

# Citibank: launching the credit card in asia pacific

Parts of the World, Asia



Citibank: Launching the Credit Card in Asia Pacific Citigroup is an American multinational financial services company based in New York City. Citigroup was formed from one of the world's largest mergers in history by combining the banking giant Citicorp and financial conglomerate Travelers Group. Nowadays is one of the world's largest banks. In 2010 was in 22nd position worldwide, ranked on its total assets. Finally, it has the world's largest financial services network, opening 140 countries with approximately 16,000 offices worldwide, 260,000 staff around the world, and holds over 200 million customer accounts. In 1989, Citigroup tried to penetrate Asian Pacific countries by establishing new ways of payment such as credit card. The risk was high and the New York headquarters should take a decision soon, in order to face the rival banks. The Asian Pacific countries (Australia, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Taiwan, and Thailand) are emerging markets and their rapid growth economies were incredible for several years until now. Since 1978 Citibank has representation there, but approximately 10 years later (in 1989) launched the most innovative service, a new product named credit card.

Citibank's mission in the Asia Pacific region was to be the most profitable provider of financial services to an increasingly affluent and middle-income market. First of all, we should bear in mind that entering into new markets means that Citibank has more opportunities to sell the same product to multiple clients or sell multiple products, such as Citibank's core products, car loans, deposits, and mortgage products, to the same customer. Also, in some countries, there is a very large population of potential customers. In the sector of security, Citibank has quite high technology that can make users

feel safe. On the other hand, many people express doubts about this venture. There are many regulations designed to protect local banks and limit the expansion of foreign banks. In addition, there is a lack of credit experience and the market is undeveloped yet. Also, economics in these countries are not as developed as in the United States. In some regions, the risk is high, because of political corruption. I recommend the card launch and I focus on the possibility that some countries could be a success.

However, in the Asia Pacific area, you can find different people among countries, with different habits, traditions, religions, so each country has its own market characteristics in comparison with the others. So, we must take into account the fact that it is impossible for the bank to target all these different countries-cultures at the same time. In my opinion, a " safe" choice could be Malaysia, Hong Kong, and Australia. Malaysia: 16, 726, 766 population in 1989 and growth rate 8. 1%. It has a successful business population and growing along with infrastructure. Also, the middle and upper class is growing sharply. With 61% of the population living in rural areas, people had plenty of card options to choose from 1989. However, according to Malaysian law, only consumers with an annual income of 9, 000\$ or more could own a credit card. Also, 25% of its population earns more than 12, 000\$. Citibank is very possible to get customers in this country, due to the high growth rate, 8% is higher than the average value of the latest 5 years (from 1985 to 1990). A total of 390, 000 desired customers could achieve 900, 000 cards (regardless of the kind) annually, with revenues approximately 88, 200, 000\$. (Exhibit 4, 8, 10) Australia: 16, 500, 000 population in 1989, growth rate 4. %, but is already saturated market.

However, it is the most stable country with small political/economic risk. An average Australian carries 2 cards. Visa and Mastercard hold 35% of the market, but half of the cards issued by local banks. (Exhibit 4) • Break even:  $SP - (FC + VC) = BE$   $525,000 - (104,300,000 + 626,000,000) = BE$   $525,000 - 0.16 = BE$   $BE = 524999.84$   $SP = 10,500,000(1) + 5\%(2) = 525,000(1) + 10,500,000(2)$  Market share Hong Kong: 5,709,330 population in 1989, growth rate 7.3%, is a developed country, with a strong credit card and financial infrastructure. Also, there is wide use of cards and especially for shopping.

By 1989, Citibank held an 8.7% share of the credit card market. Projected 170,000 cards annually, with revenues of 16,279,144\$ is the desired result. Break-even:  $SP - (FC + VC) = BE$   $12,180 - (104,300,000 + 626,000,000) = BE$   $12,180 - 0.16 = BE$   $BE = 12,02$   $SP = (100,000 + 140,000)(1) + 8.7\%(2) = 12,180(1) + 140,000$  Classic and Gold Visas 100,000 Diners Club cards (2) Market share SP: Selling price FC: Fixed Cost VC: Variable Cost BE: Break Even The Fixed Cost (FC) is the same in all countries, so  $FC = 104,300,000$ \$. The Variable Cost (VC) is the same in all countries, so  $VC = 626,000,000$ \$ (Exhibit 3, page 11, Net Income in 1988) Citibank should make concurrent entry to these countries and estimate how many cards totally need to issue in order to achieve the desired profitability. The marketing strategy which Citibank should follow differs among countries. The bank must establish a direct marketing product with Bind-ins, direct sales force, direct mail, and takes-ones. Also must create a Greenfield market development. In the case of Malaysia, the credit card service should focus on family and traveler.

Advertising must be targeted in the countryside (61% of the population living there) in order to earn new customers. In the case of Australia, the marketing strategy should focus on pricing. Joining and annual membership fees should be reduced in order to compete with AMEX and Diners Club. Also, Greenfield's market development is needed to be more intensive. Finally, in the case of Hong Kong, Citibank needs also to choose Greenfield market development. However, developed operations infrastructure in addition to the trained staff is necessary. The country which Citibank should avoid is Korea. Local regulations do not permit banks to issue cards. Another problem is that transactions must be done only in local currency. This is too risky, so it is better to ignore this region. Taking everything into consideration and for the above-mentioned reasons, I feel that Citibank should launch its new product because it is very possible to succeed in emerging Asia Pacific region. Its experience guarantees a promising future.

## Reference

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