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# ACTIVOBANK: A NEW MARKET OPPORTUNITY

MARIA MATOS

Student Number: 152113109

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## ABSTRACT

### **ActivoBank: A new market opportunity**

*Maria Matos*

ActivoBank (AB) has identified a new business opportunity to diversify the bank's offer within the business client segment. The project's goal is to develop a portfolio of products and services targeting start-ups, micro and small enterprises (MSE).

This case study presents the early steps of the business plan for the strategic diversification. Given the identified new business opportunity, market and customer analysis were made. Forecasts of the size and profitability of the target segment were prepared in order to assess its potential.

The research confirmed the existence of an under-served segment in the banking industry. However at the same time, is not straightforward that the bank will succeed in targeting it. In line with this conception, a deeper, customer-centric and process-driven methodology is recommended. This process aims to ensure a better alignment between customer processes and financial services.

This case study, however, does not reach any conclusion regarding whether or not the bank should invest on targeting this new segment.

Keywords: Business Strategy, Segmenting, Targeting, Entrepreneurship, Online Banking

## RESUMO

### **ActivoBank: A nova oportunidade de mercado**

*Maria Matos*

O ActivoBank (AB) identificou uma nova oportunidade de negócios para diversificar a sua carteira de negócios para o segmento empresarial. O objetivo do projeto foi desenvolver um portfólio de produtos e serviços dirigidos a start-ups, micro e pequenas empresas.

O caso de estudo apresenta os primeiros passos do plano de negócios tendo em vista a estratégia de diversificação. Dada a oportunidade de negócio, tanto o mercado como o cliente alvo, foram analisados. Foram calculadas previsões da dimensão e rentabilidade do segmento alvo, de forma a avaliar o seu potencial.

A pesquisa efectuada, confirmou a existência de um segmento que não está a ser servido, adequadamente, pelo sector bancário. No entanto, não foram encontradas provas incontestáveis do sucesso do banco em servi-lo. Foi recomendado ao banco, que fizesse uma análise mais profunda do potencial cliente. A abordagem centrada no cliente e a metodologia orientada para os seus processos visa assegurar o alinhamento entre os processos do cliente com os serviços financeiros propostos pelo banco.

O caso de estudo não foi conclusivo sobre se o banco deve investir na implementação do novo segmento ou retirar o projeto.

Palavras-chave: Estratégia empresarial, Segmentação, *Targeting*, Empreendedorismo e Online Banking

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## GLOSSARY & ACRONYMS

**AB** – ActivoBank

**ATM** - Automated Teller Machine

**B2B** – Business-to-business

**B2C** – Business-to-consumer

**Best Bank** – Banco Electrónico de Serviço Total, S.A

**BiG** – Banco de Investimento Global, S.A.

**DSA** – Direct selling agents

**EU** – European Union

**GEM** – Global Entrepreneurship Monitor

**GDP** – Growth rate of gross domestic product

**ICT** – Information and communications technologies

**IES** - *Informação Empresarial Simplificada* (Simplified Enterprise Information)

**MB Net** – *Multibanco* online (online ATM)

**MSE** – Micro and small enterprises

**POS** – Point of Sale

**OECD** – Organization for Economic Co-operation and Development

**SME** – Small and medium size enterprises

**SOHO** – Small office and home office

**STP** – Segmenting, targeting and positioning

**Tech** – Technology

## A. CASE STUDY

### INTRODUCTION

**“Change is the law of life. And those who look only to the past or present are certain to miss the future.”**

John F. Kennedy

Recent changes in culture, behaviour and technology have been shaping today's society. This new paradigm impacts customer demand in all industries in every market and has therefore been changing the set of products/goods/services suppliers need to make available.

Having this in mind, a marketing team in a small online bank has been struggling to understand what is the product portfolio that will generate more profit and therefore allow the bank's survival in such a harsh economy.

The team pointed out two possible market segments, which could be targeted in the near future once they are seen as an opportunity for growth and also as a threat if not addressed. However, when companies start to diversify their portfolio and to expand its business into other segments, complexity arises as differentiated value propositions are delivered. Moreover, the bank in question is still very small, owning less than one percent of the market share in the individual segment which is currently the only segment targeted by the bank.

The issues narrated by this case study relate to the uncertainty of whether or not it is premature to diversify a portfolio, considering the risk of raising complexity with no pay off in terms of the number of new clients and of its respective added value. The team is perfectly aware of the urgency of this strategic move in order not only to capture more clients but also to keep its small clients' base. Nevertheless, a cost-benefit analysis addressing the segment in question and the value of these potential clients to the bank is indispensable in order to measure the consequences of this change to the success of the Portuguese online bank *ActivoBank*.

## THE COMPANY: ACTIVOBANK

### THE GROUP: MILLENNIUM BCP OVERVIEW

Millennium bcp is a Portuguese bank founded in 1985, as *Banco Comercial Português*. It became a leading institution of reference in Portugal, with a consolidated market share of 18,9% (1) in clients' deposits, serving 2,3 million clients in Portugal. Nowadays, it is the biggest private bank in Portugal and the second biggest regarding both private and public banks, since *Caixa Geral de Depósitos* has a market share of 30,5%<sup>a</sup> (2). Millennium owns more than 1.600 branches and employs 20.000 people in six countries where it operates, addressing the needs of 5,5 million customers (3).

The bank's activity in Portugal is divided as follows:

#### Millennium BCP

- Universal bank

#### ActivoBank

- Online bank

#### *Banco de Investimento Imobiliário*

- Real state credit

#### Millennium BCP Ageas

- Insurance

#### *Interfundos*

- Management of real state investment funds

It provides a wide offer of banking and financial products and services: current accounts, savings and investment products, private banking, asset management and investment banking, among others. Its offer is distributed across 774 branches and remote channels (telephone and internet). Millennium bcp has the largest retail branch network, 16% of the total number in Portugal (4).

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<sup>a</sup> In clients' deposits, as for September 2014.

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## ACTIVOBANK'S HISTORY

Back in 1994, Millennium bcp created Banco7, the first telephone-only bank in Portugal. It was considered to be an innovative bank, exploring a new distribution channel and adding its value to the group with full autonomy in the midst of the large institution that was Millennium bcp. At that point in time, the target was middle-high class customers, offering simple transactions enabled by phone calls. The cornerstone of accessibility was already a hallmark, as one can infer by its extended business days: seven days a week. It was an atypical bank since all the usual concepts of the banking industry, as branches and accounts managers, were not present in Banco7's value proposition.

In 2001, in pace with technology and with the rapid spread of the internet, the bank was reshaped and rebranded. It was no longer the old Banco7 accessible only by phone, but the new ActivoBank7 available by phone and online.

The bank had also repositioned itself, offering investment solutions to affluent middle to high-class customers, and medium-sized companies. The bank was led into opening branches, one in Lisbon and a second one in Oporto, not only for legal purposes but also due to the higher complexity of the products it was marketing, which required a closer relationship with the clients.

Until 2009, the bank was not focused in growing, given its value to the Group. The main concern was for it to be the innovative and experimental bank of Millennium bcp. It was nevertheless necessary to be profitable and this requisite was put into question due to the economic downturn. By that time, ActivoBank7 had its first negative results and the future was uncertain. The bank had only 16.000 clients and had not been growing since 2007. To exacerbate the situation, the bank's offering was strongly linked to investment opportunities in the retail segment, which was massively affected by the withdrawal of money markets and the drop in stock markets. People were not willing to invest anymore and a change was due in order to survive. ActivoBank7 was until then focused on becoming the people's second bank, however the financial crisis cut the bank's revenues from financial instruments. Without having other products within its portfolio, the bank was not able to

provide sustained profit. The future was to rebrand the bank once again and shape it in a way that would meet the overcoming challenges.

In March 2010, the brand name dropped the seven and became ActivoBank (AB). The bank changed more than its name, the core business also suffered considerable alterations. The bank was no longer only focused on retail investment but also on day-to-day products, loans, deposits and insurances. All products within the portfolio had the same importance to the bank and all of them shared a single philosophy: *Simplicity*. The philosophy became the keystone of the bank, originating the five values that currently rule the daily lives of the people who work at AB, and which will be introduced in the next section (Exhibit 1 and 2).

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## STRATEGY FORMULATION

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### MISSION, VISION AND VALUES

AB launched a new concept in the Portuguese banking industry, translated into a new approach, new image, new offer and new channels of distribution that increased customers' convenience – website and mobile. The goal was to respond to clients' and potential clients' needs and expectations, through an offer adapted to fit their current lifestyle. On the other hand, the idea was to make use of AB's expertise in the investment area.

AB's mission is: "ActivoBank designed in detail to simplify people's life". The bank also focuses on giving to the client exactly what he/she needs with a simple and relatively short portfolio of products and services. *Value for money* is something which is taken seriously by the bank, promising to the client to pay only what he/she needs without commissions and complexity.

AB is ruled by five values: Simplicity, Transparency, Accessibility, Trust and Innovation (Exhibit 3). Moreover, the concept is based on seven key elements:

1. **Products:** Simple products, direct and competitive (for daily needs).

2. **Distinctive use of physical presence:** Branches located in prime locations with easy access with enlarged schedule (from Monday through Saturday, from 10am to 8pm). It aims to be used as less as possible, almost exclusively for opening accounts (Exhibit 4).
3. **Independent sales representative:** Innovative sales force, including associated promoters doing peer-to-peer recommendations.
4. **Online Presence:** Simple and direct platforms (web and mobile) with high standards of reliability. Its presence in social and virtual networks (Facebook and Twitter) improves the quality of service and helps to increase consumers' confidence.
5. **Worksites:** Sales force that have as their mission to introduce AB's offer in companies, with the goal of offering special conditions to employees.
6. **Operational:** Leverage operations thanks to the mother company – Millennium bcp – without affecting the strategic independence of AB.
7. **Brand & Image:** Independent brand, taking advantage of Millennium bcp endorsement (“by Millennium”) to reinforce trust and legitimacy.

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## TARGET SEGMENT

The target market potentially comprises approximately 770.000 individuals in Portugal and it is characterized as follows:

- Self-directed, preferring to acquire and fulfill its needs, autonomously and valuing simplicity;
- Urban, with a young attitude praising their time and money;
- Highly cost-conscious requiring a committed low-cost approach;
- Instant-messaging individuals, aiming for a highly technological connection;
- Demanding of peer-approval, requiring informed and independent advice when making their decisions.

## PRODUCTS

AB provides a standard and differentiated offer to reel consumers in. Some of the products offered by the bank are Millennium's ownership while others were fully developed by AB (currently 39).

The standard offer consists of five categories: day-to-day, savings, credit, insurance and trading services for financial investments (Exhibit 5). Among its different features, the following stand out:

- No maintenance fees;
- No annual fees;
- Tangible offer: products are given in physical boxes when a new client opens an account;
- Simple and easy to understand contracts;
- Complementary offer in investment services.

AB's marketing hooks consist in a *Welcome Campaign* and the savings products *Start* (for new clients) and *Extra* (for existing ones). These products aim to attract new clients to the bank and to deepen the relationship with the existing ones.

The products were developed in line with the new values of the bank and in order to respond to a complex and highly regulated industry. AB simplified the number of products and features, communication and other processes, reducing time consumption. AB is also clear and very direct in terms of communication with no need for an *instructions manual*. The language of all contracts is easy to understand and hidden clauses do not exist in its advertisements (Exhibit 6).



### THE SCOPE OF ANALYSIS

AB is operating specifically in the online banking industry; however, the traditional banking industry is also under analysis since the difference between the two is merely the distribution channel and the degree of direct contact with the client. Moreover, despite a few differentiating features in client segmentation, clients are mostly the same and most of the core products remain unchanged. On top of that, AB positions itself first as a bank, which means that it has a global offer with all of the most common products of a retail bank. AB's main product to capture new clients is the salary account which is a reflection of its positioning.

It is important to highlight the fact that in this industry, revenues are generated by the return from products and services through the charging of interests, transaction fees and financial advice. Banks profit from the spread concerning the cost of funds, the interest rate it pays for deposits and the interest rate it charges for loans. Both rates suffer the impact with different conjectural factors, which makes these streams volatile. Financial advice and fees are much more stable revenues accounting for its crucial importance for the banks.

### TRENDS

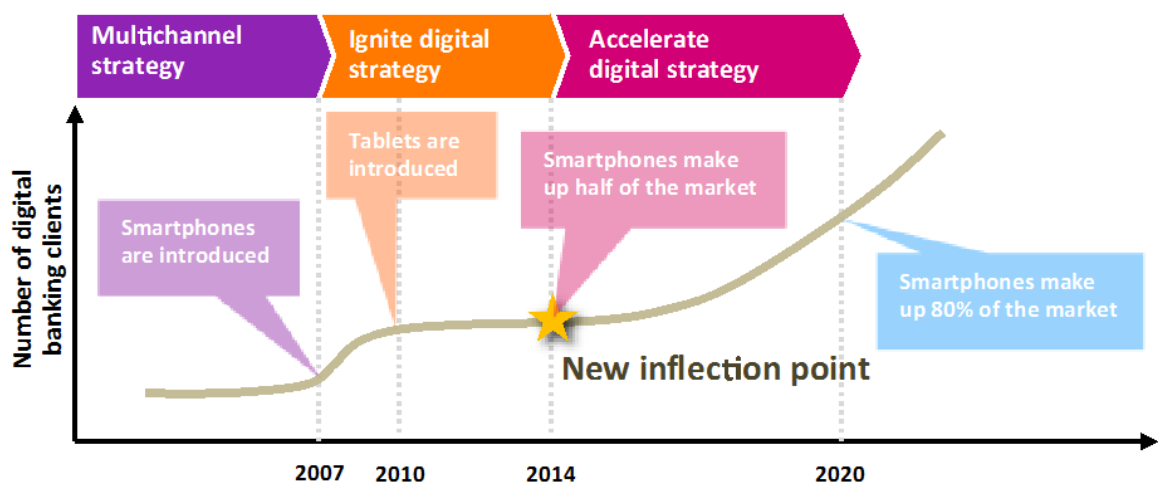
The cultural setting was clearly impacted by the digital era and the banking industry is not an exception. The technology trends combined with the expected evolution in customer behavior will change significantly the banks' strategy in the near future. Trends such as the increasing number of smartphones and tablets but also the proliferation of cloud services and the spread of digital culture across generations, industries and locations will boost the digital transformation. A change in the activity of physical branches is expected: given its decreased share in client interaction, they will probably tend to be fewer in quantity but bigger in size, to provide an exclusive customer experience (5).

The retail banking has been developing its digitization as internet access has become more and more present in people's lives.

The mobile channel has been gaining ground and is expected to be the epicenter of digital banking. Mobile phones have become the costumers' first touch point for several products and services, converting this channel into the cornerstone of the digital strategy of major banks (5).

**Figure 3.2.1: The Evolution of Digital Strategy for Banks**

Source: A.T. Kearney analysis



Technology	▪ Workstations	▪ Smartphones and tablets	▪ Internet of Things (watches, glasses)
Clients	▪ Early Adopters	▪ Mobile Internet users	▪ Heavily connected users

The internet is growing at a fast pace, and online banking has quickly caught up with the trend. From the 95 million households that have internet hardware worldwide, 72,5 million benefit from online banking (6). In 2014, the online banking penetration in Europe was 44%. As for Portugal, 25% of the population accesses online banking sites (7), (Exhibit 7 and 8).

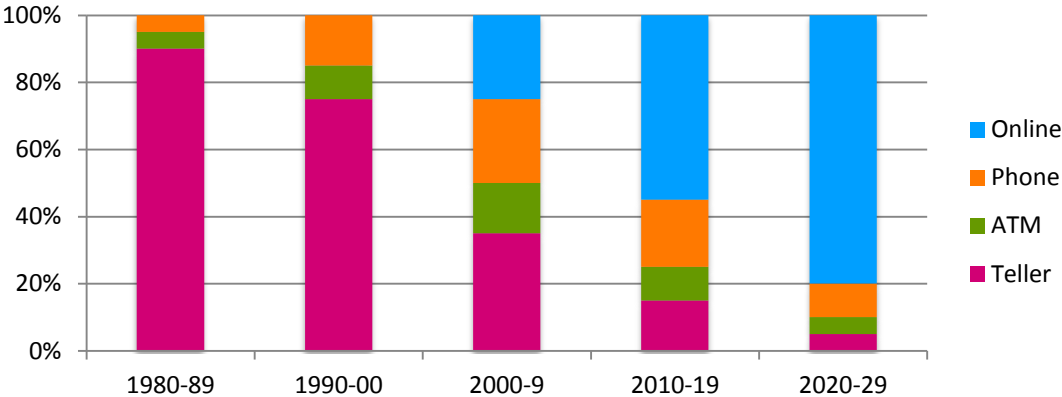
The growth of the online banking industry is also closely related to smartphone data traffic since much of the online transactions have been shifting from computers to mobile

devices. Between 2007 and 2014, global sales of smartphones to end users increased by 10 times (exhibit 9). In 2014, 303 million desktop and laptop PC were shipped worldwide although this figure is expected to decrease by 7,3% per year until 2018 (8). As for tablets, it is forecasted the shipment of 406,8 million devices in 2017, an increase of 74% in relation to 2014 (9), (Exhibit 10).

In line with this trend, it is not surprising that 75% of mobile traffic in 2019 is expected to be done through smartphones (10). Taking the example of mobile phone payments, they increased from 161 million in 2011 to 212 million in 2012. Projections for 2016 indicate €551 billion<sup>a</sup> worth of transactions (10).

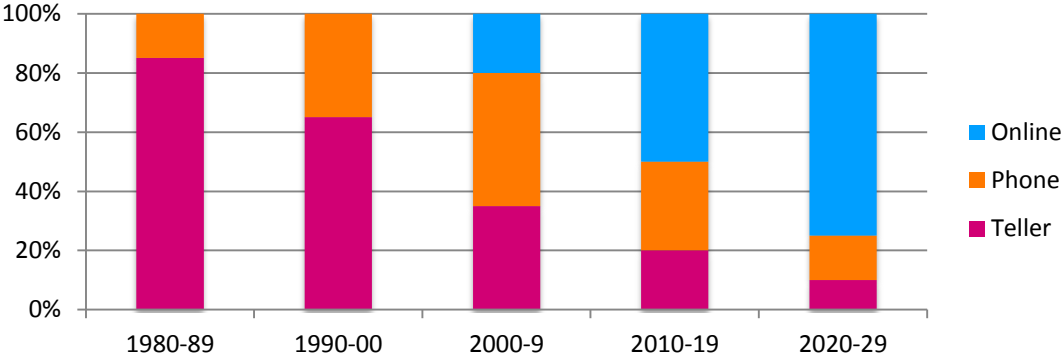
**Figure 3.2.2.: Banking transactions (as a % of pre-1980 teller branch activity)**

Source: Smart Bank 2015



**Figure 3.2.3.: Banking services (process requests)**

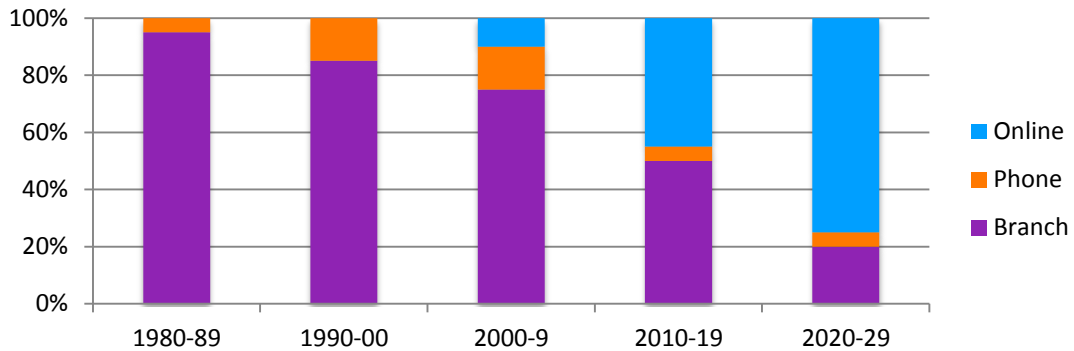
Source: Smart Bank 2015



<sup>a</sup> Source indicates the value in U.S. dollars. Conversion made in May 2015.

**Figure 3.2.4.: Banking sales (account acquisition)**

Source: Smart Bank 2015



While the value and the growth of this industry are clear, there are some risks associated with migrating to the online channel. On one hand, digital transactions bring cost-savings and higher interaction, but on the other hand it also brings revenue risks due to customers distance from the branch, potentially leading to a decline in engagement, loyalty, sales and cross-selling (11).

## THE COMPETITIVE ENVIRONMENT

In Portugal there are 35 financial institutions (4) (Exhibit 11), a number that has been decreasing due to mergers and acquisitions occurred in recent years. The market is considered to be highly concentrated, since 5 institutions control 78,9% of the total clients' resources and 81,6% of loan initiatives (Exhibit 12).

Despite being competing with major banks, AB differs largely from these institutions with respect to customer behavior. Firstly, AB is much smaller in scale, secondly AB's distribution channels is different and provides a less exhaustive portfolio of products and services. Therefore, AB also belongs to a strategic group where it competes with banks with a similar market share and distribution channel: Banco Electrónico de Serviço Total, S.A (Best Bank) and Banco de Investimento Global, S.A. (BiG). Both banks are online banks and have few physical points of sale. They are mainly focused on investment products as ActivoBank7

was before 2010 (Exhibit 13). Despite the AB’s restructuring that made it compete with all the other banks in daily products and services, Best and BiG are still part of AB’s competitors list as they also chose online and mobile phone routes to reach its customers (Exhibit 14).

**Table 3.3.1.: Summary of relevant data on online banks in Portugal**

Source: Banks’ annual reports and internal data

	Net Income	Number of Accounts	Assets Under Management	Deposits	Loans
<b>ActivoBank</b>	-3	64.145*	441	414	44
<b>Banco BiG</b>	58	-	2.159	684	197
<b>Best Bank</b>	10	~82.000*	360	277	159

\* Number as for the end of 2014 FY

As for the end of 2013 FY

In million Euros except the values for the number of accounts

Exhibit 15 contains further information on this matter.

**AN UNDER-SERVED SEGMENT: START-UPS**

**ENTREPRENEURSHIP IN PORTUGAL**

From 2008 to 2012, Portugal experienced a deep recession, hitting the construction and real estate industries the hardest (12). Still, all the other industries were impacted and in general small and medium-size enterprises (SME) became more fragile, leading to the bankruptcy of many in the following years. In 2013, a total of 8.131 companies were declared insolvent (13), and as a result, the unemployment rates increased substantially having reached 16,2% of the active population (14). The numbers of companies, the volume of business and the number of people employed by SME have been decreasing. However, the reforms implemented by Portugal in the last years have been changing the negative trends and creating room for economic recovery.

Nevertheless, the employment conditions have forced the population to find new professional alternatives and a notorious consequence was the increasing number of new businesses' constitution. In 2013, there were more than 890.000 small business owners in Portugal, representing an annual growth rate of 16% from 2011 to 2013 (13).

Entrepreneurship brings economic growth and creates jobs, and it is therefore fundamental for a country like Portugal to nurture the entrepreneurial spirit in the population.

**“Creating good conditions for new firms to enter the market and for young firms to grow can therefore play a key role in fostering job creation.” OECD<sup>a</sup> (15)**

A good sign of Portuguese government's attempts to encourage entrepreneurship was the victory of the *European Entrepreneurial Region Award* in June 2014 that acknowledged Lisbon for its *“efforts to boost entrepreneurship and implement key EU policies, such as the Small Business Act<sup>b</sup> and the Europe 2020 Strategy for Growth and Jobs”* (16).

**“By far the best performing SBA area was entrepreneurship, as the Portuguese economy is characterized by intense and high-quality entrepreneurial activity that is underpinned by a remarkably positive entrepreneurial culture.” (17)**

Moreover, the Ministry of Economy is creating several initiatives to boost the creation of new companies, like *Portugal 2020* and the *Strategic Programme for Entrepreneurship and Innovation (+e+i)*. Besides creating programs, the government simplified the insolvency framework by creating a new law that accelerates the liquidation

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<sup>a</sup> Established in 1961 in France, the OECD is an organization with 34 member countries that promotes policies aiming the improvement of the economic and social well-being of people worldwide.

<sup>b</sup> The Small Business Act for Europe (SBA) is an initiative from the EU to support SMEs. It includes a set of policy measures on 10 principles such as “entrepreneurship”, “responsive administration” and “internationalisation”.

procedure and out-of-court settlements are allowed. Costs are reduced and the stigma for failure is mitigated, giving confidence for honest entrepreneurs to pursue new business attempts. Plus, start-ups began to be reimbursed with a percentage of the single social tax. Another factor that boosts entrepreneurship is the ease of starting a business, and on the rank of countries where it is easier to start a new business, Portugal is ranked number 10 (18). It is possible to do so in one business day at a cost of 290€ with no capital requirements. However, the administrative procedures and the legislative frameworks are still perceived as complex as they lack stability (Exhibit 16).

The improvements occurred in recent years are in fact recognized. The OECD's report, *Skills will drive inclusive economic growth in Portugal* (19), highlighted the reduction on the necessary bureaucracy to create new businesses in Portugal.

***“In the past two years, Portugal had the merit of creating an ecosystem. Nowadays, any entrepreneur has immense facility to launch anything. There are support structures such as incubators and accelerators, and in three months an APP can be launched.”*** (20) **Alexandre Barbosa, Co-Founder and Managing Director of Faber Ventures<sup>a</sup>**

It is undeniable that entrepreneurship is a growing segment, supported by a diversified ecosystem composed by government agencies, entrepreneurs' hubs, universities, capital sources and support services that impel entrepreneurial activities.

Media companies are also showing signs of supporting this segment and are starting to explore entertainment opportunities associated with entrepreneurship. The American awarded TV show *Shark Tank*, was brought to the country by SIC and is on air since March 2015. It is not only a TV show that aims to entertain the Portuguese population, but it will also inject capital on the Portuguese economy, given the 2,5M Euros each shark has to invest; and help to shape the mindset of the population. Five years ago, this and other TV contests of the same nature were already broadcasted abroad but in Portugal it was only

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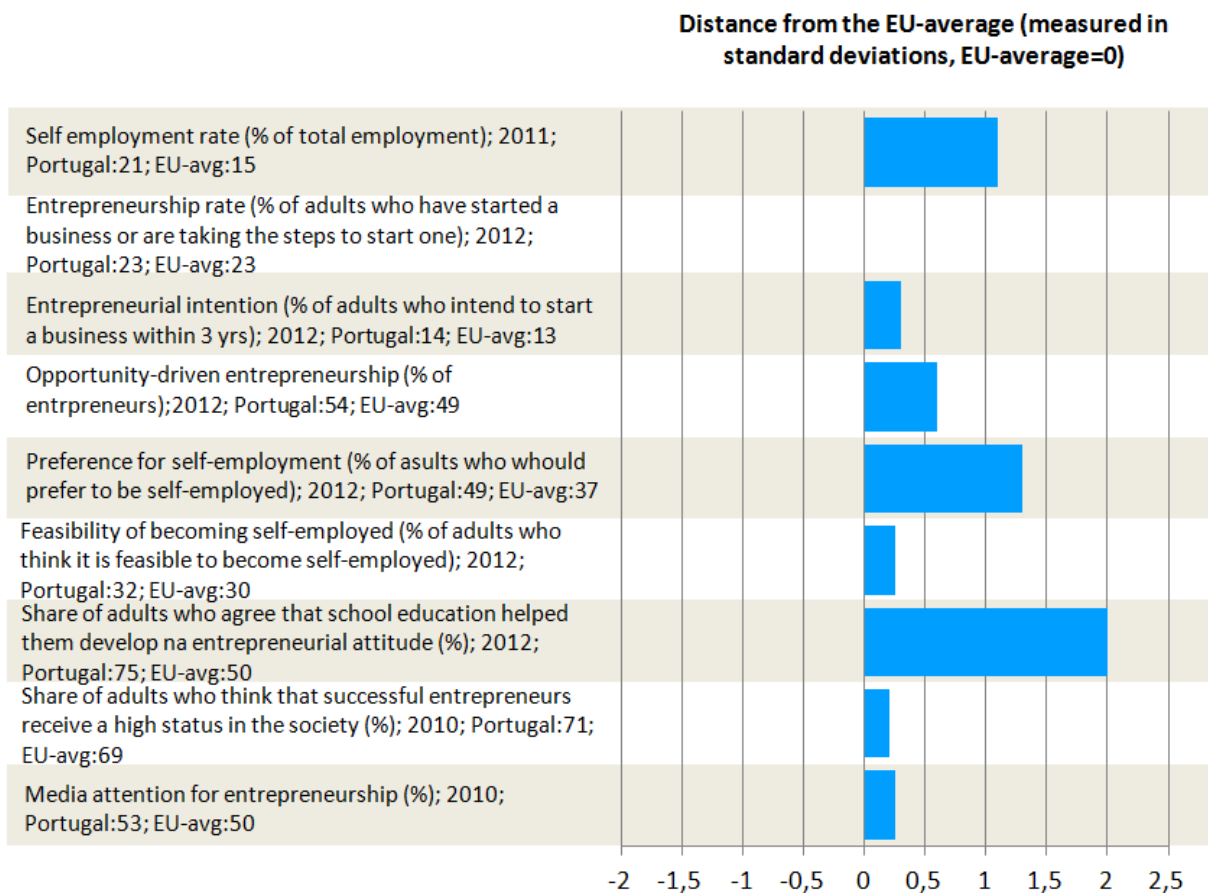
<sup>a</sup> Faber Ventures is a Portuguese investment fund that have been creating and investing in new Internet companies for 3 years.

possible to watch online or in niche channels. Today, one of the major channels fighting for the front lead in audiences is transmitting an entrepreneurship related show at prime time. On the two first episodes, the average audience was close to one million viewers (21).

The mindset of the Portuguese people has been shaped towards an entrepreneurial attitude. Moreover, there is not only an increasing need for Portuguese citizens to create their own job opportunities, but there also seems to be a preference for self-employment, which represents 20% of the employed population (14). Comparing to other European countries, in Portugal there are more adults self-employed and preferring to be self-employed (16).

**Figure 4.1.1.: Entrepreneurship in Portugal vs. the European Union’s Average**

Source: European Commission



*Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance*



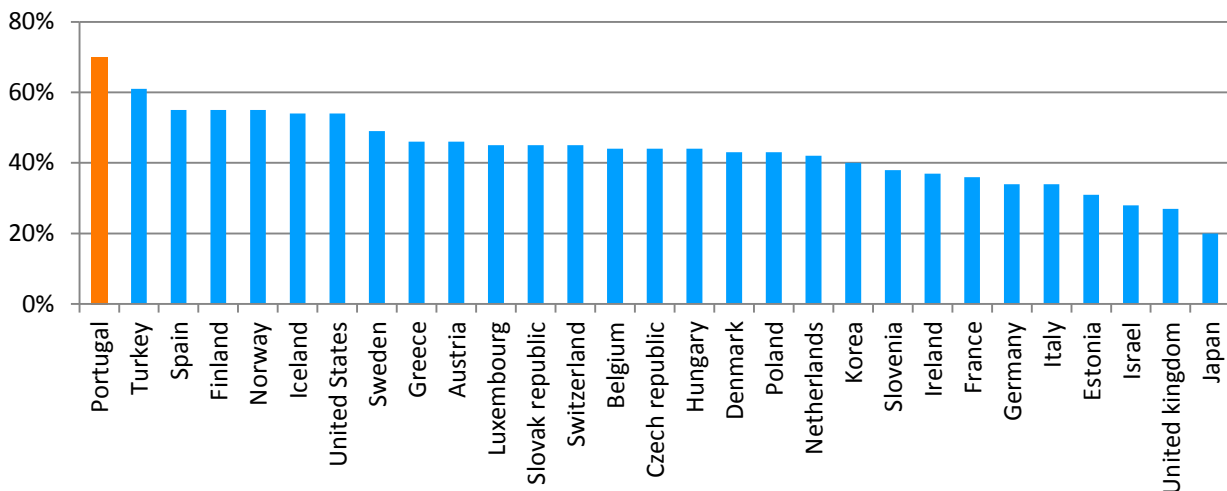
It is also the result of an entrepreneurial culture that reflects the attitude that the Portuguese population have towards entrepreneurship and the probability to choose this path as a career. In society, this culture is driven by skills and by the education system, which have been developed in this sense for a while.

Studies show that in terms of higher education level, Portugal is in line with other countries in EU. However, at lower levels of education students are not trained at the same level to the development of new businesses (22). Therefore, there is room to improve the existing training and enlarge its scope. In spite of this, the 2012 Eurobarometer survey showed that 70% of the Portuguese participants agreed that “school education provided them with the necessary skills to run a business”.

**Figure 4.1.2.: Impact of Entrepreneurship education, 2012**

*(Proportion of adults aged 15 to 64 who agree that their school education provided the skills and know-how to run a business)*

Source: European Commission (2013), “Entrepreneurship in the EU and beyond”, Flash Eurobarometer 354.



The lack of managerial skills undermines the potential of good ideas and its viability to build new businesses. Enterprises’ failures can be reduced with better training; however the importance of other factors should not be overlooked.

There are still some obstacles for those who have vision and work hard to create its own business and in Alexandre Barbosa’s opinion, one is the lack of a clear strategy to

sustainably attract the funds needed by venture capital firms to invest in entrepreneurial activities (20).

According to Teresa Fernandes, board member at Portugal Venture<sup>a</sup> it is fundamental for start-ups to be appealing to international investors in order to mobilize the needed volumes of resources to grow (23). Moreover, due to the constraints of financial resources, MSE are particularly vulnerable when credit is limited. If these companies are more involved in international trade, they can dodge European market's contractions and benefit from more successful markets abroad.

The OECD points out the high cost of credit in Portugal comparing with other countries. Interest rate spreads on new loans are almost twice as high as the EU average and the interest rates on new loans up to 1 million Euros is on average 3,4% higher than in other countries in the euro zone.

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## THE PROFILE OF THE PORTUGUESE ENTREPRENEUR

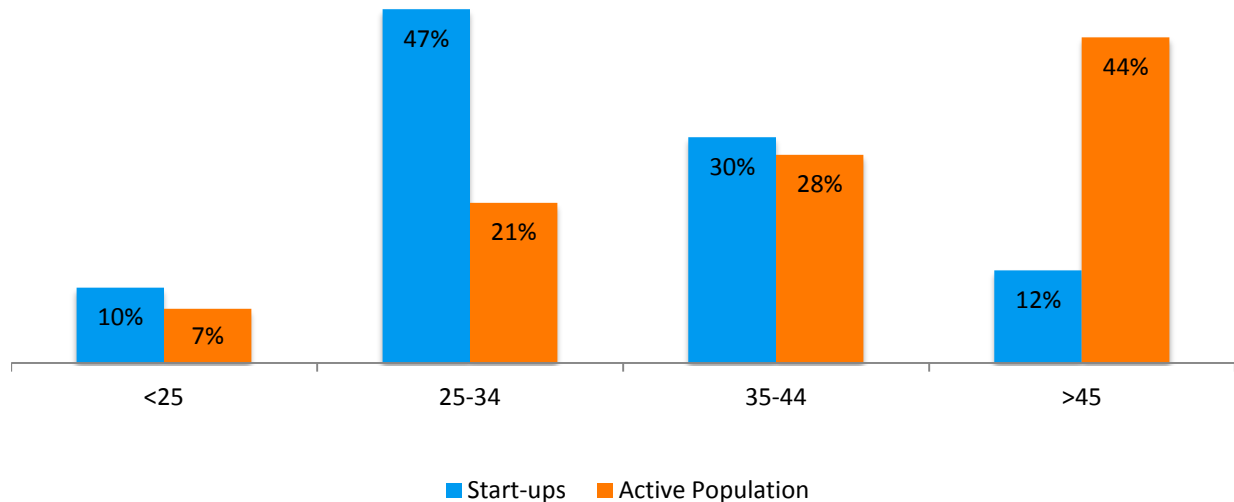
Almost half of the people incurring in entrepreneurial activities are between 25 and 34 years old, which is a much higher percentage than that found in other types of companies in Portugal and reflects the attractiveness that younger and possibly more prone to risk individuals have for start-ups. The second largest group is made up of people up to 45 years. As for gender, two thirds of entrepreneurs are male.

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<sup>a</sup> Portugal Ventures is a Portuguese private equity firm and venture capital founded in June 2012.

### Figure 4.2.1.: Distribution by entrepreneurs and workers' age

Source: Data as for 2014 from INE, PORDATA. Data for start-ups from "O Ecosistema empreendedor de Lisboa" by Lispolis, Macrometria e Camara Municipal de Lisboa, 16 de abril de 2014



The education level of these individuals is higher than that of the average Portuguese workforce. In the incubation network, more than 80% of entrepreneurs had completed higher education. The group of people in Portugal that have this level of qualifications amounts to 20%, which means that entrepreneurial activity attracts highly skilled people.

80% of entrepreneurs found in incubators are Portuguese. However, a greater percentage of international people is found in incubators specialized in technology and in start-ups with scalability potential, developing goods and services orientated to external markets.

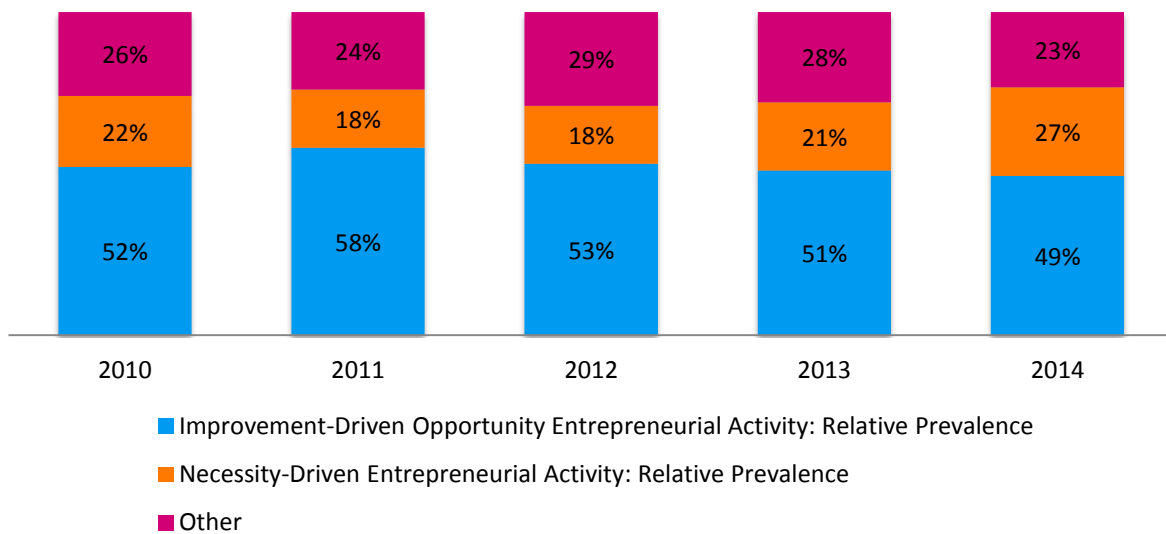
When describing the profile of the Portuguese entrepreneur, it is important to mention that 34% of these people had already attempted to start a business before. This percentage is in line with the numbers observed in other European capital cities like Berlin, Paris or London, however below the ones verified in Silicon Valley or New York. The difference could mean that European entrepreneurs are more risk averse and only commit to projects with high chances of survival. Other explanation could be the less favorable

environment in Europe to start a new project when the former has failed, the difficulty of access to new funding and the stigma associated with default.

The profile of entrepreneurs can also be distinguished by individuals' motivation. People can be either motivated to start their own business by necessity or motivated by opportunities to improve their life.

**Figure 4.2.2.: Motivation for the entrepreneurial activity, 2010 – 2014**

Source: GEM



1. **Opportunity-Driven:** people driven by opportunity as opposed to finding other option for work.
2. **Necessity-Driven:** people involved in entrepreneurship because entrepreneurship presents the best option available for employment, however it is not the preferred option.

The volume of necessity and opportunity is a reflection of the nature and structure of entrepreneurial activities. In fact, these drivers are important due to the positive impact on economic development created by opportunity entrepreneurship whereas the necessity-driven type does not have any effect (24).

One of the biggest differences between the two profiles of entrepreneurs is related with the growth aspirations that each one of them have regarding their ventures. The

opportunity-driven expects its business to grow more and to create new jobs, oppositely to the necessity-driven. (24)

Even though the majority of entrepreneurs in Portugal are involved in entrepreneurial activity due to their own choice, the percentage of people who has started a business driven by necessity has been increasing in the last few years.

The individual initiatives have been increasing and the constitution as sole proprietorship has been the most common choice (94%). 77% of entrepreneurs are running their venture as managers. (25)

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## NEEDS AND CONSTRAINTS

The marketing research provided relevant insights regarding the difficulties that entrepreneurs face in the different stages of developing and managing their ventures. Investment and financial issues are the root of most of entrepreneurs' problems and have a great impact on the success and ease of operating their businesses.

The marketing team in AB developed 7 interviews to people within the entrepreneurial environment in Portugal (Exhibit 17). Most of the people interviewed addressed the difficulty in setting up a business. Part of this problem regards political and bureaucratic concerns, but also the high cost of capital charged by banks due to the high risk associated with start-ups. Moreover, entrepreneurs are not willing to pay for such expensive bank loans. As previously mentioned, there are few venture capital, investment funds and angel investors providing opportunities to start-ups in Portugal.

A great portion of entrepreneurs does not have a management or any other related degree. They start a business empowered with what seems a good business idea and the expertise on the field addressed by their business. However, they lack management skills. Developing a business plan is a struggle for them and later, accounting and financial management is a challenge. When it comes to managing the business, the problem arises later on, and when internationalization comes into play, complexity amplifies creating the need for consulting and advice in specific operations. Being aware of their frailties, some of

the entrepreneurs interviewed claimed that, because they had already failed in the first entrepreneurial attempt, the second time they have asked for mentors and resorted to consultancy in order to maximize their chances for success. So, financial consulting services may be a good opportunity to be undertaken by the bank.

It was found that entrepreneurs value celerity and easiness in banking services. They value simplicity and transparency, since they are not experts in banking. Despite valuing advice, they need things to be simple in order to do it quickly and by themselves. Therefore, there is a good opportunity to simplify the bank's communication and hold the values that currently drive AB.

As for the people interviewed, the discontent with the current financial offer is clear. They claimed that not a single bank in Portugal is thinking about their needs and presenting a truly valuable offer. They need:

- Lower minimum values to open an account;
- No annuities and maintenance fees;
- Free transfers, both nationally and internationally.

Since many new enterprises are operating in digital marketplaces by developing apps, online shops, social networks and software, entrepreneurs need online billing with different paying options (PayPal, Visa, MB net<sup>a</sup>, etc.) and credit cards or pre-paid webcards to shop online. Due to the nature of their business, entrepreneurs need cloud services for which they pay a considerable amount. This presents an opportunity for AB to develop packages or partnerships with companies providing these services, in order to get a more attractive pricing to this segment and earn a margin on the deal.

Complex financial products, such as mutual warranty, micro credit, factoring and confirming were mentioned. Pricing is the main concern in these products, looking for more attractive interest rates. Confirming and factoring are especially important for start-ups since they lack liquidity to fund their operations. These products are very complex and, therefore, might be set aside at least on a primary stage.

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<sup>a</sup>MB net functions as an online ATM.

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## AVAILABLE OFFER

There is only one bank in Portugal explicitly targeting start-ups: Montepio. The remaining banks provide financial products that mainly focus on solutions for SMEs', offering standard products with a great emphasis on credit and on loans. Banks usually offer:

- SME accounts
- SME Loans
- Credit Lines
- Insurance
- Payment solutions
- POS
- Debit and credit cards
- International Trading
- Guarantees
- Investment Solutions
- Leasing/Renting

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## MONTEPIO GERAL

Montepio has developed a valuable offer to start-ups composed by innovative financial and non-financial services packaged to appeal to the entrepreneurial segment.

Montepio is partner of Startup Lisboa, an integrated network of business incubators that support entrepreneurs on takeoff of their projects. In Startup Lisboa, entrepreneurs receive mentoring, have access to investment, strategic partners and to specialized services, to participate in networking activities and can benefit from work spaces. Montepio provides physical and material resources.

Moreover, the bank delivers products to assist in managing and administrative issues. It developed a package for early-stage start-ups (until 2 years in the market). To subscribe, entrepreneurs have to pay a monthly fee of 8 € (+ stamp duty at the legally required rate).

Apart from the package, Montepio also developed insurance for self-employed people, and created *Montepio Active Management Account*, a solution that, while available to all companies, is communicated to start-ups. It aims to manage the day-to-day treasury operations in a simple and automatic way.

Montepio created a virtual POS, *Montepio Gateway* which accepts credit cards, home banking and MB Net, Net24 in online stores and it is compatible with the vast majority of existing e-commerce platforms. It is a payment system with zero risk of transaction. Montepio offers the membership fee and monthly maintenance, charging one single commission on purchases.

In terms of financing, Montepio offers *FINICIA Axis II* which is a specialized financing solution to support entrepreneurship and the creation of new business. It is directed to short and medium term financing with preferential interest rates.

In Montepio, entrepreneurs also can resort to *Support Entrepreneurship and Self-Employment Creation*, which has the objective of facilitating the creation of their own company/job for unemployed citizens, young people looking for their first job and independent workers with low incomes, through bank loans with bonuses.

Through *Lisboa Empreende*, the bank gives regular workshops for those who aspire to open their own business. Other product offered is a physical space, *Atmosfera m*, which was created to stimulate the exchange of ideas between entrepreneurs. *Radar* is an online gateway where companies can find useful information and where they can disclose their businesses.



### START-UPS, MICRO AND SMALL COMPANIES

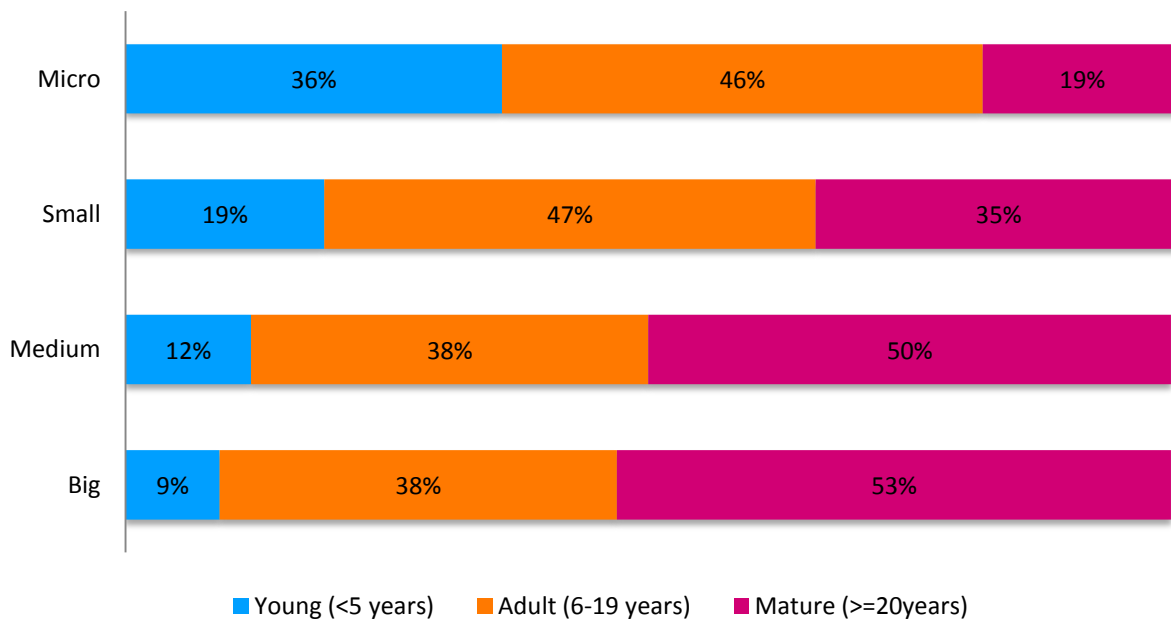
Businesses can be analyzed by longevity, volume of business, number of employees, sector of activity, etc. The companies under analysis are the ones that could be targeted by AB. Therefore, all the companies that involve major complexities in terms of necessities whether caused by its size, by operating internationally or due to the industry or sector of activity, will not be considered.

To narrow the target and focus only on companies to which AB can provide a superior value, two variables were considered: size and longevity.

**Figure 5.1.1.: Companies' size<sup>a</sup> and business longevity**

*(Percentage of young, adult and mature companies in each size level)*

Source: Informa D&B analysis; Data source: IES and corporate acts publications from Ministry of Justice

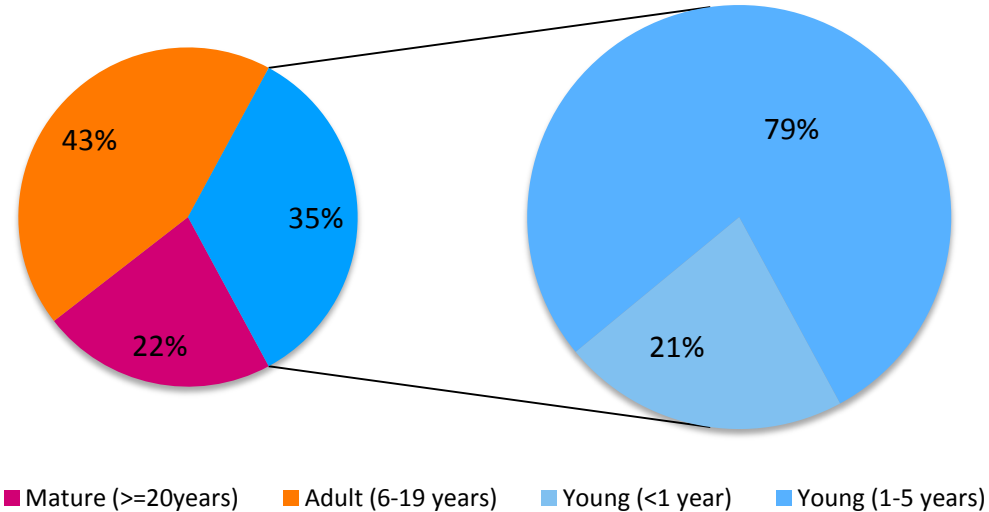


<sup>a</sup> Company's size combines volume of business and number of employees.

There is a direct correlation between companies' size and longevity. The larger the company is the higher the probability of it to become a mature company. The majority of big and medium-sized companies have at least twenty years of existence. Since large companies have more specific and complex needs, it can be assumed that most of the mature companies will not be part of AB's segment. Micro and small enterprises (MSE) will be a better fit for AB, however these companies (with less than 2M Euros of business volume per year) account for 94,8% of the total companies in Portugal. Therefore, it is also important to focus on the young companies and probably on the adult ones to limit the target. Following this reasoning, the market is reduced to 35%, which are companies operating for less than 5 years.

**Figure 5.1.2.: Distribution of businesses by age ranges**

*(As for December 2014)*  
 Source: Informa D&B analysis; Data source: IES and corporate acts publications from Ministry of Justice

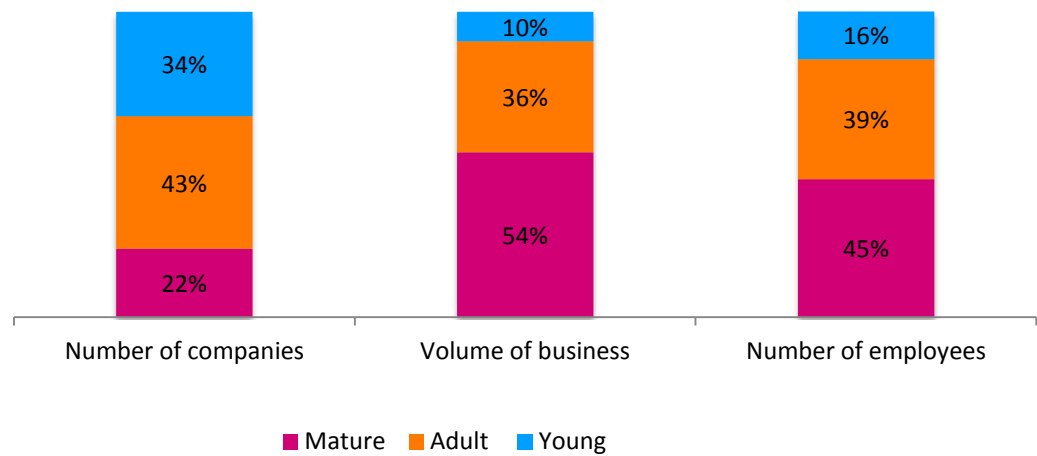


On average, companies operating for less than 5 years employ 4 people and have a volume of business of 435,000 Euros. As for adult companies, they employ 8 people and on average generate 983,000 Euros of business volume<sup>a</sup>.

<sup>a</sup> 2011 economic data.

### Figure 5.1.3.: Contribution of each age group for economic activity

Source: Informa D&B analysis; Economic data as for 2014: IES and corporate acts publications from Ministry of Justice



Young companies represent 16% of the Portuguese workforce and 10% of the business volume. From the 35.000 companies created in 2014, almost the totality (93%) was commercial entities. As stated before, necessity entrepreneurship has been increasing, being this reflected on the individuals' initiatives for business constitutions. The most common legal nature of these new constitutions was sole proprietorship, accounting now for 25% of the total existing companies. The share capital of new constitutions had been decreasing, reaching an average of 1.045€ in 2014 (25).

Services and retail sectors are the ones that still comprise a higher concentration of companies, however the most common sectors in which entrepreneurs are opening more new businesses are agriculture, livestock, hunting and fishing (+16%), telecommunications (+10%) and accommodation and restaurants (+4%).

However, telecommunications, financial institutions and gas, electricity and water are still the "youngest" sectors; however, these are not suitable targets for AB. Financial activities for obvious reasons and the other two sectors are young as the result of the great development of these industries in the past several years.

The services sector is one of the "youngest" sectors with the greatest concentration of companies (27%) and workforce (23%). However, it only represents 9% of the volume of business. Retail is the second sector with more companies (17%) and represents 16% of the

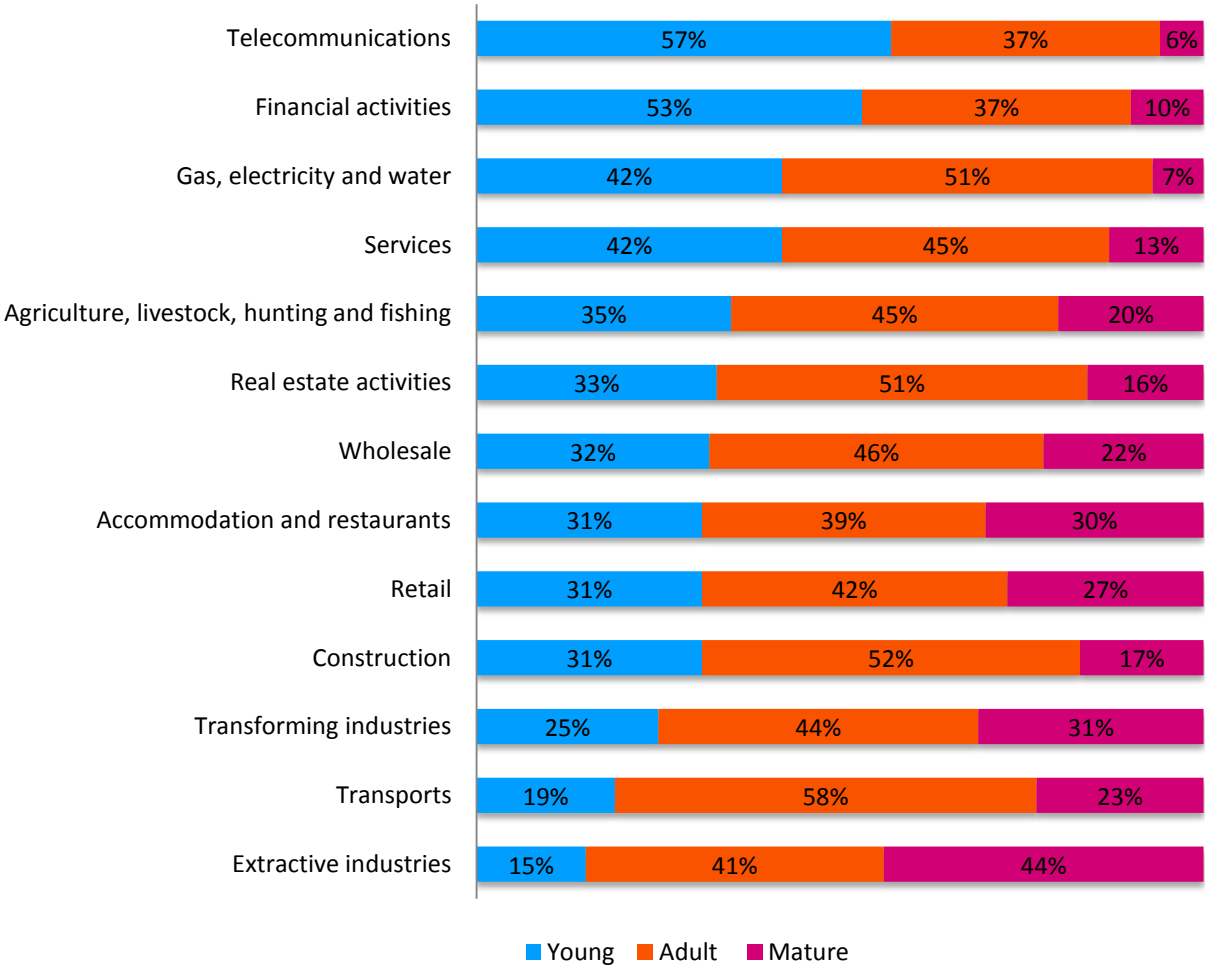
volume of business (25). This sector is important due to new retailers that have embraced technologies and are distributing its products exclusively through online channels, which fits perfectly with AB’s profile (Exhibit 18).

As for entrepreneurs found in incubators, most of them develop businesses in the fields of ICT (30%). Consultancy and health (biotechnology included) are the second most popular, representing 15% each. Commerce (retail and wholesale) and creative industries come in third, representing 12% each.

From a wide perspective, 54% of entrepreneurs target the final consumer, being B2C<sup>a</sup>, 26,5% are in the field of transformation (transportation, communication, utilities, wholesale, construction and manufacturing) and 15,5% are B2B<sup>b</sup> companies.

**Figure 5.1.4.: Young, adult and mature companies by sector of activity**

Source: Informa D&B analysis; Economic data as for 2014: IES and corporate acts publications from Ministry of Justice



As for locations, the North of the country is the region where the average annual growth of business constitutions is more accentuated (+1,9%) and comprises 34% of the business activity in Portugal (25). Lisbon is the most entrepreneurial city in Portugal and was the birthplace of 10.317 new businesses in 2014, accounting for 30% of the total. The capital city distinguishes itself positively by the proximity to clients and to goods and services' suppliers and by the highly qualified workforce; however it has the drawback of having high fixed costs (26). Porto and Braga are the second and third most attractive Portuguese cities with 18,7% and 8,5% of new business constitutions (13).

Crossing borders is an increasing propensity. In 2013, 10% of start-ups were exporting in the first year, when in 2007 such activity took place in 8% of the cases. In their fifth year, the number of companies that went through internationalization doubles. It is important to highlight that more than half of the volume of business in such start-ups stems from international clients, having reached 62,4% in 2013 (26).

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## THE TARGET SEGMENT

The active population in Portugal is constituted by 5,2 million people, of which 19% are self employed (865.000). The number does not say everything about the target market, because while these people are not employed by somebody else, this does not necessarily mean that they have a company constituted. Hence, in order to measure the addressable market, data provided by the Global Entrepreneurship Monitor (GEM)<sup>a</sup> was used.

***“GEM measures individuals’ perceptions to entrepreneurship, their involvement in entrepreneurial activity and their aspirations in doing so.” (27)***

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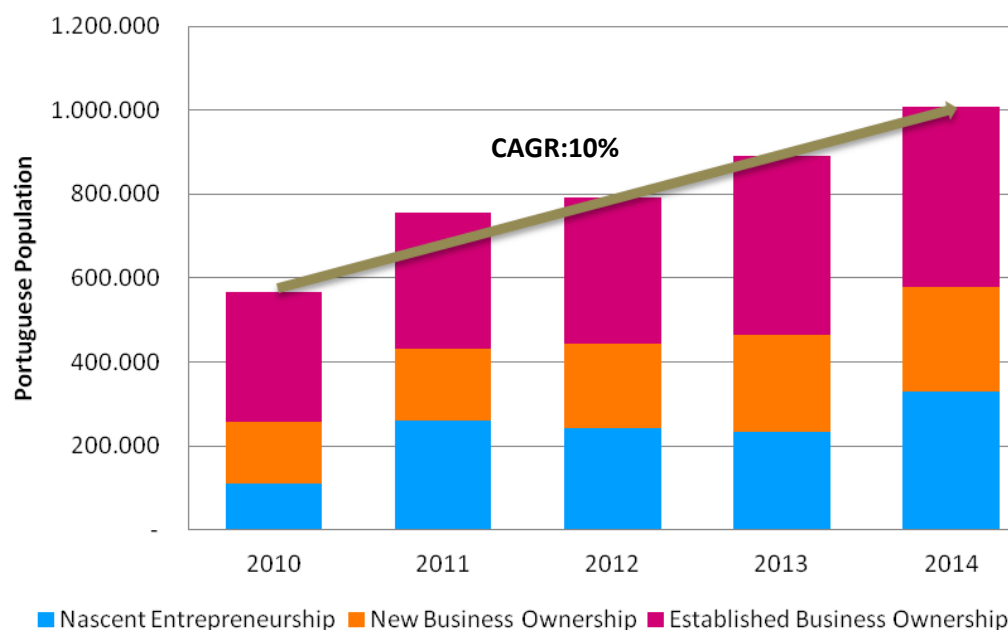
<sup>a</sup> See exhibit 19 for more details about the methodology and data collection.

According to GEM, in the active Portuguese population, there are 4,4% new business owners<sup>a</sup>, estimating the existence of 230.000 people owning and managing a running business, as of 2014. The same study also refers to nascent entrepreneurs and established businesses. The difference between the three types of entrepreneurs is the longevity of the business operations:

1. **Nascent entrepreneurs<sup>b</sup>**: do not own a company yet but are actively involved in setting up a business.
2. **New business entrepreneurs**: have a business set up and are operating for more than 3 months and less than 3,5 years.
3. **Established businesses<sup>c</sup>**: have been in operations for at least 3,5 years.

**Figure 5.2.1.: Evolution of Portuguese entrepreneurship owners (2010-2014)**

Source: GEM



<sup>a</sup> New Business owners are 18-64 individuals who are currently a owner-manager of a new business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months

<sup>b</sup> Percentage of 18-64 population who are currently a nascent entrepreneur, i.e., actively involved in setting up a business they will own or co-own

<sup>c</sup> Percentage of 18-64 population who are currently owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months

The target segment comprises new businesses and part of the established businesses since the premise of being operating for more than 3,5 years implies that these companies could be young, adult or mature. Estimating the longevity of these companies is needed to get a closer number of the actual market. It was estimated that from the 398.000 established businesses, 310.000 are either start-ups, young or adult companies. As for nascent entrepreneurs, they provide insights of what promises to be new businesses in the future, therefore they should be targeted only on the basis of helping them succeed in their business constitution. Nevertheless, they are not accounted for in the target market, since they do not have a fully constituted business yet.

The target of AB does not include all types of legal constitutions. The targeted companies must have the decisive power for banking purposes centralized on one individual due to the AB's website constraints. The current website only asks for the signature of an individual to move the bank account. In a first stage was decided to only target companies that could operate under this constraint due to the high development costs to change the current technology. These companies include sole proprietorships, SOHO<sup>a</sup>, independent professionals, freelancers, limited companies that only require the manager's signature or public limited companies requiring only the president's signature. This does not constitute a problem when targeting start-ups, since 94% of start-ups are sole proprietorships (25).

Therefore, the addressable market segment for ActivoBank is approximately 540 thousand people, a number that has been growing by 10% since 2010.

Part of these individuals is already AB's client. In this sense, it is important to know how many they are, since these individuals are most likely to open a business account with the bank, due to the pre-existing relationship and personal background.

Assuming that the clients' base is representative of the Portuguese population, the total percentage of new business owners was divided by the seven segments that AB currently offers its individual clients, according to the age ranges from each one (Exhibit 20).

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<sup>a</sup> SOHO – Small office and home office

**Table 5.2.2.: AB's individual clients with potential to be business clients**

Source: Bank's internal data as for the end of 2014; Population data source: INE, PORDATA, 2014; Companies' data source: IES, Ministry of Justice, SICAE.

	Age	Active pop. (%)	# of accounts	New business		Established	
				% of the segment	# of accounts	% of the segment	# of accounts
Kids	0-17	0,0%	56	0,0%	0	0,0%	0
Students	18-24	7,2%	5839	0,0%	0	0,0%	0
<b>Living the life</b>	<b>25-35</b>	<b>21,3%</b>	<b>18385</b>	<b>0,9%</b>	<b>172</b>	<b>1,6%</b>	<b>298</b>
<b>New life/peek-a-boo</b>	<b>30-55</b>	<b>52,5%</b>	<b>26052</b>	<b>2,3%</b>	<b>602</b>	<b>4,0%</b>	<b>1040</b>
<b>Empty nest</b>	<b>56-65</b>	<b>14,2%</b>	<b>5136</b>	<b>0,6%</b>	<b>32</b>	<b>1,1%</b>	<b>55</b>
Golden years	65+	4,8%	4073	0,0%	0	0,0%	0
No segment	N.A.	12,4%	8427	0,5%	46	0,9%	79
<b>TOTAL</b>	<b>Total</b>	<b>100,0%</b>	<b>67968</b>	<b>4,4%</b>	<b>3002</b>	<b>7,6%</b>	<b>5186</b>

	Companies (%)	Entrepreneurs as a percentage
<b>Start-ups</b>	<b>7,5%</b>	<b>104</b>
<b>Young</b>	<b>26,7%</b>	<b>372</b>
<b>Adult</b>	<b>43,4%</b>	<b>605</b>
Mature	22,4%	312
Sub-total	100%	1393
<b>Total</b>	<b>77,6%</b>	<b>1081</b>

Given the assumptions made, there are 4.083 individual clients that could be part of AB's new target, representing 6% of existing customer base, most of them coming from new life and peek-a-boo segments.

## AB' APPROACH TO TARGET AND SEGMENT ENTREPRISES

Given the bank's constraints in what is able to offer to its clients, 3 variables were crossed in order to come up with a company's profile. The size of the company must be micro or small and operating for a short or medium period of time, at the most for 19 years.



The reason for these two restrictions is linked to the complexity of operations and its needs for financial products that often increase with volume of activity. AB aims to align financial services to customer processes having not only a customer-centric but also a process-driven approach.

The sectors of activity are restrained to services and online retail, since these are the two that are more in line with the main characteristics of an AB company. In terms of legal constitution, companies must have the decisive power for banking purposes centralized on one individual, due to the AB’s website constraints.

Given the constraints the bank has on its branches, like the non existence of treasury service, the businesses must be cash-less in the sense of not needing to regularly deposit/withdrawal of money, since this service is only offered on Millennium’s branches.

**Figure 6.1.: Considered variables to segment the business client**

Size	Longevity	Sectors of Activity	Legal constitution
Micro (<2M€)	Start-up (<1 year)	Services	Sole proprietorship
Small (2-10M€)	Young (1-5 years)	Online retailers	Limited company with the manager’s signature
	Adult (6-19 years)		Public limited company with the president's signature
Others			
Cash-less companies: without greater needs for cash requirements (e.g. deposit or withdrawal of coins)			
Self-directed: that value and use remote channels as a way to acquire financial products			
No necessity for complex financial products			

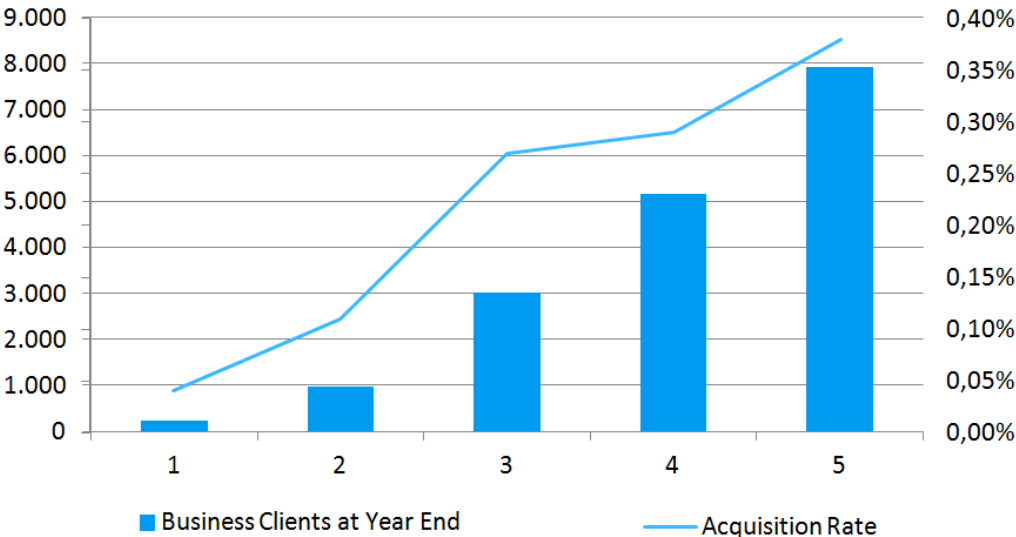
**FUTURE VALUE FOR THE BANK**

A forecast was made in order to assess how many clients the bank can expect to have in the following years. It was assumed that the marketing efforts to promote the new segment would be similar to those conducted for the individuals’ segment since 2010.

Therefore, the verified client acquisition rates between 2010 and 2014 were used assuming a similar evolution of business clients' acquisition (Exhibit 21).

**Table 6.2.1.: Forecast of business clients**

Year	1	2	3	4	5
Total Addressable Market	591 968	651 165	758 815	758 815	758 815
Acquisition Rate	0,04%	0,11%	0,27%	0,29%	0,38%
New Business Clients	235	740	2 058	2 217	2 850
Churn Rate	2%	2%	2%	2%	2%
<b>Business Clients at Year End</b>	<b>235</b>	<b>970</b>	<b>3 009</b>	<b>5 166</b>	<b>7 912</b>



The business plan is not finished, as neither the costs nor revenues were estimated. The return appraisal was based on the annual average profitability of Millennium's sole proprietorship businesses. The profitability of Millennium's clients was not used directly, since AB is expected to maintain most of the structure of the current business model, like the non-charge of fees which differs from Millennium's revenue model. Calculations were made based on the annual average profitability of individual clients in AB and in Millennium, giving a more proportional and accurate value for the profitability of these businesses in AB

(Exhibit 22). It was found that the business client values approximately 2,5 times more than the individual client. Therefore the following table was reached:

**Table 6.2.2.: Forecast of business clients' profitability**

**I. Optimist Scenario (100%)**

Year	1	2	3	4	5
Business Clients at Year End	235	970	3.009	5.166	7.912
Return per client	252 €	257 €	262 €	267 €	272 €
Growth rate (=GDP)	1,9%	2,0%	1,8%	1,8%	1,8%
<b>Annual Profitability</b>	<b>59.327 €</b>	<b>249.612 €</b>	<b>789.526 €</b>	<b>1.379.869 €</b>	<b>2.151.610 €</b>

**II. Conservative Scenario (50%)**

Year	1	2	3	4	5
Business Clients at Year End	235	970	3.009	5.166	7.912
Return per client	126 €	129 €	131 €	134 €	136 €
Growth rate (=GDP)	1,9%	2,0%	1,8%	1,8%	1,8%
<b>Annual Profitability</b>	<b>29.664 €</b>	<b>124.806 €</b>	<b>394.763 €</b>	<b>689.935 €</b>	<b>1.075.805 €</b>

**III. Pessimistic Scenario (30%)**

Year	1	2	3	4	5
Business Clients at Year End	235	970	3.009	5.166	7.912
Return per client	84 €	86 €	87 €	89 €	91 €
Growth rate (=GDP)	1,9%	2,0%	1,8%	1,8%	1,8%
<b>Annual Profitability</b>	<b>19.776 €</b>	<b>83.204 €</b>	<b>263.175 €</b>	<b>459.956 €</b>	<b>717.203 €</b>

## CONCLUSION AND RECOMMENDATIONS

The project's objective in ActivoBank was to develop a portfolio of products and services targeting start-ups and MSE.

The insights about the potential target segment came from several sources. Interviews to start-ups and incubators' founders, bankers in Millennium's microcredit and workers and owners of small businesses revealed a meaningful interest on AB's proposal.

This research allowed narrowing the target and achieving a final decision regarding who AB aims to and is able to reach.

The individuals confirmed that the current offer from AB's competitors is unsatisfying and not addressing their needs. The inadequate offer from other banks enhances a further tailored offer and, therefore, originates a market opportunity to be tackled by AB. Moreover, it was discovered that their needs are also related with the challenge of managing a new business, which could be in several cases potentially addressed by a bank, making room for the development of non-financial services and products.

The only competitor in this market is Montepio that already detains a significant position, boosted by the partnership with Startup Lisboa, and representing a substantial challenge for new entrants.

In other industries, companies had tried to target this segment and failed. An example of that is Fidelidade, the market leader in the insurance industry, which developed a packaged of insurances, *Fidelidade to Start-ups*. This and other offers failed to reach the target segment, as the value offered was not in line with start-ups' needs.

In fact, the market opportunity exists. However, it will not be covered until at least one player is able to deliver what MSE are looking for.

There are strong intuitions of having a portfolio with valuable offers however there are no empirical evidences to prove it. In such a diverse market as the one under analysis, with thousands of different companies, interviews to less than ten people do not provide accurate enough grounds to proceed with project's implementation. For AB, relevant investments are at stake, as well as, and most importantly, the brand's image. Pursuing a market unprepared and fail to truly create a solid business can undermine and diminish the successful path traveled so far.

In that sense, I would recommend AB to run a deeper customer analysis, going through questionnaires to a relevant sample of customers and doing more interviews to people that can deliver meaningful qualitative data. These actions will most likely provide useful and more concrete feedback about the already developed portfolio and also insights and clues about other products that could be interesting to the segment. This approach will empower the bank with sufficient tools to build helpful solutions to its customers, instead of

delivering products that might not be aligned with their needs. It is important to create a customer-centric and process-driven methodology to ensure the alignment between customer processes and financial services. The bank must identify sub-processes in specific business activities of its potential clients. Each sub-segment should then be analyzed so the bank can develop services that will be problem-solvers for clients. Finally, the bank must determine whether it has the resources to support the portfolio offer in-house or outsource the development of some products. Having established the partnerships needed, the time arrives to test the products in the market, resorting to landing pages or trial versions, among other methods.

Accomplished the recommendations given, the bank will have more knowledge to make the decision of whether or not to implement the project. Until this point is reached, and given the arguments presented, the answer to the question raised remains unanswered. It is too soon to know if AB should target this opportunity. Diversifying a portfolio too early could be risky for the bank, and therefore all the steps should be taken to avoid making strategic mistakes.

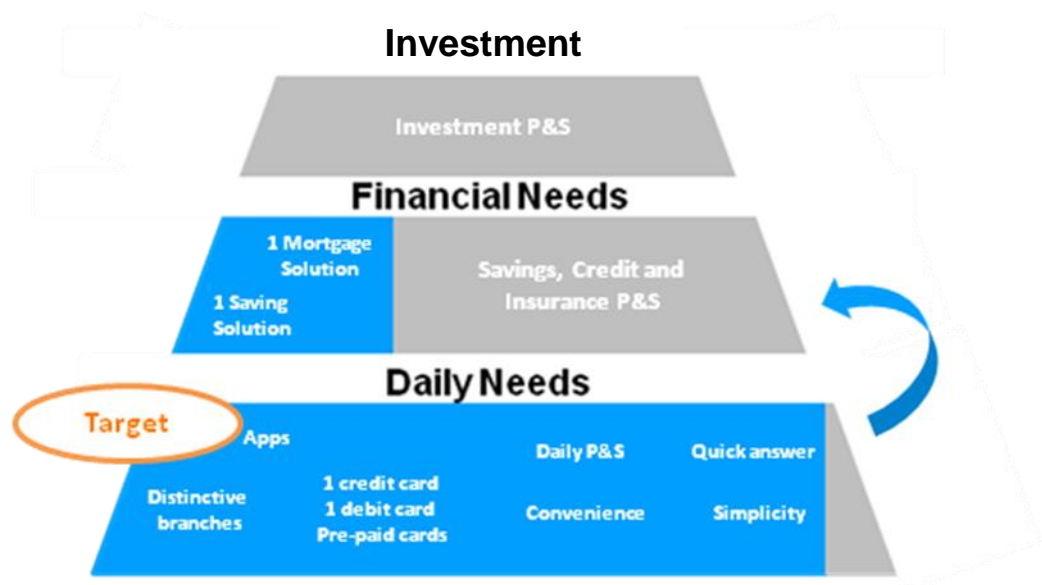
## EXHIBITS

### Exhibit 1: ActivoBank's Offer

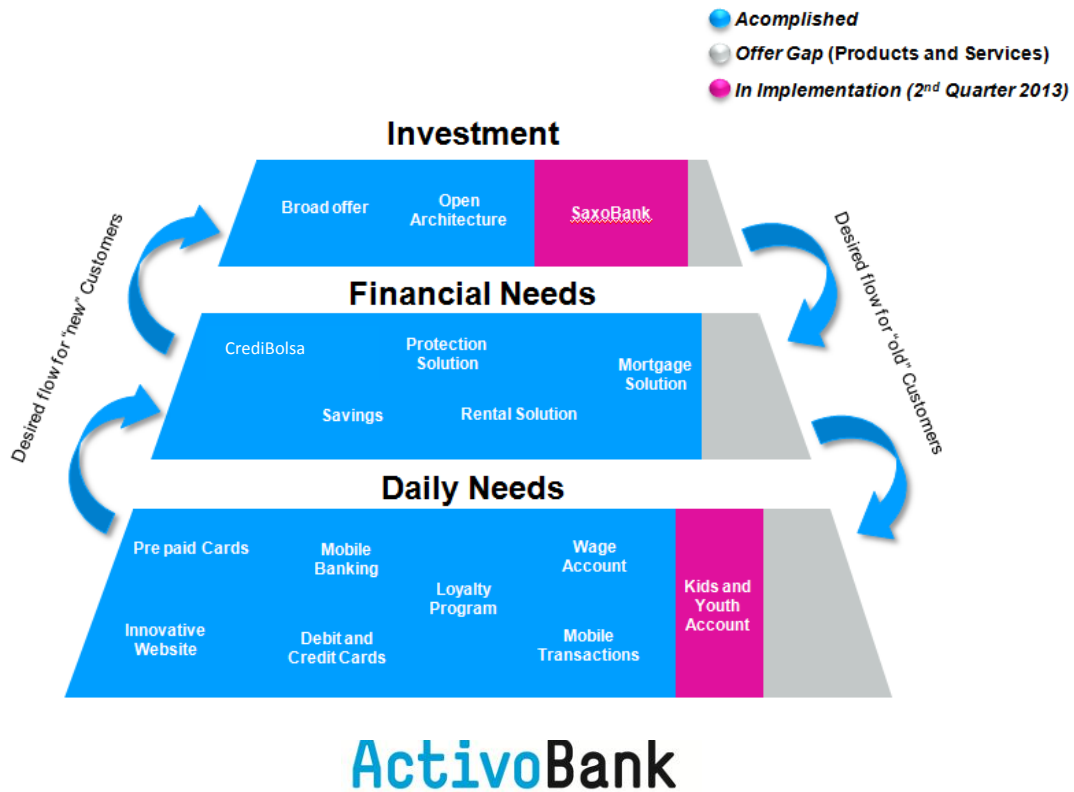
- ActivoBank7



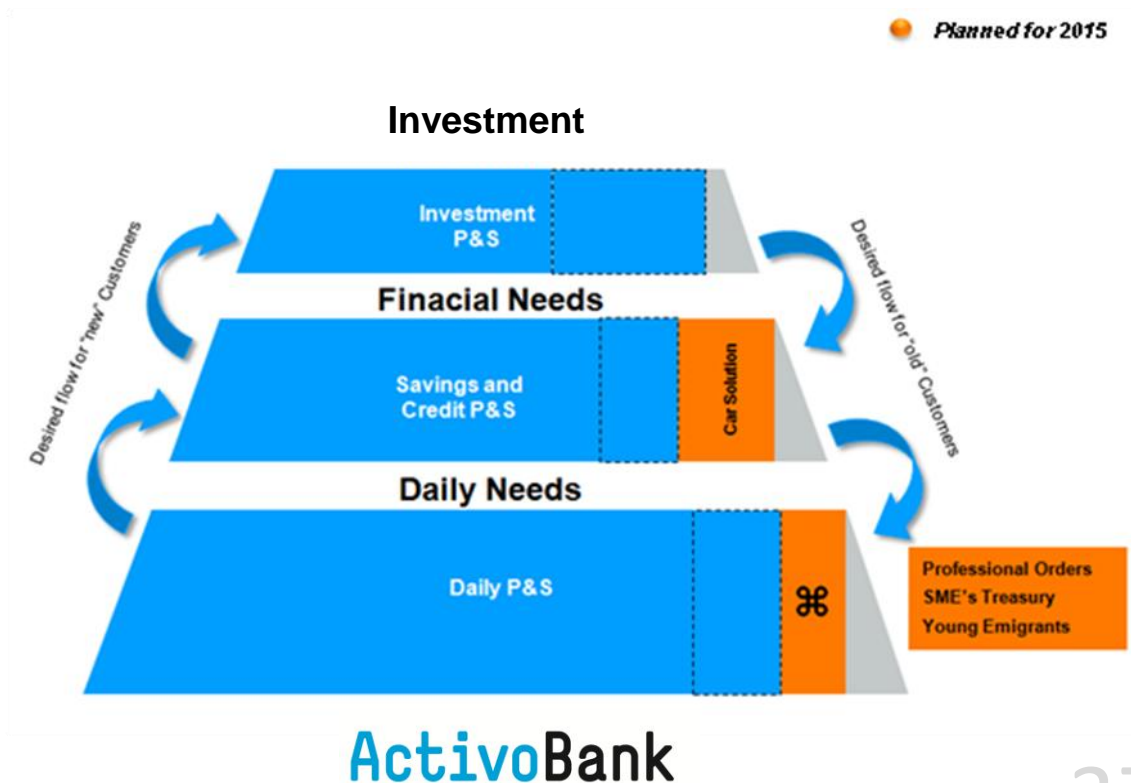
- Blue Ocean Project



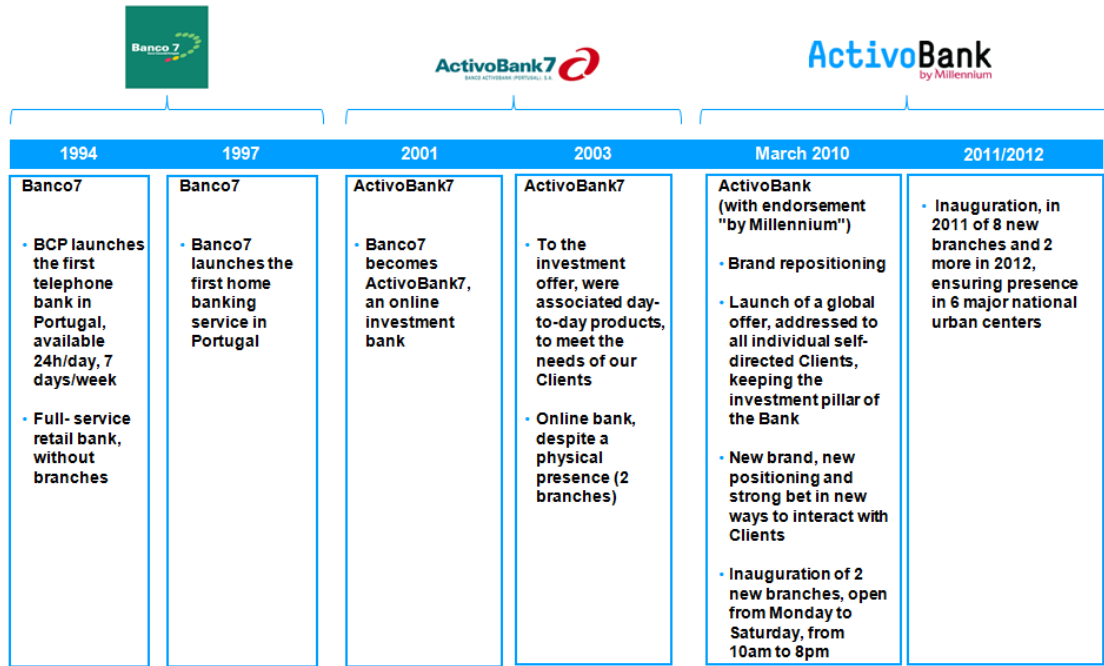
- ActivoBank, as for 2012



- ActivoBank, as for 2014

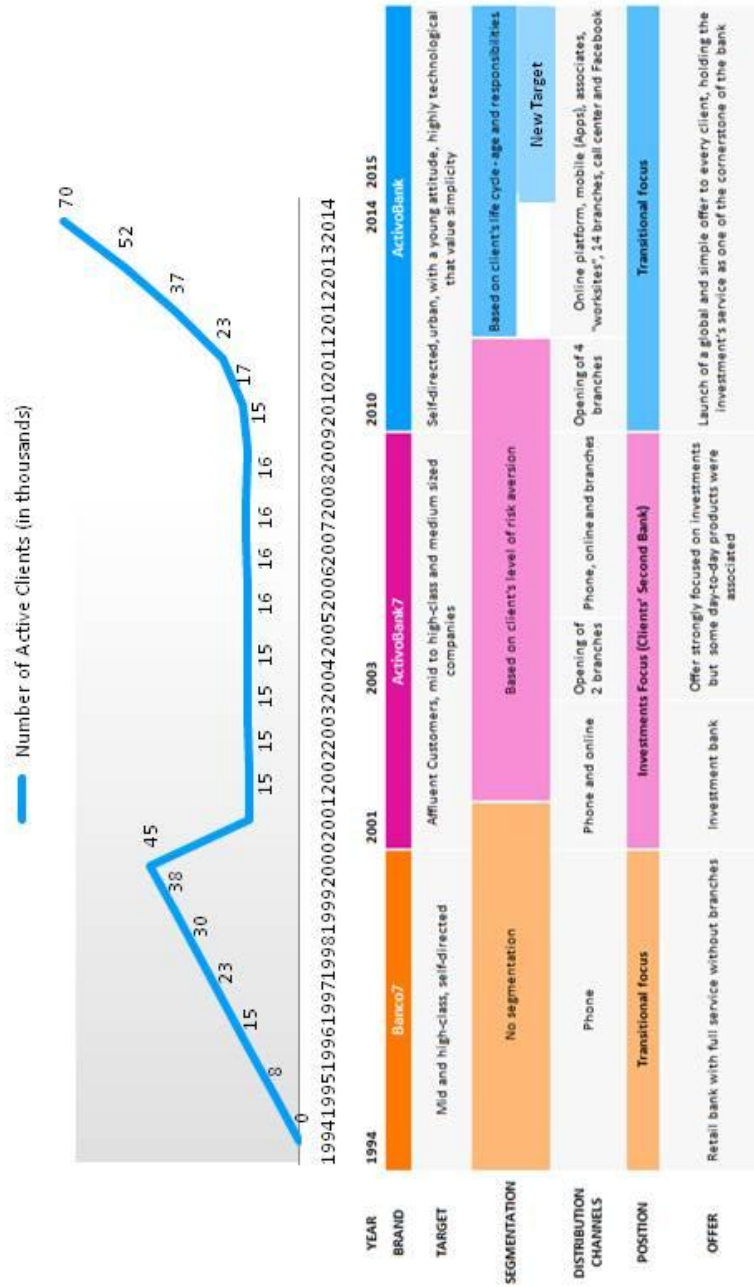


■ **ActivoBank's History**



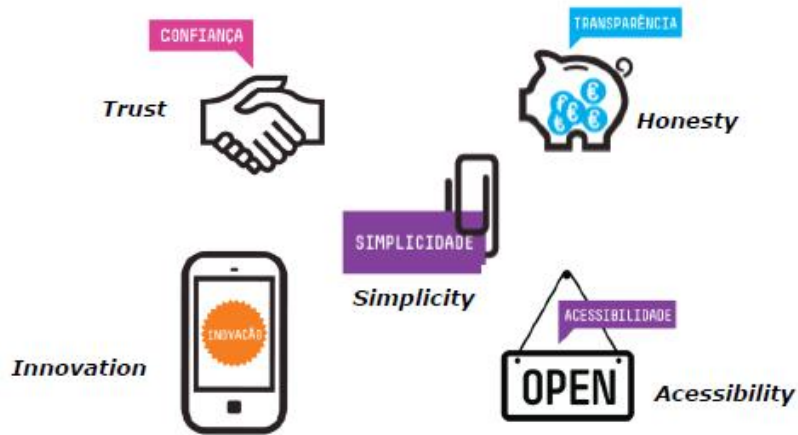


## Exhibit 2: Matrix of AB' Segmentation and Number of Clients 1994 – 2015

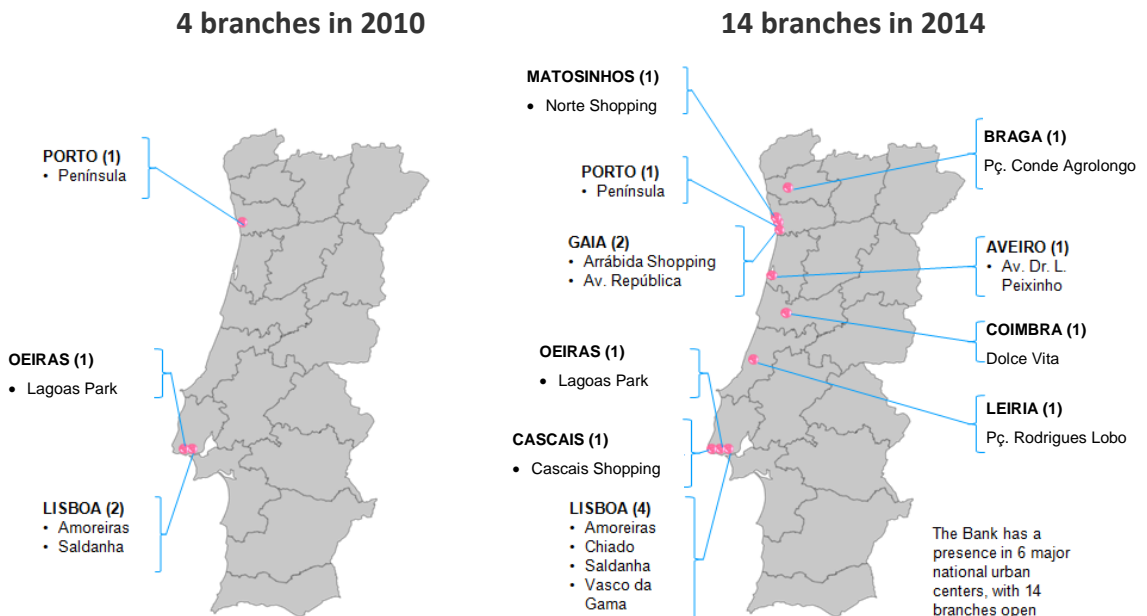


Note: Data of active clients until 2008 are not precise. Data only available from 2008 onwards.

### Exhibit 3: ActivoBank Core Values



### Exhibit 4: Branches Evolution



## **Exhibit 5: Standard Offer**

- **Daily**
  - Simple Account
  - ActivoKid Account
  - Build Your Future Account
  - Mobile Channel
  - Web
  - Pre-paid Cards: Kid, Home, Junior, Web, Boost
  - Credit Card
  - ATM
  - CAT
  - Branches
  - Call Centre
  
- **Credit**
  - Home
  - Multi Purpose
  
- **Savings**
  - Chose the Term Saving
  - Monthly Rent Deposit
  - Goal Saving
  
- **Investment**
  - Pairs of investment managers
  - 5 Model Portfolio
  - Investment Platforms: Web site and App
  - Newsletter
  - Investment Funds

- 3 Credits

- **Insurance**

- Personal
- Home
- Health
- Automobile
- Work
- Life

## Exhibit 6: Examples of AB's Advertisements

No ActivoBank  
o cartão chega-lhe à  
mão antes que a chama  
lhe chegue aos dedos.

É TÃO RÁPIDO  
DE EXPLICAR,  
COMO DE MUDAR.

No ActivoBank, assim que abres uma conta, recebe o teu cartão de crédito na mão. Sem esperar por burocracias desnecessárias. Logo, já podes pagar.

Montante mínimo de abertura de conta: 250 EUR.  
Abertura de conta condicionada à aceitação do Cliente pelo Banco, nos termos da sua política de aceitação de clientes.

ActivoBank  
simplifica

O ACTIVOBANK TORNA-TE MAIS ACTIVO:  
O BOOST EMPURRA-TE PARA A FRENTE  
E SE JÁ TENS BOOST, TENS VANTAGENS

- › Em experiências radicais
- › Em eventos culturais
- › Em restaurantes
- › Em ginásios
- › E em muito mais...

BOOST  
carrega a tua vida.

SE AINDA NÃO TENS BOOST, CLICA AQUI  
PARA ABRIR CONTA

activobank.pt  
facebook.com/activobank

ACTIVOBANK  
COLOR RUN

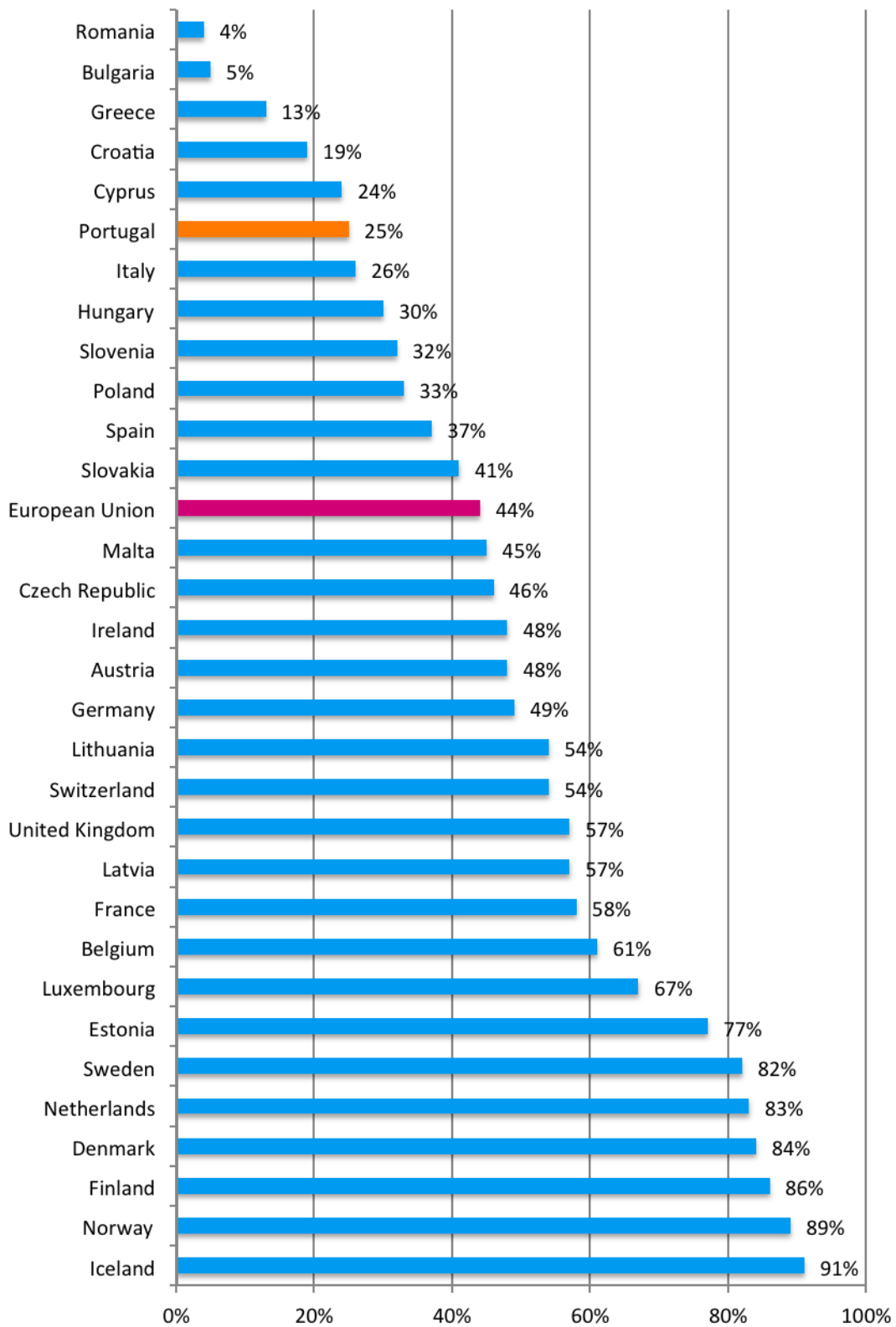
CORRA PARA UMA VIDA MAIS SIMPLES

ABRA UMA CONTA E RECEBA UM BILHETE PARA OS 5KM MAIS FELIZES DO PLANETA

MONTANTE MÍNIMO DE ABERTURA DE CONTA 250 EUROS. ABERTURA DE CONTA  
CONDICIONADA À ACEITAÇÃO DO CLIENTE PELO BANCO, NOS TERMOS DA  
SUA POLÍTICA DE ADMISSÃO DE CLIENTES.

## Exhibit 7: Online banking penetration in European markets in 2014

Source: Statista 2015



## Exhibit 8: Online Banking - international perspective

There is no clear pattern of growth in online banking, across the world. The high use of online banking is present mainly in developed economies, having relatively low growth rates though. As for middle and low income countries, growth rates are quite high. The countries more advanced in the European Union, like Denmark, Netherlands and Sweden have over 80% of the adult population regularly using the online channel to access banks' services. Germany, France and the United Kingdom, the largest developed economies in Europe, have approximately 50% of adults regularly using the service.

Nonetheless, Portugal (25%), Italy (26%) and Spain (36%) have still very low and not growing penetration rates despite national leading banks' efforts to be innovative and to develop online services. Romania and Bulgaria, the developing EU countries have 4% and 5% respectively penetration rates, making this countries the bottom list in Europe. (Check graph 4 for further details).

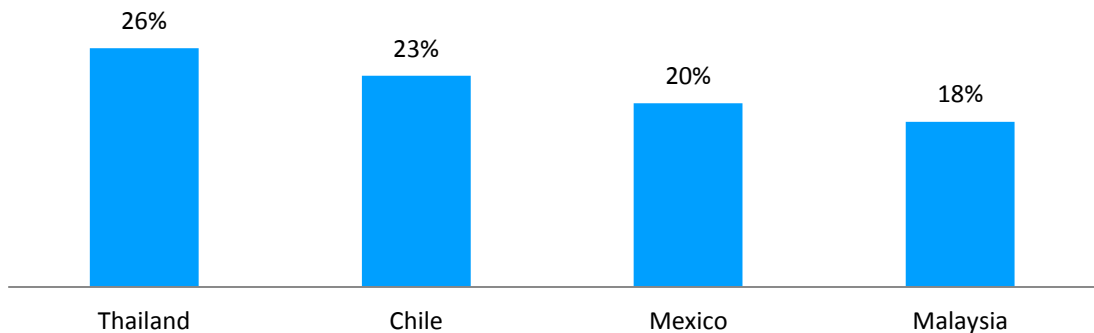
From a wide perspective, in Chile the online banking penetration is 40%, have been growing 23% per year since 2009 to 2013. In the same period, the penetration in Malaysia grew 18% per year, reaching 71% of the adult population in 2013. As for Mexico, the growth rate has been 20% per year and the penetration is 26% of the adult population. Thailand registered the fastest growth (26%), however the penetration is still quite low, around 15%.<sup>a</sup>

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<sup>a</sup> The figures are not directly comparable with the EU figures since some users may have more than one account which was not considered in the study.

**Figure: Growth in online banking users between 2009 and 2013**

*(Percent compound annual growth rate in number of online banking users from 2009 to 2013)*  
Source: Central banks of Malaysia and Thailand, Comisión Bancaria y de Valores (Mexico), Superintendencia de Bancos e Instituciones Financieras (Chile) and Efma analysis

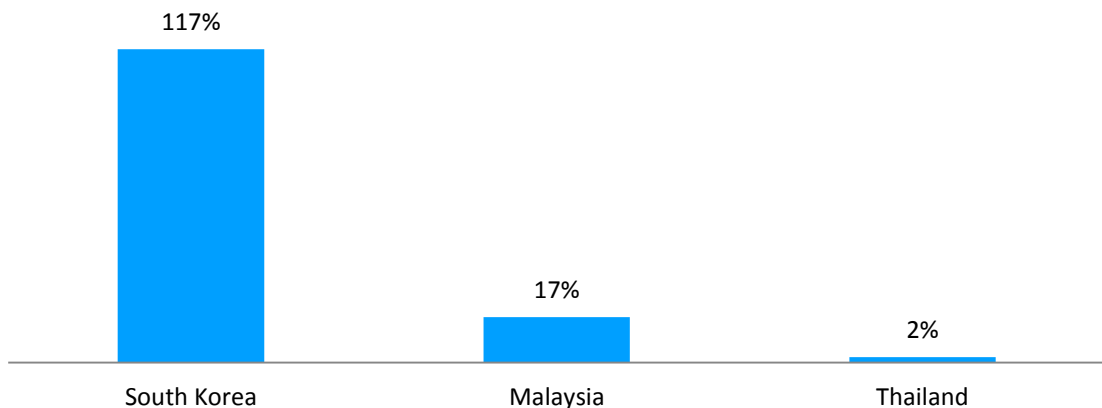


In low income countries the use of online banking faces a big obstacle which is the access to the Internet. In India and in Indonesia, the population using the Internet is only 15% and 16%, respectively. In China the percentage is much higher, 45% which makes China a more interesting country for such business (28).

In terms of mobile banking, the leading country is South Korea having 50 million subscriptions (which is more than the total adult population), number that has been growing since 2009 by 45%. In Malaysia the penetration is not strong, below 20% however the growth rate is very high, 54% per year. Both countries have a higher growth rate than in the US (29).

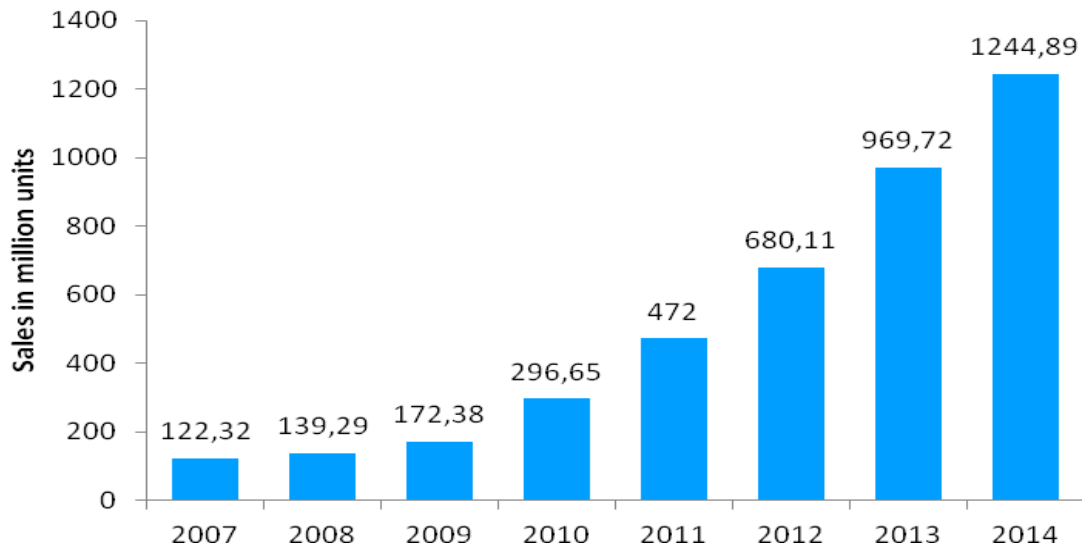
**Graph: Mobile banking penetration in selected countries**

*(mobile banking subscriptions as a percentage of the adult population in 2013)*  
Source: World Bank. World Development indicators, Central banks of South Korea, Malaysia, Thailand and Efma Analysis



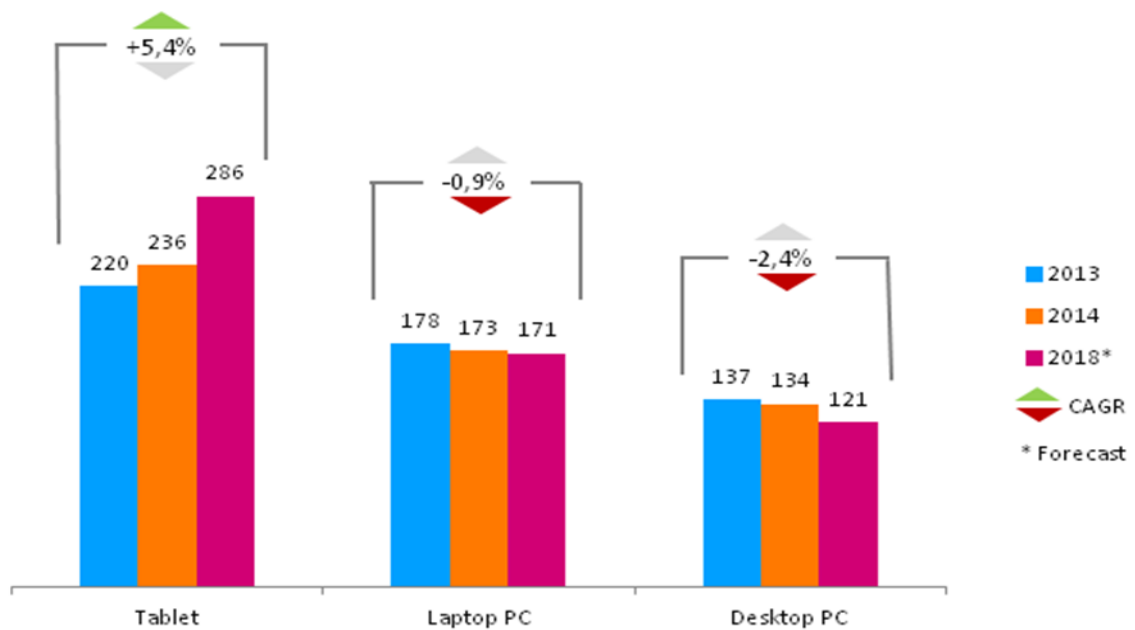


**Exhibit 9: Number of smartphones sold to end users worldwide from 2007 to 2014 (In million units)**



**Exhibit 10: Worldwide PC and tablet shipment forecast (in million units)**

Source: IDC



**Exhibit 11: List of Banks in Portugal, as for 2015/03/09**

Source: Banco de Portugal

	<b>Banks</b>	<b>Number of employees</b>	<b>Number of Branches</b>
1	CAIXA GERAL DE DEPOSITOS, SA	9049	804
2	BANCO COMERCIAL PORTUGUES, SA	8323	758
3	BANCO PORTUGUÊS DE INVESTIMENTO, SA	6151	631
4	BANCO ESPIRITO SANTO, SA	5908	612
5	BANCO SANTANDER TOTTA, SA	5481	610
6	MONTEPIO INVESTIMENTO, SA	3881	456
7	CAIXA CENTRAL DE CRÉDITO AGRÍCOLA MÚTUO	3765	683
8	BANCO BANIF MAIS, SA	2258	276
9	BANCO BIC PORTUGUES, SA	1365	216
10	BANCO POPULAR PORTUGAL, SA	1300	174
11	BANCO BILBAO VIZCAYA ARGENTARIA (PORTUGAL),	734	85
12	BNP PARIBAS SECURITIES SERVICES	718	0
13	BANCO ESPIRITO SANTO DE INVESTIMENTO, SA	240	1
14	CAIXA - BANCO DE INVESTIMENTO, SA	189	2
15	BANCO DE INVESTIMENTO GLOBAL, SA	176	14
16	BANCO SANTADER CONSUMER PORTUGAL, S.A.	171	4
17	BANCO PORTUGUES DE INVESTIMENTO, SA	165	2
18	BEST - BANCO ELECTRONICO DE SERVICIO TOTAL, SA	156	14
19	BANCO ACTIVOBANK, SA	147	14
20	BANCO FINANTIA, S.A.	135	2
21	BANCO FINANTIA, SA	135	2
22	BANCO INVEST	120	17
23	BANCO INVEST, SA	120	17
24	BANCO ESPÍRITO SANTO DOS AÇORES, S.A.	101	17
25	BANCO DO BRASIL, S.A.	96	5
26	BANCO BNP PARIBAS PORTUGAL, SA	84	2
27	NOVO BANCO, SA	82	N.A.
28	BANIF - BANCO DE INVESTIMENTO, SA	58	2
29	BANCO DE INVESTIMENTO IMOBILIARIO, SA	N.A.	N.A.
30	BANCO MADE SANT - SOCIEDADE UNIPessoal, SA	N.A.	N.A.
31	BANCO RURAL EUROPA, SA	N.A.	N.A.
32	BANCO BAI EUROPA, SA	N.A.	1
33	BANCO PORTUGUES DE GESTAO, SA	N.A.	N.A.
34	BANIF - BANCO INTERNACIONAL DO FUNCHAL, SA	N.A.	N.A.

## Exhibit 12: Top 5 Financial Institutions in Portugal: Main Financial Indicators

Source: Bank's financial reports

	Number of Accounts	Deposits	Loans
<b>Caixa Geral de Depósitos</b>	3.681.270	58.248	64.002
<b>Millennium bcp</b>	2.064.011	32.689	43.086
<b>Banco Espírito Santo</b>	1.290.215	30.271	37.264
<b>Banco Português de Investimento</b>	1.287.417	17.724	25.522
<b>Santander Totta</b>	1.279.333	21.395	23.908

As for the end of 2013 FY

In million Euros except the values for the number of accounts, which are absolute

## Exhibit 13: Competitors' profile

### ■ Best Bank

Banco Best is owned by Novo Banco (75%) and by Saxo Bank (25%). Its field of expertise is banking, asset management and trading. The distribution channels are the same as AB: physical points of sale, telephone and mobile apps. Best Bank has also 10 personal financial advisors (PFA) and 7 investment centers spread all over Portugal, instead of branches. In 2014, it launched a new website with responsive web design, which won the ACEPI award for *Best Site/App Mobile for e-commerce*. It also won B2B category with its *White Label Partnerships* solution, through which the bank provides wealth management services worldwide.

The bank has 100 global partners among the biggest and well renowned financial institutions worldwide, offering products and services from the world's major banks, insurance and asset management companies. The bank is the market leader in the distribution of foreign mutual funds in Portugal, with more than 2.000 mutual funds and 15.000 different assets in 20 markets around the world. It is a solid bank that despite the crisis occurred in 2014 in its major shareholder (Banco Espírito Santo), was able to have a

positive balance with an increase in the number of clients and in the assets under management.

- **Banco BiG**

Banco BiG is a privately-held financial institution, owned in 62% by individuals and 38% by institutions. The bank's key businesses are specialized retail, wholesale clients and treasury and capital markets. The supply spectrum includes both individuals and institutional clients' segments. The bank provides savings, brokerage, custody, wealth management and general banking and payment services for individuals. For institutional and corporate clients, the bank provides market risk management, treasury, brokerage, custody and corporate advisory. The bank also focuses on balance sheet and liquidity management. Like AB and Banco Best, BiG serves its clients by an online platform, in this case an investment platform. It has financial advisors in 13 offices that work with the sales and product teams which are based in Lisbon and Oporto.

Banco BiG's focus is mainly in financial services and that is the reason why it has partnership arrangements in order to provide its clients with access to the world's major stock, options and futures exchanges; and subscription and distribution agreements with investment fund managers.

It is a profitable and solid bank, having won the award for *The Most Solid Bank* in 2014.

**Exhibit 14: Offer comparison between the Portuguese online banks**

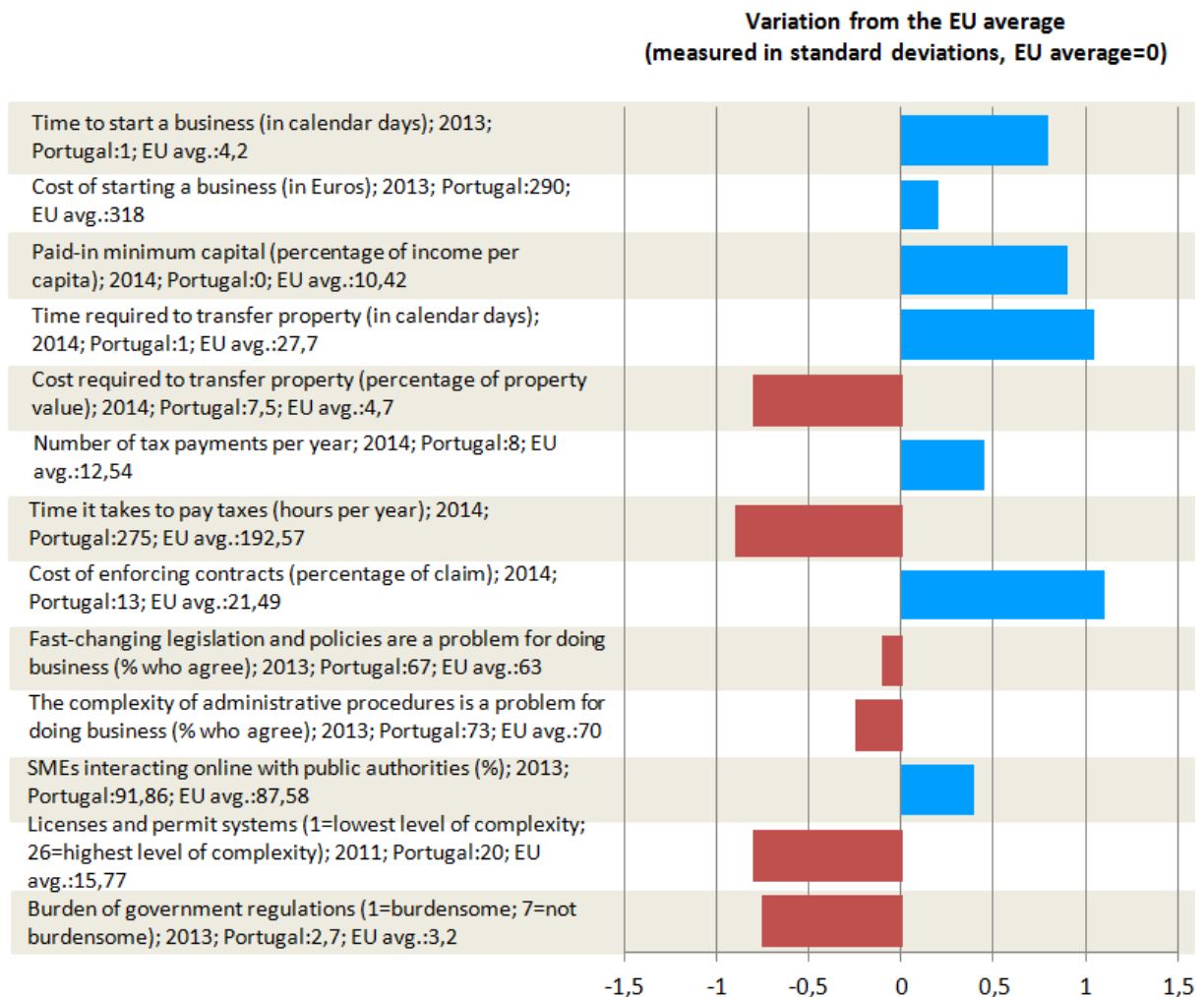
		ActivoBank	Best	Big Online
<b>Website</b>	Daily transactions	✓	✓	✓
	Investments (Stock/Funds)	✓	✓	✓
	Personal finance manager	✓	✓	
	Click to Chat		✓	
<b>Cards</b>	Point-based reward program	✓	✓	
	<i>Milhas</i> Tap		✓	
	Pre-paid cards	✓		
	Commission-free accounts and cards	Always	Debit card free if wage account	Only checking account
<b>Products</b>	Partnerships with retailers	✓		
	Deposits with pre-paid interest	✓	✓	
	Term Deposit Auctions		✓	
	Interest paid over current account		✓	
<b>Investments</b>	Customer Service	✓	✓	✓
	Credit to invest	✓	✓	✓
	Trading Platform (CFDs)	x	✓	✓
	Futures Platform	x	✓	✓
	Discretionary Management Service		✓	✓
<b>Account opening</b>	Account opening (<20 min.)	✓		
	Immediate card issue	✓		
	Starting Deposit	250 €	500 €	250 €
	Online account opening		✓	✓
<b>Business lines</b>	Investment Fund Market to corporate customers		✓	
	Asset management to corporate customers		✓	✓
	Treasury and capital markets			✓
<b>Mobile</b>	Daily transactions	✓	✓	✓
	Stock operations and checking	✓	✓	✓
	Investment Funds		✓	✓
	Personal finance manager	✓	✓	
	Mobile Payments (QR-Codes)	✓		

**Exhibit 15: Five years' overview of AB's financial performance**  
*(In million Euros)*

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Assets</b>	246,7	315	373,8	441,1	559,6
<b>Credit to Clients</b>	49,1	13,6	12,3	15,6	16,8
<b>Clients' Resources</b>	570,1	408,7	475,7	541,2	651,3
<b>Assets under Management</b>	154,3	109,1	106,8	109,9	116,1
<b>Number of Active Clients</b>	17.159	22.958	36.998	52.260	70.416
<b>Banking Income</b>	7,44	7,58	5,81	9,96	19,45
<b>Financial Margin</b>	-0,26	-2,91	-6,94	-3,36	2,48
<b>Net commissions</b>	7,3	10,7	12,9	13,4	11,5
<b>Operational Costs</b>	11,2	12,8	15,1	14,5	13,2
<b>Profits</b>	<b>-2,7</b>	<b>-4,0</b>	<b>-9,7</b>	<b>-2,8</b>	<b>5,1</b>
Cost-to-Income		169%	260%	142%	67%
Employees		133	143	147	139
Branches		12	14	14	14

## Exhibit 16: Responsive Administration in Portugal vs. European Union average

Source: European Commission



*Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker than EU-average performance*

## Exhibit 17: Market Research - Interviews

Within the project developed in the bank, the marketing team selected four people that could give useful information about the target segment. These people are either currently working for the Group or used to work in AB. Due to confidential reasons the sample was only constituted by people highly reliable. The sample was constituted by:

- **Tânia Sousa**, Expert in Microcredit department of Millennium bcp
- **António Lucena de Faria**, Founder and CEO of *Fábrica de Startups*
- **Miguel Carvalho**, Founder and CEO of a start-up, ThinkLand and former CEO of ActivoBank
- **Karina Costa**, COO of *Fábrica de Startups*

The interviews to António, Miguel, Karina and Tânia were conducted based on the approval or challenge to the products presented by the team. The people gave their opinions and insights of the reality they know for working with start-ups on a daily basis.

António Lucena de Faria picked two trustful start-ups with different characteristics, to which the team could also run safe interviews. The start-ups chosen were:

- **Eduke.me**
- **Climber**

The interviews to these start-ups were conducted mainly to assess what they value on banking products and services, which are their major challenges and which products they need. It was also asked its overall satisfaction with the current financial offer available in the market. The portfolio of products was not shown to these subjects in order to have unbiased and meaningful answers.

#### **Summary of the insights collected from start-ups:**

- **Paulo Gaudêncio, CEO of Eduke.me**

**Company details:** Online platform selling specialized courses for companies' employees. It is a B2B and cashless company since all the receipts are made online, via bank transfer, MB (~50%), Paypal (~50%) and credit card. It has been operating for two years. It has four partners of which three are investors. Besides the founding manager, the company employs seven people.



**Values:**

- Speed and ease on account opening
- The manager opened the business account in BPI because he was already client of the bank on a personal level.
- He is completely unsatisfied by the bank and he is still looking for a bank that is able to satisfy his business's needs.
- In his opinion BPI does not have an adequate offer for start-ups.
- **Invoice xpress** is a software which he places great value. The software sends online invoices in SAFT file. He pays 15 € per month for one thousand invoices.
- He appreciates support on the application for Portugal 2020's fund.
- **Factoring.** The company is B2B and all its clients' payments are made at 60 or 90 days. During this time, the start-up has liquidity needs for daily operations.
- **Credit Card.** This product is needed to shop online which is essential for this start-up. He would like a lower maximum plafond and a card that enables international shopping.
- **Cloud Services.** The company spends 200€ per month on cloud services to support chat, social networks management App, vimeopro, site hosting, invoice xpress, among others.

**■ Mário Mouraz, CEO of Climber**

**Company details:** It is a revenue management software for the hotel industry. It is a typical SaaS (Software as a service). It is still on an early stage, without having a business checking account yet. The start-up is still looking for investors and forecasts to start selling the service on November 2015. Currently, the start-up employs 2 people and has 3 advisory consultants. The founder had already his first business attempt in the past.

**Values:**

- Checking account with a lower opening value.

- No requirement for high share capital
- Free bank transfers, nationally and internationally.
- No annuities and maintenance fees.
- Microcredit and mutual warranty with preferential fees.
- Online billing with several options, Paypal, Visa, MB, etc.

**No need:**

- Credit and debit card
- Loans and credit. The founder does not want to indebt himself on such an early stage of business when there is no guarantee that it will succeed.

## Exhibit 18: Data of Portuguese companies, 2014

Source: Informa D&B Analysis, Data: IES/Ministry of Justice; SICAE

### PROFILE BY SENIORITY

	Companies		Volume of business		# of Employees	
	%	#	%	('000€)	%	#
Start-up (<1 year)	7%	21 109	5%	1 710 770	2%	46 334
Young (1-5 years)	27%	75 734	9%	26 012 386	13%	302 888
Adult (6-19 years)	43%	122 994	36%	104 306 032	39%	883 521
Mature (>20 years)	22%	63 416	54%	155 146 321	45%	1 016 089
<b>TOTAL</b>		<b>283 253</b>		<b>287 175 509</b>		<b>2 248 832</b>

\* Age in 2013

### SIZE BY VOLUME OF BUSINESS

	Companies	Volume of business	# of Employees
	%	%	%
<2M€	95%	19%	47%
2M-10M€	4%	16%	18%
10M-50M€	1%	20%	17%
>50M€	0,2%	45%	18%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### SIZE BY NUMBER OF EMPLOYEES

	Companies		Volume of business		# of Employees	
	%	#	%	('000€)	%	#
<9 employees	87,9%	247 853	22%	63 994 478	28%	623 451
10-49 employees	10,8%	30 098	25%	70 719 045	26%	574 132
50-249 employees	1,6%	4 601	23%	64 873 519	20%	442 939
>249 employees	0,2%	701	30%	87 588 467	27%	608 310
<b>TOTAL</b>		<b>283 253</b>		<b>287 175 509</b>		<b>2 248 832</b>

### PROFILE BY SECTOR OF ACTIVITY

	Companies		Volume of business		# of Employees	
	%	#	%	('000€)	%	#
Services	24,5%	69 384	9,9%	28 507 255	23,1%	519 137
Retail	17,7%	50 086	16,1%	46 156 303	14,5%	325 734
Transforming industries	11,4%	32 201	26,0%	74 625 198	24,5%	551 790
Construction	10,3%	29 078	5,8%	16 523 994	9,3%	208 992
Wholesale	9,6%	27 245	20,5%	58 899 388	7,5%	168 483
Accommodation and restaurants	6,7%	24 728	2,2%	6 183 572	7,4%	166 284
Transports	5,3%	14 991	6,0%	17 112 658	5,8%	131 195
Real estate activities	5,2%	14 787	1,1%	3 104 304	1,1%	25 054
Agriculture, livestock, hunting and fishing	3,2%	9 106	1,2%	3 434 761	2,0%	44 135
Telecommunications	1,7%	4 897	0,5%	8 960 330	0,7%	5 264
Financial activities	1,7%	4 874	7,4%	1 394 459	1,4%	15 201
Gas, electricity and water	0,5%	1 279	0,4%	21 232 021	0,4%	31 926
Extractive industries	0,2%	597		1 041 264		8 255
<b>TOTAL</b>		<b>283 253</b>		<b>287 175 507</b>		<b>2 248 832</b>

### PROFILE BY LEGAL NATURE

	Companies		Volume of business		# of Employees	
	%	#	%	('000€)	%	#
Private limited company	6,0%	16 971	56,3%	161 729 755	35,4%	796 290
public limited company	68,3%	193 431	33,2%	95 476 428	50,6%	1 136 943
sole proprietorship	25,3%	71 739	8,3%	23 922 979	11,7%	263 727
other entities	0,4%	1 112	2,1%	6 046 345	2,3%	51 872
<b>TOTAL</b>		<b>283 253</b>		<b>287 175 507</b>		<b>2 248 832</b>

PROFILE BY SHARE CAPITAL						
	Companies		Volume of business		# of Employees	
	%	#	%	(000€)	%	#
<5k€	9,1%	25 794	0,8%	2 246 245	2,5%	55 824
5k€	48,0%	135 997	9,2%	26 418 710	20,3%	455 486
5k-20k€	13,4%	38 033	4,1%	11 870 244	7,6%	171 059
20k-50k€	8,5%	24 047	4,0%	11 424 281	6,6%	148 003
>50k€	20,8%	58 911	81,3%	233 572 914	62,8%	1 412 895
N.A.	0,2%	471	0,6%	1 643 114	0,2%	5 565
<b>TOTAL</b>		<b>283 253</b>		<b>287 175 508</b>		<b>2 248 832</b>

PROFILE BY REGION						
	Companies		Volume of business		# of Employees	
	%	#	%	(000€)	%	#
North	34,4%	97 435	27,1%	77 887 646	34,1%	767 336
Lisbon	30,8%	87 368	46,6%	133 903 977	36,8%	826 722
Center	20,5%	58 032	15,8%	45 258 347	17,8%	401 015
Alentejo	5,9%	16 648	4,0%	11 353 095	4,3%	96 956
Algarve	4,6%	12 999	1,7%	4 758 813	1,3%	70 587
Madeira	2,5%	7 159	1,6%	10 300 244	2,2%	49 836
Azores	1,3%	3 576	1,3%	3 713 385	1,6%	36 330
<b>TOTAL</b>		<b>283 253</b>		<b>287 175 507</b>		<b>2 248 832</b>

## Exhibit 19: Data on Entrepreneurship

Source: GEM, 2014

Variable Name	Description	2010	2011	2012	2013	2014
<b>Nascent Entrepreneurship Rate</b>	Percentage of 18-64 population who are currently a nascent entrepreneur, i.e., actively involved in setting up a business they will own or co-own	2%	5%	4%	4%	6%
<b>New Business Ownership Rate</b>	Percentage of 18-64 population who are currently a owner-manager of a new business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months	3%	3%	4%	4%	4%
<b>Established Business Ownership Rate</b>	Percentage of 18-64 population who are currently owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months	5%	6%	6%	8%	8%
<b>Necessity-Driven Entrepreneurial Activity</b>	Percentage of those involved in TEA who are involved in entrepreneurship because they had no other option for work	22%	18%	18%	21%	27%
<b>Improvement-Driven Opportunity Entrepreneurial Activity</b>	Percentage of those involved in TEA who (i) claim to be driven by opportunity as opposed to finding no other option for work	52%	58%	53%	51%	49%
<b>Perceived Capabilities</b>	Percentage of 18-64 population who believe to have the required skills and knowledge to start a business	52%	47%	47%	49%	47%
<b>Perceived Opportunities</b>	Percentage of 18-64 who see good opportunities to start a firm in the area where they live	20%	17%	16%	20%	23%
<b>Fear of Failure Rate</b>	Percentage of 18-64 population with positive perceived opportunities who	30%	40%	42%	40%	38%

indicate that fear of failure would prevent them from setting up a business

<b>Know Start-up Entrepreneur Rate</b>	Percentage of 18-64 population who personally know someone who started a business in the past two years	33%	24%	25%	26%	29%
<b>Total early-stage Entrepreneurial Activity (TEA)</b>	Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business	4%	8%	8%	8%	10%
<b>Total early-stage Entrepreneurial Activity for Male Working Age Population</b>	Percentage of male 18-64 population who are either a nascent entrepreneur or owner-manager of a new business	6%	11%	9%	11%	12%
<b>Total early-stage Entrepreneurial Activity for Female Working Age Population</b>	Percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business	3%	5%	6%	6%	8%
<b>Informal Investors Rate</b>	Percentage of 18-64 population who have personally provided funds for a new business, started by someone else, in the past three years	2%	2%	2%	2%	2%
<b>Growth Expectation early-stage Entrepreneurial Activity: Relative Prevalence</b>	Percentage of TEA who expect to employ at least five employees five years from now	16%	20%	26%	27%	23%
<b>International Orientation early-stage Entrepreneurial Activity</b>	Percentage of TEA who indicate that at least 25% of the customers come from other countries	12%	20%	24%	30%	22%
<b>New Product early-stage Entrepreneurial Activity</b>	Percentage of TEA who indicate that their product or service is new to at least some customers	28%	32%	43%	46%	34%

<b>Media Attention for Entrepreneurship</b>	Percentage of 18-64 population who agree with the statement that in their country, you will often see stories in the public media about successful new businesses	53%	-	-	-	70%
<b>High Status Successful Entrepreneurship</b>	Percentage of 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status	71%	-	-	-	63%
<b>Entrepreneurship as Desirable Career Choice</b>	Percentage of 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice	67%	-	-	-	62%
<b>Entrepreneurial Intention</b>	Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years	9%	12%	14%	13%	16%

## Exhibit 20: Individual clients' segmentation

The segment is divided by its age since it produces positive outcomes at a transactional level however a sub-division is applied according to other variables.

The level of responsibility is also important since the needs of these individuals vary with issues as having kids and their age. So, the combination of these two variables resulted in the following segmentation:

	Age	Income	Independent	With children
<b>Kids</b>	0-17			
<b>Students</b>	18-24			
<b>Living the life</b>	25-30	✓		
<b>New life</b>	25-55	✓	✓	
<b>Peek-a-boo</b>	25-55	✓	✓	✓
<b>Empty nest</b>	56-64	✓	✓	?
<b>Golden years</b>	+65	✓	✓	?

### **Kids (0-17):**

- No responsibilities
- No need for risky financial products

### **Students (18-24):**

- No personal income aside from parents' allowance
- Tech individuals
- Social life
- Driving license and several have the first car
- Travel a lot, go to summer festivals
- Go regularly to the cinema, do sports, go to concerts
- Self image is important

### **Living the Life (25-30 without mortgage loan):**

- Work and have income
- Most of them work in the service sector
- Prone to shop for a car



- Regular use of technology
- Impulse shopper – fresh money
- Travel, weekends away with friends
- Gym, football with friends
- Leisure: dine out, go to the cinema, theater and shows

#### **New Life (25-55 with mortgage loan):**

- Live in their own house, with monthly fees associated, rent or mortgage.
- Some disposable income, increasing with age
- Most of them work in the service sector
- Regular use of technology
- Spend money in superior goods like “tech toys”, second car, leisure
- Travel to exotic places and have a more flexible schedule to plan holidays
- Great convivial with friends
- Change car

#### **Peek-a-boo (30-55 with mortgage loan):**

- Live in their own house, with monthly fees associated, rent or mortgage; are considering changing for a bigger house
- Value free time
- Change of priorities regarding income due to high expenses related with kids (health, education, etc.)
- Holidays conditioned by school holidays; typically in family destinations in August
- Purchase of family cars
- More flexible working schedules due to family demands

#### **Empty Nest (56-65):**

- Awareness of the need for retirement income
- Familiar with the technologies
- Mortgage loans at end stage
- Back to the purchase of luxury goods
- Higher health care (food, medical visits, sports)
- Family meetings on weekends

#### **Golden Years (65+):**

- Significant reduction in transactional needs
- Few (if any) expenses associated with children
- Enjoy their time for cultural and leisure activities
- Health care concerns
- Time to explore new technologies
- Priority to spend time with their grandchildren, serving as "baby-sitter"

## Exhibit 21: Relevant data, estimations and forecast

### I. Entrepreneur Market

	0	1	2	3	4	5
Working Population	5.226.000	5.226.000	5.226.000	5.226.000	5.226.000	5.226.000
% Entrepreneurs	19,2%	21,2%	23,2%	23,2%	23,2%	23,2%
New Business	4,4%	4,8%	5,3%	5,3%	5,3%	5,3%
Established Business	5,9%	6,5%	7,1%	9,2%	9,2%	9,2%
% of Relevant Segments	10,3%	11,3%	12,5%	14,5%	14,5%	14,5%
Total Addressable Market	538.152	591.967	651.164	758.815	758.815	758.815

### II. Client Acquisition Rate

	2009	2010	2011	2012	2014	2014
Working Population	5.378.700	5.378.700	5.378.700	5.333.100	5.276.800	5.254.000
New Clients	14.940	2.143	6.120	14.468	15.423	19.737
Client Acquisition Rate		0,04%	0,11%	0,27%	0,29%	0,38%

### III. Summary

	0	1	2	3	4	5
Total Addressable Market		591.968	651.165	758.815	758.815	758.815
Acquisition Rate		0,04%	0,11%	0,27%	0,29%	0,38%
New Business Clients		235	740	2.058	2.217	2.850
Churn Rate		2%	2%	2%	2%	2%
<b>Business Clients at Year End</b>		<b>235</b>	<b>970</b>	<b>3.009</b>	<b>5.166</b>	<b>7.912</b>

## Exhibit 22: Forecast of AB's business clients profitability

	Number of Clients	Average Profitability
<b>Millennium bcp</b>		
Average profitability of individual clients	1.540.500	234 €
Average profitability of sole proprietorship businesses	33.009	617 €
<b>ActivoBank</b>		
Average profitability of individual clients	76.123	94 €
Forecast of average profitability of sole proprietorship businesses		248 €

\*Average per year

## B. TEACHING NOTE

### INTRODUCTION

“ActivoBank: A new market opportunity” case study was written by Maria Matos, under the supervision of Professor João Simão Pires and has the intention of being discussed in classes addressing strategy and marketing related topics.

The case study is based on an actual project developed within the Marketing department of ActivoBank.

The document is divided into two distinguished parts:

- **“ActivoBank: A new market opportunity” Case Study:** Developed for students. It contains all the necessary data for class participation.
- **“ActivoBank: A new market opportunity” Teaching Note:** It is restricted to instructors only. This part includes theory and strategic frameworks needed to support the teaching of the case. Recommended questions to students, as well as a few guidelines that represent possible answers are provided.

### SYNOPSIS

ActivoBank has been operating for over 20 years and during this time has been changing its business model as a response to the demands of the industry environment.

In 2010, the bank changed its brand name, its position, target market and the product portfolio, becoming an online bank targeting individual clients with simple and standard products and services.

In 2014, the bank achieved the break-even point and new projects were considered for the future of the bank. The marketing team found a new market opportunity for the bank, which emerged from the increasing Portuguese preference towards self-employment. As a result, the bank considers targeting the entrepreneurial segment in Portugal. New businesses and established sole proprietorship companies are seen as a potential new segment for the ActivoBank. Given the need for the development of a new product

portfolio, the classic STP is required to understand customer needs, niche selection and to position adequately.

This case study introduces the process taken by the bank's marketing team to formulate the strategy behind this new segment. Some pitfalls were observed during the process, according to the standard marketing rules of STP.

The case study also assesses the potential value creation of this initiative. A forecast of number of clients and its profitability to the bank in a 5-year period horizon was calculated, taking into account some assumptions.

After reading the case study, students must be able to segment the market and take some strategy formulation decisions.

## SUGGESTED ASSIGNMENT QUESTIONS

The case study has the purpose of being used by students and encourage them to reflect about not only the presented situation, but also to address some specific strategic issues. The core question concerns market segmentation, while the additional questions aim to assist on strategic thinking and support the decision-making process.

- **CORE QUESTION:** To analyze the entrepreneur and the company profiles presented in the case and to propose a segmentation that will potentially address the customer's needs (considering the variables given).
- **ADDITIONAL QUESTIONS FOR DISCUSSION:**

Given the information available in the case, students should be able to answer questions recurring also to some management and marketing concepts. It is recommended answering the first two questions before answering the core question, since these questions are useful for the reasoning behind the core question.

**Question 1:** “Business markets contrast sharply with consumer markets, in a way”. What differences should the bank expect to encounter between targeting businesses and targeting individuals, in terms, for instance, of their purchasing approach or of customers’ geography?

**Question 2:** Do you think there are enough disparities among the entrepreneurs targeted by the bank in order to justify differentiating the marketing mix variables or is it more advantageous to undertake undifferentiated marketing?

**Question 3:** Given the insights about the target, what is, in your opinion, the best business strategy to be implemented?

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## TEACHING OBJECTIVES

- To present an elaborated and well justified segmentation for the target in question
- To develop a consumer behavior analysis and to distinguish individual and business segments.
- To assess which marketing strategy, differentiated or undifferentiated would be more suitable.
- To evaluate the most adequate business strategy to be undertaken by the bank to target the segment.

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## USE OF THE CASE

The case can be taught in industry analysis courses, in strategy courses (Strategy and Strategic Management) and in marketing courses (Marketing Planning and Strategic Marketing), for both undergraduate and master students.

## RELEVANT THEORY

AB's case study is mainly focused on strategy and its implementation. **Strategy** is defined as the goal-directed actions that a company undertakes or plans to take in order to acquire or keep its **competitive advantage** (30). As for competitive advantage, the concept is related with the company's performance in comparison with competitors within the same industry or with the industry average. A company that has competitive advantage has a superior performance, being able to provide more value for its customers at a competitive price or a lower price for an acceptable value (31). As illustrated in the case study, AB has lower fixed costs in comparison to traditional banks. The strategy of having less branches than usual, allows AB to compete on prices, cutting on the fees that other banks charge, like annual and maintenance fees. Strategy is all about creating the greater value while limiting the cost of doing so. As a company increases this margin, between value and cost, it gains more competitive advantage.

Despite the competition within industries some companies opt for a **co-opetition** (32) (33), which is cooperating with competitors in order to achieve a strategic goal. Even though, Millennium bcp and AB are part of the same Group, the banks are in fact competitors targeting common customers. However, Millennium bcp provides technological platforms that leverages AB's operations and transfers its brand reputation to AB when being part of AB's brand. In turn, AB serves as a test-tube to Millennium bcp. Since, AB is in the forefront of innovation and have a smaller organizational structure, for the small bank is easier to experiment products and faster to make them available in the market. Often, the successful products implemented by AB are later, implemented on a larger scale, by Millennium bcp.

It has been noted so far that in order to gain competitive advantage, companies need to either provide products or services with a higher value to customers or similar ones at a lower price. The key is to stay apart from the competition and establish a strategy that positions the company as unique and particularly different from rivals. **Strategic positioning** within an industry requires trade-offs as it is necessary to build a clear strategic profile and target the segment or the segments to which the company can deliver the greater value.

Moreover, targeting everybody and providing everything is without a doubt a strategy for failure as the resources are not infinite, especially on such a small bank. So, it is important to make decisions regarding strategy formulation. **Strategy formulation** determines *where* and *how* to compete and can be broken down into corporate, business and functional level. *Where* to compete (industries, markets and geographies), is decided at the corporate level by the top hierarchical elements of the company. **Corporate strategy** is also responsible for setting the primary strategic goals, allocate company's resources within the different business divisions, defining and adjusting the portfolio and controlling performance. The scope of the business is defined at the highest level of the firm. The team responsible for the development of the start-ups' project had the deadline with Dr. Nelson Machado, the CEO of Activobank, at May, 1<sup>st</sup>. Regardless the opinion of Dr. Luis Magro, Teresa Siopa or Maria Matos, the CEO was going to decide whether to drop the project or to start implementing it. However, all the other decisions concerning the **business strategy** within the project were decided by Dr. Luis Magro. As Marketing Director, he was in charge of the **strategic business units<sup>a</sup>** (SBUs) and of all the decisions of how to compete so a superior performance was reached. He was also in charge of defining a strategic position which is later translated in specific actions to implement the business-level strategy by the functional managers, like Teresa Siopa. Maria Matos was the intern and she was in charge of building the strategy to the new segment.

Strategy is defined as a result of 3 tasks: analysis, formulation and implementation – **AFI strategy framework**. These strategic management tasks are interdependent and often happen simultaneously. The **strategic management process** follows the analyze-formulate-implement (AFI) strategy, which enables a company to conceive and implement future strategies that aim to achieve performance improvement and competitive advantage. In the first task of the process, the intern analyzed the external environment, going through the macro level, analyzing the forces impacting the online bank – **PESTEL model**. This framework enables the political, economic, social, technological, ecological and legal forces analysis that might be imposed upon the bank. The opportunities and threats are discovered recurring also to this model, since it illustrates the global environment. Although it has been made, it is not part of the case study.

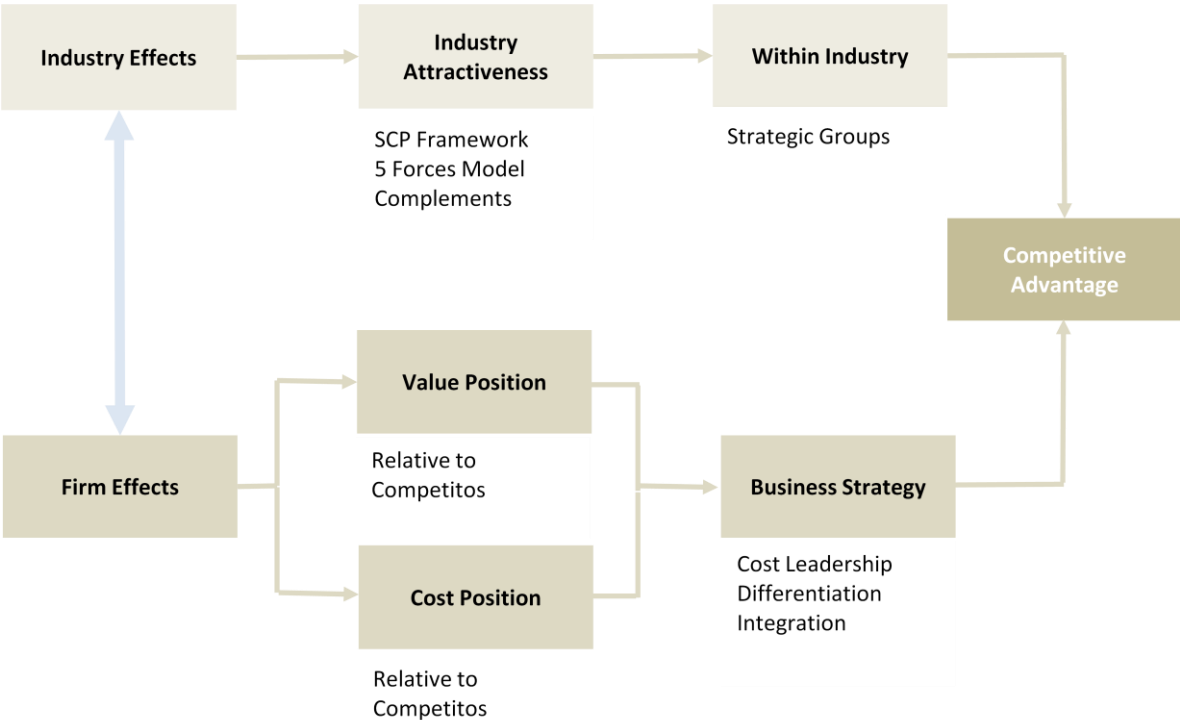
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<sup>a</sup> Strategic Business Unit (SBU): "A standalone division of a larger conglomerate, with its own profit-and-loss responsibility", Rothaermel, *Strategic Management: Concepts*, page 85.

Then, the **industry**, which is the group of companies that supply similar products or services, was analyzed. It was understood that AB is operating in a concentrated industry, since there are a small group of banks controlling a great part of clients' resources. The banks belonging to the **strategic group** (set of banks that practice a similar strategy within the same industry) where AB falls into, was closely analyzed since they are its closest competitors.

The second step of AFI was to formulate the business strategy that had in consideration both industry and bank's characteristics. Before deciding which strategy was best, the team had to use **structure-conduct-performance (SCP) framework** and the five forces model to be sure that the business strategy was in line with the forces that shape competition.

**Figure 1.1.: Industry and firm effects jointly determine competitive advantage**



For a company to be able to choose a business strategy it has first to determine its **strategic position**, based on value creation and cost. It is required to make strategic trade-offs when choosing between a cost or value position since higher value has the tendency to



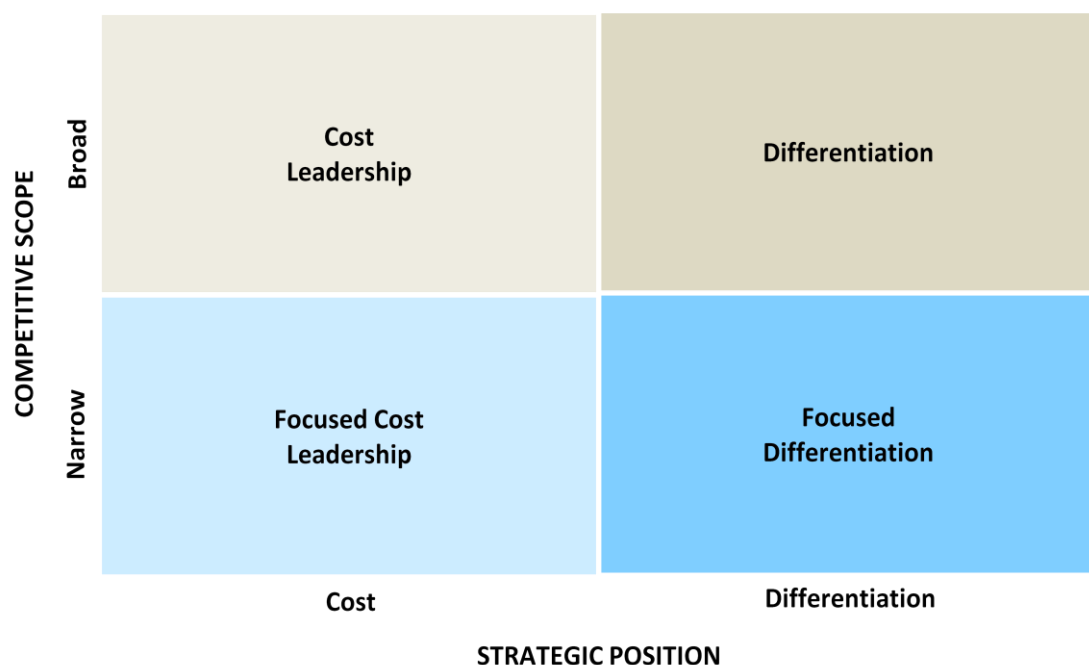
be more costly (31). The objective is to create the larger value gap possible, which means to have the higher distance between the value created by the product and the cost required to produce it (30). There are two generic business strategies (and a third one, the so called integration, which combines both of the generic ones):

- **Differentiation strategy:** generic business strategy that looks to find unique features to products and services so it can deliver higher value to customers than competitors do, maintaining the same or similar cost structure.
- **Cost-leadership strategy:** generic business strategy that tries to deliver the same or similar value to customers while charging lower prices.

The scope of competition must be also considered when determine which strategy suits best the business. The scope can be narrow or broad. When the strategic position and the scope of competition are crossed, it is found the following matrix:

**Figure 1.2.: Strategic position and competitive scope: generic business strategy**

Source: Adapted from M. E. Porter (1980), *Competitive Strategy, Techniques for Analyzing Industries and Competitors* (New York: Free Press).



The differentiation strategy adds unique features, provides customer service, and customizes, among others additions to the products and services that increase the willingness to pay a higher price. The value created is more difficult to be copied by

competitors since the focus is not on price but on the features. Companies formulating this strategy gain competitive advantage if they are able to deliver a higher economic value than its rivals.

As for cost-leadership strategy, the goal is to optimize every activity in the value chain, in order to reduce the cost at which it delivers the product. Focused on cost, it enables the company to achieve a low-cost position and charge the lowest price in the market. Companies pursuing this strategy can achieve competitive advantage if the economic value created is greater than its rivals. The achievement of a greater economic value enables the company to charge the same price as competitors and to have a greater margin per unit. The company can also charge below competition, which reduces the margin but increases sales volume, benefiting from greater profits.

The third option is to formulate an **integration strategy**. This strategy mix activities taken by differentiation and cost leadership strategies, enabling the company to increase the perceived value while maintaining costs under control. The objective of this strategy does not lay on being the company creating the greater value or the company with the lowest-cost production. The strategy aims to have the larger economic value in the industry. It is difficult to implement however when a company is able to formulate it successfully, it find two pricing alternatives: it can charge a price above the cost-leader due to its higher value creation or it can charge below the “differentiator” company since it has a “cheaper” structure. In the first alternative, the company generates greater profit margins. In the second option the company is looking for a greater market share and increased sales.

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## SPECIFIC THEORY

The bank embraced target marketing to be sure it would be focused on the companies it has the greatest chance of providing value. For effective **target marketing**, it is required to follow a 3 step process:

**1. Market segmentation:** Identify and differentiate the several profiles of buyers that differ in their needs and wants.

**2. Market targeting:** Select one or more market segments to address.

**3. Market positioning:** Establish and communicate the distinctive benefits for each target segment, of the company's market offering.

In this case, as the segment is a **business markets**, marketers look at variables that included operating characteristics, purchasing approaches, situational factors, personal characteristics, between others used also to segment consumers, like geographic, benefits sought, age and life-cycle stage, income, psychographic and behavioural.

It was realized that due to the firm's objectives, competencies, and resources, the level of the target market would be a **niche segment**, which is a segment where all the customers that belong to it have a distinct set of needs. Niche segments are small however have size, profit and growth potential. These segments usually do not attract many competitors (34).

Despite being a niche segment, it was identified opportunities to change some of the variables of the **marketing mix** to address different profiles of potential clients. The marketing mix is a tool used to determine a product or brand's offer. Most commonly, addresses the four P's: *price, product, promotion, and place* (35).

Independently of the segmentation used, the important is to recognize the differences between segments and well adjust the marketing program. A **marketing program** is part of the business plan and it outlines the action and organization of marketing efforts.

In business-to-business it is also important to provide **flexible market offerings** to every client of a segment which was the one chosen by the bank (36). A flexible market offering consists in having a solution with products and services that all elements of the segment value, and then have discretionary options, at additional charge, that some segment's members value.

When deciding the product portfolio, in the banking industry the most commonly found is banks providing products and services solving isolated problems, such as liquidity, financing and investment services. However, to be successful targeting SMEs, there is a vital need for customization, which entail a consistent alignment between products and services and businesses' requirements (37), (38). The majority of banks focus on serving the

customer fast, politely and ensuring a good customer service (39). However, true customization is not about supporting the client in the purchase of a financial product. It is needed a focus on clients' preferences and expectations, reflecting a customer-centric approach (40), (41).

Most banks are still very product-oriented and continue to follow an inside-out perspective. A different approach would be the outside-in-perspective. It considers the processes by which businesses passes through in order to satisfy its needs. Then, the bank must determine which parts of these processes can be handled by the bank to fulfill clients' needs (42). SMEs need a multitude of information, services and products that can be served by several suppliers, including banks.

## ANALYSIS AND DISCUSSION

- **CORE QUESTION: To analyze the entrepreneur and the company profiles presented in the case and to propose a segmentation that will potentially address the customer's needs (considering the variables given).**

Most banks segment by company's size and occasionally by sector of activity. It makes more sense to follow this approach when the target is the entire business segment, however AB is targeting a niche segment, therefore it must follow another approach. In this case, the size is not such a differentiating variable, since it only addresses small and micro sized companies.

There are relevant differences in terms of owners' profile. On one hand, there are young entrepreneurs who recently graduated and, on the other hand, there are unemployed or unsatisfied older entrepreneurs who decide to work for themselves and start a company. In addition, there are also all the entrepreneurs who own companies that have been operating for a substantially long time. These companies are profitable but continue to be small. The needs of these three profiles differ. The young entrepreneurs have greater needs due to their inexperience. They are also more eager not only to accept help but also to adopt technological innovations. As the entrepreneurs get older, the needs decrease as operations

become merely part of the routine. The complexity arises when these companies become bigger, reaching a medium or big size. A u-shape curve can be used to represent their needs, since a bigger size company entails more complex operations. However, the target has always the same size regardless of the longevity of the company – micro and small size.

Since AB is targeting sole proprietorship legal nature companies, the personality and other owner’s characteristics have a more relevant influence on the company as a client. It is for this reason that the entrepreneur profile is also taken into consideration in the target marketing proposed below.

Start-ups		Adults Companies
Young Entrepreneur	Experienced Entrepreneur	Established Business

**Company Profile**

	<5 yeas	>5 years
Demographics	MSEs	MSEs
Size	435k€	983k€
Volume of business (average)	4	8
Employees (average)	1,045k€ (on average)	5k (48%)
Share capital	Sole proprietorship (94%)	
Legal constitution	Sole proprietorship (25%)	
Sector of Activity	tech companies online retailers	services services online retail tech companies

**Entrepreneur profile**

	18 - 30 years old	31 – 44 years old	N.A.
Demographics	Highly Educated	Highly Educated	N.A.
Education level	Risk-takers	Risk-averse	N.A.
Risk propensity	Opportunity-drive	Improvement-driven	N.A.
Motivation	Heavy users	Free-users	Free-users
Technology usage	Low-cost approach	Value for money	Value for money
Price sensitivity			

**Needs and benefits sought**

	+	+	-
Time scarcity	+	-	-
Management skills	+	+	+
Accounting operations help	+	-	-
Automated operation	+	+	+
Mentoring and advising	+	+	+
Transactional needs	+	+	-
Marketing expertise	+	+	-

## ADDITIONAL QUESTIONS FOR DISCUSSION:

**Question 1: “Business markets contrast sharply with consumer markets, in a way”. What differences should the bank expect to encounter between targeting businesses and targeting individuals, in terms, for instance, of their purchasing approach or of customers’ geography?**

- *Fewer but larger buyers.* The addressable market is smaller than the consumer market, however the average profitability is bigger.
- *Deeper bank-customer relationship.* The customer basis is expected to be smaller, however the importance of these customers to the bank is expected to be greater due to its representative profitability. Accordingly, a more customized offer to business customers is required.
- *Professional purchasing.* In some companies the people who acquire or make the decision about financial products are expected to be trained to do it. They are expected to have a larger knowledge about the products than the average individual client. Because of that, more technical data about the products is required to be available so it may be compared to competitor’s products. Account managers and the sales team have to be up to the challenge of talking and serving highly-educated and well-trained buyers.
- *Multiple buying influences.* The decisions in a company typically involve more people.
- *Derived demand.* The profitability of this segment derives from the success of the businesses in their markets. If companies are profitable they become more interesting from the bank’s perspective. Closer attention should be paid to try to serve the businesses that have greatest chances of survival and growth.
- *Geographically-concentrated buyers.* Most of the start-ups are localized in Lisbon, Oporto and Braga, where AB has branches. In terms of adult companies there is a great concentration of companies in the north and center of the country, namely Lisbon. As for all the branches, located in regions where the entrepreneurial activity is low, the question as to whether these branches should also focus on this segment is raised.

**Question 2: Do you think there are enough disparities among the entrepreneurs targeted by the bank in order to justify differentiating the marketing mix variables or is it more advantageous to undertake undifferentiated marketing?**

The top management at AB had already decided to target entrepreneurs within the business environment. In this case, the question of whether or not to undertake differentiated marketing, involves going after the whole segment with a single marketing program, ignoring the differences that might exist within the market, or changing the marketing mix variables according to differences in the sub-segments.

To choose undifferentiated marketing implies selling via mass distribution and mass communication. Designing a single marketing program for all the entrepreneurs does not seem to be the best option given the differences in preferences and in the needs of these individuals. Despite being the option that has the lowest costs of advertising and product management, among others, the bank has better chances of communicating and pricing accordingly if it applies differentiated marketing. Given the different stages in the companies' life cycle, the differences in entrepreneurs' age and its experience as managers, will result in differences in products, prices and communication.

Moreover, in B2B it is important to provide flexible market offerings. Having said that, the AB's path might be to have a solution with products and services that all elements of the segment value, and then have an additional valuable offering tailored to some segment members, at a cost.

**Question 3: Given the insights about the target, what is, in your opinion, the best business strategy to be implemented?**

There are two generic business strategies the bank can adopt: differentiation and cost leadership. The pros and cons of both strategies were weighted:

**Focused cost leadership**

Pros:

1. Target demand, as far as it is known demand lower prices and this strategy enables the bank to do it.
2. In line with part of the current strategy in the individuals segment – standard operations and products free of charge.
3. Given the lack of liquidity and the need for affordable prices on financial goods, AB will be the best alternative for entrepreneurs who are concerned with costs.
4. If the bank is able to maintain the current cost structure to serve this segment, it will benefit from economies of scale and it will be protected from price wars and substitute products due to the ability to further lowering prices.

Cons:

1. The margin may be reduced beyond the acceptable threshold. Part of the segment is only interested in standard products and not looking for loans or credit so if the revenue streams coming from these companies are low or nonexistent, the bank may lose the ability to profit.
2. With such a minimum margin, the bank will not be able to invest in R&D for innovative products, potentially jeopardizing one of its cornerstones and competitive advantage's sources.
3. Fees coming from financial services are the most stable. If there is no investment on providing such services, the bank will be exposed to the market's volatility.
4. The focus of competition might shift to non-price attributes that requires other competences where a cost-leader is not so competitive.
5. Replacement is a potential problem that can arise with the threat of substitutes, especially faced with innovation.

**Focused differentiation**

Pros:

1. Protection against entry due to intangible resources, such as innovation and reputation earned. Given the different problems and needs the target



segment has, aside from finance that can be tackled by a bank, it is a good opportunity for AB to position itself as the entrepreneur's partner, supporting on his challenges.

2. Given the differences in owners' profiles, there is a need for different and unusually offered products by banks.
3. Banking is an industry where there are not so many differences in the products offered therefore it is an opportunity to position aside from the majority of the competition. If products and services are different enough, the bank is protected against rivals.
4. Protection against markets' volatility that can be passed on to customers by increasing fees and commissions' price.
5. Protection against substitute products due to differential appeal.
6. Protection against decrease in prices due to the inexistence of perfect substitutes.

Cons:

1. A bank offering products and services outside the scope of the banking industry may be perceived as less reliable.
2. Heavier costs of R&D since the bank do not have these goods on its product portfolio.
3. Uncertainty as to whether customers' perceived value exceeds fees and commissions charged.
4. Possible legal barriers to the supply of some products.
5. Risk of increasing differentiation of product features that do not create value but increases costs.
6. Increasing differentiation to raise cost above acceptable threshold.

There are almost even results in terms of advantages and disadvantages of both strategies. Therefore, neither one is an indisputable option for AB.

AB should engage in an integration strategy so it can successfully combine cost leadership activities with differentiation, being able to offer a differentiated product at low cost.

As suggested with the first answer, there are three potential sub-segments: young and experienced entrepreneurs, and established businesses.

The needs decrease as the operating time and financial breath increase. Accordingly, the bank could develop a differentiated product portfolio accessible to all sub-segments and charge different prices to the different sub-segments. It could position itself as the financial partner of start-up companies providing competitive prices. The standard offer, like checking accounts, debit and credit cards and online transfers, could be freely issued with no commissions or annuities, as AB does on the individual segment. The strategy would be to

gain brand awareness, being perceived as the bank helping entrepreneurship. Montepio, for example, does not charge for these products, however, it charges a monthly fee of 8 € (+ stamp duty to the legally required rate) to have access to the entrepreneur package. So, this pricing strategy would make AB the cost-leader in this segment.

Subsequently, it would charge fair prices to adult companies for the differentiated and valuable services it would render. Therefore, the pricing strategy would be seen as fair and adequate to companies' constraints.

It is important to mention that, deploying the strategy focused on differentiation requires the creation of products and services that have an economic value for customers. At the same time, the created value has to exceed the one given by competitors, especially by Montepio. If this is true, AB will not only be able to attract clients but it will also achieve competitive advantage. AB will be able to charge the same or even a higher price, reflecting its higher value creation. However, AB has to keep in mind that price is a relevant factor due to existing constraints of adult companies that in this case only comprise MSE. So, it must have its costs under control so it can be flexible and does not exceed what clients can pay.

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