Practice Case

NEW CREDIT CARD LAUNCH

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Background information

A large multinational credit card company has been considering launching its first store card, specifically within the grocery retail space. For reference, store cards, also known as private-label cards, are credit cards that consumers can use only at the store associated with that card (i.e., a Lowe's card can only be used at Lowe's, but not any other merchant).

Should this credit card company launch a store card within the US grocery retail market?

> Before you structure your thoughts, what immediate questions come to mind that can support your understanding?

Additional information for questions you may have asked

1. Does this multinational credit card company have other store card products?
   No – this would be its first. Currently, it only offers bank-branded and co-branded cards.

2. Is there a monetary objective / goal in mind in launching a private-label product?
   The leadership team would like to break even on its store card investment by Year 3.

3. Does this credit card company have a grocery retail partner in mind?
   The leadership team does not; for now, assume that they would partner exclusively with a top-5 grocery retailer.

4. Do many grocery retailers offer credit card products?
   No. In the past, banks have typically partnered with general merchandise retailers.

Now, take two minutes to structure your thoughts around the first question:
Is it a good idea to launch a store card product in the grocery market?

Things to consider:
Should our client launch a private-label grocery card?

Primary factors

Sub-factors

1 Market opportunity

→ Size of grocery retail market
→ Predicted growth of grocery retail market
→ Competitive landscape – private label players and grocery retailers
→ Customers – segments, behaviors and trends
→ Externalities – tech trends (e.g., auto checkouts), data regs.

2 Profitability

→ Expected product revenue
→ Expected product costs – initial, ongoing, opportunity
→ Client capabilities/advantage (e.g., bundle, cross-sell, supply chain)

3 Go-to-market strategy
4 Strategic alignment

Deprioritized dimensions

What market specifics would you like to have more information on?

① Market considerations:
# Should our client launch a private-label grocery card?

US Grocery Retail Market

$M

633 — 2015
649 — 2017
667 — 2019
685 — 2021 (f)

Store card lending as a % of total US credit card lending

	2015	2017	2019
Total	12.00	12.25	13.00
Comp 1	5.00	5.00	5.00
Comp 2	2.75	2.25	2.25
Comp 3	1.00	1.25	1.25
Others	3.25	3.75	4.50

Legend: Comp 1, Comp 2, Comp 3, Others
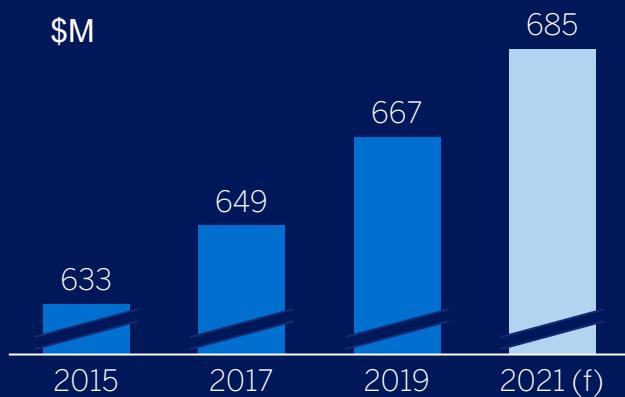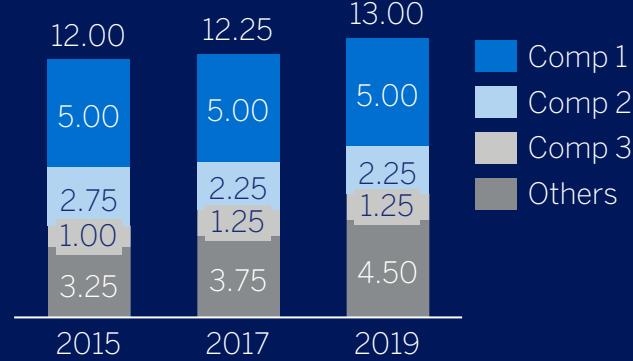
What insights can you derive from the charts above?

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① Market considerations:
# Should our client launch a private-label grocery card?

Example insights

US Grocery Retail Market

$M

- 2015: 633
- 2017: 649
- 2019: 667
- 2021 (f): 685
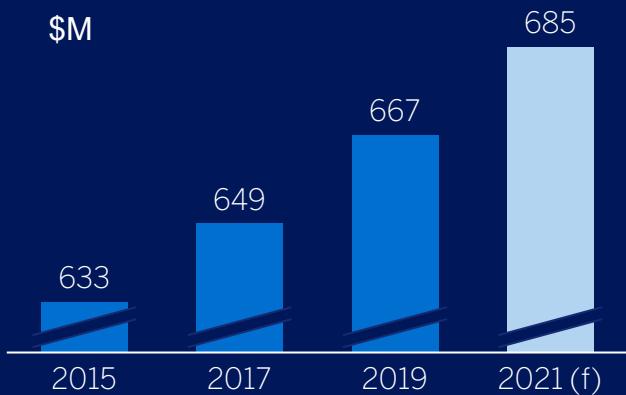
- US grocery retail is consistently growing at ~1% YoY ((667-649)/649)/2

- By 2021, the market is expected to reach $685M

Store card lending as a % of total US credit card lending

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- Comp 1
- Comp 2
- Comp 3
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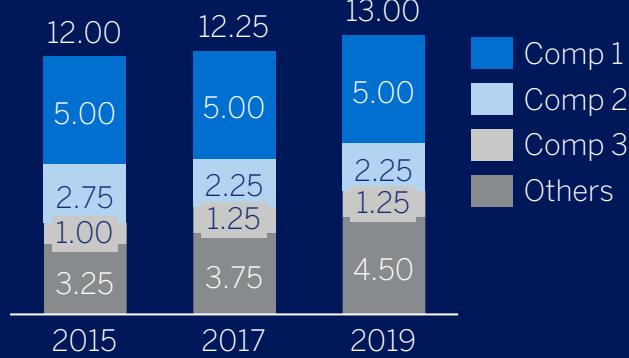
- Store card balances are growing as a % of total US credit card lending

- The market has two major players (combined ~50% share) but is becoming more fragmented over time

Let's assume the market opportunity is feasible.
What are the largest revenue streams for this endeavor?

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② Profitability considerations: Should our client launch a private-label grocery card?

Store Card Revenue Drivers | **Non-exhaustive**

- Annual fees
- Interchange fees

  Definition: When a customer uses their credit card at a retailer, the retailer pays the credit card company a percentage of the transaction

- Interest on credit card past-due balances
- Cross-currency payment fees
- Cash withdrawal fees
- Lost card fees

> For this case, let's focus on just the first three drivers
>
> Assume the credit card company would like to charge a $100 annual fee for this store card product

How would you estimate revenues from interchange fees?
Take a moment to think about what are the primary drivers for interchange fee revenues.

2 Profitability considerations:
Should our client launch a private-label grocery card?

Interchange fees revenue estimate

Average amount paid via credit card to grocery retailer
(i.e. "Average account balance")

How would you estimate this number?

X

Interchange fee percentage

Should our client launch a private-label grocery card?

Interchange fees revenue estimate

Average amount paid via credit card to grocery retailer
(i.e. "Average account balance")

X

Interchange fee percentage

Assumptions to use

Median customer income = $50k
% of income spent on groceries = 20%
% of spend on credit card = 50%

Assume 2%

Based on the assumptions above, what is our revenue estimate for interchange fees?

② Profitability considerations: Should our client launch a private-label grocery card?

	Est. annual revenue per customer
Annual fee	$100
Interchange fees	$100 — **$50k x 20% x 50% x 2%**
Interest on balances	?
Total	?

What information do we need to estimate interest revenue from past-due credit card balances?

② Profitability considerations:
Should our client launch a private-label grocery card?

Interest on past-due credit card balance revenue estimate

Average amount paid via credit card
to grocery retailer (aka "Average account balance")

Reuse same assumption as before: $50K x 20% x 50%

x

% of accounts projected to roll over (i.e. be past due)

Assume 10%

X

Interest rate

Assume 10%

Based on the assumptions above, what is the total revenue estimate?

② Profitability considerations:
Should our client launch a private-label grocery card?

	Est. annual revenue per customer
Annual fee	$100
Interchange fees	$100
Interest on balances	$50
Total	$250

$50k x 20% x 50% x 10% x 10%

What additional information is necessary to evaluate this investment opportunity's financial feasibility? Take a moment to brainstorm and structure a list.

② Profitability considerations:
Should our client launch a private-label grocery card?

Volume

Number of customers

- Number of US household grocery shoppers (80M)

- Average market share of top 5 grocery retailer (10%)

- Store card penetration rate across industry (1%)

Cost

Fixed costs

- Upfront tech investment ($80M)

- Upfront processing capabilities ($20M)

- Salaried labor ($5M) (this is a recurring cost that takes place Day 1)

Product-related variable costs

- Marketing & customer acquisition ($10)

- Credit loss (3% delinquency rate)

- Rewards ($20)

> With the data provided and assuming (1) we partner with a top-5 grocer and (2) there is no revenue or cost growth after year 1, would this product break even in 3 years?

② Profitability considerations: Should our client launch a private-label grocery card?

Year 1

Revenue	-	Cost	=	Profit
$250 x 80k	-	$105M + (80k x (10+20)) + (Revenue x 3%)		
$20M	-	$105M + $2.4M + $600K		
$20M	-	~$108M = -$88M		

Subsequent years

Revenue	-	Cost	=	Profit
$250 x 80k	-	$5M + (80k x (10+20)) + (Revenue x 3%)		
$20M	-	$5M + $2.4M + $600K		
$20M	-	~$8M = $12M		

Takeaway: It would take longer than 3-years to break even on the investment

What are some ways to increase the revenue opportunity of the investment?
Take a few moments to brainstorm a list.

② Profitability considerations: Should our client launch a private-label grocery card?

Example solutions

1. Introduce additional rewards to store card holders to increase store card penetration
2. Negotiate higher interchange fee
3. Increase interest rate on past-due card balances
4. Increase customer credit lines to allow for higher outstanding balances
5. Cross-sell higher margin products
6. Lower lending standards to attract new customers
7. Increase marketing efforts
8. Create a second, higher tier store-brand product with additional rewards
9. Partner with top-3 grocery retailer instead of top-5 player

Please take one minute to summarize our findings for the credit card company's leadership team.

Recommendation:
Should our client launch a private-label grocery card?

Example recommendation

Headline

- Investing in a store-brand grocery card is not recommended at this time given the company's mandate to break even on its product investment by Year 3

Supporting Detail

- The grocery retail market is growing at 1% p.a., and private label card lending is also growing steadily
- However, even with a $100 annual fee, it would take the credit card company ~5 years to break even on a store brand product within the grocery retail industry
- That said, there are several ways the company could achieve a faster payback period (e.g., cross-selling higher margin products to its new customers, negotiating a high interchange fee) but additional diligence will need to be conducted to confirm these penetration rate / revenue increase opportunities

Next steps

- Evaluate revenue uplift opportunities further
- Forecast card penetration growth rate over time *(currently assumed no growth)*
- Determine appetite for partnership with top-3 grocery retailers

Case interview best practices from the Amex Strategy team

1. **Take time upfront to clarify what question(s) you're solving for:** you don't want to dive deep into a case interview without having aligned on scope

2. **Don't be afraid to ask questions:** asking questions throughout a case is just another form of engagement and it will ultimately help you gain a better understanding of the problem

3. **Over-index on structure:** whether it's writing algebraic formulas before executing math or bucketing qualitative insights into categories, structured thinking is critical for success

4. **Be thorough, but also be "80/20":** be exhaustive in your explanations so we can understand your thinking, but also be targeted so we can understand how you prioritize

5. **Drive the case:** after conducting any analysis, be proactive in showing the interviewer that you know what analysis should come next to prove / disprove your hypothesis

6. **Save time for the analyses:** don't take more than 2 minutes to structure your thoughts upfront and budget only 1 minute for reading out your recommendation; we care a lot more about the qualitative and quantitative analysis that takes place between these two steps

7. **Focus on quality over quantity when case study prepping:** internalize your peer feedback from every practice case so that you don't make the same mistake twice or in the interview

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®   Disclaimer: the contents of this practice case (scope, information, and data) has been created solely for training purposes.

Thank you