**PROJECT MANAGEMENT**

**Learning Outcome 1: ACTIVITY 3**

**PAIRS ACTIVITY**

**The business case for a new credit card**

The senior management team of a major retail bank in South Africa is interested in the potential of a new incentive scheme to promote the take-up and use of the bank’s credit card scheme.

The bank has been in negotiations with airlines in the region to offer incentive flights based on credit card usage. The proposal is that the credit card will earn customers 1 air mile for every 1 South African Rand spent on the card.

Based on evidence from similar schemes, consultants have estimated that the scheme would increase credit card transactions from their current level by 10,000 in the first year, 20,000 in the second year and 30,000 in the following three years. The average credit card transaction fee received by the bank is 7.5 Rand.

The new scheme would require changes to the existing credit card transaction processing systems to record the air miles being recorded by each customer. This would require the formation of an IT project which will cost approximately 200,000 Rand. Half the cost of the project would be payable immediately and half at the end of the first year.

From year two onwards the incentive scheme would cost the bank 100,000 Rand per year to administer. The discount factor (cost of capital) used by the bank is 5%.

**Required:**

# Using only the financial information provided in the case, develop a table showing all the cash flows for the five year scheme.

# Select and apply metrics (Return on Capital, Payback and Net Present Value) to determine whether or not the scheme will be profitable. Show your workings and make a recommendation whether or not to proceed.