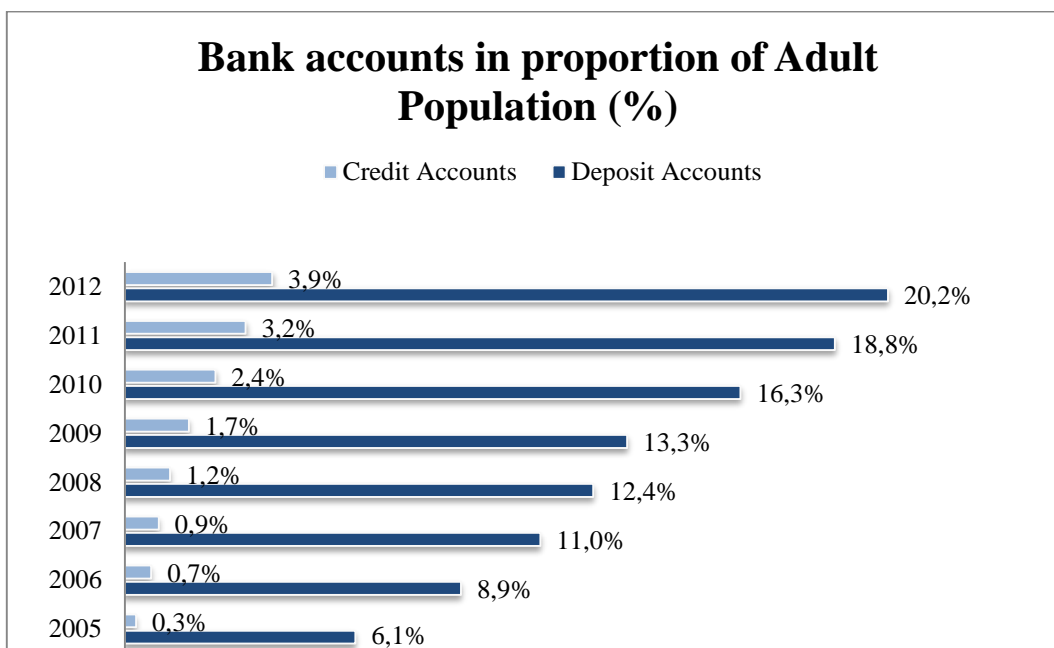


Figure 4: Bank Accounts in proportion of Adult Population (%)

Source: Banco de Moçambique 2012, *Annual Report 2012*, volume 21, Annual Report, Banco de Moçambique, Mozambique, viewed 28 February 2014, <<http://www.bancomoc.mz/Files/CDI/AnnualReport2012.pdf>>

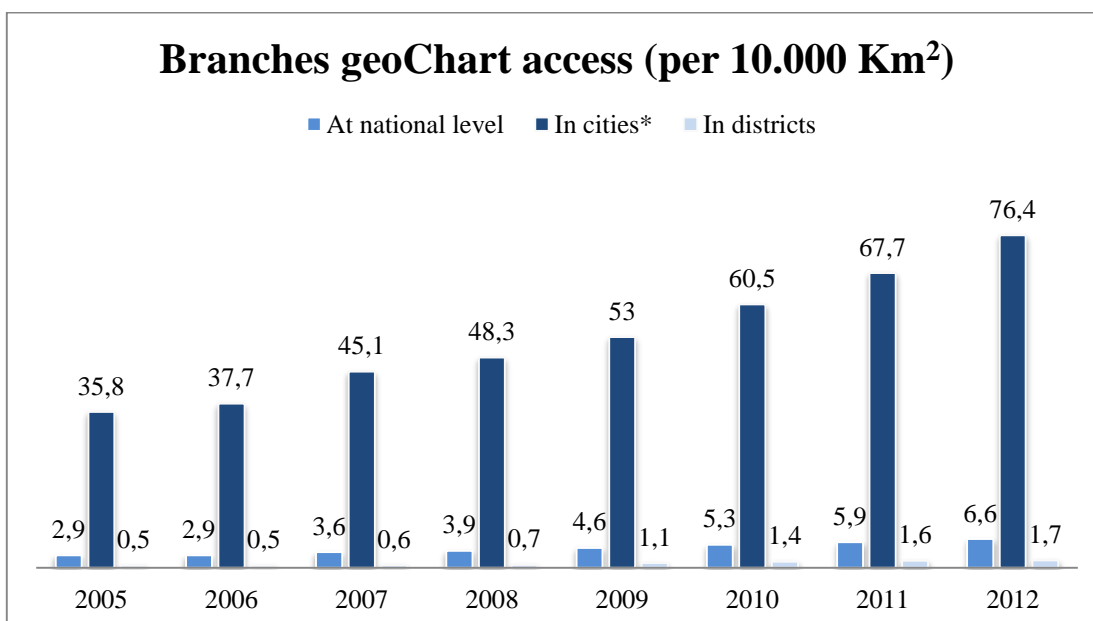


Figure 5: Branches geoChart access (per 10.000 Km<sup>2</sup>)

Source: Banco de Moçambique 2012, *Annual Report 2012*, volume 21, Annual Report, Banco de Moçambique, Mozambique, viewed 28 February 2014, <<http://www.bancomoc.mz/Files/CDI/AnnualReport2012.pdf>>

\*Per 1.000 Km<sup>2</sup>

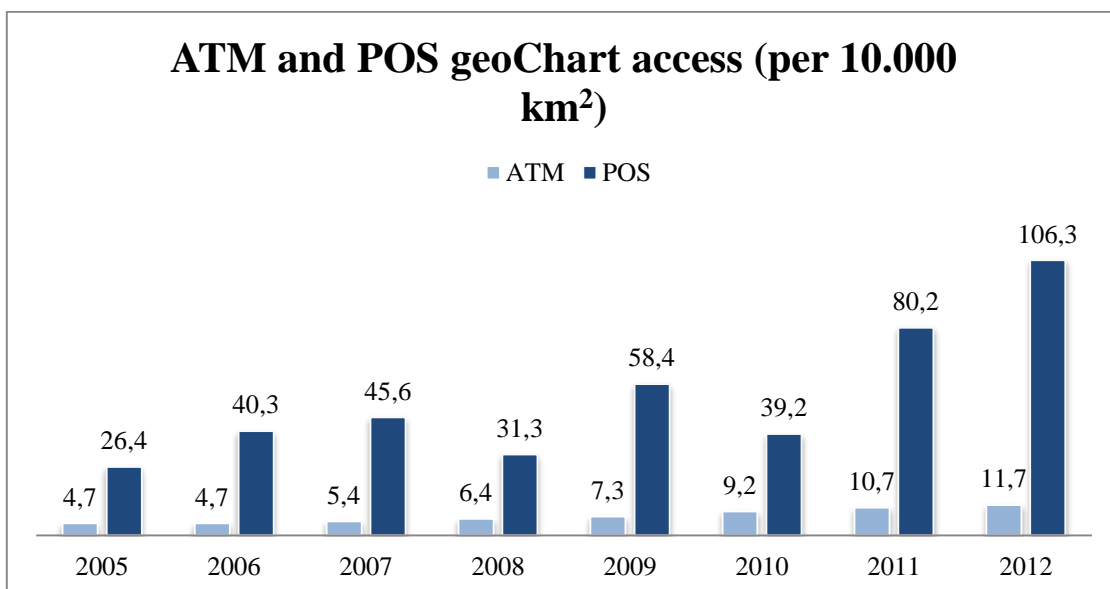


Figure 6: ATM and POS geoChart access (per 10.000 km<sup>2</sup>)  
 Source: Banco de Moçambique 2012, *Annual Report 2012*, volume 21, Annual Report, Banco de Moçambique, Mozambique, viewed 28 February 2014, <<http://www.bancomoc.mz/Files/CDI/AnnualReport2012.pdf>>

| Province        | 2012       |
|-----------------|------------|
| Maputo City     | 186        |
| Maputo Province | 51         |
| Gaza            | 31         |
| Inhambane       | 30         |
| Sofala          | 46         |
| Manica          | 24         |
| Tete            | 34         |
| Zambézia        | 24         |
| Nampula         | 50         |
| Cabo-Delgado    | 16         |
| Niassa          | 10         |
| <b>Total</b>    | <b>502</b> |

Table 4: Location of operating Bank Branches in Mozambique (2012)  
 Source: Banco de Moçambique 2012, *Annual Report 2012*, volume 21, Annual Report, Banco de Moçambique, Mozambique, viewed 28 February 2014, <<http://www.bancomoc.mz/Files/CDI/AnnualReport2012.pdf>>

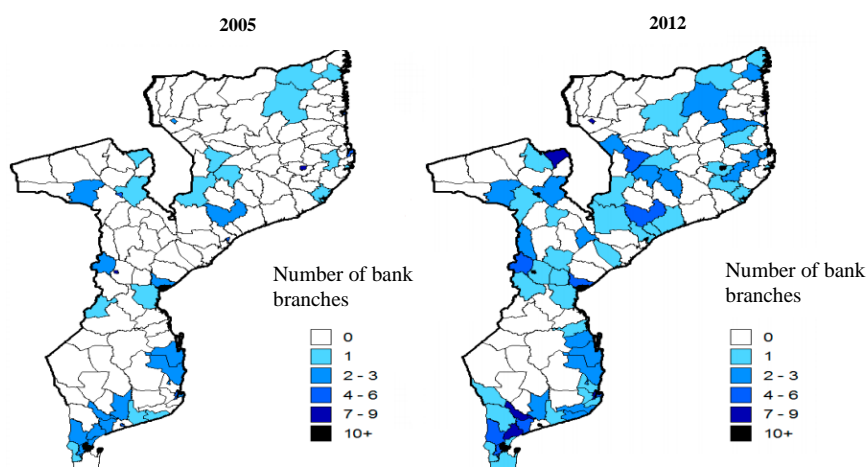






Figure 7: Comparison between the number of Bank Branches in Mozambique in 2005 and in 2012  
 Source: Banco de Moçambique 2013, *Desafios da Inclusão Financeira em Moçambique - Uma abordagem do lado da Oferta*, Banco de Moçambique, Mozambique, viewed 28 March 2014, <[http://www.bancomoc.mz/Files/GPI/Desafios\\_Mocambique.pdf](http://www.bancomoc.mz/Files/GPI/Desafios_Mocambique.pdf)>

## Exhibit 5: Competitive Environment of Mozambique's Financial System

| Bank  | Major Shareholder <sup>51</sup>                                 | Country of origin major shareholder | Beginning of activities in Mozambique | % of Total Sector Assets in 2012 | Ranking | Logo  |
|---|---|-------------------------------------|---------------------------------------|----------------------------------|---------|---|
| Millennium bim                                    | Banco Comercial Português                                       | Portugal                            | 1995                                  | 32,01%                           | #1      |    |
| Banco Comercial de Investimentos (BCI)            | Parbanca SGPS   | Portugal                            | 1996                                  | 27,25%                           | #2      |    |
| Standard Bank Mozambique                          | Standard Bank of South Africa Limited (South Africa)            | South Africa                        | 1896                                  | 16,51%                           | #3      |    |
| Barclays Bank Mozambique, SA                      | Absa Group Limited  | South Africa                        | 1997                                  | 6,57%                            | #4      |    |
| Moza Banco, SA                                    | Moçambique Capitais   | Mozambique                          | 2008                                  | 3,78%                            | #5      |    |
| Banco Único, SA                                   | Corticeira Amorim and VisaBeira Group                           | Portugal                            | 2011                                  | 2,65%                            | #6      |   |
| BancABC   | BancABC   | Botswana                            | 1999                                  | 2,48%                            | #7      |  |
| FNB Mozambique S.A.                               | First Rand Group of South Africa                                | South Africa                        | 2007                                  | 2,32%                            | #8      |  |
| Banco Nacional de Investimento, (BNI) SA          | Grupo Caixa Geral de Depósitos (CGD)                            | Portugal                            | 2011                                  | 1,07%                            | #9      |  |
| International Commercial Bank (Mozambique) SA     | International Commercial Bank (ICB) Financial Group Holdings AG | Switzerland                         | NA                                    | <1%                              | #10     |  |
| The Mauritius Commercial Bank                     | The Mauritius Commercial Bank Limited                           | Mauritius                           | 1999                                  | <1%                              | #11     |  |
| Banco ProCredit                                   | ProCredit Holding AG  | Germany                             | 2000                                  | <1%                              | #12     |  |
| Banco Mercantil e de Investimentos, SA Mozambique | Banco Mercantil e de Investimentos, SA                          | Brazil                              | 2011                                  | <1%                              | #13     |  |
| Banco Oportunidade de Moçambique, SA (BOM)        | Opportunity Transformation Investments Inc                      | USA                                 | 2005                                  | <1%                              | #14     |  |

<sup>51</sup> The majority of banks operating in Mozambique use to had a strategic partnership with an important local company or institution.

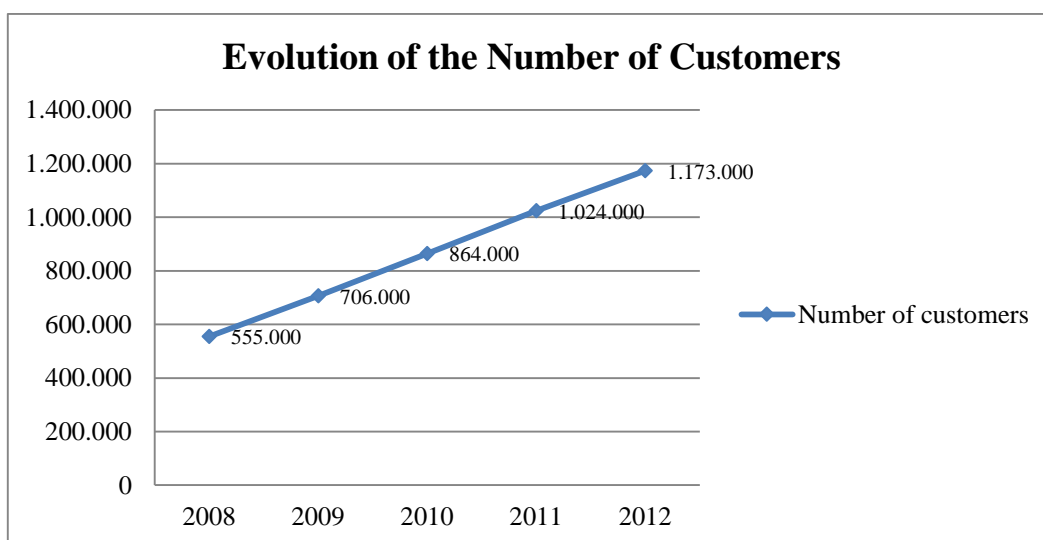
|  |  |                   |      |     |     |   |
|--|--|-------------------|------|-----|-----|---|
| <b>Banco Terra, SA</b>                       | Rabobank   | Netherlands       | 2008 | <1% | #15 |  |
| <b>Socremo - Banco de Microfinanças, SA</b>  | AfriCap Microfinance Investment Company  | Mauritius         | 2008 | <1% | #16 |  |
| <b>Banco Tchuma, SA</b>                      | USAID, NORAD, HIVOS, Caixa Catalunya, UNDP, MicroStart, Care International, Action, Aid, GAPI, FARE, EMOSE | Several (foreign) | 2010 | <1% | #17 |  |
| <b>United Bank for Africa Moçambique, SA</b> | United Bank for Africa (UBA)   | Nigeria           | 2011 | <1% | #18 |  |

**Table 5: Banks operating in Mozambique (2012)**

Source: Case writer based on Banco de Moçambique, KPMG, The World Bank and each Company data

NA: not available

### Exhibit 6: Evolution of the Number of Millennium bim Customers



**Figure 8: Evolution of the Number of Millennium bim Customers**

Source: Case writer based on Millennium bim data

## Exhibit 7: Millennium bim Customer Segments

| Customer Segments | Segments         | Criteria  |
|-------------------|------------------|---|
| Mass-Market       | Individuals      | Resources < 350.000 MZN (≈ 8.920 Euros)<br>or<br>Monthly Income < 60.000 MZN (≈ 1.530 Euros)  |
|                   | Business Segment | Annual turnover < 38.000.000 MZN (≈ 968.400 Euros)<br>or<br>Bank Involvement < 500.000 MZN (≈ 12.740 Euros)   |
| Prestige          | Individuals      | Resources ≥ 350.000 MZN (≈ 8.920 Euros)<br>or<br>Monthly Income ≥ 60.000 MZN (≈ 1.530 Euros)  |
|                   | Business Segment | Annual turnover ≥ 38.000.000 MZN (≈ 968.400 Euros)<br>or<br>Bank Involvement ≥ 500.000 MZN (≈ 12.740 Euros)<br>or<br>Companies belonging to Economic Groups; Prestige - Business Customers  |
| Corporate         | Corporate        | Annual turnover ≥ 100.000.000 MZN (≈ 2.550.420 Euros)<br>or<br>Bank Involvement ≥ 5.000.000 MZN (≈ 127.420 Euros)<br>or<br>Companies belonging to Economic Groups in which the majority shareholder is in the Corporate Segment and Corporate Customers of the Millennium bcp Group |

Table 6: Millennium bim Customer Segments

Source: Case writer based on Millennium bim data

Note: According to the Exchange rate of Banco de Moçambique at 31 December 2012

## Exhibit 8: Millennium bim Distribution Structure

|               | Branches   | ATMs       | POS          |
|---------------|------------|------------|--------------|
| Northern Zone | 26         | 63         | 304          |
| Central Zone  | 40         | 100        | 604          |
| Southern Zone | 85         | 222        | 3.150        |
| <b>Total</b>  | <b>151</b> | <b>385</b> | <b>4.058</b> |

Table 7: Distribution of Millennium bim Branches, ATMs and POS (2012)

Source: Millennium bim 2012, Annual Report Millennium bim 2012, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>

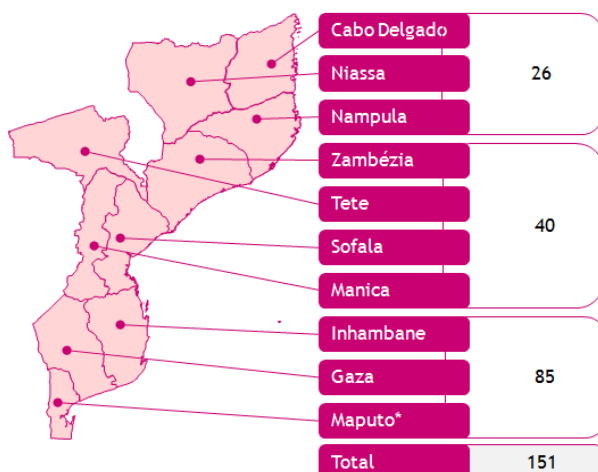


Figure 9: Map of Mozambique Provinces and location of Millennium bim Bank Branches (2012)

Source: Millennium bcp 2012, Moçambique, PowerPoint presentation, Millennium bcp, Portugal

\*Includes both Maputo City and Province

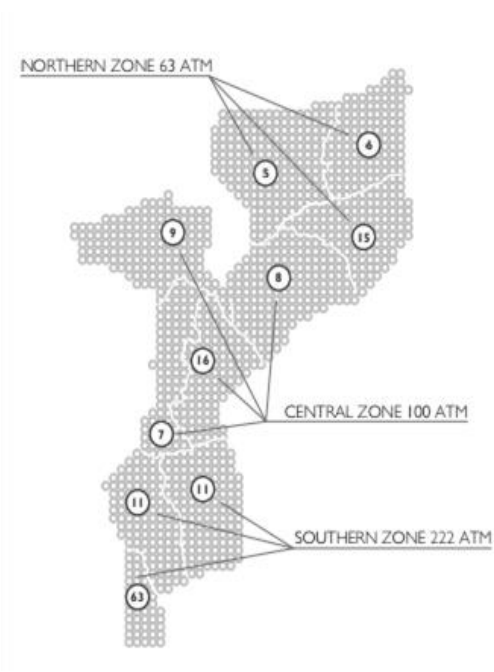


Figure 10: ATM network per Province (2012)

Source: Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>

As can be observed on the two maps previously presented, Mozambique had a large land territory. Thus, in order to carry money across the Country banks used to rely on specialized logistic suppliers.

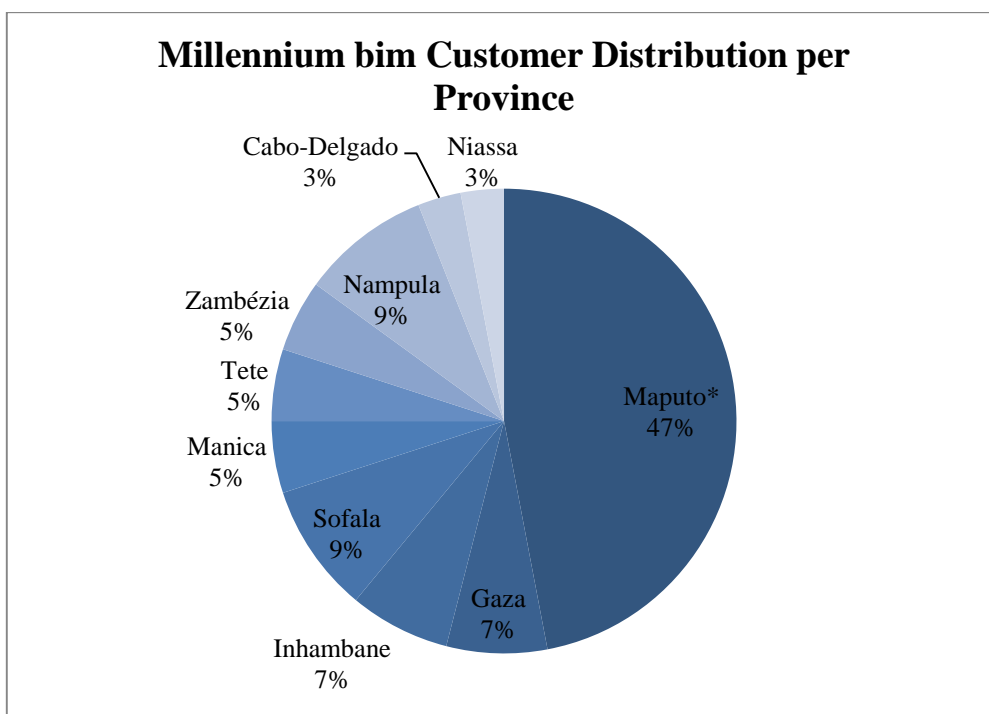
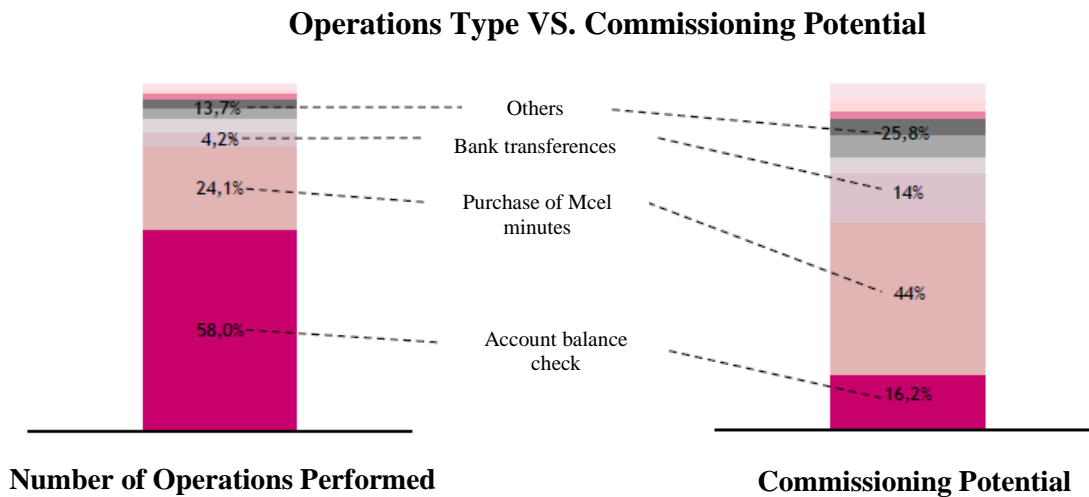


Figure 11: Millennium bim Customer Distribution per Province (2012)

Source: Case writer based on Millennium bim data

\*Includes both Maputo City and Province

## Exhibit 9: Type of Operations performed through Millennium bim SMS and Commissioning Potential<sup>52</sup>



**Figure 12: Type of operations performed through Millennium bim SMS and Commissioning Potential (2012)**  
 Source: Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique

## Exhibit 10 – Target Market of Millennium bim SMS

According to Millennium bim data, the average users and the heavy users of Millennium bim SMS can be described as the following:

|   | Average User  | Heavy User  |
|---|---|---|
| <b>Gender</b>   | Men   | Men   |
| <b>Age</b>  | Between 20 and 30 years old                             | Between 28 and 36 years old                             |
| <b>Address</b>  | Urban area in the center or south of Mozambique         | Urban areas of Maputo - Matola                          |
| <b>Segment of belonging</b>                           | Mass-market   | Mass-market   |
| <b>Average account balance</b>                        | Between 0 and 5.000 MZN ( $\approx$ 125 Euros)          | Between 0 and 10.000 MZN ( $\approx$ 250 Euros)         |
| <b>Bank Account Opening</b>                           | Between 2007 and 2012                                   | Between 2005 and 2010                                   |
| <b>Mobile Network Supplier</b>                        | Mcel  | Mcel  |
| <b>Number of monthly banking operations performed</b> | 8   | More than 10  |
| <b>Most common banking operations performed</b>       | Check account balance and GSM airtime vouchers purchase | Check account balance and GSM airtime vouchers purchase |

**Table 8: Profile of Millennium bim SMS Average User and Heavy User**

Source: Case writer based on Millennium bim data

Note: According to the Exchange rate of Banco de Moçambique at 31 December 2012

<sup>52</sup> The commissioning potential was related to the financial margins generated by each type of banking operation. In reality, the higher was the margin, the higher the potential it had to generate commissions. For example, in the case of Account balance check, the commissioning potential was truly below the number of operations performed due to a regulatory constraint that forbidden banks to charge commissions during the first account balance check of the day.



## Exhibit 11 – Evolution of the Utilization Rates, Monthly Operations and Customer base of Millennium bim SMS

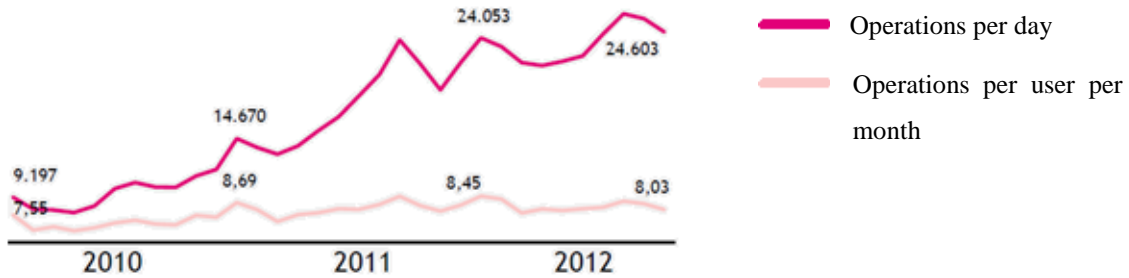


Figure 13: Evolution of Millennium bim SMS operations per day and per user

Source: Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique

As one can observe on the figure presented above, over the last 4 years, the total number of operations performed per day (“operations per day”) through Millennium bim SMS had been growing, which was a result of the increase in the number of customer subscribing the service. Regarding the number of operations performed per user (“operations per user per month”), it remained stable, at an average of 8 operations per month.

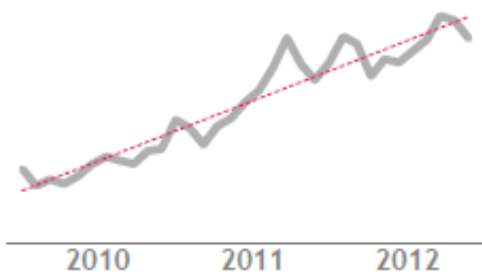


Figure 14: Evolution of the number of monthly operations performed through Millennium bim SMS

Source: Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique

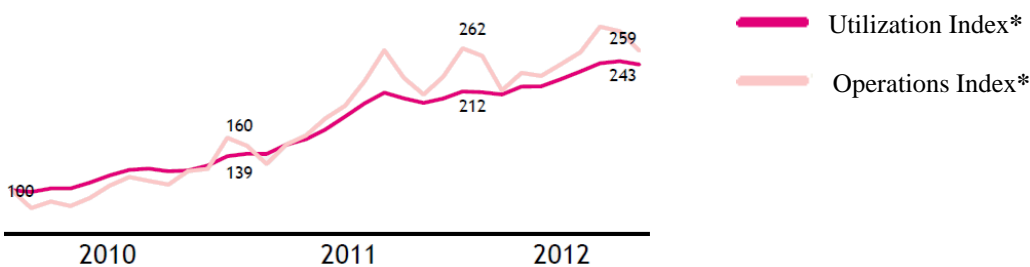


Figure 15: Evolution of Millennium bim SMS utilization and operations indexes

Source: Millennium bim 2012, *Millennium sms – utilizador do serviço*, PowerPoint presentation, Millennium bim, Mozambique

Note\*: “Utilization Index” and “Operations Index” are indexes rebased to 100, which represent the utilization and operations growth.

## Exhibit 12: Evolution of the number of Customers per Millennium bim ATM and Branch

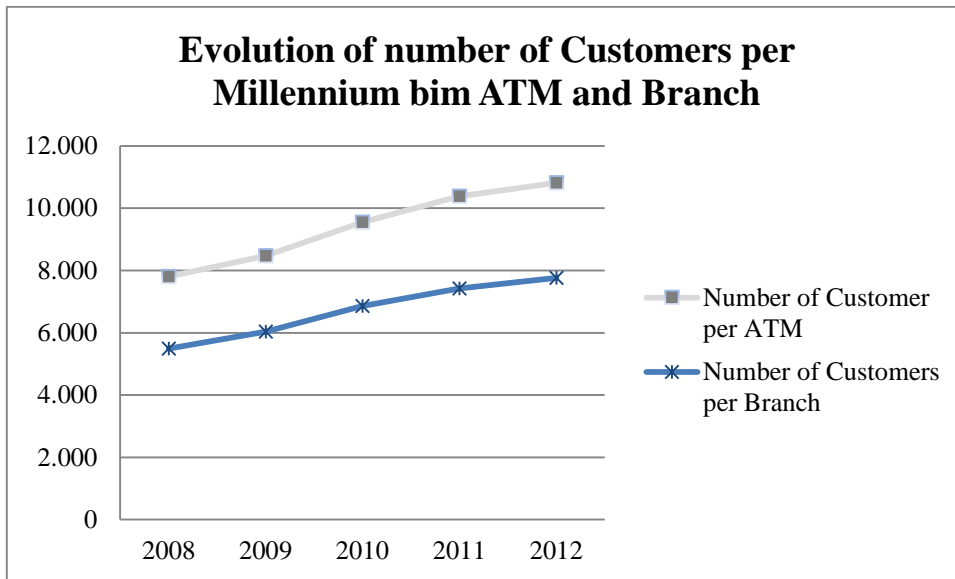


Figure 16: Evolution of the number of Customers per Millennium bim ATM and Branch  
Source: Case writer based on Millennium bim annual reports

## Exhibit 13: Overview of Millennium bcp International Operations – number of Customers and number of Branches

|                                      | Portugal   | Mozambique | Angola     | Poland     | Romania    | Greece     |
|--------------------------------------|------------|------------|------------|------------|------------|------------|
| <b>Number of Customers</b>           | 2.339.000  | 1.173.000  | 311.351    | 1.242.000  | 41.000     | 498.000    |
| <b>Number of Branches</b>            | 839        | 151        | 76         | 447        | 65         | 120        |
| <b>Population</b>                    | 10.530.000 | 20.500.000 | 20.820.000 | 38.540.000 | 21.330.000 | 11.280.000 |
| <b>Number of customer per branch</b> | 2.788      | 7.768      | 4.097      | 2.779      | 631        | 4.150      |

Table 9: Overview of Millennium bcp International Operations (2012)  
Source: Case writer based on each Company Annual Report and The World Bank data

## Exhibit 14: Business Case - Bank Branches versus Mobile Banking<sup>53</sup>

What will be the most suitable distribution channel to accommodate Millennium bim growing demand? Will it be the bank branches or the mobile banking?

### Main Assumptions:

- Business case time horizon: 3 years, since:
  - The number of bank branches that need to be opened in order to accommodate the future growing demand cannot be all opened in a single year;
  - It is required one year to improve the mobile banking system previously used (during this year customers will only be able to use Millennium bim

<sup>53</sup> This business case was prepared by the case writer. The amounts presented in Euros, were calculated according to the Exchange rate of Banco de Moçambique at 31 December 2012.

SMS and Millennium App for Smartphones), and two years to ensure the system effectiveness (during this period, customers will already be able to use the improved version of the mobile banking system).

- Customer acquisition growth rate (per year): 20,66%. This percentage was calculated based on the annual average growth rate of Millennium bim customers between 2008 and 2012<sup>54</sup>. The business case assumes that during the following three years this growth rate will remain unchanged, since the demand for financial products and services in Mozambique has enough room to grow;
- New Millennium bim customers will be served or by the bank branch or by the mobile banking, and never by a combination of both channels;
- Bank revenues will be calculated based on 2012 net operating income, income from equity instruments, earnings from services and commissions, earnings from financial transactions and other operating income;
- The percentage of Bank Revenues generated by each of the two distribution channels considered – bank branches and mobile banking – is based on a Consulting Company study<sup>55</sup>;
- Back office costs will not be considered, as they are the same regardless of the type of distribution channel.

The business case has more assumptions, which can be found in the column “Source” of the tables presented below.

### **BANK BRANCHES:**

→ Costs:

|  | Amount<br>Million MZN | Amount<br>Euros | Source  | Comments  |
|--|-----------------------|-----------------|---|---|
| <b>Opening Costs per Bank branch</b>       | 13,5                  | 344.037         | Assumption by the case writer based on a telephone interview with João Paulo Miranda. | It was assumed that the location of the bank branch would not have impact on its opening costs. |
| <b>Annual Maintenance Costs per branch</b> | 8,5                   | 216.616         | Assumption by the case writer based on a telephone interview with João Paulo Miranda. | These costs included monthly rents, logistics and maintenance costs.                            |

<sup>54</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

<sup>55</sup> Capgemini 2012, *Trends in Retail Banking Channels: Improving Client Service and Operating Costs*, Capgemini, viewed 18 May 2014, <[http://www.capgemini.com/resource-file-access/resource/pdf/Trends\\_in\\_Retail\\_Banking\\_Channels\\_\\_Improving\\_Client\\_Service\\_and\\_Operating\\_Costs.pdf](http://www.capgemini.com/resource-file-access/resource/pdf/Trends_in_Retail_Banking_Channels__Improving_Client_Service_and_Operating_Costs.pdf)>.

|  |                 |                    |   |   |
|--|-----------------|--------------------|---|---|
| <b>Annual Staff Costs per Bank branch</b>  | 6,57            | 167.413            | Assumption by the case writer based on Millennium bim Annual Reports. | It was considered that 95% of the employees working on commercial areas work on a branch. (see table 16). There were 151 bank branches in 2012. |
| <b>Bank branches depreciation rate (per year)</b>  | 50 Years        | Not Applicable     | Millennium bim 2012 Annual Report <sup>56</sup> .                     |   |
| <b>Bank branch cost per year (per branch)</b>  | 15,34           | 390.910            |   |   |
| <b>Total Cost for the three years (per Bank branch)</b>                                    | 46,02           | 1.172.729,43       |   |   |
| <b>Bank branches needed to be opened in order to accommodate the future growing demand</b> | 108             | Not Applicable     | Assumption by the case writer based on Millennium bim Annual Reports. | See Other Calculations for Costs of Bank Branches.  |
| <b>Total Cost of Bank branches for the three years</b>                                     | <b>4.969,93</b> | <b>126.654.779</b> |   |   |

Table 10: Bank branches costs (business case)

Source: Case writer

#### Other Calculations for Costs of Bank Branches

- Number of bank branches to be opened:

|   | Amount    | Source   | Comments  |
|---|-----------|--|---|
| <b>Bank branches needed to accommodate the future growing demand</b>    | 108       | Assumption by the case writer based on Millennium bim customer acquisition growth rate per year. | Considering that service levels will remain unchanged (i.e. the number of customers per bank branch will remain unchanged). |
| <b>Number of Millennium bim Customers (2012)</b>                        | 1.173.000 | Millennium bim 2012 Annual Report <sup>57</sup> .  |   |
| <b>Customer acquisition growth rate (per year)</b>                      | 20,66%    | Assumption by the case writer based on Millennium bim Annual Reports.                            |   |
| <b>Number of Millennium bim Acquired Customers (during the 3 years)</b> | 837.505   |  | Considering the number of customers that will be acquired each of the following 3 years.                                    |

Table 11: Other calculations for costs of Bank branches (business case)

Source: Case writer

- Number of customers acquired per year:

| Year   | Year 1  | Year 2  | Year 3  | Total   |
|--|---------|---------|---------|---------|
| <b>Number of customers acquired per year</b> | 242.342 | 292.410 | 302.754 | 837.505 |

Table 12: Other calculations for costs of Bank branches (business case)

Source: Case writer

<sup>56</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

<sup>57</sup> Ibid.

→ Revenues:

|  | Amount<br>Million MZN | Amount<br>Euros    | Source  | Comments  |
|--|-----------------------|--------------------|---|---|
| <b>Total Bank Revenues (per year)</b>  | 7.954,01              | 202.701.478        | Millennium bim 2012 Annual Report <sup>58</sup>                         | Total Bank Revenues were calculated by the following equation: net operating income + income from equity instruments + earning from services and commissions + earnings from financial transactions + other operating income. |
| <b>Percentage of Bank Revenues generated by bank branches</b>                              | 63%                   | Not Applicable     | Assumption by the case writer based on Capgemini Report <sup>59</sup> . | This percentage was updated at the average annual growth rate.  |
| <b>Bank branch generated revenues (per year)</b>   | 5.011,02              | 127.701.931        |   |   |
| <b>Bank branch generated revenues per branch (per year)</b>                                | 33,19                 | 845.708            |   | There were 151 bank branches in 2012.   |
| <b>Total revenues for the three years (per bank branch)</b>                                | 99,56                 | 2.537.124          |   |   |
| <b>Bank branches needed to be opened in order to accommodate the future growing demand</b> | 108                   | Not applicable     | Assumption by the case writer based on Millennium bim Annual Reports.   | See Other Calculations for Costs of Bank Branches.  |
| <b>Total Revenue of Bank branches for the three years</b>                                  | <b>10.752,13</b>      | <b>274.009.442</b> |   |   |

Table 13: Bank branches revenues (business case)  
Source: Case writer

**MOBILE BANKING:**

→ Costs:

|   | Amount<br>Million MZN | Amount<br>Euros | Source  | Comments   |
|---|-----------------------|-----------------|---|--|
| <b>Number of employees working at central services*</b> | 792 Employees         | Not applicable  | Millennium bim 2012 Annual Report <sup>60</sup> .                         | * The ones that will be able to improve the mobile banking system that have been used by Millennium bim. |
| <b>Total central services staff cost</b>                | 549,13                | 13.994.059      | Assumption by the case writer based on Millennium bim 2012 Annual Report. | See Other Calculations for Costs of Mobile Banking.  |

<sup>58</sup> Ibid.

<sup>59</sup> Capgemini 2012, *Trends in Retail Banking Channels: Improving Client Service and Operating Costs*, Capgemini, viewed 18 May 2014, <[http://www.capgemini.com/resource-file-access/resource/pdf/Trends\\_in\\_Retail\\_Banking\\_Channels\\_\\_Improving\\_Client\\_Service\\_and\\_Operating\\_Costs.pdf](http://www.capgemini.com/resource-file-access/resource/pdf/Trends_in_Retail_Banking_Channels__Improving_Client_Service_and_Operating_Costs.pdf)>.

<sup>60</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

|   |              |                |   |   |
|---|--------------|----------------|---|---|
| <b>Average central services staff cost per hour</b>                                       | 0,0003412    | 8,70           | Assumption by the case writer based on Millennium bim 2012 Annual Report. | See Other Calculations for Costs of Mobile Banking.   |
| <b>Total hours needed to develop an improved version of the Mobile banking system</b>     | 20.320 Hours | Not applicable | Assumption by the case writer based on Accenture Study <sup>61</sup> .    | Assuming that the Mobile banking system will be improved by 10 employees during 12 months.            |
| <b>Total Cost to develop an improved version of the Mobile banking system (12 months)</b> | 6,93         | 176.693        |   |   |
| <b>Mobile banking Maintenance Costs (24 months)</b>                                       | 6,93         | 176.693        | Assumption by the case writer based on Accenture Study <sup>62</sup> .    | Assuming that the Mobile banking system will have a maintenance team of 5 employees during 24 months. |
| <b>Total Cost of Mobile banking for the three years</b>                                   | <b>13,87</b> | <b>353.385</b> |   | Considering both development and maintenance costs.   |

Table 14: Mobile banking costs (business case)  
Source: Case writer

#### Other Calculations for Costs of Mobile Banking

|  | Amount       | Source  |
|--|--------------|---|
| <b>Employees working at commercial areas</b>               | 1.506        |   |
| <b>Employees working at central services</b>               | 792          |   |
| <b>Total Employees</b>                                     | <b>2.298</b> | Millennium bim 2012 Annual Report <sup>63</sup> . |
| <b>Percentage of employees working at commercial areas</b> | 65,54%       |   |
| <b>Percentage of employees working at central services</b> | 34,46%       |   |

Table 15: Millennium bim employees  
Source: Millennium bim 2012 Annual Report

|  | Amount Million MZN | Amount Euros      | Source  |
|--|--------------------|-------------------|---|
| <b>Total commercial areas staff cost</b> | 1.044,17           | 26.609.916        | Case writer based on Millennium bim 2012 Annual Report. |
| <b>Total central services staff cost</b> | 549,13             | 13.994.059        | Case writer based on Millennium bim 2012 Annual Report. |
| <b>Total staff cost</b>                  | <b>1.593,30</b>    | <b>40.603.976</b> |   |

Table 16: Millennium bim staff cost  
Source: Millennium bim 2012 Annual Report

|   |                        |
|---|------------------------|
| <b>1 day</b>  | <b>8 working hours</b> |
| <b>1 year</b>   | 254 working days       |
| <b>Total working hours in one year</b>                                  | 2.032                  |
| <b>Total working hours in one year for total central services staff</b> | 1.609.344              |
| <b>Average central services staff cost per hour</b>                     | 0,000341212            |

Table 17: Other calculations  
Source: Case writer

<sup>61</sup> Accenture 2010, *Mobile Banking Case Studies*, Accenture, viewed 18 May 2014, <[http://www.accenture.com/SiteCollectionDocuments/PDF/Mobile\\_Banking\\_Case\\_Studies\\_10\\_29\\_2010.pdf](http://www.accenture.com/SiteCollectionDocuments/PDF/Mobile_Banking_Case_Studies_10_29_2010.pdf)>.

<sup>62</sup> Ibid

<sup>63</sup> Millennium bim 2012, *Annual Report Millennium bim 2012*, Annual Report, Millennium bim, Mozambique, viewed 28 February 2014, <[http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio\\_e\\_Contas/2012/MbimRC\\_2012\\_EN.pdf](http://inst.millenniumbim.co.mz/pt/Governacao/Relatorio_e_Contas/2012/MbimRC_2012_EN.pdf)>.

→ Revenues:

|  | Amount Million MZN | Amount Euros       | Source   | Comments  |
|--|--------------------|--------------------|--|---|
| <b>Total Bank Revenues (per year)</b>                          | 7.954,01           | 202.701.478        | Millennium bim 2012 Annual Report <sup>64</sup> .                      | Total Bank Revenues were calculated by the following equation: net operating income + income from equity instruments + earning from services and commissions + earnings from financial transactions + other operating income. |
| <b>Percentage of Bank Revenues generated by Mobile banking</b> | 20%                | Not applicable     | Assumption by the case writer based on Accenture Study <sup>65</sup> . | This percentage was updated at the average annual growth rate.  |
| <b>Mobile banking generated revenues (per year)</b>            | 1.590,80           | 40.540.296         |  |   |
| <b>Total Revenue of Mobile banking for the three years</b>     | <b>4.772,40</b>    | <b>121.620.887</b> |  |   |

Table 18: Mobile banking revenues (business case)

Source: Case writer

**Exhibit 15: Customer base of Millennium bim SMS per Province**

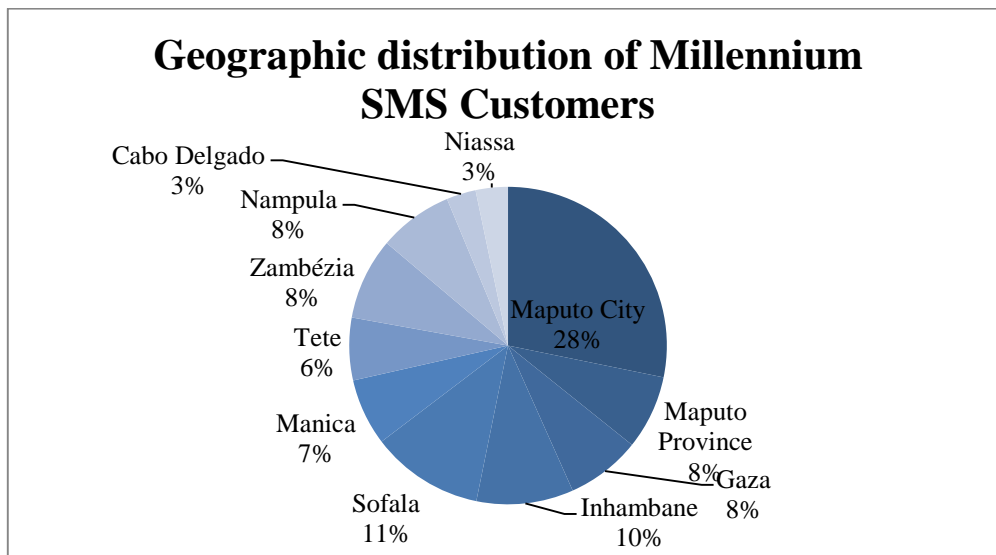


Figure 17: Geographic distribution of Millennium bim SMS Customers (2012)

Source: Case writer based on Millennium bim data

<sup>64</sup> Ibid.

<sup>65</sup> Capgemini 2012, *Trends in Retail Banking Channels: Improving Client Service and Operating Costs*, Capgemini, viewed 18 May 2014, <[http://www.capgemini.com/resource-file-access/resource/pdf/Trends\\_in\\_Retail\\_Banking\\_Channels\\_\\_Improving\\_Client\\_Service\\_and\\_Operating\\_Costs.pdf](http://www.capgemini.com/resource-file-access/resource/pdf/Trends_in_Retail_Banking_Channels__Improving_Client_Service_and_Operating_Costs.pdf)>.

| Province     | Percentage of Millennium bim SMS Customers per region | Percentage of Bank Branches per region |
|--------------|---|--|
| Maputo*      | 35,75%  | 40,67%                                 |
| Sofala       | 11,46%  | 10,67%                                 |
| Nampula      | 7,56%   | 10,00%                                 |
| Gaza         | 7,57%   | 7,33%                                  |
| Inhambane    | 9,88%   | 7,33%                                  |
| Tete         | 6,37%   | 6,67%                                  |
| Zambézia     | 8,33%   | 5,33%                                  |
| Manica       | 6,81%   | 4,67%                                  |
| Cabo-Delgado | 2,99%   | 4,00%                                  |
| Niassa       | 3,28%   | 3,33%                                  |

Table 19: Percentage of Millennium bim SMS Customers per region and percentage of Millennium bim Bank Branches per region (2012)

Source: Case writer based on Millennium bim data

\*Includes both Maputo City and Maputo Province

## Exhibit 16: Service dynamic of an hypothetical improved version of Millennium bim Mobile Banking System

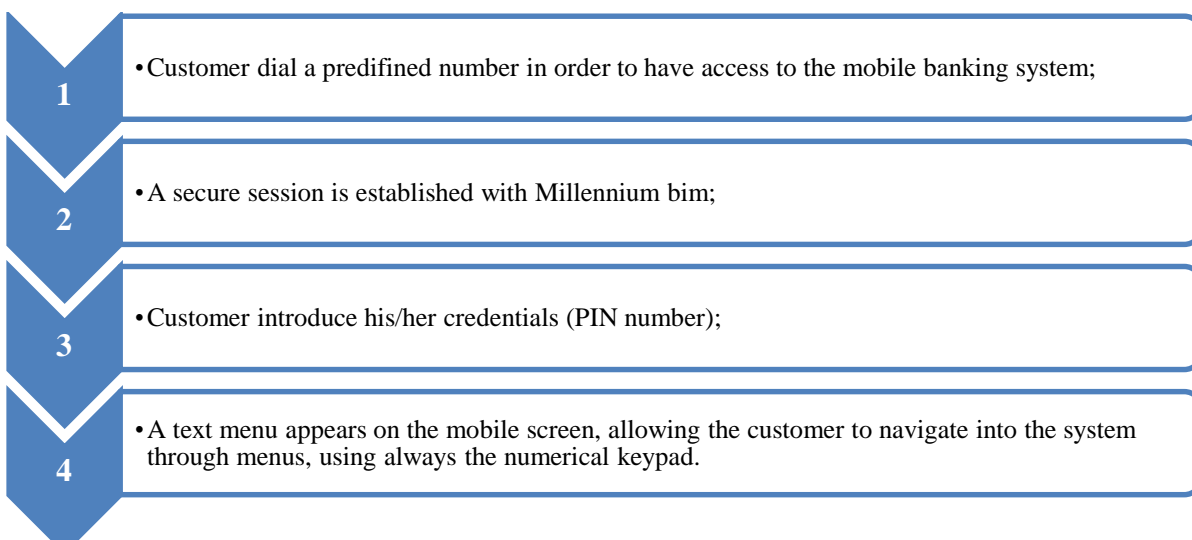


Figure 18: Service dynamic of a hypothetical improved version of Millennium bim Mobile Banking System

Source: Case writer based on Millennium bim data



## TEACHING NOTE

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### Introduction

“Millennium bim managing growing demand” case was prepared by Francisca Malpique Lopes under the supervision of Professor João Borges de Assunção and Professor Paulo Gonçalves Marcos. It is intended to be used as basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

The case is based on actual experiences and real events. However, proprietary data has been disguised to preserve confidentiality keeping all the essential facts and relationships intact.

This case has two additional supplements in Excel format:

- **Millennium bim managing growing demand Case Data:** contains the data-based exhibit in the case (Exhibit 14). This document can be made available to students.
- **Millennium bim managing growing demand TN Data:** contains data-based calculations and explanations that can support the teaching of question 6. This document is restricted to instructors only.

### Synopsis

Millennium bim is a member of Millennium bcp, the largest private bank operating in Portugal. Millennium bcp started its activity in Mozambique in 1995, through a strategic partnership with the Government of the Country. It operates in Mozambique under Millennium bim brand name. Millennium bim, the leading and largest bank operating in the Country, is one of the most successful international operations of Millennium bcp, as it represents almost 22% of total Group customers. In order to achieve this position, Millennium bim has been focused in targeting mainly consumers from the mass-market segment.

Over the past few years the number of people entering into the Mozambican financial system has been growing at a fast pace, which created several challenges for banks in general, and for Millennium bim in particular. It reached a point in which this Bank had to decide how it would adapt its distribution channels to this new reality, while ensuring the quality, reliability and innovativeness that used to characterize its products and services. Millennium bim started by transposing the mobile banking system developed by its mother company from Portugal to Mozambique. However, the

strategy did not work as expected, which encouraged this Bank to look for other alternatives.

João Cunha Martins, Chief Financial and Marketing Officer of Millennium bim, was invited to be part of Millennium bcp Mozambican operation in 2010, been since then the person in charge of the future of the Bank distribution channels. He started by defining what could be the possible actions that would endow Millennium bim to satisfy the needs of a growing customer base in an efficient way. After decided to work on the supply side and carefully analyzed the main future strategic goals of Millennium bim – enhance service levels, increase profits, reduce the threat of substitute products, improve access to financial products and services and reinforce its image as the leading bank – two possible paths were identified: increase the branch network in a relevant manner (which was already the largest in Mozambique), or improve the mobile banking system launched in 2007 (which had been used below its full potential). Mr. Cunha Martins and its team have to determine which alternative would be better to the future of Millennium bim.

The case depicts the several steps that Mr. Cunha Martins followed in order to determine possible hypothesis to manage the growing demand for financial products and services in Mozambique. All the relevant data needed to make this analysis is provided. When analyzing it, it is important to be aware that Mozambique is an emerging market, where only 20,2% of out of the 20.5 million people comprising the population had access to bank accounts. Furthermore, it is also important to bear in mind that bank approach to the market (e.g. pricing and distribution strategy), customer segments and consumer behavior are quite different from the reality of financial institutions operating in developed countries.

### **Suggested Assignment Questions**

After carefully reading the case, it is expected that students prepare the following questions to be discussed in the class:

- 1. Market Analysis:** Explore the market attractiveness for financial products and services in Mozambique using Porter's Five Forces Analysis.
- 2. Competition:**
  - a) Analyze Millennium bim position within Mozambican banking industry through performing a SWOT analysis.
  - b) How does Millennium bim differentiate itself in the Industry? What generic strategy is it performing?

3. **Consumer Behavior:** What are the challenges involved in targeting consumers of financial products and services in Mozambique? Hint: Take into account consumer knowledge and the marketing mix variables.
4. **Product Life Cycle:** Taking into account the differences between the Portuguese and the Mozambican markets, how would you assess Millennium bcp decision to transpose the Portuguese mobile banking system to Mozambique? What were the conditions needed to ensure the success of this strategy? Is the Product Life Cycle a law of nature?
5. **Internationalization:** Describe the internationalization strategy followed by Millennium bcp group to enter the Mozambican market. Hint: Explain the reason behind the decision, the entry mode pursued and the type of international strategy employed. In addition, apply the International Configuration/Coordination model developed by Michael Porter.
6. **Distribution Structure:** How would you advice Mr. Cunha Martins about the way in which Millennium bim should manage its growing demand? Would it be better to increase the number of bank branches in a relevant manner, or to improve Millennium bim mobile banking platform?
  - a) Justify your answer through analyzing the pros and cons of each alternative, as well as through performing a brief 5 C's Analysis.
  - b) Considering the data available on Exhibit 14, determine the Return on Investment (ROI) of each alternative. Would your advice remain the same?
7. **Pricing:** Even if you are aware that Millennium bim decided to manage its growing demand through working on the supply side, would not have been better to work on the demand side? Would price discrimination have been an option?

## Teaching Objectives

“Millennium bim managing growing demand” case has the following teaching objectives:

1. To help students comprehend the internationalization strategy of a bank;
2. To illustrate how a bank institution operating in a developing country can adapt its distribution channels to a situation in which the demand for financial products and services is growing faster than the bank itself;

3. To explore the challenges, as well as the opportunities that a bank operating in a developing country might face;
4. To demonstrate the importance of a company adapt the product life cycle of a product/service to the market in which it is operating;
5. To familiarize the students with bank distribution alternatives, having a special focus on mobile banking tools;
6. To identify the strategic considerations that an organization might have when it decides to improve a certain service.

### **Use of the Case**

This teaching case in marketing is expected to be used as a pedagogical tool in undergraduate or graduate programs related to the fields of general marketing, marketing strategy and/or international business. It meets the pedagogical needs of instructors in subjects such as, market and competition analysis, consumer behavior, product life cycle, internationalization strategy, distribution alternatives and pricing strategies.

The assignment questions should focus the students' attention and preparation on the specific points the case covers, as well as generate class discussion between the students and the instructor.

### **Relevant Theory**

In order to enrich the study and resolution of the case, a few additional readings are recommended:

1. Thornton, J & White, L 2000, 'Financial Distribution Channels: Technology versus Tradition', *Journal of Professional Services Marketing*, vol. 21, no. 2, pp. 59-63, viewed 12 April 2014, EBSCOhost MegaFile Premier.
2. Ondiege, P 2010, 'Mobile Banking in Africa: Taking the Bank to the People', *Africa Economic Brief*, vol. 1, no. 8, pp. 1-15, viewed 15 April 2014, EBSCOhost MegaFile Premier.
3. Cormican, K & O'Connor, M 2009, 'Technology transfer for product life cycle extension: a model for successful implementation', *Journal of Innovation and Technology Management*, vol. 6, no. 3, pp. 265-282, viewed 6 April 2014, EBSCOhost MegaFILE Premier.

Furthermore, to better understand and explore the case and its assignment questions, the following frameworks and concepts should also be taken into consideration:

## 1. Porter's 5 Forces Analysis<sup>66</sup>

Michael Porter (1979)<sup>67</sup> suggested the existence of five competitive forces that determine the industry overall competitiveness and profitability. These forces are: threat of new entrants, pressure from substitute products, bargaining power of buyers, bargaining power of suppliers and intensity of rivalry among existing firms (see **TN Exhibit 1**). If one analyzes an industry in terms of these forces, it will determine the strengths and weaknesses of a company in relation to its competitors, as well as the intrinsic long-run attractiveness of the industry.

## 2. Competition

### a) SWOT analysis

A SWOT analysis is a framework that allows companies to explore and understand, how internal conditions contribute to the firm's strengths and weaknesses, and how external conditions might represent opportunities and/or threats to the firm's business model<sup>68</sup> (see **TN Exhibit 2**). Furthermore, it provides a snapshot of the firm's current situation, while identifying the critical factors affecting it.

### b) Porter Generic Competitive Strategies

In order to a certain company outperform other companies operating in the same industry, Michael Porter (1980)<sup>69</sup>, proposed two different types of competitive advantage: differentiation strategy (when the value that a firm is able to create to its customers exceed its cost) and low cost strategy (when the firm offers lower prices than competitors for equivalent products or services). Moreover, this author also argued that a company might have two different types of competitive scope<sup>70</sup>: broad target

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<sup>66</sup> Porter, ME 2008, 'The Five Competitive Forces that Shape Strategy', *Harvard Business Review*, pp. 25-40, viewed 1 April 2014, <[http://ieg-sites.s3.amazonaws.com/sites/4e8476903723a8512b000181/contents/content\\_instance/4f15bab63723a81f24000182/files/HBR\\_on\\_Strategy.pdf#page=25](http://ieg-sites.s3.amazonaws.com/sites/4e8476903723a8512b000181/contents/content_instance/4f15bab63723a81f24000182/files/HBR_on_Strategy.pdf#page=25)>.

<sup>67</sup> Ibid.

<sup>68</sup> Steenburgh, T & Avery, J 2010, 'Marketing Analysis Toolkit: Situation Analysis', *Harvard Business School*, 4 February, pp.1-10.

<sup>69</sup> Porter, ME 1986, *Competition in Global Industries*, Harvard Business School Press, Boston, Massachusetts.

<sup>70</sup> Ormanidhi, O & Stringa, O 2008, 'Porter's Model of Generic Competitive Strategies', *Business Economics*, vol. 43, no. 3, pp. 55-64, viewed 1 April 2014, EBSCOhost MegaFile Premier.

(targeting consumers from the middle and mass-market), or a narrow target (targeting consumers from a market niche).

The combination of the type of competitive strategy that a company has with its competitive scope, lead to three different generic strategies<sup>71</sup> (see **TN Exhibit 3**): cost leadership (lower cost, broad target); differentiation (differentiation, broad target); and focus (lower cost or higher cost, narrow target). These three strategies should be seen as alternatives to each other's, thus in order to achieve or maintain competitive advantage each company should only adopt one of them.

### **3. Consumer Behavior**

#### Consumer Knowledge<sup>72</sup>

The stage in which a certain market is – emerging versus mature – uses to exert a strong influence on consumer knowledge. On one hand, consumers from emerging markets use to have low product knowledge and a high perceived risk when it comes to purchase a certain product or service, being therefore considered as novices. On the other hand, consumers from mature markets use to be able to clearly identify their needs and go after certain products/services that suit them perfectly, being therefore considered as experts.

#### Marketing Mix

McCarthy (1960)<sup>73</sup> proposed a framework that allows the company to define how it will deliver its intended value proposition to its target market. This framework is commonly known as the 4 P's or marketing mix, and combines four different marketing variables: product, price, place and promotion.

Alike what happened in consumer knowledge, the stage of the market also exerts a strong influence in the development of the firm marketing mix strategy, namely in what regards to product variety, price levels, distribution channels and promotion strategy<sup>74</sup>. Starting by the product variety, it uses to be higher in mature markets than in emergent ones. This happens as novices' consumers use to get confused with too much variety. Regarding the price, willingness to pay uses to be higher in emerging markets, since price uses to signal quality. As to the distribution channels, consumers from

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<sup>71</sup> Ibid.

<sup>72</sup> Rudolph, T, Schlegelmich, BB, Franch, J, Bauer, A & Meise, JN 2012, *Diversity in European Marketing – Text and Cases*, Springer Gabler, Wiesbaden.

<sup>73</sup> Kotler, P & Keller, KL 2006, *Marketing Management*, 12<sup>th</sup> edn, Pearson Education, Upper Saddle River, New Jersey.

<sup>74</sup> Rudolph, T, Schlegelmich, BB, Franch, J, Bauer, A & Meise, JN 2012, *Diversity in European Marketing – Text and Cases*, Springer Gabler, Wiesbaden.

emerging markets use to prefer face-to-face channels, as they are more suitable to understand the unstructured nature of their problems. In mature markets, consumers are experts and therefore apt to use indirect channels. Last but not least, the promotion strategy should also change accordingly to the stage of the market. Actually, novices and expert consumers process information in a different manner<sup>75</sup>. Thus, in emerging markets companies should be focused in informing consumers, whereas in mature markets the focus should be in creating an emotional connection with them.

#### **4. Product Life Cycle**

##### PEST analysis<sup>76</sup>

A PEST analysis, or ETPS as initially defined by Aguilar (1967)<sup>77</sup>, is a framework that helps understanding the macro environment in which a certain company is operating. It looks into the political, economic, social and technological factors affecting the industry.

##### Caves Model<sup>78</sup>

According to Caves' model (1971)<sup>79</sup>, companies can expand abroad through horizontal extension, vertical extension, or conglomerate diversification. "In horizontal extension, the firm produces the same product in the several countries"<sup>80</sup> in which it is operating. Vertical extension occurs when the company "gets directly involved in other stages of the production process"<sup>81</sup> (backward, forward or both) connected with the products that the firm already produces. The conglomerate diversification refers to other types of expansion abroad.

##### Product Life Cycle

According to the Product Life Cycle theory<sup>82</sup>, the marketing of a certain product or service is divided into four main stages: introduction, growth, maturity and declining (see **TN Exhibit 4**). The introduction corresponds to the period in which a certain

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<sup>75</sup> Chandy, RK, Tellis, GJ, Macinnis, DJ & Thaivanich, P 2001, 'What to Say When: Advertising Appeals in Evolving Markets', *Journal of Marketing Research*, vol. 38, no. 4, pp. 399-414.

<sup>76</sup> Mind Tools 2014, *PEST Analysis – Identifying big picture opportunities and threats*, Mind Tools, viewed 10 April 2014, <[http://www.mindtools.com/pages/article/newTMC\\_09.htm](http://www.mindtools.com/pages/article/newTMC_09.htm)>.

<sup>77</sup> Ibid.

<sup>78</sup> Reddy, P 2002, *The Globalization of Corporate R&D – Implications for Innovation Systems in Host Countries*, Routledge, Oxford.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid.

<sup>81</sup> Ibid.

<sup>82</sup> Ennew, C, Watkins, T & Wright, M 1990, *Marketing Financial Services*, Butterworth-Heinmann Ltd, Linacre House, Jordan Hill, Oxford.

product becomes available in the market. It is characterized by slow growth and possibly by negative profits. The growth stage can be described as the period in which sales volume increase steadily and the product begins to make a significant contribution to profitability. The next stage is the maturity stage. During this stage sales levels use to increase at a slower rate, which sometimes leads companies to reduce the price of their products in order to be able to maintain their market share and support sales. The last stage is the declining stage, and is characterized by a situation in which product sales volume became even more reduced and consequently, the product might be discontinued. However, it is important to bear in mind that the product life cycle is not a law of nature. In reality, according to Kotler<sup>83</sup>, it uses to vary from market to market, as it is not mandatory that all products follow the four typical stages, nor that each stage last the same.

Cormican and O'Connor<sup>84</sup> argued that the technological advances that have been occurring over the past few years, coupled with intense global competition, had shortened some product life cycles.

#### Technology Transfer as Innovation

Technology transfer describes the “(...) process of introducing existing technology to a less advanced society through some form of international venture.”<sup>85</sup>. It occurs when companies are more focused in exploring opportunities in fresh markets for existing activities, than in developing new products and/or services by their own in the foreign markets.

Many companies employ technology transfer to convey technology from one location to another, in an attempt to extend the product life cycle of a certain product/service. Besides increasing the likelihood of a company maintaining its income stream, technology transfer has other advantages: “simplifies the product launch; facilitates market entry; exploit rapid changes in technology; reduce the time and costs of new product development; minimize the risk of research and development failure; compensate the lack of qualified/experienced technical people.”<sup>86</sup>.

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<sup>83</sup> Kotler, P & Armstrong, G 2010, *Principles of Marketing*, 13<sup>th</sup> edn, Pearson Education, Upper Saddle River, New Jersey.

<sup>84</sup> Cormican, K & O'Connor, M 2009, 'Technology transfer for product life cycle extension: a model for successful implementation', *Journal of Innovation and Technology Management*, vol. 6, no. 3, pp. 265-282, viewed 6 April 2014, EBSCOhost MegaFILE Premier.

<sup>85</sup> Holt, DH 1998, *International Management – text and cases*, The Dryen Press, Orlando.

<sup>86</sup> Cormican, K & O'Connor, M 2009, 'Technology transfer for product life cycle extension: a model for successful implementation', *Journal of Innovation and Technology Management*, vol. 6, no. 3, pp. 265-282, viewed 6 April 2014, EBSCOhost MegaFILE Premier.



The ability to manage the transference of technology from one location to another has become a critical competence<sup>87</sup>. Actually, technology transfer is a complex process that usually represents several challenges for companies employing it, namely: deal with differences between the markets involved; ensure the availability of suppliers and customers in the market to which technology is transferred; and training collaborators in the “new markets”<sup>88</sup>. Additionally, it is important to be aware that the capacity to adapt the technology being transferred to the external environment might determine its success.

## **5. Internationalization**

### Why do firms internationalize<sup>89</sup>

There are several forces and motivations that lead a company to proactively expand its business across different markets. In the financial services industry, the most common reasons are related to profits, regulatory constrains and developments in information technology. The analysis of the reasons that lead a company to expand its operations abroad is crucial to understand its internationalization strategy.

### Market Entry strategies<sup>90</sup>

Once a company decides to enter in a foreign market it might choose one out three different entry modes:

- Exporting: this is the simplest way to enter in a foreign market, and is described by a situation in which a firm sells a certain product or service that is produced in the domestic market, abroad through distributors;
- Joint venturing: when a company venture with a foreign entity to produce or market its products and services abroad;
- Direct investment: occurs when the company develops foreign-based assembly or manufacturing facilities. This entry mode differs from joint venturing, because the company does not have a host country partner.

The decision about the entry mode depends on the amount of commitment, the involved risk, the desired control, and the profit potential. In order to make an accurate

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<sup>87</sup> Ibid.

<sup>88</sup> Ibid.

<sup>89</sup> Ennew, C, Watkins, T & Wright, M 1990, *Marketing Financial Services*, Butterworth-Heinmann Ltd, Linacre House, Jordan Hill, Oxford.

<sup>90</sup> Kotler, P & Armstrong, G 2010, *Principles of Marketing*, 13<sup>th</sup> edn, Pearson Education, Upper Saddle River, New Jersey.

decision, the firm should also take into account its strategic objectives, and the advantages that the foreign market might offer.

### Type of International Strategies<sup>91</sup>

Bartlett and Beamish<sup>92</sup> identified four different approaches that companies can implement to manage worldwide operations:

- **International strategy:** occurs when a Company adopts a broad approach focused on creating and exploiting innovations on a worldwide basis. Therefore, at least initially, the internationalization process of firms adopting this approach relies heavily on developing new products, processes or strategies for the domestic market and subsequently, transferring it from the parent company to the overseas operators;
- **Multinational strategy:** this type of local-for-local strategy makes use of national differences to achieve most of its strategic objectives. More precisely, companies adopting this approach tend to differentiate their products, services and strategies according to the national differences in customer preferences, industry characteristics and government regulations. Therefore, multinational companies use to identify local needs and employ its local resources to respond to those needs;
- **Global strategy:** companies adopting this strategy are focused on creating global efficiency, as they develop standardized products and services for a world market, and manufacture them on a global scale in a few highly efficient plants. Furthermore, important activities are concentrated in a limited set of locations;
- **Transnational strategy:** this type of strategy describes situations in which the companies respond to local market needs through adapting their products, services and strategy, while capturing the benefits of global efficiency. The resources and activities are dispersed but specialized, which allow the firms to achieve efficiency and flexibility at the same time. Thus, these “dispersed resources are integrated into an interdependent network of worldwide operations”<sup>93</sup>;

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<sup>91</sup> Bartlett, CA & Beamish, PW 2011, *Transnational Management – Text, Cases, and Readings in Cross-Border Management*, 6<sup>th</sup> edn, McGraw-Hill Irwin, Boston.

<sup>92</sup> Ibid.

<sup>93</sup> Ibid.

## International Configuration/Coordination

Michael Porter (1986), proposed a two dimensional framework that helps explaining international strategies employed through global expansion, as well as measuring “the relative globalness of firms”<sup>94</sup>. Actually, the firm internationalization strategy depends on configuration (where and at what scale are primary activities conducted) and coordination (to what extent activities across different markets are coordinated)<sup>95</sup>.

Configuration options range from concentrated (when a company performs a certain activity only in one place and serves the entire market from it), to dispersed (the company performs every single activity in each country where it is operating). As to coordination, it ranges from low (each international operation performs a certain activity independently from others) to very high (every international operation performs the activity in the same way)<sup>96</sup>. As can be seen on **TN Exhibit 5**, the different combinations of configuration and coordination, led to two extreme types of firms operating abroad:

- Domestic Firm: very dispersed configuration and low coordination (country-centered strategy);
- Global firm: concentrated configuration and high coordination.

## **6. Distribution Structure**

a)

### Marketing 5 C's<sup>97</sup>

Marketing 5 C's is a simple framework that outlines the five dimensions of the marketing environment that are crucial for a firm to understand before making a decision. These dimensions are: customers, context, company, collaborators/complementers and competitors. After carefully explore each dimension, the firm will be able to make an appropriate decision, with strong likelihood to succeed, as it takes into account both the macro and microenvironment surrounding the company.

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<sup>94</sup> Moon, HC 1994, ‘A Revised Framework of Global Strategy: Extending the Coordination-Configuration Framework’, *The International Executive*, vol. 36, no. 5, pp. 557 – 574, viewed 10 April 2014, EBSCOhost MegaFILE Premier.

<sup>95</sup> Porter, ME 1986, *Competition in Global Industries*, Harvard Business School Press, Boston, Massachusetts.

<sup>96</sup> Moon, HC 1994, ‘A Revised Framework of Global Strategy: Extending the Coordination-Configuration Framework’, *The International Executive*, vol. 36, no. 5, pp. 557 – 574, viewed 10 April 2014, EBSCOhost MegaFILE Premier.

<sup>97</sup> Steenburgh, T & Avery, J 2010, ‘Marketing Analysis Toolkit: Situation Analysis’, *Harvard Business School*, 4 February, pp.1-10.

## Banking Distribution Channels

There are several issues that might determine the success or failure of a bank, being one of the most important, the type of distribution channels used by it. When it comes to define a distribution mix, the bank should evaluate the different channels alternatives based on customer needs and costs. By the end, it should select a distribution structure that satisfies customer needs and “addresses the unfavorable economics of the mainstay branch system”.<sup>98</sup>

Thornton and White<sup>99</sup> identified several distribution channels that might be used by a bank in order to market its products and services, namely: branches, Automatic Teller Machines (ATMs), Point-of-Sales (POS), mobile banking, call centres and internet banking. Moreover, they also found that there is a trend within the banking industry to replace salespeople with self-service distribution channels. In reality, the capacity to develop alternative distribution channels becomes crucial, not only to reduce costs and enhance bank profitability, but also to attract and retain customers.

Following this rationale, Seck and Philippe<sup>100</sup> stated that the majority of banks decided to employ a hybrid distribution channel. This type of strategy combines physical distribution channels with virtual ones. The rationale behind this is explained by the advantages that multi-channel distribution have, that is: allowing an extended market coverage while increasing sales volume; reduce costs; respond better to the different consumer needs; and leading to better information.

## Bank Branches

Bank branches used to be the most popular channel among bankers. Still, many authors had been questioning the importance of having a branch, particularly since the appearance of the internet and the mobile phone<sup>101</sup>. Actually, not only the role of bank branches is changing, but also its importance: having a significant branch network is no

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<sup>98</sup> Anderson, T, Hosten, D & Latimore, D 1996, ‘Balancing Customer Needs in Retail Banking Distribution’, *The McKinsey Quarterly* 1996, no. 1, pp. 180-182, viewed 11 April 2014, EBSCOhost MegaFile Premier.

<sup>99</sup> Thornton, J & White, L 2000, ‘Financial Distribution Channels: Technology versus Tradition’, *Journal of Professional Services Marketing*, vol. 21, no. 2, pp. 59-63, viewed 12 April 2014, EBSCOhost MegaFile Premier.

<sup>100</sup> Seck, AM & Philippe, J 2013, ‘Service encounter in multi-channel distribution context: virtual and face-to-face interactions and consumer satisfaction’, *The Service Industries Journal*, vol. 33, no. 6, pp. 565-579, viewed 13 April 2014, EBSCOhost MegaFile Premier.

<sup>101</sup> Bulgarea, CN 2011, ‘The evolution and the future role of the branch in distribution of the banking products and services’, *Annals of the University of Petroșani, Economics*, vol. 11, no. 3, pp. 15-22, viewed 13 April 2014, EBSCOhost MegaFile Premier.

longer a source of competitive advantage<sup>102</sup>. Nevertheless, it is important to be aware that this type of face-to-face channel is very appreciated when customers are novices and therefore, have a high perceived risk involved in purchasing banking products/services. This happens, as salespeople are able to reduce this risk.

### Mobile Banking

A mobile banking system can be defined as a platform that allows customers to perform financial operations through a mobile phone device. In this type of channel, the mobile phone works as a virtual bank card, that enables customers to execute payments, make money transferences, purchase airtime from telecoms, consult account information, among others.<sup>103</sup>

Mobile banking has become one of the most widely used branchless distribution channel. This happened, as it has potential to generate a significant range of efficiencies in the financial economies, being the most relevant ones: low cost distribution, money security, speed and convenience.<sup>104</sup>

Although this kind of channel is considered a low cost channel in which there is low personal interaction<sup>105</sup>, it is particularly important when the financial services are failing to meet the needs of the people<sup>106</sup>, since it has potential to reach people everywhere, while reducing the costs of financial transactions both for the banks and for their customers. Actually, over the past few years, mobile banking has been playing an important role in allowing people living in developing countries to have access to the financial system for the first time<sup>107</sup>. This has been exerting a strong impact in improving these countries social and economic development.

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<sup>102</sup> Seck, AM & Philippe, J 2013, 'Service encounter in multi-channel distribution context: virtual and face-to-face interactions and consumer satisfaction', *The Service Industries Journal*, vol. 33, no. 6, pp. 565-579, viewed 13 April 2014, EBSCOhost MegaFile Premier.

<sup>103</sup> Ondiege, P 2010, 'Mobile Banking in Africa: Taking the Bank to the People', *Africa Economic Brief*, vol.1, no.8, pp. 1-15, viewed 15 April 2014, EBSCOhost MegaFile Premier.

<sup>104</sup> Mutsune, T 2014, 'No Kenya left behind: The case of financial inclusion through mobile banking', paper to be presented at Global Conference on Business and Finance Proceedings, United States of America 2014, pp. 472 – 479, viewed 13 April 2014, EBSCOhost MegaFile Premier.

<sup>105</sup> Anderson, T, Hosten, D & Latimore, D 1996, 'Balancing Customer Needs in Retail Banking Distribution', *The McKinsey Quarterly* 1996, no. 1, pp. 180-182, viewed 11 April 2014, EBSCOhost MegaFile Premier.

<sup>106</sup> Mass cited in Mutsune, T 2014, 'No Kenya left behind: The case of financial inclusion through mobile banking', paper to be presented at Global Conference on Business and Finance Proceedings, United States of America 2014, pp. 472 – 479, viewed 13 April 2014, EBSCOhost MegaFile Premier.

<sup>107</sup> Ondiege, P 2010, 'Mobile Banking in Africa: Taking the Bank to the People', *Africa Economic Brief*, vol. 1, no. 8, pp. 1-15, viewed 15 April 2014, EBSCOhost MegaFile Premier.

b)

### Return on Investment (ROI)<sup>108</sup>

Return on Investment is one of the most widely used metrics to measure the performance of a certain investment, or to compare the performance of a number of different investment alternatives. The higher the ROI, the more efficient is the investment being analyzed.

In order to determine the ROI of an investment, the following equation should be applied:

$$ROI = \frac{\textit{Gain from Investment} - \textit{Cost of Investment}}{\textit{Cost of Investment}}$$

## 7. Pricing

### Market Demand and Pricing<sup>109</sup>

Pricing decisions aim to allow a firm to capture most of the value created by its products and services for itself. According to Kotler, market demand is what sets the upper limit of the price that a company can charge for its products and/or services. This happens, as each price the company might charge, will lead to a different level of demand. Furthermore, since the demand curve slopes downward, price and demand are to be inversely related (i.e. the higher the price, the lower the demand).

### Price Discrimination Strategies<sup>110</sup>

Price discrimination could be defined as the capability that a company with market power has to charge different prices, for the same goods or services, to different consumers. This type of strategy relies on the fact that different consumers have different willingness to pay for a certain product or service. Thus, through discriminating prices companies are able to extract the maximum value that each consumer, or segment of consumers, is willing to pay and, as a result, maximize their profits.

There are three main degrees of price discrimination strategies:

- First degree price discrimination: occurs when a company charges each customer the maximum price he or she would be willing to pay for a certain

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<sup>108</sup> Botchkarev, A, Andru, P & Chiong, R 2011, 'A Return on Investment as a Metric for Evaluating Information Systems: Taxonomy and Application', *Interdisciplinary Journal of Information, Knowledge, and Management*, vol. 6, viewed 16 May 2014, <<http://www.ijikm.org/Volume6/IJIKMv6p245-269Botchkarev566.pdf>>.

<sup>109</sup> Kotler, P & Armstrong, G 2010, *Principles of Marketing*, 13<sup>th</sup> edn, Pearson Education, Upper Saddle River, New Jersey.

<sup>110</sup> Baye, MR 2010, *Managerial Economics and Business Strategy*, 7<sup>th</sup> edn, McGraw-Hill Irwin, New York.

product or service. Hence, the company needs to have perfect information regarding each customer willingness to pay;

- Second degree price discrimination: is characterized by a situation in which the price varies according to the buying level, and it is the consumer himself who self-select between different company offerings;
- Third degree price discrimination: use to be employed by companies that have the ability to create different prices for each segment of customers they are targeting. Actually, this is only possible when buyers' behavior is observable;
- Other price discrimination strategies:
  - Two-part tariffs (in addition to the price per unit purchased, there is a fixed fee that consumers must pay in order to have access to buy the product/service);
  - Commodity bundling (the company bundles two or more different products/services together and sell them at a single bundle price);
  - Peak-load pricing (the price varies according to the demand: the higher the demand the higher the price and vice-versa);
  - Cross-subsidy (occurs when the company applies a pricing strategy in which the profits gained by the sale of one product/service are used to subsidize sales of other related products/services);
  - Block pricing (“identical products are packaged together in order to enhance profits by forcing customers an all-or-none decision to purchase.”<sup>111</sup>);
  - Transfer pricing (“pricing strategy in which a firm optimally sets the internal price at which an upstream division sells an input to a downstream division.”<sup>112</sup>);
  - Others (durable goods, price matching and coupons).

## Analysis and Discussion

“Millennium bim managing growing demand” case and its suggested assignment questions were prepared to be discussed in a 90 minutes class. Here is the recommended timeline for teaching this case:

|            |                        |            |
|------------|------------------------|------------|
| Question 1 | <b>Market Analysis</b> | 10 minutes |
| Question 2 | <b>Competition</b>     | 15 minutes |

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<sup>111</sup> Ibid.

<sup>112</sup> Ibid.

|            |                               |            |
|------------|-------------------------------|------------|
| Question 3 | <b>Consumer Behavior</b>      | 10 minutes |
| Question 4 | <b>Product Life Cycle</b>     | 10 minutes |
| Question 5 | <b>Internationalization</b>   | 10 minutes |
| Question 6 | <b>Distribution Structure</b> | 20 minutes |
| Question 7 | <b>Pricing</b>                | 15 minutes |

The following discussion is proposed:

### ***Question 1***

**Explore the market attractiveness for financial products and services in Mozambique using Porter's Five Forces Analysis.**

In this assignment question, it is expected that students are able to recognize the major elements comprising each of the five forces identified by Michael Porter (1979) and by the end, the intrinsic long-run attractiveness of the financial products and services industry in Mozambique. According to its intensity, each force creates strong implications for marketing strategy, and consequently for overall competitiveness and profitability.

#### Threat of new entrants:

Over the past years, a growing number of companies offering financial products and services have been entering in Mozambique. This happened due to the several factors that made this industry very attractive for new entrants, namely:

- *Strong growth potential:* out of the 20.5 million people comprising Mozambique's population, only 20,2% has access to bank accounts, thus there is enough room for demand to grow. Besides, economic prospects anticipate more growth for Mozambican economy, which might have a positive impact on the demand for financial product/services;
- *High financial margins:* Mozambican banking activities use to be characterized by high financial margins, this happens as banking services are a scarce resource;
- *Lack of competition:* this attracts more banks to the industry, as the likelihood to succeed is higher than in locations where there is a large number of established banks;
- *Reduced likelihood of incumbent banks react aggressively:* banks in Mozambique are struggling to accommodate the growing demand that they have been facing, therefore they will not react aggressively to new entrants.



All of these might represent a significant threat for banks currently operating in Mozambique. This happens as new entrants might bring new and extra capacity, and a strong desire to conquer customers, which may put pressure on prices, costs and rate of investment. Nonetheless, there are also some relevant entry barriers (advantages that incumbents have relative to new entrants) that mitigate this threat, namely:

- *High switching costs involved*: when a customer decide to change from one bank to another, he/she will need to communicate this information to all relevant parties, figure out the location of the “new bank” access points, learn the bank dynamics, find out the service fees and commissions, among others;
- *Brand identity*: Mozambican customers use to be very loyal to a single bank;
- *Restrictive government policy*: there are a lot of bureaucratic procedures involved in opening a bank in Mozambique, moreover the process usually takes too long;
- *High capital requirements (both human and financial)*: literacy indexes in the Country use to be low, being very difficult to find people qualified to work on the banking industry. Furthermore, in order to open a bank large financial resources are needed.

Students might conclude that the threat of new entrants exerts a medium force in industry overall attractiveness and profitability.

#### Threat of substitute products:

During the past few years, a boom of Telecom companies offering mobile payment systems in Africa occurred. Through providing this service, Telecoms are both playing the role of a bank, as well as offering to bank customers an attractive price-performance trade-off. Actually, Telecom services can be considered as a substitute for some bank's products/services, namely: accounts, means of payment and mobile-banking systems. Thus, there is a high risk of consumers shifting their demand from its current bank to the Telecoms. This risk becomes even more significant if one have in mind that the buyer's cost of switching to Telecoms is not that relevant.

The existence of this substitute service tends to reduce price points and increase the need for marketing expenditures, which might drive down industry overall profitability. It is important to take into account that at the moment, Telecoms are not able to substitute the entire product portfolio of a bank. However, in the future the situation might become different.

Since this service has potential to replace an entire buyer industry, it is expected that students recognize these substitutes as being indirect or downstream. Additionally, students could also state some strategies to reduce this risk, for example through price promotions or through differentiation.

By the end, students should also mention that Telecoms are the unique relevant bank substitutes, and conclude that the pressure from substitute products exerts a medium-high force.

#### Bargaining power of buyers:

Buyers of financial products and services in Mozambique are the individual or corporate customers, who need to access banking products/services. As already mentioned, currently the number people included in this group represents only 20,2% of total population. Therefore, they do not have enough power to force down prices, demand better quality or more service

Students should be able to identify some of the reasons that keep buyers' power low, namely:

- Each buyer purchase in volumes that are small relative to the size of the single vendor;
- The products and services offered by each bank use to be similar in nature, but different when put into practice: this means that buyers will not be able to find standard products across different vendors/banks;
- Banks are offering products and services with strong impact on improving the quality of buyers' life;
- As mentioned in the threat of new entrants force, buyers face many switching costs in changing vendors;
- It is unlikely that a buyer would integrate backward and produce the banking products and services himself: the know-how required, as well as the human and financial resources are too demanding;

Students should also mention at least one factor that may increase buyers' bargaining power, for example:

- Mozambicans participating in the banking system use to be characterized by low income levels, thus they have an incentive to try to push bank prices, commissions and fees to the minimum possible;

Students are supposed to conclude that the bargaining power of buyers is low, mainly due to the fact that the majority of Mozambicans still do not have access to financial products and services, but desires to.

Bargaining power of suppliers:

The suppliers of financial products and services are very diverse, being the most important ones the mobile network companies (responsible to ensure that banks are able to have a mobile banking system), and the logistic suppliers (responsible to transport money across the different regions of Mozambique).

Students must explain that the suppliers bargaining power exert a reduced force in industry overall profitability, since:

- Suppliers are not concentrated;
- Some suppliers depend heavily on the industry for its revenues: for example the ones responsible to carry money only serve the financial products and services industry;
- Industry participants do not face switching costs in changing suppliers (with exception of the companies supplying Information Technology Services);
- The majority of the products offered by suppliers are not differentiated;
- It is unlikely that any of the suppliers can credibly threaten to integrate forward in the industry: it is required a strong know-how, as well as significant human and financial capital investments.

It is also important that students mention that mobile network companies might exert a medium-high force on industry overall profitability. This happens, as banks need these companies in order to offer mobile banking services to its customers. Nevertheless, they should recognize that these companies are a single case of suppliers exerting power over industry profitability.

Students may conclude that the majority of suppliers operating in this industry are not able to capture the value for themselves through charging higher prices or limiting the quality of the products and services provided. Hence, its bargaining power is low.

Intensity of rivalry among existing firms:

In order to determine the rivalry among existing firms it is expected that students have into consideration two different types of factors. On one hand, they should consider factors that increase the intensity of industry rivalry, namely:

- *The existence of strong exit barriers:* the majority of banks operating in Mozambique had a strategic partnership with an important local company or institution and consequently, it is difficult for them to exit the market;
- *Rivals are highly committed to the business:* the majority of financial institutions operating in Mozambique are concerned in bring unbanked population into the financial system.

On the other hand, they should also consider the factors that reduce the intensity of industry rivalry, to be precise:

- *There are a few number of competitors in the industry;*
- *The industry is growing at a fast pace, and it is expected that in the future it grows even faster:* this reduce the likelihood of fights for market share occur;
- *Switching costs for buyers are high:* this stimulates customers to maintain a relationship with the bank in which they opened their first account.

Students should classify the intensity of rivalry among existing firms as being low. This happens as the factors contributing to the reduction of this force exert more power than the ones contributing to its increase.

After completing the Porter's Five Forces analysis, students should be able to realize what are the main factors influencing profitability of Mozambican banking industry (see **TN Exhibit 1**), as well as identify the "game-changing" trends that might stimulate banks to adjust their strategy in order to efficiently respond to them. Moreover, it is also expected that they classify this industry as being attractive: buyers and suppliers exert a small power over the industry and there is a reduced number of banks operating in Mozambique.

## ***Question 2***

### **a) Analyze Millennium bim position within Mozambican banking industry through performing a SWOT analysis.**

In order to explore the position that Millennium bim has within the Mozambican banking industry, as well as its major competences, students are expected to develop a SWOT analysis. During this process the following should be mentioned:

Strenghts: (students should only list the ones that are customer relevant and which serve as a differentiation factor of the Bank towards its competitors)

- *International experience in emerging markets:* Millennium bcp group has operations spread worldwide, being some of them located in emerging markets

(e.g. Poland and Angola). This allowed the group to gather important knowledge regarding the development of banking activities in emerging markets, and later on to apply it to the management of its different international operations, namely the Mozambican one;

- *Flexibility:* since the beginning of its activity, Millennium bim has been operating under a very uncertain environment, thus this Bank developed capabilities that allowed it to adapt to a broad range of different situations;
- *Innovation focused:* Millennium bim has a strong innovative spirit, reason that led this Bank to be the first introducing ATMs, POS and mobile banking in Mozambique. This strength use to be highly appreciated by its customers;
- *Familiar with Research & Development (R&D) activities:* the mother Company of Millennium bim – Millennium bcp – uses to invest heavily on R&D, and after this transfer the knowledge to its different international operations, namely to Mozambique;
- *Largest bank operating in Mozambique:* this Bank has the largest branch, ATM and POS network in the Country, as well as the largest number of customers, employees and products/services provided;
- *Good market reputation:* Millennium bim is considered by the majority of Mozambicans as a Bank that is continuously innovating, in order to offer reliable and high quality products and services (this also contributes to a high consumer loyalty);
- *Customized approach:* this Bank segments its customers based on their needs and characteristics, and then treats them accordingly to the segment to which they belong. Due to this fact, it is able to adapt its products/services offering to the different customer needs;
- *Market leader in Mozambique:* Millennium bim use to be a reference in terms of profitability and market-share within the Mozambican market.

Weaknesses: (students must take into account what customers require of all banks operating within Mozambican financial services industry)

- *Lack of points of contact between the Bank and the customers:* although Millennium bim has the largest branch, ATM and POS network in Mozambique, it has also the largest number of customers, therefore it lacks points of contact between the Bank and all of its customers, particularly in rural areas;

- *Low service levels:* due to the growing demand for the financial products and services offered by Millennium bim, queues in the branch offices and ATMs are becoming bigger each day, which has been exerting a negative impact over this Bank service levels. In other words, currently it does not have enough capacity to satisfy demand;
- *Difficulty to adapt products developed in Portugal to Mozambique:* Millennium bim constantly tries to replicate products/services launched in Portugal, in Mozambique. However, due to lack of adaptation to the Mozambican reality, sometimes success became compromised;
- *Dependency on the Government of Mozambique:* this entity is the second largest shareholder of Millennium bim, consequently it exerts strong power when it comes to make decisions;
- *Qualification demands:* Mozambique is characterized by low literacy indexes, being very difficult to find local people able to perform top management tasks. Thus, Millennium bim has been forced to hire foreign people, particularly for leadership positions. Nevertheless, it is not easy to convince someone to leave his/her country in order to work in Mozambique.

Opportunities: (students must list all the opportunities that Millennium bim can take advantage in order to move the business forward)

- *Fast growing economy with stability, and good prognosis for the future:* Mozambican economy has been growing at a fast pace, which has been creating several opportunities for Millennium bim. Furthermore, in the future there will be more money to invest in financial products and services, which might have a positive impact over the Bank financial margin and results;
- *Political stability:* over the past years Mozambique had become a stable Country, where government is committed to develop a business-friendly economic environment. This attracts more business and investors and as a result, might increase business opportunities for Millennium bim;
- *Concentrated market:* the Mozambican banking industry is composed by a small number of players, which is translated into few competition and therefore high likelihood to generate profit;
- *Unsatisfied demand:* only 20,2% of Mozambicans has access to bank accounts. Thus, Millennium bim should address this opportunity through the development

of more points of contact between them and their current and potential customers;

- *Lack of banking presence in rural areas:* this might be endowed by Millennium bim as an opportunity to expand its business;
- *Consumer tastes and values are changing:* the Bank should profit from this opportunity through the launch of new products and services that better fulfill customer needs and desires.

Moreover, students might also refer that the opportunities presented above match a large portion of Millennium bim strengths.

Threats: (students should mention the unfavorable trends that threaten current sales and profits of Millennium bim, or prevent the Bank from pursuing new business opportunities)

- *Poor physical infrastructures:* Mozambique is a developing country that is extremely poor, reason why its infrastructures use to be undeveloped. This might create some problems for Millennium bim (e.g. difficulty to find a place to open a branch);
- *Low literacy indexes:* this represents several challenges both to find qualified and technically trained labor, as well as to explain to customers what a certain financial product/service is;
- *Bureaucratic Country:* the high levels of bureaucracy presents in this Country have been creating several barriers for Millennium bim. For example, it is extremely difficult and time consuming to open a new bank branch;
- *High criminal rate:* Mozambique has become safer as time passed, however it stills a Country that is characterized by a large number of crimes and corruption. This should stimulate the Bank to reinforce all safety procedures;
- *Current competitors are improving its performance:* during the past few years the main competitors of Millennium bim have been growing and improving their performance. Thus, the Bank should be concerned in develop a strategy that mitigates the risk of being surpassed by the other players;
- *New competition likely to enter in Mozambique financial market:* this happens due to the high financial margins that use to characterize the sector, as well as due to the fact that demand is growing faster than the banks. Therefore, competition can become more intense and each bank will need to compete harder in order to gain market share;

- *Telecoms companies offering payment systems:* there is a boom of Telecom companies offering alternative payment systems across different African countries. This might be a threat as this service has potential to replace some Millennium bim products/services.

Once all Strengths, Weaknesses, Opportunities and Threats were identified, students should be able to understand where the Bank is at the present and where it can be in the future (see **TN Exhibit 2**). Actually, Millennium bim is clearly a market leader and has capacity to maintain its position during the following years. However, in order to maximize its results, while ensuring that competitors will not be able to surpass its position, this Bank should use its strengths to take advantage of the vast market opportunities.

**b) How does Millennium bim differentiate itself in the Industry? What generic strategy is it performing?**

According to Porter (1980), in order to differentiate itself in a certain industry, a company can follow two different types of competitive advantage: differentiation strategy or low cost strategy. The first case is illustrated by situations in which a firm offers products/services that create superior value to the customers and, as a result, is able to charge higher prices than its competitors; whereas the second one occurs when a company designs, produces and markets comparable products/services more efficiently than its competitors, being able to have lower costs and therefore, charge lower prices.

Students should classify Millennium bim as having a differentiation strategy. In order to justify their answer, they must explain that this Bank seeks to offer products and services that can be regarded as unique in some dimensions that are highly valued by its customers. In addition, they are expected to provide some concrete examples, namely: the quality, innovativeness and reliability that uses to characterize Millennium bim product portfolio; the existence of remote distribution channels (e.g. POS, call centre, mobile and internet banking); the large branch, ATM and POS network; the presence in some rural areas; the account manager and special branches allocated to the prestige segment; the outstanding customer service; among others.

After defining its competitive advantage, the company should delineate its competitive scope. Thus, a company can choose to target broad or narrow segments. In the case of Millennium bim, students are supposed to recognize that this Bank targets consumers from the mass-market, hence it has a broad competitive scope.



Later on, the combination of the two types of competitive strategy with the two types of competitive scope leads to three main generic strategies:

- *Cost leadership*: a firm that competes through offering low prices to a broad target market. This is only possible as the company has lower costs than its competitors;
- *Differentiation*: a firm that offers unique products and services, which are highly valued by a broad target market. Due to this fact, the company is able to charge higher prices;
- *Focused*: when the firm tailors its strategy to perfectly serve consumers belonging to a market niche. Actually, the firm is able to satisfy the needs of its narrow target market better than anyone.

In order to sustain competitive advantage, these three strategies should be seen as alternatives to each others. Actually, firms that try to pursue more than one strategy simultaneously are not able to succeed.

It is expected that students argue that Millennium bim differentiate itself from other banks through offering innovative financial products and services that are perceived by its broad range of customers as unique, and as being better than the ones offered by other players. This allows the Bank to charge a slightly higher price for them, and consequently, to reach better financial results than its main competitors.

Overall, students should conclude that Millennium bim adopted a differentiation strategy. Moreover, they may complete their answers by explaining that this generic strategy protects the Bank from its competitors, from the threat of new entrants and from substitute products. This happens due to the fact that this type of strategy leads to extremely loyal customers, while lowering the price elasticity of demand. Nevertheless, Millennium bim should be aware that its advantage might be threatened by changes in customer preferences, imitations by competitors or firms pursuing focus strategies capable to achieve even greater differentiation within the market segments served by the Bank.

### ***Question 3***

**What are the challenges involved in targeting consumers of financial products and services in Mozambique? Hint: Take into account consumer knowledge and the marketing mix variables.**

To be able to identify the challenges involved in targeting consumers of financial products and services in Mozambique, it is crucial that students first realize

that this Country is an emerging market and therefore, consumer knowledge and marketing variables are very different from those from mature markets.

Students should start by justifying why Mozambique is an emerging market for financial products/services. It is expected that they mention some of the following facts:

- *Increasingly market growth*: there is a growth trend regarding the number of people entering within Mozambican financial system;
- *High financial exclusion*: even if the number of people entering in the financial system has been growing at a fast pace, almost 80% of Mozambicans still do not have access to bank accounts;
- *New product launches*: over the past few years a broad range of financial products and services have been launched in Mozambique (e.g. mobile banking);
- *Low product/service variety*: although new products/services have been launched, the majority of banks is still offering standard products and services;
- *Weak bank presence*: this is particularly true for rural areas;
- *Novices' consumers*: the majority of Mozambicans participating within the banking industry use to have low product knowledge. This happens due to their difficulty to understand some specific products and services.

After this, students should be able to recognize that since consumers are novices, banks need to adapt the marketing variables – Product, Price, Place and Promotion – to this reality. This is what creates the challenges for financial institutions operating in Mozambique.

### Product

Starting by the product, it is crucial that banks adapt their products/services portfolio to the Mozambican reality. More precisely, due to the low literacy indexes (only 50,6% of population is educated), as well as due to the fact that consumers are novices, banks should only commercialize products/services that can be easily understood by consumers, e.g.: deposit accounts, simple loans, cheques and airtime vouchers from Telecoms.

Banks should also be aware that even if the majority of Mozambican consumers are novices, there are also expert consumers. Thus, another challenge is to create products and services specially tailored for this last type of consumers. In addition, the product portfolio should also meet the needs of companies operating in the Country.

## Price

Regarding the price, Mozambican consumers use to be very price sensitive. This happens as the majority of them use to have low income, been therefore reluctant and/or unable to pay some bank fees and commissions. Furthermore, they are also unwilling to use specific banking products or services that they considered to be expensive (i.e. cheques). At first glance this might appear a significant challenge, however as time passed it has been mitigated. This happened, due to the fact that customers started understanding the importance of using a bank.

Customers understanding of the importance of using a bank is related to the fact that, the majority of Mozambicans need to make payments at least once a month. The ones doing it without the use of banks are forced to use cash. The cash is sent through bus drivers, friends, or carried by the individual itself, which is too risky, unreliable and slow. Moreover, traveling costs can be huge. All of this has been encouraging customers to resort to the bank and consequently, to be willing to pay bank commissions and fees. Having this in mind, banks should be able to explain to customers that their products and services have strong potential to make their lives easier and safer, while charging a price that is affordable for the majority of Mozambican consumers.

## Place

Where to sell is a crucial decision when a company is offering financial products and services. It is important to be cost-effective and at the same time, to reach the target market. Nevertheless, banks should also be aware that since the majority of Mozambican consumers are novices, they use to prefer face-to-face distribution channels. This happens as the perceived risk involved in purchasing financial products and services is reduced during the contact with the salespeople. All of this creates a significant challenge: combine efficiency with face-to-face distribution channels.

Branches are the unique face-to-face distribution channels used by banks operating in Mozambique. However, their number is reduced, which creates several problems. Moreover, customers are avoiding going to bank branches, as they use to be characterized by huge waiting lines and in some cases, are too far away from the place where they live.

Aware of this problem, banks have been stimulating customers to use alternative distribution channels, namely: ATMs, POS, internet banking, mobile banking, and call centre. Nevertheless, some customers are reluctant to use the channels previously

mentioned, and prefer to go to a branch and wait the necessary time to be served by a salesperson. Whereas others only use branchless distribution channels to check account balance, to withdrawal cash or to purchase airtime from Telecoms. Consequently, it is crucial that banks do something to reverse this situation. Otherwise, they will need to invest a lot of money to increase the presence of bank branches in a relevant manner.

### Promotion

What to say, how to say and when to say is influenced by the stage in which a certain market is, and by consumers' behavior. Due to the fact that the great majority of Mozambican consumers are novices, banks should focus their promotion strategy in educating them about the different products/services that the institution is offering. This is extremely important, since it has potential to reduce customers' perceived risk, and therefore encourage them to use branchless distribution channels. Another important goal that banks should have in mind is to raise customer awareness regarding the bank itself, as well as its location.

After analyzing the four marketing variables, it is expected that students summarize the main challenges involved in targeting consumers of financial products and services in Mozambique:

- *Satisfy the needs of all interested parties:* although the majority of Mozambicans are novices' consumers, there are also expert and corporate ones. Thus, banks need to ensure they have a versatile product portfolio that is able to satisfy the basic needs of the majority of its customers, as well as the demanding needs of a minority;
- *Develop an effective segmentation strategy;*
- *Ensure that products/services commercialized can be understood by customers:* more precisely, customers should be able to understand what a certain product is and how it works;
- *Establish affordable and fair prices;*
- *Sensitize customers to the importance of having a bank:* namely in what regards to improve customer safety and convenience;
- *Discourage customers to use face-to-face distribution channels:* actually, they should only use these type of distribution channels (e.g. bank branches) when it is strictly necessary;

- *Use promotion as an informational tool:* promotion should be used to raise customer awareness about the bank itself, as well as about the different bank products and services;
- *Increase capacity in an efficient manner:* the demand for financial products and services has been growing at a fast pace, this way it is crucial that banks adapt their distribution channels to this new trend.

By the end, it is expected that students realize that differences in market development exert a strong influence in consumer behavior and therefore, in firms marketing practices. Likewise, banks need to change its strategic and marketing approach in accordance to the stage of the market.

#### **Question 4**

**Taking into account the differences between the Portuguese and the Mozambican markets, how would you assess Millennium bcp decision to transpose the Portuguese mobile banking system to Mozambique? What were the conditions needed to ensure the success of this strategy? Is the Product Life Cycle a law of nature?**

Students should start answering this question by exploring the main differences between the Portuguese and the Mozambican markets. In order to do so, they might develop a simple PEST analysis for the two markets:

| <b>PEST Analysis</b> | <b>Portugal</b>  | <b>Mozambique</b>   |
|----------------------|--|---|
| <b>Political</b>     | <ul style="list-style-type: none"> <li>→Governmental stability</li> <li>→High degree of regulation (particularly in regards to the banking industry)</li> </ul>  | <ul style="list-style-type: none"> <li>→Trend for stability</li> <li>→Willingness to receive foreign investment</li> <li>→Bureaucratic Country</li> </ul>   |
| <b>Economical</b>    | <ul style="list-style-type: none"> <li>→Stable GDP</li> <li>→Stable Economy</li> <li>→Portuguese companies tend to expand internationally</li> </ul>   | <ul style="list-style-type: none"> <li>→GDP growth</li> <li>→Exchange rate volatility</li> <li>→Low income available</li> <li>→Growing demand for financial products and services</li> </ul>  |
| <b>Social</b>        | <ul style="list-style-type: none"> <li>→High literacy indexes</li> <li>→Qualified people</li> <li>→Safe Country</li> <li>→Strong financial inclusion</li> <li>→Good living conditions</li> </ul>   | <ul style="list-style-type: none"> <li>→Low literacy indexes</li> <li>→Lack of qualified people</li> <li>→Widespread poverty</li> <li>→High levels of financial exclusion</li> <li>→Unsafe Country</li> <li>→Domestic infrastructures problems</li> <li>→Different consumer habits</li> </ul> |
| <b>Technological</b> | <ul style="list-style-type: none"> <li>→Familiar with research &amp; development (R&amp;D) activities</li> <li>→Technology incentives</li> <li>→Trend to innovate</li> <li>→Highly-developed banking system</li> <li>→High penetration of smartphones</li> </ul> | <ul style="list-style-type: none"> <li>→Unfamiliar with R&amp;D activities</li> <li>→Low technological incentives</li> <li>→Trend for technology transfers</li> <li>→Presence of fake versions of smartphones</li> </ul>  |

**Table 20: PEST Analysis for the Portuguese and the Mozambican markets**

Source: Case writer

At the end, they should conclude that the Portuguese market is very different from the Mozambican one. On one hand, Mozambique is characterized by a large population, a rapid growth in business activities, as well as by offering a wealth of opportunities in trade, technology transfers and foreign direct investment. Actually, it is a developing market, in which investments are expected to achieve greater returns, while having greater risk. On the other hand, Portugal is characterized by a stable population, an absence of significant growth and by large consumer spending. Furthermore, due to its technological development, it is also characterized by strong investments in R&D activities. Investments in this Country have lower risk and therefore, a lower return. Due to all of this, it is clear that Portugal is a developed market.

**After this, students are expected to start exploring Millennium bcp decision to transpose the Portuguese mobile banking system to Mozambique.**

As previously mentioned, Portugal is characterized by strong investments in R&D. This happens due to the fact that per capita income and purchasing power are high (or at least higher than in developing markets), which allow companies to sale high priced innovative products/services and therefore, to be able to afford R&D costs. Moreover, communication between the company and the customers use to be easier in this type of countries, which is essential to help companies receiving customers' feedback and improve their products and services. This way, it is easy to understand why Millennium bcp group decided to develop the mobile banking system in Portugal.

The product life cycle of the mobile banking system in Portugal, passed through four different stages<sup>113</sup>:

- *Product development*<sup>114</sup>: corresponded to the moment in which the Bank found a new idea – the creation of a mobile banking system – and fully developed it. During this period, Millennium bcp faced significant costs and sales equal to zero;
- *Introduction*: this stage was characterized by the moment in which the mobile banking system was introduced in the Portuguese market. During those times, the sales growth was slow (customers didn't know the new product), the profits

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<sup>113</sup> At the date of the case writing, the declining stage of the Product Life Cycle had not been reached.

<sup>114</sup> This stage does not belong to the Product Life Cycle by itself, however it corresponds to the first stage regarding the launch of a certain product or service.

were almost inexistent (Millennium bcp faced heavy expenses of product introduction) and the service was quite unstandardized;

- *Growth*: this period corresponded to the moment in which the majority of Millennium bcp customers started using the mobile banking system and as a result, a certain degree of standardization took place. This allowed the bank to start making significant profits;
- *Maturity*: this phase was characterized by the moment in which the mobile banking has achieved acceptance by most of its potential buyers. Therefore, a slowdown in sales growth occurred.

Due to the slowdown in sales growth, profits were also affected. This way, in order to ensure its growth, as well as to extend the product life cycle of the mobile banking system, Millennium bcp felt the need to reach new markets. To be able to do so, the group applied a horizontal extension framework, as it decided to transpose the technological innovation developed in Portugal to the international dimension. Thus, Millennium bcp started offering a mobile banking platform in the different countries where it was operating, namely in Mozambique.

The introduction of mobile banking in Mozambique could be described as a major innovation that resulted from a cross-functional cooperation. More precisely, unlike what is common, this innovation did not require the development of new technology, neither a sizable investment. This happened as Millennium bim decided to replicate the service developed by its mother company (Millennium bcp). Actually, the Bank transposed the entire product life cycle of a mobile banking system from a mature market – Portugal – to an emerging one – Mozambique.

After this, it is expected that students explain the rationale behind the decision to introduce a mobile banking system in Mozambique. Starting by Millennium bcp group, students should mention that this was a good strategy due to the fact that, once developed, the mobile banking can be launched in other international operations, at little or no cost. Furthermore, it allowed the Group to profit by introducing a well known established service, in a market where it was unknown. Regarding Millennium bim, students should argue that this Bank decided to launch the mobile banking system in Mozambique, as it had a strong potential to minimize operating costs, while maximizing operating revenues. Additionally, the new product was able to bring more customers

into the financial system, strength Millennium bim competitive advantage, increase customer retention, increase revenues and reduce costs.

**At this point, students should clearly express their opinion regarding Millennium bim decision, while explaining the conditions needed to ensure the success of this strategy. Hence, it is expected that they argue that the decision was good, but it lacked some product adaptation, which prevented success to occur.**

In order to succeed, it was crucial that the Group had in mind that Mozambique is an emerging market, where the majority of people still do not have access to the banking system and therefore, products and services using latest technology might bring significant challenges, both for the Bank and for the customers. Besides, as already mentioned, political, economical, social and technological conditions were also very different. This way, Millennium bcp and Millennium bim should have made some significant changes to the mobile banking version launched in Portugal, namely:

- *Adapt the type of transactions available:* Portuguese and Mozambican customers have different needs in what regards to banking products/services therefore, the mobile banking system, should only have the operations that the majority of Mozambicans used to perform;
- *Have a simple service dynamic:* the service dynamic was quite confusing, particularly for a Country in which literacy indexes were so reduced;
- *Do not require customers to memorize more than one service code:* as mentioned above, the majority of Mozambicans was not educated and consequently, had several difficulties to memorize things;
- *Do not require access to the internet<sup>115</sup>:* even if it worked without access to the internet, customers needed to access it, in order to download the app;
- *Work with different types of mobile phones<sup>116</sup>:* Millennium bim App, only worked in mobile phones that had one of the following operating systems: IOS, Android, BlackBerry or Java nonetheless, the majority of Mozambicans did not have mobile phones compatible with these operating systems.

Furthermore, it was also important that Millennium bim had sensitize its customers to the potential that a mobile banking system might have in improving their quality of life. This was important since due to cultural reasons, Mozambicans prefer to carry their money by their own, instead of relying on third parties.

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<sup>115</sup> This point regards only to Millennium bim App for smartphones.

<sup>116</sup> Ibid.



In sum, the first two versions of mobile banking in Mozambique – Millennium bim SMS and Millennium App for smartphones – , were not as successful as expected because the Bank did not have all the knowledge, innovation and technology required to market this service in an efficient manner.

**As to the last part of the question, students should mention that the product life cycle is not a law of nature. To support their answer, they should analyze the product life cycle of the mobile banking system in Mozambique. Actually, it was shorter than in the Portuguese case, since it was divided only into two different stages:**

- *Introduction*: corresponded to the moment in which Millennium bim launched the mobile banking system in Mozambique. This stage was characterized by slowly market growth and by lack of competition;
- *Growth*: during this phase a growing number of Millennium bim customers started using the mobile banking system. This increase in sales, motivated other banks operating in Mozambique to start offering mobile-banking tools.

By the end, students may conclude that it is not mandatory that all products follow the four typical stages – introduction, growth, maturity and declining – that use to comprise the product life cycle of a certain product or service, nor that each stage last the same. This is particularly true, when a company transfers the technology involving a certain product or service across different markets.

### ***Question 5***

**Describe the internationalization strategy followed by Millennium bcp group to enter the Mozambican market. Hint: Explain the reason behind the decision, the entry mode pursued and the type of international strategy employed. In addition, apply the International Configuration/Coordination model developed by Michael Porter.**

After achieving a strong position in the market, as the largest private bank operating in Portugal, Millennium bcp decided to expand its operations overseas. This decision relied on two main goals: benefit from growth opportunities that foreign markets had, and enhance its profitability. In order to choose where to locate its operations, Millennium bcp looked for markets that had at least one of the following characteristics: a large community of Portuguese descendents, a close historical link with Portugal, a strong commercial rationale for founding banking operations and/or the

presence of business models and technological platforms which were similar to the ones used by the Bank.

The first stage of Millennium bcp's internationalization strategy occurred in Mozambique, in 1995. After this, the Bank entered in Poland, Greece, Angola and Romania, respectively. Besides these countries, it was also present in other locations through representative offices, on-shore branches, commercial protocols and promoters and transfer agreements.

Regarding the strategy itself, it is expected that students classify Millennium bcp as employing a transnational strategy. To justify their answer, they might claim that this Bank tailors the majority of its products/services to the local domestic environment of the different countries where it is operating, while having a single brand – Millennium – everywhere. Actually, Millennium bcp resources and activities are dispersed but specialized, which allows it to achieve both efficiency and flexibility.

After briefly explaining the internationalization strategy of Millennium bcp group as a whole, students should focus their attention in Mozambique. Therefore, they are expected to argue that Millennium bcp decided to start operating in this Country due to the following facts:

- *Close historical link with Portugal;*
- *Large community of Portuguese descendents;*
- *High growth potential:* the majority of Mozambicans did not have access to the financial system, furthermore the banking industry was very concentrated, which created several growth opportunities for Millennium bcp group.

In order to enter in the Mozambican market, Millennium bcp group had to choose an entry mode that was compatible with its strategy. To make this decision, the group took into account the amount of commitment, the involved risk, the desired control, and the profit potential. After carefully analyzed these variables, it decided to establish a strategic partnership with the Government of Mozambique. This partnership, in which they shared ownership and strategic and operational control, led to the creation of a local bank, first known as BIM, and later on, due to the single brand strategy undertaken by Millennium bcp group, as Millennium bim.

As mentioned above, Millennium bcp joined a local partner, hence it is expected that students categorize this entry mode as a Joint Venture. Additionally, they can explore the rationale behind the decision to pursue this strategy. Thus, some of the following facts might be referred:

- *Enhanced access to local knowledge:* the Mozambique's Government had a strong market knowledge that could help Millennium bim tailoring its strategy and products/services to it;
- *Shared risk:* which reduced the Bank exposition to political and market risk;
- *Better access to local contacts:* the Government of Mozambique could help Millennium bim finding local suppliers, collaborators and even customers;
- *Increase Millennium bim power in Mozambique:* which was important to help the Bank overcome host government restrictions;
- *Increase Millennium bim reputation towards its potential customers:* this was particularly relevant, due to the fact that bank products are intangible and trust-based.

Some disadvantages can also be mentioned, to be precise:

- *Large capital investment required;*
- *Millennium bcp group might become locked in a long-term relation:* this becomes particularly relevant, if one have in mind that the importance of the venturing between the two partners, might change overtime;
- *Loss of flexibility and confidentiality:* as control is shared, when it comes to make decisions, Millennium bim has to take into account the opinion of the Government of Mozambique.

By the end, it is expected that students describe this entry mode as being the most suitable one. Even though, they might argue that in order to protect its proprietary assets and knowledge, as well as to ensure an efficient development and implementation of its strategy, Millennium bcp group needed to retain control over its Mozambican operation, to be able to effectively implement its strategy it also needed to access a variety of different resources. These resources could only be accessed through the help of a local partner.

Regarding the type of international strategy, students must categorize Millennium bim as following a transnational approach. This happens since it responds to the local market needs, while capturing the benefits of global efficiency. Additionally, students could explain that the Bank felt the need to adapt its marketing strategy to the Mozambican reality as Mozambique was very different from Portugal (as already analyzed in **question 4**).

**Moving to the International Configuration/Coordination model developed by Michael Porter**, it is expected that students are able to identify and explain the level of configuration and coordination that characterizes the international operation of Millennium bcp group in Mozambique.

Starting by the configuration dimension (the geographic location where each activity of the value chain takes place), students should refer that Millennium bcp group has a geographically dispersed configuration, as it placed an entire value chain in Mozambique. Regarding the coordination dimension (the degree of coordination between activities performed in different countries), students should mention that the Group has a medium/high coordination of activities, as it adapted its strategy to the Mozambican market, while ensuring a single and consistent brand image, as well as the integration of different resources into an interdependent network of worldwide operations (see **TN Exhibit 5**).

By the end, students should explain the rationale behind Millennium bcp group employing this type of strategy (e.g. geographically dispersed configuration and medium/high coordination). Therefore, they could argue that in the banking industry an intensive local customer service is required. Nonetheless, it is also important to capture the benefits of global efficiencies, for example through transferring products, services and strategies across different operations.

**Question 6**

**How would you advice Mr. Cunha Martins about the way in which Millennium bim should manage its growing demand? Would it be better to increase the number of bank branches in a relevant manner, or to improve Millennium bim mobile banking platform?**

**a) Justify your answer through analyzing the pros and cons of each alternative, as well as through performing a brief 5 C’s Analysis.**

In order to properly advice Mr. Cunha Martins about the way in which Millennium bim should manage its growing demand, students should start by developing a pros and cons analysis for each possible alternative.

Starting by the branch expansion alternative, students might mention some of the following pros and cons:

| PROS  | CONS  |
|---|---|
| Better understanding of individual customer needs and consequently, better customer service: branches use to have expert collaborators that could talk to | Reduction of Millennium bim efficiency levels: branches would encourage Mozambicans to continue going to the bank to perform every single operation |

|  |  |
|--|--|
| customers in order to understand their needs, as well as help them deciding the best product/service for their particular situation;         | whose price was affordable;  |
| Attracts new customers: as the customers might see the bank branch, enter and become a client;   | The majority of Mozambicans is very poor and cannot afford some commissions related to bank branches products/services;  |
| Increases security: in bank branches customers are required to present an official identification document to be able to perform operations; | High costs both for the Bank and for the customers: the Bank has opening costs, maintenance costs, and staff costs, whereas the customers have to pay more commissions and fees; |
| Reduction of branches congestion: the customers would have more branches to go.  | The bank branches would not have enough capacity to satisfy the demand of all customers at the same time.  |

**Table 21: Pros and cons of branch expansion alternative**  
Source: Case writer

Concerning the mobile banking system alternative, students might mention:

| <b>PROS</b>   | <b>CONS</b>   |
|---|---|
| High potential to bring unbanked people into Mozambican banking industry: it would serve an unlimited number of customers, regardless where they live;  | Short time-to-market: the new channel launched by Millennium bim could be easily replicated by other banks operating in Mozambique;   |
| Increases customer safety: the majority of Mozambicans make at least one payment per month, which uses to be made in cash. The cash is sent through bus drivers, friends, or carried by the individual itself. This is too risky and slow;        | Medium - high bargaining power of mobile network companies: the Bank and its customers would only be able to perform their operations through a mobile phone device if mobile network companies want to cooperate;                    |
| Reduction of branch congestion: as customer would be able to perform all type of operations through the mobile phone (with exception of cash-in/cash-out);  | Perception of insecurity: some customers might be reluctant to use the mobile banking channel as they may mistrust its safety procedures;   |
| Millennium bim would be able to reach customers in areas where branches are less or not available (e.g. rural areas <sup>117</sup> );   | Difficulty to understand how the service work: even if the improved version would be intuitive and effortless, the literacy levels in Mozambique are really low and this might create some concerns when it comes to use the service; |
| Low cost solution both for Millennium bim and for their customers: it would keep fixed costs per customer extremely low, while reducing unit transaction cost. Furthermore, the improved version of mobile banking could be 100% developed within | Opportunity for fraudulent activities, particularly the ones related with money laundering.   |

<sup>117</sup> In 2012 Millennium bim had 270.000 customers living into rural areas.

|  |  |
|--|--|
| the Bank;  |  |
| Positive impact over Millennium bim brand positioning, as it would be seen as an innovative bank that is concerned in bringing unbanked population into the financial system;          |  |
| Creation of entry-barriers to Telecoms;  |  |
| Millennium bim SMS proved that mobile-banking channels might have strong potential to increase Bank revenues, customer base and customer loyalty, whereas managing its growing demand. |  |

**Table 22: Pros and cons of the improved mobile banking system alternative**  
Source: Case writer

Bearing in mind the pros and cons of each alternative, **students should now move to the 5C's.**

Starting by the customer needs, students should mention that the majority of Mozambicans are looking for security, time-saving (through avoiding branches and ATM lines) and convenience, as well as to save some money. As to their decision making process, they use to choose the bank mainly based on its proximity. Therefore, the best approach should be to improve the mobile banking system: it fulfills all customer needs, while ensuring a 100% proximity. In reality, only the customers' perception of service security might be called into question. However, a good promotion strategy can easily overcome this problem.

Regarding the context, already analyzed in **questions 1 and 4**, the following can be mentioned: there is a growing demand for financial products and services (as the number of people entering in the financial system has been growing at a fast pace); the economy is growing; the mobile phone penetration covers more than 30% of the Mozambican population; and the majority of consumers are novices. At a first glance, students might mention that it would be better for Millennium bim to increase the bank branches in a relevant manner: consumers prefer face-to-face distribution channels (this was explained in **question 3**), and almost 70% of the population do not have a mobile phone. Nevertheless, having in mind the future growth trends and a long run perspective, it becomes evident that the bank branches alternative will only postpone the problem of excess demand. Hence, the mobile banking option is the most suitable one.

As to the Company, Millennium bim is the largest Bank present in Mozambique, and a leader in all lines of business and segments. Moreover, it has a strong competitive advantage that relies on a differentiation strategy (explained in **question 2b**). Since its launch, the Bank has been responsible for introducing new technology and financial

products/services in Mozambique (e.g. POS, ATMs, internet and mobile banking), which allowed it to provide an unmatched value to their customers. Thus, the alternative chosen should ensure that Millennium bim competitive advantage will persist over time. Considering all of this, the mobile banking alternative is once more the best option.

Collaborators include the companies and/or people who help the Bank in marketing its financial products and services to its customers. This way, it would be better for the majority of them if Millennium bim enlarged its branch network in a relevant manner: they will need to hire more employees and request more services from suppliers. Regarding the complementers, companies and/or people who also benefit when the firm sells its products, for them it would be better if Millennium bim improved its mobile banking system. Actually, the unique relevant complementers are the mobile network companies, therefore it is easy to understand why they would benefit if the Bank follows this last alternative. However, the same could not be said for Millennium bim, as it will be dependent on these complementers in order to be able to provide a mobile banking service. Taking all of this into account, it is understandable why for this specific case, it would be better if the Bank enlarged its branch network.

Last but not least, students must analyze what Millennium bim competitors are doing in regards to their own distribution channels. Starting by the bank branches, they have been increasing its number. However, it will be very difficult to surpass Millennium bim branch network. This happens due to three main facts: first of all, it takes too long to open a bank branch in Mozambique; secondly, it involves significant human and financial capital investment; and thirdly, Millennium bim has the largest branch network in the region (the top four competitors have on average 40% of Millennium bim bank branches). As to the mobile banking system, the majority of banks are also offering this service to their customers. Still, Millennium bim was the first bank launching this service, which allowed it to benefit from a first-mover advantage. On one hand, if Millennium bim decides to enlarge its branch network, it will overcome even more its competitors but, it will face a significant cost. On the other hand, if it decides to improve its mobile banking system, it will be able not only to strengthen its competitive advantage, but also to satisfy the needs of a growing demand. Therefore, this is again the best alternative.

Considering both the pros and cons of each option, as well as the 5 Cs analysis, students must conclude that the best strategy is to improve the mobile banking system

that has been used by the Bank. This way, Mr. Cunha Martins should argue to the shareholders of Millennium bim that this solution is the most efficient to manage the growing demand for financial products and services.

**b) Considering the data available on Exhibit 14, determine the Return on Investment (ROI) of each alternative. Would your advice remain the same?**

In order to determine the ROI, students should apply the following equation for each alternative (e.g. bank branches and mobile banking):

$$ROI = \frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

The gain from investment should be replaced by the total revenue for the three years, while the cost of investment should be replaced by the total cost for the three years.

Both values can be found on **Exhibit 14**.

|   | <b>Bank Branches Alternative</b> | <b>Mobile Banking Alternative</b> |
|---|----------------------------------|-----------------------------------|
| <b>Total Revenues for the 3 years (Million MZN)</b> | 10.752                           | 4.772                             |
| <b>Total Cost for the 3 years (Million MZN)</b>     | 4.970                            | 13,87                             |
| <b>Margin (Million MZN)</b>                         | 5.782                            | 4.759                             |
| <b>Return on Investment</b>                         | <b>116%</b>                      | <b>34316%</b>                     |

**Table 23: ROI calculation**  
Source: Case writer

After determining the ROI, it becomes clear that although the bank branches option has a higher margin, the improvement of the mobile banking system will have a much higher return (see **table 23**). Therefore, students must conclude that their advice would remain the same. More precisely, Mr. Cunha Martins should argue to the shareholders that, the best alternative to manage Millennium bim growing demand is to improve the mobile banking platform that has been used.

**Question 7**

**Even if you are aware that Millennium bim decided to manage its growing demand through working on the supply side, would not have been better to work on the demand side? Would price discrimination have been an option?**

First of all, it is important that students recognize why Millennium bim decided to manage its growing demand through working on the supply side. Actually, this happened as the other alternative was to work on the demand side, which means that the Bank would need to reduce demand, as it did not have enough capacity to satisfy it, and this could only have been done through increasing prices. Taking into account the low income that uses to characterize the majority of Mozambicans, it is easy to understand



that if Millennium bim decided to increase prices it would be restricting the access to the bank to a very limited group of potential customers. This would have been against Millennium bim main mission: bring unbanked population into the financial system.

Albeit only a limited group of customers would have access to the Bank, this group would be composed by the customers who could afford the superior prices. This means that the budget of a customer belonging to this group could represent several “low income customers”. Moreover, the Bank would be able to reduce the number of bank branches opened and as a result, reduce costs. Therefore, students should realize that another suitable alternative to manage Millennium bim growing demand would have been to use price as a demand conditioning tool.

**After this, students must focus their attention in the different price discrimination strategies that could have been used to manage demand.** To be able to do so, they must start by recognizing that the conditions needed for price discrimination to occur were all satisfied: Millennium bim had enough market power; there were different customers and groups of customers, with different willingness to pay for the same financial product/service; Millennium bim could legally create incentives for charging different prices; the prices direct at one segment would not be taken advantage of by the others; and resale would be impossible. Then, they should analyze each price discrimination strategy separately.

#### First degree price discrimination:

This scenario would have been represented by a situation in which Millennium bim would charge each customer the maximum amount he/she would be willing to pay for a certain financial product/service. Students might conclude that it would be very difficult for Millennium bim to apply this type of price discrimination strategy, as it did not have enough information regarding the maximum price each consumer would be willing to pay for alternative quantities of Millennium bim products and services. Even if this Bank tried to run some type of marketing research study, it would be almost impossible to find out such detailed information.

Students must bear in mind that besides Mozambique being a developing country, its banking sector is relatively recent. Therefore, they should conclude that this type of discrimination strategy would not have been suitable to manage Millennium bim current growing demand. However, they might point that in the future, when the banking industry become fully developed and all customers need more products than

deposit accounts and debit cards, Millennium bim could apply this strategy for some of their products. For example, credit card fees and loans interest rate could be established according to each individual customer willingness and ability to pay. By doing so, the Bank would be earning higher profits than if it charged the same price to all customers. Furthermore, the Bank will decide which customers it has interest to serve. This could manage future growing demand for financial products and services.

#### Second degree price discrimination:

To apply this type of price discrimination strategy the Bank would have needed to charge different prices for different buying levels: the higher the quantity purchased the lower the price customers would have to pay. Moreover, customers would sort themselves according to their willingness to pay for a certain product or service, thus Millennium bim would not need to know specific characteristics of its individual customers.

In order to be able to manage its growing demand, the Bank should have increased unit prices relevantly and then, charge much lower prices in situations in which the same products/services were purchased in high quantities. For example, a customer who only wants to purchase a cheque, or deposit a small amount of money, should pay a higher unit price than a customer who wants to purchase 10 cheques or deposit large amounts of money. By doing so, the Bank would only target consumers that could afford the increased prices, or that could purchase high quantities of products/services at once. The remaining customers would need to find another bank that was compatible with their willingness to pay.

Through applying second degree price discrimination strategy, Millennium bim would be able to target only medium-high income consumers, as well as to extract some of their surplus. This would ensure that the loss of customers would be offset by the increased revenues (i.e. higher prices or higher quantities purchased would led to higher revenues) and reduced costs (i.e. a lower demand would led to lower costs).

#### Third degree price discrimination:

Third degree price discrimination describes a strategy in which the firm recognizes that customers belonging to the same segment use to behave similarly to each other's, and very different from customers belonging to other segments. Thus, students must realize that this happens in the case of Millennium bim customers. As can be read in the case study, Millennium bim divides its buyers into three main customer

segments<sup>118</sup>: mass-market, prestige and corporate. Regarding the mass-market, the Bank also subdivides this segment into lower and middle mass-market. Hence, it is clear that Millennium bim has been targeting measurable market segments.

It is expected that students face this type of price discrimination as a possible alternative that Millennium bim might have employed to manage its growing demand. In other words, the Bank could have created new market segments through an increase of for example, 20%, both in the prices charged for each “old” segment and in the criteria’s (i.e. resources and monthly income) that customers must meet in order to belong to a certain segment. By doing so, it was likely that (mainly) the customers belonging to the lower mass-market stop having sufficient income to pay to have access to Millennium bim products and services. However, the Bank would not need to spend more money with these customers. And, as result, some costs might become reduced, namely the branch and human capital ones. Further, the Bank would only be serving customers that have sufficient income to acquire its products/services. This means that, one of these customers would likely represent the same amount of revenues of several customers belonging to the “old” lower mass-market.

Students must recognize that since profit is equal to revenues minus costs, if the costs decrease and the revenues increase, the overall profit of Millennium bim would also increase. Hence, they could argue that applying third degree price discrimination, through creating new segments, would have been a good alternative to manage Millennium bim growing demand.

#### Other price discrimination strategies:

There were other price discrimination strategies that Millennium bim could have employed in order to manage its growing demand, namely:

- *Two-part tariff*: Millennium bim would charge its customers a fixed fee for the right to purchase its products and services, plus a per unit price. More precisely, the Bank would charge an annual fee that customer must pay in order to access its products and services, in addition to the price proportional to the quantity purchased. In order to reduce demand and ensure that the Bank would only target customers with sufficient income to access its products/services, the fee should be expensive. Furthermore, to prevent these customers from switching to

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<sup>118</sup> The description of each segment could be found in the subchapter 2.4 of the Case Study and on Exhibit 7.

other banks that did not charge any fee, this strategy should be accompanied by a reduction in per unit prices.

- *Commodity bundling*: This strategy represents a situation in which Millennium bim would bundle several different products/services together and sell them at a single bundle price. For example, a credit card would be sold together with a debit card and an account deposit. This would restrict the access to the Bank to consumers that could afford the price of these three products at once. Therefore, Millennium bim would force the very low income customers to look to another bank, while targeting the ones with superior income. The Bank should also sell the products/services contained in the bundle separately, however at a superior price than if they were purchased together.
- *Peak-load pricing*: As Millennium bim might have periods in which demand is high and periods in which demand is low (for example, it is expected that during lunch time traffic in bank branches is higher than in the middle of the morning), it could have applied peak-load pricing in order to manage its growing demand. Thus, it would need to establish different prices for different levels of demand in the bank branches. More precisely, the Bank would charge higher prices during high-peak demand and lower ones during lower-peak demand. By lowering its prices during low-peak times but charging higher prices during a high-peak times, Millennium bim would increase its profits, as it will be selling its products/services both during low-peak and high-peak times. Moreover, the Bank would be able to explain to its customers why the same product/service would have two different prices, and to improve its service levels (it is expected that customers who could not afford the superior prices stop going to the Bank in high-peak times and start doing it during low-peak times).
- *Cross-subsidy*: In order to apply this type of strategy Millennium bim would need to first find out which products/services have an interrelated demand. For example, it is expected that this happens with debit cards and deposit accounts. Thus, the Bank could lower the price of deposit accounts and increase the price of debit cards. As a result, it would be expected that only the customers that have sufficient income to pay for a debit card would need a deposit account. Overall, it would be likely that the demand for these two products decreased, however the higher price would balance this situation, as the Bank would use profits made with debit cards to subsidize sales of deposit accounts. This technique could have been applied to other products/services.

Block pricing and transfer pricing would not have been feasible to manage Millennium bim growing demand. Starting by the block pricing case, in order to apply this strategy the Bank would need to pack identical products and services and sell them together. Nevertheless, in the banking industry this does not make any sense, as customers use to buy only one type of each specific product/service (customers might buy two different debit cards, but block pricing implies the same debit cards to be sold together). Regarding the transfer pricing, it use to be applied to firms in which there are upstream and downstream managers responsible to make price and output decisions for their own divisions. This does not happen in the case of Millennium bim.

By the end, it is expected that students conclude that there were several price discrimination strategies that Millennium bim could have used in order to manage its growing demand. In the majority of them, instead of being selling many units of its products/services at a low price, the Bank would sell fewer units but at a higher price. This, together with the cost reduction caused by the decline in demand, would allow Millennium bim to earn higher profits, nevertheless it would have been against the Bank main mission.

## What Has Happened?

Having the main goals of solving all the problems that both Millennium bim SMS and Millennium mobile apps faced, as well as increase the number of channels through which Mozambicans could execute bank operations, Millennium bim decided in May 2013, to launch an unique service: Millennium IZI. Millennium IZI is an “(...) USSD-technology based mobile banking system which allows for every transaction of all other channels, except for cash-in/cash-out.”<sup>119</sup>. Furthermore, it works with all existing mobile-phones and network operators, and does not imply any sort of software installation nor access to the internet.

Regarding the branches network, Millennium bim continued enlarging it, but not in a relevant manner. During 2013, only 6 new branches were opened. Actually, the long-run tendency is to reduce the number of bank branches opened per year, as customers will be able to perform the majority of their operations through Millennium IZI. Moreover, it will also help reducing the financial exclusion of population outside the reach of traditional branch-based banking.

Millennium IZI has been proving to have a strong potential to manage Millennium bim growing demand. At the date of this case writing, 3 million<sup>120</sup> of operations per month were performed through this channel, which represents an increase of approximately 329% when comparing to the monthly utilization rates of Millennium bim SMS.

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<sup>119</sup> Millennium bim 2013, *Financial Inclusion Award 2013 Application Document – Case 2*, Millennium bim, Mozambique

<sup>120</sup> João Paulo Miranda, Head of Strategic Projects at Millennium bim, in a telephone interview on 27 February 2014.

## TEACHING NOTE EXHIBITS

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### TN Exhibit 1: Porter's Five Forces model



Figure 19: The Five Forces that shape industry competition

Source: Porter, ME 2008, 'The Five Competitive Forces that Shape Strategy', *Harvard Business Review*, pp. 25-40, viewed 1 April 2014, <[http://ieg-sites.s3.amazonaws.com/sites/4e8476903723a8512b000181/contents/content\\_instance/4f15bab63723a81f24000182/files/HBR\\_on\\_Strategy.pdf#page=25](http://ieg-sites.s3.amazonaws.com/sites/4e8476903723a8512b000181/contents/content_instance/4f15bab63723a81f24000182/files/HBR_on_Strategy.pdf#page=25)>

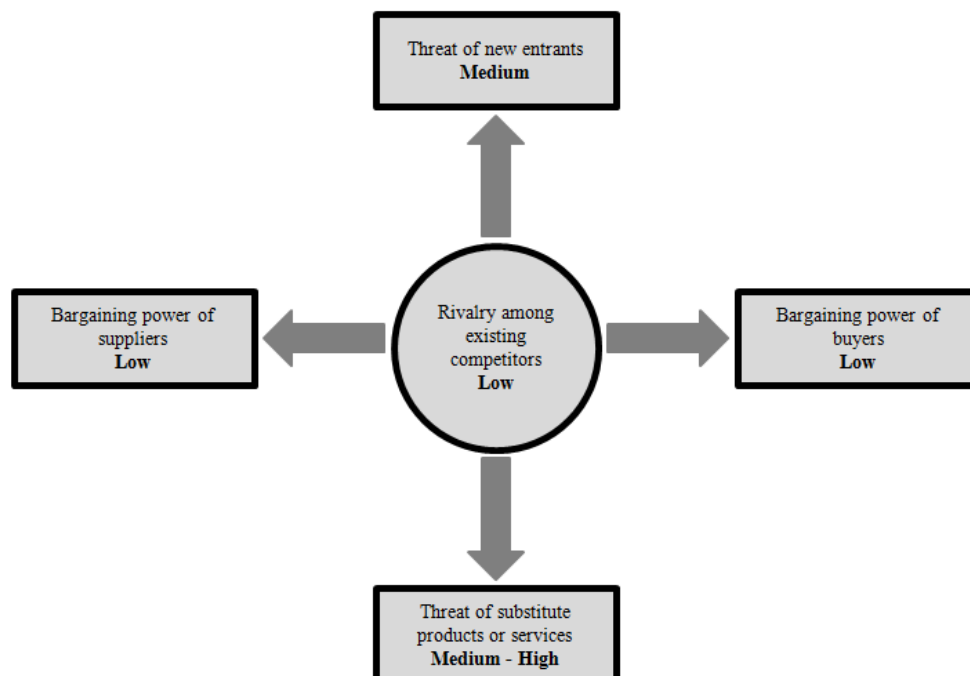


Figure 20: Porter's Five Forces applied to Mozambican financial industry

Source: Case writer

## TN Exhibit 2: SWOT Analysis

|   |                                    |                                    |
|---|------------------------------------|------------------------------------|
|   | Helpful to achieving the objective | Harmful to achieving the objective |
| Internal (attributes of the organization) | Strengths                          | Weaknesses                         |
| External (attributes of the environment)  | Opportunities                      | Threats                            |

Figure 21: SWOT analysis framework

Source: SWOT Analysis 2014, Knowledge Sharing Tools, viewed 12 April 2014, <<http://www.kstoolkit.org/SWOT+Analysis>>

|                 | +   | -  |
|-----------------|---|--|
| <b>Internal</b> | <p><b><u>Strengths:</u></b></p> <ul style="list-style-type: none"> <li>→ International experience in emerging markets;</li> <li>→ Flexibility;</li> <li>→ Innovation focused;</li> <li>→ Familiar with R&amp;D activities;</li> <li>→ Largest bank operating in Mozambique;</li> <li>→ Good market reputation;</li> <li>→ Customized approach;</li> <li>→ Market leader in Mozambique.</li> </ul> | <p><b><u>Weaknesses:</u></b></p> <ul style="list-style-type: none"> <li>→ Lack of points of contact between the bank and the customers;</li> <li>→ Low service levels;</li> <li>→ Difficulty to adapt products developed in Portugal to Mozambique;</li> <li>→ Dependency on the Government of Mozambique;</li> <li>→ Qualification demands.</li> </ul>  |
| <b>External</b> | <p><b><u>Opportunities:</u></b></p> <ul style="list-style-type: none"> <li>→ Fast growing economy with stability, and good prognosis for the future;</li> <li>→ Political stability;</li> <li>→ Concentrated market;</li> <li>→ Unsatisfied demand;</li> <li>→ Lack of banking presence in rural areas;</li> <li>→ Consumer tastes and values are changing.</li> </ul>                            | <p><b><u>Threats:</u></b></p> <ul style="list-style-type: none"> <li>→ Poor physical infrastructures;</li> <li>→ Low literacy indexes;</li> <li>→ Bureaucratic Country;</li> <li>→ High criminal rate;</li> <li>→ Current competitors are improving its performance;</li> <li>→ New competition likely to enter in Mozambique financial market;</li> <li>→ Telecoms companies offering payment systems.</li> </ul> |

Table 24: SWOT analysis of Millennium bim

Source: Case writer

## TN Exhibit 3: Porter's Generic Strategies framework

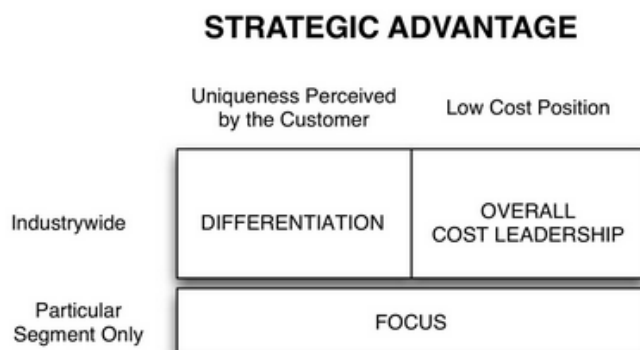


Figure 22: Porter's Generic Strategies framework

Source: Strategic Advantage 2005, The Nose, United States of America, viewed 12 April 2014, <[http://tafler.typepad.com/nose/2005/04/three\\_generic\\_c.html](http://tafler.typepad.com/nose/2005/04/three_generic_c.html)>



## TN Exhibit 4: Product Life Cycle

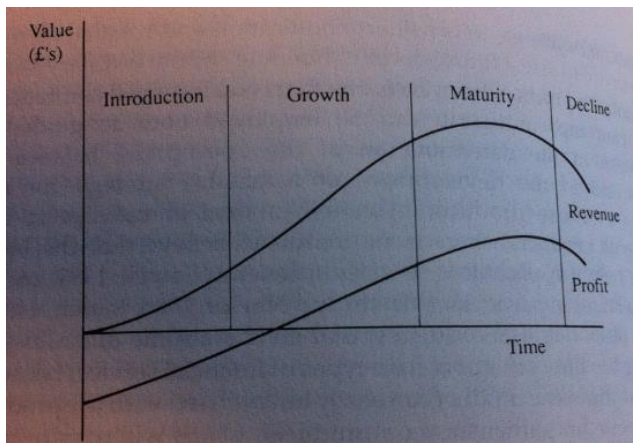


Figure 23: Product Life Cycle

Source: Ennew, C, Watkins, T & Wright, M 1990, *Marketing Financial Services*, Butterworth-Heinemann Ltd, Linacre House, Jordan Hill, Oxford

## TN Exhibit 5: International Configuration/Coordination framework

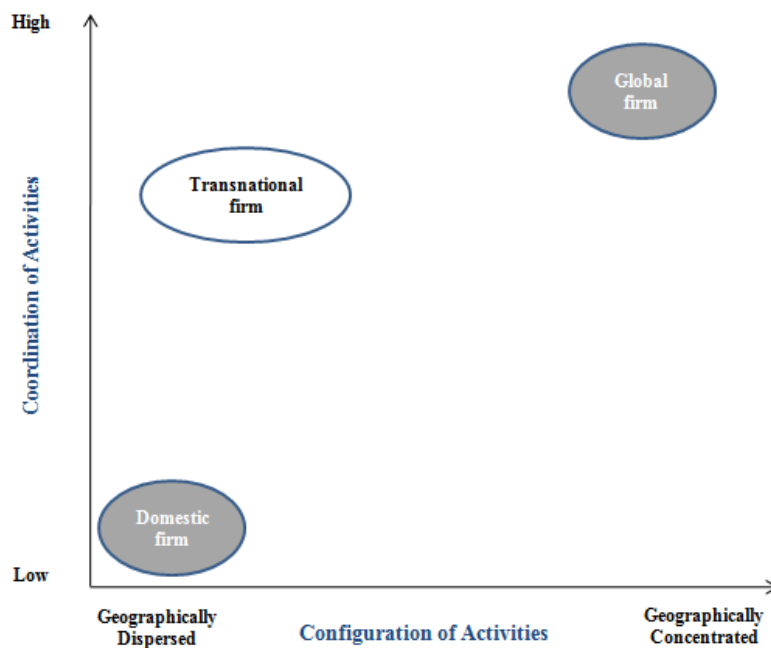


Figure 24: The dimensions of International Strategy

Source: Case writer based on Porter, ME 1986, 'Changing Patterns of International Competition', *California Management Review*, vol. 28, no. 2, viewed 10 April 2014, <<http://www.angelfire.com/ultra/group3policy/porterarticle1.pdf>>