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ACTIVOBANK, Gearing Up For The Future

A Case Study on Promotion in a Financial Institution

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ABSTRACT

ActivoBank, a Portuguese banking institution part of the Millennium bcp group, was the company chosen to serve as the base for this marketing case study. An accompanying teaching note, to be used as a pedagogical instrument in undergraduate or graduate programs, was also developed.

By the end of 2013, ActivoBank had finished implementing an ambitious restructuring program and needed to increase its client base in order to reach profitability. However, the circumstances of the country and the financial industry's own history and limitations, meant that a very small number of options were available. The case follows Nelson Machado, the Chief Executive Officer of ActivoBank, as he tries to decide the best course of action for the bank.

As the decision to invest in communication was taken, two key decisions arise: what should be the type of media used, above or below the line; and what should be chosen as the campaign's key product, credit cards or consumer loans.

Through the case, students are introduced to the history of the bank, the environment in which it operates and the tools available for banking institution to reach new customers. The teaching note will challenge the reader to use the relevant marketing theories, together with the case data, to solve the bank's dilemma.

RESUMO

ActivoBank, um banco português que faz parte do grupo do Millennium bcp, foi a empresa escolhida para servir de base a este estudo de caso na área de marketing. É acompanhado por uma *teaching note* que foi desenvolvida para ser usada como uma ferramenta pedagógica em aulas de licenciatura ou mestrado. O estudo de caso segue Nelson Machado, o CEO do ActivoBank, enquanto este tenta decidir o futuro do banco.

No final de 2013, o ActivoBank tinha finalizado a implementação de um ambicioso plano de reestruturação e precisava de aumentar a sua base de clientes de modo a obter rentabilidade. No entanto, devido às circunstâncias do país e da história e limitações da indústria financeira, não existiam muitas opções disponíveis. O caso segue Nelson Machado, o *Chief Executive Officer* do ActivoBank enquanto este tentar decidir o melhor curso de ação para o banco.

Após a decisão de investir em comunicação, surgem duas decisões importantes: qual o tipo de *media* a utilizar - *above* ou *below the line*; e qual deve ser o produto âncora da campanha, cartões de crédito ou crédito ao consumo.

Através do caso, os alunos são apresentados à história do banco, ao ambiente em que atua e às ferramentas disponíveis para uma instituição financeira alcançar novos clientes. A *teaching note* vai desafiar o leitor a utilizar teorias relevantes de marketing, juntamente com os dados do caso, para resolver o dilema do banco.

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INTRODUCTION

The main objective of this master thesis is to develop a marketing case study and the accompanying teaching note. The latter is to be used as a pedagogical tool in undergraduate and graduate classes. It is based on ActivoBank, a Portuguese bank part of the Millennium bcp group.

Having started to restructure its operations at the start of 2010, the bank had been able to implement every strategic stage with success by the end of 2013. However, Nelson Machado, the Chief Executive Officer of ActivoBank, was now faced with a serious task. The bank was walking towards becoming profitable, and in order to do so, it needed to significantly increase its customer base. Given AB's unique positioning, there was only one tool that the marketing department could take advantage of: promotion. More specifically, the bank had to rely on communication.

Following this logic, two key decisions arise: what should be the type of media used - above or below the line- ; and what should be chosen as the campaign's key product, credit cards or consumer loans.

This case study introduces the reader to ActivoBank, explaining the early history of the bank and the transformations it went through until the end of 2013. It follows Nelson Machado in his decision making process, by explaining the surrounding environment and every other aspect that influences a decision like this one. While the teaching note was developed to assist in the discussion of the case, as it includes: a brief introductory note and synopsis, the suggested assignment questions, relevant theory, and the analysis and discussion of the study case.

A. CASE STUDY: ActivoBank, Gearing for the Future

It was a sunny afternoon by the Tagus River in Lisbon and Nelson Machado, had been jogging for the last twenty minutes. Usually that hour by the river allowed the Chief Executive Officer at ActivoBank (AB from now on) to relax and take a break from the day's stress. However, today's run did not seem to help his conflicting thoughts. As he looked over the gleaming water and paused to take it in, Nelson Machado admitted that the reason for it wasn't hard to pinpoint. The bank, where he had worked for the last three years, was on the cusp of change and most of the responsibility rested on his shoulders.

After restructuring its operations in the beginning of 2010, the organization had achieved an impressive turn around. The improving financial results signaled the end of the launch phase and escalated the urgency for AB to increase its customer base and profitability, in order to become a relevant player in the financial market.

The difficulty was in how to capture more clients, given the many restraints. For the last two weeks, Nelson Machado and his team had discussed the matter thoroughly. Dismissing most of the usual customer hooks from the marketing mix, the only real logical solution was to invest in communication.

Everyone was in agreement that a very strong, active communication strategy had to be employed if AB wanted to achieve its goals. The first question was on what sort of communication they should invest in. Until then, the bank had been relying heavily on below-the-line marketing. However, some people on the marketing team argued that it was time to change and engage new clients through above-the-line means, which had a much bigger audience.

Once the media in which they should invest was decided, the real issue surfaced. The team had proposed two options, either the bank created a promotional offer for new clients, with credit cards without annuities or it invested in an advantageous new consumer credit line.

ActivoBank had a long withstanding history of innovation, which every employee was proud of. Going with the less traditional route of communication might as well be part of their DNA, but Nelson Machado wasn't convinced it would achieve the results they needed. Furthermore, he had yet to determine which promotional tool was the most adequate for the bank. The board meeting was in two days and, one way or the other, a decision had to be made.

1. ActivoBank's Early History

Due to the urgency of the current dilemma, Nelson Machado had spent most of the morning considering the early history of the bank. In his opinion, the past still had a very large impact on the future of the organization.

Its start could be traced as far as 1994 with the creation of Banco7, the first telephone-only bank in Portugal. In a time when Millennium bcp¹ was still consolidating its presence in the Portuguese market, Banco7 was seen as a chance to explore a new distribution channel without jeopardizing its image. The bank, - created with a different core mission than the rest of the group, - has since then been perceived as an autonomous part of the larger institution.

The initial strategy was to focus on simple transactions, a process that happened only through phone calls, seven days a week, - hence the name, - targeting the mid-high class. More importantly, branches, account managers or many of the usual concepts linked with traditional banking were not present in their value offer.

Seven years later, in 2001, the term ActivoBank was coined for the first time when the bank reshaped its value offer and was renamed ActivoBank7. Following the same philosophy that first shaped the bank, the shift came in a time when the concept of Internet banking was still in its early beginnings and needed to be further explored.

Resulting from a partnership with the Sabadell bank, the fourth-largest Spanish banking group, ActivoBank7 was present in both markets, with the same base concept. However, the deal was soon dissolved, with Millennium bcp keeping control solely of the Portuguese operation.

ActivoBank7 changed more than just its name. It was no longer just accessible by phone, but also online. Additionally, it started to focus on affluent customers that were looking for investment solutions, such as stocks, bonds, warrants and certificates. For the first time there were physical branches, one in Lisbon and another in Oporto, which answered the legal requirements for opening accounts and also permitted account managers to personally talk to the clients, which became necessary when the bank started offering more complex products within its portfolio.

When the time to rebrand the group's name came around in 2003, ActivoBank7's brand remained unchanged given its differing mission. Taking into account the initial perception that it was an autonomous branch of the larger institution, it made sense that it was so.

Given the very experimental nature of the organization, growth had never been a priority as long as the results were positive and allowed the continuous maintenance of the operation. That was true until 2009, when on the wake of the economic downturn, ActivoBank7 encountered losses.

With a customer base of sixteen thousand people, which had shown no signs of growth for the past two years (2007-2009) and a business that hinged on offering investment opportunities to the retail segment, the economic downturn hit ActivoBank7 straight in its core.

Their clients, mid to high-class families and medium sized businesses started to struggle and could not or were no longer willing to invest. And ActivoBank7 which

¹ In 1994 the bank was still named Banco Comercial Português, it was only rebranded in 2003, however, for simplicity sake, the bank will always be referred as Millennium bcp.

had, until then, only focused on becoming people's second bank, was not able to balance this break in investment with revenues from other financial offers, as many other institutions did.

The lack of growth prospects, the current economic environment, and ActivoBank7's financial results all pointed to the same conclusion: something needed to be done.

The critical turning point happened in a time when Millennium bcp started to look inwards. Although their client base was solid, the organization started to consider the future and the high age average of its customers meant that the bank had to take on the challenge of increasing its appeal to the younger generations.

At the time, the initial plan was to start from scratch, by creating a new bank geared towards the future in a way that would meet the younger generation's needs and desires. A project team, with the name of *Project Blue Ocean*, was assembled and tasked with finding the best way to do it.

However the target market to the bank of the future, shared many of the characteristics of those that were ActivoBank7's customers - Customers who didn't feel the need of other people's assistance to successfully meet their needs – the self-directed trait. In a financial environment, this was translated into customers who would rather make money transfers online, by their own hand, rather than head to a branch to have someone do the transfers for them.

Both projects also shared an innovation oriented culture, striving to find new and improved ways of delivering to their clients the best service possible.

It was these two factors that allowed the concepts to merge and create a single solution. ActivoBank7 would suffer its third and most recent rebranding, to face the present problems and embrace future challenges.

2. The new ActivoBank by Millennium

Dropping the number seven from its name was a small detail when one considers all that really went behind the scenes.

ActivoBank7's core business (see **Exhibit 1**) was Retail Investment and while it offered other financial products, those were only meant to offer basic support to their clients. There was little focus on products such as loans, deposits, and insurances or even on day-to-day operations.

Project Blue Ocean presented the opposite core business (see **Exhibit 2**), the majority of its services would have a focus on day to day operations, provide few offers on loans, deposits and insurance services and would have no investment component at all.

While the initial concept of project Blue Ocean was solid, in order to merge what had been idealized with what was the reality of ActivoBank7, compromises and new developments were necessary.

In the end, ActivoBank took both concepts to create a bank that offered all three components as the core business (see **Exhibit 3**), giving the same level of importance to each and making sure they shared a single philosophy: simplicity.

That philosophy was also passed on to all other parts of this project, becoming one of the center missions of the bank. In fact, all five main values from the Project *Blue Ocean* were integrated into the new AB: Simplicity, Honesty, Trust, Innovation and Accessibility (see **Exhibit 4**).

This launch was ultimately achieved in three different strategic steps, during a period of four years that were internally called as “the shifts of change“.

2.1 - The 1st Gear: “Launching the New ActivoBank”

In 2010 AB had three strategic priorities: introducing the four new physical branches, focusing on the mobile banking solutions and setting an account opening system in twenty minutes.

The branches main objective was to be a facilitator to the mobile and online processes and to aid in the opening of new accounts. Created with the mindset of being distinctive and easily spotted from large distances, bright colors and lights were used (see **Exhibit 5**). Their layout was inspired in the clean lines of stores such as Apple, in order to display the products and invite consumers to wander further in. Contrary to tradition, AB branches are open longer hours, most locations remaining accessible to consumers until 8 pm.

The mobile commitment was taken very seriously, with AB initially launching two applications: one focused on transactional procedures and another on investments. Both apps offered a complete experience, allowing the user to perform the same actions on their cell phone that they could perform on the bank’s website.

The new account opening system, that was guaranteed to take no longer than twenty-minutes, was one of AB biggest differentiating factors from the beginning. Created so it feels like a “One Stop Shop”, the client has their account, debit and credit cards, mobile and online accounts activated in the moment, with no need for further steps once they leave the branch.

2.2 - The 2nd Gear: “Concept Development”

Between 2011 and 2012, with the initial launch completed, AB second strategic shift was heavily centered on three things: organizing its product portfolio, developing the concept of a team of two relationship managers, and an initial appraisal of how the group was performing as a whole, with the introduction of the net promoter score.

When compared to the competitors, AB's complete product portfolio is much slimmer. The driving concept behind such a decision was that there only would be one offer, for everyone. Above all, this strategy safeguarded one of the banks main values, which was simplicity. Rather than complicate their product offering to consider a myriad of hypothesis, A and B might be wildly different but will both be faced with the same home loan components.

The relationship manager system was another differentiating point for AB. Once part of the group, clients are managed by one of two teams, according to their wealth and potential. Those who have assets over 30.000 euros and a salary over 2.000 euros a month are considered to be affluent and managed by a team of two remote relationship managers; those without these characteristics, have access to the mass market managers. In fact, the subtle change in the name, from account managers to relationship managers, is also directly linked with the bank's concept. Due to the nature of its customers, the job of the relationship managers is simply to provide assistance when requested. The customers' self-directed trait implies that they do not need to have their assets managed and would prefer to do it themselves.

The Net Promoter Score² was used to evaluate two distinct situations: Account opening and phone calls. AB wanted to ensure the best practices in the moments when the customer had personal contact with the bank. Given the remote relationship that existed in AB's concept, if a customer was not satisfied in these key instances, then it would be nearly impossible to win them back.

2.3 - The 3rd Gear: "Accelerating for Profitability"

The third gear meant that the focus was on customer relationship management, which translated to numerous initiatives, of which segmentation and targeted offers were the most important ones.

Segmentation was based on the client's life cycle, clients were put in one of six segments: Have fun, Live, Construct, Care, Enjoy and Remember. Names which are meant to convey a general sense of what is the customers' main focus at that point in their lives. Younger clients, still studying, would be part of the "Have fun" segment, while older clients that had recently gotten married would be part of the "Construct" segment.

This approach to segmentation later allowed them to create a new app that was accessible to every new client at the end of the opening account process. By answering a quick, interactive survey, - on the branches, touch-screen system, - clients were segmented into one of the six groups previously mentioned and quickly informed about which AB's offers were more adequate for them. For example those in the "Live" segment might be presented with AB's multi-purpose credit line.

2.4 - ActivoBank Present Day

² Based on the results from a satisfaction survey, the Net Promoter score is the differential between the percentage of Promoters and Demoters. Promoters are those who, between 0-10, have responded with 9 or 10. Demoters are those who responded with any number between 0-6. It offers an overview of the number of clients who will recommend or not, the surveyed company.

By the end of 2013, ActivoBank had fourteen branches spread through the country (see **Exhibit 6**), in major metropolitan areas, most of which were located in shopping malls and areas of great activity. Their client base had reached 56 thousand³, a growth of 150% in the last three years.

With Nelson Machado as its Chief Executive Officer, the bank has managed to reposition its offer and evolve from an investment-only bank, meant to work as their client's second bank, to one that can offer support on all the day-to-day financial operations.

The shift had not gone unnoticed, with AB winning several awards, such as Most Innovative Bank, Best Commercial Bank, Best Web Site Design⁴, proving that the size and recent turmoil shouldn't be a limitation for what could be achieved.

Nelson Machado knew that whatever decision was made regarding the organization's next steps, it had to respect where AB had come from, while still considering where the bank wanted to go in the future.

3. The Portuguese Economy

On April of 2011, Portugal was forced to request an emergency loan from the FMI in the value of 78 billion euros, to help stabilize its public finances, which had reached a breaking point. The following two years saw the adoption of adjustment measures (fiscal and public spending), required by the bailout program, intensifying the recession the country was going through.

During this time, domestic demand remained conditioned by the austerity measures but also by the negative confidence level of consumers (see **Exhibit 7**). The employment market also struggled and by January of 2013, the unemployment rate was 17,5%, the highest it had ever been in the last 30 years (see **Exhibit 8**).

However, by the end of 2013 the Portuguese economy was facing a turning point. Even as its development was still highly influenced by the implementation of EFAP⁵, the country already showed significant signs of recovery. The decrease in the GDP happened at a slower rate than in the previous year and this aspect coupled with the prospect of a robust external demand and a progressive improvement of the economic activity for 2014, was a sign that the economy would continue to improve.

3.1 - The Portuguese Financial System

The activity of the financial system was equally limited by the structural changes imposed by the bailout program and the external macroeconomic and financial environment. In a crisis situation, when attaining liquidity in the external markets starts to be problematic, the rate of domestic savings becomes vital to assure the

³ ActivoBank Annual Report 2013, ActivoBank

⁴ Information available at <<http://www.millenniumbcp.pt>>, accessed on December 7th, 2014

⁵ Economic and Financial Assistance Program

funding of the system. However, there is a high cost for the financial institutions, as the most effective tool to capture these term deposits, is raising the offered interest rates.

Indeed, as the financial crisis waged on, from 2009 to 2011, there was a systematic increase of the compensations for these deposits (see **Exhibit 9**), which was only controlled when the Bank of Portugal implemented a law that penalized institutions that offered base interest rates that were 300 points higher than the market reference.

The decreasing demand on loans, fruit of a high perception of risk, negatively influenced the net interest margin, which was one of the main causes for the continuous deterioration of the profitability in this sector.

Even so, despite the generalized reports of negative results, the sector was still capable of reinforcing the ratios of solvability, through operations of recapitalization and selective reduction of risk. This has shown that the Portuguese financial system is resilient and capable of adapting to arduous situations. As the economy stabilizes, so will the system.

4. The Competitive Environment

Although there are 34⁶ financial institutions in Portugal, the market is highly concentrated, with the top five institutions (see **Exhibit 10**) controlling 78,9% of every client's resources and 81,6% of any loan initiative⁷.

ActivoBank operates on a much smaller scale and for many years, given its positioning as the consumer's second bank, competed directly with other small scale banks such as BEST and BiG (see **Exhibit 11**).

The latter two institutions are predominantly focused on investment services, maintaining the same structure that ActivoBank⁷ had, before its restructuring in 2010. Their distribution is solely dependent on online and mobile platforms, which signifies that these banks remain AB's direct competition on this front.

However, it is important to realize that the shift in AB's core strategy means that, despite their smaller scale, they are in direct competition with every other institution, as they offer the same day-to-day products and services. Nevertheless, since they have chosen to distribute their products mainly through online and mobile routes, BEST and BiG are still part of their competitor's sphere.

5. The Portuguese Consumers

In order to capture new clients, within such a competitive environment, organizations have to be constantly aware of who their consumer is. Consequently, the Marketing

⁶ Information available at <http://www.apb.pt/content/files/Activity_Report_2012.pdf>, accessed on November 10th, 2014

⁷ Information available at <http://www.apb.pt/content/files/Boletim_Informativo_no_48_-_2012.pdf>, accessed on November 10th, 2014

team decided to study the market, by taking advantage of a countrywide study called BASEF and other sources. The result was a detailed report that Nelson Machado couldn't help but recall as he kept considering their challenge.

Over 96%⁸ of the Portuguese population with more than 15 years has a banking account, with 50,9%⁹ of clients being male and 49,1%¹⁰ female. The financial product and services most used are: payment of household expenses (55,7%¹¹), time deposits (40,8%¹²) and salary related transfers (39,9%¹³).

The initial information was to be expected, the more developed the country, the higher the percentage of the population who resort to financial services of all kinds. It was also not surprising to see salary and expenses as the most frequent operations.

In tune with what happens in most of Western Europe, the most used form of payment is still cash. However, in Portugal the percentage rounds the 43,9%¹⁴ a value significantly lower than the western European average of 68%¹⁵. This is a consequence of the higher use of credit and debit cards as a form of payment.

However, Nelson Machado considered that despite his thoughts about the country's development, it was still interesting to see that cash was still the preferred form of payment, it made him wonder how the convenience of debit and credit cards had not made this preference a much smaller reality yet.

Nelson Machado was especially interested in the paragraph that looked into reasons for selecting a bank to primarily work with.

When choosing a main bank, three reasons have almost equal importance for the Portuguese consumers: suggestion from family members, the place where the salary is deposited and the conditions that are offered (14,6%, 14,2% and 13,9% respectively¹⁶).

Although the three leading motives were highly different, he believed that each was still an important insight into the Portuguese consumer's minds. It presented them with three avenues, which they could explore in the upcoming months.

Branches are an important point of contact between the banks and their clients, with 67,8%¹⁷ of consumers visiting their bank at least once a month. However around 90%¹⁸ of clients admit that their most regular contact with their first bank is through the use of ATMS, while 60%¹⁹ have contact with the personnel in the branches.

⁸ Information available at < <https://www.eba.europa.eu/-/eba-publishes-consumer-trends-repo-1>>, accessed on November 6th, 2014

⁹ BASEF 2013 – Client Profile per Bank

¹⁰ Ibid

¹¹ BASEF 2013 – Penetration of Financial Products and Services

¹² Ibid

¹³ Ibid

¹⁴ BASEF 2013 – Average of payments, per method

¹⁵ Information available at < <https://www.eba.europa.eu/-/eba-publishes-consumer-trends-repo-1>>, accessed on November 6th, 2014

¹⁶ BASEF 2013 – Reasons for Choosing a Primary Bank

¹⁷ BASEF 2013 – Branch Visit Frequency

¹⁸ BASEF 2013 – Methods of Contact with Primary Bank

¹⁹ Ibid

Some of the information in the report was expected but it didn't make it any less concerning for ActivoBank's future. Due to its hybrid strategy, the physical presence of the bank was reduced and it was highly probable that it would continue in the same path for the next few years. It worried him that this might be a challenge too complicated to surpass.

It wasn't all worrying news though, the final part of the report focused on innovation and the online and mobile distribution channels. And the trends that pointed to a growth in the penetration of both channels could only be received with relief.

Innovation has brought different tools for banks to reach their consumers and the Internet has provided a channel that is available around the clock. Internet Banking has been gaining significance through the years, having reached a penetration rate of over 30%²⁰ in Portugal. The intention of use by those still unfamiliar tends to oscillate, but as the younger generations start using financial services, the channel is expected to see growth. Cell phones have also created a new channel of contact, with mobile banking growing, as technology creates a safe and efficient way of accessing the users' financial information.

Although the report didn't offer all the answers, Nelson was certain that the information the Marketing team had gathered was necessary to move forward.

5.1 - The AB Client

Armed with the information regarding the Portuguese consumer, Nelson Machado spent some time considering how ActivoBank regarded its target client.

The key aspect of their clients has to be their self-directed disposition. This ideal is at the core of their strategy as it means the consumer is self-sufficient, not just that, but that it prefers to do things on its own, rather than rely on others. In this, the AB client differs from the average Portuguese consumer, who feels it is necessary to visit a branch regularly.

Although gender is insignificant, age is not. The target customer of AB was initially between the ages of 25-45. This delineation was strongly related with the customers' ability to accept and use the new technologies. However, nowadays, most customers are very adaptable and the age target of AB will most likely follow this tendency by growing larger.

It is a mix of many details that makes the AB client. Together with the self-directed trait, they have to use new technology often and regard it as an extent of their day-to-day activities. This makes them the perfect fit to AB because of the lack of physical presence and strong bet on the online and mobile channels that are part of the core strategy of the bank.

A consumer who needs face-to-face contact and is wary of technology will simply feel as if the bank is not meeting their expectations. On the other hand, someone who

²⁰ BASEF 2013 – Internet Banking Penetration

prefers to deal with personal matters alone and, when given the necessary tools will do so, is a much better fit.

This was why their levels of activity in terms of AB's website and mobile were much higher than the Portuguese average, with 65% of their clients making use of the website and over 25%²¹ using their mobile apps.

However, ActivoBank does not consider all of its clients as the same, despite their openness towards a more digital approach, some clients showed a higher propensity than others. These were considered their 'heavy users' and they distinguished themselves primarily by the amount of times they used the webpage and mobile platforms (see **Exhibit 12**).

6. Capturing new clients

At the center of any banking institution are their clients. Without them, no bank can reach profitability. Nelson Machado knew that well and had recently spent long hours discussing all the possible routes with the Marketing team. Traditionally there are five areas where organizations can act upon, in order to capture new clients, the five P's: Placement, Product, Price, People and Promotion.

When considering AB's history, values and strategy, shifts in each area create possible benefits and limitations that, in the end, pointed to one single route.

AB's placement has been the same since the beginning of the bank. With innovation squarely at its forefront, its position as an organization that favors new technologies has strongly promoted tools that allow consumers to take control of their finances. Access to information, transfers and payments, for example, can now be performed with the same level of efficiency and security, without assistance from the personnel on the branches. In AB's specific case, clients who approach the branches will be offered the employees' help to perform these actions in the closest ATM machine, rather than have them performed by the employee. To alter such positioning, would allow AB to reach consumers who still don't feel comfortable with Internet and Mobile banking and expect more assistance. However, such change cannot be done lightly. What would the new positioning be? How would it be achieved? And would it really be better to widen the focus of their target market?

On the other hand, it is also important to consider the distribution network, which also falls underneath the placement umbrella. ActivoBank has fourteen branches spread through the country. By expanding the physical presence of the bank it would undoubtedly increase the number of clients. However, the financial costs associated with opening new branches are extremely high, both in terms of the initial investment, as in terms of the long-term maintenance cost of such operation. Nelson Machado estimated that expanding into a new location would cost on average 150.000 euros²², plus maintenance costs.

²¹ Data collected during an interview with the department of Innovation of ActivoBank on November 17th, 2014.

²² Ibid

A change in the product portfolio is an instrument widely used by banks. Almost on a constant basis, we see new financial products being announced, with small shifts in interest rates or timings, where the main objective is to capture new clients. ActivoBank could widen its product portfolio, except by following such strategy the bank would be undermining one of its core values in the long term. Simplicity is seen all through the banks operations (See **Exhibit 13**), it's product portfolio included, and such a shift would mean complicating it's offer and going against the grain of its values.

Another issue is pricing, a complex subject in financial institutions and also directly connected with the product portfolio. To offer more competitive interest rates, might lead to higher interest but it would mean a decrease in profitability, it's a balance that is hard to achieve and not easily sustainable in the long term.

There's the element of people, as account managers have a key role in relationship banking. This element comprises a very important part of any bank's strategy, but it takes on a different shape in ActivoBank. Given their small physical presence, clients can only reach their account managers through the phone. And in the case of those with smaller assets, the person on the other end changes with each call. Although relationship banking is more effective for cross selling purposes, it is still an opportunity to expand the bank's good reputation in a way that will capture more clients. However, unless AB was willing to expand its physical stores, the concept of account manager had to continue to be a remote one.

Lastly they had access to promotion, which made consumers aware of the existence of the bank, of its values and offers. It is also one of AB's strongest bets. While traditionally, most financial institutions utilize TV, Radio and Magazine to reach its target market, AB has been making its presence known through social networks, local events and through a network of promoters. For one because of the smaller scale of costs that these initiatives require, but also because they believe it to be the most effective way to reach their target market.

Given the limitations and high costs of all the other tools, it soon became apparent that promotion was the only available route. This however, brought alone new questions that they had yet to find an answer for.

6.1 - The Available Promotion Tools

With the AB customers firmly in mind and knowing that promotion was their best bet, Nelson Machado contemplated what AB had done in the past to reach their target and what the bank could do now.

Mass media tools, such as TV and Radio had been used sparingly, when the bank was first restructured and launched its new image, with advertisements passing in selected TV channels, such as AXN (see **Exhibit 14**) and some radio stations, like Radio Comercial. The choice of TV channel and radio station was based on the understanding that the AB concept is not meant for everyone, by investing in the younger, less generalized media, the marketing team had hoped to reach their target consumer quicker.

During the same period AB's image was also present in outdoors, which were placed in major metropolitan areas (see **Exhibit 15**). These advertisements were coordinated with what was shown on TV and employed in an effort to grow awareness around the bank's new image.

In the following years, however, most of their communication was done through social networks and other digital tools. AB uses its Facebook and Youtube pages to announce new products and services as a way of interacting with their clients and, above all, to connect with potential ones (see **Exhibit 16**). Primarily utilizing Facebook's premium tools, which ensured that their posts appeared on the users wall, through the use of "Suggested Posts"²³. AB also invests in GoogleAdWords²⁴, making use of a myriad of keywords to ensure that their online campaigns are visible on Google and other websites.

Every initiative has the end goal of capturing new clients and in order to measure the success of each campaign AB developed an in-house app that serves as a landing page²⁵, which starts the account opening process and allows for a quantification of their online efforts.

7. Making a decision

By the end of his run, Nelson Machado was no closer to a decision than he had been before. Although it was clear that the only possible tool to be used was promotion, the problem wasn't that easily solved. The first decision was connected with the type of communication that AB should invest in:

The bank could continue as it was, with most of their marketing budget allocated to bellow-the-line means. Using Facebook, Youtube, GoogleAdWords and other, eventually substantial, online tools.

Or it could switch the focus to above-the-line marketing and mark their presence with a huge campaign that was guaranteed to raise the awareness of many consumers.

Furthermore it was mandatory that, in order for the new campaign to be launched successfully, a choice be made in regards to one of the two promotional tools.

Option A was a new credit card, meant solely for new clients that would not have any maintenance costs. This card would have to be specially ordered, as the image on the card needed to match the campaign. Nelson summarized that each card would cost no more than 1 euro, given that the process was integrated with Millennium bcp's production.

²³ The "Suggested Posts" are a Facebook premium tool that uses an algorithm (based on key aspects such as age, gender, posted and searched content, ...) to target the users most likely to be interested in the post's content. Therefore allowing a company to direct its campaigns and information to those they want.

²⁴ GoogleAdWords works as a 'keyword' auction. Organizations can choose a list of keywords and, depending on how many other companies want the use of the same keywords, the prices vary. The tool also provides metrics that show how well placed the advertisement will be on Google, depending on the chosen keywords.

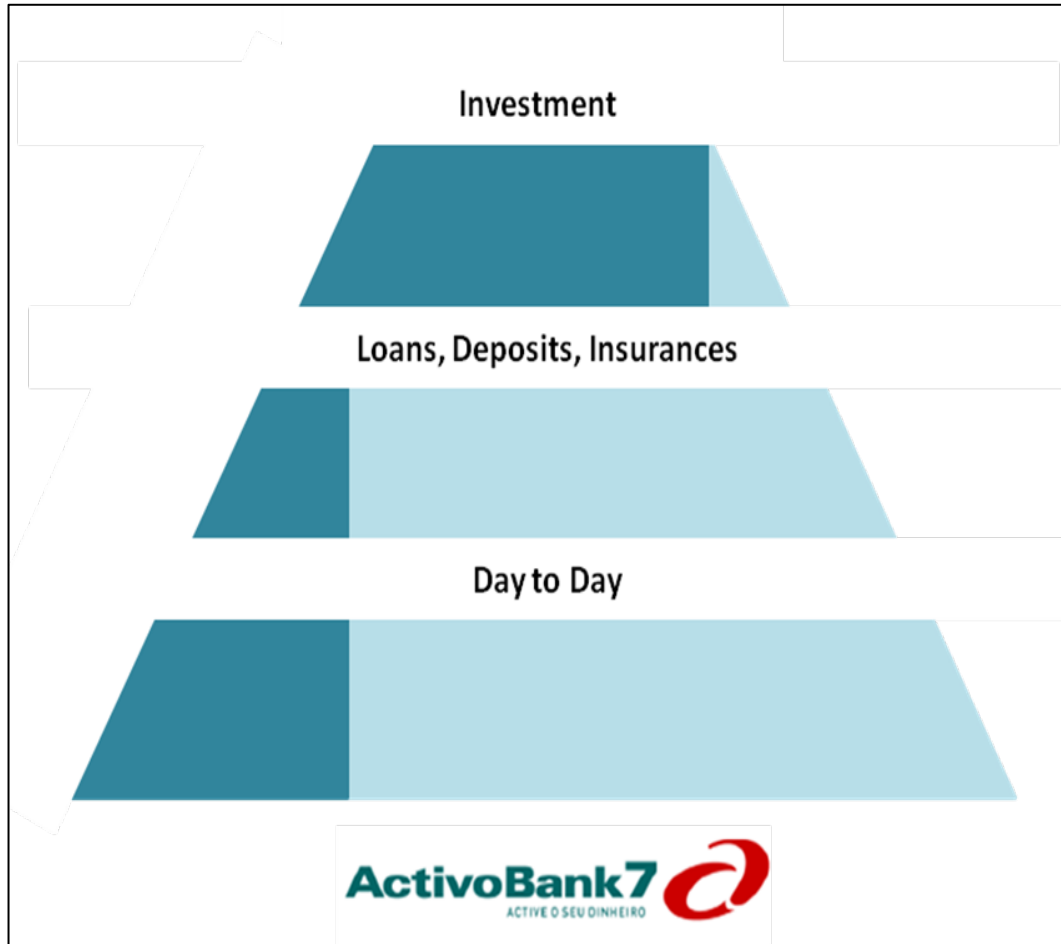
²⁵ The landing page is unique to the on-going campaign and allows AB to quantify how many people clicked on it and started the account opening process. Due to legal restrictions, the new client still has to visit a branch to sign and receive the contract.

Option B was a consumer loan campaign, meant solely for new clients, with an interest rate that was 3% lower than their current consumer loan. The amount could range between 1.000 and 15.000 euros.

In two days, Nelson Machado would have to present his decision in the board meeting. Should AB continue along their path, betting solely on under-the-line marketing initiatives or face its competitors through the same channels, investing on TV and Radio and other above-the-line means? Moreover, what would be the hook they would use to guarantee that this campaign was a success? Nelson could easily think of advantages and disadvantages for both options, which made his final choice a lot more difficult.

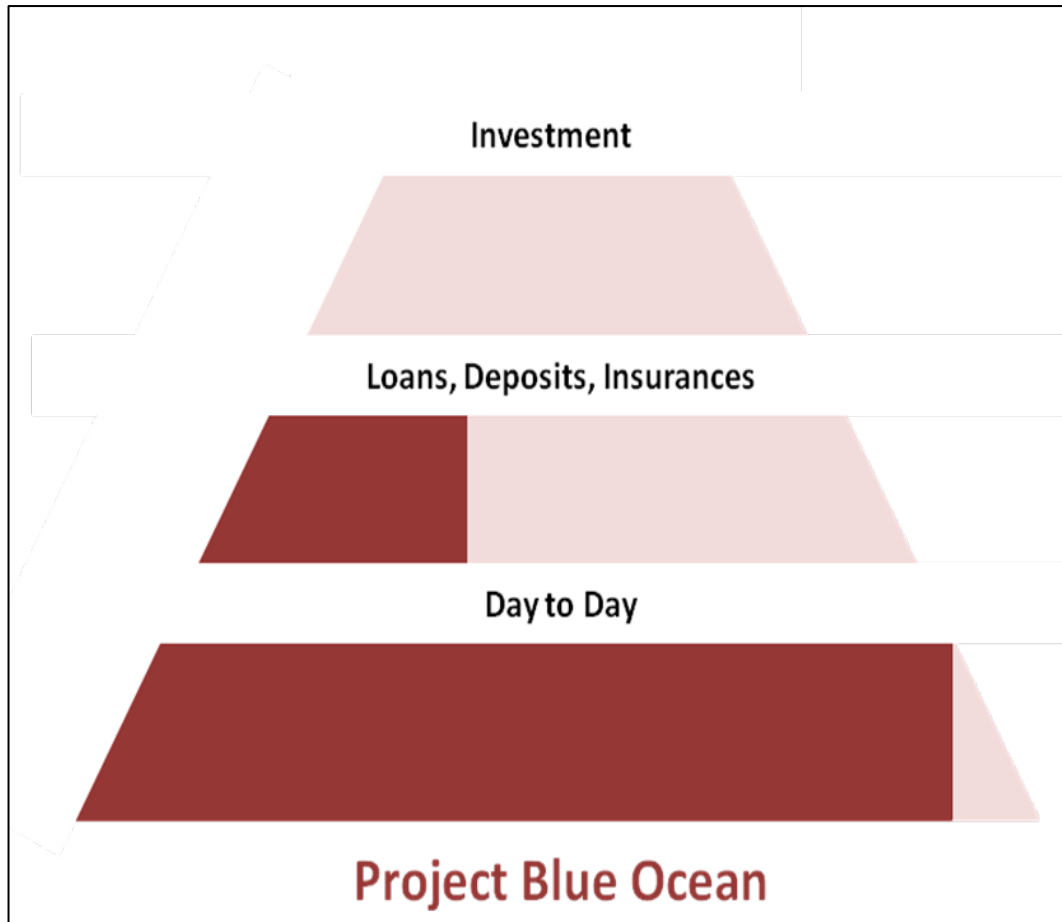
8. Exhibits

Exhibit 1 – ActivoBank 7 Core Business Focus²⁶



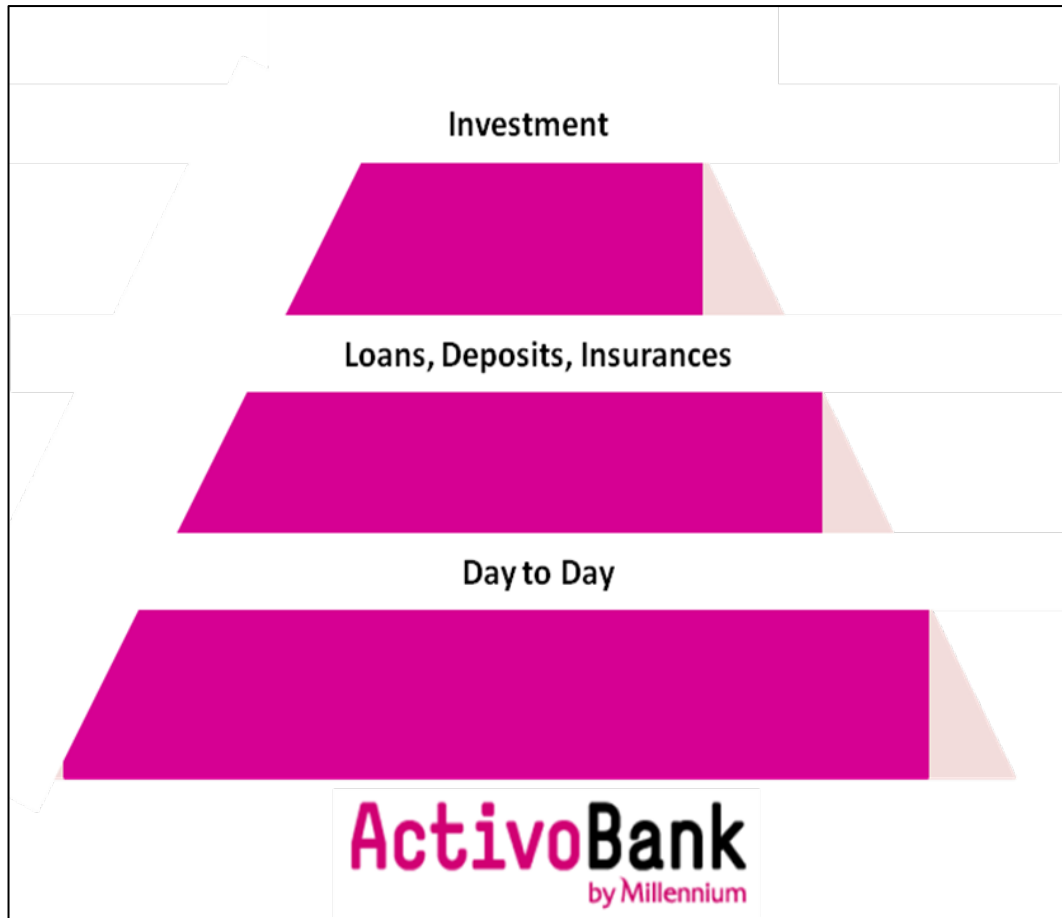
²⁶ Image provided by ActivoBank

Exhibit 2 – Project Ocean Blue Core Business Focus²⁷



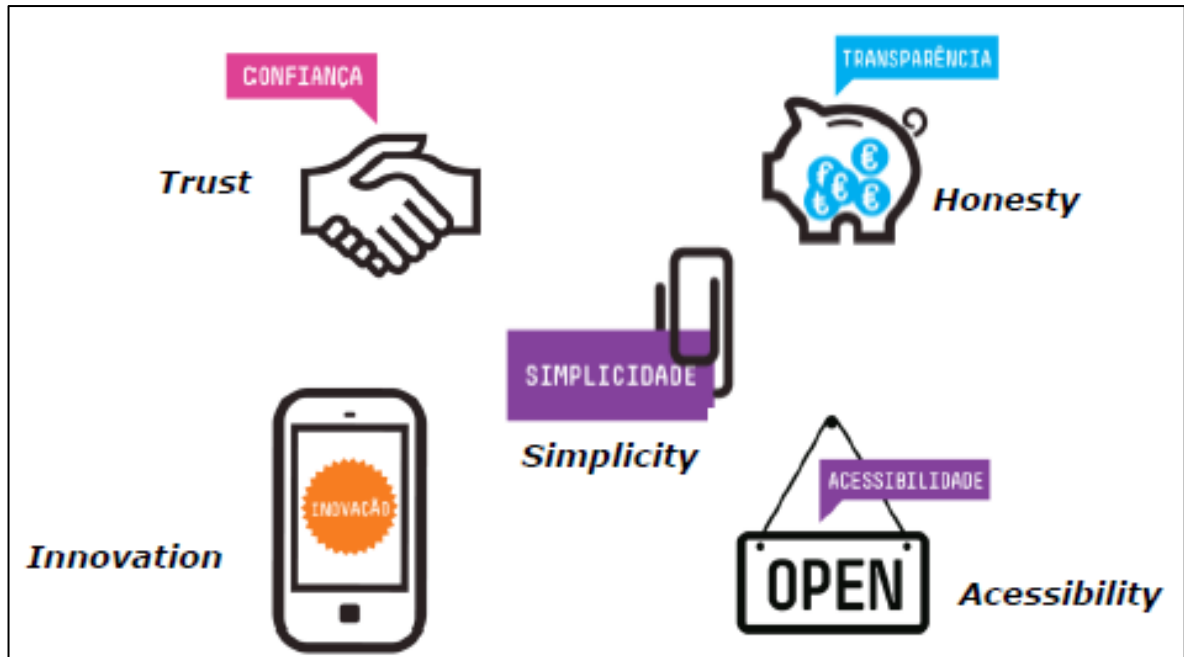
²⁷ Image provided by ActivoBank

Exhibit 3 – ActivoBank by Millennium Core Business²⁸



²⁸ Image provided by ActivoBank

Exhibit 4 – ActivoBank Core Values²⁹



²⁹ Image provided by ActivoBank

Exhibit 5 – ActivoBank Store Front & Layout³⁰



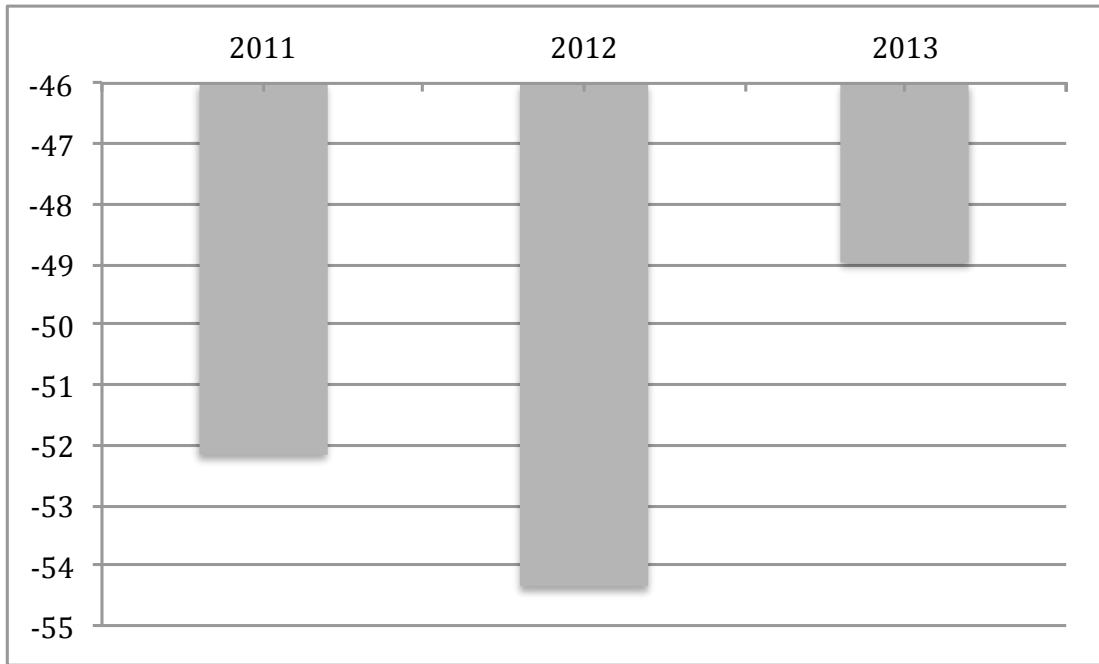
³⁰ Images available at <<http://www.pinterest.com/bancosportugal/activobank/>>, accessed on 21st of November, 2014

Exhibit 6 – Branch Location & Type of Store³¹

Branch	City	Location	Type of store
1	Aveiro	Av. Dr. Lourenço Peixinho 42-44	Street Shop
2	Braga	Praça Conde Agrolongo 52-55	Street Shop
3	Coimbra	Coimbra Dolce Vita	Shopping Center
4	Leiria	Praça Rodrigues Lobo 34	Street Shop
5	Lisboa	Amoreiras	Shopping Center
6	Lisboa	Vasco da Gama	Shopping Center
7	Lisboa	Cascais Shopping	Shopping Center
8	Lisboa	Lagoas Park	Shopping Center
9	Lisboa	Chiado	Street Shop
10	Lisboa	Atrium Saldanha	Street Shop
11	Matosinhos	Norte Shopping	Shopping Center
12	Porto	Praça do Bom Sucesso 105	Street Shop
13	Vila Nova de Gaia	Arrábida Shopping	Shopping Center
14	Vila Nova de Gaia	Avenida da República 1368	Street Shop

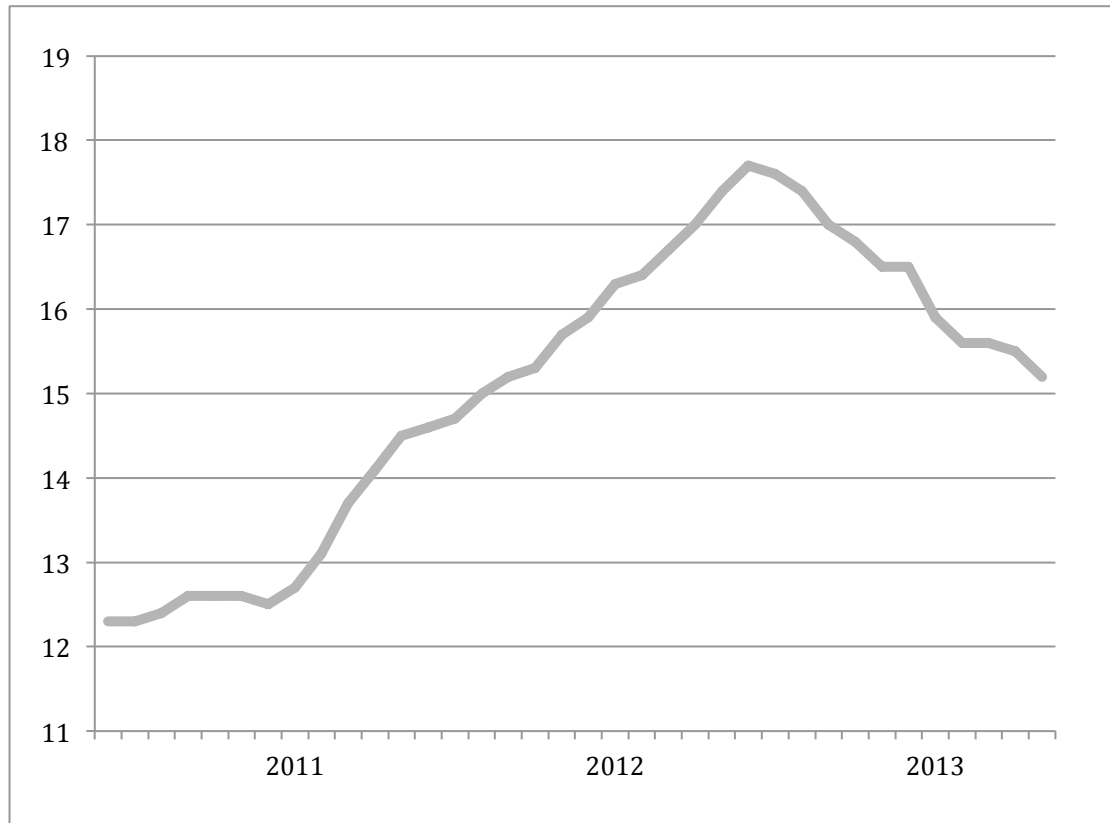
³¹ Case writer adapted, based on ActivoBank data

Exhibit 7 – Portuguese Consumer Confidence Index (2011-2013)³²



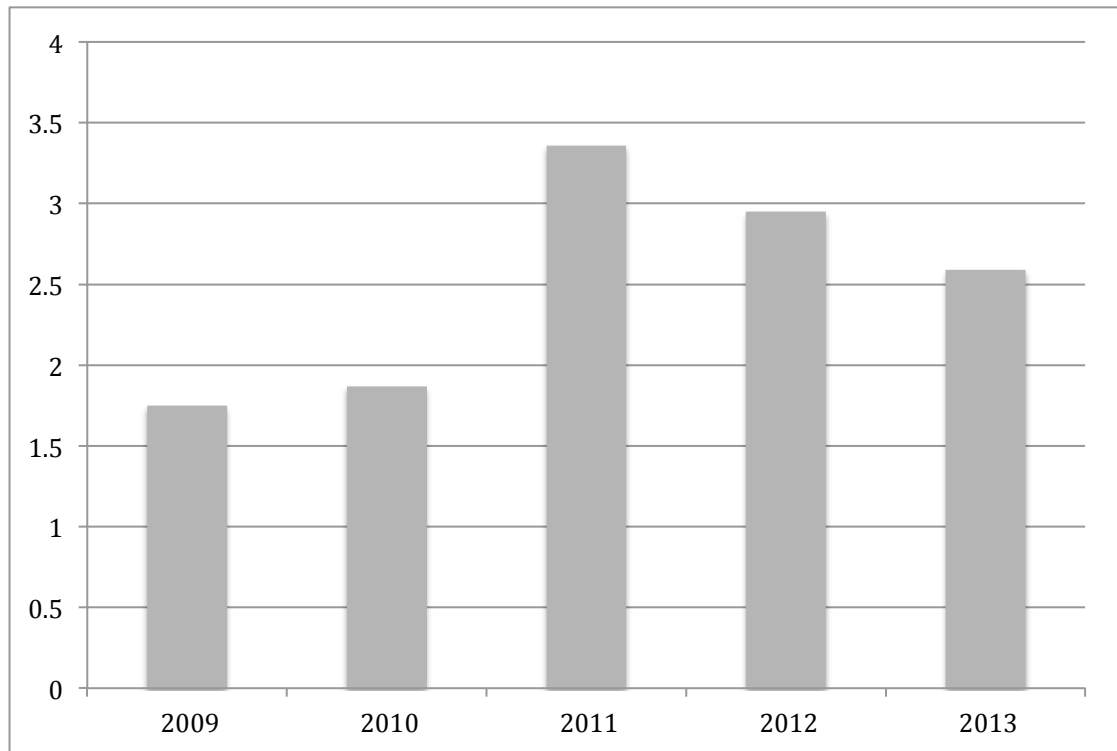
³² Information available at <<http://www.tradingeconomics.com/>>, accessed on 15th of October, 2014

Exhibit 8 – Portuguese Unemployment Rate, % (2009-2013)³³



³³ Information available at <<http://www.tradingeconomics.com/>>, accessed on 15th of October, 2014

Exhibit 9 – Interest Rates for Deposits, % (2009-2013)³⁴



³⁴ Information available at <<http://www.tradingeconomics.com/>>, accessed on 15th of October, 2014

Exhibit 10 – Main Portuguese Banks, Top Financial Indicators³⁵

Banking Institution	Active Accounts	Deposits (Millions of Euros)	Loans (Millions of Euros)
Caixa Geral de Depósitos	3.681.270	58.248	64.002
Millennium bcp	2.064.011	32.689	43.086
Banco Espírito Santo	1.290.215	30.271	37.264
Banco Português de Investimento	1.287.417	17,724	25.522
Santander Totta	1.279.333	21.395	23.908

³⁵ Case writer adapted from <http://www.apb.pt/associados/dados_dos_bancos>, accessed on November 23rd, 2014

Exhibit 11 – Comparison Between AB, BEST and BiG, 2012 ³⁶

Banking Institution	Active Accounts	Deposits (Millions of Euros)	Loans (Millions of Euros)
ActivoBank	32.199	346	12
BEST	43.799	306	138
BIG	-	544	193

³⁶ Case writer adapted from <http://www.apb.pt/associados/dados_dos_bancos>, accessed on November 23rd, 2014

Exhibit 12 – ActivoBank’s Client Type: Average & Heavy Users³⁷

Main Characteristics	Average User	Heavy User
Gender	All	All
Age	24-40	24-35
Adress	Urban areas of Portugal	City centers
Education	> Secondary	> Higher Education
Prefered channel	Webpage	Webpage and Mobile
Number of operations (monthly)	Up to 10	More than 10
Most common operations	Check Account Balance	Check Account Balance, Transfers

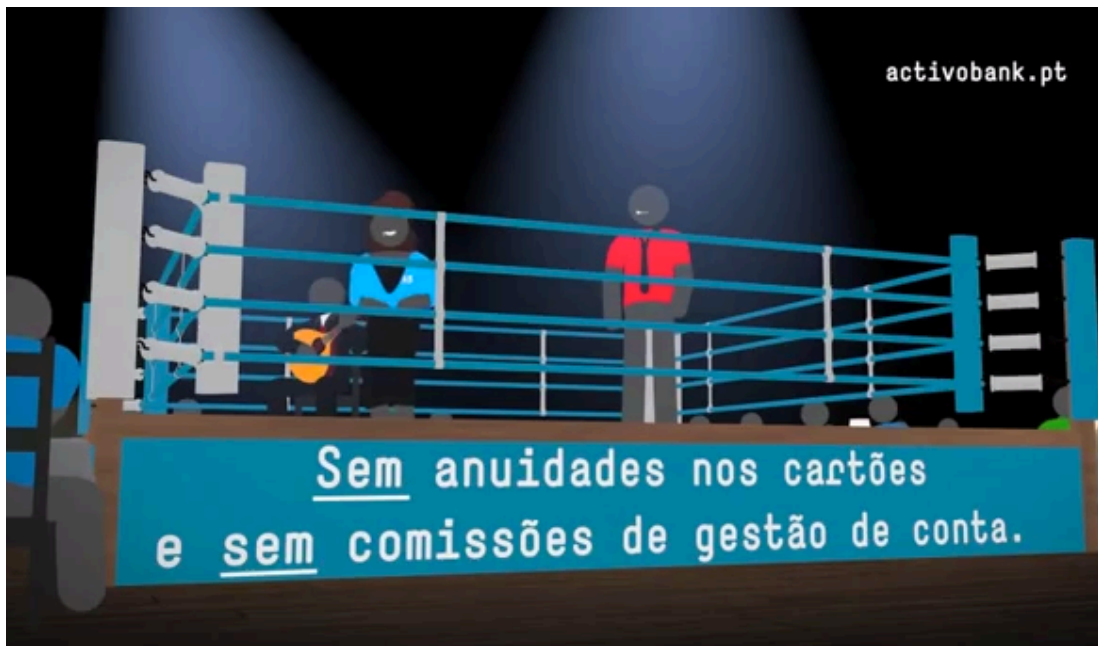
³⁷ Case writer adapted, based on ActivoBank data

Exhibit 13 – ActivoBank’s Core Product Portfolio³⁸

Name	Type	Additional Information
ActivoKid	Current account	For kids between the ages of 0-13
Build Your Future	Current account	For kids between the ages of 14-17
Simple Account	Current account	For adults (18+)
Chose the Deadline	Savings Account	Flexible duration of the savings account
Choose the Goal	Savings Account	Account is closed once the goal amount is achieved
Activo Card	Debit Card	Pre-paid card
Household Card	Debit Card	Pre-paid card, for household expenses
Web Card	Debit Card	Pre-paid card, to be used in online purchases
Activo Credit	Credit Card	American Express, Visa or Mastercard - 38 euros/year
Multiuse Credit	Consumer Loan	11,3% Interest Rate - between 1.000 - 75.000 euros
House Credit	Home Loan	3,75%-5,50% Interest + Euribor - 25.000 euros Minimum

³⁸ Case writer adapted, based on ActivoBank data

Exhibit 14 – Images of ActivoBank’s TV Advertisement³⁹



³⁹ Images available at <<https://www.youtube.com/channel/UChzf3je2NxIFVEhJWh6XJjQ>>, accessed on 21st November, 2014

Exhibit 15 – Image of ActivoBank’s Outdoor Advertisement⁴⁰



⁴⁰ Image available at <<http://www.pinterest.com/bancosportugal/activobank/>>, accessed on 21st of November, 2014

Exhibit 16 – Examples of ActivoBank’s Facebook Posts⁴¹

<

ActivoBank
19 hours ago

Domingo é dia de Desafio 😊 Consegue resolver o quebra-cabeças desta semana?

QUAL O NÚMERO QUE COMPLETA A SEQUÊNCIA?

DESAFIOS DOMINGUEIROS

ActivoBank
simplifica

Like · Comment · Share

21 people like this. Top Comments

ActivoBank
December 3

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⁴¹ Images available at <<https://www.facebook.com/ActivoBank>>, accessed on 21st November, 2014

B. TEACHING NOTE

Introduction

“ActivoBank, Gearing for the Future” case study was written by Carolina Simões, under the supervision of Professor Paulo Gonçalves Marcos. Intended to be used as a base to motivate class discussion around marketing related topics. It is not supposed to serve as an example of management practices, might these be effective or ineffective ones, or as source of primary data or company endorsement.

Although the present case is based on actual events and experiences, all data has been disguised to preserve confidentiality, while keeping the key aspects intact.

This case study has two parts:

- “ActivoBank, Gearing for the Future” Case Data: Meant for students. This part contains the data based exercises in the case, with all the information necessary for the students to participate in class.
- “ActivoBank, Gearing for the Future” Teaching Note: Which is restricted to instructors only. This part contains the questions, calculations and explanations necessary to support the teaching of the case.

Synopsis

By the end of 2013, ActivoBank had achieved a major turn around. Having started to restructure its operations at the beginning of 2010, the bank had been able to implement every strategic stage with success. However Nelson Machado, who had been the CEO of AB for the past three years, was now faced with a serious task. The bank was walking towards becoming profitable and in order to do so, it needed to increase its customer base significantly. Given AB’s unique positioning, there was only one tool that the marketing department could take advantage of: promotion.

Everyone was in agreement that a very strong, active communication strategy had to be employed if AB wanted to achieve its goals. The first question was on what sort of communication they should invest in. Until then, the bank had been relying heavily on below-the-line marketing. However, some people on the marketing team argued that it was time to change and engage new clients through above-the-line means, which had a much bigger audience.

Besides deciding on what media to invest, the team had proposed two options as the campaign’s hook product, either the bank created a promotional offer for new clients, with credit cards without annuities or it invested in an advantageous new consumer credit line.

This case study introduces the reader to ActivoBank, explaining how it came to be and the transformations it went through, during its existence. It follows Nelson Machado in his decision making process, by explaining the surrounding environment and every other aspect that influences a decision like this one.

By the end of the case, students should be able to make an informed decision on what they believe to be the best route for ActivoBank's success.

Suggested Assignment Questions

Using the information available in the case, as well as fundamental marketing and management concepts, students are expected to answer the following questions:

Question 1 - By taking advantage of the Context Analysis in the 5'CS framework, briefly consider the state of the financial system and institutions by the end of 2013. What were the tendencies?

Question 2 - Analyze the competitive environment in the Portuguese financial system. Does ActivoBank differentiate itself from the competition?

Question 3 - Reflect on the information that Nelson Machado had access to, regarding the Portuguese consumer. Does this consumer differ from the target AB client?

Question 4 - Bearing in mind the AB customers, do you think that the offered value proposition is the correct one? (Hint: Consider the marketing mix variables)

Question 5 - What would you advise Nelson Machado to do? Should ActivoBank keep investing in a bellow-the-line strategy or change its approach to include more above-the-line marketing? State the advantages and disadvantages of each approach, before presenting your opinion.

Question 6 - Now consider the two campaigns proposed by the end of the case. Which one would you choose? Assume that the reach of both is 3% of the actual client pool. Consider the costs and other relevant aspects of each one, justify your answer accordingly.

Teaching Objectives

1. Present a marketing dilemma that will allow for theoretical analysis and discussion;
2. Understand the promotion theory of the marketing mix, when introduced in a different context than the usual;
3. Consider the differences between above-the-line and bellow-the-line concepts and the reasoning behind the use of each.

Relevant Theory

Above-the-line Marketing

Form of communication that uses more widely received media such as TV, Radio and Newspapers. This type of marketing has a mass-market target audience.

Below-the-line Marketing

Form of communication that uses more niche oriented and unconventional media, such as email and telemarketing, relational and social media advertising.

Consumer Confidence Index

Is an indicator created to measure the degree of optimism of consumers towards the state of the economy, by tracking their spending and saving activities. This index is not calculated globally, rather on a national level, as there are sizeable differences between countries.

Marketing Mix

It is a framework created by McCarthy⁴², more commonly known as the Four P's: Product, Price, Placement and Promotion. More recently, a fifth P has been added, in the form of People. It allows a company to guarantee that their value proposition matches the wants and needs of their target market. Some aspects of the marketing mix are heavily influenced by the external environment and might not be easily changed, however the awareness created by this analysis can aid in future strategic decisions.

Porter's Generic Strategies⁴³

These strategies allow a company to perform in one or more ways that competitors cannot or will not match. Porter (1980) states that there are three generic strategies:

- **Differentiation Strategy:** There are several means of differentiation, related to the many aspects of the product or service. The differentiation achieved has to be valued by consumers or it won't have any impact in the company's success.
- **Overall Cost Leadership Strategy:** Companies minimize costs in order to offer the lowest prices available in the market. The price has to be low enough to surpass possible comparisons in terms of quality, for example.
- **Focus Strategy:** Companies focus on a more broad or narrow segment and align their differentiation or overall cost leadership strategies with it. In the case of the niche market, companies should be tailoring their products and services to achieve a perfect fit with the smaller segment.

5 C's Analysis⁴⁴

Framework that examines the five dimensions, - Customers, Context, Collaborators, Competitors and Company, - which are part of the marketing environment. It helps the user to understand internal and external forces that have an effect on the

⁴² Kotler, P & Keller, KL 2006, *Marketing Management*, 12th Edition, Pearson Education, Upper Saddle River, New Jersey.

⁴³ Kotler, P & Keller, KL 2006, *Marketing Management*, 12th Edition, Pearson Education, Upper Saddle River, New Jersey.

⁴⁴ Steenburgh, T & Avery, J 2010, *Marketing Analysis Toolkit: Situation Analysis*, Harvard Business School, pp.1-10.

organization's success, therefore becoming a critical tool for managers, when making strategic decisions.

- **Context:** Context comprises of an analysis of four key factors – political/legal, economic, socio-cultural and technological - all of which have an impact (might it be positive or negative) on the company. The analysis, also known as PEST, is necessary to understand the environment where the company is included in.
- **Company:** This is an internal look to the company's business model that allows the user to find and understand existing or possible areas of competitive advantage.
- **Collaborators and Complementers:** Collaborators are companies and/or people that assist the company in their marketing efforts. Complementers are companies and/or people that also benefit when the company sells its products. This analysis implicates the study of the link between these two and the company.
- **Customers:** Analyzing customers signifies understanding the needs that drive consumption and the decision making process behind the fulfillment of these needs.
- **Competitors:** It's comprised of finding companies that are providing similar or alternate products to the same need and examining their strategies (in terms of business and marketing), and uncovering possible competitive advantages, - something that the other company does that offers added value to the consumer and that no other can provide.

Analysis and Discussion

There are six suggested questions to be addressed in this case study. The first three questions serve as an introduction to the market, competitors and consumers, while the last three questions address the dilemma of the case. A timeline for a 90-minute class, is proposed bellow:

- Question 1 – Market Analysis ~10 minutes
- Question 2 – Competitor Analysis ~10 minutes
- Question 3 – Consumer Behavior ~10 minutes
- Question 4 – Consumer Behavior ~15 minutes
- Question 5 – Case Based ~15 minutes
- Question 6 – Case Based ~ 20 minutes

Total of 80 minutes, allowing for 10 minutes of idle time to be allocated in the most convenient manner.

The following discussion of the case study is recommended:

Market Analysis

Question 1 - *By taking advantage of the Context Analysis in the 5'Cs Framework, briefly consider the state of the financial system and institutions by the end of 2013. What were the tendencies?*

In this question it is expected that the students use the relevant theory in the 5 C's Framework, more specifically the Context analysis. Students should also take into account the information provided in the case-study section 3, in Exhibits 7, 8 and 9, and their knowledge of the Portuguese background and situation at the time of the study case.

Political/Legal Analysis

- By the end of 2013, Portugal's government was still under the restrictions imposed by the bailout program, PAEF. This plan enforced serious limitations to the activity of the financial system and, by default, the financial institutions;
- The control over interest rates, implemented by the Bank of Portugal, restricted one of the most effective instruments available for banks to apprehend resources that were vital to the continuation of their activity;

Economic Analysis

- The economy is struggling, although it presents signs of recovery, such as the decrease of the unemployment rate or the lower decrease in the GDP;
- The prospect of a robust external demand could also be taken as a sign of the turning point in the Portuguese economy;

Social Analysis

By the end of 2013 the signs of recovery are becoming evident, a good indication is the increase in the Consumer Confidence Index in 2013, from -54,34% to -48,96% (see **Exhibit 7**). This increase is made apparent by a higher consumption rate than in the previous year, which has a clear impact in financial institutions:

- An increase in spending signifies that consumers require more resources and will be more willing to resort to credit. In turn this will allow banks to increase their profitability through the gain from interest rates;
- In a smaller scale, this increase in the consumer confidence index will also positively influence other areas of the business, as consumers will be more open to invest their resources and apply them in services offered by the bank.

Technologic Analysis

For this analysis, students will have mainly resort to their own knowledge, as the case doesn't go into much detail. The main points are:

- While the Internet has been widely used for a number of years, the more recent advances in smartphones and other devices, such as tablets, have

changed the way most consumers access the web. The financial institutions have caught up to this trend and have been providing more complex, faster and secure apps. These allow their clients to perform the same actions available online on their webpage.

- To the same extent the acceptance of such apps is becoming much wider and consumers expect a seamless change between the webpage and the various devices' apps, this is called an Omni-channel approach.

After considering all key factors, students should be able to summarize the current context in which ActivoBank operates. Most importantly students should note that the current political and legal environment heavily limits the activity of any banking institution. However, the economy has started to give signs of recovery and the feeling has been passed on to consumers. Moreover, they should note that the advances in technology also have an effect in an industry as old as this one and that any player within this market should be able to accompany the changing times.

Competition Analysis

Question 2 - Briefly analyze the competitive environment in the Portuguese financial system. Does ActivoBank differentiate itself from the competition?

For the first part of the question, students should take into account the case study section 4 and exhibits 10 and 11.

As it is stated in the case, the Portuguese financial system is highly concentrated, despite the large number of financial institutions. With the top 5 banks controlling most of the market (78,9% of resources and 81,9% of every granted loan). However, students should also make note that there is also a significant difference between the top institutions, with Caixa Geral de Depósitos and Millennium bcp, with much higher main indicators than Banco Português de Investimento and Santander Totta.

In terms of size, ActivoBank is much closer to BEST and BiG, although students should make note that due to its core strategy, AB is still in direct competition with all other institutions and not only the latter two. These institutions present much smaller numbers on deposits and loans, due to their focus on investment services. They should be considered competitors to ActivoBank, not because of their offer, but due to the same use and focus on the online and mobile distribution channels.

The second part of the question emphasizes more theoretical concepts and students should use the relevant theory on Porter's Generic Strategies to analyze ActivoBank's case.

It is expected that students classify AB as having a differentiation strategy and they should justify their answer by stating AB's efforts in providing their clients with aspects that they greatly value. They should mention the bank's innovation of the

remote online and mobile distribution channels, the account opening structure that is done in 20 minutes and the simplistic and the straightforward product portfolio, fruit of their core value of Simplicity. They can also use the awards the bank has won as the basis for proof.

Students can also argue that a low cost leadership strategy in a financial system is a complex matter and of difficult implementation. Pricing is translated to the costs and interest rates of the different financial products and services. To follow this strategy a bank can offer one or, ideally, all of these examples:

- The lowest account and credit card maintenance costs
- The lowest interest rates on credit
- The highest interest rates on fixed deposits

What is important is that students justify that in the financial system the low cost leadership strategy is not a linear subject as in most industries and therefore, hard to quantify and compare.

Once the generic strategy is defined as differentiation, students should consider its focus. In this case, despite ActivoBank being considered a mass-market bank (given its offer of day-to-day products and services), their target market is much more narrow. As they have already answered in the previous questions, students can just briefly mention the differences between the Portuguese consumer and the AB consumer and use those as justification for the final part of this answer. The main focus of the bank is to serve those with a self-directed disposition and who are capable and willing to predominantly use the remote distribution channels. Considering that the penetration of the online and mobile platforms is still very low in Portugal, it cannot be justified that AB is servicing the entire market.

Consumer Behaviour

Question 3 - *Reflect on the information that Nelson Machado had access, regarding the Portuguese consumer. Does this consumer differ from the AB client?*

For this question, students should take into account the case study section 5 and exhibit 12, as well as the relevant theory on consumer behavior. Although acceptable, knowledge coming from external sources should be clearly stated and directly related to the Portuguese consumers as financial behavior differs from country to country.

To answer this question, students should mention the difference between the average and heavy users within the AB clients. While the average customer might not differ, in a significant manner, from the Portuguese consumer, the heavy customer will. The latter is someone who makes constant use of the online and mobile platforms and will prefer these platforms to visiting a branch. The self-directed disposition makes it so that the AB client differs from the average Portuguese consumer primarily in the preferred distribution channel.

Adding to this point, students can also mention the fact that cash is the preferred payment method of the average Portuguese consumer. Which means that branches, - more specifically the ATMs, - are still a very important point of contact, whereas the penetration of online and mobile platforms is much smaller. This trend is reversed when it comes to the AB Client, who prefers to utilize the remote distribution channels to an ATM.

Moreover, the heavy users clients are characterized as having a higher education, which is also what aids them in utilizing the platforms provided by AB without external assistance.

Students can choose different examples to justify their answer as long as the difference between an average Portuguese consumer and the AB heavy user client is apparent. This difference is not based on physical characteristics, such as age or gender, but on the fact that the clients all share a “self-directed” trait.

Question 4 –*Bearing in mind the AB customers, do you think that the offered value proposition is the correct one? (Hint: Consider the marketing mix variables)*

The relevant theory on the five dimensions of the Marketing Mix should be considered when answering this question. They are Product, Price, Place, Promotion and People. Students should also use section 5 and 6, Exhibit 4 and Exhibit 13, when justifying their answer.

Product

Regarding this variable, students should note that due to one of ActivoBank’s core values, which is simplicity, the bank’s product portfolio has been reduced into a small list of financial products and services. When compared with other competitors, AB’s offer is much more direct and lacks the complexity created by having many products for the same need. For example, in terms of loans, AB only has two options: A consumer and a house loan. This approach allows their targeted customer is able to easily select the product or service that better fits their needs, without any external assistance.

Price

Pricing is a very intricate variable in the financial industry. Students should not give much importance to this part of the mix, rather they should be able to argument that given ActivoBank’s limited control over the industry standards, the pricing offered is not decided internally. They can defend this answer by stating the strict regulations imposed by the bailout program and Bank of Portugal. Students can also state that in an industry such as banking, institutions usually have very homogenous offers, given the very competitive environment.

Place

Concerning place, students should mostly consider ActivoBank’s hybrid strategy in terms of their distribution channels. With a very limited physical presence, the bank’s

focus in on the remote channels, as the bank tries to offer a seamless experience between Internet and mobile banking. This allows their customers to be able to perform the same actions online or on their mobile, extinguishing the need to visit a branch.

Promotion

The bank's marketing strategy relies heavily on social media to communicate and keep in contact with potential and existing customers. Rather than broadcast their offer in a mass media tool, ActivoBank uses Facebook and GoogleAdWords metrics to find customers that fit their target. This ensures that most of those who see their communication will have some level of connection to the products and services of the bank.

People

For the last point, students should consider ActivoBank's approach to the account manager concept, which they've renamed relationship manager. This structure is created to serve as support to their clients and not as a cross-selling mechanism. Contacts between the managers and customers are usually started by the later, rather than the other way around.

Once students have deliberated on all five variables, especially in cases when they use specific examples as the ones above, it becomes easily justifiable that ActivoBank is indeed using the correct value proposition for their target market. With the exception of price, which given the industry is a complex variable, AB created a proposition that allows their self-directed customers to take control of the bank's tools to satisfy their needs.

Case Based Analysis

Question 5 - *What would you advise Nelson Machado to do? Should ActivoBank keep investing in a below-the-line strategy or change its approach to include more above-the-line marketing? Briefly state the advantages and disadvantages of each approach, before presenting your opinion.*

Students should start by explaining the difference between the two methods and listing the different media that will be used in each. Then they should list the advantages and disadvantages of each approach, utilizing the relevant theory and the information made available in the case study.

Above-the-line marketing – ActivoBank will mainly make use of TV and Radio, segmenting the target audience with the choice of the channel and station where the campaign will air.

Advantages

- Reaches a wide range of consumers;
- Faster increase of brand awareness;
- The use of image and sound makes it easier to catch the consumer's attention;

Disadvantages

- High investment required;
- Greater difficulty in ensuring that the intended target market sees the advertisement;
- Difficulty in measuring the success rate;

Below-the-line marketing – ActivoBank will invest in social media, namely Facebook and GoogleAdwords. Using the algorithms made available by the two tools to target the intended consumers.

Advantages

- Lower investment required;
- Easy to track;
- Allows for interaction with the target consumer

Disadvantages

- In order to be successful, a more extensive understanding of the target consumer is vital;
- Might be considered less trustworthy;
- Requires constant content management

Once the advantages and disadvantages are listed, it is important that students realize the possible size of AB's market. If we consider that Portugal has 10 million habitants and 96% have a bank account, then total financial consumer market is approximately 9,6 million. The penetration of Internet banking is 30%, therefore there are 2,9 million consumers that would, theoretically, fit the larger sense of the target market of AB.

These calculations serve as an indication that there is still plenty of potential clients and it can be used to justify either of the approaches. On one hand, students might choose to use the immense potential, as an argument that the costs associated with the above-the-line means is acceptable. On the other hand, students can also justify that the advantages created by below-the-line marketing, outweigh the advantages of the other option, due to their highly segmented approach. And since AB's focus is on a niche market, this communication approach would be the ideal one.

Rather than choosing one method, what is important is that students are aware of the differences between the two approaches and their advantages and disadvantages. As long the answers are accordingly justified, students can advise Nelson to use either one.

Question 6 – *Now consider the two campaigns proposed by the end of the case. Which one would you choose? Assume that the reach of both is 3% of the actual client pool. Consider the costs and other relevant aspects of each one, justify your answer accordingly.*

The aim of this question is primarily to introduce the cost factor to the decision making process, hence why the reach of each campaign is so easily given. To justify the following calculations students should consider the information given on Section 7 and Exhibit 13.

By the end of 2013, AB has 56.000 clients, which signifies that according to the expected reach, AB could capture up to 16.800 new clients with either of the promotional tools ($56000 * 0,3 = 16.000$).

Proposal A - Credit Card

There are two cost components to be considered for this proposal:

- 1) Production of credit cards – Each card is expected to cost around 0,2 euros, therefore with a campaign reach of 3%, the total cost will be 2.520 euros; ($0,15 * 16.800$)
- 2) The maintenance cost – Although it isn't technically a cost, AB will be losing a source of revenue. Therefore students should take into account the 38 euros that regular credit cards charge annually. The loss will be 638,400 euros ($38 * 16.800$).

In total, if Nelson Machado chooses this promotional tool, then AB's loss will be 3.158,4 euros. ($2.520 + 638,400$)

Proposal B – Consumer Loan

Given the flexibility of the available loan amount, it would be impossible to decide, in advance, on the amount that every client would contract. For simplicity sake, students should consider an average between 1.000 and 15.000 euros. Thus, for the purpose of this question the students can assume that every new client contracts a loan of 7.000 euros ($14.000/2$).

In this case, the cost of the campaign is the 3% difference in the interest rates. Therefore the total cost of this promotional tool would be 3528 euros ($7.000*0,03*16.800$).

On a first glance and if the students only contemplate the cost analysis, then Proposal A, with the credit cards is the most advantageous one as there is a difference of almost 370 euros between the two. However, there is another aspect that should be considered: Retention.

Between the two proposals, the latter one creates a deeper relationship between the bank and the client. A consumer loan is an obligation that will require the client to have constant contact with the bank in order to perform the scheduled payments. On the other hand, a credit card might not even be used. Consequently, if the subject of client retention is considered, a consumer loan will have a greater chance of guaranteeing a relationship in the long term.

Subsequently, the small cost difference between the two proposals might be ignored, if it warrants a better situation for AB in the long term. Students can choose to justify their choice for Proposal B in these terms.