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Banco BiG – International Expansion to Italy

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Banco BiG – International Expansion to Italy

This paper aims at studying if BiG's international expansion to Italy is the right move for the bank. After understanding how BiG works and through thorough research of the banking market in Italy, analysis was conducted to identify if the bank has distinct resources or capabilities that stand out in the destination market. It showed that despite strong competition, Italy is a very large market and there is receptivity to the digital areas where BiG excels. Based on these results, it is recommended that the bank follows the expansion path, by phasing the introduction of its disruptive products.

KEYWORDS: BiG, Internationalization, Banking, Digital, Platforms, Wholesale, Retail, Deposits, SMEs, Trading, Wealth Management, Italy

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Company Overview & Challenge

BiG is a bank with a significant presence and reputation in Portugal that has the goal of keep growing its business in a controlled manner

Bank Overview

History

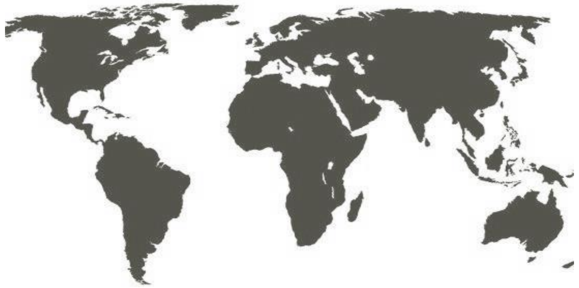
Main Business areas

- Specialized Retail
- Wholesale Business
- Treasury and Capital Markets

How to keep growing?

Growing in Portugal

Growing internationally



BiG has been a pioneer in the digital segment in Portugal and Mozambique

BANCO DE INVESTIMENTO GLOBAL

Timeline

1998-2000

- BiG is founded with an initial capital base of €25 million.
- The bank starts to operate in Portugal.
- BiG launches the **first online brokerage service** in Portugal and is the first to provide digital access to international stock markets, investment funds of third parties, warrants exchanges.
- At the end of the first year, BiG broadens its investor base and rises the capital up to €50 million.

2001-2005

- BiG's share capital reaches €75 million.
- Creation of **institutional clients and capital markets** areas.
- Development of the retail platform BiG. The bank grows from a service essentially focused on brokerage to a **complete bank service**.
- Addition of new products and platform services: short selling, futures exchange **and** commodities.

2006-2010

- BiG brand is created to focus on the **saving's client segment**. BIG reaches a total of 13 branches and 26 ATMs in Portugal.
- **BiG grows** in revenue and clients, along with a geographic expansion and a constant innovation.
- The share capital rises to €104 millions, the net assets to €829 millions and BiG's own funds reach €147 millions.

2011-Today

- BiG has been living a phase of controlled growth.
- During the financial crisis, the bank did not request any State aid or capital from its shareholders.
- BiG has been regularly paying dividends to its shareholders while retaining, on average, 65% of earnings.

BiG's positioning in Portugal

- Leader in financial intermediation.
- €2.3b in assets, €1.3bn in client deposits and AUM €3.4bn (including assets under custody, managed assets and clients' resources), in 2018.
- 5% market share of mass affluent banking clients.

- #1 in Options electronic intermediation and Futures electronic intermediation with 64.8% and 45.0% of market share, respectively.
- #3 in CFDs electronic intermediation and Cash assets electronic intermediation with a 14.1% and 11.6% market share, respectively.

International Expansion

- Banco BiG Moçambique, SA, is a banking institution that started operations in Mozambique in 2016. This main subsidiary focus on development of the local capital market.
- In 2019, BiG expanded and started its banking activities in Spain. This new branch is focused on trading platforms, deposit taking, wealth management and corporate finance services.
- During the previous fiscal year, over 90% of the bank's revenues were generated within Portugal, with the remaining coming from its presence in Mozambique.

The bank focuses its business in Specialized Retail, Wholesale Business and Treasury & Capital Markets

BiG BANCO DE INVESTIMENTO GLOBAL

BiG's business is divided in Wealth Management and Advisory for individual (35%) and institutional (15%) clients, and Treasury and Capital Markets (50%).

Specialized Retail (Individual Clients)

35% of revenue 2018

- Investment and savings products
- Brokerage
- Custody
- Wealth management
- Self direct trading
- Personalized advisory and asset management services
- Banking & credit services

Wholesale Business (Institutional Clients)

15% of revenue 2018

- Corporate finance (Capitalizer)
- Asset management
- Structured products
- Brokerage
- Custody
- Market risk management
- Liquidity solutions

Treasury and Capital Markets

50% of revenue 2018

- Balance sheet management
- Client structures / Portuguese underlying
- Market-making

In 2018, these areas generated revenue as follows:

Commissions

Net commissions from brokerage, retail services, asset management and advisory activities amounted to € 10.0m, **lower than in the previous year**.
This decline was compensated by an increase in the fees generated with the issuance and distribution of corporate and sovereign debt instruments.

Revenues from corporate advisory also rose, due to a steady flow of mandates, especially from Mozambique.

Net Interest Margin

Yields on a higher average level of earning assets remained low, while funding costs were stable.

The bank continued to prefer having **large amounts of liquidity**.

The bank did not use ECB funding facilities for the third year, in spite of large amounts of securities eligible for repo, while increasing moderately the usage of repo lines made available by other counterparties.

Treasury and Capital Markets

Investing and credit activities associated with client trading, market making, and the revenues generated by managing the bank's various portfolios of fixed income securities, as well as income from other investments in other credit products amounted to € 23.0m.

The bank's priorities were the maintenance of high levels of liquidity in its inventory of earning assets and **intense focus on their overall quality**.

BiG wants to grow but there are no significant opportunities in Portugal

BiG has been growing its revenues in Portugal, constantly, since the first years of existence and, to keep growing in this market two different options should be considered:

Increase the variety of their offer

BiG is known for providing a personalized, innovative and efficient service to their clients, which are, currently, individual affluent clients and institutional ones.

An expansion to other types of services and products could **result in a loss of quality patent on the existing services** which is something that distinguishes BiG's brand.

Also, in order to diversify, BiG would need to move to a market that is already **highly occupied and saturated with traditional banks** satisfying all demand. There is a large number of banks for the size of the market. In fact, there are 2,521 inhabitants per bank's counter.

The penetration on other markets would be hindered by not enjoying the **first mover advantage** and by the customer retention done by the banks that are already present (each client has to go through an inconvenient process to change its banking accounts).

Portuguese Banking System is already highly saturated and consolidated

Increase the market share in the sectors they are already present

BiG serves a very specialized type of clients on both the Specialized Retail and the Wholesale Business segments.

Within the Specialized Retail, BiG's scope is focused on affluent dynamic clients, who have between around €100k to €500k and like to invest their money in risky products such as ETFs, international stocks, futures and options. Looking at Portugal, the **market for mass affluent clients is too small for BiG to be able to capture a higher share of the market**. In fact, BiG already accounts with 5% of mass affluent clients within Portugal.

Regarding institutional clients, they are **present in a super small market**. Moreover, these enterprises are considered to be very conservative as they seek traditional banking services to finance their needs and do not like to invest their capital in financial markets.

According to management, BiG already has a good market share in these sectors and the more modest market size does not allow for higher growth levels

Therefore, the solution to keep growing relies on the international expansion to more attractive markets

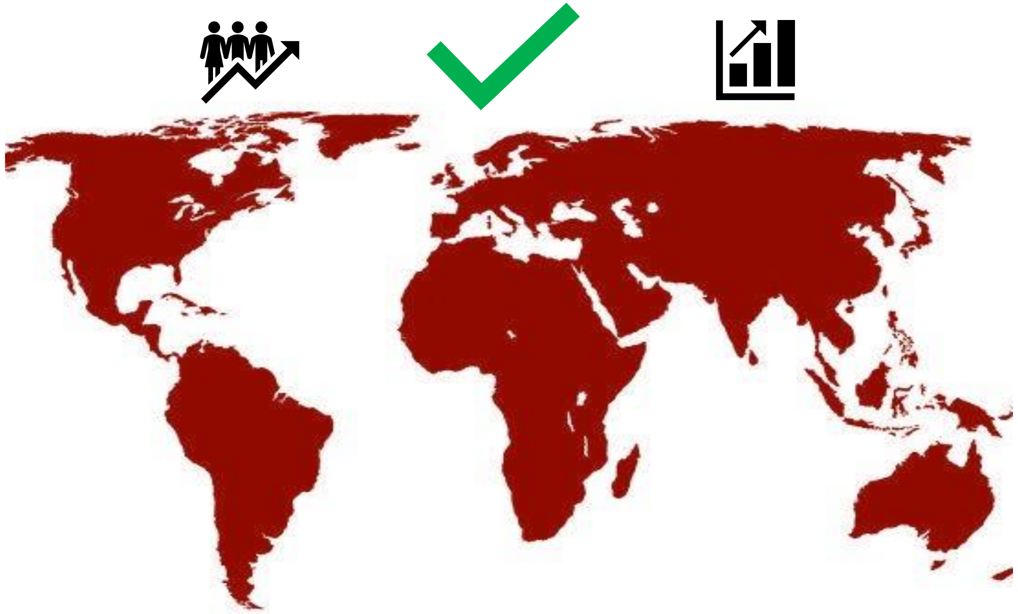
An international expansion may represent a significative investment and a considerable risk for the bank, but, on the other hand, has the potential to significantly grow BiG's revenues as the bank has the opportunity to enter markets that are way bigger than the Portuguese.

The possibility of an international expansion, can provide the bank the opportunity to **grow the level of commissions**, which cannot be done domestically.

International expansion can be an opportunity to:

- Enter in a larger market
- Increase revenues without increasing balance sheet exposure of the bank
- Capture wealthy clients
- Assist a high number of unserved individual and institutional clients
- Work in a market with more liquidity
- Enter in a market with more openness to digitalization and innovation
- Expand into a more diversified financial market
- Increase the international relationships and recognition

Following the move to Spain, BiG can learn from its previous mistakes and adapt its strategy to attack other European countries that might be seen as potential markets for the bank to **increase its business**.



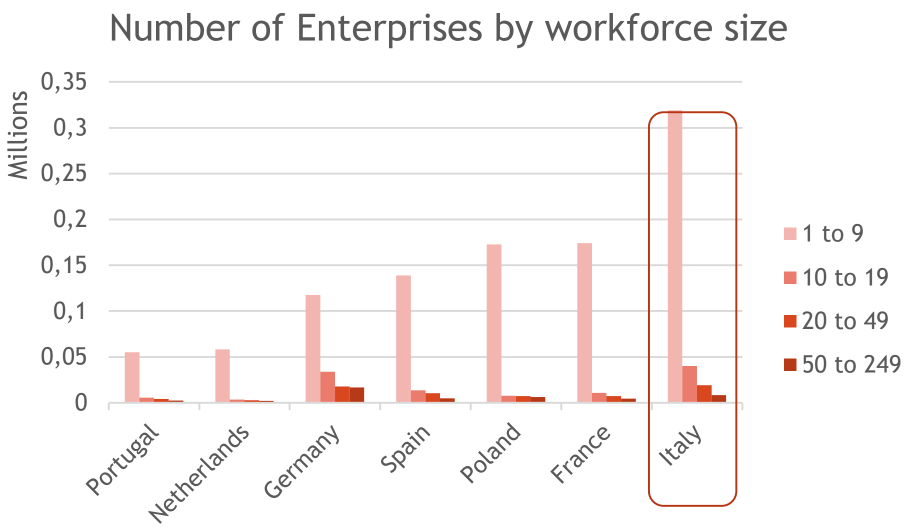
Outside Portugal, there are several countries which might be seen as potential opportunities for the bank to enter and grow significantly, **mainly in the European Union** where BiG can use the lower barriers to entry in its favor.

The client selected Italy for the expansion, a market that showed high potential in a preliminary analysis

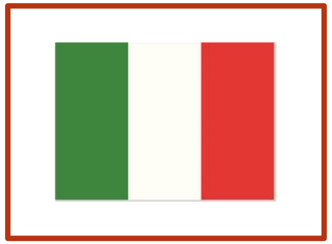
As the Italian market was selected by the client, an initial analysis was performed to ensure the market's potential compared, not only with Portugal, but also with other European countries.

	GDP (m€)	GDP per Capita (€)	Foreign Banks	Household Savings	Digitalization Rate
Portugal	201 613	21 100	36%	5.9%	39%
Germany	3 344 370	40 300	14%	10.8%	59%
France	2 353 090	44 900	4%	14.9%	63%
Italy	1 756 982	29 100	15%	8.4%	34%
Spain	1 202 193	25 600	13%	19.3%	49%
Netherlands	774 039	35 000	47%	9.7%	89%
Poland	496 462	12 900	76%	-8.9%	44%

Source: Eurostat; Trading Economics; Statista.



Source: European Commission



- **Cultural affinity** and similarities with Portugal and Spain, with compatible scores on Hofstede's cultural dimensions;
- Enormous SMEs network, the biggest in Europe;
- **Fourth largest economy in EU**, including the UK;
- Considerable number of **foreign banks**, showing openness from Italians towards these institutions – 78 in 538 institutions are foreign;
- **Growing digitalization rate** – increasing rapidly despite its current lower value;
- 8.4% of savings rate last year, despite lower values, last year, Italian savings have been more constant when compared to other European peers;
- High GDP per capita levels in the majority of the country.

Specialized Retail and Wholesale Business were the two business areas proposed by the client for the expansion

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The main products BiG serves its clients with are within the Specialized Retail (focusing especially on the dynamic affluent) and the Wholesale Business segments. These two areas are **focused on individual and institutional clients**, while Treasury and Capital Markets targets the bank's investment and credit activities and it is used to generate liquidity and manage the bank's balance sheet.

Specialized Retail (Individual Clients)

This segment serves different types of clients, with **4 different types of services**: self-guided trading, trading with advice, investment and savings, and wealth management. This service reaches the clients through internet-based platforms and a dispersed network of sales offices throughout the country. Accounting all the products, this area contributed, in 2018, c.35% of total bank's revenue.

Wholesale Business (Institutional Clients)

This area comprises all the **solutions created** by BiG's specialists **for corporate and institutional clients**. Specific financial solutions, trading and investment strategies for its clients to manage their assets, through professional and independent financial advisory. This is done digitally through physical branches. Wholesale Business represented c.15% of total revenue in 2018.

Since the main purpose of the expansion is to increase the bank´s share of commissions in its revenues, targeting less volatile income, and these are the two segments that generate the most, BiG **should consider them for the expansion** and **check if they have the transferable resources and capabilities** required to introduce these segments in a new market.

Treasury and Capital Markets

Treasury and Capital Markets is a more **internal area of the bank**. This area focuses on the **bank's investment** and credit activities and its aim is to generate liquidity and **manage the balance sheet**. This segment generates the majority of the revenue. In fact, in 2018, it has contributed with 50% of total revenues.

This segment is **not** specifically **suitable** for internationalization as it does not serve any specific client (only the bank itself) and can be done from Portugal.

- Specialized Retail, with the aforementioned focus on the affluent individual and Wholesale are the business segments BiG can use to penetrate the new foreign market and, which will be analyzed in more depth.
- Further analysis must take place to assess how the market is structured and which sort of competition BiG may face in each area.

The expansion to Italy with Specialized Retail and Wholesale Business is the strategy that will be thoroughly analysed

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How can BiG keep growing its business?

- Increase their market share in Portugal
  - Increase their offer by increasing the diversity of products and services
    - The Portuguese Banking System is already highly saturated and fragmented. Furthermore BiG is not aiming at switching their target client, which would mean switching services offered
  - Increase their market share in the sectors where they are already present
    - According to management, BiG already has a good market share in these sectors and the market size does not allow for higher growth, as the bank already captured significant share in their target segments
- **Expand internationally**
  - **Following the entry in Spain, BiG can potentially enter in new countries that might have potential for the company**
    - **Italy was the market purposed by the client and appeared to have a good potential for expansion in a preliminary analysis.**

- In order to increase its revenues through a strengthened stream of commissions, BiG should focus on international markets for expansion.
- Italy appeared to be a very attractive market in a preliminary analysis.
- Unlike the uncaptured affluent Portuguese market, populated by conservative individuals that are not looking at the bank’s more specific offer, there are a lot of potential clients in Italy that fit the dynamic products of BiG, representing an opportunity.
- There is also a significative number of companies that the wholesale division could target in Italy.

A PESTEL analysis will be performed to understand the context of the market followed by a specific analysis for each target industry

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Once the client selected the market, two different analysis are going to be performed to ensure the decision was the more accurate and the market had potential for the expansion.

Market Selection → Internationalization Environment

- Retail Banking → Industry Forces → Industry Trends
- Wholesale Business → Industry Forces → Industry Trends

To understand the environment and context of the Italian market, **a PESTEL analysis will be performed.** This analysis covers the following indicators of the market:

- Political
- Economic
- Social
- Technological
- Environmental
- Legal

After this, the two target industries are analysed independently to understand both the forces and trends of each one:

- **Industry Forces** – For each industry a Porter analysis will be conducted to understand their attractiveness based on the competitive scenario and the power of the different parts involved.

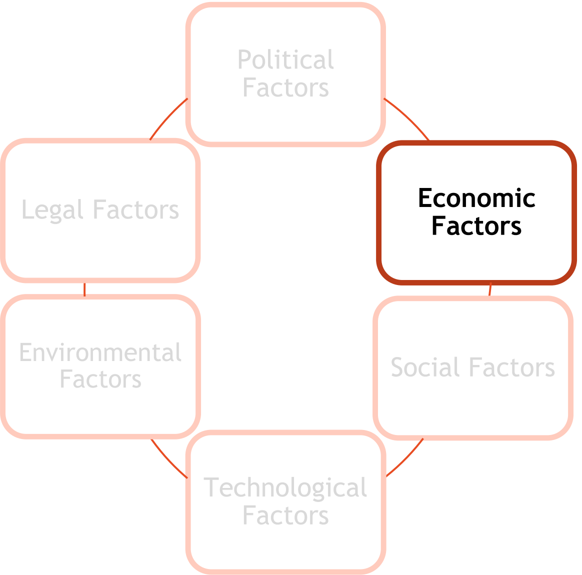
- **Industry Trends** – Following the Porter analysis, it is going to be performed an analysis to understand the trends of industry that should be taken into account before deciding the best strategy for the expansion

Internationalization Environment

Italian's economy is in a stable situation and the North is richer than the South

Economic Context

- GDP Index - €1.756 trillion; Gini Index – 31.9; High unemployment rate (9.5%); Italy has the world's 4th largest gold reserve.
- High debt levels, **low productivity** and a large shadow economy are slowing the economic growth.
- **Innovation and business sophistication** are strengths of the Italian economy.
- Italy has one of the **largest saving's market** in Europe. In fact, gross savings represent 20% of the Italian GDP, which is only comparable to Germany and France. However, the savings rate has been decreasing ever since the financial crisis of 2009.
- Household net wealth remains stable at its 2012 level, **financial assets have gained more share over household wealth.** Decreasing rates on safe investments are forcing the growth of the asset management with Italians diversifying their investment between funds with multi-asset products.
- There is a huge **gap between the north and the south** as most of the total GDP is generated in northern regions. In fact, Lombardy has a much bigger market in wealth terms when compared to Portugal. Lombardy concentrates 21.8% of total GDP, followed by Lazio and Veneto with 11% and 9.25%, respectively. Also, the north concentrates most of foreign banks: Lombardy, with 63, leads this ranking, followed by Lazio, housing 9 banks, Trentino, 3 and Piedmont, registering 2.
- The economy is driven in large part by the manufacture of high-quality consumer goods produced by family-owned SMEs. Italian **SMEs represent over 99% of active enterprises** in the market and 67% of value added (10% higher comparing with the European average). Italy has more SMEs than any other country in Europe.
- Family-owned SMEs represent about 67% of total enterprises – roughly 30% of them are expected not to be able to carry out the succession process.
- Geographically, most of these companies (Micro, Small and Medium) are based in the **north** of Italy (1.8 million vs 0.8 million in the center and 1.1 million in the south).
- Italian government is trying to increase the size of the AIM Italia (which is the Borsa Italia's for SMEs with growth potential) over the next 5 years by introducing a long-term individual savings plan in which savers can benefit from **tax incentives to invest in Italian SMEs**. This is established under Law Decree DL34/2019 (Growth Decree).



- ✓ Rich country with wealth well-distributed.
- ✓ Largest savings market in Europe (20% of total GDP).
- ✓ Asset management is growing and is one of the largest and most dynamic in Europe.
- ✓ Italy's economy relies upon SMEs. Total active SMEs and the value these add to the economy exceed every other country.
- ✓ Northern Italy is where the majority of the wealth and the entrepreneurial sector resides. Just the region of Lombardy contributes 21% to the Italian GDP.

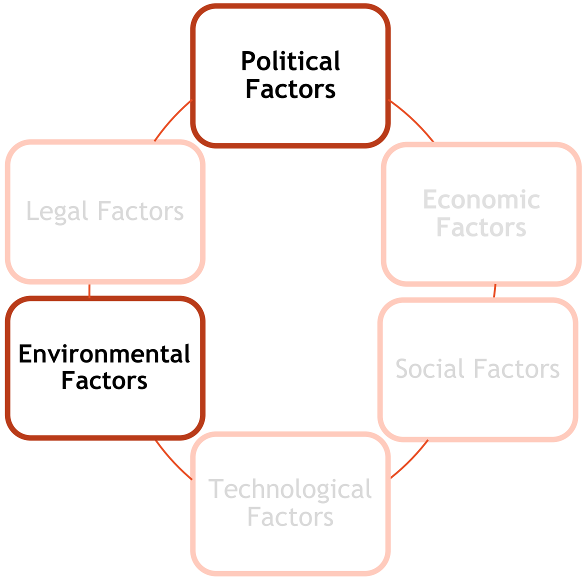
Italy faces some political instability, but it has good relations with other European Countries

Political environment

- Parliamentary republic, composed by the Chamber of Deputies and the Chamber of the Senate and is directly elected by universal suffrage for 5 years. The President of the Republic is the Chief of State and is elected every 7 years by Parliament in ordinary session.
- **Good international relationships**, especially with other European countries. No restrictions to the import or the export of capitals and goods.
- **Lawsuits tend to be lasting and expensive**, and this could represent a risk in case of a contractual breach (on average it takes 8 years vs 2 years in OECD).
- Suffers from chronic **political instability**. Governments tend to be made up of loosely tied coalitions, which rarely last more than two years.
- Inefficient public sector supporting a modern and advanced business infrastructure (European country with highest public debt as % of GDP).
- High levels of **corruption**, **bureaucracy** and **tax evasion**.
- There are no legal barriers that stop or hamper the entrance of international enterprises, on the contrary, it is something **incentivized by the Italian government**.
- However, foreign companies trying to enter the market may find some unfavorable conditions regarding all the instability and all the corruption that happens in the country.

Environmental factors

- Italy ranks 84th in the world for ecological sustainability.
- Italy has become one of the **world's largest producers of renewable energy**, ranking as the world's fifth largest solar energy producer in 2009 and the sixth largest producer of wind power in 2008.
- Air pollution is a big problem, especially in the industrialized north, reaching the tenth highest level worldwide of industrial carbon dioxide emissions in the 1990s.

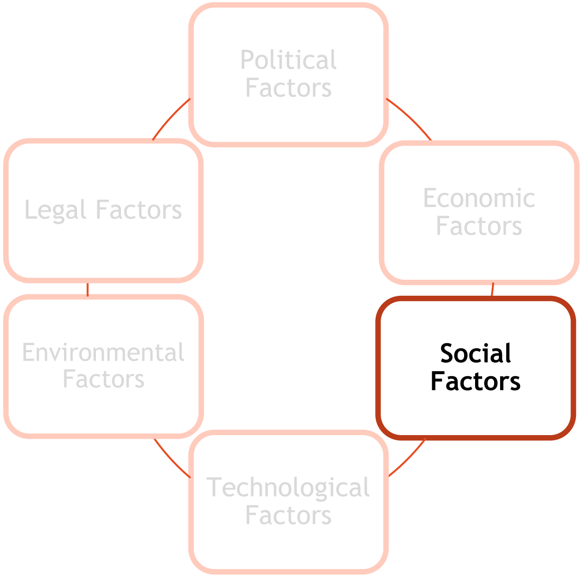


- ✓ Italy suffers from a lot of corruption and political instability.
- ✓ Usually, each government do not last longer than 2 years. This creates uncertainty regarding the current legislation.
- ✓ Great reputation and relationships amongst European countries.
- ✓ Currently, Italy falls into mid-lower ranking regarding environmental policies (#29) which may create an incentive to accelerate the digitalization process as it is seen as eco-friendly.

Italians have low financial education and are highly averse to risk

Socio-cultural environment

- Highly **individualistic** culture, that emphasizes individual responsibility and close family ties.
- The differences in the business practices and culture are notable between the south and the north - doing business successfully in Italy requires a personal network, understanding the business culture and preferably knowledge of the Italian language.
- **Weak financial education**. Recent crisis had a somehow positive impact on financial literacy: the adverse outcome suffered by Italian investors triggered them to increase their financial awareness.
- **Italians are risk averse**. This is explained by their conservative financial habits, with high saving rates where one third of Italian's wealth stands in **deposits and cash**. However, they were forced to seek other financial instruments due to the decreasing rates of deposits and government bonds.
- **Personal relationships** are very important: The interrelation needs of Italians are another essential aspect to be considered. This behavioral factor is well acknowledged by financial experts and advisors, who are accustomed to having a personal relationship with all their customers. **Financial intermediaries** have an important role as investors need the approval of expert and trusted opinions. This appears more frequently in place with higher amounts of wealth or lower levels of education.
- In geographical terms, the highest number of financial investors would appear in the northern part of the country.
- Corruption, public debt and unemployment are the most alarming topics for the Italian families.



- ✓ Generally, the Italians have a poor financial literacy which, combined with their aversion to take risks, makes them a difficult community for the investments market.
- ✓ On the other side, the savings market is one of the biggest in Europe due to this demand for safe investments.
- ✓ Italians need and seek the approval of financial intermediaries.
- ✓ Personal relationships are very valued when doing businesses in Italy, which is a set back for digital banking and financial services.

Italian government is creating incentives for foreign investment

Legal environment

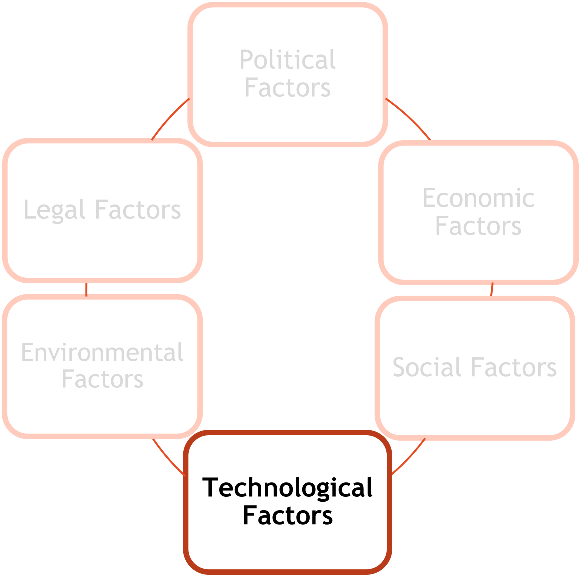
- The legal system is based on civil law. The primary source of law is written, and provisions are contained in four codes (civil, penal, civil procedure and penal procedure) and acts. Supreme Court decisions are also an influential source that guide judges in subsequent decisions.
- **No restrictions on foreign investment**. The Italian Trade Agency (ITA), which is the government body whose mission is to foster Italian investment and trade relations with foreign countries, set up a dedicated foreign investment department. The department focuses on giving **assistance to companies and entrepreneurs wishing to set up a new business in Italy.**
- Many different grants and **incentives are available for new businesses**, particularly in rural areas and in the south of Italy, including central government grants, regional development grants, redeployment grants, and grants from provincial authorities and local communities.
- The regulations of **establishing a foreign branch in Italy are subject to a notice from the Home Country** regulator to the Bank of Italy, if the intention is to carry out activities other than those subject to mutual recognition under the CRD IV. This can take up to 120 days and 2 conditions are required: **the banking activity is actually carried out by the bank in its home country** and the Home Country regulator has been informed of the bank's intention to carry out such activity in Italy through the branch.
- A branch is not a separate legal entity but a foreign "unit" of the mother company. Branches do not enjoy, as such, organizational and decision-making autonomy. **For tax purposes, branches are considered as permanent establishments and are therefore subject to taxation in Italy.**
- The minimum corporate capital is €50,000 for SPAs and €10,000 for Srls.
- The establishment of a branch requires a resolution of the competent parent company's corporate body, which must be notarized and filed with the RoE (Register of Enterprises). After establishment, certain disclosures must be made with respect to the financial statements of the parent company. A branch manager must obtain an Italian tax code and the branch must apply for its own tax code and VAT number. Branches of foreign companies carrying on a commercial activity are subject to the same corporate taxes as companies in respect of income earned in Italy. Remittance of profits from Italy to the foreign parent company is, generally, not subject to tax in Italy.

- ✓ There are no restrictions for foreign funds to invest and finance Italian SMEs.
- ✓ The branch may start its activity 2 months after the Bank of Italy's receipt of a notice from the Bank of Portugal if the activities are under CRD IV.
- ✓ Branches are very much dependent of the mother company.
- ✓ When opening a branch in Italy, branch's activity is taxed under Italy's legislation.
- ✓ In case of crisis, depositors of Italian branches of EU banks are protected by similar protection schemes in these bank's home countries.

The digital sector is growing in Italy with technology starting to change the financial markets

Technological factors

- Digital uptake remains well behind other mature markets. In fact, Italy places **45th in the Networked Readiness Index** (Technology Readiness), ranking below Spain (35^{th}) and Portugal (30^{th}).
- Some industries are technologically advanced while some more traditional industries are less so. The banking and insurance sector is leading the transformation while healthcare is lagging behind.
- Although Italy is not yet very digitalized, **a big evolution was noted over the past years**.
- In Italy, there are already 11m of users that have tried at least one digital innovation service within the financial and insurance system (which is 54% more than 1 year ago).
- **Online banking penetration has grown** from 12% to 34% in the last decade. However, this value remains below the average registered in Europe.
- Today, it has finally been realised that the need to digitise banking services is also very **strong in the private wealth segment.**
- Italian banks are investing more heavily in the digital sector.
- Government has launched several policies aiming at improving the provision of online services to its citizens and creating a better environment for start-ups and innovative companies.
- Building scale is no longer the only answer: **technology is shaping the new market landscape** and business model innovation can generate alternative value creation options.
- Following the pattern registered by the modern world, technology is reshaping the asset management scenario in Italy. In order for financial institutions to **meet their client's demands**, they need to reach them through a wide variety of channels, which enables investors to carry out transactions anytime and anywhere.
- **Robot-advisory** can be a key instrument both in the hands of investors - with a DTC model - and of advisors - with Robo4Advice platforms. The range of products is wide and goes from ETFs to traditional stocks and bonds.
- **Artificial Intelligence** has begun to spread across Italy, inclusively on traditional asset managers and has also created potential room for new Fintech companies.
- **Blockchain** will likely improve the backend thanks to the distributed ledger which will allow fewer transaction costs, more data security and a reduced need of human intervention in data management.



- ✓ Digitally, Italy is lagging when compared to other European countries. However, it has been suffering a huge digital revolution in the last years, which facilitates online banking and the emergence of fintechs.
- ✓ Online banking has almost tripled its figures in the last decade which opens space for digital banks, and it is a very strong tool for wealth management.
- ✓ Despite the efforts made, Italy still has a long way to catch the other economies. This may be seen as an opportunity to capture a share of this unexplored market.

Retail Banking in Italy - Industry Forces

The retail banking industry is characterized by having high competitive rivalry and threat of new entry but a low supplier power

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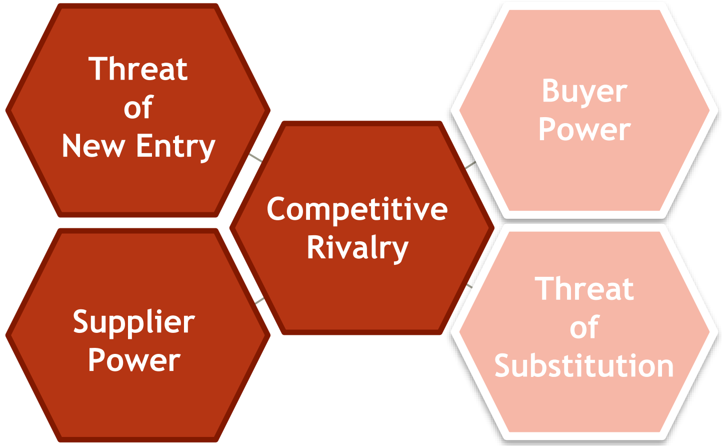
Competitive Rivalry

✓ HIGH

- The banking system is well-defined, with a diversified offer and players have large client bases. With a pumping industry - **many banks merged and closed recently** - reduction to less than 500 from 740 in 2011 (Statista).
- Out of over 27,300 branches, 43% belong to the five largest groups (UniCredit, Intesa Sanpaolo, Banco BPM, Banca Monte dei Paschi di Siena and UBI Banca).
- From them, **UniCredit and Intesa stand out**, each with around €800bn in assets managed, out of a total ~€4000bn in the Italian banking system (Statista). C2 concentration index in total assets of 20% and C5 of 45.6%.
- Italy's Hirschman-Herfindahl score for credit institutions was 579, meaning total assets are well distributed across institutions, despite the presence of the aforementioned larger players.



Threat of New Entry:

✓ HIGH

- There are **no legal barriers for entrants**, specially coming from other European countries.
- Even so, there are some **other factors that can undermine the threats of new entrants**: there are a lot of well-established players, with high fixed-costs levels, which can drive harsher competition than these new players can endure.
- Adding to this, there is the issue of **strong brand recognition** and untamed institutional and personal relationships among the players already present in the market.
- Gaining market share on lower prices is also proven difficult, particularly if the one wishing to enter the market doesn't have the financial ability to cope with those costumer acquisition costs.
- These direct competition issues can and are likely to be dazed in years to come, in a prolific manner, by companies that can innovate using digital and by being more efficient, are able to decrease the acquisition cost of clients.
- **Fintechs will be, in this sense, high threats for the mature players** present in the market – a lot of them are already present, but other examples are expected for the future.

Supplier Power

✓ LOW

- There are a lot of different suppliers and banks do not face great pressure in that sense, specially because they are very big costumers and can, in the majority of cases, get their deal from a competitor.
- Even if the case is that there is fewer offer, as IT services, a more differentiated sort of supplier, the fact that **banks are normally larger players** that have huge impact on the supplier's revenue base, helps them suffer less from it.

The buyer power in this industry is moderate to high and the threat of substitution is low but has been increasing

Buyer Power:

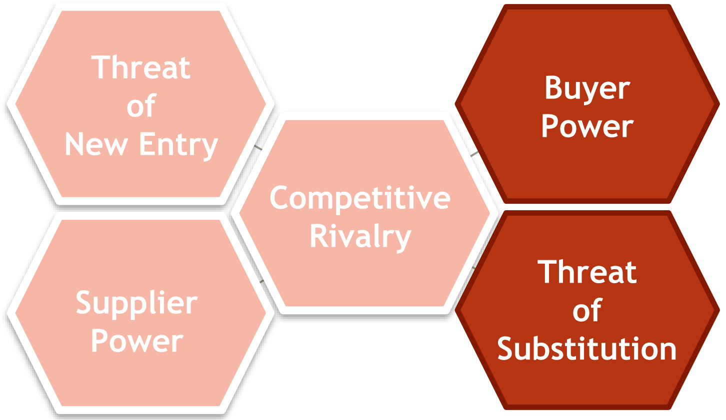
✓ MODERATE/HIGH

- One can argue that despite some possible historical performance differences or branding power, market conditions are similar for every seller.
- Therefore, with no barriers to capital movement, it's **easy for any buyer to switch their investments or deposits** to whichever player is offering more competitive prices for the same return, making them **very sensitive** to the fee banks and financial intermediaries charge.
- On the other hand, distinct and **innovative products can undermine clients' power**, as they would prefer that specific option over the other competitors. Although banks offer services in the same line of business, the fact that Fineco, for instance, offers a better online trading platform has helped them to remain as top seller without having to sacrifice their revenues to attract new costumers.
- Furthermore, it will be difficult to capture the deposits of clients already in other banks, offering similar values. Banking **costumers tend to stay in the same bank**, by default.
- New options, such as Fintech innovations, have now helped increase bargain power of buyers, who got **easy access to more services**, like trading, robot-advisory, cards, or currency exchange at more appealing prices.
- This is likely to continue to occur if more players are allowed in the market, as are the expectations for next years – more sellers will translate in higher power for banking costumers.

Threat of substitution:

✓ LOW/MODERATE

- The current shift in clients' preferences, towards more innovative and efficient solutions will influence how the market shares will shift - it is unlikely that a bank failing to follow the disruptive digital trend can keep up with competition.
- The emergence of digital assets, specifically, cryptocurrencies, and the development of fintechs associated to them, **creates alternative services to replace what other players**, like digital banks, provide.
- Another meaningful threat will be the big tech giants, such as Facebook, that have already developed Lybra (a new currency), Google, or Amazon. They enjoy **high brand recognition** and if they bet more seriously on the industry, as some predict, existing players need to see them as a real force to be reckoned with.



The retail banking in Italy is highly distributed since there are low barriers to entry the market. Alongside low supplier power and threat of substitution, it is considered an attractive market for BiG to expand.

Retail Banking in Italy - Industry Trends

Italians' financial habits represent an opportunity for BiG, as they were able to develop a very large savings pool

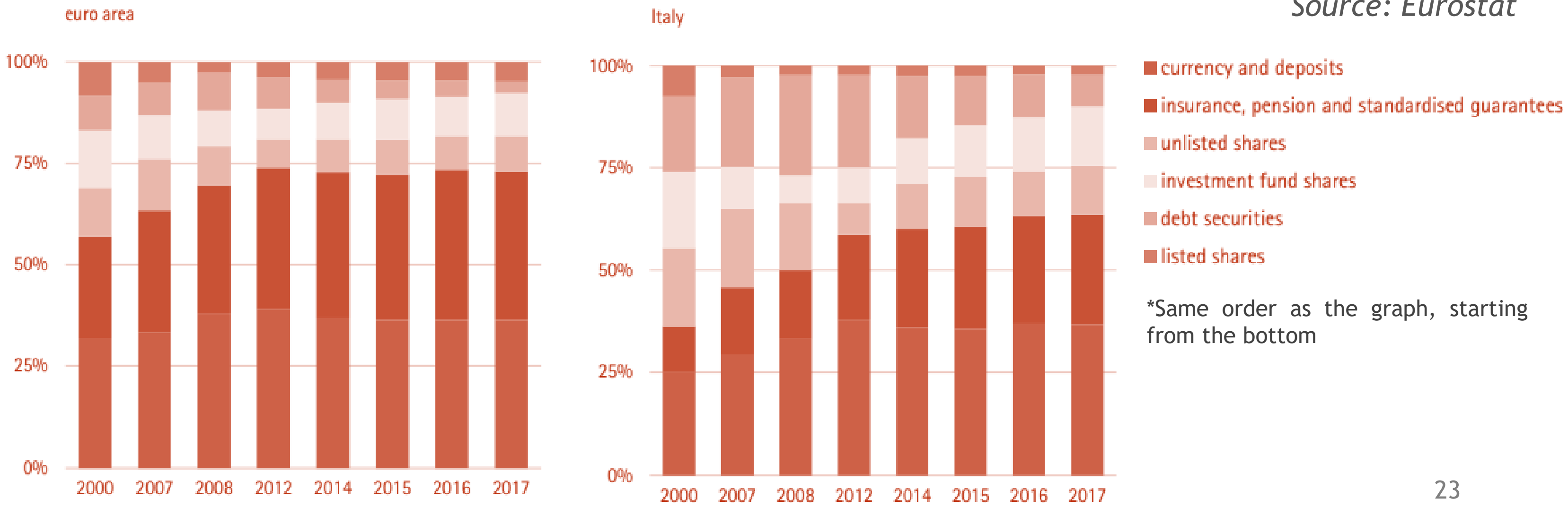
Italians are great savers. Despite their conservative financial habits, they have been forced to consider other investments than government bonds and deposits.

- **Fund's popularity is increasing** across investors due to the diversification that they allow and to the professional competence of financial operators. Total AUM within funds was €950bn at the end of 2016, most of which invested in open-ended funds.
- **Multi-asset products have overtaken traditional equity and bond funds**, with the rise of balanced and flexible funds, in the most recent years.
- After a decade of negative flows, looking at the last four years, **Italian-domiciled funds have been regaining their popularity** despite their costs, which are generally higher than those for their European counterparts.
- **Risk averse in a world of low interest rates**, households have so far **leaned towards liquid products and insurance policies**. As a matter of fact, in 2017, cash and deposits composed one-third of household's portfolio. The sharp increase registered between 2006 (23.6%) and 2010 (30.7%) continued until 2016. Nevertheless, the Italian average in cash and deposits is in line with the European trend, even if much higher than the one of France and UK.
- On the other side, **equity products follow the opposite way**: from 2006 to 2017, households reduced their investments in equity by 37%.
- **Nonetheless, Italian preferences still stick to the past**. In fact, the popularity of funds characterized by coupon detachments is high, a remnant of Italian treasury bonds that have been very remunerative in the past.

- Most of the financial wealth are **currency and deposits** in Italy, in line with the rest of the countries.
- Household holdings of **debt securities** have had a clear decline over the past 5 years, shrinking the huge gap from the rest of the euro area, but remain higher.
- Differences persist as for holdings of **insurance policies and pension funds**, as well as **listed shares**, which are lower.
- On the other hand, **investment fund shares** holdings are larger in the Italian economy.

Breakdown of Italian household financial assets

Source: Eurostat



*Same order as the graph, starting from the bottom

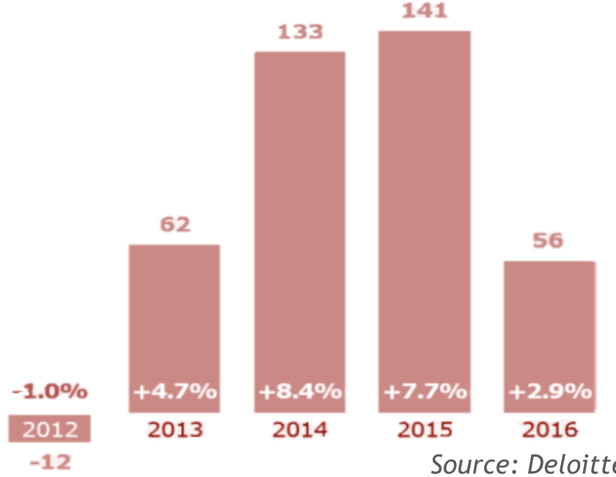
In line with the recovering Italian economy, the asset management industry has been showing tremendous signs of recovery

The Italian asset management industry is experiencing a long period of growth and is now one of the largest and most dynamic across Europe. It represents a huge opportunity for BiG to attack these new affluent clients and present them more digital and innovative products.

- In recent years, asset management in Italy has been gaining importance in the economy. Since 2011 **total AUMs as a percentage of GDP, raised from 57% to 111% in 2016.**
- Showing an exceptional compounded annual growth rate of 15.7% over the past five years, **assets under management in Italy have reached €1 943bn at the end of 2016**.

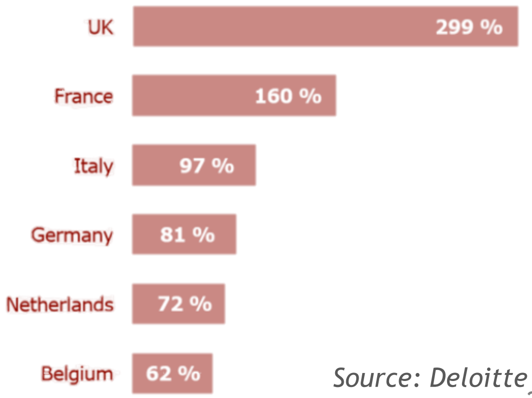
- Between 2012 and 2016 net flows have been essential in the asset side of portfolio managers, creating at the same time a friendly environment for the distributors - banks and financial advisors.
- In particular, the years of 2014 and 2015 were exceptional and the net flows emerged to around 8% of the current volume of managed assets. Such positive flows are, indeed, proof of a general climate of trust towards the industry, by Italian retail and institutional investors.
- Italian savers are well-known in the international environment for their risk-aversion and their preference for safer financial instruments, such as deposits, government bonds and real estate.
- **The macroeconomic climate**, marked by low - or negative - interest rates on traditional securities **has proven to be the main catalyst for the asset management industry**.
- Diversification, technical competence and a relationship with the distributor based on trust are pushing households to lean towards the asset management industry, abandoning the traditional investment forms.
- When reading figures that relate to different markets, we must analyze numbers with extreme care: for example, in France, money market funds represent a significant portion of the fund industry, whereas **in Italy most of liquid assets are tracked in bank accounts** and are, thus, outside the asset management perimeter.
- Considering AUM/GDP as a proxy for the activity of the industry, and excluding the United Kingdom, which has historically been the most advanced place with regards to asset and wealth management, Italy is positioned behind only France.

Net flows of assets to AUM in abslt. values (€bln) and net flows as a percentage of previous AUM



Source: Deloitte

Average AUM/GDP between 2013 and 2015



Source: Deloitte

The early-stage Italian fintech market is still expected to grow in years to come

BiG BANCO DE INVESTIMENTO GLOBAL

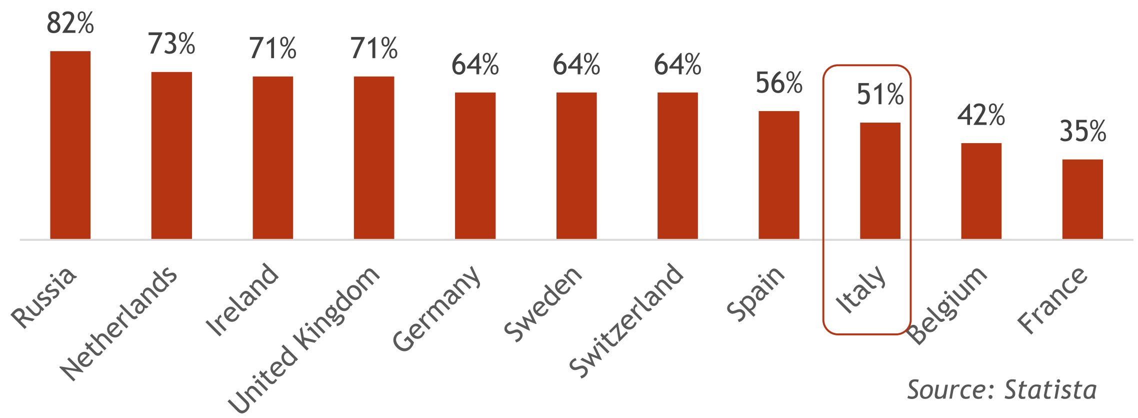
Italy is still not the most developed financial tech market, but the fact that the market is shifting in that direction, and that the present players have been able to proliferate at a younger stage, gives some hope for disruptive entrants, like BiG, to expect positive results.

- Italy is **not one of the biggest players in Fintech innovation** services.
- Their consumer adoption of fintech companies and products rate is **below of the European average**. In 2017, 16% of Italians used at least one Fintech service.
- The network of branches of credit institutions constitutes a "framework" that facilitates the interaction between saver and physical consultant.
- In order to cut costs and to keep pace up with technological developments, Italian banks **reduced** their **number of branches** and pushed digitalization. Nevertheless, the figure of the human consultant remained at the center. Furthermore, regulation and government support of Fintechs are not well-developed and there is no clear regulatory framework falling within the fintech sector.
- However, the Bank of Italy is playing a proactive role in order to support a development and to enable the establishment and evolution of a Fintech ecosystem. The **opening of the Fintech District, in Milan**, is an example of Italy's commitment to attract financial institutions and strengthen its position as an European financial hub.
- **Transaction values and users of Fintechs are expected to grow for the next years in Italy**, many international players are expected to join the market, something than has already began to occur, e.g. N26 or Lendix.

Expected Transaction Value Growth (2019-2023)	
Digital Payments	43%
Personal Finance	161%
Alternative Lending	3%
Alternative Financing	102%

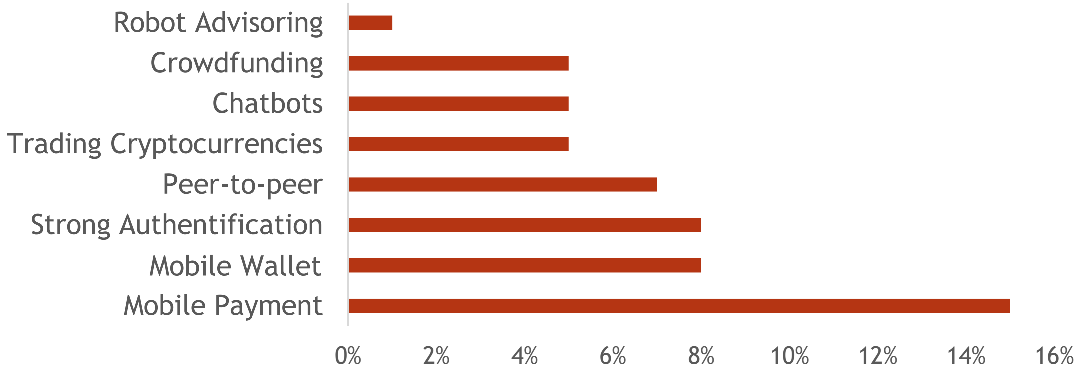
Source: Statista

Europe consumer Fintech adoption rate (2019)



Source: Statista

Most used services among Italian users (2017)



Source: Politecnico di Milano (2017)

The affluent segment is very competitive with traditional banks leading the market but with new solutions emerging

Italian more traditional banks take up the majority of the retail market, serving a lot of affluent clients, mainly the traditional one, which is not BiG's clear bet. Still there are lots of potential clients opened to the more dynamic products of the Portuguese player.

- UniCredit, Intesa San Paolo and Banco BPM, stand out as the biggest players in the banking industry, specially in retail banking. Together with some of the more classic players, they manage to net most of the profit of more traditional banking.

UniCredit
Revenue: € 19.62 bn
Net income: € 5.47 bn
Total assets: € 836.79 bn

INTESA SANPAOLO
Revenue: € 18.87 bn
Net income: € 7.35 bn
Total assets: € 796.86 bn

BANCO BPM
Revenue: € 4.62 bn
Net income: € 2.61 bn
Total assets: € 161.21 bn

MONTE DEI PASCHI DI SIENA
Revenue: € 1.85 bn
Net (loss): (€ 3.24 bn)
Total assets: € 143.59 bn

UBI Banca
Revenue: € 3.58 bn
Net income: € 690.57 m
Total assets: € 127.38 bn

cdp
Revenue: € 1.02 bn
Net income: € 4.46 bn
Total assets: € 419.55 bn

MEDIOBANCA
Revenue: € 2.2 bn
Net income: € 750 m
Total assets: € 70.44 bn

- The fact that **there are some international players**, ~80 foreign branches, which have performed positively in Italy, (BNP Paribas, with the acquisition of BNL, registering revenues of €2.79bn in Italy, last year. Santander, Deutsch, HSBC, or ING are also highlightable) **increases competition** levels, showing, at the same time, Italians do not go exclusively for national options.

Although it seems as if these big scale players bring some difficulties for competition to emerge, the **digital revamping of the industry has offered new solutions for clients**. In BiG's case, the dynamic affluent clients have been opting to switch to these new products, as follows:

- The online bet is real with some Fintech players already present such as **N26**, focusing mainly on deposits, multicurrency and cards, **Revolut**, with all the above, but also planning on attacking the Trading sector, **Raisin**, with attractive deposits, and **Etoro**, with a well-rounded trading platform and robot advisory.
- **PosteItaliane** is also betting on the digital path and has above 25m apps downloaded, (growing at >10% YoY) representing over €2bn in revenues solely for financial services. They have partnered with Microsoft aiming at improving online CRM and are set to invest €40m in MoneyFarm, one of the hottest wealth management Italian Fintech companies, showing they are also aboard the digital train.

The growth of the digital segment in Italy forced the origination of several digital solutions

BANCO DE INVESTIMENTO GLOBAL

Traditional banks did not want to be surpassed for not being able to cope with the modernization of their area. In Italy, most of them ended up creating **digital-focused subsidiaries**.

- There is now a series of digital banks, most of them belonging to other bigger banks, that have been able to successfully penetrate the market and gain some market share (even that at the cost of cannibalizing their mother entities' revenues).
- **Hello Bank** is the foreign example, with ownership belonging to the French BNP Paribas.
- **IW Bank**, which represents 20 out of over 1000 branches of UBI Group, being fully owned by them. **Widiba**, belonging to Monte dei Paschi, showing revenues of €68m and €4.35bn of AUM, in 2018, or **WeBank** another digital branch, this time owned by Banco BPM, are other examples of this successful digital revamping process, taking place in Italy.
- From these, **Fineco**, formerly owned by UniCredit and **CheBanca!**, the mass-affluent division of MedioBanca (the largest Italian investment bank) have been the most successful.

FINECO BANK
Revenue: €619m (2018)
Net income: €241m (2018)
TFA: €69.3bn (2019)

CheBanca! Gruppo Mediobanca
Revenue: €293m (2018)
Net income: €41m (2018)
TFAs: €25.4bn (2018)

BANCA SELLA
Net income: €24.1m (2018)
Total AUM: €16bn (2017)

- Both managed to balance their income base and fees from clients which represent half their income.
- In CheBanca!'s case, the division is the **best performer growth-wise** when analysing the past few years, driving mainly by mass-affluent clients' payments of fees.
- The same has occurred with Fineco, with tremendous success in **acquiring new assets to manage** (with a significative share coming from current clients), and then make money on advisory fees.
- Both **focus mostly the mass-affluent segment**, with €100k above clients and if their recent growth continues in the next years, they are set to acquire even larger market shares.
- Another criti**cal player** to account for would be **Sella**, that stands out for its digital and well put together platforms aiming at institutional and individual clients, for trading, or small business accounts, for instance – they are **very similar to BiG** in their **solutions bridging between fintech and banking.**
- In fact, Fineco, CheBanca! and Sella will be used as benchmarks for further analysis.

Wholesale Banking in Italy – Industry Forces

The wholesale banking industry is characterized by having high competitive rivalry and threat of new entry but a low supplier power

BiG BANCO DE INVESTIMENTO GLOBAL

Threat of New Entry: ✓ HIGH

- As a member of the WTO, Italy has **low barriers** to entry in almost any market.
- Financial institutions find it very easy to penetrate the Italian market and, more specifically, the financing market.
- In fact, some of the funding and the corporate finance operations in Italy are already done or go through some foreign institutions. For example, most of the capital invested in private equity comes from **international investors.**
- There may exist some physical barriers for traditional institutions but there are no legal barriers.

Supplier Power: ✓ LOW

- Suppliers have **low power** in this industry as financing institutions are very heavy players that, surely, represent a big part of their business.
- As there are a lot of firms that may provide the daily needs of financial institutions, these are easily replaced by other firms with similar products.
- However, looking at fintechs and the digital services provided by banks, the suppliers have increased power as there are fewer quality providers.

Competitive Rivalry: ✓ HIGH

- Considering the Wholesale Business, the market is well-distributed as it can be shown by the concentration indexes. Regarding the equity capital market, the debt market and the M&A market, all of them present very **low levels of concentration** when using the Herfindahl-Hirschman Index. All 3 segments have levels of concentration close to 2%.
- From the C4 concentration index, that considers the 4 financial institutions with highest share of the market, we can take the same conclusion. The 4 bigger institutions in Italy only covered around 20% of the market.

Buyer Power: ✓ MODERATE

- The high number of players in this market increases the power of the buyers over them.
- There are a lot of financing instruments and there are a lot of institutions that provide them, so the clients (firms) have a high number of possible alternatives that can easily access. Financial institutions must stay competitive to keep in the market. However, if a client had already started a funding service a certain bank it becomes very **difficult to change to another competitor.**
- The same happens with financial advisory. High number of firms providing this service will increase power on the buyer side. Of course, the best the service provided the more the clients are hooked to the service.

Threat of Substitution: ✓ MODERATE

- The threat of substitution resides on the **alternative forms of financing** firms can find to fund themselves.
- These alternatives are mainly **blockchain** and other **cryptocurrencies** that are not provided by financial institutions.

Despite the fierce competition and the threat of entrance of new players in the market, Italy is considered an **attractive market** in the Wholesale Business.

Wholesale Banking in Italy – Industry Trends

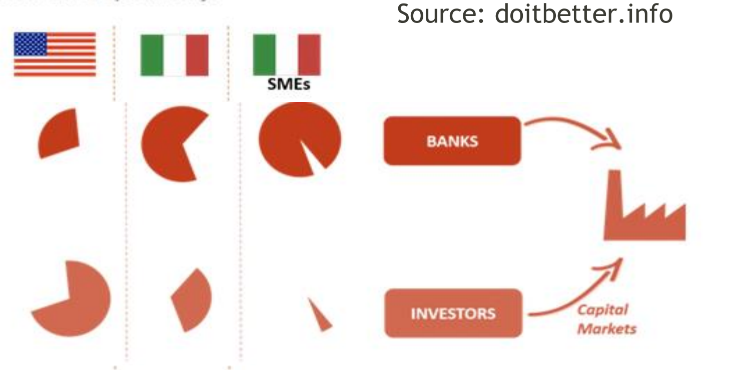
Italian SMEs have shifted their financing from banks to other alternative solutions, mainly mini-bonds

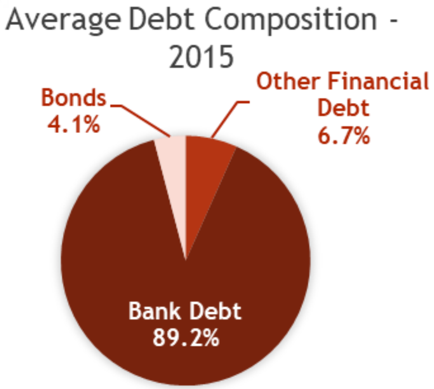
BiG BANCO DE INVESTIMENTO GLOBAL

In 2016, the funding of SMEs was still sustained mainly by the banking system. However, the Italian government is trying to reduce that dependence.

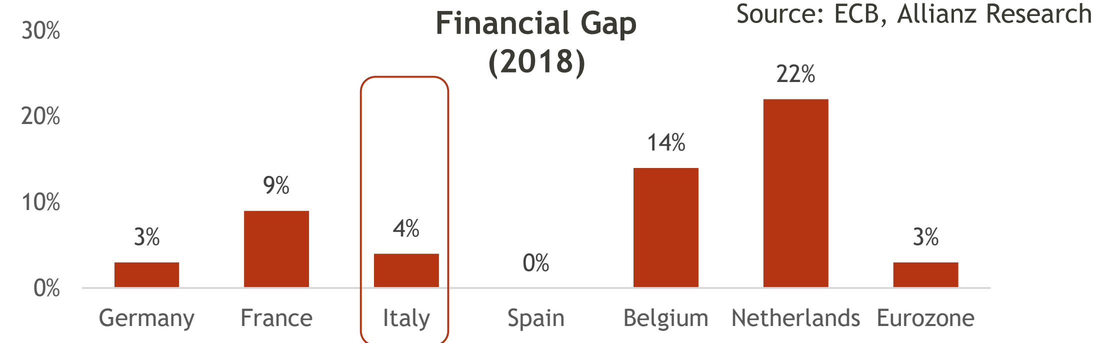
Percentage distribution of funding channels for companies in USA, Italy and Italian SMEs specifically.

Source: doitbetter.info



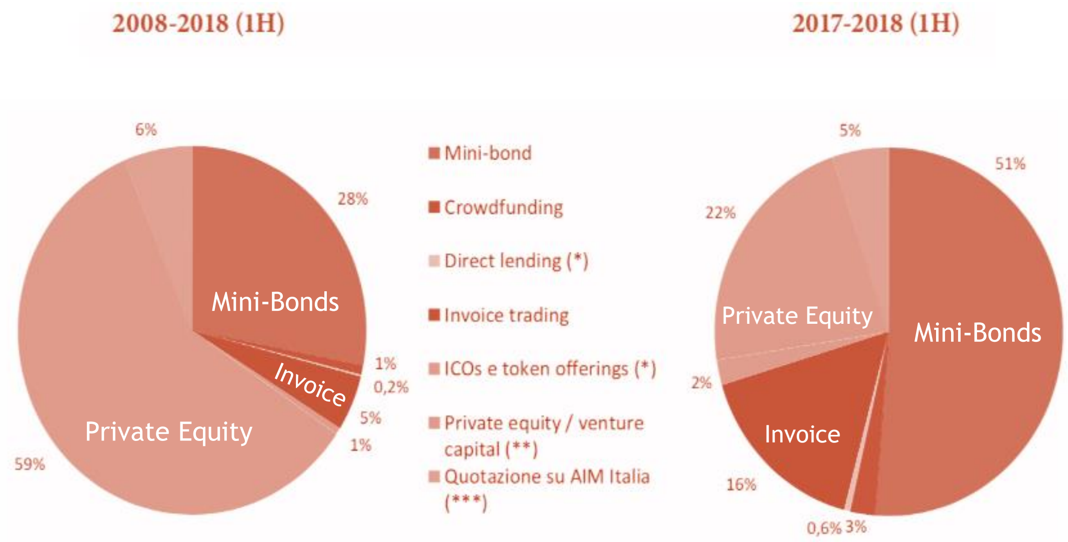


- Nowadays, external financing of SMEs **relies 70% on banks** which is still leaving a financial gap between loan demand and supply.
- The Italian government had to take action and introduce measures to increase the credit supply done by companies so that SMEs can find Alternative Investment Funds (AIF).
- European AIFs can start funding Italian SMEs as long as they fulfil some measure imposed by the Bank of Italy.



Since 2017 up until mid 2018, Italian SMEs raised €3.5bn from different financial investors as an alternative to the traditional bank lending.

- The most significant source of alternative funding in the last years are the mini-bonds, which represent 51% of the total alternative financing of non-listed SMEs. These are small sized bonds with a maximum value of €50m.
- Private Equity and Venture Capital are also an important funding tool with €184bn of invested capital. Only early stage, expansion and replacement deals are being considered.
- This estimation of direct lending is not accounting investments done by specialized vehicles on P2P lending fintech platforms which represent a broader market.

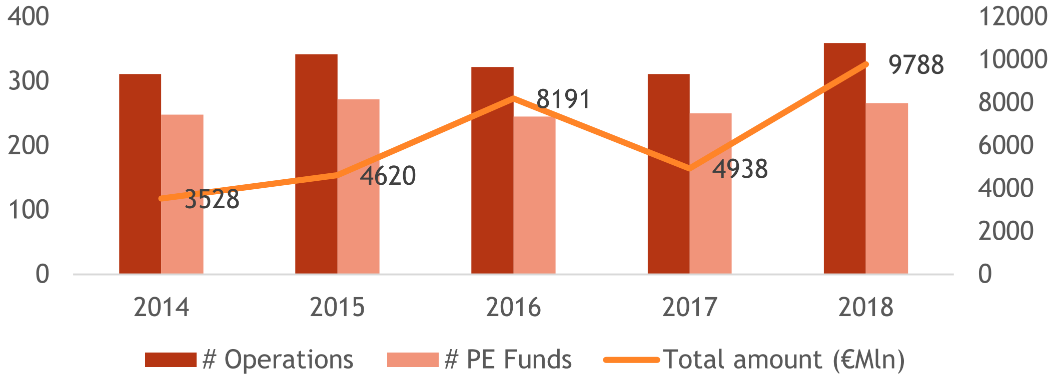


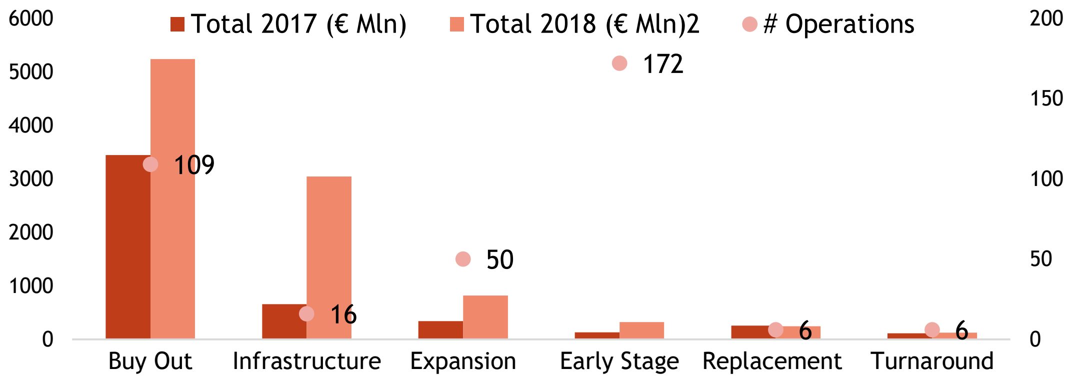
Source: Elaborazione Politecnico di Milano

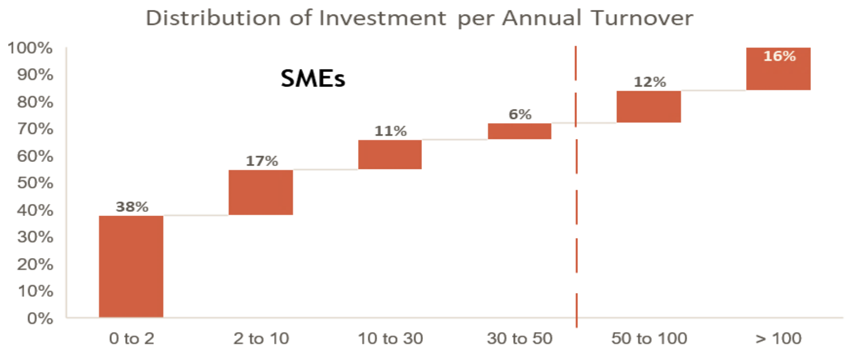
Despite the rise of alternative sources of financing, Private Equity's current figures show a very healthy deal-flow

- Looking at the last 5 years, the annual average of the recorded operations is 330 while the number of companies investing is 260. These values have been quite constant over this period of time. However, the **amounts of money invested have been quite volatile**. Concerning, the annual amount invested, the order of magnitude is around €5bn annually (except the exceptional events in 2016 and 2018 due to the numerous transactions of significant size, mainly carried out by international subjects).
- It is observable that the **buyouts have been, continuously, representing the most significant stake** meaning it is the market segment that shows the greater number of operations and the total amount invested as well, €5,242m. The average amount invested in the buyout per operation is €48.1m. In third, there is the **expansion/growth** segment with a total amount invested in 2018 of €816m distributed into 50 operations which results in an average of €16.3 million. This segment have been slowing down showing a negative trend over the last 5 years.
- The distribution of investments by turnover class shows how much of the market targets **small and medium-sized enterprises**. Although these firms have only captured 20% of the total invested capital, they are the **main target if we look only at the number of operations**. Small and medium-sized firms were the target of private equity and venture capital investors in 72% of the occasions.
- The number of operations decreases as the values of the annual turnover increases. Nonetheless, these operations represent higher amounts of capital.
- According to AIFI, there are 126 full members on the association, **70** members are **focused on the expansion** and **57** on **buy-out**. These 2 stages have in common 47 funds.

	Total Amount (€m)	# Operations
International Investors	6,438	99
Regional/Public Domestic Investors	2,111	47
Private Domestic Investors	1,239	213

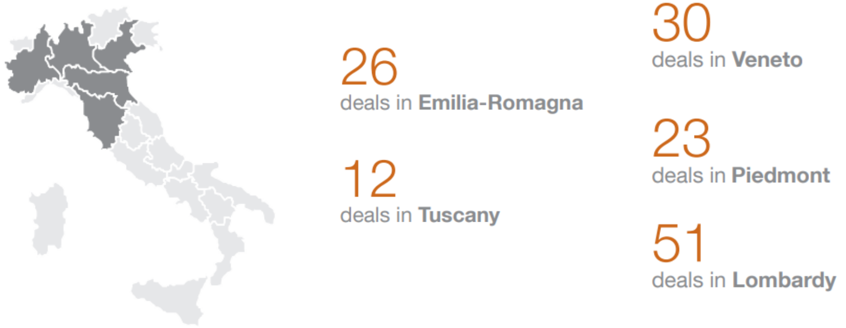






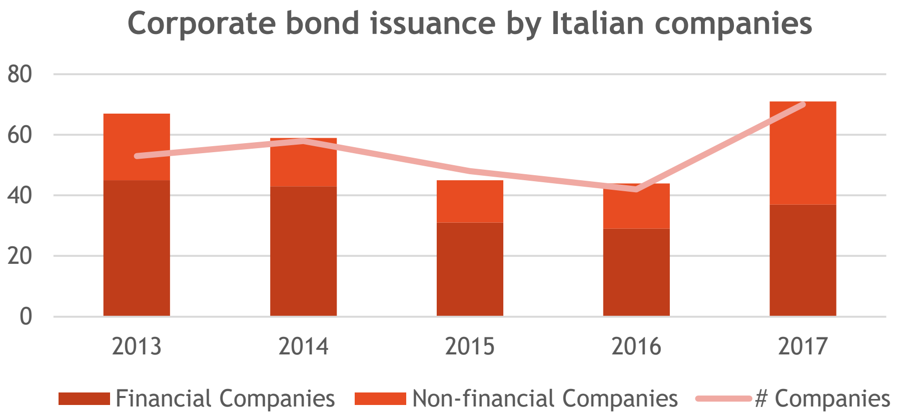
Corporate finance in Italy is a small market compared to other european countries but has shown signs of recovery

- Following the same pattern as Private Equity activity, the Italian market has faced an **increase in M&A operations** from one year to another.
- In fact, if we look at the consumer segment more than 200 deals (including 5 IPOs) have been announced in 2018 (vs. 178 in 2017), with the food sector as the industry where more operations took place. However, the size of each transaction has diminished comparing to last year (€79m in 2018 vs. €115m in 2017).

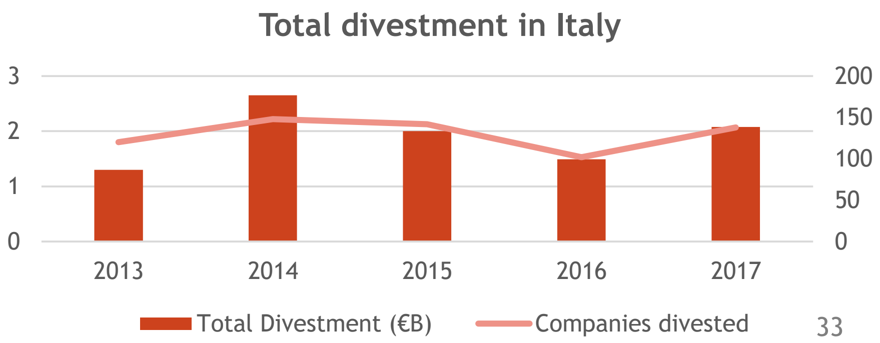


- Debt financing has been always an important part in Italian economy, and its shape is being distributed **from traditional bank lending to other debt securities**, over the last years.
- Since 2004, the **bond issuance has becoming increasingly important** for both financial and non-financial companies. The average annual amount raised was €74bn, between 2004 and 2014. In the last years, the trend has been slowing down with a decreasing amount of debt raised through this instrument year after year.

Debt Securities/Total Debt				
Year\Country	Italy	Spain	France	Euro Area
2007	5.90%	1%	19.20%	9.20%
2017	13.40%	3.20%	31.50%	15.90%



- The total **divestment volume has been decreasing** in Italy over the last years. This may be explained with an increase in the average time the funds hold on to their investment.
- In 2010, Italy registered the lowest value of divestment in Europe. However, since then, this activity is following the trend of the remaining countries, still showing low levels.
- Also, only 10% of total exit strategies were done, recently, through IPOs.



Competitive Summary – Wholesale Banking

Besides the traditional players and the new fintech operators that are also present in the retail banking segment, as mentioned before, in the wholesale business segment there are **other type of competitors** focused on the advisory and intermediation of corporate finance operations, such as consultant firms, asset management companies or private funds.

More specifically, within the wholesale banking segment, there are other **competitors** to bear in mind **regarding the SME financing**.

- **Penta**, a German digital platform focusing on business banking is partnering up with Credimi, showing openness to work with other fintech that add to their business, aiding their expansion to their Italian market. Their aim is to focus on a large opportunity in SME advisory, using a more modern approach.
- Looking at capital raising in Italy, **Elite** is one of the hottest fintechs. Focusing on debt, equity and mezzanine financing, mainly to SMEs. This platform bridges SMEs with financing needs with possible investors that are willing to provide that money. Every firm present in the platform (both the SMEs and the investors) need to meet some requirements and the all process is supported by a team of professional advisors from this fintech. Currently, it accounts with **520 firms in Italy**.

Although there are not a lot of firms doing the intermediation between SMEs and investors, **there are a lot of alternative solutions** that may be considered as competition, such as mini-bonds, debt financing, invoice trading, among others.
However, with regards to typical corporate finance operations, the range of competitors widens.

- Besides traditional banks themselves, some other players need to be accounted for: **Equita** has stood out as being one of the fastest growing investment banks, alongside Banca IMI, a subsidiary of Intesa Sanpaolo.
- In Italian M&A deals they have managed to compete with major players such as the big 4 auditing firms, Mediobanca (one of the major IB's in the country), or other large banks like UniCredit.
- In Debt and Equity capital markets, besides these aforementioned participants, JP Morgan, Goldman, HSBC come in as foreign representatives to crowd the market even more.
- In terms of advisory services to institutional clients, big Italian banks compete with international players such as Alantra, making it once again a very crowded a competitive marketplace, where there are not as many disruptive institutions as in the private retail segment.
- In Trading Services Fineco and Equita possess the largest share of the market and are both relatively recent companies. They are closely followed by IW Bank. But still, two recent entities have gained the largest share of a very competitive space.

Industry Forces – Key Takeaways

In BiG's perspective the main concerns will be the high competition and the threat of new entrants in the market

BiG BANCO DE INVESTIMENTO GLOBAL

Competitive Rivalry

- ✓ BiG's Total Financial Assets of €3.4bn and Revenues of €55.2m are **substantially lower** than most of these, recently created, digital banking operations.
- ✓ The Portuguese bank would, therefore, not be positioning itself as a meaningful player, among them, in business volume terms.
- ✓ There are no signs of growth slowdown for the Italian digital competitors, making it **increasingly difficult for BiG to compete** and capture some of their client-base, possible competitors in the banking business have caught up with the digital opportunity and are betting on it.
- ✓ BiG will be **facing tremendous competitive issues** in its internationalization to Italy, it is a very large market, nonetheless one that already has **numerous established players**. BiG's affluent client is being well served by the Italian counterparties.
- ✓ Some Fintech solutions, most of them foreign players have gained traction in Italy and shown that, with a different approach, it is possible to penetrate a market seemingly unbreachable.
- ✓ Despite the high number of players competing in the wholesale banking space, there are still some issues in the financing of SMEs, which can create a market gap that possibly allows the bank to occupy.

New Entry

- ✓ As a new player in the Italian market, BIG will be facing threat from other new entrants.
- ✓ Despite the forces of a very mature industry, making it very difficult for any player to meddle with their position, there are several **strengths** that can help a **new competitor to stand out**.
- ✓ New fintechs are expected to turn up and have similar traction to ones that have already began to defy, successfully, players that seemed too powerful.

Buyer Power

- ✓ Buyers are likely to have **increasing influence** on BiG's pricing possibilities.
- ✓ On the one hand, they'd be able to shift between offers, while, on the other it would take a very distinct asset to gain traction in the market.
- ✓ Since BiG does not clearly outperform other competitors at banking, it will be more affected and will have to **sacrifice in margins** to win some market share. Still, if BiG can **differentiate their offer** (as in SMEs financing), they could get past these consumer power issues.
- ✓ The digital and more **personalized service** BiG would be able to offer will likely help the bank undermine these difficulties, if the bank is able to capitalize on them like, recently, fintechs have.

Substitution

- ✓ Threat of substitution is not, for now, a major concern in either line of business.
- ✓ Some issues regarding **blockchain** technology in financing, or other players like, for instance, Facebook may surge as substitutes of a business that for now is just banking done by banks and other financial or advisory institutions.
- ✓ It is not expected that BiG's operations will face a clear substitute in the next years, but all depends on the ability and interest of the aforementioned players.

Supplier

- ✓ No very specific takeaway for BiG. They should face **similar issues to** what is currently happening in **Portugal**, as most central services do not need to be transferred in an eventual internationalization process.

Resources & Capabilities – Are they transferable?

BiG's reputation and brand are pillars of their performance in Portugal

With a very solid and growing path since its foundation, BiG was capable of building its brand and reputation in the Portuguese banking industry and even in the European banking industry.

Known and well-established brand	With a unique positioning and a clear communication, BiG was capable of building a strong brand in Portugal.
Established Relationships	BiG established important relations with customers and partners though time. Example: Investors in Capitalizer (one of BiG's platforms).
Reputation and Solidity	The bank has high levels of equity ensuring a strong reputation and rating in the ECB. BiG was always capable of generating profit, even during the crisis. Good balance sheet management and with a highly transparent policy, BiG has a strong reputation in the Portuguese banking industry.
Financial Independence	With a low risk balance sheet management approach the bank is not dependent from a single source of funding and nor is too exposed to the market. It presents an Equity Core Tier 1 ratio of above 31%, which is very high among European peers. This rock-solid financial situation allows the bank to stand out when compared to other institutions.

Human talent and team efficiency are priorities of the bank

BiG focuses on ensuring to have highly talented workers with a highly efficient culture of meritocracy and proactivity.

Meritocratic structure	A vertical institution where the employees have the opportunity to grow based on their performance.
Well defined culture	Characterized by its high standards, high requirement levels, and high ethical principles.
Small and agile	The size and agility of the bank allows it to rapidly adapt to new trends and needs and develop the best solutions.
Internal IT competencies	With skilled IT workers the company can develop modern tools applying these skills to the financial sector.

BiG occupies a unique position in the Portuguese market

BANCO DE INVESTIMENTO GLOBAL

Having a focus on capital markets, and its digital bank status, allows BiG to be positioned differently from the majority of the Portuguese competitors.

Digitalization	BiG characterizes itself as a digital bank and bets strongly on this, with the release of a big range of digital products and solutions. Ex: Digital Onboarding, BiG Total Banking.
Capacity of creating value trough partnerships	Besides the internal IT skills and capacities, BiG has also the capacity of identifying partners that can add value and innovative solutions to the bank and has in its offer several solutions created with partnerships. This capacity gives BiG the opportunity to implement new products and solutions in short periods of time.
Diversity of products and services	Integrated offer in the savings and investments segment with several options with different degrees of risk, open architecture format available with access to global markets.
Innovation Capabilities	Part of BiG's DNA, since its inception (ex: first online broker in Portugal), is the access and capacity to adapt technological innovations.
Competitive pricing	In Portugal, BiG is capable of practicing highly competitive prices in terms of deposit's rates and commissions.

BiG's team and digital competences are the most valuable resources for the expansion

BANCO DE INVESTIMENTO GLOBAL

	BiG's Resources & Capabilities	Transferability to Italy	VRIO Analysis
REPUTATION	Known and well-established brand	Brand is unknown in Italy	Not valuable at an initial stage
	Established Relationships	Currently, BiG has no official relationships established in Italy	Not valuable at an initial stage
	Reputation and Solidity	BiG's reputation goes further than Portugal	Valuable Competence
	Financial Independence	High core equity ratios are valuable all across Europe	**Valuable and Rare competence**
TALENT	Meritocratic structure	Important aspect to be enhanced as it is valued in the Italian culture	Valuable competence
	Well defined culture	Important aspect to be enhanced as it is valued in the Italian culture	Valuable competence
	Small and agile	**In a changing industry, this capacity to adapt to changes is quite valuable**	**Valuable and Rare competence**
	Internal IT competencies	**Differentiates BiG from competitors that have to outsource**	**Valuable and Rare competence**
POSITIONING	**Digitalization**	**Essential to address the new type of customers emerging in Italy**	**Valuable and Rare competence**
	Value creation trough partnerships	**This asset is essential for BiG to have more versatility and differentiate its offer in Italy**	**Valuable and Rare competence**
	Diversity of products and services	Important aspect to address all the different customers	Valuable competence
	Innovation Capacity	**Necessary to address the new opportunities in the industry**	**Valuable and Rare competence**
	Competitive pricing	It is important that BiG ensures this high competitiveness in Italy	Valuable competence

Key Success Factors - Italian Banking Industry

Several factors need to be considered to ensure the success of the expansion

In an industry that is quite crowded, with a high branch per capita ratio it is important to define the key factors to consider in order to **succeed in the Italian banking Industry**.

Establishing close relationships	With a traditional family business culture, personal relationships are essential for the Italians. It is very important to understand how to quickly build these relationships when entering the market.
Known brand and with a good image	Italians only trust the brands they know. Appearance and image play an essential role in the Italian culture.
Good reputation and transparent company	With several cases of corruption in the country, Italians praise transparent companies with a clean reputation.
Well-established physical network	Despite the success recent of digital solutions and the recent closing of bank's branches, Italians still value physical presence, factor that explains the high quantity of branches in the market.
Diversification of services	Italy can be characterized as a highly heterogenous country, with significant cultural differences from region to region and also with different types of banking customers, from the elder and more traditional to younger the more modern and digitally developed.
Having a highly competitive price	As the banking industry is highly competitive, price plays an important role and it has a big weight in the customers' decisions. Being able to offer a competitive price is essential.
Quality of service and products	The high competition also causes the need to ensure a top-quality service with top quality products, in order to differentiate from the competition. Once the company falls short on this aspect, customers will look for a better option.
Innovation capabilities	With the majority of the competitors being traditional banking companies, having the capacity to innovate and develop modern and advanced products can be a differentiating factor that can lead the company to success
Technological capabilities	The industry in Italy is dominated by banks that develop their products and services internally. That way, institutions with a more flexible infrastructure have the opportunity to stand out in the market.

Technological capabilities, the agile team and its innovative capacity will be BiG's "main assets" in Italy

BiG BANCO DE INVESTIMENTO GLOBAL

In an industry with players that are present for a long time, BiG will not be able to easily build its reputation. The main focus should be on it's disruptive and innovative approach of the market with their differentiating tools.

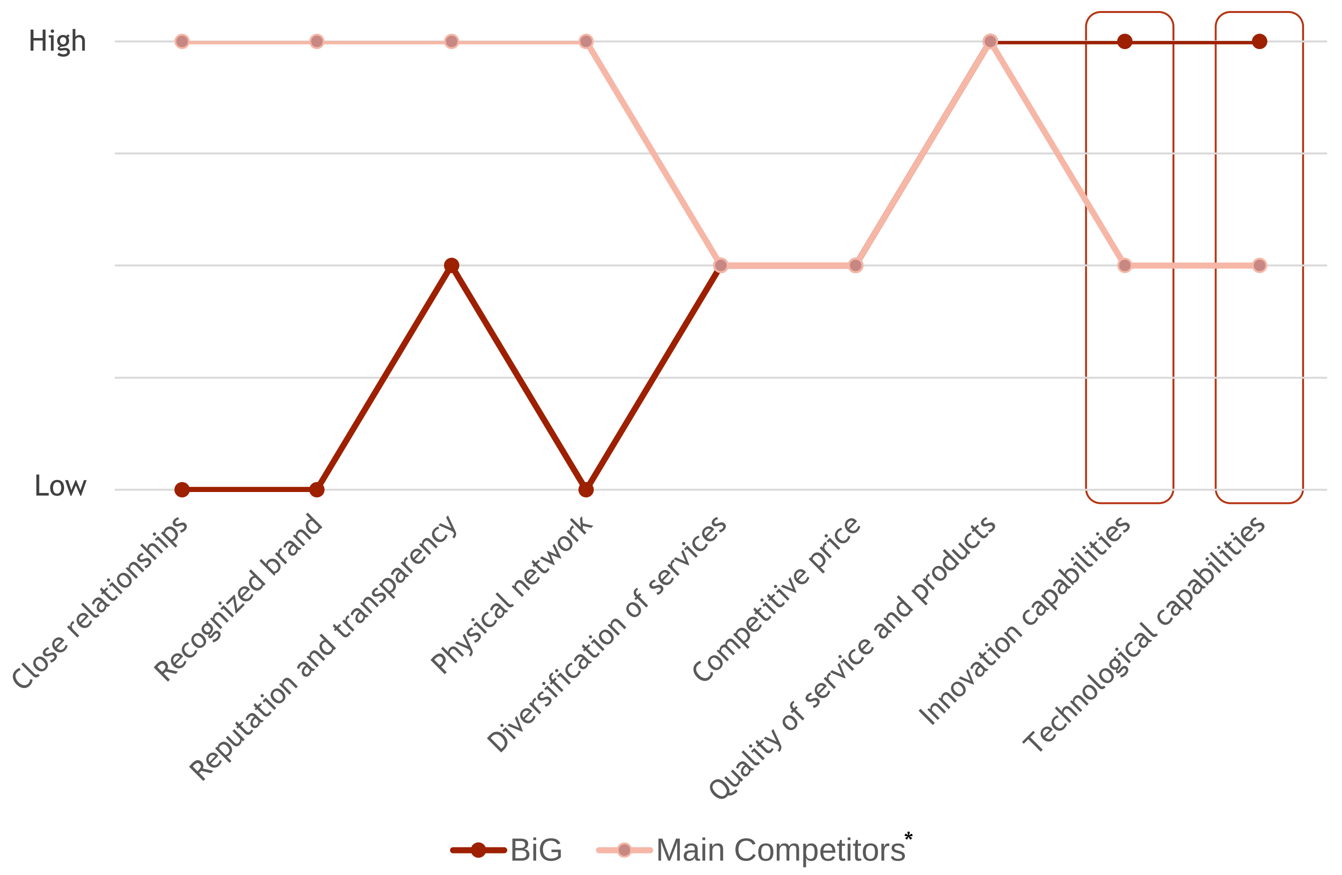
Banking Industry Key Success Factors

- Establishing close relationships
- Known brand and with a good image
- **Good reputation and transparent company**
- Well-established physical network
- **Diversification of services**
- Having a highly competitive price
- **Quality of service and products**
- **Innovation capabilities**
- **Technological capabilities**

*Highlighted factors are the ones BiG should focus on

- Looking at BiG's main resources and competences in Portugal, it is possible to understand that they **match the key success factors** of the Italian Banking Industry.
- However, a considerable part of these competences are hardly or even not transferable to Italy, either because they took years to build in Portugal or because there is no opportunity for it in Italy.
- The bank's reputation, brand and relations are not significant in Italy therefore they would need to build this image from scratch in Italy.
- On the other hand, **BiG's structure and culture** are essential as these are the main aspects that allows the bank to be constantly developing new products and solutions for the clients.
- Finally, **BiG's digital positioning** and capacity of being constantly innovating both trough the development of in-house solutions and trough value-adding partnerships, will be the main differentiating factor in the entrance in Italy. Furthermore, it is also very important that they are capable of maintaining their price competitiveness in this new market.

BiG has the potential to create a competitive advantage through its innovation and technological capabilities



Innovation Capabilities

A distinguishing factor between BiG and the players already established in the Italian market is the capacity of creating new products and services. There is an important difference on the ability of **producing new solutions** and deliver them to market. BiG also differentiates itself on the capacity to **adapt to the changing environment** of fintechs, frequently establishing partnerships with companies that offer technologically advanced solutions that BiG adds to its offer.

Technological Capabilities

Comparing to its Italian peers, BiG also distinguishes itself on the **internal technological capabilities**.
In fact, both CheBanca and Fineco do not operate with an open banking. All products are developed internally.
This may be considered one of BiG’s competitive advantage when entering the market, with a model that is more agile and open to partnerships.

On the left-hand side of the value-curve BiG has a disadvantage as its brand is not internationally recognized, nor they have any relationship with local players . Only the bank’s outstanding financials can help in making BiG more interesting in the eyes of the Italian consumer. **Innovation** and **Technological capabilities** are the two characteristics in which BiG may be better than the players established in the Italian market. Those are to be considered competitive advantages and should be taken into account when expanding to the new country.

*Based on Fineco and Chebanca data

Italy – is there an opportunity for BiG?

BiG's main opportunity relies on the fact that the technological disruption of banking, in Italy, is still at an initial stage

BiG BANCO DE INVESTIMENTO GLOBAL

Italy is a high potential market but also carries a significant level of risk, as it is highly competitive and in constant change, not to mention the size and competitive ability of the players in the country.

Strengths

- Bank's solidity and independence gives financial margin to safely invest in the Italian Market.
- Structure and human talent are an essential part of the bank's identity, always striving for the most innovative products and tools.
- BiG digital services and IT knowledge are main competences that distinguish the company from traditional banks.
- Innovation capacity is the main strength of the bank, either with products developed by BiG or with partnerships with other entities.

Weaknesses

- Low brand awareness and reputation.
- Low to zero relationships established which will difficult the initial contact with the Italians.
- Hard to have a strong physical presence at an initial stage.
- Difficulty to scale to levels presented by Italian competitors.

Opportunities

- Technology solutions are still in a growing stage in the Italian banking industry, allowing BiG to be part of the future growth.
- Disruption of the market with the entrance of Fintech companies.
- BiG has the opportunity to be part of the disruptive side with unique solutions.
- Traditional banks are not ready for the technological disruption.
- Main global Fintech players did not gain clear traction in Italy. (example: Revolut, Raisin)
- There is a gap in Wholesale banking, mainly in the financing of SMEs.

Threats

- Several players in the market with built brands and reputation.
- Some players have the same positioning as BiG, threatening the differentiation of the company.
- Big players gained the trust of the market.
- Italians are reluctant to changes.
- Global Fintech players can enter the market anytime.
- Competitors can imitate BiG's products and benefit from their stronger brand.

- To penetrate Italy, BiG must make use of its capacity of differentiating from traditional banking through its disruptive platforms and know-how, as at this moment the bank may not be able to withstand direct competition. Undoubtfully, BiG has the innovation capacity and some weapons that will allow it to sneak in the market at an earlier stage.
- If the bank succeeds in gaining traction and establish relations with local participants, at a later point in time, it can bring forward other segments – mainly the affluent one – and, by then, be able to transfer some of the resources and capabilities, such as brand and reputation, that will help them to be seen as a valuable option for Italian customers.

The Fintech growth allows BiG to enter the market positioned closer to a Fintech company and differentiate from traditional banks

The traditional banking industry has been facing significant changes with the digital revolution. Fintech companies brought challenges and opportunities to traditional ones and are suggesting a significant restructuring in the sector.

A different approach to the market

Services in the financial industry traditionally carried out by a single intermediary have become fields of experimentation and competition by new specialized companies (Fintechs) that want to make financial services more efficient by:

- "Disrupting" them, breaking them down and specializing on a specific product redesigning it.
- Introducing **innovative financial services** for different users.
- Intercepting even needs that are still in progress for consumers and businesses.
- Opening **additional channels** for the intermediation of savings.

This leads to a micro-segmentation of the reference markets, in which a growing number of Fintech operators offer increasingly specialized and highly innovative financial services.

"Big sharks" are entering this market

Major international technology companies are also rapidly entering the world of credit and finance (that is, the "Big Techs" such as Apple, Amazon, Microsoft, Google, Alibaba and Facebook).

An increasing trend in Italy

- Traditional banks and intermediaries see Fintech companies as a threat.
- Already more than 300 Fintech companies operating in Italy.
- 54% growth in the number of Fintech services users.

Fintech competences match BiG's ones

Analyzing the main competences and differentiating factors of Fintech companies in general, it is observable that, their **competitive advantage relies on the same resources than BiG**:

- High-tech innovative services
- Agile teams constantly trying to develop new products
- Strive for new products and solutions for the market needs
- Strong IT knowledge inhouse
- Focus on digital

On the other hand, Fintechs lack on the banking experience and this "scares" the less disruptive customers.

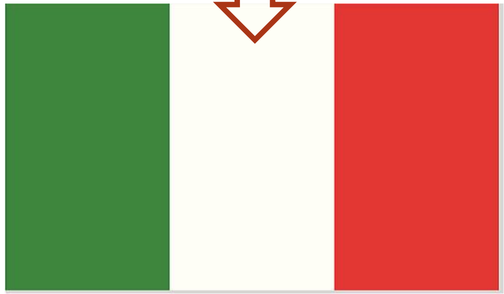
BiG has several similarities with Fintech companies, therefore, the bank should use this as an advantage against traditional banks and this way strengthen its position in Italy.

Conclusion

By analysing the characteristics of the institution and the market, BiG should use its digital platforms

BANCO DE INVESTIMENTO GLOBAL

International Expansion



- BiG is one the first digital banks in Portugal, where it is leader in financial intermediation.
- However, BiG wants to keep growing its revenues by increasing its stream of commissions.
- Due to a highly saturated and consolidated home market, BiG feels the need to step out and to keep expanding internationally.
- The bank has shown that Italy is its primary objective.

- Besides the cultural similarities and the size of the country in terms of population and wealth, the Italian market shows outstanding characteristics for the entrance of a digital investment bank, like BiG.
- There is a lot wealth within Italy, and, despite Italians' conservative habits, the tide is changing, leading to a diversification in the investment portfolios.
- The asset management industry in Italy is one of the biggest and most dynamic ones in Europe.
- The lack of digitalization in Italy may also be seen as something BiG can exploit rather than a weakness of the market, if one looks at expected growth for coming years.
- SMEs, which are the backbone of Italian's economy, are looking for alternative sources of funding.
- The corporate finance market is growing, and private equity operations are showing growing patterns.

BiG's Resources & Capabilities

+

Italy Key Success Factors

Innovation Capacity

Technological Capabilities

BiG may take advantage of an initial technological disruption in the market and use its digital platforms and modern solutions.

Knowing the location, the method and the target of the expansion it is easier to know which products to deliver and how to deliver them

By expanding to Italy in a 2-stage entry, BiG needs to know which regions are more appealing and better suited, what is the best entry strategy and who are BiG's target within the Italian market.

Where?

In order to understand where to move inside Italy, a study was conducted where several variables were considered in order to assess the level of wealth, concentration and activity of each region.

Considering both rankings, there are three regions that stand out and which should be the first targets.

These regions are Lombardy, Emilia-Romagna and Veneto.

How?

After weighting the characteristics and forces of the Italian market, the characteristics of the expansion and balancing both control and risk it was considered that the best entry method is the creation of strategic alliances, such as distribution partnerships.

This would be done along with the establishment of a local small branch with an experienced team.

Both the partnerships and the branch need to be developed over time.

Who?

Performing the expansion through its digital platforms, it is important for BiG to know who its target customer is and how to place its services, both for the retail and the corporate segment.

On the retail side, BiG's target are affluent clients with openness to the digital and that are looking for investment solutions.

Whereas, on the corporate side, BiG is looking for SMEs with financing needs or succession problems, with EBITDA between €5 to 20m.

Product

For the affluent clients, BiG will introduce digital trading platforms both for beginner and more experienced clients and, also, a deposits platform for risk averse clients. On the wholesale business side, will enter with the Capitalizer for the financing of Italian SMEs.

Placement

BiG's platforms will be based in a partnership with Saxo Bank (for the trading platforms) and Deposits Solutions (for the deposits platform). Both these players are already working alongside BiG in the Spanish internationalization. Regarding Capitalizer, it should capture Italian investors to attract Italian SMEs and vice-versa, building organic growth.

Pricing

Deals with both Saxo Bank and Deposit Solutions will be exported from Portugal and Spain. To be competitive, the trading platform's prices should be similar to the competitors. Capitalizer's prices must be adjusted to the new target SMEs, increasing the fixed commission and the variable commission ranges, when compared with the Portuguese prices.

Promotion

In order to promote its products in Italy, it is advisable for BiG to use both a digital and a physical approach.
Digitally, the strategy is Google Search Optimization, Digital Advertisement and Website and App communication.
Regarding physical promotion, it is mainly Strategic distribution partnerships and Branch Communication.

Besides the huge costs that are associated with the operations in Italy, BiG will have positive results from the third year onwards

BANCO DE INVESTIMENTO GLOBAL

Attract Investors & establish partnerships for Capitalizer

Firstly, it is important to incentivize Italian investors to do cross-border investments with the Portuguese and Spanish SMEs that are already present in the platform. After that, reach local financial players to attract Italian SMEs that have financing needs, since there are already home investors.

Create a small branch in Milan

To create a branch in Milan, BiG needs to fulfil some legal requirements and can start operating after 2 months. The branch will be mainly focused on customer assistance, good-functioning, development of the partnerships and generating awareness in the region. It is suggested that the internal team is composed by 1 analyst, 1 product manager and 1 general manager. Finally, the branch should be located in the Centro Storico of Milan.

Introduce and promote trading and deposit platforms

BiG should increase its digital presence by combining a strategy of paying to be on the top of Google's list and increasing its website's ranking to be closer to the top results. This can be done by adding more valuable content, including a canonical tag and, also, increasing the mobile speed of the website. It is also crucial to optimize the mobile app, to be top ranked in the AppStore and Google Play.

Following the cost assessment, it is necessary to check the financial viability of the expansion project.

Revenues

- Initially, the level of revenues will increase at a lower rate, but this will grow over time, allowing Revenues to scale.
- Individually, Deposits will be the greatest contributor for the revenue generation and will, along with the rest of the Retail solutions, generate around 85% of the banks Revenues, by year 12. Still, a note for Capitalizer, which allowed for roughly 40% of total revenues in the first years.
- During the 6th year, BiG is expected to reach the €5m mark in revenues, which almost doubles in the next year.

Costs

- Until the fifth year, BiG's costs are going to be translated into losses.
- Similarly to the revenues, Deposits is the service with higher costs and the Specialized Retail the segment where the costs are higher (90% of total in year 12).

Op. Result

- BiG will have a negative result in the first 5 years. After this, margins will increase significantly and be positive in the sixth and seventh years and stabilize from the 9th year onwards around the 35% mark.

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Banco BiG – Entry Mode and Operational and Implementation Plan of the International Expansion to Italy

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Banco BiG – Entry Mode and Operational and Implementation Plan of the International Expansion to Italy

This section of the paper is focused on analysing which entry method is more suited for BiG's move to Italy and, once completed what are the initial steps the bank should take to implement its services. After understanding which are BiG's valuable resources and capabilities and, after studying the Italian banking sector, each entry method was considered and evaluated, concerning risk and control, obtaining an outcome that partnerships and strategic alliances are the most feasible entry. Regarding the implementation plan, a phased entry should be considered, starting with the introduction of the Capitalizer by attracting Italian investors and partners.

KEYWORDS: BiG, Internationalization, Banking, Digital, Platforms, Wholesale, Retail, Deposits, SMEs, Trading, Wealth Management, Italy, Capitalizer, Partnerships

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Entry Mode

The entry mode is performed in three steps

As the market is highly competitive the entry mode may define the success of the expansion, therefore is important to ensure that the best strategy is chosen, according to BiG's profile and the Italian market characteristics.

Entry Steps

Based on the industry analysis and in BiG's characteristics, it is important to define an entry plan before analysing the entry mode.

Types of Entry

Then, it is essential to understand the different types of entry that can be performed in an expansion to a new market.

Conclusion

Finally, it is possible to conclude how should the entrance in Italy be performed based on the type of entry that better fits the bank's needs.

A two-staged entry is suggested for the move to Italy

The entrance in the Italian market should be split in two main stages. An initial stage in which BiG should use its digital platforms and products to entry the market, start capturing clients and building the brand. After this, at a second stage, the bank should increase the range of products and the presence in Italy consolidating the brand and scaling revenues.

INITIAL STAGE – Entry and Brand Validation

1st step

Approach Italian SME's investors for some cross-border investments in Portuguese and Spanish SME's. This initial step has the goal of studying the affinity and interest of Italian investors in SMEs and start building relationships in Italy.

2nd step

Introduce Digital products taking advantage of the previous relations established

SECOND STAGE – Diversification and Consolidation

Introduce the Specialized Retail products that require more presence, risk and control:

- Banking & credit services
- Wealth Management
- Personalised advisory and asset management services
- Investment and saving products
- Custody
- Brokerage

This two-staged entry is a cautious approach for BiG as it allows it to have an **initial presence with lower risk** and that doesn't have a lot of physical requirements as it is focused on the bank's digital products.

Once the bank gains some market share and is able to verify the positive impact of its digital products in the market, it should incur in a second stage that will allow for a **diversification of services and higher physical presence will carry less risk,** as the bank will already be present in the market with an existing and developed network of clients.

At first glance, exporting, licensing & franchising or acquiring another company seems less likely for BiG

BiG BANCO DE INVESTIMENTO GLOBAL

EXPORTING

The exportation of digital banking services requires an **European passport** that allows the bank to sell its services in European countries without the need of opening a subsidiary in these markets. This enables firms that are authorized in any EU or EEA state to **trade freely in any other country with minimal additional authorization**.

BiG would, firstly, need to acquire the EU passport, then the bank would need to start communicating and targeting the Italian market with a strong digital presence, so that, they could be strategically positioned to start selling their products and services in Italy.

PROS	CONS
• Fast Entry • Low Risk • Low financial burden • Flexibility	• Reduced control • Reduced local knowledge • Low presence and recognition of the brand

LICENSING & FRANCHISING

The main difference between Licensing and Franchising relies on the fact that, the latter would mean that the BiG would allow another company to use its branding and not just sell its products. As BiG has its brand and reputation as a main strength of the bank, **Licensing is preferable.**
BiG would need to identify promising companies that could be interested in a licensing agreement. After establishing all the shared commissions and fees, BiG needs to ensure that the licensee fully understands the products and services it is selling and keep track of the results and impact of the expansion.

PROS	CONS
• Fast Entry • Low Risk • Low financial burden • Flexibility • Low entry barriers • Brand awareness	• Reduced control • Reduced local knowledge • Danger of new competitors • Sharing private information

ACQUISITIONS

This strategy would require, initially, a deep and **exhaustive analysis of the market** to identify companies that have potential to add value to BiG. The next approach is to place an **acquisition offer** and understand what are the competencies of the acquired company that should be kept and introduced in the bank's operations.

This would allow BiG to start **operating independently**, but without needing to start from ground zero has it may benefit from the reputation, customer base and market knowledge of the acquired company.

PROS	CONS
• Fast Entry • Increased local knowledge & reputation • Established operations • Consolidation of positioning	• Very expensive • Integration risks • Risky investment • Acquired company may lose value

Meanwhile, partnerships or greenfield venture look more adequate for BiG's expansion

BiG BANCO DE INVESTIMENTO GLOBAL

PARTNERSHIP AND STRATEGIC ALLIANCES

This entry method would allow BiG to **balance risk against the control over the product**. Although it loses some control over the placement of the product, it mitigates risk, as the entrance is done alongside one, or more, local partners, that would bring knowledge of the market and possibly and an already built reputation.

Once the target partners are defined, it is necessary to **approach them** and explain how can BiG bring value to them, and what does BiG see in that company that could bring value to the bank.

After this, the following step is to agree on the **terms of the partnership** both in terms of products and communication and pricing and commissions.

Finally, the companies can start operating benefitting from each other's competences, and building a solid base of clients for BiG in the initial stage of the expansion.

PROS

- Hold the ownership
- More local knowledge
- Shared resources and investment between parties
- Higher recognition and acceptance

CONS

- Difficult to manage
- Lower control over the product
- Higher level of risk
- Possibility of divergence between parties

GREENFIELD VENTURE

Opting for a Greenfield venture, BiG would need to **open a branch in Italy** and would need to create an internal team responsible for the operation, preferably with a mix of talented and experienced people from Portugal and people with local knowledge on the market.

This strategy would imply a long study of the market, as it would involve a **high investment** and the bank would only rely on itself to succeed. BiG would be a new entrant in this market and would find some difficulties mainly in capturing clients and gain market share in Italy.

Also, as BiG's brand is not known across Italy, the average Italian investor might see these "foreign" platforms with some hesitation, scepticism and reluctance and stick with the ones they already know, which are currently operating in the market. In fact, the Italian consumer is known for prioritizing the Italian products over the foreign ones.

PROS

- More control
- Quality, brand, reputational and staff control
- Obtain market's knowledge
- Creation of employment – increased reputation

CONS

- Higher level of risk
- Huge investment
- Slow entry

Licensing and Franchising require lower investment but consequently give the bank a lower level of control over the operations

BANCO DE INVESTIMENTO GLOBAL

When expanding to Italy there are two major factors that should be taken into consideration and must be weighted in order to choose the entry mode that better fits BiG's strategy and characteristics. On one side, it is important to understand how **risky** the expansion project is and how it could be mitigated and, on the other side, how much it is **controlled** by the Portuguese bank or by other parties with their own interests in stake.

	RISK		CONTROL	
EXPORTING	**Direct exports** require a big investment of time, resources and an organizational change as well. It also implies a great knowledge over the market. All this characteristics make direct exporting a risky strategy.	**HIGH**	Following the same pattern as the risk factor by expading through exports, **direct exports** represent a maximum level of control over the distribution of the product in the destination country.	**HIGH**
LICENSING	The licensing method reduces the investment to the lowest possible level. All the **financial risk moves to the institution that receives the license**. There is no economical risk as there is a low investment and there is no political risk as the licensee is, almost every time, 100% locally based. However, there is a little **reputational risk** if the licensing process is not properly handled by the partner company.	**LOW**	The low amount of risk taken using the licensing entry mode comes at the cost of also having a low control over the expansion's operations as **everything is dealt by the institution to which the license was granted**. It also endangers the market for a future entrance if the process is inefficient. Moreover, it must be paid particular attention to the fact that this method creates a possibility for the emergence of a new competitor.	**LOW**
FRANCHISING	Entering into a new market through a franchsing strategy may be risky concerning the **reputation of the franchisor**. However, this mode represent a **small investment** to enter a new market and the guarantee of receiving a fee and a constant stream of royalties. Also this method allies the know-how and the successful strategy of the franchisor with the knowledge of the market of franchisee.	**LOW**	The business owner has some control over the terms and conditions agreed upon the franchising contract, however, it might become **difficult to maintain control over the franchisee as the contract advances.** Although the franchise package usuall, includes everything to replicate the business in the target country, it might suffer from a brand devalution and ineficient profit.	**LOW / MEDIUM**

Acquisitions and Greenfield Ventures require a higher investment but allow for a larger control of the operations

	RISK		CONTROL	
STRATEGIC ALLIANCES	One very important feature when partnering with other parties is to **share the risk and leverage the strengths on every side.** In fact, to complete a partnership it is important that the parties agree on the level of risk and reward. Also, by partnering with each other, the alliance may obtain, more easily, the **validation of the market** as it relies on the knowledge and reputation of an already established firm in the market.	**MEDIUM**	By partnering with another firm to enter a market there is, somehow, a **loss of control over the operations as it relies on another firm**. More specifically, to enter a new market with a product such as digital platforms, most of the process is still managed by the entering firm, however, the **distribution and the placement** of the product near the investors is **handled by the chosen partners.**	**MEDIUM / HIGH**
ACQUISITION	When expanding a business to another country by acquiring a firm already established requires a huge initial investment. This undertaking leads to a **great amount of risk as there is a lot of capital in stake**. There is also a risk on the integration of the previous organization and a divergence between mindsets. Finally, although it integrates the the process of the acquired firm it requires a great level of knowledge of the market.	**HIGH**	By acquiring a firm in the market, it immediately gains **control over the operations of that firm**. From this point onwards, the entering firm can pursue its operations on the target market. It has total control over the set of operations, the marketing of the product and the financial plan.	**HIGH**
GREENFIELD VENTURE	Creating a new wholly owned subsidiary is a very time-consuming, complex and costly process and it can go incredibly well or incredibly bad. This method supposes that a firm is entering a market on its own, competing with the already existing players in that market while fighting for a share of the market. **It requires more knowledge and expertise about the target country**.	**HIGH**	Greenfield Venture has the feature of conceding the expanding firm the ability of having **full control of its operations.** Since it is creating a new subsidiary, with an internal team, processes and knowledge, in the new country, everything depends on how the marketing, operational and financial plans are implemented. One might say that the **firm's reputation only depends on itself.**	**HIGH**

At first sight, and bridging this analysis with BiG's reality, it is clear there are some entry modes that may be dismissed as they are not beneficial for BiG's entrance in the Italian market with digital disruptive products. Moreover, considering a **two-stage entrance it is important to ensure a good reputation** across the investors and the players in the market.

An intermediate level of risk and a high level of control should be considered entering the market

BiG BANCO DE INVESTIMENTO GLOBAL

The entry mode recommended to attack the Italian market should take into consideration the two-step entry (firstly with the digital disruptive platforms and, after that, with the remaining products on the Specialized Retail).

In order to find which entry mode is more appropriate for BiG to enter in the Italian market it is important to cross three different parameters:

- The **characteristics and forces of the Italian market** and how an entering bank should be positioned towards risk and control to prepare its expansion;
- The char**acteristics of the expansion**, an entry in the market phased into two different stages, with an initial entrance with only digital products increasing the offer basket after building a brand and reputation.

Characteristics of the Italian market	The average Italian investor may be very **reluctant with the entrance of foreign players** in the market. Also, they appreciate a **physical presence** to which they can appeal. This feature of the market is also applicable to the digital segment of the banking system; therefore it is positive for BiG to have a **branch** in the region of Lombardy. Meaning that it is important to enter the market with some caution but a great presence. Concluding, it is important to find a **well-balanced equilibrium** between risk and control over the expansion strategy.	✓ Impossibility of having high levels of risk ✓ High presence in the market required - higher control
Characteristics of the expansion	Considering the two-staged entry, it is important for BiG to **create awareness** around its presence in the market and **increase confidence** across investors, at an initial phase, in order to implement the remaining products it has to offer in the Specialized Retail segment, after it. The only way to capture affluent clients in the North of Italy is by proving it is a valid solution, when comparing to its peers. This requirement sets aside entry modes where the exposure of the brand is inefficient to pursue the next step, such as, exportation, licensing and even franchising, as they create less brand awareness.	✓ Controlled risk level ✓ Need for building brand and reputation in the Italian market - more control

After analysing both the market and the characteristics of BiG's expansion is possible to note that the bank will need to have a high control level over operations but, on the other hand, is not interested in bearing high levels of risk.
As the higher control is positively correlated with the level of risk, it is essential to understand how to mitigate the latter:

- Firstly, by having higher control, the bank mitigates the reputational and operational risk associated with entry types where third-parties are responsible for most of the decisions;
- Secondly, a deep and accurate research of the market to understand what investments should be done and how should the bank be positioned, may also mitigate part of the risk.

It is recommended to enter with the establishment of partnerships and the establishment of a small branch

After analysing the characteristics of the market and the characteristics of the expansion it is recommendable for BiG to enter with **strategic alliances** to take advantage of their market knowledge and positioning and combine this with the creation of a branch in Italy with an internal team working fully on the new market.

BiG's profile, capabilities and resources

BiG shows a **meticulous profile towards risk**, taking careful steps when facing any investment possibility. Instead of making risky moves, aiming for greater returns, it prefers more **secure investments** with low possibility of failure, trying to mitigate the uncertainty of the equation as much as possible. However, it would be helpful in this undertaking if BiG could **transfer its resources and capabilities** to the new market as they would be attempting to create some advantages when competing in the banking digital market. In other words, what this represents for BiG is that, in order to follow its investment pattern and take advantage of its distinct characteristics, they should chose an entry mode that represents a **moderate risk exposure and great control over its operations.**

In fact, BiG's characteristics support an entry mode using **strategic alliances and establishing a small branch in Italy.**

- ✓ Controlled level of risk
- ✓ High level of control to mitigate risk and transfer resources and capabilities

At a first stage, BiG can make use of its resources and capabilities to create an efficient process to develop its products and provide them to the Italian market. However, it is of great necessity for BiG to create a network to position its products close to the interested parties, the digital products in the case.

Following this reasoning, BiG may take advantage on establishing some **vertical strategic alliances with local players** to facilitate its entrance in the market. This collaboration will enhance and enlarge BiG's relationships and credibility in northern Italy and the domestic partners, **preferably financial companies**, will disseminate the digital platforms across their customers. More specifically, **reference partnerships** will be helpful for BiG to raise its number of users in its platforms through an **improved network of clients** and contacts and, through a **reputational stamp** which will increase market's confidence and acquaintance. These features will help BiG mitigate risk entering in Italy, maintaining most control over operations.

Concluding, these alliances with local financial players have the objective of increasing BiG's **distribution network** and facilitate the placement of the digital platforms. The goal of the partnership is the acquisition of new clients.

Initial Stage - Entry and Brand Validation

Distribution Partnerships & Small branch based in Milan

Second Stage - Diversification and Consolidation

Development of partnerships and the already established branch

Operational & implementation Plan

The expansion can be implemented in seven main steps

BANCO DE INVESTIMENTO GLOBAL

The expansion to Italy will follow 7 different steps in terms of the execution of the operational plan, each step having its own operational and implementation needs. These steps are discriminated bellow:

Raise investors for Capitalizer

The first service that BiG will introduce in the Italian market will be Capitalizer and the first move will be to increase the number of investors registered in the platform which may start doing cross-border investments.

Establish partnerships to distribute Capitalizer across SMEs

After attracting Italian investors for the platform it is time to create distribution partnerships with local players to come up with SMEs in need to raise capital.

Establish a small branch in Milan

After dealing with every partnership, a branch should be implemented in the city of Milan. This branch relies on a small internal team focused on the operations on the field.

Introduce Trading and Deposits platforms

The digital platforms should be integrated after a physical presence in the territory. This will allow the bank to have more control over its operations.

Promote the platforms in the Italian market

When the deposits and trading platforms are up and running in Lombardy, BiG should focus on the promotional strategies created to extend the number of its users.

Develop the partnerships and the team based in Milan

Moving forward, there is an intermediate step between the digital platforms and introduction of the other services of Specialized Retail. This step focus on the consolidation of the partnerships and the development of the team based in Milan.

Introduce the remaining services of the Specialized Retail segment

With an increased recognition of BiG's brand in the Italian market, it is time to introduce the other type of services that rely on a higher amount of control, such as Wealth Management and financial advisory.

The four highlighted steps will be deeply analysed as they are more complex and require a specific strategy to be implemented successfully.

Before the move to Italy it is important to establish relationships with investors and partners for Capitalizer

BiG BANCO DE INVESTIMENTO GLOBAL

The first thing to do in this expansion plan is to establish a relationship with investors interested in SMEs, purposing cross-border deals with Portuguese SMEs. The following step is to start looking at the number of SMEs registered. With this purpose it is crucial to establish partnerships with local players to point out which firms are in need of capital or looking to sell 100% of its equity.

Initial approach to the Italian Investors & Partners

Firstly, BiG should have a selection of investors and financial firms (that might become partners to distribute Capitalizer) around the region of Lombardy.

This primary approach should be an introduction to Capitalizer. It should create a teaser effect that would lead to an arrangement of an in-person meeting to present a pitch about this platform.

- Contact the targeted investors/financial firms via email or telephone to present briefly what the Capitalizer is and schedule a face-to-face meeting
- This task should be completed by a small team within the Corporate finance segment as they have higher knowledge about the platform

Physical approach to the Italian Investors & Partners

After setting meetings with local investors, it would be beneficial for BiG to allocate an internal team of two people to introduce Capitalizer in a most efficient way.

The duration of this undertaking should be adaptable according to the number of firms that had demonstrated some interest on the platform.

It should become clear for investors the already existing possibility to invest in foreign SMEs, located in Portugal and Spain, and, the future possibility to invest in Italian SMEs from northern Italy as well as the benefits for partnering with BiG for the financial firms.

Investors

There are some characteristics that might be helpful to find out which investors will take more advantage of Capitalizer.

- Private equity firms, family offices or private financial institutions
- Willing to invest cross-border
- Record of past investments between €5 and €20 million

Distribution Partners

These are financial firms with their operations based in Milan. Firms that provide financial services to SMEs and are in a better position to understand which SMEs need to raise capital.

- *Audit firms:* ACIT Srl, Studio Demarziani, Almar Audit, BTA Baudo or Studio Bongiorni
- *Consulting firms:* MBS, Arup, Landor Milano, AlixPartners or White & Case
- *Financial Advisors:* Arcus, Arcadia, Oaklins Arietti, Prothea or ADZ Morison

When opening a branch in Milan there are several requirements and costs that cannot be avoided

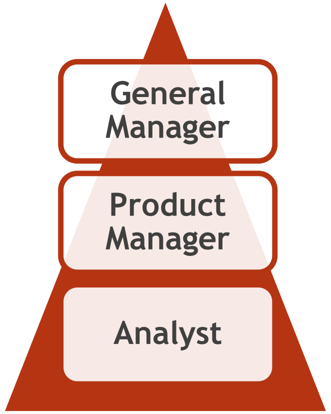
Functions of the Branch

- Raise new partnerships with local players
- Develop and keep track on the good-functioning of the partnerships
- Physical assistance for any service provided
- Keep the recruitment of investors and SMEs to use Capitalizer
- Understand how the market is reacting to BiG's presence
- Increase awareness and prepare the entrance of new products
- Front office for customer service

Branch's team composition

The Italian branch will be composed by 3 internal workers:

- 1 General Manager – focused on the development and supervision of Capitalizer and its partnerships
- 1 Product Manager – focused on the good-functioning and promotion of the trading and deposit platforms
- 1 Analyst – focused on the in-person customer service within the branch. And overall support to the branch's activity.
- The average monthly wage will be considered to be 5,000€, which lies within the 1st percentile of wages and the median in Milan.



Branch launching Costs

The opening of a new branch in Milan entails some fixed costs linked to the preparation of office facilities.

This fixed costs come from stationary costs, technological costs, IT costs, furniture costs and accommodation costs.

There should be also accounted the costs of rehabilitation of the space to make it look more like a bank's branch.

It is estimated that the launching costs for a new branch sum up to a **total value of 30,000€**.

Legal Requirements

In order to set up the branch in Milan there are some requirements that BiG has to fulfil:

- Notice from Bank of Portugal to Bank of Italy expressing the intention to carry out business in Italy
- After the notice, this can take up to **2 months** since BiG's activities falls under CRD IV legislative
- Regarding taxation, the implemented branch will **fall under Italy's regulation**. In fact, the branch must obtain its own tax code and VAT number.

In Milan, both banks and financial institutions fall under a tax rate of 27,5%.

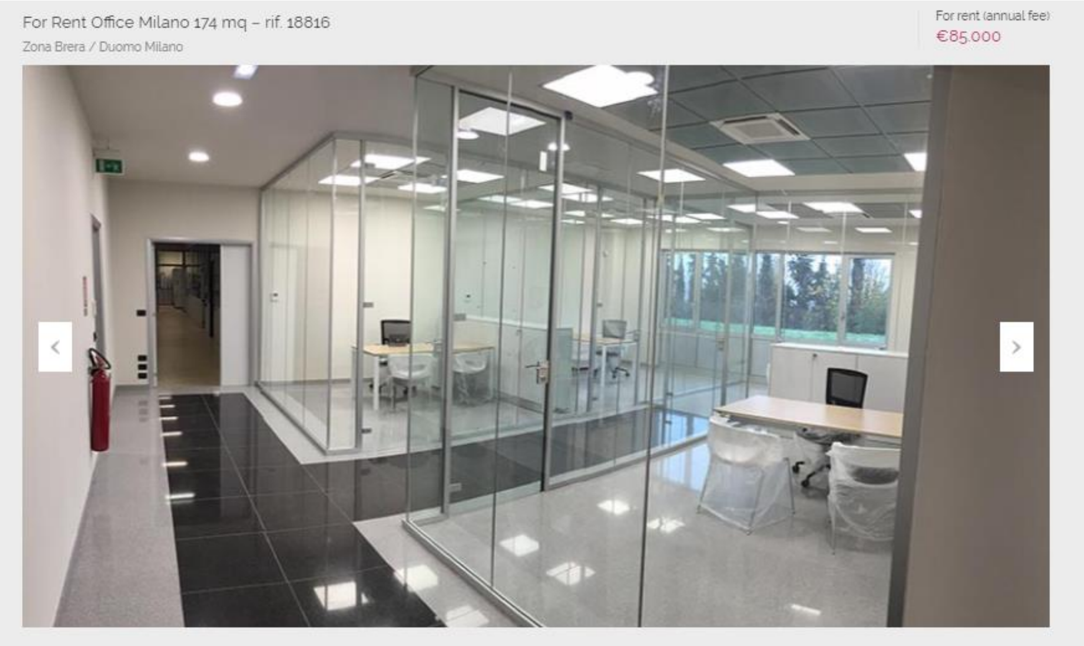
BiG's branch in Milan should be located the nearest possible to *Centro Storico*

Location & Space

The average monthly rate for renting a space in Milan is 5000€

There are some requirements in the choice of BiG's branch:

- The available size should be at least $100m^2$
- It should be a prestigious location that credits the brand among institutional partners and investors
- Long-term rental
- Possibility of remodelling the space



Regarding the recommended location, it should be within the Zone 1 of Milan, the *Centro Storico*.

This is the region with more financial activity, where there is the most branch density and, according to Hottelling's law, where BiG should install its branch.

This way, it will also gain more visibility and reach the savviest investors.

Digital Ads and Search Optimization should be the two digital channels used to promote BiG

The two channels should be analysed to understand which is capable of generating more traffic and consequently customers, without disregarding the profitability for BiG of investing on these channels

Digital Ads

In order to promote both the trading and the deposits platforms on google or social networks, the following steps are recommended:

1. Hire an advertising agency to develop an ad;
2. Select the channels where the ad should be published, and which advertisement plan is more adequate.

The cost of publishing an ad is **dependent on the number of clicks.**

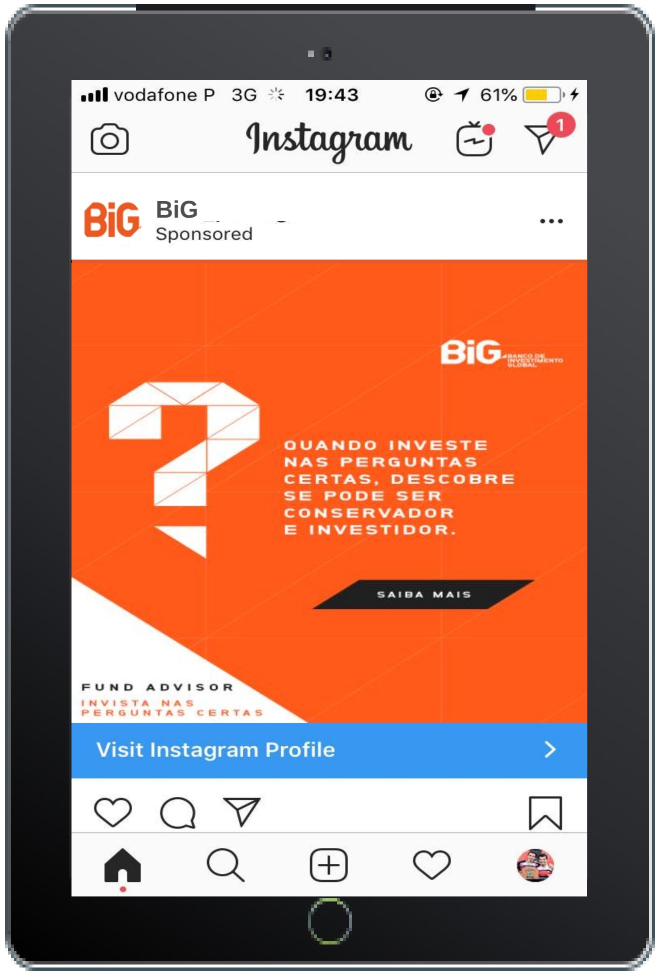
Below are the average costs-per-click:

- Social Media avg. – 3.4€
- Google – 0.8€

Search Optimization

To improve listing on Google searches two different strategies can be implemented:

- Website optimization (SEO) – this aims to increase organic traffic of the website. By optimizing the website Google will rank it on the top positions allowing for a significantly higher traffic.
- Paid listing – identifying the keywords that BiG's target clients search the most and paying to be top listed on that searches is also a good strategy to increase traffic of the website, this can be expensive, so it is important to understand which keywords are worth to pay for.

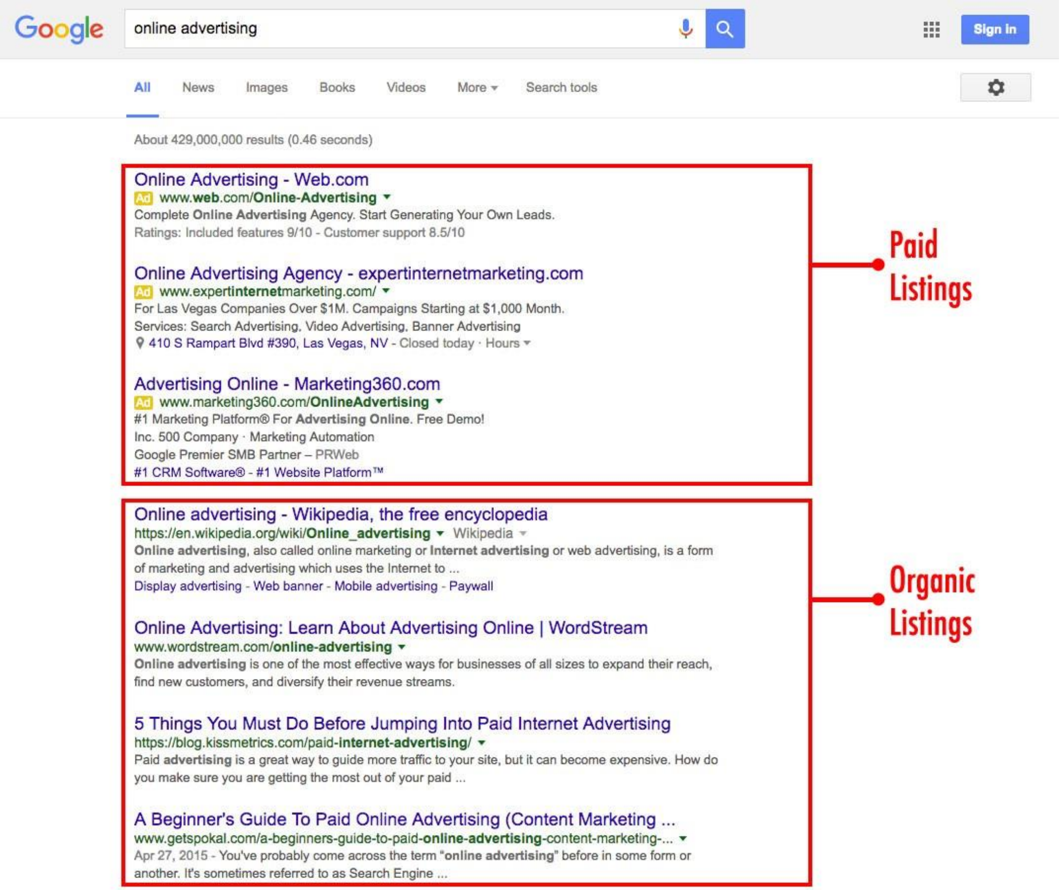


The promotion of the platforms will also require an annual investment.

The cost of promoting the platforms in social networks, during the first year in Italy, is approximately €0.84m.

Google search optimization would be the core channel to increase website's traffic

Google search optimization can be done in two main ways, paying to be top listed or improving the website to maximize SEO score. BiG should combine both to maximize its website traffic.



To optimize Google search engine, two strategies are possible:

- Paid listing – defining specific keywords searches for which BiG would appear on the top of the page as an advertisement
- Optimize organic listing – after the paid listing results, google ranks the following pages by their SEO score. SEO is the Search Engine Optimization and depends on factors like the content of the page and speed of loading. This strategy has really low associated costs.

BiG should combine both this strategies, improving to the maximum its website optimization and, on the other and, strategically define specific keywords to appear in the paid listing positions based on the search volume and keyword price.

Website analysis can be done using different SEO tools that are free and identify all the issues to be corrected for a specific website. Currently more than 50% of users access websites trough their mobile devices, therefore, is essential to also optimize website for mobile usage.

Paid listing will vary from product to product, so the bank needs to define specific keywords for each product and advertise the page of the specific product on that search instead of the bank's homepage.

Using Portuguese website as benchmark it is possible to identify opportunities to improve website optimization

BiG BANCO DE INVESTIMENTO GLOBAL

BiG Portuguese website was analysed in order to understand what are the opportunities for improvement in terms of SEO that should be taken in consideration when developing Italian website. These opportunities should be considered for both BiG website and Capitalizer website.

- On average, when realizing a Google search, 90% of the users do not go trough the 5th result and more than 50% do not even pass the 2nd result, therefore, to ensure a good website traffic BiG needs to be on the top positions.
- Google search engine ranks webpages based on their optimization score, so, to be top positioned it is extremely important that BiG optimizes its Italian website.
- Another strategy to ensure a top positioning for Google Searches would be paying for specific keywords, but, the website optimization is free of costs and has a significant impact in the website traffic.

- Looking at BiG's current website is clear that there is plenty of room for improvement in terms of Search Engine Optimization (SEO). With a 68% score, the website could be optimized in several ways.
- Adding more valuable content to the page and include a canonical tag would easily improve the score.
- On the other hand, the page already has a good meta title and meta description
- In terms of speed, on mobile devices the page takes 3.7s to become interactive and on desktop devices it takes 0.9s to become interactive. To improve mobile loading speed it is essential to serve images in next-gen formats and to efficiently encode images. It is proven that 40% of users quit waiting after 3s of loading so this is an essential aspect to be corrected.

App optimization is another essential factor to stand out from competitors

BiG BANCO DE INVESTIMENTO GLOBAL

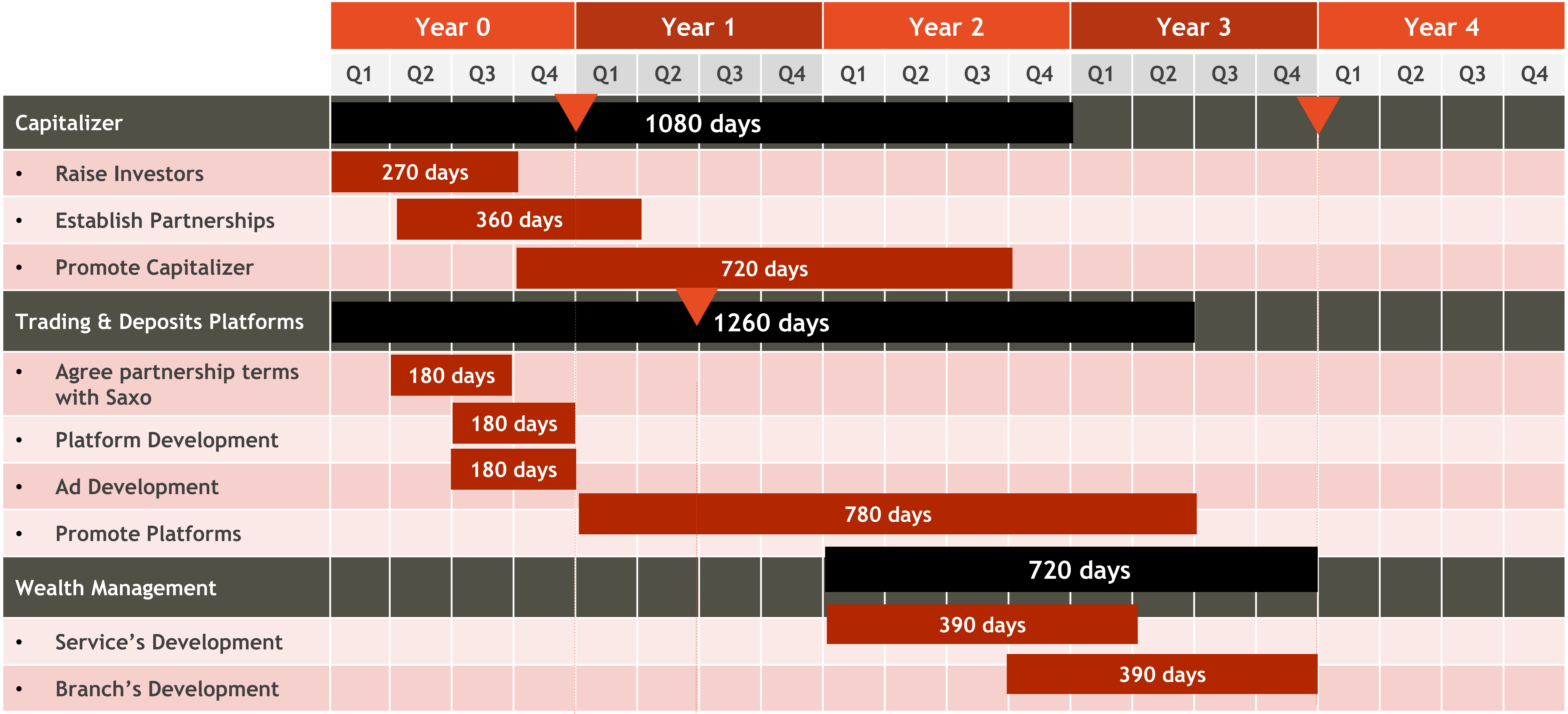
As BiG is positioned as a digital bank, the app needs to be optimized to ensure a good user experience and customer satisfaction. This will also ensure a good positioning in app searches.

- Currently BiG is not optimizing its app user experience, as it is showed by the low rating that it has meaning that users are not satisfied with the experience of using BiG's app.
- This is also causing BiG to be poorly positioned in app searches, in fact, big is not on the top 30 finance related apps in Portugal.
- As happens with SEO, it is also essential to improve ASO (App Search Optimization) in order to maximize the potential of the app.
- In the Spanish expansion, BiG, has as main channel the app, therefore, this optimization becomes even more important as it will be the main face of the bank to the customers.

- Having the app as main strategy for the Italian expansion, it is necessary to understand how to optimize the user experience and ensure that the app stands out from the remaining aps in Italy and is top ranked on both Google Play and Appstore.
- Factors like, app speed, clicks to action, quality of image and interactivity should be analysed to identify the improvement opportunities.

#	App
1	DABOX Caixa Geral de Depósitos
2	unido Unido
3	Millenniumbcp Banco Comercial Portug...
4	Cetelem BNP Paribas
5	Caixadirecta Caixa Geral de Depósitos
6	BPI APP BPI
7	moey! - Mobile Banking Crédito Agrícola
8	Santander Particulares Banco Santander Totta S...
9	Revolut - A Radically Bett... Revolut
10	Universo - Mobile Banking Sonae

The implementation of the first stage of the expansion should follow the steps below



Opening of the Branch
Introduce Capitalizer & Deposits Platform

Introduction of the Trading Platforms

Introduce Wealth Management & Advisory service