

Case study: barclays vs hsbc



The aims of this assignment is to analyse the different marketing strategies and also to examine the role of strategic management in planning an organisation's future development by the banking giants " BARCLAYS" and " HSBC" both of which are world major leading a major banking and financial services organization that provides investment banking, commercial banking and wealth management services.

Firstly, Barclays PLC is a major global financial service provider engaged in retail and commercial banking, credit cards, investment banking, wealth management, and investment management services provider operating in Europe, the United States, the Middle East, Latin America, Australia, Asia, and Africa with a strong long-term credit rating and over 300 years of history and expertise in banking, in over 50 countries and employing over 156. 000 people, Barclays moves, lends, invests and protects money for 48 million customers and clients worldwide. It operates through its subsidiaries.

According to Forbes 2000 ranking (2008), Barclays PLC is the 24th largest company in the world and 7th largest company in banking industry in the world. Also Barclays PLC is the 3rd largest bank in the United Kingdom based on market capitalisation. (http://www.forbes.com/lists/2008/18/biz_2000global08_The-Global-2000_Rank.html)

In 2008 Barclays PLC had an income of £ billion, generating a profit after tax of just over £7 billion. Barclays PLC strategy is to achieve good growth through time by diversifying its business base and increasing its presence in markets and segments that are growing rapidly. This is driven by the Barclays Group's ambition to become one of a handful of universal banks leading the global financial services industry, helping customers and clients throughout the

world achieve their goals. The mission of Barclays is to provide products and services that help customers reach their financial and their ambition is to become one of the handfuls of universal banks leading the global financial services industry. . (<http://group.barclays.com/About-us/Who-we-are-and-what-we-do/Our-vision-and-strategy>)

Secondly, HSBC PLC is a major banking and financial services organization that provides investment banking, commercial banking and wealth management services. The group's international network comprises over 9,500 offices in 86 countries in the following five regions: Europe; Hong Kong; Rest of Asia-Pacific including the Middle East and Africa; North America and Latin America. With assets of about £1,735 billion at 31 December 2008, HSBC is one of the world's largest banking and financial services organizations. HSBC provides financial services to more than 128 million customers through four customer groups and global businesses: personal financial services, commercial banking, corporate investment banking and markets and private banking. Also, according to Forbes 2000 ranking (2008), HSBC PLC is the largest company in the world and first largest company in banking industry in the world. Also HSBC PLC is the largest bank in the United Kingdom based on market capitalisation.

Analysis of marketing environment based on both internal and external influences. The analysis is not only processed at the beginning of marketing planning, but also at the implementation, as a review of the plan itself. There are a number of tools and audits that can be used, such as, BSC matrix determines what priority should be given in the product portfolio of a business unit, SWOT analysis for company's internal and external analysis, <https://assignbuster.com/case-study-barclays-vs-hsbc/>

five-forces analysis for micro environment, and ADDSOFF growth matrix for helping organizations to decide their product and market growth strategy.

Organisation use SWOT (strengths, weakness, opportunity, threats) analysis for organisation's internal and external analysis to its competitive analysis.

First of all, it will be examined and compare strengths of two organisations.

HSBC is one of top five performers from the banking industry, with 26% annual average growth in revenue and 31% annual average growth in net income over the past five years. The group has a leading market positions in financial services and direct banking business over the world. The group has a strong presence in both developed and emerging markets. In 2003, the group has been recognized for its leadership in number of product segments and geographies. The group leverages its market leadership in geographies and product segments to gain a competitive advantage. ([http://www. hsbc. com/1/PA_1_1_S5/content/assets/investor_relations/hsbc2003ar0. pdf](http://www.hsbc.com/1/PA_1_1_S5/content/assets/investor_relations/hsbc2003ar0.pdf))

Also, according to TheBanker's Top 500 Financial Brands listing in 2009, HSBC is the world's most valuable banking brand. ([http://www. thebanker. com](http://www.thebanker.com)) In 1998, HSBC holding PLC is created a unified brand for the HSBC Group, using HSBC and the Company's hexagon symbol as its brand name everywhere over the world where it operates. On the contrary, Barclaycard is one of the leading credit card businesses in Europe serving 18. 1 million customers. Barclays leverages its leading position in the UK and overall large size operations across the world to benefit not only from economies of scale but also from reducing its business risks substantially. Profit diversification by geography and business protect the company from a downturn in specific

market or business line, and thus reduces its business volatility. Currently, Barclays operates across Europe and the US where it is one of the fastest growing credit card businesses. Income grew 1% to £23, 115m. Income in Global Retail and Commercial Banking increased 17% and was particularly strong in businesses outside of the UK to which we have directed significant resource. (Barclays Annual review, 2008) Also, according to TheBanker's Top 500 Financial Brands listing in 2009, Barclays is the world's 14th most valuable banking brand. (<http://www.thebanker.com>)

Secondly, if we examine and compare weakness of two organisations, HSBC's operating profit declined in the fiscal year 2007 and 2008. HSBC's ' profit before Tax declined %52. 76 to £5, 072 from £12, 106million, a decline of 98. 5% over 2006. This was on top of 21% decline in 2006 over 2005, and a 3. 5% decline in 2005 over 2004 despite a favourable mortgage market in 2005. (HSBC annual reviews 2004-2008, Appendix 1) The decrease in 2007 profits in North America was primarily due to higher loan impairment charges in the correspondent mortgage services business within HSBC Finance. However, North America's contribution to total operating profits fell from 32. 5% in 2004 to 0. 3% in 2007. The continued poor performance in North America weakens HSBC's competitive position in North America. (www.datamonitor.com) Comparing to that, Barclays delivered profit before tax of £6, 077m in 2008, a decline of 14% on 2007. Barclays' profit before Tax declined %14. 2 to £6, 077 from £7, 077million, a decline of 14. 8% over 2006. The results included the following significant items: gains on acquisition of £2, 406m, including £2, 262m gain on acquisition of Lehman Brothers North American businesses Barclays' net interest margin declined

from 1.3% in 2005 to 1.1% in 2007. During 2002 and 2003, the company's net interest margin was 1.6%. (Barclays Annual review, 2008). The Company's net interest margin is also low when compared to its major competitor like HSBC. Net interest margin of HSBC was 2.91% in 2007. During the period 2002-2007, HSBC's net interest margin had always been higher than that of Barclays. If Barclays' margins don't improve in the coming years the company could be at a disadvantage when compared to its competitors such as HSBC. (www.datamonitor.com)

Thirdly, if we examine and compare opportunities of two organisations, according to Datamonitor Group, a world-leading provider of premium global business information, delivering independent data, analysis and opinion across the world, in the next 25 years, a major portion of the increase in world demand will come from BRICS and other developing countries. HSBC is in a good position to capitalize on these markets. Additionally, India and China are the fastest growing economies in the world. The group has acquired Hang Seng Bank in China and stake in UTI Bank in India to strengthen its position in these markets. The group is looking to acquire companies in Latin America, Asia and Eastern Europe/Turkey in order to expand its market share in these emerging markets. These acquisitions are expected to increase the size of the group's corporate, investment banking and markets division and personal financial services division. Overall, the contribution of emerging markets to the group's top and bottom lines is expected to rise at healthy rates. HSBC is one of the key players in mergers and acquisitions, initial public offerings and private equity deals sector. Considering that investment banking generates a significant portion of its

total revenues from its investment banking division, it is likely to benefit from the future opportunities presented by this industry. Comparing to this, BARCLAYS announced in May 2007, the launch of its retail banking services in India and the United Arab Emirates. Barclays has been operating in India since the late 1970s one of the country's leading investment banks.

Corporate banking was started in November 2006, and also launched retail and commercial banking businesses in India in 2007, and it offers leading Indian companies products including deposits, trade finance, and cash management services. The company is growing its retail and commercial banking business with an initial capital commitment of \$70 million. The company is planning to expand its geographical network over time while also utilizing internet, telecommunications and technology such as ATMs.

(Barclays annual review, 2007) The bank launched its UAE mortgage business in 2006, breaking the mould with its Mini-driving sales team. The launch of these operations will help the company take advantage of growing need for retail banking in these countries. (Barclays annual review, 2006)

Fourthly, and lastly, if we examine and compare threats of two organisations, Weak mortgage market in the US, the US mortgage lenders are suffering from rising default rates amid weak housing prices and slower sales in the housing market. This has significantly hurt major mortgage players, HSBC, which was one of the first banks to suffer from the subprime market collapse through its American subsidiary in 2007. The bank already discontinued trade in mortgage-backed securities in the United States, shut mortgage businesses and discontinued some consumer finance products. . (<http://www.nytimes.com/2008/05/13/business/worldbusiness/13bank.html?fta=y>)

So, a weak outlook for this sector poses a threat to HSBC's future earnings from the sector. Threats associated with online banking are also other factors which affect the Group's opportunities. Comparing to this, Barclays has exposure to US subprime through its own books in Barclays Capital and also through EquiFirst, a mortgage originator that was acquired in March 2007. As the subprime markets collapsed, Barclays Capital announced a write-down of £500 million for the July-September quarter in 2007.

([http://business.timesonline.co.](http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article1969146.ece)

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At 31st October 2007, Barclays Capital's high grade exposure (net of hedges and subordination) declined to £3.8 billion from £5.8 billion as at 30th June 2007. This was due to charges and write downs (net of hedges) in the third quarter of £0.3 billion and a further £0.4 billion in October 2007. (Barclays annual review 2007) At 31st October In the first quarter of 2008, Barclays took a credit write-down of £1 billion. The bank could further write down assets due to the credit woes in the US market and its affect on the global financial markets. Regulatory fines may compress margins and financial position Increase in online frauds to impose security concerns With the advent of automation in the financial service sector the fraud related to internet and credit transaction has seen a surge. There has been increase in security breaches in the UK, threatening the use of sensitive customer data for frauds and hacking. Online banking fraud has increased by 8,000% in the UK in the first half of 2006, according to the UK Financial Services Authority. (www.datamonitor.com)

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Another competitive analysis method for business industries is Porter's " five forces model" which models an industry being influenced by five forces.

Organisations want to do business in different countries are affected by the local government regulations, especially, banking industry. Because, most of decisions in some countries are highly regulated by the government and its central bank, especially, the emerging markets such as Brazil, India, and United Arab Emirates. The interest rates and money supply by central banks would be good example of government regulations. Therefore, both banks, Barclays and HSBC, usually face to same issues in same countries. But, because of HSBC is first mover, it has more advantages than Barclays. Also, they are using product differentiation strategy to reach their customers.

Rivalry among the existing competitors in the emerging markets forces organisation to be more competitive than the other organisations. Because, the organisation already in there wants to keep and increase its customers and market share, on the contrary new entrant wants to pull customers from the existing organisation and increase its market share. Acquiring major stakes in Absa in 2006, gives Barclays easy entry in an untapped market as well as also brand visibility. (Barclays annual review 2006) On the contrary, HSBC achieved its position as the number one international bank in Asia-Pacific and the Middle East over many years and also HSBC has built one of Latin America's largest financial services businesses.

Because of major source funds for banking come from customer and investors, they have a high bargaining power in the market place. Bank which gives higher interest rate than the other banks would not only pull a large amount of customer, it also brings funds with them. So as the source

funds come from customer and investor, they are the suppliers of Barclays and HSBC. But comparing to Barclays, HSBC has higher proportion of bargain power of supplier.

The bargaining powers of customers have impact on the producing industries since there are number of banks operating in the same market which offer similar services. Therefore customers will be the people setting the price of products offered. Barclays rank is high on the quality of services provided by them. This shows the high importance service provided for satisfied customers. However, comparing to Barclays' bargain power of the customers to HSBC's bargain power of the customers, the bargain power of the customers of Barclays is lower than that is of HSBC.

Economies of scale in banking industry is like entering a new market which is still not saturated and expanding their reach to saturated large number of customers which could have higher net profit margins through volumes.

Barclays and HSBC are trying to find new markets and entering them.

However both organisations face high competition from the other financial companies entering into market which are providing easy financial solutions services to the weak and small entrepreneurs. As new player are entering into the market every day. However comparing Barclays to HSBC, because of HSBC is more powerful and known as " world's local bank", Barclays faces more threat of new entry.

Threats from substitutes for bank financial services have recently rising from unconventional companies such as; car and computer manufacturer companies are offering finance to their products with 0% for 1 year. So, why

should customers would go and get loan with interest rate of %10 In highly fragmented markets like India customers have a high propensity towards switching to other substitutes, especially in case of private banks which are comparatively new in the market. Therefore, HSBC and Barclays should revise their marketing strategies.

Organisation want to determine what priority should be given in the product portfolio of its business unit use Boston Consulting Group Matrix. The BCG's product portfolio matrix is basically a two-dimensional display comparing the strategic positions of a company's diversified business investments (Thompson & Strickland, 1993) At present HSBC is Cash Cow will remain Cash Cow in future HSBC signalled its intention to grow insurance to become a more significant contributor to the HSBC Group's profits. In 2008, pre-tax profits totalled US\$2. 6 billion, a decline of 19 per cent, driven by lower investment returns and a reduced contribution from Ping an due to the Fortis impairment. (HSBC annual review 2008) Comparing to HSBC, Barclays Wealth division, Barclays Wealth serves clients worldwide, providing international and private banking, fiduciary services, investment management and brokerage. It is the UK's leading wealth manager by client assets. It has achieved a huge success with high market share, but unfortunately low market growth " Cash Cow". But following acquisition of Lehman Brothers Private Investment Management it has got offices across the Americas, the division became " Star" with high growth rate and high market share. (Barclays annual review 2008)

After given applied competitive analysis for both company, it's necessary to talk about organisation competitive strategy.

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Organisation uses some competitive strategic model to compete over its competitors. One of the competitive strategy models that analysis is the ANSOFF Growth matrix. Which is a tool that helps businesses decides their product and market growth strategy. On one side, HSBC is entering new market with new product so it is “ diversification” and in the future it most likely will be same. On the other side Barclays is currently using “ diversification” as their corporate strategy which involves more risks comes from both new market and new product. However, “ diversification” is the only strategy they can choose to build up the comprehensive product/service portfolio that can satisfy various requirements from customers. To avoid any damage from this risky diversification strategy, both companies should diversify their strategies into related areas. According to Johnson et al. 2005, there are two major different approaches to diversification: related and unrelated. Related diversification occurs when there is a high degree of compatibility and complementation between the existing products/services and those being moved to. It allows economies of scale to develop. In unrelated diversification the underlying strategy has nothing to do with securing access to compatible technologies, products or markets. It does become very challenging to manage a business that has been acquired through unrelated diversification when the necessary administration skills and knowledge do not exist. After organizations have chosen their approaches to diversification, they should have a pure idea about what they expect to gain from the strategies they chose. The last year was one of unprecedented volatility and turbulence in the global financial services sector which has continued into 2009. In determining remuneration levels for 2008 and considering approaches to remuneration for 2009, the Committee

was mindful of this global market context. Process objectives focused on efficiency and qualitative measures which, in themselves, impact financial performance and mitigate risk. Although the HSBC did not meet its target to reduce operational losses as a percentage of revenue, the overall management of risk mitigation was judged to be strong, taking into account sound relationships with global regulatory bodies and the global investment community. (HSBC annual review 2008) BARCLAYS management plans to manage and mitigate the effects of the expected downturn in multiple markets. Several steps were taken to strengthen the capital base prior to the events of October 2008. Such as, no salary increases for 2009, the total 2009 long-term awards are 64% lower than last year, with no awards for the Chief Executive and the President. (Barclays annual review 2008).

CONCLUSION

In conclusion, this assignment evaluates and compares two financial banking companies Barclays and HBSC's financial services that how to gain high market share in global business world over rival competitors. Also assignment aims of company's overall activities such as: global strategies, weaknesses and opportunities over rival companies with using the existing useful strategic tools. And assignment also provides companies annual activities such as net income statements and operating profits to compare and contrast two company's activities in global business world.

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