Case 12. Citibank N.A. in Japan • 12-1

Japanese Banking Scene

In 1986, when Citibank began opening branches in Japan to offer retail-banking services, Japanese bankers could be forgiven for yawning. They had a reason to do so, as until 1997 almost seven of the top ten banks in the world were from Japan. Citibank, the largest bank in the United States, was seventh on the list. With just a handful of branches, Citibank was the financial equivalent of a bonsai tree in a forest of rosewoods. Moreover, xenophobic Japanese consumers tended to regard foreign banks as less safe places to park their savings. “When I first came here 4-1/2 years ago, the bank was very quiet,” says Hiroshi Yoshioka, a Citibank customer who works for a Japanese chemical company. I had to summon up some courage to step in.”

Times have changed now, and the tables are turned. With the Japanese economy in recession and the domestic banks burdened with about $1 trillion of nonperforming loans, Citibank is making some serious inroads into the Japanese market. Citibank’s spurts of growth have coincided with successive Japanese financial disasters, ranging from the 1995 bond-trading scandal that led the Federal Reserve to expel Daiwa Bank from the United States to the triple collapse in 1998 of Sanyo Securities, Yamaichi Securities, and Hokkaido Takushoku Bank. “You have seen a 180-degree turn in the way Japanese are thinking,” says Robert Berardy, Citibank vice president in charge of “virtual banking” or telephone and computer banking services. “The negative (of being a foreign bank) has become a positive.”

Customer confidence in the domestic banks has eroded, and they are looking for new options.

Citibank Worldwide

Citibank N.A. is significantly more international in scope than its international competitors. In 1997 it operated more than 3,400 locations in 98 countries and derived some 60 percent of its net income from foreign operations. The bulk of that income came from its emerging market franchise. Currently Citibank is a part of Citigroup, which is a result of the merger of Citicorp and Travelers Group in October 1998. As a result of this merger, Citigroup displaced Bank of Tokyo and Mitsubishi ($691 billion in assets) from the first position to become the largest financial company ($698 billion in assets) in the world. The group earned a net income of $5.8 billion in 1998 (see Exhibit 1).

Citibank had not always been a world-class success story, however. The bank suffered through a very difficult period in the late 1980s and early 1990s as a result of its decentralized decision-making structure and what Euromoney called a “near fatal brush with commercial real estate lending” in the United States. It was due to CO-CEO John Reed’s (Chairman and CEO until 1998) reengineering efforts that the decision making was centralized, the balance sheet was repaired, tier-one capital was rebuilt, and the credit ratings were restored by 1996.

Citibank’s Global Network

Citibank’s global presence can be judged by the following comment from Mr. Shaukat Aziz, head of Asia/Pacific global finance operations: “When a multinational company wants to enter an emerging market it calls its lawyers, its accountants, the embassy, and Citibank.”

Citibank has a wide network of branches all over the world. Its presence in the emerging market economies is very strong. In 1995 almost 50 percent of the total profits came from the bank’s operations in these economies. The Asia/Pacific region (including Japan) brought 23 percent of the bank’s net profit in 1996.

Long Presence and Local Market Experience

Citibank is a strong believer in the first-mover advantage and always tries to be among the first foreign banks to enter a foreign market. In some countries Citibank has maintained its presence for almost a century. In Japan, Citibank started its first office in 1902. Even if it is not able to provide all the services due to the government regulations, it stays to provide corporate services to the multinationals. In Japan also it maintained its presence without offering full-scale services, and began offering retail services only in 1986.

The bank’s experience in the foreign markets gives it the operational expertise that, in times of turbulence, is difficult for the other banks to match. This experience


2Ibid.
Localization Commitment

“We want to be totally global and totally local,” said Reed. Clear from this statement is Citibank’s commitment to local markets. Citibank tries to develop strong ties with the local community and with the local central bank. Locally hired staff held 95 percent of Citibank’s jobs outside the United States in 1997. Technology is transferred and local staff is trained. Citibank enters in a market with a long-term objective and does not leave when the profits are slow to materialize. This approach makes Citibank very popular with the local governments. In Japan, after opening its retail banking operations in 1986, it operated in profits for only three years and then ran into losses for eight straight years, but it stayed on to wait for the right opportunity in the long run.

Training and Development

Citibank has one of the best training and development programs for its employees. The employees are trained in general operations of the bank and also in the area of their specialization. The career path of the employee is well defined and the progress is monitored. Mentor programs help in grooming the future managers. In fact, Citibank people are in great demand by other banks and are often poached by them.

Technological Orientation

Citibank was “ahead of the curve” with respect to technology and financial innovation in the mid-1990s. The strong focus on technology and innovative financial services has won Citibank many awards. Citibank has established technology development centers, which build global platforms to support customer needs from any location. Citibank aims to use technology not only to improve the customer services but also to reduce the costs. Citibank is currently exploring how biometrics technologies like iris scanning might unobtrusively and reliably verify customer’s identities, which could make bank cards and PIN numbers things of the past. In Japan also, Citibank wants to focus on technology to bring down operating and transaction costs. Services such as telebanking and Internet banking are good examples of this. Besides opening new branches, Citibank plans to expand by installing thousands of ATM machines.

RISE OF CITIBANK IN JAPAN

For Citibank, it has been a long and, at times, bumpy road since its entry in 1902. The true dynamism in Citibank’s life in Japan came in the 1990s. The dormant existence in the early years were a result of government
regulations, powerful Japanese banks, and the unsafe image of foreign banks. Citibank’s success in Japan in the 1990s can be attributed to several factors, the chief ones being the weakened Japanese banks (nonperforming loans of approximately $1 trillion), the collapse of the security companies and other financial institutions (mentioned earlier), and the “Big Bang” (a major overhaul of Japan’s financial regulations) in the Japanese financial sector. It is interesting to see how Citibank became the beneficiary of Japan’s mounting financial turmoil.

The series of disclosures of financial problems by the Japanese banks eroded consumer confidence, and the safe image of these banks took a big blow. Consumers went looking for alternatives. At the same time, Citibank — true to its image of being innovative — came up with services that were an instant hit with the consumers. An example of its innovative services is the multicurrency accounts. When the value of the dollar plunged below 100 yen in 1995, many Japanese consumers understood that their currency was being priced into a stratosphere from which it would eventually descend, and Citibank offered the most convenient way for small-time savers to play the currency market. The multicurrency accounts were an attraction to the customers, as they could shift money into dollars and earn higher interest rates but switch the money back into yen with a phone call — at any time of day or night. Citibank logged a record 315,000 calls from prospective and current customers; the next day, people mobbed the bank’s nineteen branches in a scramble to buy dollars that were suddenly cheap. Seeing this success, Citibank has developed ambitious plans for Japan. It hopes to reach 35 million accounts by the year 2010, from the current 1 million accounts. That pace of growth will launch Citibank into the mainstream of Japanese banking giants.

According to Berardy, customers do not come to Citibank just because of its safe image. Instead, he says, customers are now looking at Citibank positively and evaluating its products on merit. With just nineteen branches, compared with many hundreds managed by its Japanese competitors, Citibank has earned the reputation as the country’s most innovative bank by offering services such as twenty-four ATMs and telebanking. These services are taken for granted in the United States but are a novelty in Japan. It has also become popular among customers and gained tremendous free publicity by swallowing some of the fees that other banks charge when customers access their Citibank accounts on rival banks’ ATMs. By doing this, Citibank has, in effect, added thousands of ATMs by using its rivals’ infrastructure.

**Strategic Alliances**

To have a better customer reach and to provide more services, Citibank has entered into several strategic alliances in Japan. In a widely publicized deal that seemed to stamp Citibank with a seal of official approval, it became the first bank of any kind to reach a cooperative business deal with Japan’s mammoth Post Office Savings System, which most Japanese believe is the safest place to put their money. The deal will add thousands of remote-access points for Citibank customers, making it more practical for the majority of Japanese who live far from a Citibank branch to open accounts. Citigroup also has 25 percent equity in Nikko Securities, which is the third-largest brokerage in Japan. In addition, Citibank is thinking about entering into alliances with Asahi Bank and the Tokai Bank. These alliances will help Citibank to have better access to the huge savings of the Japanese, estimated to be around $9 trillion.

**Financial Record**

Citibank’s trading volume has been increasing these years, even though the total trading volume for all banks has not been increasing in a worldwide setting. Citibank’s net income and earnings per share have been stable, as it has focused not only on the total revenues but also on cost reduction for the customers to add more value to their services (see Exhibit 1). Citibank’s loans and deposits have also been increasing steadily. Their average growth rates are 8.1 percent for loans and 9.8 percent for deposits (see Exhibit 2). Citibank is very aggressive in expanding its market share globally, and at the same time it is maintaining the loan-to-deposit ratio above the industry average. Its ratios for 1997 and 1998 were both 89 percent (see Exhibit 3).

**Major Competitors**

Citibank’s major competitors include domestic banks and foreign banks. Major domestic competitors are Bank of Tokyo-Mitsubishi, Dai-Ichi Kangyo Bank (DKB),
and Sanwa Bank. The foreign banks mainly include ABN Amro, HSBC, D. eutsche Bank, among others. At present, none of the foreign banks, except Citibank, has retail banking operations. Thus, Citibank Japan has many competitive advantages: strong brand equity, globalized operations, innovations, and localized staff of very high quality. On a competitive positioning map Citibank can be seen as having a broader product range and better quality of service (see Exhibit 4).

**MARKETING STRATEGY**

The market may be getting smaller, but the top players are taking bigger slices in Japan. The largest foreign-exchange firms are having to work harder to carve out a point of difference in a mature market with thin margins. Given that the banks cannot distinguish themselves from their competitors on the ground of better interest rates (controlled by the government), the only area where the banks can make a difference is in their services and product (financial product) innovation. Citibank is doing a good job in providing this point of difference by (1) product strategy designed as “One-stop shop” concept or financial supermarket in a global setting and (2) developing unique services and innovations.

**Product**

Under the umbrella of Citigroup, Citibank plans to provide several financial services. The “One-stop shop” will offer retail banking, corporate banking, investment banking, insurance, project financing, currency transactions, and a host of other products. To offer these services Citibank will use the different arms of Citigroup.
Special services like credit advice and research are being provided to add more value.

**Price**

It is widely recognized that in price terms there is no difference between what Citibank can provide and what other banks can do. Therefore, Citibank is trying to maximize the value added to its customers by providing more unique and creative services, and at the same time, minimize the costs and expenses of customers by providing telephone banking, Internet banking, and direct mail for opening an account.

**Promotion**

Citibank, in its effort to build strong brand equity, and in its pursuit to become the “Coca-Cola of finance” is using strategies such as co-branding, cross marketing, and “Citibanking” as an experience. The Sony Citibank Card launched in the United States is an effort to be associated with the top names in the world. In the past, Citibank has solicited the services of former president of the United States, George Bush, to promote its global image. Although criticized as being discriminatory, Citibank has efficiently and profitably used an unusual approach toward its wealthy customers. Citibank’s unusual approach for wealthy customers was very creative and unique for other banks and customers. In April 1998, Japan began deregulating its banks. Koichiro Kitade, head of Citibank private banking division in Tokyo, knew it was time to try a new marketing approach to expand its share of “the pie.” Through newspaper advertisements, Citibank targeted exclusively rich people having more than US $750,000. Although discriminatory, Citibank succeeded.

**Place**

Citibank is constantly and actively expanding all kinds of distribution channels, such as new branches, Internet banking, low-cost nationwide network of ATMs, and telephone banking. With services like telebanking and Internet banking, Citibank has in effect expanded the distribution channel to its customers’ homes. According to Robert Berardy, although Citibank is adding ten more branches in Japan this year, the expensive high-density branch network to match its Japanese rivals is not a part of the strategy. “The proliferation of branches that made these Japanese banks successful will be the thing that kills them in the future,” says Berardy. “They can’t cut costs. Even if they closed the branches, what would they do with the people?” Even after seven years of economic stagnation, layoffs remain socially unacceptable in Japan.

**CHALLENGES FOR CITIBANK**

On its road to success Citibank faces several challenges. One of the foremost challenges is from within: that is, the question of the smooth amalgamation of Citicorp and the Travelers group, which merged to form Citigroup. If managed and coordinated properly, their merger can give the company the synergy to be a front runner. On the other hand, bad management and coordination can lead to a fiasco. Problems can arise due to the different cultures of the two organizations. Already there are reports of differences and conflict of opinion between the two co-CEOs, John Reed and Sanford Weill. John Reed is known to have long-term objectives, favoring market share to profits. Sanford Weill is a hard-core, profit-oriented executive. His main focus is on quarterly profits and maximization of shareholder wealth. For this reason, he is very popular on Wall Street.

The other challenge is in the form of the competitors—both domestic (Japanese) and foreign. Even now the Japanese banks have formidable strength and, with government help and successful alliances, they can give their competitors a run for their money. Taking clues from the rise of the Japanese manufacturing companies above the U.S. competition, the banks may also follow the same course.

**DISCUSSION QUESTIONS**

1. One of the questions that come to mind when talking about the rise of Citibank in Japan is whether it can maintain the same rate of growth and popularity as it has done in recent years. The Japanese banks may be down now, but it would be a serious mistake to discount their power. Japanese companies have overtaken the West in the manufacturing industries and are known to be effective in managing the distribution channels. Can the Japanese banks do the same in the financial services?

2. What have been the market expansion strategies of Citibank? Will these strategies help it to achieve the “One-stop shop” objective?