

Besides identifying Target Market, the Risk Process has the following goals:

1. To determine structural risks which affect different economic sectors.
2. Based on the previous goal results, to determine whether these current or future risks are or are not accepted by the Company. In case they are accepted, to define those protective elements that must be included for their proper management.
3. To establish the ideal portfolio distribution per economic sector in such a way that quality and risk diversification are kept.
4. To determine the economic sectors where products and services will get a better development.
5. To determine parameters or minimal conditions of companies acceptance for credit products.
6. To detect in the economic sectors those companies and/or users that answer in a proper way, from the risk point of view.
7. To identify customers' behaviors and needs in order to develop new products.

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PROCESS TO DEFINE TARGET MARKET

The main goal of the Process to Define Target Market is to establish an instrument of permanent and updated information that enables companies to identify critical success factors, detect opportunities and risks, assume preventive or corrective market positions, and plan and implement strategies in the focus of the market to preserve the Company interests.

A summarize of this Process to Define Target Market for corporate credit is shown in the BPR's articles.

In this article:

Qualitative Analysis of Economic Sectors

Analysis of economic sectors is done to evaluate the following aspects for every sector.

Importance of the sector in the economy

Importance or dependence of the economy in certain sectors may determine strengths and, in some cases, structural weaknesses. Share of the sector in the GDP (Gross Domestic Product), in job creation, and in exports, among others, are positive factors that allow anticipating State's support; whereas activities that have low job creation, manufacture sumptuary products or have high level of imports, may not hold permanent support.



Sector maturity

Maturity level of the economic sector is basically given by how long the corporate activity has been developing in the country. Efficiency levels, productive capacity and cash flow are better when the sector is more mature; however, it also implies that the activity has a high level of competition and companies in the sector must redesign their products and, in some cases, reconfigure the business.

Cycles and seasonality of sales in the sectors are basic risk elements that need to be understood. Cycles with longer waves of terms support structural strategic decisions and seasonality requires proper short term financial plans for good productive and sales planning.

Competitors

Depending on structure of competitors, the sector faces different risks or structural strengths. In monopolies (a single supplier) it is crucial to determine its entrance barriers and its permanence in the time. In oligopolic markets (few suppliers) analysis of competitors becomes critical. In markets of perfect competition (many suppliers) definition of the low cost producer and penetration of market become the basic supports for a successful permanence

Competitiveness

Competitiveness must be seen as a sum of strengths that support the presence of an economic activity, for example, cheap workforce, climate variety, nearness to shipping ports, etc.

Low levels of capacity utilization don't allow generating scale economies. On the other hand, high levels of utilization anticipate us needs of structural enlargement which imply risks and opportunities.

Supply versus demand

Somehow, an integral part of the exercise is summarized here. Proper visualization of supply and demand curves allows concluding right market strategies, when facing risks of sectors whose two basic variables are clearly foreseeable.

Export vocation

A high level of exports in a sector is a sign of competitiveness or, at least, of good protection against outside competitors. Generally, levels of quality and price of exports sector offer advantages in comparison with activities that have not had the capacity of trying external markets.

Dependence on technology

It is necessary to set a parallel between requirements of technological advance of the activity and the reality of these developments. Differences may produce excessive production costs or, on the contrary, allow the easy entrance of competitors.

Dependence on raw materials

The risk of depending on one or few suppliers with a wide control of sale conditions is clearly a disadvantage in the sector, as well as volatility of international prices of raw materials. In these cases, it is recommended to analyze all consequences.

Previous points are not the only ones and they are not limited to. Good criteria must be predominant, to include in the analysis all those variables that may affect the risk quality.

Research and Environment Projection Per Economical Activity

At least once a year, it must be done an updating about macroeconomic vision of the country and of the main economic activities the corporate strategy is focused on.

Main goal of this research is to enable the Company to recognize its risks and opportunities in order to determine their relative weight in its products portfolio composition.