

Case study on barclays bank

Business



Its commercial banking arm offers services to British and international customers, including current accounts, savings accounts, mortgages, insurance, credit cards and consumer loans. It has a majority stake in Abs, a major South African bank. It has recently acquired Russian's Exponent and announced its intention to buy Indonesian Kite. Barclay's investment banking and investment management business cluster consists of Barclay Capital, Barclay Wealth and Barclay Global Investors. Barclay Capital is an investment bank that also offers consultancy, financing and risk management services.

Barclay Wealth provides private banking, set management, stockbrokers, offshore banking, and wealth structuring and financial planning services.

Barclay Global Investors is one of the world's largest asset managers and providers of investment management products and services. Barclay's net income amounted to EYE, OHO million in 2007, up from EYE, 333 two years earlier. Earnings per share constituted 68. Up, and return on equity was 20.3%.

However, the results for the first half of 2008 were disappointing, profits being 33% down.

While insignificant growth was delivered by Barclay's commercial banking vision, Barclay Capital profits fell 68%, and Barclay Global Investors profits were 32% less than in the second half of this year. After the company refused to buy Lehman Brothers and the latter filed for bankruptcy, Barclay acquired Lineman's core American and Canadian investment banking and capital markets businesses for IEE million. Hit by the global financial crisis,

the company agreed to participate, together with seven other large UK financial Institutions, in the £300 billion government Special Liquidity Scheme (Farrell, 2008).

Barclay's business model will be analyzed using Porter's Five Forces Model. Suppliers: Given the nature of the banking industry, Barclay's suppliers are its customers at the same time. Individuals and companies depositing money with Barclay act as suppliers of liquidity. Supplier concentration is not a serious threat, since Barclay serves over 42 million customers and clients worldwide.

There is little threat of forward integration: most Barclay's customers/suppliers are individuals or small companies. There is no differentiation of inputs: money is the only input.

Importance of volume to suppliers is high, since banks offer better deals for larger sums of money deposited. Switching costs are medium to high, since banks use a variety of methods to secure long-term contracts and retain their customers/suppliers. Conclusion: low to medium suppliers bargaining power – Buyers: Customers of Barclay are generally dispersed; however, there are certain areas of Barclay's activities (such as wealth management) where customers are more concentrated and more powerful. A natural advantage in the industry given the similarity of services banks offers.

There is no backward integration threat. Buyer switching costs are medium to high, as outlined above. Banks also attempt to offer their customers integrated financial solutions to discourage switching. At the same time, <https://assignbuster.com/case-study-on-barclays-bank/>

availability of existing substitute products is high, and buyers are very price-sensitive. Conclusion: low to medium buyer bargaining power – New Entrants: In the current situation, there is little threat of new entrants, since banking is regarded as a risky business.

The trend is towards greater concentration of banking industry rather than diversification.

Existence of barriers to entry (such as capital requirements) makes entry more complicated. Brand equity is very important: confidence is the key in banking, so new entrants might find it difficult to develop an initial level of confidence. Access to necessary inputs (liquidity) is also hard to gain for new players. At the same time, learning curve advantages are relatively unimportant, since innovation is not the most important profit driver in banking. Also, banking does not rely heavily on proprietary technology.

Researchers argue that economies of scale are of little importance in financial services industry. However, specialist knowledge might deter new entrants, as major banks know markets and customers much better than new players. There is also scarcity of important resources such as qualified expert staff. Conclusion: medium threat of new entrants – Threat of Substitution: Given high brand loyalty of customers and close customer relationships, threat of substitution is lower than in other industries. However, higher quality of service and lower price of competitors might encourage customers to switch.

Therefore, customer retention relies on Barclay' remaining price-competitive, offering excellent customer service, and maintaining high switching costs.

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Conclusion: medium threat of substitution – Rivalry: Banking sector is becoming increasingly more concentrated; concentration decreases the intensity of rivalry. However, there are factors that enhance the intensity of rivalry in financial services, such as little differentiation between players, similarity of players' strategies, price competition, and slow market growth.

Conclusion: medium to high intensity of rivalry Future Strategies No major financial institution in the Anglo-Saxon world has been able to escape the vegetating effects of the credit crunch. The performance of Barclay Group in the first half of this year was disappointing – it reported a 33% decline in profits. News on massive losses was followed by a share price slump. Barclay' chief tried to instill optimism in shareholders by stating that We are, and we will be, working as hard as we can to create the conditions that enable a higher price to be placed on our shares over time.

Earnings per share were down to app from 41. Up previous year. The group, faced with significant write downs, promised to change its approach to risk management. By looking at Barclay' performance results, it's easy to predict a shift among bankers from ambitious investment projects to the traditional business-as-usual model where retail banking is the key. Barclay Capital, the group's investment banking arm, and Barclay Wealth, its asset management unit, reported 68% and 32% decline in profit, respectively.

Commercial banking department enjoyed a lackluster growth.

Only Barbarically, the group's credit card and consumer loans business, showed a considerable pronto Increase AT 30%. Interest rate products Ana a record AT five-star performance, while mortgages and other asset-backed
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securities accounted for most of company's losses. The response to the catastrophic dip in profits was to minimize credit market exposure.

Supremelending was reduced by 2.

6%, and deals with leveraged financed were cut by 2. 4%. The group's management outlined prime lending and expansion in emerging markets as strategic directions for the future.

Thus, Barclay' latest Investor Presentation (released on the 7th of October) lists business diversification and international expansion as the group's top priorities. Its non-UK operations grew from delivering 20% of profits in 2003 to 43%.

It boasts 670 new distribution outlets in Western Europe and selected emerging markets. Acquisition of Exponent in Russia and launch of business in Pakistan suggest that the focus on emerging markets is likely to persist. Barclay aspires to become the biggest bank in Sub-Sahara Africa given its success in Botswana, Kenya and Ghana.

Revenue growth in I-JAKE and India exceeded 100%. Abs, Barclay' fully owned subsidiary, has won the largest share of the retail deposit and advances market in South Africa.

While investment banking and wealth management appear to be risky businesses in the times of crisis, retail and commercial banking will be the income driver. Barclay is the world's eleventh largest bank by revenue and is determined to grow its share. With regard to I-J banking, improving asset

quality is the top priority: mortgages with loan-to-value of or less constituted 71% of the balance in December and 66% in June.

Barclay also aims at diversifying loan portfolio to deliver strong credit risk performance. The group's investment arm plans to build close relationships with its top-tier clients.

It already works with 61% of the world's largest pension funds. Barclay's wealth management department will cooperate closely with Barclay Global Investor and Barclay Capital to ensure referrals of large lending opportunities and integrated approach to handling clients' financial matters.

It also plans to expand client base in key emerging wealth markets, such as Middle East and Asia. By the end of October, the group will have closed the sale of Barclay Life, its life insurance business. Sale of other non-core assets might be considered with a view to profit optimization.

In the update on capital, dividend ND current trading (released on the 13th of October), Barclay's assured that the bank is well capitalized and that in September its profits significantly exceeded the monthly run rate for the first half of the year.

Given the higher capital targets set by FSP, Barclay will issue preference shares to raise £1.5bn by the end of the year and new ordinary shares to raise £1.5bn to make up for the acquisition of Lehman Brothers units. Issue of new ordinary shares to raise a further £1.5bn will happen after the announcement of the year end results the top priority: mortgages with loan-to-value of 60% or less constituted 71% of the