

EY Future Leaders Program

Business Case

Learn Today - Lead Tomorrow

Case Study

The EY logo is displayed in a large, bold, white font. The background of the entire page is a grid of office windows, some showing desks with chairs and others showing a meeting in progress. A bright yellow diagonal shape cuts across the middle of the page, separating the top text from the bottom logo and tagline.

Building a better
working world

Abstract

You are presented with a situation of Ernst Bank, the bank that was recently bought by a successful foreign bank - Young Group. Your team has the role of consultants from Young Group, whose task is to make the necessary changes happen, in order to help Ernst Bank secure its position on the market as one of the leaders.

You are tasked with creating a PowerPoint presentation (limited to 15 slides) that contains your vision and ways to overcome the problems that you will encounter analyzing this case study. Good luck!

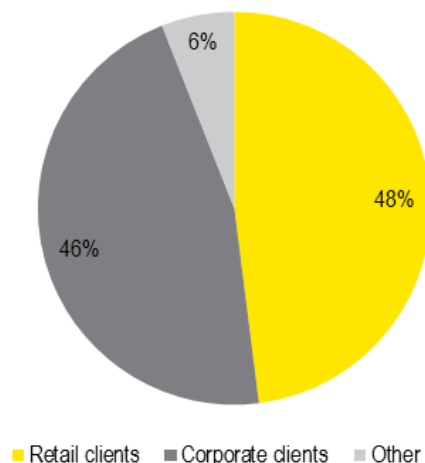
The story of Ernst bank

Ernst bank is one of the largest banks in Prosperiland with 40 years of tradition and loyal cliental. The staff is well experienced which can be expected, as the average age among them is 46. The structure of the bank is rather traditional and not very flexible with strict roles in sectors and among workers, due to leadership style of the general manager, Nicolas Dupont. A survey that was recently done shows that the bank has a good, well respected reputation among the older population, but is seen as "stuck in time" and "not innovative in their services" in the eyes of younger population. The current average cliental of the bank is middle-aged which is a result of the poor marketing strategy in the last few years. So far, the bank has been focusing on affordable and easy-to-get mortgage loans, as the economy started recovering and expanding due to the expansionary monetary policy and lower interest rates. Ernst Bank currently offers standard services and loans with average interest rates and slightly more affordable mortgage loans. The loans taken were mainly in the country's national currency - Gonzalo (1 GON) which is rather stable. However, since all of these loans are long-term, and interest rates aren't high, bank doesn't get enough financial assets yearly, and it has started to be rather non-liquid which caused problems in their financial reports and is also the main reason it was sold.

Bank's loan interest rates are 7% for the mortgage loan, 12% for the short-term cash loan, 15% for the overdraft, and 9% for the long-term loans and other services. Last year, income was 17% less than the total expenses.

In the following chart you can see the structure of banks loans at the end of 2014.

Loan structure as at December 2014



Given that the focus of the bank is providing quality services to population, it is necessary that the bank operates in several branches which are sufficiently dispersed in the country so that they are easily available to customers. Ernst bank currently operates with fourteen branches in the country (of which seven are in the capital), and that puts it ahead of Goliath Bank, the main competitor, which only has ten branches. Also, each branch is similar in its structure and the amount of work done, as well as the operating costs (e.g. average monthly salary of staff that perform transactions in the bank is 800 GON).

Young Group

When Simon Le Blank, general manager of Young group proposed the acquisition of Ernst Bank to the rest of the management, he didn't get as positive a response as he expected. Since managers preferred expanding into more attractive banking markets, Prosperiland wasn't exactly on their mind. However, as a successful and experienced leader, it wasn't hard to make his colleagues acknowledge the potential of long tradition and loyal cliental that Ernst bank has. Now, the management is confident that the acquisition was the best possible move towards expanding its reach into Prosperiland. However, the Group is aware of the fact that a change in business of the bank is necessary.

After a short analysis of the banks business, it was clear that it falls short in one important global trend - E-banking. Inclusion of E-business in the banking sector, which started trending in the last few years, led to a rapid increase in the competitiveness of the business, by accelerating communication, reducing the time to perform processes, expanding the market and decreasing the number of necessary human resources. Also, due to the huge presence of smartphones, M-banking has become imperative for banks in order to survive in the market.

"Change is not a threat, it's an opportunity. Survival is not the goal, transformative success is."

One of the more noted objectives for Young Group, whenever a new expansion takes place, is positioning the new bank as a provider of services of payment. Management believes card adoption is essential for maintaining a good reputation amongst clients, since they are highly attracted by all the facilities a bank can provide when it comes to credit and debit cards. One major benefit is that growth in this market could be achieved without a massive capital outlay, focusing, instead, on the synergy with other aspects of the business.

With all that said, those in charge of the expansion are confident that all of these obstacles can be overcome. In fact, Ernst bank has already sent a report to your team (in appendix) with all the information needed when it comes to branch metrics and other relevant data. According to Mr. Nicolas Dupont, a marketing agency is already hired to project effects of implementing these new services, and the results will be sent to Young Group as soon as possible, so consultants can analyze their tasks efficiently before they come to Prosperiland and present their solutions to Ernst Bank.

E-banking and M-banking

"What new technology does is create new opportunities to do a job that customers want done."

Although management of Ernst Bank consists of experts in the field of finance and banking, their knowledge of modern technology and its implementation is extremely weak. Implementing E-banking and M-banking incurs operating costs (OPEX), capital expenditure (CAPEX) and significant marketing costs, since the promotion in this field is the key of success. Taking into account that the existing IT department can maintain the entire system at least for the next three years (thus releasing the bank is of the costs of hiring extra IT experts), conducted evaluation shows that the required total investment in the project is GON 320 thousands (an investment of GON 160 thousands has already been made).

But, on the other side, operating with E-banking and M-banking systems offers a variety of benefits. This innovation in business allows for creating a wide variety of services that can attract clients in so many ways, and that is where the greatest challenge is. Also, E-banking and M-banking can lead to significant savings in terms of the necessary human resources and branches.

When investments are this great, it is difficult to achieve profitability in the first period after investing, and management needs people who will find a way to achieve cost effectiveness as soon as possible. That's why, finding a good way to adopt these services has been a real hassle for the management, and your knowledge, expertise and creativity are necessary.

Card adoption boost

Last year Ernst Bank has issued 147 000 debit cards, 42% of which can be considered active (a card is considered active if it was used to perform at least one transaction during the reporting period) and 37 000 credit cards, 46% of which can be considered active. Overall, the bank issued 3% less debit and credit cards than in the year before. Naturally, the results of Ernst bank in this area of business are a cause for concern.

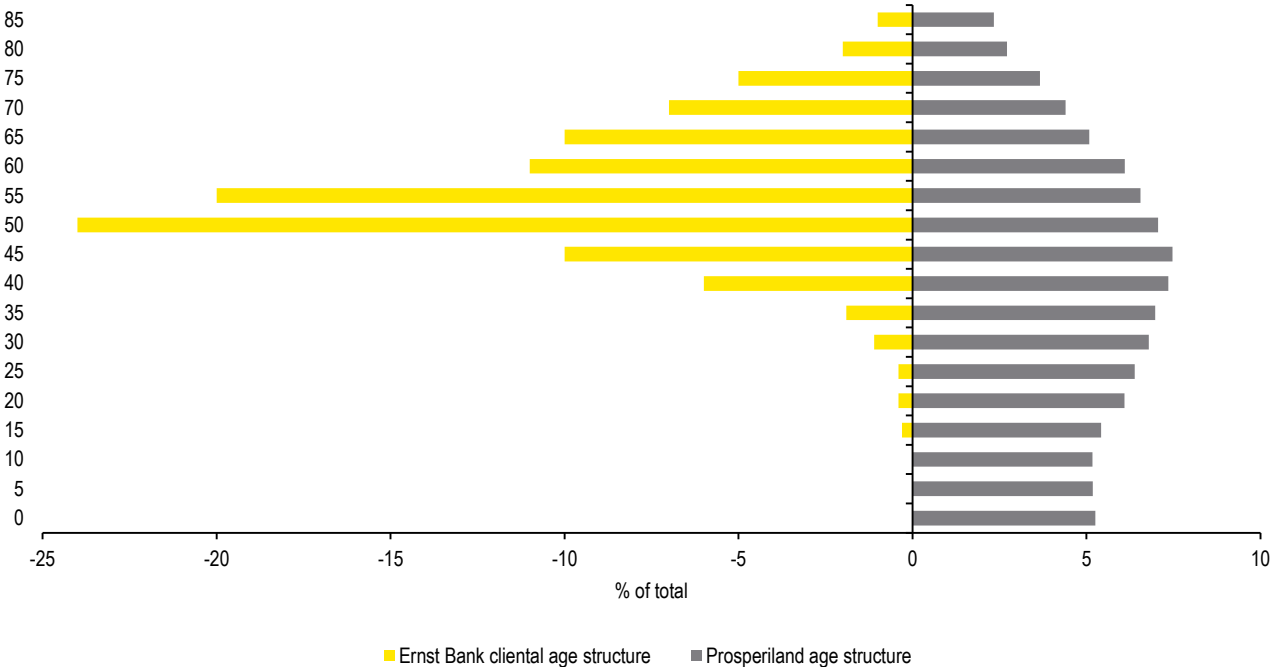
Considering the preciously given information on number of card users, and how traditional and not innovative card products and services has been, Young Group has made card adoption one of its priorities in the new strategy. It is also worrying how, in the time of money digitalization, the bank has issued less cards last year. The goal would be to offer services that are easy to use and attractive to both older, existing cliental and to the younger population. It is also noted that most people automatically think about credit cards and only take interest in those when they need a card, but do not really understand the benefits of having debit cards which could be very interesting for students and other, non-working population (they are easier to get, it takes less time to complete a purchase, it keeps you within budget etc.)

It is important not only to simply issue more cards, but to make them as active as possible. This can be done through other products (bonding two or three products for the client), special benefits for those clients who use their cards often, cards promotion, special interest rates and such. Through better card adoption, Young Group is hoping to improve the banks liquidity and to seem more appealing to the prospective clients.

Population

“Your most unhappy customers are your greatest source of learning.”

The age structure of the cliental of Ernst Bank is very high. The chart below shows the structure of the population in the country and cliental of the Ernst Bank aging from 16 to 85.



As you can see from the chart, it is obvious that Ernst Bank must penetrate the younger segments of the market in order to remain a market leader. Young people are the ones who instantly react to changes and keep pace with new technology. In this country, 87% of young people use smart phones, which is suitable for launching mobile application and penetrating market through M-banking.

Ernst bank is aware that digital technologies have brought a significant shift in consumer banking behavior. Retail banking is evolving at an accelerated pace. The percentage of Prosperiland banking customers who prefer to conduct their transactions online jumped to 65% in 2014, from 39% in previous year (based on market research done by professional agencies). The results published by those agencies also showed the significant impact of E-Banking. The percentage of consumers who would prefer going online (or already do) to pay bills, transfer funds between accounts, buy products and pay for them and even apply for loans has increased in past few years, reaching more than 80% when it comes to some of the transactions. Although there is a tendency towards doing more and more transactions online, the branches are still the primary channel for high value-added product sales and complex advisory services related to the banking sector. So, even though the bank can significantly cut expenses by closing one branch, physical presence provides security for customers, especially for middle-aged clientele, who are not up to date when it comes to the latest trends in technology.

The banking sector in Prosperiland

There are currently 16 banks operating in the market of Prosperiland with 4 clear market leaders (including Ernst Bank). Other banks do not differ much in results, size or position, but only in age and approach in their portfolio strategies. Banking market currently consists of around 600,000 active users of banking services, but the market is expected to grow in the future, because, as indicated by the latest research, the youngest and the oldest parts of the population are starting to use banking services more due to new features banks provide and changes in lifestyle that rapid technological progress brings. Two of the main competitors have implemented very modern E-banking and M-banking systems, while the third bank is developing her own system at the moment. The rest of the banks in the market offer some services and products related to E-Banking, but haven't, in general, made their own, implemented and fully operational systems. Competitors in the market who have implemented E-banking and M-banking, offer the basic E-Banking services free of charge, and are pleased with the number of new clients they attract in this way.

Competitor analysis:

1. **Goliath Bank** (the main competitor) has already implemented E-banking in its business. At the moment it offers two types of packages that clients can use: E-banking classic package and E-banking premium (which costs GON 20 a year). While the first one allows client access only to his personal account, the other one allows him to access all the accounts for which he is authorized for. The main disadvantage is shown in the price of premium package, which is too high, according to many clients of the bank.
2. **Credito Forte Group** has been in the market for few years, but it has accomplished a rapid growth due to expertise of managers brought from a successful international bank. When it comes to main advantage of this bank, it sure is its "Similarité" credit card, the product that attracted many new clients with specific design of cards for different groups of people with similar characteristics. (Shared belief, shared concern, shared love for the sports team, etc.) As far as the E-banking and M-banking is concerned, the bank did implement these systems, but it didn't invest enough in their promotion, so most of the clients aren't even familiar with all of the possibilities that these services offer.
3. **Premier Bank de Prosperiland** started developing E-banking and M-banking systems about a year ago, but it has already encountered a lot of problems. In order to be able to invest in these systems, it has cut off three branches that were bringing the least amount of income, which resulted in being less physically accessible to clients and that has reflected on financial reports for the past year. Also, many users seem to be complaining about the quality of the mobile application that bank provides, because they think that it is unclear and that errors often occur in the execution of transactions. Despite these complications, management expectations for 2016, are quite positive, when profitability of this investment is finally expected.

TASKS:

Now that you are familiar with the general situation, the obstacles that threaten the market position of Ernst Bank and have gotten a sense of what the management of Young Group expects from you, we may proceed to the specific requirements that you need to fulfill. We inform you, that management of Ernst Bank will send you a report with all of the data you will need. You will also receive a copy of the e-mail that the general manager, Mr. Dupont, has sent to Mr. Le Blank with marketing projections done by the "Market Pro" agency. Young group wants people with knowledge, innovative ideas and creative ways of implementing them. We look forward to seeing the results of your work.

Your teams solution of should focus on:

- 1. A proposal of strategy to ensure that the entire potential of E-banking is utilized and that card adoption soars. The proposal should include:
 - Your teams plan for the key functionalities that the E-banking service should offer (e.g. various transactions that can be done online)*
 - The nature of the service (free or premium, and why);*
 - Concrete proposals and ideas on ways of boosting card adoption;*
 - Summary of the main benefits for the Bank from implementing the E-banking service.**
- 2. Analysis of costs and effects to show the profitability of this project in the three following years. Provide a precise plan for actions that the Bank should take in each year, in order to cut costs (e.g. number of staff to be let go, branches to be closed down).*
- 3. A real-world example of good case practice in this area of business.*

Notes: In case your team feels that using any extra real world data or examples for the purpose of the study would be helpful, you are welcome to do so. However, you should be prepared to explain the relevance of these data to the situation described in the study.

APPENDIX - Report on branch metrics and other relevant data
(For consultants)

As you requested, we are presenting you with the information that might be useful for completing your tasks:



Staff

- A staff member can perform upto 30.000 transactions per year;
- The average monthly salary of staff is GEN 800;
- Severance is equal to one half of the anual salary, regardles of how long the staff member has been with the Bank;
- Each of the 14 branches of the Ernst Bank requires between 38 and 45 staff in order to maintain efficiency;
- An fired employee can be replaced or rehired, should the need arise;
- There are currently 571 staff in employed by the Bank



Clients

- The Ernst Bank currently has 68.000 clients;
- A client conducts an average of 180 transactions annually;

The E-banking service has obvious potential for cutting costs by allowing the Bank to decrease the number of staff or close branches. As things stand, some of the resources could be terminated even without implementing E-banking. Take into consideration that both marketing and E-banking implementation will attract new clients. Both of these groups will start using E-banking services, so make sure to separate the effects that each source of new clients has on possible savings and eventual terminating staff positions or branches. Relevant annual expenses for operating one branch (excluding salaries) are as follows:

Expenses	Rent	Maintenance	Security	Other
Amount	87.000	14.000	22.000	7.000

A branch can be closed or reopened, should the need arise (reopening a branch costs GON 30.000).

From: Nicolas Dupont

To: Simon Le Blank

Sent: 7/4/2015 2:08:35 PM

Subject: "Market Pro" research results

Dear Simon,

I am writing to inform you about the meeting that I've just had with analysts from "Market Pro" agency. I want to refer you to some of the most important data to which they have come in terms of projections related to the results of our new marketing strategy and the introduction of E-banking to Ernst bank. Experts from the agency claim that there won't be significant deviations in numbers and ensure the accuracy of the data. I am only sending you a summary of the complete research and we will discuss all details in a week, as soon as you arrive to Prosperiland for our meeting. I hope that your consultants find this information useful.

The "Market Pro" has assessed the number of new clients (for each year) attributed to the new marketing strategy and the implementation of the E-Banking service:

New clients	2016	2017	2018
New clients from marketing	6.050	6.400	6.550
New clients from E-Banking	5.000	4.900	5.350
Total new clients	11.050	11.300	11.900

Since the characteristics of current clients and expected new clients are predicted to be different, due to nature of E-banking and M-banking as "modern technology services", as well as the new age groups that are included in the new marketing strategy, in the following table you can see E-banking adoption percentage in both of these groups.

E-Banking adoption estimates	2016	2017	2018
% of total new clients from marketing who will adopt E-banking	20,00%	27,79%	37,32%
% of total new clients from E-banking who will adopt E-banking	100%	100%	100%
% of new clients who will adopt E-banking (both clients that started using Ernst Bank services due to new marketing strategy as well as the ones that became clients of the bank because of E-banking implementation)	56,20%	59,10%	65,50%
% of current clients who will use E-Banking	17,00%	21,10%	23,20%

(For example: In 2017, out of all new clients that were attracted by both marketing strategy and E-banking implementation during that year - 56, 50% will be using E-banking services)

Also, it is estimated that there will be a meaningful substitution (40%) in terms of the average number of transactions that clients who start using E-banking services annually perform. This means that from the beginning of 2016, 40% of their individual annual transactions (which were previously performed in branches), will be conducted using E-banking or M-banking.

Furthermore, the new clients are expected to use other banking services and products, which will boost our revenue. Based on the projections done by "Market Pro", and data about our results in the past, we have estimated the effects that the surge in clients will have on the results of Ernst Bank.

Growth in revenue from new clients	2016	2017	2018
<i>Marketing</i>	121.000	249.000	380.000
<i>Digital</i>	100.000	198.000	305.000
<i>Total</i>	221.000	447.000	685.000

(These figures represent the added revenue for a specific year due to the total amount of new clients up until that time)

If you have any questions or concerns, don't hesitate to let me know.

I look forward to our further cooperation.

Best regards,

Nicolas Dupont