Dynamics of Business Strategy of Citigroup

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INTRODUCTION

Citigroup is a major financial services company from the United States of America (USA). Its headquarters is in New York City, USA and has presence in over 100 countries, making it a global financial services giant. It is traded in the NYSE and was ranked the largest financial services company in the world, according to Forbes Global 2000, with total assets of USD 2.2 trillion in 2007.

The company employs over 275,000 employees globally and has over 200 million accounts in its franchises in over 100 countries. Citigroup was formed in 1998 with the merger of Citicorp and Travelers Group but it has its roots in the financial institutions of City Bank of New York, Bank Handlowy, Smith Barney, Banamex and Salomon Brothers. Their business covers consumer finance, brokerage, corporate banking, and insurance among others.

The City Bank of New York started business in 1812 with a working capital of USD 2 million. As New York is the financial hub of the USA, it prospered with the increase in trade between the USA and Western Europe in the 19th century and soon became the largest American bank in 1895. In 1913, it is the first contributor to the Federal Reserve Bank of New York (a critical component of the Federal Reserve Bank System) and opened its first overseas branch in Buenos Aires, Argentina the following year.

As the bank grew, their financial services became more and more complex and innovative and were the first American Bank to offer compound interest on savings, unsecured personal loans, checking accounts and negotiable certificate of deposit. Besides that, the bank was also instrumental in the founding of MasterCard and launched its first credit card in 1967. Then in the mid 1970's, the name of the bank was changed to Citibank and through the next three decades, expanded its presence globally and became the largest credit card and charge card issuer in the world.

The Travelers Group meanwhile is a group of companies offering various financial services products such as risk management services, insurance and surety products. It is the second largest writer of commercial US Property casualty insurance, no. 93 on the Fortune 500 list of the largest US companies and employs 33,000 employees. It has its roots in Primerica Financial Services, which includes brokerage firm Smith Barney. Salomon Brothers, a bond trading and investment bank was acquired in 1997 in a USD 9 billion deal. These two financial giants then merged in 1998 to create the largest financial services group in the world in terms of asset with the name Citigroup.

OBJECTIVE

The objective of this case is to evaluate the dynamics of the Business Strategy employed by Citigroup in its international banking operations. It has been endeavored to explore it with Citigroup in view of it having business franchises all over the world and it is an integral component of the Dow Jones Industrial Average.

As Citigroup has presence all over the world, the business strategies that it employs to penetrate the market is of considerable interest to all concerned. In this paper, we will look into the history of the organization, the business model & its operations, and perform a SWOT analysis of the business to help us discuss and explore if business strategy is correct or needs improvising. The current financial market turmoil experienced in Wall Street makes this a compelling discussion as the banking services industry is fast changing with the needs of the market and as each organization adopts a business strategy which provides it a competitive advantage over its competitors, we will also explore if the current business strategy of Citigroup will enable it to obtain sustainable growth or the business strategy is in need of an overhaul.

ORGANIZATIONAL CHART

Citigroup is divided into 4 major business groups, viz, Global Cards, Consumer Banking, Global Wealth Management, Global Services and Citi Institutional Clients. Each of these business groups plays a part in the growth of the company as a whole, as it holds business portfolios which contribute to the profit of the franchises.

Global Cards are involved in the issuing and acquiring of credit cards and charge cards and is one of the major profit centers of the company. The brands that are issued by Citigroup include, MasterCard, Visa Card, Diners Club, Amex Card as well as private label cards. They are the largest credit card issuers in the world and have a network of 3800 ATMS across 45 countries.

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The Consumer Banking Group meanwhile consists of 4-core businesses, which are consumer finance, retail distribution, retail banking, and commercial business. In summary, the target markets of this group are mass consumers as well as small and medium size enterprises. Financial services offered by this group include personal loans, investment services, commercial lending, and auto loans among others. Consumer Banking Group is also responsible in opening new and operating existing bank branches.

The other 2-business group meanwhile caters for high net worth customers as well as large companies and institutions. The primary financial services offered by the business groups are alternative investments, global transactions services, wealth management services and trading in capital markets.

Due to the size of Citigroup, the differentiation of the franchise into different segments allows it to work effectively and efficiently. Besides the segmentation of the business, the territories that Citigroup works in are divided into 5 different areas:

- United States of America (USA);
- Asia Pacific (AP);
- Western Europe, Middle East and Africa;
- Central & Eastern Europe;
- Mexico & Latin America

This is to allow the franchise to operate independently and speedily offer services and products suited to that particular geographical area. This is particularly important as different cultures and societies have different preferences. For example, the Chinese are very particular of personal relationship while Western European society in general places more emphasis on the benefits that a product offers.

Besides that, this division of geographical area allows Citigroup to prioritize its resources according to the growth potential of each market. This is important so that limited resources can be channeled to markets, which provides the bank with the highest profit possible. This is because the bank is a public company and has the duty of maximizing shareholders value.

BUSINESS STRATEGY

As mentioned earlier, Citigroup comprises many brands due to its long history and merger and acquisitions. The following is a summary of the brands under Citigroup's umbrella and these franchises operate in over 100 countries.

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citibank	citi	citi smith barney
citi	PRIMERICA A Citi Company	Citi Investment Research citi
citifinancial	Banamex	Citi Private Bank citi
citimortgage	citiinsurance	Citi Alternative Investments citi
		Citi Microfinance citi

It can be noticed that there are brands which still maintains the name of the companies that Citigroup have acquired. This is due to the significance that a particular brand provides Citigroup in that particular market. For example, Banamex is a financial services group in Mexico which was acquired by Citigroup in 2001 but the name was not changed due to the brand recognition by the Mexicans.

DOMESTIC BUSINESS-LEVEL STRATEGY

Citigroup uses the business-level strategy of differentiation whereby it aims to provide financial services and products, which are different from what their competitors are marketing. This strategy is reflected in its diversified financial services model whereby it offers a whole range of financial services solutions to its customers from insurance, brokerage to banking and investment. Customer can literally have a one-stop solution from Citigroup for their financial needs, which is a core revenue earner as it charges a premium for its services and products.

Besides that, the use of product differentiation strategy results in customer loyalty as it reflects the values that are meaningful to a customer. This creates repeat business for its various business groups ,ensuring a stable stream of customers and income. The ability of a differentiation oriented company to sell its products and services at a premium price enables the company to out-perform its rivals and earn above average returns as it has a better bargaining power over its customers due to the lack of alternatives.

By having a diversified financial services model, Citigroup is able to spread the business risk of the company whereby if one particular sector is experiencing a downturn, it is able to earn revenue from other channels. This creates less volatility in the earnings of the bank and offers a good proposition for investors to invest in the bank. An example is the current meltdown of the property market in the USA. Even though the company is forced to write-down billions of mortgage related loans and investments, it is able to cushion these effects via its franchises in Asia and EMEA. This ensures that the company has a pool of available resources and funds to cope with any volatility in the financial markets.

INTERNATIONAL BUSINESS-LEVEL STRATEGY

Besides engaging in differentiation in business level strategy, the organization also engages in differentiation in International Strategy whereby it has presence in over 100 countries offering different types of services. There are franchises which have minimal consumer banking services and caters to corporate partners to facilitate trade and remittances. There are also franchises which have full-fledged consumer and corporate services such as Citibank Malaysia.

The reason why Citigroup have been actively pursuing this strategy is due the opportunities of having an increased market size, return on investment, and advantage in location and learning. By expanding globally, Citigroup have the ability to tap into a potential market size of 6.7 billon human beings. This increased market size enables the company to market its diversified financial services and products and earn above average returns on its investments.

Advantages in location provides Citigroup with an advantage over its competitors in that it has representatives globally and are able to react faster to the needs of the local market. Other than that, Citigroup have to pursue a Differentiation International Strategy, due to different regulations in the financial market of each country. There are countries like China and India whose financial markets are protected by the government and strict guidelines and regulations are imposed on foreign financial services companies operating in the country. Without differentiation in its business at the international business level, Citigroup would not be able to expand its reach globally and ride the wave of globalization.

Lastly, the lessons learned by operating differently in different parts of the world provide invaluable training to its employees in facing challenges in the future. The knowledge learned from problems or successes in USA, for example, can be transferred to its franchises in Asia so that the franchises can anticipate the needs of its customers in advance and charge premium pricing for services which is new to markets in Asia. This enables the organization to obtain above average returns for its shareholders.

Table-1: Business Performance

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	2003	2004	2005	2006	2007
Total Net Revenues ($B)	$71.6	$79.6	$83.6	$89.6	$81.7
Net Income ($MM)	$17,853	$17,046	$24,589	$21,538	$3,617
Income from Cont. Ops. ($MM)	$17,058	$16,054	$19,806	$21,249	$3,617
Basic EPS - Net Income	$3.49	$3.32	$4.84	$4.39	$0.73
Diluted EPS - Net Income	$3.42	$3.26	$4.75	$4.31	$0.72
Diluted EPS - Income from Cont. Ops.	$3.27	$3.07	$3.82	$4.25	$0.72
Assets ($B)	$1,264	$1,484	$1,494	$1,884	$2,188
Total Stockholders' Equity (Including Trust Securities) ($B)	$104.1	$115.5	$118.8	$129.4	$137.2
Return on Common Equity	19.8%	17.0%	22.3%	18.8%	2.9%
Book Value per Share	$18.79	$20.82	$22.37	$24.18	$22.74
Common Shares Outstanding (MM)	5,157	5,195	4,980	4,912	4,995
Market Capitalization ($B)	$250	$250	$242	$274	$147
Employees	253,000	287,000	299,000	327,000	374,000

Table-2:

Citigroup Inc.
Summary of Credit and Financial Strength Ratings

	Moody's		S&P		Fitch	
Citigroup	Rating	Outlook	Rating	Outlook	Rating	Outlook
Senior Debt	Aa3	Negative	AA-	Negative	AA-	Negative
Subordinated Debt	A1	Negative	A+		A+	
Preferred Stock	A2	Negative	A		A+	
Commercial Paper	P-1		A-1+		F1+	
Citigroup Funding Inc.						
Senior Debt	Aa3	Negative	AA-	Negative	AA-	Negative
Subordinated Debt	A1	Negative	A+		AA	
Commercial Paper	P-1		A-1+		F1+	
Citibank, N.A.						
Senior Debt	Aa1	Negative	AA	Negative	AA-	Negative
Subordinated Debt			AA-			
Short-Term Obligations	P-1		A-1+		F1+	
Financial Strength Rating	B	Stable				
Citibank International plc						
Senior Debt	Aa3	Negative	AA	Negative	AA-	Negative
Short-Term Obligations	P-1		A-1+		F1+	
Citigroup Global Markets Holdings Inc.						
Senior Debt	Aa3	Negative	AA-	Negative	AA-	Negative
Subordinated Debt	A1		A+		A+	
Preferred Stock	A2		A		A+	
Commercial Paper	P-1		A-1+		F1+	
Citigroup Global Markets Inc.						
Senior Debt			AA-	Negative		
Short Term	P-1		A-1+		F1+	

Table-3: Citigroup Inc., 5-Year Averages: Quarter Ending June 2008

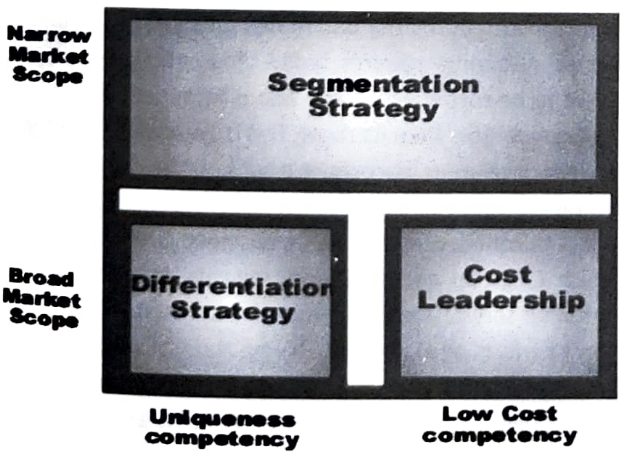
Latest 12 Months Data Items	
Latest Full Context Quarter Ending Date	2008/06
EBIT Margin	38.1%
EBITDA Margin	46.0%
Pre-Tax Profit Margin	-9.4%
Interest Coverage	0.8
Leverage Ratio	17.3
Asset Turnover	0.1
Revenue to Assets	0.1
Return on Invested Capital	-3.5%
Return on Assets	-2.8%
Debt/Common Equity Ratio	12.55
Price/Book Ratio (Price/Equity)	0.39
Book Value per Share	$17.80
Total Debt/ Equity	14.00
Long-Term Debt to Total Capital	0.91
Cash Flow per Share	$-8.83
Free Cash Flow per Share	$-8.50
Tangible Book Value per Share	$13.72
Price/Cash Flow Ratio	-0.8
Price/Free Cash Flow Ratio	-0.8
Price/Tangible Book Ratio	0.51

5-Year Averages	
Return on Equity	10.2%
Return on Assets	1.0%
Return on Invested Capital	1.3%
Pre-Tax Profit Margin	15.5%
Post-Tax Profit Margin	10.6%
Net Profit Margin (Total Operations)	10.6%
Debt/Equity Ratio	7.02
Total Debt/Equity Ratio	7.86
Price Earnings Ratios	
P/E Ratio 52 Weeks Ago	13.8
12 Month Normalized P/E Ratio	4.6

Aforesaid Tables, portray that the Citigroup have been performing moderately well before the sub-prime crisis in 2008. Table No-1 discerns that Citigroup's total net revenues from 2004 to 2007 have increased to the range of between USD 79 billion to USD 82 billion. However, with the current financial crisis in the USA, its Earnings before Income Tax is still at 38.1% and the Pre-tax Profit Margin is at -9.4% which is considered better than expected considering Citigroup have write-off USD 55 billion in sub-prime losses. This is also corroborated by the strong investment and credit ratings that Citigroup have been able to maintain (Table No-2).

SWOT ANALYSIS

By performing a SWOT analysis of Citigroup, we are able to determine its strengths and weaknesses. This will help us to explore if the differentiation business strategy employed by the organization is the right way forward. Differentiation Strategy, according to Michael Porter, involves the creation of a product or service that is indeed unique. The strategy has its advantages and disadvantages compared with the other strategies such as Cost Leadership and Focus Strategy. There is also the possibility of combining both Cost Leadership and Differentiation which is hard to attain.



Porter's Generic Strategy

STRENGTHS

The strength of Citigroup's business strategy of differentiation is that it enables the company to penetrate a particular market based on the capacity of the market to provide revenues to the organization. For example, if the country has a closed financial industry, it might decide to initially have a representative office and expand the franchise further when the financial industry is liberalized. By having a presence in the market, Citigroup would be poised to penetrate the market once the regulators decide to allow freedom of operations to foreign financial services companies.

This can be seen in Citigroup's Malaysian franchise whereby it maintains a minimal presence initially before expanding aggressively in the past 5 years to 7 branches nationwide, when a leading credit card issuer Bank Negara Malaysia relaxed its control of the Malaysian financial industry.

Other than the strength of being able to cater its services and products according to the needs of the market, Citigroup differentiates itself from its competitors by providing a host of products and services all under one roof. It is a financial services supermarket, in that its customers are able to find services ranging from consumer banking to corporate facilities, brokerage or investment services. These enable Citigroup to charge its customers a premium price for its services.

Lastly, differentiation in business strategy enables Citigroup target the kind of customers it desires as it is able to customize the products and services offered. This results in the managing of risks of exposure of the organization to its customers whereby the organization is able to design and offer products that are attractive to a particular segment of customers. An example is the credit card industry: if Citigroup would like to attract revolving customers, it will design and offer credit cards that have credit limit and offers from participating merchants, to encourage spending

WEAKNESSES

One of the main weaknesses of the differentiation strategy is that confusion will arise over differentiation of the products and services offered, as each franchise will have its own priorities. This creates many over-lapping of products and services and causes confusion among employees, resulting in slowness in responding to customer's needs and loss of business opportunities.

Other than that, with such extensive products and services offered by the organization, it would create an image of no specialization in the industry. As the saying goes, "Rolling stone gathers no moss", due to so many products and services on offer, the organization would not be viewed as the best in its class but jack of all trades.

Due to this, there is a risk of the organization not being able to command premium pricing on the products and services sold. Besides the risk of premium charging customers, one of the weaknesses of differentiation strategy is the failure to be in touch with the market and inability to acknowledge the needs of the customer.

OPPORTUNITIES

As in all cases, there being opportunities for an organization with different business strategies and Differentiation Strategies, Citigroup will be able to cater to the needs of all customers. Other than that, differentiation strategy enables Citigroup to create a market for its products and services, hence an increase in market share and sales growth.

As buyer needs are diverse, with differentiation strategy, Citigroup is able to project an image that it knows best for its customers and, as a result, able to charge a premium price for its products and services.

Other than that, by having a differentiation strategy at both local and international levels, Citigroup is able to hedge its risk when entering a new market whereby it can exit with minimal losses if need be. Other than diversifying its business risk, differentiation strategy enables the firm to be ahead of its competitors in that it is able to anticipate the needs of consumers and initiate technological change and offering innovation products.

THREATS

The major threats that Citigroup will encounter are firms that are able to gain competitive advantage via other strategies such as cost leadership strategies or niche market strategies. These firms are a threat to Citigroup as the products offered by the firm are highly substitutable and consumers can easily shift their business to its competitors. For example, if customers find that Citigroup is having financial problems, they can have a run on the bank and withdraw their deposits to be placed with its rival. This will cause the firm to be short in cash flow and affects its operations such as what happened to Lehman Brothers.

Other than business threats, Citigroup also have threats from regulatory bodies in that it will incur huge losses in profits as well as branding if its operating licenses in a particular market is withdrawn. This could be due to a country's decision to have tighter control of the financial markets or due to political or economic instability.

Lastly, Citigroup also faces threats from its employees in that employees take confidential data out of the firm. This is a very damaging threat, as it will enable its rivals to replicate its business strategies and products and services, causing Citigroup to lose its advantage in product and service differentiation.

RECOMMENDATIONS

The implications of pursuing a Differentiation Strategy by a firm are that it will obtain brand loyalty from its customers, reduced rivalry and less sensitiveness to price fluctuations. Meanwhile, the downsides are that imitation by competitors render differentiation useless: technological and economical advances nullify the value of the differentiated product or services, and the cost difference between low-cost strategy firms and differentiation strategy firms becomes too wide for differentiation to have any impact on the firm.

After performing a SWOT analysis on Citigroup's differentiation strategy, we would recommend that its business level strategy is sound and correct. This is because of the environment of the financial industry, which calls for a firm to be different from its competitors. Only with differentiation strategies is a firm able to create brand loyalty and charge a premium price for its products and services.

With Citigroup, it can be seen that with differentiation strategy in its products and services offering, it is able to charge its customers a premium price for its services rendered. For example, in the merchant acquiring industry, Citigroup's merchant discount rates are the highest among its competitors yet businesses are willing to pay for its services due to the quality credit card base as well as marketing support to the channel Citigroup customers in the interest of merchants business.

This is unique in the sense that merchants are able to enjoy benefits and support from the bank if they work with Citigroup and for many businesses, these costs can be factored in the pricing of the product and they are willing to pay the high merchant discount rates.

Although differentiation strategy is good, Citigroup needs to be careful and rein in its franchises so that there is no differentiation. As discussed earlier, there is a risk of the firm over-differentiating its products and services causing a breakdown in the communication and direction between the firm and its employees and the firm to its customers. This can be a threat to its business as financial products and services are highly substitutable whereas confidence in the firm by customers is very important. This can be seen in massive policy cancellation by AIG policyholders in Singapore when it broke that the firm is having financial problems. This caused the firm to lose millions in working capital as well as a tattered image, which took decades to build.

Therefore, Citigroup should have a broad business level strategy, which caters for all franchises, and have differentiation strategies for product offering only. This will enable its employees to be focused in their work and offer products and services, which are perceived as of high value. This will enable the Citigroup to charge a premium price for its products and services.

Other than that, having differentiation strategies, Citigroup should also work towards broad differentiation strategies, strive to be cost effective and also differentiate its products and competitors from its rivals. This is because if Citigroup is unable to reign in its costs, it would not be earning above average returns for its stakeholders and this in turn will create a loss in confidence towards its business. One of the steps, which Citigroup needs to work towards, is to improve its customer service and work processes so that minimal time is spent performing a job twice. This means instilling the concept of doing things right in their employees. This will reduce wastage and in return increase productivity and promote a competitive environment.

Besides that, the firm should also be looking for other alternative channels to attract customers, not just the traditional way of sales call or walking into the branch. For example, by offering internet banking services, the bank will be able to reduce its fixed costs as it does not need to have physical branches and at the same time offering its customers the flexibility of performing banking at their own time and place of choosing.

As such, Citigroup should work towards a broad differentiation strategy so that its business can grow further. It can be seen in the business performance review of Citigroup that even with the current financial turmoil, its balance sheet is strong and it has even recently decided to acquire Wachovia Bank, the fourth largest bank in the USA. However, if Citigroup is unable to lower its operating costs, it would have problem competing with its more nimble competitors as costs is the bottom-line for each business and investors and customers alike will look at the financial standing of the company. For example, one would not want to invest or perform business with a firm which is having financial difficulties, as the firm may not be able to perform its obligations

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