

Analysis report

Business



Citibank: Launching the Credit card in Asia pacific Case Analysis Report
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card in Asia pacific

1. Background In 1988, Citibank's Asia Pacific consumer bank (referred to as Citibank henceforth) operated in 15 countries throughout Asia Pacific and Middle-east. The bank generated net earnings of \$ 69. 7 million over net revenue of \$209. 0 million. Objective Rana Talwar, Head of Citibank's Asia Pacific Consumer bank had set a growth objective of reaching \$100 million in earnings by 1990.

Strategy Citibank aimed to use credit card business to Acquire new customers (Card members) Target new customers outside its branch business Cross-sell other Citibank products and services

2. Problem Statement Rana Talwar is facing the following key decisions Given the goals, should Citibank's Asia Pacific consumer bank launch the credit card business If they go launch credit cards, which countries should they go for? In the launch scenario, what should be the positioning and pricing strategy in each countries where the launch is taking place

3. Analysis of Business case for credit cards Citibank's Asia Pacific Consumer bank expects to increase its earnings by \$30 million over two years. Assuming the bank retains its current profitability ratio, it is expected to increase its revenue by 90. 8 million over next 2 years.

Given the distribution limitations imposed on foreign banks in Asia Pacific region, it is unlikely that Citibank would be able to increase the revenue by

\$90 million through their current consumer banking operations. Hence Citibank must launch new products to generate additional revenue stream. Looking at the low penetration of Credit cards (Exhibit 8 of the case) and high growth rates (Exhibit 4 of the case) of Asia Pacific countries, Citibank has a great opportunity to launch Credit card business to generate the additional revenue and profits.

4. S-T-P analysis of Credit card business Citibank is already positioned as a prestigious and consumer oriented international bank.

Citibank's credit card division should be aligned to the current brand positioning. Given below is S-T-P analysis of the credit card division Group H
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S-T-P Segmentation

Description Segmentation based on buying power of consumer Different slabs of Annual income can be used to segment the market Traditional customer base of Citibank e. g. upper income group Rapidly growing middle income households (annual income ; gt; \$6000) {except for Malaysia, where regulations mandate credit cards can only be issued to households with annual income ; gt; \$9000} Gold Cards: Premium international card as direct competitor to American Express Classic Cards: Positioned for primarily domestic use by middle income households

Targeting Positioning

5. Market Analysis for launching Credit Card Business Based on S-T-P analysis and 5-C situational analysis (Appendix A), we adopted below

mentioned steps for analyzing the potential market for launching credit card services ? ? ? ? Set our target market to be households with income greater than \$6000 per annum Determine market size per country by computing number of households with annual income; $gt; \$6000$ Compute market saturation rate (Ratio of # of card holders / market size) Compute Virgin Market size (i. e.

untapped market) $\{ = (1 - \text{market saturation rate}) * \text{market size} \}$ The computed market data is given in Appendix B. Growth vs. Risk Matrix Using the above data, we prepared a Growth vs. Risk matrix by plotting countries on following two axes ? ? Political and economic risk GNP growth rate In the Growth vs. Risk matrix, the Virgin Market size is represented by the size of the circle.

Group H Citibank: Launching the Credit card in Asia pacific Looking at the Growth vs. Risk Matrix and other market specific data (given in Appendix B), we recommend a phased approach for rolling out the credit card business. Phase I – Roll out of credit card business in countries with low political and economic risks, high per capita income with fairly good growth rate.

We recommend “ Taiwan”, “ Australia” and “ Malaysia” to be part of phase I of roll out as they present a sufficiently diverse market (in terms of maturity). Phase II – The learning from Phase I roll out can be applied to other countries.

In Phase II, priority should be given on market size and potential growth rate. In this phase, we recommend roll out of operations to “ India” and “ Indonesia”. NOTE – Even though Philippines have a fairly large untapped

market, we don't recommend roll out of operations until the political and economic conditions improve. 6. Pricing and Positioning of Credit Card Business

We performed a 4-P analysis to determine appropriate pricing and positioning for the countries selected for roll out in phase I (e.

g. Taiwan, Australia and Malaysia) Details Price Joining(Gold/Classic)

Annual(Gold/Classic) Payment Terms \$40/\$0 \$36/\$45 Balance due

monthly(Overdue int. 1% pm) Yes \$35/\$30 \$39/\$45 Balance due

monthly(Overdue int. 1% pm) Yes \$55/\$40 \$30/\$50 Balance due

monthly(Overdue int. 1% pm) Yes Australia Malaysia Taiwan Place Product

Promotion Existing Bank Branches/ Greenfield Gold/Classic Direct Mail Take-

ones Direct Sales Bind-Ins

Gold + Classic Yes No Yes Yes Widespread acceptance and usage of credit

card, which was recognized for its convenience Gold + Classic Gold + Classic

Remarks Yes Yes Yes Yes Yes Yes Yes Yes Society acceptable Credit card is

to revolving credit.

considered as a Hence prospect of status symbol. Easy increased revenues

to position as a through interest premium payments international card

Breakeven Analysis Given the customer acquisition / servicing cost (Table A

of the case) and sample revenue structure (for Hong Kong – Table B of the

case), we calculated the number of customers Citibank must acquire to

break even.

As per our analysis (appendix C) Citibank must acquire 405, 983 customers

in each of the Group H Page 3 Citibank: Launching the Credit card in Asia

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pacific above mentioned countries to break even. However, as we saw in appendix B, each of the above mentioned markets have the potential to generate the desired number of customers. 7.

Risk Analysis Risk Australia could pose a challenge in positioning of the credit card as a premium international card. Customers are unfavorable towards joining and annual fees Australia could pose a challenge in terms of the saturation of the market with average consumers owning 2 credit cards.

Taiwan and Malaysia with 2 and 3 bank branches respectively could be pose a challenge in terms of servicing the credit card customers. Taiwan could pose a risk in terms of the revenues from interest payments as, Taiwanese society had a culture of where it was unacceptable to owe people money
Mitigation Target the existing bank customers as they are inclined to use cards that extend their relationship with the bank. Providing linking facilities with savings account could help swing the choice towards Citibank. The analysis of the market as given in appendix B shows a considerable untapped market of 4.

million Use direct sales force to prospect and CitiPhone to service the customer. Also provide drop box facility for easy payment. Use merchant promotion to increase purchases in order to earn more merchant discount. 8.

Conclusion Our recommended phased approach of rolling out of credit cards is primarily aimed at de-risking Citibank's investment in this new business.

As the case fact suggests Citibank's current structure and management opinion is primarily against investment in credit card business. We

recommend that Citibank should form a separate Business Unit to execute the credit card business.

This way, the credit card division can be more agile to adapt to the needs of emerging markets in Asia Pacific and realize the potential of this market.

Group H Page 4 Citibank: Launching the Credit card in Asia Pacific APPENDIX A: 5C situational Analysis 5-C Company Customer Competition Collaborators

Description Citibank Asia Pacific is an international bank catering to the affluent and middle income population of Asian countries. Citibank's customers are mostly high and middle income group, with households' annual income more than \$6000.

For the credit card business, Citibank will have to compete with American Express and other local banks who were franchisees of Visa/MasterCard. The Citibank Asia Pacific, will have to collaborate with the following for the functioning of its credit card business?

- local merchants – It needs to become the acquiring bank for the merchants?
- Visa/MasterCard – It needs the support of the credit card giants for transaction processing?
- CitiGlobal and CitiOne and CitiPhone – For providing day to day facilities for the credit card customers.

? External context- Many Asian countries were seeing rapid economic development. Internal context- Change of upper management at Citibank Asia Pacific. Pei Chia had considerable experience managing Citibank's huge U. S. credit card business.