

COMMERCIAL LENDING STRATEGY FOR MATURE INDUSTRY:
THE CASE OF THE MOTORCYCLE INDUSTRY IN TAIWAN

by

Chin-Tain Chiu

B.S. National Chiao Tung University
(1975)
M.Comm., National Cheng Chi University
(1977)

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SIGNATURE OF AUTHOR: _____
Alfred P. Sloan School of Management
May 1, 1986

CERTIFIED BY: _____
Arnoldo C. Hax
Thesis Supervisor

ACCEPTED BY: _____
Alan F. White
Associate Dean for Executive Education
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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ABSTRACT

Banking is a risk-taking business. It is a bank's objective to maximize its profits as well as minimize potential risks through the use of suitable strategies. Bankers are currently in the midst of what is probably the worst credit environment in Taiwan's history, with an unprecedented series of bankruptcies of both large and medium-sized companies. Reasons include the prolonged recession, vulnerable industry structure and, in most individual cases, poor management. A significant contributing factor in the over-extension of many companies has been the availability of cheap and easy (unsecured) credit from several new foreign banks. The foreign banking community, in recent years, has been especially hard hit.

Under this scenario, it is crucial to develop effective lending strategy, which is a result of the strategic planning process, to better fit long-term industry outlooks and the bank's current positioning. Particularly, the bank has to pay close attention to the high-risk area--the mature industries to avoid potential credit loss. The purpose of this study is to:

- o develop a strategic planning process for commercial lending.
- o conduct a strategic analysis of the motorcycle industry, and elaborate the criteria for identifying a mature industry.
- o formulate effective lending strategy for the bank to better manage the credit portfolio extended to the industry.

The rationale behind the study is to apply the theory and technique developed by Professors Arnoldo C. Hax and Nicolas S. Majluf. The strategic analysis of the industry is based on Michael Porter's framework and ADL's life-cycle portfolio matrix model.

Thesis Supervisor: Arnoldo C. Hax
Title: Professor of Management Science

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CHAPTER 1

INTRODUCTION

The concept of strategic planning is and continues to be a relatively new idea for the banking industry. For many years, the banking industry's structure and limited activities made financial institutions a relatively "secure" breed, protected by a set of governmental regulations. However, a poor credit environment, volatile industry structure, technical advances, and a movement toward deregulation have alerted many banks that thought-out strategies are crucial to their sustained competitive position.

As stated by Arnolddo C. Hax and Nicolas S. Majluf, corporate planning is neither a top-down nor a bottom-up process. It is a much more complex activity which requires strong participation of the key managers of the firm, where objectives are being proposed from the top, and specific pragmatic alternatives are being suggested from business and functional levels. It is a process that, properly conducted, generates a wealth of individual commitment and personal participation from everybody who has a definite say in sharpening up the direction of the firm. It is a rich communication device, where the key managers have an opportunity to voice their personal belief about the conduct of the businesses of the firm, and offers a valuable joint experience as well as an educational opportunity to be shared by participants.

With the strategic planning concept in mind, I decided to apply it to a banking organization to formulate an effective lending strategy for mature industries. Citibank Taipei, the Republic of China's (ROC) largest foreign bank, as well as a business segment within its Corporate Banking Group, the motorcycle industry, were chosen for the case study. The framework of developing a lending strategy was based on the strategic planning model developed by Professors Hax and Majluf. The process is a rather detailed methodology designed for a comprehensive approach to the development of strategy.

To derive the information necessary to support a corporate perspective as well as business unit's viewpoint, several interviews were conducted with different levels of management in the Branch. Various materials, including the Bank's internal publications, Annual Reports, memos and speeches, as well as secondary statistics published by the ROC government, were also used in connection with my research.

1.1 Commercial Banking in Taiwan

Banking was strictly regulated in Taiwan in the past. It is generally agreed that the banking and finance sectors in Taiwan were previously unable to meet the growing demands for credits spurred by rapid industrialization and economic growth. Rigid collateral requirements of local banks restrained business growth and led to a flourishing unofficial money market where funds were offered at very high rates to borrowers. To fit the financial needs of local

industries, foreign banks provided these industries with a wide range of financial services. However, because of the various restrictions, the target market of the foreign banks was confined to large-scale names.

Following is a brief description of the domestic/foreign commercial banks in Taiwan:

A. Domestic Commercial Banks

Taiwan's 24 domestic commercial banks extend similar interest rates and follow the same basic lending procedures. The government controls twelve major local banks, and the remaining are privately owned. The total net assets of all domestic banks were NT\$1,813.6 billion (U.S.\$45.3 billion equivalent) as of January 1, 1985, representing a 60% portion of the total net assets held by Taiwan's financial institutions.

Except for the Export-Import Bank of China, domestic banks are restricted from extending more than 25% of their net worth to a single customer. Most banks provide mainly short-term credit, export financing services, and guarantees for commercial paper issuance. Although the personal relationship between the banker and borrower carries much weight in obtaining a credit line, extensions are usually based on the value of security and the borrower's credit standing. Therefore, most facilities extended by local banks are well secured.

B. Foreign Commercial Banks

The number of foreign banks in Taipei as of June 30, 1985, was 32, including 14 American, 10 European, and 8 others from Canada (2), Singapore (2), Hong Kong (1), Japan (1), etc. Foreign banks provide basically the same services as do the local banks.

However, there are several restrictions on foreign bank operations:

- o The local currency demand and time deposits of foreign banks cannot exceed 12.5 times their paid-in capital, or NT\$2 billion, whichever is lower.
- o Foreign banks may not lend to an individual customer more than 7% of their total lines extended to customers.
- o The extension of all foreign currency term loans is subject to the approval of the Central Bank of China.
- o Export promotion loans (pre-export financing) extended by a foreign bank cannot exceed \$6 million U.S. dollars within one week.
- o Guaranty of Commercial Paper issuance is limited to 5 times a foreign bank branch's net worth.

All foreign banks have some problems in local currency funding because of limited sources. Ever since the introduction of Banker's Acceptance by Citibank Taipei in 1981 and the rapid increase in the number of foreign bank branches in Taipei, competition in the banking industry has been intensifying. Following the aggressive business expansion aimed at profitability growth, credits have been somewhat

over-extended. As a result, credit portfolio problems have become a major issue for most foreign banks.

1.2 Pitfalls in Commercial Lending

There are several critical issues in commercial lending activities. The following are most commonly found.

o Balance on Credit vs. Marketing

One of the priorities that commercial banks face is to evolve together a set of words/actions that will keep this essential balance between credit and marketing alive and well. In an environment where bankers are driving very hard to broaden and deepen the range of products they are selling, and where marketing has become the principal focus of senior management, they are running big risks in not having a balancing push on the other side.

Following the installation of the profit center concept and continuing growth perspective, the banks have put more emphasis on account profitability. Continuous pressure of account profits induces aggressive marketing efforts and deep market penetration. This builds up a poor credit portfolio and results in problem loans afterwards. Redirecting account officer orientation to include greater sensitivity to credit considerations versus marketing will play a major role in improving the process.

o Target Market/Credit Acceptance Terms

Some of the banks' more serious credit problems can be traced to poor basic market decisions. Terms of lending for appropriately differentiated risk assets must be precisely specified and understood for each market. Once target markets are agreed upon, the temptation to go down-market is to be avoided.

In Citibank Taipei, target market/credit acceptance term (CAT) was not set up until 1983 when credit issue became more sensitive. Several accounts solicited before 1983 were weak in terms of credit standing. CAT, in some cases, was tailored to fit existing portfolio rather than to be used as a base to screen existing unsatisfactory accounts. Besides, CAT used in Citibank Taipei rests on sales, leverage, and tangible net worth only. Profitability and liquidity benchmarks have been excluded from CAT considerations. The number of target market exceptions which subsequently become problem credits may suggest the need for further refinement and weeding out of the existing client base. Setting up long-run selectivity parameters would be helpful.

o Top-Down Approach for Credit Decision

Credit process is an important part of commercial banking. A close linkage and balance should be maintained between credit policy supervision, the line-driven credit process, and risk asset review. The process is viewed as an integrated unity. However, top-down approach for credit decision is often prejudiced as top management does not have frequent contact with the clients and does not get the

whole picture of how the clients are doing. It is an iron discipline of senior management that credit decisions flow bottom upward. Top-down approach for credit decision is not unusual in the banking community. In several occasions, top-down approach discourages suggestion/proposal from bottom-upward and often leads to a biased decision or even results in a problem loan.

o Maturity of Industry

The industry's sales volume often follows a typical pattern that can easily be charted as a four-phase cycle known as embryonic, growth, maturity, and aging. A key component of lending strategy is to effectively manage the loan portfolio to an industry throughout its lifecycle. However, to manage an industry throughout its lifecycle, bankers must be able to identify the industry maturity. Particularly, the bank has to pay close attention to the risk area--the mature industries--to avoid potential credit loss. Therefore, it is important to make a strategic industry analysis, and to assess which stage the industry is in, before making credit decision.

1.3 Objective of the Study

Banking is a risk-taking business. It is a bank's objective to maximize its profits as well as minimize potential risks through the use of suitable strategies. During recession periods, the danger of excessive risk-taking and concentrations become apparent to financial institutions. Bankers have to bear in mind the current phase of the

business/product lifecycle and develop strategies for strengthening their niche. It is evident that foregone interest and loan losses not only erode earnings but also incur intangible costs in talent and other resources needed to administer weak credits.

Bankers are currently in the midst of what is probably the worst credit environment in Taiwan's history, with an unprecedented series of bankruptcies of both large and medium-sized companies. Reasons include the prolonged recession, vulnerable industry structure, and, in most individual cases, poor management. A significant contributing factor in the over-extension of many companies has been the availability of cheap and easy (unsecured) credit from the fifteen new foreign banks which have opened branches in Taiwan over the past three years. The foreign banking community, with its many new banks, has been especially hard hit. It is estimated that foreign banks in Taiwan as a whole wrote off their aggregate capital in 1983. And 75% of the foreign banks suffered operating losses in 1984. Accumulated problem loans as of early 1985 among foreign banks reached a record high of half a billion U.S. dollars. Wells Fargo Bank withdrew its representative office from Taipei in May 1985 partly because of its internal policy to reduce international business, partly because of the unsatisfactory credit environment in Taiwan.

Under this scenario, it is crucial to develop an effective lending strategy to better fit long-term industry outlooks and the bank's current positioning. It is especially important for a bank to set up

a target market strategy and credit acceptance criteria for a mature industry. This will give the account officers a more controlled prospect identification system and a qualification screen for present clients.

The purpose of this study, on one hand, is to elaborate the criteria for identifying a mature industry, and on the other hand, is to develop effective lending strategy for better managing credit portfolios extended to a mature industry. Basically, a bank strengthens its ties with top credit names and tightens its security requirements with weak credit accounts.

In either case, the development of an effective lending strategy is crucial to the successful operation of a financial institution,

1.4 Rationale Behind the Study

Planning is an elusive subject. The essence of planning is to organize, in a disciplined way, the major task that a firm must address to maintain an operational efficiency in its existing business, and to guide the organization into a new and better future.

An effective planning system has to deal with two relevant dimensions: responding to changes in the external environment, and creatively deploying internal resources to improve the competitive

position of the firm. It is recognized that there are five major steps in the evolution of planning:

- budgeting and financial control
- long-range planning
- business strategic planning
- corporate strategic planning
- strategic management.

Each of the above planning stages represents a response to different needs for planning capabilities. Firms do not have the same needs, so it is not surprising to find today many organizations still firmly anchored in the early stages of the planning evolution.

A lending strategy, result of planning process, is a critical component of the bank's corporate strategy, comprising a set of well-coordinated objectives and action programs aimed at securing a long-term, sustainable advantage over competitors. A lending strategy should be consistent with the bank's corporate strategy, as well as with the other managerial functional strategies.

A framework of fundamental elements in developing lending strategies is shown in Figure 1.1. The framework consists of six steps:

- 1) Recognizing the corporate strategic thrusts and planning challenges in response to lending activities.
- 2) Defining the mission of the lending function for the Branch.

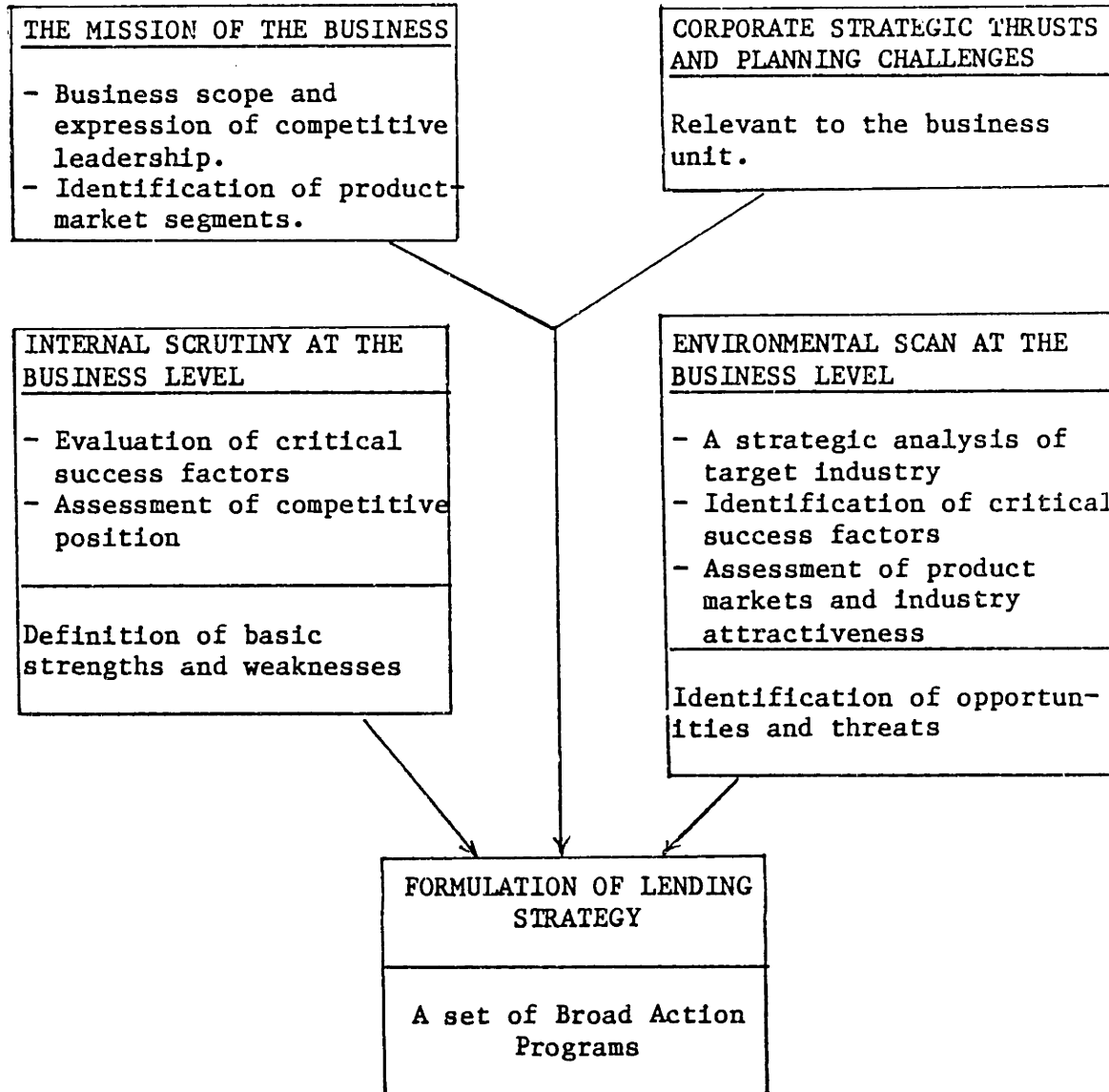
- 3) Conducting external environmental scan of conditions affecting lending issues.
- 4) Making internal scrutiny at the business level of current lending and future concerns.
- 5) Formulating lending strategy.
- 6) Translating strategy into specific action programs.

Based on the above framework, this thesis study will proceed as follows:

- o Develop front-end strategic planning process to identify the vision of the firm, its corporate thrusts, and planning challenges.
- o Elaborate the mission of the motorcycle business unit.
- o Conduct a strategic analysis of the motorcycle industry in Taiwan by applying Porter's competitive analysis framework and ADL's model for Life Cycle Portfolio Matrix analysis.
- o Assess other external environmental factors to determine business unit's opportunity and threat; also examine internal success factors to identify business strength and weakness.
- o Formulate effective lending strategy for better managing credit portfolio extended to the industry.
- o Conclude with the necessity of strategic planning in a commercial bank and the importance of integrating planning, control, reward systems.

Figure 1.1

Formulation of Lending Strategy and Broad Action Programs



CHAPTER 2

STRATEGIC PLANNING PROCESS

2.1 Strategic Planning Model

The essence of strategy is to achieve a long-term sustainable advantage over the firm's competitors in every business in which the firm chooses to participate.

The corporate strategic planning process is a disciplined and well-defined organizational effort aimed at the complete specification of corporate, business, and functional strategy. It identifies all the major tasks to be addressed in setting up these strategies and the sequence in which they must be completed. These tasks are briefly described in Figure 2.1 in which one can identify three conceptual hierarchical levels as stated above.

Although planning is a continuous process repeated year in and year out in the life of the organization, there are certain basic conditions that seem to be more permanent and are not significantly altered in each planning cycle. Hax and Majluf refer to them as the structural conditioners of the business firm and thus are represented in Figure 2.1 by the vision of the firm and the mission of the business. At the same time, there are three major tasks which need to

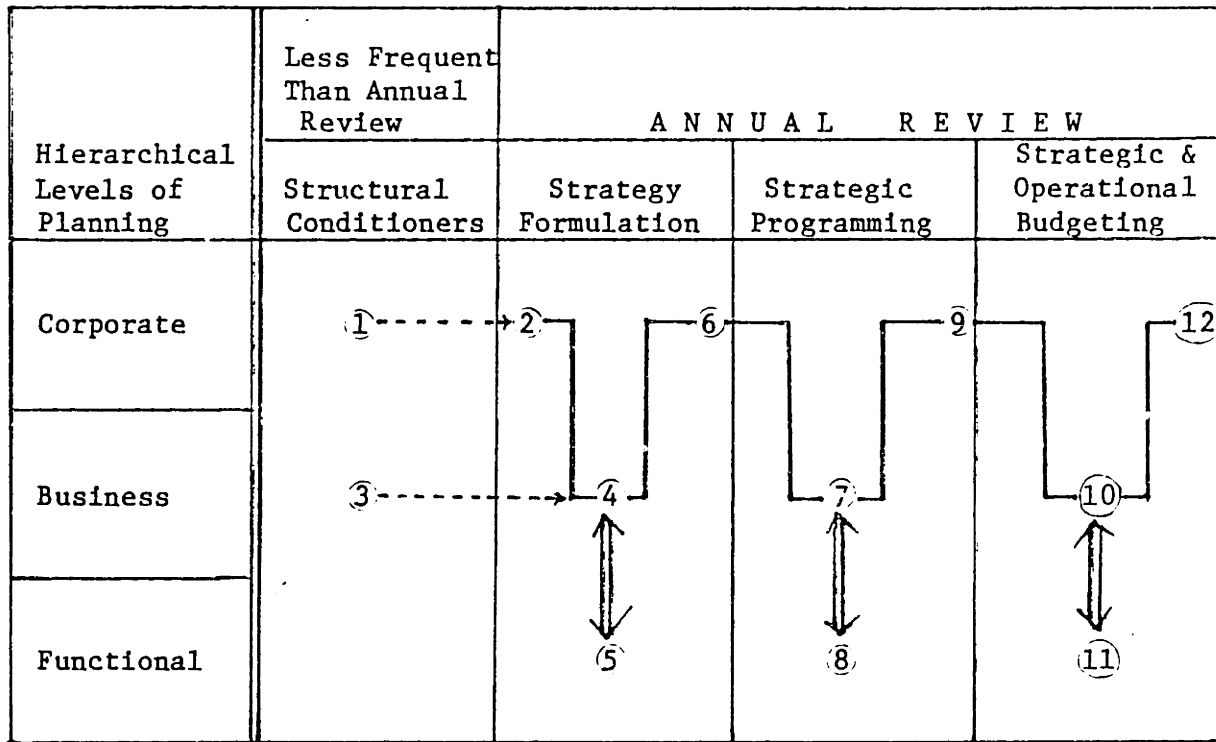
be updated and revised at every planning cycle: strategy formulation, strategic programming, and strategic/operational budgeting.

For the purpose of strategy formulation, we just concentrate on the front end of the planning process in which the corporate level articulates the vision of the firm and its strategic posture; while the business managers develop business strategies in consonance with the corporate thrusts and challenges.

In this thesis study, the author would briefly analyze the strategic planning process of Citibank Taipei for Step 1 and Step 2 at corporate level in terms of these procedures stated in Figure 2.1. The author thinks these parts are crucial to the formulation of commercial lending strategy.

Figure 2.1

The Formal Corporate Strategic Planning Process



1. The vision of the firm: corporate philosophy, mission of the firm, and identification of SBUs and their interactions.
2. Strategic posture and planning guidelines: corporate strategic thrusts, corporate performance objectives, and planning challenges.
3. The mission of the business: business scope, and identification of product-market segments.
4. Formulation of business strategy and broad action programs.
5. Formulation of functional strategy: participation in business strategic planning, concurrence or non-concurrence to business strategy proposals, broad action programs.
6. Consolidation of business and functional strategies.
7. Definition and evaluation of specific action programs at the business level.
8. Definition and evaluation of specific action programs at the functional level.
9. Resource allocation and definition of performance measurements for management control.
10. Budgeting at the business level.
11. Budgeting at the functional level.
12. Budgeting consolidations, and approval of strategic and operational funds.

2.2 Step 1: The Vision of the Firm

The vision of the firm is a rather permanent statement articulated primarily by its chief executive officer, addressing the following issues:

- (1) Communicate the very nature of existence of the organization in terms of corporate purpose, business scope, and competitive leadership,
- (2) Provide the framework that regulates the relationship between the firm and its primary stakeholders: employees, customers, shareholders, suppliers, and the communities in which the firm operates,
- (3) State the broad objectives of the firm's performance in terms of growth and profitability.

The vision of the firm is identified by three components. The first one is the mission of the firm which is a statement of its current and future expectations from the point of view of product, market, and geographical scope, as well as the way to attain competitive leadership. The second one is the business segmentation which is defined as an identification of Strategic Business Unit (SBU) and their interactions in terms of shared resources and shared concerns. Finally, corporate philosophy is "the most subtle of the issues involved in shaping the corporate vision." It includes a statement of broad objectives of the firm's expected performance and a definition of its nature and basic corporate policies.

A summary of Citibank Taipei's vision is stated as follows:

2.2.1 Step 1-A: Mission of the Firm

The purpose of a firm's mission is to establish a clear definition of current and future expected business scope. The business scope of Citibank Taipei will be expressed as a description of its products, markets, geographical coverage, and the way to achieve competitive leadership.

	<u>CURRENT</u>	<u>FUTURE</u>
Product Scope	<ul style="list-style-type: none">o Provide corporate customers with financial services including electronic cash management, trade services, foreign exchange, investment advisory service, and project finance.o Build products/services generating fee-based revenue	<ul style="list-style-type: none">o Expand product scope by delivering a broader range of integrated financial services.o Continue to develop fee & commission-based productso Emphasize product differentiation through expertise & innovation
Market Scope	<ul style="list-style-type: none">o Provide products/services to government, private corporations & financial institutions through integrated services & global communication network	<ul style="list-style-type: none">o Limit to large customers & selected middle market names onlyo Participate in capital market at home & abroad
Geographical Scope	<ul style="list-style-type: none">o Extend to the major parts of Taiwan	<ul style="list-style-type: none">o Expand geographic boundaries of banking within ROC, including additional branches outside Taipei
Ways to Achieve Competitive Leadership	<ul style="list-style-type: none">o Hire & keep talented peopleo Strong commitment to technology	<ul style="list-style-type: none">o Increase efficiency, market share, & product service expertiseo Continue new product development

As stated above, the premise of the Branch's mission is to offer an array of products/services to all of its market segments where a customer need has been established. Corporate market has been a highly profitable segment and continues to serve as a major market for the Branch. The Bank will also continue its active participation in legislative reform since many of the laws/regulations in existence today preclude foreign banks' activities in various product/market and geographical segments within Taiwan, ROC.

2.2.2 Business Segmentation

The cornerstone of strategic planning process is the segmentation of the firm's activities in terms of business units. A business can be defined as an operating unit that sells a distinct set of products or services to an external market in competition with a clear set of competitors. It has control over its own destiny and serves as a profit center. This is usually referred to as a Strategic Business Unit (SBU).

Citibank Taipei's core business lies in three areas:

- 1) Commercial Banking: Corporate Banking Group (CBG) offers a wide range of corporate financial services to government and corporations. CBG is the most important segment in the Taipei Branch, which shares 70% of the Branch's total earnings. CBG is divided into multinational and local group according to the ownership of corporate customers and is segmented by industries.

2) Travellers' Check (TC): Citibank is the largest bank in Taiwan, issuing travellers' checks for encashment overseas. Its market share is around 70%. Due to local regulations, foreign banks in Taiwan cannot sell travellers' checks directly to the ROC citizen. Therefore, distribution is made through local banks' branch offices throughout the island. The travellers' check business has grown rapidly since touring abroad was opened to the public in 1973. The profit of the TC Department accounts for 20% of total earnings of the branch. In 1984, the department's turnover reached U.S.\$25 million on travellers' checks.

3) Financial Institution and Treasury: Financial Institution (FI) is responsible for inter-bank relations. It deals with the subject of correspondent banking and provides other banks with collection/remittance services, takes care of foreign transactions, supplies credit information, and assistance on loans.

Treasury function is to match the sources and uses of funds. Its objectives are designed to enable the bank to maintain solvency and to meet liquidity requirements without exposing itself to unusual pressure. It also takes position through buying and selling foreign exchanges.

Although FI and Treasury are supportive departments, they are treated as profit centers and each has external competitors and

services an external market. Therefore they are also classified as SBUs.

The business of Citibank Taipei has been segmented into the above three major units. These represent the three core businesses of Citibank Taipei organized around generic customer groups on a country basis. It also matches the top segmentation of its organizational structure.

2.2.3 Identification of Shared Resources

Following the definition of the business units, we have to identify the need to share resources among SBUs to achieve economies of scale or to avoid problems of subcritical mass. Resources in banking industry are people, capital, and systems. The identification of shared resources among major business in the Branch is listed as follows:

Resource	SBU Name		
	CBG	TC	FI/Treasury
Potential sharing of the same markets generates overall interdependence	X	X	X
Capital Base Resource	X	X	X
Transferrable Human Resource	X	X	X
Account Relationship Officer	X	X	X
Global Communication Network	X	X	X
Treasury Funding Activity & Foreign Exchange Transaction	X		X

The interrelationships which exist for the Branch suggest a critical need for cooperation among different businesses, especially where customer needs are served and where the effective placement of human resources becomes important. The dependence of Treasury on the Account Relationship Team, within CBG in order to position its services, exemplifies further the need to consider these dimensions in developing a strategy.

2.2.4 Identification of Shared Concerns

Shared concerns is another important relationship among business units and should be addressed when strategy is being developed.

Concern	SBU Name		
	CRG	TC	FI/Treasury
Servicing major clients' needs	X	X	X
Domestic market	X	X	X
Industries	X		
Foreign Bank Entry	X	X	X
Market segmentation	X	X	X
Product/service packaging & delivery	X	X	X
Funding Cost	X		
Interest/Credit/Liquidity risk assessment	X	X	X

The table suggests that each SBU is concerned with many different categories. As we consider these interrelationships, the coordination

of information among business units becomes vital in supporting the customers' needs, and in determining how well the organization should function within a regulatory environment.

2.2.5 The Statement of Corporate Philosophy

Corporate philosophy is the most subtle of the issues involved in shaping the corporate vision. A well-formulated corporate philosophy should address the following issues:

- 1) Statement of relationship between the firm and its principal stakeholders; here the author will focus primarily on the Bank's relationship with its customers and employees.
- 2) Definition of broad corporate objectives, normally expressed in terms of growth and profitability.
- 3) Formulation of corporate policies, regarding human resource management, financial policy, marketing policy, and technological policy.
- 4) An articulation of the corporate culture reflected in its attitudes and values, its management style, and the problem-solving behavior of its people.

1. Relationship with Customers and Employees

Citibank maintains its relationships with its customers as its primary focus. As one of its senior officers revealed,

"Satisfying the needs of our customers is fundamental to our survival and prosperity. These needs can best be understood in terms of support we lend in helping our customers meet

their financial objectives. Our goal is to provide superior products/services which offer innovative solutions to our customers' problems. We must understand the business of our customers and establish long-term relationships based on performance and integrity."

The relationship with its employees can be described as tough but fair, where one's intelligence, wit, and energy, without regard to sex or creed, can become the driving force in predicting how far one can move within the corporation. Its objectives are to offer employees a challenging and stable working environment, above-average compensations, and to build mutual respect, confidence, and trust in personal relationships based upon commitments to integrity, honesty, openness, and competence.

2. Broad Corporate Objectives

As the Branch looks ahead toward the future by moving through the coming decade, its efforts will be guided by the following corporate goals:

- o Continue development and implementation of products available to the local market which will quickly benefit from Citibank's position, distribution, and resource leadership in Taiwan.
- o Maintain steady business growth. Achieve 8-10% annual profit center earning (PCE) growth rate with ROE in excess of 25% and ROA in excess of 1.20%.
- o Maintain pre-eminent position as a cross-border bank.

- o Maintain reputation in marketplace for being aggressive, innovative, and supportive.

Technological Policy

Citibank has a strong commitment to technology development because information about money is becoming almost as important as money itself. The Branch recognizes that its customers will be looking for information-based services on a global scale and in order to respond to that, technology will become a major force.

The Branch will continue to dedicate itself to developing its ability to deliver prompt, accurate information electronically to the corporate treasurer's desk. The Branch is also aimed at achieving efficient, low-cost electronic delivery of its key products and maintaining its market leadership in processing, delivery technology, and communication technology.

Management Style

Managerial resources are vital to Citibank's achievement of financial leadership and therefore it is committed to a system where talented and capable people are recognized, tracked, and given opportunities to develop their skills and assume greater responsibilities. This system involves consistent line management review of performance and career development plans of each officer from every organizational level. Generally speaking, Citibank is an open society that encourages people to speak their mind. Two-way

communication is emphasized while participation in decision-making processes is highly encouraged.

Credit Policy

Lending is the essence of commercial banking, consequently, well-conceived credit policy and careful lending practices are essential if a bank is to perform its credit-creating function effectively and minimize the risk inherent in any extension of credit. Credit policy should, in every case, be reduced to writing since only then will they be clearly and uniformly understood. The policy needs periodic review in the light of ever-changing conditions in the market.

A sound credit policy will consider the following points:

- o To assess the needs of credit market the bank serves or intends to serve.
- o To determine the size of the loan portfolio and to search out opportunities to make sound loans.
- o To justify if a loan is made for a sound purpose and if the repayments are realistically scheduled to flow from the liquidation of the transaction being financed.
- o To outline the criteria in evaluating a credit package and to gain collaterals if necessary.
- o To specify the lending limit of the bank as well as the individual client. Specify the size of loan loss reserve and composition of asset portfolio.

The purpose of credit policy is to guide officers in balancing the quality and quantity of the loan portfolio to achieve earning objectives while also meeting appropriate credit needs, maintaining proper credit standards, holding risk to reasonable limits, minimizing losses, evaluating new business opportunity, adjusting to changes in the regulatory environment, and providing adequate liquidity.

3) Corporate Culture

Citicorp's global network results in a highly decentralized structure. Citibankers are expected to make decisions and solve problems wherever they are assigned without a central decision-making authority. It is through its decentralization that Citibank ensures diversification in risk-taking and enhances efficiency in business development.

Innovativeness is another characteristic of Citiculture. The ability of creativity, uniqueness, and a dauntless approach to problem solving have been emphasized in the organization. Citibankers share a passion to excel with an energetic commitment to be first in whatever needs to be done.

2.3 Development of the Strategic Posture of the Firm and Planning Guidelines

The corporate vision is a permanent statement of an organization's central purpose, policy, and corporate culture. It is necessary to translate the corporate vision into a pragmatic and concrete set of

guidelines which serve as an immediate challenge for the firm's business and functional units. This is expressed by means of the firm's strategic posture which has to be distilled from the vision of the firm and the situational analysis of external and internal analysis.

2.3.1 Environmental Scan at the Corporate Level

Environmental scan attempts to diagnose the general health of the industrial sectors relevant to the business in which the corporation is engaged. It concentrates on assessing the overall economic, political, technological, and social climates that affect the corporation as a whole. This assessment should be made from a historical perspective and from the perspective of future trends in the environment.

In this study, the economic scenario, as listed in Figure 2.2, will incorporate the following categories: gross national product (GNP), inflation, unemployment, disposable income, and population growth.

Figure 2.2

Taiwan Economic Overview

Economic Overview*

	Past Years				Current			Projections		
	78	79	80	81	82	83	84	85	86	87
GNP (at constant price of 1976)	12.0	8.6	4.2	5.4	4.0	8.6	11.4	12.1	12.8	13.7
Inflation (Consumer Price 1981=100)	5.8	9.7	19.0	16.3	3.4	1.8	1.7	2.0	2.3	2.6
Unemployment**	1.0	0.7	0.7	0.8	1.2	1.6	1.4	1.8	2.5	2.3
Population Growth	1.9	2.0	1.9	1.9	1.8	1.5	1.5	1.4	1.4	1.3
Disposable Personal Income	16.1	19.4	24.8	19.9	8.3	10.4	12.0	12.6	13.2	13.9

* Annual Growth rate

** Refers to civilian labor force only

Source: "1985 Taiwan Statistical Data Book," Council for Economic Planning and Development, ROC.

As an overview, key considerations for strategic planning development is the projected moderate growth of the country with growing trend of disposable personal income. Prices have been very stable for the past three years with minimal inflation. Interest rates of N.T. dollar have remained extremely low during the past years with a continuing trend. Population growth rate is under control (around 1.5% per annum), while unemployment rate increased in recent years mainly because of the stagnant economic condition and low incentives of private investments.

The economy of Taiwan has been highly dependent on trade, with exports making up over 50% of GDP in 1984. In recent years, there has been a serious trend toward increased protectionism in the world market and toward retaliation for serious and chronic trade imbalances. This could weaken Taiwan's economic growth rate for the coming years. Besides, it is essential to upgrade Taiwan's industrial base toward more capital and technology-intensive industry to overcome the problems of rising real wages and the loss of comparative advantage in cheap abundant labor to other developing countries in Asia. An Economic Reform Committee (ERC) was formed in 1985 to respond to these problems and to evaluate the country's economic and financial structure and to recommend appropriate strategies for the ROC government.

As we continue with the environmental scan from a corporate level perspective, an identification of broad external factors which will

have an impact on the firm will follow. Citibank Taipei's broad assessment of the basic external factors are summarized in Figure 2.3.

As stated in Figure 2.3, a moderate economic recovery is expected and thus will stimulate credit demand. However, because of banks' large unsatisfactory portfolio, there would be a transition period for banks to continue tightening of their credit process to reduce potential loss. Banking strategies of financial institutions will be modified in line with its own strength and weakness. Cost reduction would continue playing a major role in the future. Regulatory freedom is anticipated to allow foreign banks to expand their business in Taiwan. Therefore, enhancing competitive edge would be the major task of financial institutions in the future.

Figure 2.3

Broad Assessment of Basic External Factors		MAJOR OPPORTUNITIES/THREATS	
FACTORS	PAST	FUTURE	
Economic Overview	<u>1978-1981</u>	o Moderate economic growth, with inflation under control	o Sustained economic recovery will improve credit demand
	<u>1982-84</u>	o Growth rate slowdown, low inflation, low interest rates o World recession	o Provide opportunity in trade financing
Primary Market Overview		o Increasing competition among banks o Specific growth markets: multinational companies, exporter/importer o Industry reshuffle or shakeout	o Emphasize foreign exchange transaction, fee-based/non-credit services o Loan loss provision increased
		o Growth opportunity narrowed due to slowdown of economy & intensifying competition among banks o Weak industry structure & below-average financial standing o Unsatisfactory credit environment forces banks to take conservative loan policy	o Tightening liquidity in middle market, resulting from bank's pulling back and company's weak capital structure

Figure 2.3 (continued)

Broad Assessment of Basic External Factors			
FACTORS	PAST	FUTURE	
		MAJOR OPPORTUNITIES/THREATS	
Technological Trends	<ul style="list-style-type: none"> o Computer technology increased efficiency o Little customer automation 	<ul style="list-style-type: none"> o Integration of financial service o Rapid customer automation 	<ul style="list-style-type: none"> o Reduction in cost due to computerization
	<ul style="list-style-type: none"> o Recent political movement toward open door policy of foreign bank entry o Political stability 	<ul style="list-style-type: none"> o Political concerns over deregulation of banking system o Pursue stability in the financial system 	<ul style="list-style-type: none"> o Lobbying effort will play an important role o Opportunity for improved competitive position
Legal	<ul style="list-style-type: none"> o Current regulation restricting product diversification & geographic expansion 	<ul style="list-style-type: none"> o Changes in legislation, including a lowering of product & place restrictions 	<ul style="list-style-type: none"> o Time allowed for strategic positioning in preparation for deregulation
	<ul style="list-style-type: none"> o Constraints on providing comprehensive financial services to all market segments 	<ul style="list-style-type: none"> o Complete regulatory freedom unexpected 	
Supply of Human Resources	<ul style="list-style-type: none"> o Good performance & well-developed corporate image attracted talented people 	<ul style="list-style-type: none"> o Competition in attracting best people o Continued emphasis on training & development of employees 	<ul style="list-style-type: none"> o Efforts to hire, keep & develop best people

2.3.2 Internal Scrutiny at Corporate Level

The internal scrutiny is concerned with a broad evaluation of the human, financial, productive, physical, and technological resources of the corporation. The purpose of this task is to assist in the identification of the distinct competencies of the firm as a whole (strength), as well as the required competencies which are not yet present, but need to be developed (weakness).

Following represents a summary of Citibank Taipei's strengths and weaknesses:

Strengths:

1. Large and well-diversified customer base.
2. Global communication network connecting major operations within 92 countries.
3. High caliber staff with professional expertise.
4. Market leadership in technology.
5. Innovativeness in financial services delivery and favorable corporate image provides for customer attraction.
6. Good management system with high decentralization.
7. Risk-taking ability and willingness.

Weaknesses:

1. Lack of complete understanding of the cost dynamics of the business.
2. Regulatory constraints on the scope of business.

3. Increasing customer complaints about bureaucracy, tedious procedures, and tight security requirement.
4. Increasing personnel bottleneck with middle management and high turnover of junior account officers.
5. Uncompetitive pricing leads the Bank to lose market share.
6. Weak motivation and reward system.
7. Loan portfolio quality needs to be improved.

2.3.3 Corporate Strategic Thrusts and Planning Challenges

Corporate strategic thrusts are the primary issues the firm has to address in the next three to five years to establish a healthy competitive position. The strategic thrusts should contain specific and meaningful planning challenges addressed at the corporate level; each business unit of the firm as well as some key centralized functions.

Based on the environmental scan of external factors and internal scrutiny of the business, the author has defined the strategic thrusts for the Branch in Figure 2.4. These are the challenges each SBU must address in developing its mission, business strategy, and broad action program.

Corporate thrusts serve as the avenue for the CEO and other corporate managers of the firm to impart their personal values, aspirations, and ideas into the strategic process of the firm. As Andrews states, "What the executives of a company want to do must be brought into the strategic decision."

Figure 2.4

Statement of Strategic Thrusts and
Assignment of Planning Challenges

Strategic Thrusts	Corporate Level	Business		FI/Treasury	Functions	
		CBG	TC		Human Resources	Operations
1. To significantly improve the motivation and reward system and to provide more emphasis on strategic and long-term performance	2	1	1	1	1	1
2. To maintain leading position as most profitable bank by becoming a low-cost, high-efficiency producer of financial services	1	1	1	1	3	3
3. To maintain good credit portfolio and to reduce potential credit loss	2	1	--	--	3	3
4. To establish a means whereby new earnings streams can be generated through innovation and product development	3	1	1	1	--	--
5. To grow market share selectively and to eliminate unprofitable/shaky accounts	3	1	1	--	--	--

Figure 2.4 (continued)

Statement of Strategic Thrusts and
Assignment of Planning Challenges

Strategic Thrusts	Corporate Level	Business		Functions	
		CBG	TC	Human Resources	Operations
6. To expand business by establishing additional branches geographically and by tapping investment banking business	1	1	2	3	3
7. To continue lobbying efforts to ease banking regulation	1	2	2	---	3
8. To improve customer service quality by enhancing efficiency	2	1	1	---	1

Corporate Performance Objectives

As a final description of the firm's strategic posture, a statement of corporate performance objectives must be expressed. They are quantitative indicators of the overall performance of the firm, predominantly of a financial nature.

The corporate performance objectives for Citibank Taipei are described as follows:

Performance Indicators

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Objectives</u>
Return on Equity	29%	29%	24%	25%	25%
Return on Assets	1.10%	1.13%	0.94%	0.98%	1.20%

Citibank is not interested in being the largest financial institution, but in being the most profitable one. Therefore, the asset size is not listed as a performance indicator. It is the returns which count.

2.4 Mission of the Motorcycle Business Unit

The basic concept of the mission of the business is similar to its equivalent at the corporate level, and is expressed in terms of product, market, and geographical scope, together with a statement of competitive uniqueness. When applied at the business level, the mission becomes sharper and more detailed. The existing or desirable competitive leadership of a given business might not coincide with that of the overall corporation.

With the vision of the firm and the strategic posture established, we will analyze the strategic business unit. As mentioned previously, CBG (Corporate Banking Group) is the largest bread winner of the Branch. To improve industry specialization and marketing focus, the correct strategic decision to reorganize the CBG along industry cut was made in November 1982. The business unit the author chooses to consider is the motorcycle industry.

For most commercial banks, the lending activities are the largest, the most complex, and the most difficult to manage component of the firm. Because of this complexity, it is essential for banks to have a comprehensive lending strategy to aid in organizing and managing the bank's marketing activities.

The mission of the motorcycle business unit is to provide financial services and products to the corporate customers with an aim

to resulting in sound and profitable assets complying with the bank's portfolio management objectives and generate profitable levels of fee income. The credit risk involved with weak/shaky accounts should be minimized through reducing unsatisfactory loan portfolio previously extended to the customers.

Mission of Motorcycle Business Unit

	<u>CURRENT</u>	<u>FUTURE</u>
Product Scope	Core products to provide - working capital financing - trade financing - project financing	o Products to finance working capital needs & trade transactions only
Market Scope	o Tarket market is set at middle/high segments	o Focus on top industry names only
Geographic Scope	o Only Taiwan	o Maintain geographical scope
Ways to achieve portfolio management objective	o Innovative structuring in package deal o Investment in back office technology & position the business against industry segments o Tighten security requirement to improve bank's position	o Develop broader base of skilled relationship manager & establish product packaging technique o Liquidate loan out-standings of unjustified accounts & only retain acceptable credit portfolio

2.5 Summary

In this chapter, the author has elaborated the corporate strategic thrusts and planning challenges of Citibank Taipei and has also stated the mission of the motorcycle business unit. A summary for the formulation of corporate strategic thrusts is made on the following page to give the reader a more clear picture.

In the following two chapters, the author will make a thorough strategic analysis of the motorcycle industry and then identify the external success factor which impact the SBU. By doing this, the identification of opportunities and threats will be concluded. Then the internal scrutiny will also be made to define the strength and weakness of the SBU. Based on all these factors, the lending strategy can thus be formulated.

Formulation of Corporate Strategic Thrusts

Changes in Mission

- o Expansion of product scope and emphasis on product differentiation
- o Concentration on upper-end market plus selected middle market names
- o Establishment of additional branches
- o Efficiency improvement, effective cost control and new product development

Strengths & Weaknesses

Strengths

- o Large customer base, global network
- o Risk taking ability and willingness
- o High caliber staff
- o Leadership in technology & good innovation capability
- o Good management system with high decentralization

Weakness

- o Limitation on business scope
- o Increasing customer complaints about efficiency
- o Increasing turnover of junior AO
- o Weak motivation & reward system
- o Unsatisfactory loan portfolio quality

Opportunities & Threats

Opportunities

- o Gradual economy recovery provides business opportunity
- o Cost reduction thru automation
- o Anticipated deregulation of banking system provides business potential

Threats

- o Tightening liquidity of middle market names would increase loan loss
- o Increasing competition & rivalry among banks
- o Ability to keep & develop high potential staff

Strategic Thrusts

1. To improve motivation and reward system, training and development program, and to provide more emphasis on strategic and long-term performance.
2. To maintain leading position as most profitable bank by becoming a low-cost, high efficiency producer of financial services.
3. To maintain good credit portfolio and to reduce potential credit loss.
4. To establish a means whereby new earning streams can be generated through innovation and new product development.
5. To grow market share selectively and to eliminate unprofitable/shaky accounts.
6. To expand business by establishing additional branches geographically and by tapping investment banking business.
7. To continue lobbying efforts to ease banking regulation.
8. To improve customer service quality by enhancing efficiency.

CHAPTER 3

STRATEGIC ANALYSIS OF MOTORCYCLE INDUSTRY IN TAIWAN

To determine the standing of the motorcycle industry in Taiwan, the author starts by examining the domestic demand and market profile of the industry, the export perspective, technology/production aspects, as well as the regulatory environment. The objective of this examination is to provide a general background of the industry and to identify its characteristics. Second, a competitive analysis of the industry is conducted using Porter's framework. Next, an internal competence analysis is made to assess the strength and weakness of the industry. The maturity of the industry is further examined by using ADL's life-cycle portfolio matrix model. Finally, a summary was made at the end of the chapter.

3.1 HIGHLIGHTS OF THE MOTORCYCLE INDUSTRY IN TAIWAN

Taiwan has enjoyed significant economic growth over the past decade. The people's living standard has also been upgraded, with an average per-capita income of US\$3,050 as of December 31, 1984. There is a good transportation system in Taiwan, including a north-south freeway and a railway all around the island. However, there is no subway system in the metropolitan areas like Taipei and Kaohsiung. Therefore, it is convenient for some people to own a private

transportation vehicle. For the past twenty years, the motorcycle has been an important vehicle in both rural and urban areas, owing to its convenience, mobility, fuel economy, and reasonable price. Even now, the motorcycle is still very popular, especially among those people with low to middle-level incomes.

Now, let's take a look at the various aspects of the motorcycle industry in Taiwan.

3.1.1 Domestic Demand

Currently, the number of registered motorcycles in Taiwan has reached 6,109,000 units. From 1969 to 1981, a high growth period, the number of registered motorcycles in Taiwan grew at an average yearly rate of 18.1%. Unit sales growth from 1969 through 1977 was equally steady, averaging 16.6% per year. In 1978, sales jumped to 627,264 units, from 394,980 units in 1977. This sharp increase was due largely to the high number of motorcycle replacement during that year.

However, as indicated in Table 3.1, the domestic demand for motorcycles went flat after 1981 because of the economic recession and the deeply penetrated market. In line with the improvement in the standard of living, as well as the increase in the average per capita income, more and more people are switching to the car market. Nonetheless, given the convenience, reasonable prices, and high mobility of motorcycles, the domestic demand for this product is

projected to stay at around 600,000 units per year throughout the 1980s.

Table 3.1

Taiwan's Motorcycle Industry Sales Trend

No. of units	<u>Domestic Sales</u>	<u>Exports</u>	<u>Total Sales</u>	<u>% Growth</u>
1973	222,928	21,861	244,789	--
1974	287,136	20,623	307,759	25.7
1975	313,261	6,269	319,530	3.9
1976	327,546	12,707	340,253	6.6
1977	394,980	17,348	412,328	21.2
1978	627,264	22,084	649,346	57.5
1979	711,617	18,478	730,312	12.4
1980	716,617	15,265	731,882	--
1981	702,872	9,185	712,056	(2.7)
1982	599,816	17,184	617,000	(13.3)
1983	612,083	10,000	622,083	0.8
1984	621,598	8,000	629,598	1.2

Source: Taiwan Industrial Statistics,
Taiwan Vehicle Association

3.1.2 Market Profile

The domestic motorcycle market is rapidly becoming saturated. From 1976 to 1984 the number of motorcycles registered on the island more than tripled to reach 6,109,000 units. In demographic terms, this translates to one motorcycle per 3.1 persons, or one per 2.0 persons between the ages of 15 and 65. In 1984, the same figures for private cars were 26.1 and 16.9, respectively.

Motorcycles are widely distributed across the island. It is estimated that 30% of all motorcycles were registered in the five

large cities (Taipei, Kaohsiung, Keelung, Taichung, Tainan), while 18% were in Taipei and Kaohsiung alone. By contrast, 54% of all passenger cars (including taxis) were registered in the five cities.

Motorcycles registered now equal 32% of total population, and are clearly primary vehicles. A survey showed that 45% of the working population rides motorcycles to and from work compared with 8% riding in private cars. Automobile sales have grown dramatically over the last five years while motorcycle sales peaked in 1980 and then declined. It is likely, however, that the descent of the motorcycle primary use curve will be gradual; a number of factors should delay the replacement of motorcycles with cars:

- 1) Infrastructure: In cities, traffic systems have not been designed to handle large volumes of automobile traffic. Parking is inadequate, rush hour traffic is legendary, at least in the large cities. In rural areas, secondary roads in poor condition are more easily accessible to motorcycles.
- 2) Cost differential between motorcycles and cars: For the average factory worker earning roughly US\$400 per month, a new car purchase represents over one year's pay, while a small motorcycle represents only 2 month's pay.
- 3) In Taiwan, car and motorcycle ownership may not be mutually exclusive. Consumers may purchase a car for commuting, shopping, or family outings, while retaining a motorcycle as a second vehicle. This is a so-called "Six-Wheel Vehicle" concept.

3.1.3 Export

Because the domestic market has historically been far more profitable and easier to penetrate, export markets have been ignored by most Taiwan motorcycle manufacturers. Among major manufacturers, only Kwang Yang and Suzuki had some exports, which arose from orders forwarded by their Japanese partners. Export markets were a "mixed bag" of industrialized and developing countries, including the U.S., Australia, Hong Kong, Uruguay, etc. The variability of sales to specific markets indicates that such sales have been "one-shot" transactions and do not reflect a stable role for Taiwan in these markets.

The bulk of exports were small (50cc), low-value motorcycles (primarily mopeds), and as a whole, represented a relatively insignificant portion of total sales. From 1976 to 1981, exports accounted for less than 4% of cumulative unit sales and about 1.5% of cumulative dollar sales. This situation changed in 1984 and 1985 because of big orders from Hong Kong. These orders were actually placed by the People's Republic of China (PRC) (which had a huge demand for motorcycles) with Hong Kong traders acting as middlemen. It is estimated that motorcycle exports to Hong Kong in 1984 and 1985 were 8,000 and 50,000 units, respectively. As the transaction itself is connected with highly sensitive political issues, the deals can be interrupted anytime, either by the ROC government's attitude or by a PRC boycott, as well as the PRC's foreign exchange position.

To successfully tap the export market, the manufacturers must make one of the following efforts:

- i) establishment of an overseas sales/service network
- ii) development of technology capability
- iii) reduction of production cost
- iv) elimination of restrictions placed on exports by foreign partners.

3.1.4 Technology Agreements

Every major motorcycle manufacturer receives technical assistance from at least one foreign manufacturer:

San Yang	-	Honda (Japan)
Wan Sun	-	Yamaha (Japan)
Tailung	-	Bridgestone (Japan), Suzuki (Japan)
Vespa	-	Vespa (Italy)
Kwang Yang	-	Honda (Japan)
Suzuki	-	Suzuki (Japan)
Paijifa	-	Kawasaki (Japan), Bajaj (India),
Yeu Tyan	-	Piaggio (Italy) = Vespa
KHS	-	Yamaha (Japan)(cancelled 1972, renewed 1981)
Tai Yang	-	Takahashi (Japan)
Yuen Foong	-	Kawasaki (Japan)

Note that most foreign participants follow a "divide and conquer strategy"; Suzuki, Yamaha, Honda, Kawasaki, and Vespa each have two partners in Taiwan.

The chief benefits of these arrangements to the domestic industry have been:

- Access to foreign technology;
- Ability to produce essentially world-class products without substantial investment in R&D;
- Access to modern management techniques;
- Access to foreign capital;
- Use of established brand names and styling advances.

Benefits to foreign participants include:

- Royalties;
- Establishment of secure market share in Taiwan with limited investment;
- Access to supply base for both parts and assembled machines and ability to control Taiwan's participation in export markets.

This last point deserves further elaboration. Because of the domestic industry's almost total reliance on foreign firms for technology, and by extension, for new products, the technology agreements will have a material effect on domestic manufacturers' ability to develop export sales. In some cases, the foreign firms (predominantly Japanese) reserve the right to export any given product to a given market. Thus, the export sales of such companies as Suzuki and Kwang Yang have come out of orders passed on by their Japanese partners. Tailung is also apparently building a three-wheel, off-road cycle for export under license from Suzuki. In general, it is reasonable to assume the Japanese firms will always give preference to

their own plants when filling available orders, and will use Taiwan capacity only as a supplement to their own.

Technology agreements continue to be both blessing and curse to local manufacturers. It is likely that these agreements will continue to play an important role in the industry for the foreseeable future. As long as such relationships persist, the amount of differentiation between domestic firms is limited by their partners' product development programs. Most manufacturers and industry analysts agree that for the domestic industry to launch a successful export drive, manufacturers must develop their own R&D and new product development capabilities.

3.1.5 Production

In Taiwan, there are twelve motorcycle manufacturers which are primarily assemblers, with most parts procured from their "satellite" factories. Total unit capacity of the ten major manufacturers is approximately 1,100,000 units. Industry production ran at about 50-65% of capacity depending on economy. About 25% of total capacity was added in the last six years, mainly reflecting the entry of Wan Sun and expansions by Yeu Tyan, Paijifa, Tai Yang, and San Yang.

There are about 200 such satellite factories producing motorcycle parts, although these are supplemented by some 500 marginal or "underground" producers. Satellite factories tend to be small, family-

managed concerns, and the quality of their output is uneven. Some of the larger parts factories are more sophisticated, have partnerships or technical assistance agreements with Japanese firms, and typically sell to a number of assemblers.

The government's current domestic content quota for motorcycles is 90%, although the actual domestic content is higher. Key imported parts include carburetors, engine bearings, and high strength parts such as gears.

The assembler/satellite arrangement benefits the assemblers in a number of ways:

- Reduced capital - assemblers can hold machine capacity and inventories upstream with the satellites;
- Price/quality leverage - by playing one supplier off against another, assemblers can gain price or quality control leverage, particularly in low-tech parts such as stampings, forgings, etc. In more critical parts, however, this leverage cuts both ways, as assemblers compete for qualified parts manufacturers' capacity.

Most assemblers, in many cases under the tutelage of Japanese advisors, have proven reasonably adept at managing the relationship with their satellites. San Yang is reputed to have the best system in place. However, the system has significant drawbacks for established competitors:

- The existence of satellite factories effectively reduces the capital resources required by new competitors to enter the industry;
- No single competitor can benefit exclusively from technical advances or learning in parts manufacture.

3.1.6 Manufacturer Profile and Financials

Primarily, most Taiwan motorcycle manufacturers are assemblers. With the industry booming in the 1970s, most makers showed remarkable profits during that period. Because of the economic recession and market saturation in the 1980s, the industry faced eroding profitability and a downturn of sales. This left the company vulnerable to external changes. Following is a brief description of the major motorcycle manufacturers in Taiwan.

San Yang Ind., with 12.5% equity owned by Honda U.S.A., has a lion's share (23-30%) in Taiwan's motorcycle market. With a strong R&D group dedicated to new product development, San Yang has been able to maintain its strong leadership in the domestic market. The company has a capable management team which develops strategy to ensure the company's steady growth and profitable operations. The company has successfully penetrated the domestic car market since the mid-1970s. Currently, motorcycles and Civic cars each account for 50% of total sales. San Yang's operations have shown handsome profits with a positive trend. It has had a sound financial structure, as evidenced

by its historical low leverage. The strong cash position leaves the company less dependent on bank borrowing. (Please refer to Table 3.2 for key financial ratios.)

Table 3.2

Financial Ratios of a Sample of Motorcycle Manufacturers

Firm	Year	NI/NS (%)	Current Ratio	Leverage	Days Rec.	Days Inv.
San Yang	1980	7.1	1.1	0.7	13.7	49.2
	1981	4.8	0.9	1.0	25.9	59.5
	1982	5.0	0.9	0.9	34.3	44.7
	1983	5.5	1.0	1.0	26.3	47.8
	1984	5.3	0.9	0.8	11.5	42.4
Kwang Yang	1980	7.5	1.9	0.6	11.6	98.4
	1981	1.0	1.4	0.8	21.4	142.3
	1982	(20.5)	1.5	0.8	48.5	325.3
	1983	(7.5)	1.2	1.1	38.9	154.9
	1984	7.2	1.6	0.7	28.0	66.9
Paijifa	1980	0.6	0.8	4.1	47.4	103.7
	1981	0.8	0.8	5.3	80.5	111.6
	1982	0.8	0.8	4.5	65.7	117.9
	1983	(11.2)	0.7	9.2	89.4	152.8
	1984	(3.3)	0.8	7.4	85.6	132.8
Wan Sun	1980	0.7	1.1	2.5	74.4	78.2
	1981	2.6	1.0	2.8	41.7	64.5
	1982	0.4	0.9	4.1	55.2	111.1
	1983	0.8	0.9	3.3	37.1	198.2
Suzuki	1980	(2.5)	1.1	1.9	45.6	79.4
	1981	0.2	1.0	1.9	46.9	106.6
	1982	(4.0)	0.9	2.6	77.5	171.5
	1983	1.3	1.0	2.2	34.3	136.9
Yuen Fong	1980	2.3	1.7	1.0	36.8	180.3
	1981	2.0	2.0	0.9	31.8	215.8
	1982	1.4	1.8	0.8	52.7	255.4
	1983	1.5	1.9	0.8	48.9	227.0

Kwang Yang Ind. used to be the number 2 player in the domestic market. However, its sales dropped sharply in 1981 and 1982, mainly because of outmoded products and intensified competition. The company's operation was deeply in the red and this shaky position was not rectified until 1983 when Honda Japan invested in the company with an interest participation for 22.5% of its total equity. The company has recaptured its lost market share since mid-1984 and enjoyed healthy profit margins. Kwang Yang has had a strong balance sheet based on its large equity base. It faced a serious liquidity problem in 1982 which was solved by bank loans, shareholders' advances, and was eventually relieved by Honda's investment by cash injection.

With technical support from Piaggio Italy, Vespa has been a clear leader in heavy scooter (100-150cc) market. With excellent quality and strong brand image, the company has maintained a fairly stable market share, ahead of the other two competitors: Paijifa and Yeu Tyan. Vespa has enjoyed profitable operations and has had a strong financial standing.

Paijifa Ind. has two product lines: one is Kawasaki 125cc motorcycles, another is the heavy scooter. It is a sales-driven company with a market-oriented management team and weak financial back-up. Despite its strong operating performance in 1982 with a peak market share of 8.2%, sales momentum weakened in 1983 and 1984. To turn around its sales performance, the company started exporting 125cc motorcycles to PRC through Hong Kong in late 1983. Its export sales

performance in 1984 was the best among existing manufacturers. Paijifa has shifted its business to export market since mid-1984. This was risky because of unclear prospects with the PRC market and its foreign exchange position. In addition, the company has been highly leveraged because of small paid-in capital and huge bank debts. High leverage and poor profitability leave the company very vulnerable to market softness.

Yeu Tyan Machinery is also a heavy scooter maker with Piaggio brand. The company did enjoy high margin in the 1970s when the market demand boomed. They recruited a group of young MBAs working in sales, planning, and finance areas. The company diversified into the car market in 1978 with technical assistance from Peugeot Automobile, France. Yeu Tyan's financial standing was not strong because of heavy bank borrowing for plant expansion. However, the company is more flexible than its motorcycle competitors based on its product diversification strategy.

Wan Sun Machinery entered the motorcycle market in 1979. With Yamaha's technical assistance, Wan Sun introduced the 50cc scooter "Passola" in 1980 and revolutionized the market. Its market share reached a peak of 13.2% in that year. However, Wan Sun no longer monopolized this brand name/product line after 1981 when KHS renewed its relationship with Yamaha. Thereafter, Wan Sun lost its market share to KHS and other competitors. The company has reorganized several times due to frequent changes in ownership. Its financial

operations also deteriorated because of shrinking sales. High leverage and tightening liquidity leave the company very vulnerable to the bank's credit policy.

Yuen Foong Ind.(YFI) is a member of the Yuen Foong Group which is a big conglomerate diversifying in paper and chemical industries. YFI's major product is a 125cc motorcycle, aimed at the heavy-duty, load-carrying segment. Focusing on this market segment is YFI's strategy. Having a technical cooperation with Kawasaki Japan, YFI has enjoyed this strong brand name in the marketplace. Without additional investments, YFI has enjoyed profitable operations for years, using existing plant facilities and dealers' network. YFI has a sound financial structure.

Suzuki Ind. was a family-run company and had technical support from Suzuki Japan. Its financial operations have been unstable since 1980 when the industry became mature. However, because of the successful promotion of Gama (50cc scooter), there was a rebound in 1983. Suzuki Ind. lost its monopoly of its brand name after mid-1982 when Suzuki Japan invested in another local partner, Tailung, with a 25% equity participation. Suzuki's operations in recent years showed marginal profit and large loss in alternate years. Its capacity utilization has been low (40-50%). Low inventory turnover reflected the slowdown of sales momentum. Recent reorganization in 1983 brought new caliber top management to strengthen the company's planning/control functions. The agreement, made in mid-1985, between the

company and Suzuki Japan for a 25% equity participation would give the company a chance to improve its overall performance.

3.1.7 Regulation

Four major areas of government intervention affect the industry:

- 1) Import duties - on completed motorcycles import duties protect the domestic industry. Imports carry a 65% duty, and 4% harbor tax in addition to the 20% commodity tax. Thus, imports are charged with an effective 102.8% versus the domestic products' 20%. On parts, duties range from 19% on engine bearings to 55% on carburetors.
- 2) Local content - presently set at 90%, local content overall exceeds this figure. New entrants have experienced difficulty meeting this limit in their start-up years.
- 3) Ban on large motorcycles - this energy-saving measure has intensified competition by limiting companies to a narrow range of product options. The 1979 extension of the ban to include 180cc machines affected primarily Taiwan Vespa, whose sales of 180cc scooters in 1978 accounted for 100% of the category and 23% of company unit sales.

In the past there has been talk of extending the ban to cover 150cc cycles as well, but this possibility appears remote at present.

4) Air pollution issue - as the pollution issue was emphasized by the government and the press, the Environment Protection Administration of ROC conducted random tests along roadside for motorcycles starting July 1, 1984 and made factory tests for new motorcycles effective November 1, 1984 to assure minimum exhaust standards are met. Although most manufacturers had no difficulty meeting the requirement after taking steps to rectify the problem, local demand got stagnant during the second half of 1984 because end users became more careful when purchasing new scooters/motorcycles.

3.2 COMPETITIVE ANALYSIS OF THE INDUSTRY

Michael E. Porter, in his book, Competitive Strategy (1980), proposed a comprehensive methodology for conducting industry and competitive analysis which has strong relevance to business strategic planning. He identifies five basic forces as determinants of industry profitability.

Based on Porter's framework, the author briefly analyzes Taiwan's motorcycle industry as follows.

3.2.1 Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Prices can be bid down or incumbents' costs inflated as a result, reducing profitability.

Threat of entry to an industry is determined largely by the barrier to entry which is generally moderate for the motorcycle industry for the following reasons:

- i) Reputation of the firm is important to the buyers.
- ii) Capital requirements for assembly plants are not large.
- iii) Access to distribution channels is not difficult.
- iv) Technology is common.
- v) Switching costs for buyers is low.

3.2.2 Intensity of Rivalry Among Existing Competitors

Rivalry among existing competitors takes the familiar form of jockeying for position--using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position.

The motorcycle market in Taiwan is very competitive. The lack of product differentiation, the slowdown of industry growth, the nonexistent switching costs (for consumers) from one brand to another, and the chronic overcapacity as well as high exit barriers serve to increase the competition among the producers. Rivalry in the industry has been intensifying.

3.2.3 Pressure From Substitute Products

All firms in an industry are competing, in a broad sense, with industries producing substitute products. The impact of substitutes can be summarized as the industry's overall elasticity of demand. The more attractive the price/performance alternative offered by substitutes, the firmer the lid on industry profits.

Motorcycles are used as primary transportation rather than as recreational vehicles in Taiwan. Because of the large price gap between automobiles and motorcycles, automobiles are less direct

substitute products for motorcycles, as mentioned in Section 3.1.2. However, we can expect the following factors to hasten the growth of automobiles and the decline of motorcycles:

- i) Government measures to improve road systems and increase parking lots.
- ii) Declining car prices and increasing per capita income.
- iii) Emergence of a used car market.
- iv) Improved public transportation in the large cities.

In addition, the ongoing construction of a subway system in the large cities represents another threat to the motorcycle industry.

3.2.4 Bargaining Power of Buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services and playing competitors against each other--all at the expense of industry profitability.

The bargaining power of buyers is weak due to the fact that virtually all the final sales are made to fragmented market composed of individuals who usually have small purchase volume. They do not pose any threat of backward integration. However, they have complete information about the choice of models and can easily switch to any brand as they like. They will also hold down their purchase desire when some sensitive issues, like air pollution or safety concerns, come up. These factors significantly strengthen their bargaining power.

3.2.5 Bargaining Power of Suppliers

Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

As stated in Section 3.1.5, motorcycle parts suppliers tend to be small and family managed. They don't pose a credible threat of forward integration. However, some large parts factories (like rubber tire, electric parts and paint suppliers as well as mold maker) are more sophisticated and typically sell to a number of assemblers. In this case, parts factories have stronger bargaining power than assembly plants because of:

- i) few qualified suppliers (i.e., concentration of suppliers);
- ii) significant cost to switch suppliers;
- iii) less competition and no substitutes.

Although the bargaining power of buyers is weak and the threat of entry moderate, we consider the industry below average attractiveness because of its saturated demand, intense rivalry among existing competitors, increasing pressure from substitute products, and relatively high bargaining power of key parts suppliers.

3.3 INTERNAL COMPETENCE ANALYSIS

Porter's framework concentrated on structural determinants which are revealed in the market. Although the competitive forces of the relevant environment of an industry are threatened, the industry can survive if it is armed with internal strengths.

Professor Hax stated that internal competencies determine the unique leadership potential. These internal competencies include human, financial, production, physical, and technological resources available to the corporation. Tregoe and Zimmerman designated nine driving forces, in their book Top Management Strategy (1980), as business strengths: products, market needs, technology, production capability, method of sales, method of distribution, natural resources, size-growth, and return profits. The author's view is to re-arrange the above general factors as follows:

Table 3.3

Factors for Internal Competence

<u>AREA</u>	<u>FACTORS</u>
1. Manufacturing	Productivity Quality Capacity utilization Logistical management system
2. Marketing	Dealer network Breadth of product line Price competitiveness After-sales service system Brand loyalty Market research
3. Finance	Capital structure Liquidity Leverage Profitability
4. Management	Management competence Planning and control system Reward system Capability for negotiating with government Delegation of authority Quality of corporate staff Stability of ownership R&D & Engineering

The general state of the internal strengths of the motorcycle industry in Taiwan is weak, and the tendency seems to be further weakening. Capacity utilization, market research, capital structure, leverage, quality of corporate staff, R&D and engineering and stability of ownership were ranked weak. However, products have good quality. Productivity, dealer network, breadth of product line, price competitiveness, after-sales service all were considered strong. In terms of a four-year projection, capacity utilization and price competitiveness will deteriorate because of shrinkage of market demand and uneconomic scale of production. There could be an industry

re-shuffle as a result of eroded profitability, tightening liquidity, and poor financial structure.

3.4 LIFE CYCLE PORTFOLIO MATRIX ANALYSIS

The life-cycle concept has long been recognized as a valuable tool for analyzing the dynamic evolution of industries in the market place. It is derived from the fact that an industry's sales volume follows a typical pattern that can readily be charted as a four-phase cycle. These phases are embryonic, growth, maturity, and aging. The use of the life-cycle portfolio matrix is conditioned to three primary tasks:

- a) segmentation of the business into SBUs.
- b) assessment of the life-cycle stage of the business.
- c) identification of competitive positioning of each business.

3.4.1 Assessment of the Motorcycle Industry Life Cycle

To identify the evolutionary stage in which the industry resides within its life cycle, we adopted ADL's (Arthur D. Little, Inc.) model which uses eight external factors as key descriptors. These descriptors are: market growth rate, market growth potential, breadth of product lines, number of competitors, distribution of market share among competitors, customer loyalty, entry barriers, and technology. These descriptors serve as guidelines for determining industry maturity. For each descriptor, there are some characteristics in correspondence with different maturity stage. The details are shown in Table 3.4.

Table 3.4

Industry Maturity Guide

DESCRIPTORS	DEVELOPMENT STAGE			AGING
	EMBRYONIC	GROWTH	MATURE	
GROWTH RATE	Accelerating; meaningful rate cannot be calculated because the base is too small.	Faster than GNP, but constant or decelerating.	Equal to or slower than GNP, cyclical.	Industry volume cycles but declines over long term.
INDUSTRY POTENTIAL	Usually difficult to determine.	Substantially exceeds the industry volume, but is subject to unforeseen developments.	Well-known; primary markets approach saturation industry volume.	Saturation is reached; no potential remains.
PRODUCT LINES	Basic product line established.	Rapid proliferation as product lines are extended.	Product turnover, but little or no change in breadth.	Shrinking.
NUMBER OF PARTICIPANTS	Increasing rapidly.	Increasing to peak; followed by shakeout and consolidation.	Stable.	Declines; but business may break up into many small regional suppliers.
SHARE DISTRIBUTION	Volatile.	A few firms have major shares; rankings can change, but those with minor shares are unlikely to gain major shares.	Firms with major shares are entrenched.	Concentration increases as marginal firms drop out; or shares are dispersed among small local firms.
CUSTOMER LOYALTY	Little or none.	Some; buyers are aggressive.	Suppliers are well-known; buying patterns are established.	Strong; number of alternatives decreases.
ENTRY	Usually easy, but opportunity may not be apparent.	Usually easy; the presence of competitors is offset by vigorous growth.	Difficult; competitors are entrenched, and growth is slowing.	Difficult; little incentive.
TECHNOLOGY	Concept development and product engineering.	Product line refinement and extension.	Process and materials refinement; new product line development to renew growth.	Role is minimal.

As shown in Figure 3.1, the motorcycle industry in Taiwan experienced a high growth period from 1969 to 1980, with the market demand reaching the peak in 1980. Demand declined thereafter. In 1984, the density of motorcycles in Taiwan hit a record high, averaging one motorcycle per 3.1 persons or one per 2.0 persons between the age of 15 and 65. Industry experts claim that there is no growth potential for domestic sales. The motorcycle market has approached saturation with a minimal or even negative growth rate, indicating a mature industry.

The product lines have remained unchanged since the late 1970s in terms of breadth. However, the product life cycle has been shortened. The producers have to introduce new models frequently to satisfy the consumers' tastes. The quick product turnover is observed and this again indicates a mature market.

The number of participants in the industry increased to a peak in late 1970, followed by a shakeout of small makers in 1982, and then the industry stabilized. Further shakeout of marginal producers could occur again in the near future, showing an industry of decaying maturity and perhaps moving to the aging stage.

The market shares of major producers are shown in Table 3.5. The share of the market leader, San Yang, has been fairly stable. There has been a market share warfare among the rest of the producers. However, the tendency shows the concentration on Honda motorcycles

Figure 3.1

Motorcycle Industry Sales in Taiwan

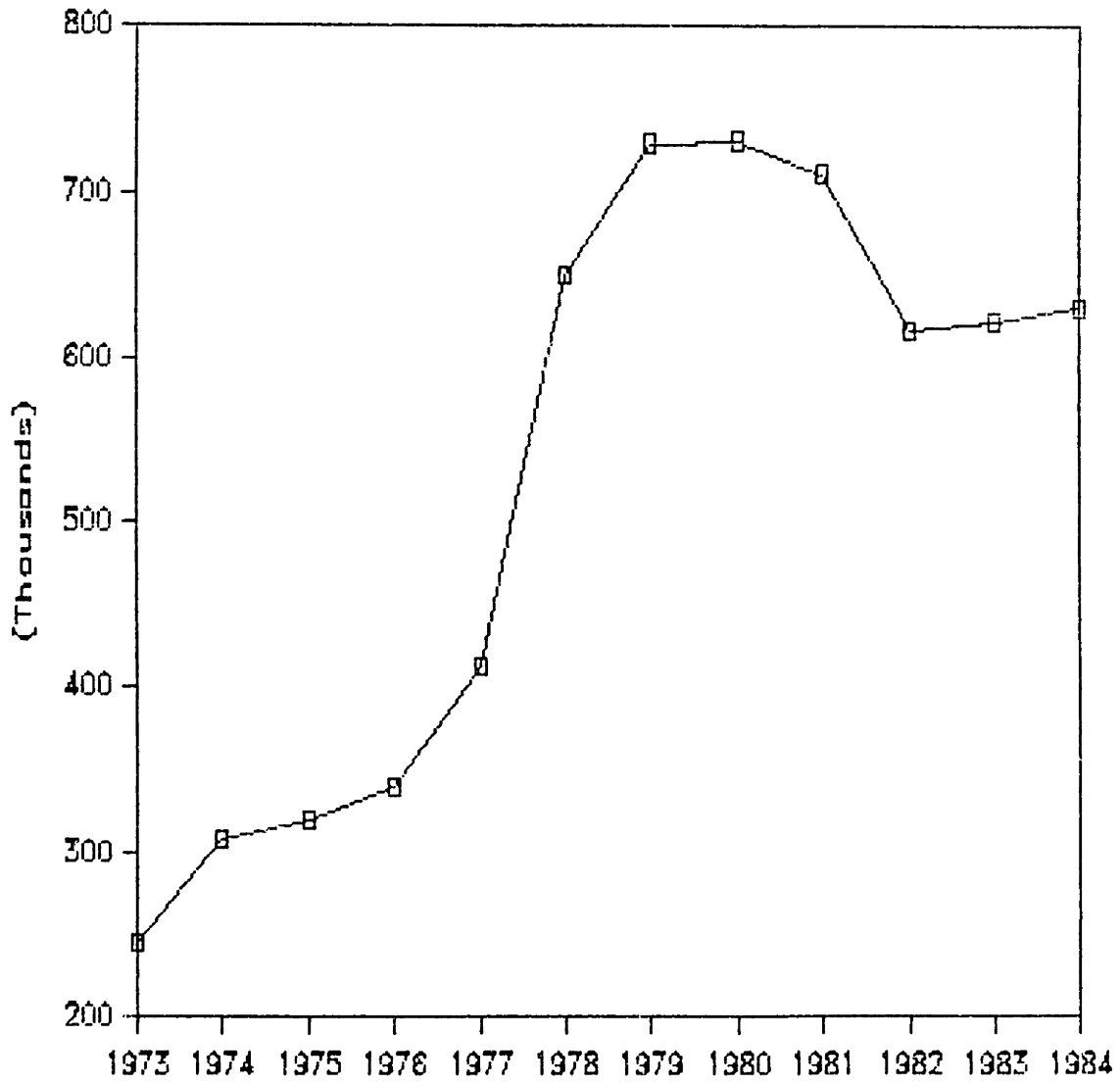


Table 3.5

Market Share of Motorcycle Makers in Taiwan

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
San Yang	24.6	23.2	22.8	25.0	27.5	29.7
Kwang Yang	18.7	17.4	10.7	6.1	8.8	21.1
Vespa	11.2	12.1	11.1	12.3	12.6	9.9
Yeu Tyan	2.8	3.8	5.1	5.0	6.8	4.6
Paijifa	6.2	5.2	5.3	8.2	4.9	4.2
Wan Sun	0.8*	4.9	12.9	13.2	6.7	5.9
Yuen Foong	3.0	2.5	2.1	2.3	2.4	2.0
Suzuki	10.4	10.0	8.8	8.3	9.8	5.9
KHS	6.3	4.9	4.8	7.1	7.0	5.5
Tailung	13.8	13.7	12.3	9.1	11.0	9.7

*Company entered market in September 1979

(San Yang and Kwang Yang) increases to a 50% share of total market in 1984 from 33% in 1981, 31% in 1982. This static share data indicates an aging industry.

For customer loyalty, buying patterns are gradually established based on the preference, taste, status, and income level etc. Suppliers are well-known based on their strong brand names. These factors again are indicative of a mature industry.

Entry into the industry is not difficult for the marginal producers. Without huge capital investment, they can initiate and

assemble the products in a simple workshop and easily access the distribution channels. However, they could not have mass production due to the lack of customer base, technology source, management capability, and financial resources. The entry barrier was low when the industry boomed in the 1970s. In recent years, the entry barrier has increased because of infrastructure and industry economics. The incentive for new entry is low. This reflects the characteristics of a mature market.

The last factor concerning the life cycle is the technology development. The technology in the motorcycle industry has not changed significantly in the last thirty years, especially when contrasted with such high-tech industry as electronics. The basic 2- and 4-stroke engines have been known since World War II. The innovations are confined to minor improvements in fuel efficiency, noise reduction, and model modifications. These factors are indicative of a mature industry.

Thus, of the eight parameters examined, one indicates an aging industry, while the others point toward a mature industry. Overall, the motorcycle industry in Taiwan is mature.

3.4.2 Portfolio Matrix of Motorcycle Makers

ADL suggested a business portfolio matrix by choosing the four stages of the business life cycle as descriptors of the industry

characteristics and by selecting firm's competitiveness in the industry as the second dimension. The six categories of competitive positioning selected by ADL are dominant, strong, favorable, tenable, weak, and non-viable. The definitions of these descriptors are shown in Figure 3.2.

As indicated in Figure 3.2, the motorcycle industry falls into the "mature" category. Among the ten major manufacturers, only one (San Yang Ind.) is identified as having strong competitive position. San Yang Ind. has another SBU in the car manufacturing business which is a growing market in Taiwan. Two makers (Kwang Yang Ind. and Vespa) are considered to have favorable competitive positions. Three makers (Yuen Foong Ind., Tailung Ind., and Yeu Tyan Machinery) are tenable, 2 makers (Suzuki Ind. and KHS) are weak, and 2 (Wan Sun Machinery and Paijifa) are non-viable.

Figure 3.2

Assessment of Life Cycle Portfolio Matrix
of Motorcycle Makers in Taiwan

	Embryonic	Growth	Mature	Aging
Dominant	x	x	x	x
Strong	x	x	x 1	...
Favorable	x	x	...2	**
Tenable	x	...	** 3	**
Weak	...	**	** 2	**
Non-viable	**	**	** 2	**

Key: x wide range of strategic options
 ... caution, selective development
 ** danger, withdraw to market niche, divest or liquidate

Source: Arthur D. Little, Inc.

Criteria for Classification of Competitive Position

1. "Dominant": Dominant competitors are very rare. Dominance often results from a quasi monopoly or from a strongly protected technological leadership.
2. "Strong": Not all industries have dominant or strong competitors. Strong competitors can usually follow strategies of their choice, irrespective of their competitors' moves.
3. "Favorable": When industries are fragmented, with no competitor clearly standing out, the leaders tend to be in a favorable position.
4. "Tenable": A tenable position can usually be maintained profitable through specialization in a narrow or protected market niche. This can be a geographic specialization or a product specialization.
5. "Weak": Weak competitors can be intrinsically too small to survive independently and profitable in the long term, given the competitive economics of their industry, or they can be larger and potentially stronger competitors, but suffering from costly past mistakes or from a critical weakness.

3.5 SUMMARY

The Taiwan motorcycle industry structure comprises the following features:

- a) low differentiated products
- b) small-scale manufacturing
- c) eroding profitability
- d) high exit barriers.

We believe that the industry is approaching a crisis in view of its falling sales and profitability, chronic overcapacity, saturated market, and tightening liquidity problem.

In the coming years, the focus of competition in this industry will be survival-market share. As the competition goes on, there could be an industry reshuffle in the near future. Shake-out of some non-viable companies would be inevitable.

CHAPTER 4

FORMULATION OF LENDING STRATEGY

In the context of corporate planning, a business strategy should be guided by directions provided at the corporate level, most importantly, those expressed by the strategic thrusts which generate specific planning challenges for the business under consideration.

The remaining sections of this study will concentrate on the development of a lending strategy for the motorcycle business unit. A lending strategy comprises a set of well-coordinated objectives and action programs aimed at securing a long-term, sustainable advantage over the bank's competitors. Prior to formulation of lending strategy, it is necessary to perform an analysis of the current and future business position in terms of two dimensions characterized by Professors Hax and Majluf:

- 1) The non-controllable forces which are associated with the external environment and determine the industry trends and market opportunity.
- 2) The internal competence, residing in the firm, determines its strength and weakness.

The "Industry Attractiveness-Business Strength" matrix, originally developed by General Electric Corporation jointly with McKinsey

Company, is used to conduct the analysis of the external and internal environments.

The implementation of the analysis requires a definition of critical internal and external factors, an assessment of these factors both from a current and future perspective, the identification of the business's "position" in the matrix below, and then the formulation of a strategy.

INDUSTRY ATTRACTIVENESS

←

		HIGH	MEDIUM	LOW
BUSINESS STRENGTH ↑	High	Investment Growth	Selective Growth	Selectivity
	Medium	Selective Growth	Selectivity	Divest/ Liquidate
	Low	Selectivity	Divest/ Liquidate	Divest/ Liquidate

After the internal and external factors have been pinpointed and evaluated, we have to make the judgment and position the stage where the business unit is in.

4.1 ANALYSIS OF EXTERNAL ENVIRONMENT

The environmental scan at the business level attempts to identify the degree of attractiveness of the industry in which the business operates. The following are steps taken for an environmental scan:

- o Identify the external factors which are noncontrollable by the company, which impact each SBU;
- o Measure the degree of attractiveness of each of those factors in relation to the Branch's "average business base," both for current state and future projections.
- o Determine the opportunity and threat associated with each SBU.

The external success factors selected by the author for the environmental scan include:

- o **Market Factor:** We include market size and market growth potential in this category. Market size, in terms of risk assets provided by the banking community to the major motorcycle makers in mid-1984, was estimated at U.S.\$120 million. The market growth potential is limited in view of the stagnant economy and saturated demand for motorcycles in Taiwan.

- o Account Good account profits with attractive returns.

 Profitability Clients in this industry are less price-sensitive. Account profits can be further increased by creating more risk assets. However, the concern is the downside credit risks.

- o Credit Risks The whole industry was in poor shape, characterized by chronic overcapacity, saturated market demand, eroding profitability, and unhealthy financial structure. Frequent change in ownership of some companies reflects the unstable management. A tightening liquidity problem reveals the possibility of an industry shake-out. Credit risk is the key issue to be addressed carefully.

- o Industry As analyzed in the previous chapter by Porter's

 Competitiveness framework, the motorcycle industry in Taiwan is below average attractiveness because of its saturated demand, high exit barrier, intense rivalry among existing competitors, increasing pressure from substitute products, and relatively high bargaining power of key parts suppliers.

- o Industry Maturity To assess the motorcycle industry lifecycle, we adopted ADL's model using eight external factors as key descriptors which were analyzed in the previous chapter. The industry is mature and perhaps in a transition to an aging one in the near future.

- o Economic & Environmental Factors Increased protectionism in the world market weakens Taiwan's economic growth rate. The change in industrial structure is under way with an emphasis on anti-pollution. The regulation of anti-exhaust pollution for motorcycles retarded its growth in 1984 and increased makers' production costs. The ban on production of large motorcycles (over 150cc) reduced makers' export capability/competitiveness.

The overall credit environment in Taiwan was bad during the past three years. The marketplace consists of highly leveraged, family run, middle market companies, which for the most part, are extremely sensitive to market liquidity factors.

Figure 4.1
Analysis of External Environment

FACTORS	CURRENT STATE			FUTURE PROJECTION			COMMENTS
	-/-	E +	+/+	-/-	E +	+/+	
1. Market Factor							
o market size		X			X		o Medium market size without much growth potential
o market growth							
2. Industry profitability		X			X		o Good account profits & returns because of higher pricing
3. Credit Risk	X			X			o Increasing risky accounts with weak financial structure & tightening liquidity
4. Industry Competitiveness							
o competitive intensity	X			X			o Volatile industry infrastructure with intense competition among members
o barrier to entry			X		X		o Moderate entry barrier
o barrier to exit	X			X			o high exit barrier
o availability of substitutes	X			X			
5. Industry Maturity	X			X			o Industry is currently decaying, mature, & likely to be aging
6. Economic & Environmental							
o Structural change of Taiwan economy							o Export slowdown, recession prolongs
o Regulation	X			X			o Air pollution/ban on producing large motorcycles
o Overall credit environment	X			X			o Poor credit environment with economic crime

MAJOR FORCES DETERMINING INDUSTRY ATTRACTIVENESS

Upon completion of the external environmental scan, the author attempted to provide an overall summary of those forces which represent opportunities and threats for the business unit.

Opportunities

1. Significant profits contributed to the business unit.
2. Business potential for top industry names.

Threats

1. Gloomy industry outlook with falling sales and profitability, chronic overcapacity, and saturated market demand. An industry shake-out is expected.
2. Increasing credit risk because of poor financial structure and tightening liquidity problem.
3. Frequent change in ownership of several companies represents a strong signal of management problem inside the organization.
4. Unfavorable regulation regarding the ban on manufacturing large motorcycles and the restriction on air pollution issue hinders the industry growth and export potential.
5. Overall unsatisfactory credit environment with economic crimes prevalent in the business circle.

Overall Assessment of Industry Attractiveness

An overall assessment of the external environment scan to prepare for the matrix positioning along the industry attractiveness axis, is developed as follows:

	<u>Low</u>	<u>Medium</u>	<u>High</u>
Current		X	
Future	X		

4.2 ANALYSIS OF INTERNAL SCRUTINY

Internal scrutiny at the business level attempts to identify the major strengths and weaknesses of the firm against its most relevant competitors. Steps in the process are:

- o Identify most relevant competitors.
- o Determine critical success factors; i.e., those capabilities, controlled by you, in which you have to excel in order to secure a long-term success in your business.
- o Measure the degree of the business strength and weakness against each of your relevant competitors.
- o Assess the strength and weakness associated with your business.

4.2.1 Most Relevant Competitors

Relevant competitor is one who fulfills one or more of the following conditions:

1. It has a high market share
2. It has experienced a sustained market share growth
3. It earns high levels of profitability with regard to the industry average.
4. It has demonstrated an aggressive competitive attitude against your business or some important segment.
5. It has a highly vulnerable position against your own competitive actions.

The following discussion of the "Most Relevant Competitors" is restricted to major foreign banks in Taiwan, which are used as the basis for determining the strength and weakness of the business vis-a-vis its competition by analyzing specific internal factors controllable by the business.

Bank of America (BOA)

BOA has been in the market as long (20 years) as Citibank does in Taiwan. BOA also has a large customer base with expertise inside the bank. BOA's competitive edge against Citibank lies in its flexible pricing policy which gives it leverage to capture business in a competitive environment. BOA has changed its credit policy to be more conservative since three years ago when several public-listed companies went bankrupt. BOA's performance in terms of profitability and ROE is just second to Citibank.

Chase Manhattan

Chase is the third largest foreign bank in Taiwan. Its history in Taipei (12 years) is younger than Citibank and BOA, but its performance is good. Chase has been very aggressive in pushing electronic banking projects. Its INFOCASH is widely regarded as a strong competitor of Citibanking for electronic cash management services. INFOCASH provides a full array of cash reporting and transaction processing services, including cash account balances, real-time transaction flows, and instantaneous funds transfers. This system will put Chase's global network at the customer's fingertips through their own computer terminals.

Bankers Trust (BT)

Bankers Trust (BT) is very young (5 years) in Taiwan's financial market. But it has a strong driving force in expanding its business. With a group of young and aggressive account officers, BT has efficiently penetrated the middle market. BT is emphasizing the creation of a unique package of services that attract customers to depend on them. This causes high switching costs for the customer, if the client chooses to use a competitor's products. This is one "barrier" BT seeks to establish from relationship management.

Local Banks

Major local banks, including CHCB (Chang Hwa Commercial Bank), HNCB (Hwa Nan Commercial Bank), FCB (First Commercial Bank), ICBC (International Commercial Bank of China), and BOC (Bank of Communications) are owned by the government. Local banks are less sensitive to customer needs and market fluctuation. They have rigid security requirements and used to be more supportive. However, in recent years, they have been more conservative in commercial lending in view of unsatisfactory credit environment.

The success factors we select for internal scrutiny include the following:

4.2.2 Portfolio Management

Objectives for managing portfolios can be classified as achieving desired profitability, contributing to the overall funds management objectives of the bank, and accomplishing business development results

on both sides of the balance sheet. The author includes the following items in this category:

- Relationship Management Relationship management is the process of monitoring the desires and needs of corporate customers to ensure that the optimum level of bank services are rendered. The role is ever changing, particularly in these highly competitive times, and requires commercial lenders to continually increase their knowledge and personal development. The quality and professionalism of management team (including loan officer), specialized industry know-how, and lending skills are major indicators for management competence.

- Portfolio Quality To ensure good portfolio quality, the bank should make a thorough review of the existing commercial loan portfolio by analyzing geographical area, size of borrower, industry, type and size of loan, etc. This portfolio analysis may very well disclose that certain industries are not being penetrated at all by the commercial lending activities of the bank or that there is an undue concentration of risk in one particular industry. The aim of this portfolio analysis is to obtain maximum amount of income with the minimum exposure to risk.

- Security Position Although collateral (security support) in itself is not necessarily the determining factor in commercial lending, it is important to the lenders in an unsatisfactory credit environment. Security coverage (value of collateral against loans outstanding) is an indicator showing how well the bank can get its second way out. So analysis of collateral values is an important step in the credit extension. Lenders do not want to proceed against collateral because it is seldom cost effective. However, bankers recognize that things do not always work out as planned. Therefore, strengthening security position is important in the process of portfolio management.

- Credit Initiation The process of credit initiation includes the following categories:
 - (i) Origin: The initial contacts may come from client request, prospect discovery, and outside referral.
 - (ii) Evaluation: The credit evaluation should be based on its purpose, business outlook, management competence, as well as financial performance. The character of the borrower, his financial capacities as revealed in the past record and future prospects, and his capital position are the principal factors determining the desirability to a bank of the loan.

(iii) Negotiation: This includes the tenor of the loan, the terms, covenants, pricing, and in some case, the repayment schedules.

(iv) Approvals: Credit proposal is initiated by the responsible account officer and then approved by senior credit officers at appropriate levels, according to their approving authority.

The whole credit initiation process is aimed at evaluating the client's credit standing and providing a suitable credit package to meet the client's financial objectives. It also provides a base for marketing strategy formulation. The risk evaluation and early problem recognition pave the way for taking remedial actions to protect the bank's interest.

4.2.3 Marketing

The marketing concept is a philosophy that advocates customer-oriented organization and views customers as the lifeblood of a business. Marketing can be defined as both the creation and delivery of customer-satisfying products at a profit to the banks.

Human resources are the driving force of marketing activities. The multifaceted position of relationship managers involves numerous functions that fall into five categories: 1) account management; 2)

credit management; 3) product management; 4) profitability management; 5) sales management.

Marketing forces in Citibank Taipei are more sophisticated and well-trained when compared with those in other banks. The Branch has a good system for in-house and offshore training. The breadth of product line is similar among banks. However, Citibankers are more skillful in product management and development. Its sales forces are more creative to provide structured products and new financing mechanisms to satisfy customers' needs. The Branch also has a favorable corporate image as a supportive, aggressive, and innovative bank.

4.2.4 Operations

The Operating Group performs the physical work of processing the Bank's business transactions, auditing and controlling, designing its computer systems, as well as managing the bank's internal building services.

-- Legal Documentation:

Every lending institution continuously uses standardized forms and legal documents in connection with its lending activities. All loan forms should be reviewed and updated periodically. Any change in law or regulations which affects a commercial lending operation should result in review and revision of the pertinent lending documents. Any deficiency in loan provisions discovered

during legal proceedings to collect a loan should result in a review and revision. At the very least, even if these problems do not occur, the lending institution's legal counsel should review all loan forms and documents at least every three years, and any suggested changes should be considered and implemented by management.

-- Cost Effectiveness:

Earning power has proved to be the first line of defense against the risks inherent in the banking business. Only out of ample earnings can banks afford to bid in today's highly competitive market for the best of prospective talent. Banks' earnings have been rising in recent years but increasing expenses have nearly kept pace with earnings. Therefore, cost effectiveness will have a direct impact on the Bank's earnings. How to enhance cost effectiveness through holding expenses flat or cutting them down is an important issue to the Bank.

-- Control and Audit:

Control is a mechanical or procedural device introduced into a process or chain of events that will automatically require that something be done in a specified and pre-determined manner. The function of auditing, on the other hand, is to make certain that controls are maintained and that proofs are accurate.

-- Automation:

In bank accounting, automation is usually by means of electronic data processing which would result in a smaller number of employees in the Operations Department of a bank. The great

advantage in a bank automation system is the capacity of such a system to handle a greatly increased volume of items with marginal increase in cost.

4.2.5 Financial Policy

-- Asset and Liability Management:

The bank usually has an ALCO (Asset and Liability Committee) which is responsible for managing the bank's mismatched position between the duration and composition of assets and liabilities. The ALCO basically determines the loan/investment portfolio and essentially assumes profit center responsibility for the management of interest rates, foreign exchange, and liquidity risk for the balance of strategic assets and liabilities.

-- Risk Taking Ability and Willingness:

In the commercial lending area, there are constraints from the risks of credit, liquidity, interest sensitivity, and economic conditions. These risks must be recognized, quantified to the extent possible, and managed. Risk-taking ability and willingness reflect a bank's capacity to be an aggressive and supportive one.

For credit risk, management must decide how much it is willing to take and what rewards it expects in return. Increased risk demands strong and experienced loan officers, good systems and procedures, and an ability to react rapidly to adversity. Management must also determine how much appetite it has for risk.

For liquidity risk, a bank must maintain a reasonable liquidity level to avoid severe consequences. On the asset side of the balance sheet, liquidity can be maintained through unpledged short-term investments, loan run-off, and the ability to sell or participate loans because of their credit quality and appropriate pricing. On the liability side, liquidity can be raised through deposits or borrowing. Raising liquidity through liabilities depends on confidence in the bank. This, in turn, can be related to asset quality and earnings.

Interest sensitivity risk concerns the yield on interest-earning assets. The risk is that they will not respond appropriately to changes in rate on the liabilities that fund them. Interest risk can be alleviated through funds management.

As for economic risks, loan officers attempt to limit one effect economic savings have on their portfolios although they can do nothing to control general economic conditions. Business cycles affect a loan portfolio in three ways:

- 1) concentration by industry or country
- 2) concentration by financial structure; and
- 3) concentration by products.

After isolating exposures in these areas, the loan officer must set limitations which are subject to periodic review and discussion.

Figure 4.2

ANALYSIS OF INTERNAL ENVIRONMENT

Ranking relative to major competitor: Bank of America

FACTORS	-/-	-	E	+	+/+	COMMENTS
1. Portfolio Management						
o Relationship Management			X			o Possesses high degree management integrity, quick to recognize market opportunity & respond to threats
o Portfolio Quality	X					o High penetration into motor-cycle market with below-average portfolio quality
o Security Position			X			o Fair security position
o Credit Initiation						o Have strict credit initiation process & better ability for problem recognition
2. Marketing						
o Human Resources				X		o Ability to attract qualified personnel
o Breadth of Product Line			X			o High creativity in developing new financing techniques
o Sales Force Innovation/Complexity of Structure				X		o Favorable corporate image
o Business Image				X		

Figure 4.2 (continued)

ANALYSIS OF INTERNAL ENVIRONMENT

Ranking relative to major competitor: Bank of America

<u>FACTORS</u>	<u>-/-</u>	<u>-</u>	<u>E</u>	<u>+</u>	<u>+/+</u>	<u>COMMENTS</u>
3. Operations						
o Legal Documentation				X		o Requirement on documentation is more strict
o Cost Effectiveness			X			o Highly automated with high caliber staff
o Control & Audit			X			o Ability to understand & circumvent restrictive regulations
o Automation						
o Legal Staff Support				X		
4. Financial Policy						
o Risk Taking Willingness and Ability					X	o Branch's policy is to be supportive & willing to take risks
o Asset/Liability Management			X			o Matching of asset & liability maturities reduces risk of interest rate volatility

KEY:

- /- : Severe competitive disadvantage
- : Mild competitive disadvantage
- E : Equal competitive standing
- + : Mild competitive advantage
- +/+ : Severe competitive advantage

4.2.6 SUMMARY OF INTERNAL SCRUTINY

	C U R R E N T			F U T U R E		
	Low	Medium	High	Low	Medium	High
Portfolio Management		X				X
Marketing			X	X		
Operations			X			X
Financial Policy		X		X		

Citibank Taipei was in slight advantage to BOA. This was a momentary situation and resulted from Citibank's strong marketing team and operations group. The potential threat comes from the portfolio management for which Citibank has had a deeper penetration into the motorcycle market with a less attractive portfolio quality. How to effectively manage this portfolio and to liquidate/reduce loan outstandings in time are critical issues to the banks.

Overall Assessment of Competitive Strength

With the internal environmental scan completed, I thus identify the strengths and weaknesses of the business unit versus its competitors, as follows:

Major Strengths

- o High integrity of management system
- o Sound credit process/initiation system
- o Strong marketing team with innovative capability and favorable business image
- o Well-developed supportive system

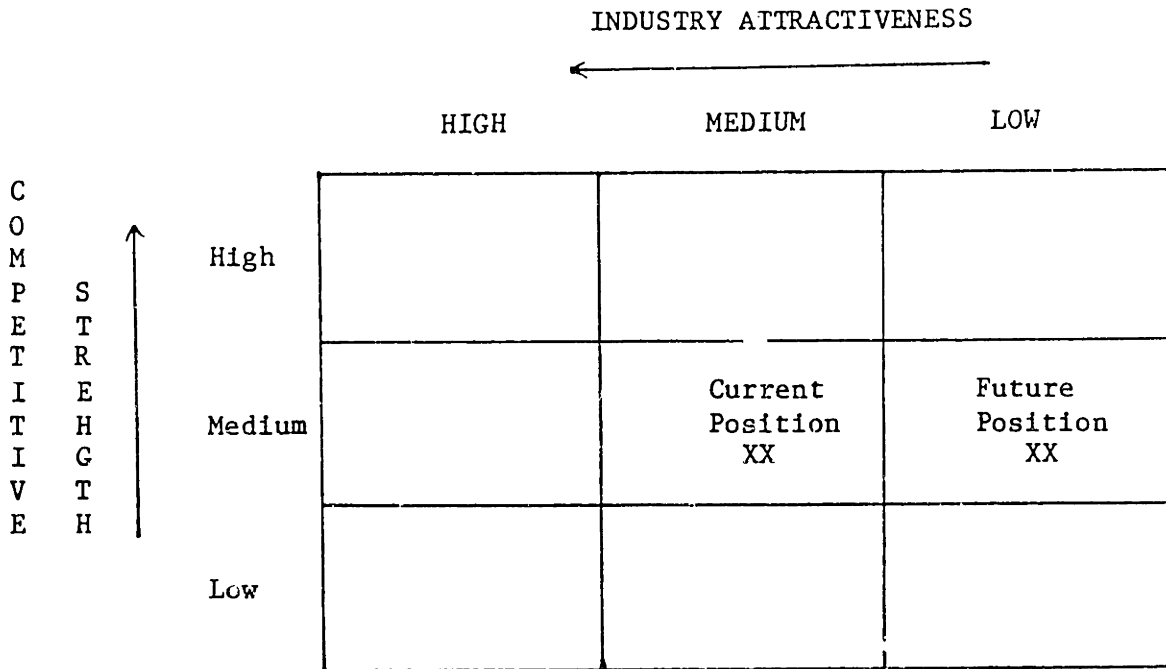
Major Weaknesses

- o Below-average credit portfolio quality
- o Weak motivation and reward system
- o Inferior security position to local banks

Position of the the SBU in the Industry Attractiveness/
Competitive Strength Matrix

With the external and internal environmental scan assessed, it is appropriate to position the business along the corresponding axis. The matrix depicts a current positioning of average competitive strength within an industry which is medium attractive. The future positioning would represent a goal the business expects to attain by improving its overall competitive position.

The SBU will maintain its competitive strength in the sense of developing business with top industry names selectively and liquidate unacceptable portfolios efficiently so that the SBU would have a more solid base while maintaining its competitive edge.



4.3 Lending Strategy Formulation

Lending strategy is a set of objectives supported by well-coordinated action programs aimed at establishing a long-term sustainable advantage over competitors. The lending strategy is derived from (1) corporate strategic thrusts and planning challenges; (2) mission of the business; (3) environmental scan at the business level; and (4) internal scrutiny at the business level. Based on previous analysis, the author derived lending strategies as follows.

1. Redefine target market criteria

The market was characterized by predominantly family-owned, highly leveraged, entrepreneurial, middle market business operating within a stagnant economic environment, which depends upon the U.S. as a trade partner. These factors underscore the need for a

strong market process, that works down to the account officer level.

Market study recognizes that motorcycle industry may be characterized as "sunset" industry. This sector should be carefully reviewed to determine if the Branch should strategically move away from this area. At least the target market criteria should be further refined to weed out the existing weak/shaky accounts. Target market criteria should at least include sales, profitability, leverage, and liquidity.

2. Strengthen credit initiation and process

The market is full of under-capitalized business and is in a liquidity crunch. This makes timing an essential issue in identifying potential problems. Therefore, the depth and quality of the credit analysis and presentation should be strengthened.

Marketing-driven concepts do not apply in this industry. Attention should focus on credit issues to gain early problem recognition and to take the necessary remedial action.

3. Establish risk-rating system (as shown in Figure 4.3) and strengthen monitoring system for effective loan management

Since the intensity of loan monitoring should be proportional to the perceived risk involved, the risk must be assessed at the time of credit approval. This assessment can be accomplished by the responsible loan officer, the credit department, or credit committee. Risk assessment must be stated in some tangible, quantifiable manner.

The process of loan monitoring must also be strengthened to be responsive to changes in economic condition and industry maturity. In periods of recession, inflation uncertainty with the industry facing a decaying maturity stage, the loan manager should change the monitoring guidelines to reflect a more defensive posture.

4. Staffing: Select professional/talented people to handle classified accounts and provide them with adequate motivation and reward

The classification of credits is designed to highlight problem credits for attention/action at all appropriate levels and to ensure corrective measures to reduce the bank's risk. In view of the gloomy outlook of the motorcycle industry, the well-experienced people should be assigned to handle these weak credits to detect early signals and to take necessary remedial steps to rectify the problem. To cope with their heavy workload and severe pressure, appropriate motivation and reward systems should be in place.

5. Identify highly attractive industry segments and build market share selectively through product innovation/service differentiation

To reduce potential credit risks, the Branch needs to focus on the top industry names and build market share through providing service excellence and innovative products. It is unwise to have a large customer base in a mature industry, like motorcycles. Therefore, finding a niche to concentrate efforts on those

attractive industry segments is a good strategy from both marketing and credit points of view.

6. Reduce production/processing cost and improve productivity through technology support

Automation will increase efficiency and reduce production costs. The effective use of telecommunications and data bases in different banking functions should be emphasized. The commitment to technology gives the bank a strong base for differentiation in the marketplace while the reduction in processing cost and enhancement in efficiency and effectiveness would strengthen the Branch's and the SBU's competitive edge.

7. Take high pricing strategy

For the second and third tier clients in the industry, a strategy of walking away was formed. A high pricing strategy should be taken to skim this market segment, to increase return, and to accelerate phasing out the shaky accounts.

Figure 4.3

Subjective Risk-Rating System

The following is a guide for subjectively rating borrowers on risk. This outline is only a guide and must be used with sound judgment. Because of the wide variety of borrowers and types of credit facilities, no guide can fit all circumstances.

CURRENT

1. Grade A (highest quality)
 - o Business with high liquidity, excellent financial condition, history of stable and predictable earnings, available sources of alternative funding, strong management, favorable industry trends.
 - o Loan adequately secured with certificates of deposit, government securities, cash value of life insurance.
2. Grade B (good quality)
 - o Business with most of the characteristics described in Grade A. However, certain characteristics are not quite as strong, such as more cyclical earnings and less availability of alternative sources of funding in periods of economic distress.
3. Grade C (fair quality)
 - o Companies with fair liquidity and a reasonable financial condition which falls within acceptable tolerances of similar companies. Earnings may be erratic and satisfactory repayment is expected but not assured under all conditions. Loans are frequently secured by collateral such as receivable and inventory where conversion to cash is difficult and uncertain. Alternative funding sources are normally restricted to competitor banks.

CLASSIFIED

- IA Other Asset Especially Mentioned (OAEM): Credits with evidence of weakness in the borrower's financial condition or credit-worthiness, or which are subject to an unrealistic repayment program, or which are lacking adequate collateral, credit information, or documentation. If sufficiently severe or advanced, these or other conditions would warrant a worse classification. Early attention, including substantive discussions with borrowers, is required to correct deficiencies.
- II Substandard: Credits of which the normal repayment of principal and interest may be, or has been, jeopardized by reason of severely adverse trends or developments of a financial, managerial, economic, or political nature, or by important weaknesses in collateral. No loss is foreseen, but a protracted

Figure 4.3 (continued)

Subjective Risk-Rating System

workout is a possibility. Prompt corrective action is required to strengthen the Bank's position as a lender, to reduce its exposure, and to assure that adequate remedial measures are taken by the borrower.

III Doubtful: Credits, full repayment of which appears questionable on the basis of available information, and which therefore suggests a degree of eventual loss not yet determinable as to amount or timing. Vigorous action is required to avert or minimize losses.

IV. Loss: Credits that are regarded as uncollectible. A classification of IV does not mean there is no potential for eventual recovery. Responsible units are expected to continue a vigorous collection effort until it is decided that no further repayment or recovery is possible.

4.4 BROAD ACTION PROGRAM

The lending strategy is a set of guidelines aimed at securing a long-term sustainable advantage over competitors. After developing the lending strategies, we need to derive a set of well-coordinated action programs, which are usually more specific and have target dates, to implement the proposed strategies. The detailed action plans are listed as follows:

1. Sort out the exceptional accounts based on the refined target market criteria. Classify those unattractive industry segments into tenable, weak, and non-viable categories.
 - o For tenable names, credit extension should be made on ABF (Asset Based Finance) basis
 - o For weak and non-viable accounts, security coverage should be improved to 100% and then start to liquidate outstandings. Repayment schedule should be worked out as soon as possible.
2. Increase liquid security coverage. Hold more certificates of deposit, time deposits, and receivables as security. For receivables, doublecheck bounced back ratio and concentration ratio on a regular basis (at least monthly).
3. Classified loan report should be made on a monthly basis to monitor account's outstanding, performance, risk area, and progress of strategy implementation. Also ensure that all

classified account documentations have been examined by legal counsel upon classification.

4. Assess the liquidation value of the collateral and evaluate the net worth of personal guarantors. Valuation of collateral should be made through an independent certified control service. The appraisal report should be carefully reviewed by a loan officer and estimate the liquidation value by deducting the incremental taxes and applying an appropriate discount factor.
5. Emphasize product design, packaging service, and electronic banking products for top industry names. Deliver non-traditional banking products to differentiate the bank from competition.
6. Increase fee-based revenue and self-liquidating trade transactions. Increase foreign exchange earnings through promoting third currency business.

STRATEGIC BUSINESS UNIT (SBU)
(Motorcycle Business Unit)

CHANGES IN MISSION

- o Provide core products to finance self-liquidating short-term transactions only
- o Focus on top industry names
- o Phase out shaky accounts & retain acceptable portfolio only

CORPORATE THRUSTS

- o Improve motivation & reward system
- o Maintain leading position as a low-cost, high efficiency producer of financial services
- o Maintain good credit portfolio & reduce loss
- o Establish a means whereby new earnings can be generated thru innovation & new product development
- o Grow market selectively & eliminate shaky accounts
- o Improve customer service quality

STRENGTHS AND WEAKNESSES

Strengths:

- o High integrity of management system
- o Good credit process/initiation system
- o Strong marketing team with innovative capability & favorable business image
- o Well-developed supportive system

Weaknesses

- o Below-average loan portfolio quality
- o Weak motivation & reward system
- o Inferior security position to local banks

OPPORTUNITY AND THREATS

Opportunities:

- o Profit contribution to SBU
- o Business potential for top industry names

Threats:

- o Industry lies in a declining maturity stage
- o Increasing credit risk
- o Limited growth & export potential for the industry
- o Overall unsatisfactory credit environment with economic crime

Lending Strategy

1. Redefine target market criteria.
2. Strengthen credit initiation and process and focus on self-liquidating short-term transactions only.
3. Establish risk-rating system and strengthen monitoring system for effective loan management.
4. Select professional/talented people to handle classified accounts and provide them with adequate motivation and reward.
5. Identify highly attractive industry segments and build market share selectively through product innovation/service differentiation.
6. Reduce production/processing cost and improve productivity through technology support.
7. Take high pricing strategy.

CHAPTER 5

CONCLUSION

Walter B. Wriston, previous Chairman of Citicorp, once made a presentation entitled, "Even the Future is Not What It Used To Be." That statement typifies the environment in which we work. Changes are so profound and are occurring so rapidly that at times we seem to be totally at the mercy of forces beyond our control. In no area is this more true than in commercial lending, where bankers must deal not only with the implications of change on their own bank but on all of their borrowers as well. The key to success in the uncertain and volatile environment in which we operate is strategic planning. Commercial lenders face greater challenges than ever in history. Success will be determined in large measure in terms of bankers' ability to develop and implement viable and creative strategic plans.

This thesis study provides a framework for lending strategy development as well as for industry analysis. Through these processes, a better understanding of industry structure and internal/external environment of an SBU will be obtained. At the end of this study, some conclusions are presented as follows.

1. Strategic planning is to prepare a firm for the future thrusts. The formulation of strategy is not enough, it is implementation which determines success or failure. Implementation of strategic plans can be one of the most difficult challenges facing managers today because it requires changes in corporate policy, organizational structure, operational controls, information systems, and reward plans. Yet, if strategies are to be effective and to produce desired results, this integration process must be carried out.

2. It is important to note that the planning process requires the involvement of the entire corporation from different levels. The backbone of the process will always rest with the talents inherent within the organization, i.e., with those who are responsible for ensuring its successful implementation and results. Matching key people with proper positions is a critical dimension in strategy implementation. Besides, the planning process should not be treated as a rigid, structural procedure designed to inhibit creative thought, but as a means of stimulation flexible enough to allow an adaptation to a dynamic environment.

3. Loan management is a people-oriented function. The role of loan officer is extremely important in lending strategy formulation and implementation. Therefore, it is essential for loan officers to develop sound credit skill and to have healthy attitudes. To attend regular seminars would be helpful in achieving these

goals. Loan officers should be skillful in financial analysis and pay special attention to inventory costing, quality of earning, liquidity, and cash flow. It is also important for loan officers to wipe out the psychological handicap of the reluctance to adversely classify accounts once their credit standing deteriorates. More emphasis should be put on long-term objectives rather than short-term profitability. All these aspects reflect that it is people who develop the strategy and make the bank different. Therefore, a policy to hire, keep, and develop the best people should be emphasized and implemented.

4. Structure follows strategy. An organization should be designed in such a way as to facilitate primarily the pursuit of its strategic commitment. Whenever lending strategy is modified in line with the changes in internal/external environment, the organizational structure should also respond to these changes.
5. A thorough industry competitive analysis is an important step in developing strategies. Porter's framework provides a base for industry structure analysis. The additional analysis of internal competency as well as lifecycle portfolio matrix provides a further insight into the industry. This extensive analysis is an aid to lending strategy development. Through this comprehensive study, we conclude that Taiwan motorcycle industry is approaching a crisis in view of its chronic overcapacity, saturated market, and tightening liquidity problem. Citibank Taipei should take

remedial actions as soon as possible. Marketing efforts should be focused on top industry names only. The tenable names should be financed on an ABF basis, while weak and non-viable accounts should be phased out as early as possible.

6. Finally, the author would like to emphasize the responsibility of the Country Corporate Officer (CCO) as well as of the Corporate Banking Group Head (CBGH). They have to adopt a more systematic and strategic long-range planning of the bank portfolio management and to fulfill the key role of chief strategist. The CCO and CBGH must recognize a need for, and a strong commitment to develop effective lending strategy for the Corporate Banking Business.

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