BARCLAYCARD: STILL THE KING OF PLA$TIC?

Bernardo Bátiz-Lazo and Nurdilek Hacialioglu with contributions by Jarunee Wonglimpiyarat and Douglas Wood

The case study looks at milestones in the UK credit card market. It then focuses on how a long-standing market leader maintains a position of advantage and develops its business in a fast-moving industry undergoing significant change. There are many different strategic options open to Barclaycard, but which will be most suitable? Will all the options be acceptable, not only in terms of the likely risk and returns but also to the major stakeholders? Will the options be feasible? The case invites readers to evaluate and compare a range of strategic options and to choose the best way forward for Barclaycard.

• • •

One of the biggest blunders in recent corporate history took place in 2003 when Matt Barrett, CEO of the Barclays Group, publicly stated:

'*I don't borrow on credit cards because it is too expensive… [I do] not recommend to anyone they chronically borrow on their credit card.*'[1]

He was the first bank executive who talked about credit cards openly – or bluntly. Although his comments led to a public relations fiasco, they also reflected growing concern around who should be in charge of advising consumers to borrow responsibly. Banks and regulators were concerned that credit card borrowing had doubled between 1999 and 2003 to £168 billion. At the same time, interest rates had fallen by two-thirds since 1992 while rates charged for unpaid credit card balances had only declined by third in the same period and some store cards charged up to 32.5 per cent. Managing over 10 million UK customers, 85,000 retailers, 5,000 staff and offering one of the highest-priced card products it was not surprising that Barclaycard was under close scrutiny as the inquiry into the credit card industry evolved.

---

[1] *The Guardian,* 17 October 2003.

This case was prepared by Bernardo Bátiz Lazo (London South Bank University) and Nurdilek Hacialioglu (Open University) with contributions by Jarunee Wonglimpiyarat (The National Science and Development Agency of Thailand) and Douglas Wood (Manchester Business School). It is intended for class discussion rather than as an illustration of either good or bad management practice. Comments from Jill McGavock, Gregory Reece-Smith and MBA graduates of the Open University are gratefully acknowledged. The contribution by Professor Douglas Wood (1942-2003) was published posthumously.

THE ORIGINS OF CREDIT CARDS AND BARCLAYCARD

Credit cards emerged in the first half of the 20^{th} Century. Initially credit cards were used for identification purposes against non-cash purchases. The launch of Travel and Entertainment (T&E) cards by Diners Club in 1950 was a turning point because bills from places such as hotels, restaurants and airlines were reimbursed by the issuer and then billed to be paid in full by the customer. T&E cards, thus, merely functioned as a charge card.[2] Diners' T&E cards led to the establishment of similar cards by American Express and Carte Blanche.

It was around this time when the Franklin National Bank (based in New York) developed what is recognised as the first real credit card. This innovation considered offering rollover credit up to an authorised credit limit. Managers at Franklin National Bank also recognised the competitive potential of issuing credit cards to other banks' customers. Due to regulatory constraints, however, branch banking in the US was highly localised. At the same time, there was an increasingly mobile population across the country as a whole. A franchising system developed when trying to find ways to facilitate customer purchases anywhere in the US and, at the same time, increase credit card usage. Under this system banks acquired the right to issue branded cards in a particular city that customers could use with collaborating merchants locally and elsewhere in the US.

In 1958 the Bank of America, with the advantage of its huge West Coast network, launched the blue, white and gold *BankAmericard.* By 1965 and alongside its own branch network, Bank of America had established a successful franchising system owing to high promotional activities and considerable effort in establishing a large merchant network. In this way BankAmericard customers were provided with a national (and eventually international) network of service points which was later to become Visa International. Unlike the T&E card, which was basically a charge card, credit cards expanded rapidly.

In subsequent years marketing activities for credit cards exploded. At the same time the merchant network was widened and the right to issue Visa cards extended to an increasing number of banks as well as non-banking institutions. Alongside these developments, Visa and MasterCard evolved as independent payment organisations owned by issuing banks.

Duality was introduced in 1988, whereby banks could issue both Visa and MasterCard credit cards. However, both Visa and MasterCard prevented their members from issuing American Express or Discover cards. A practice that was challenged at the end of the 1990s in the US by both the Federal government and a powerful group of retailers (who wanted to promote their own cards.)

In any event, duality further enhanced the potential for scale economies since banks could process all the Visa and MasterCard transactions of their

---

[2] In a *charge card* all transactions for a given period (often monthly) are expected to be paid in full at the settlement date. In a *credit card* there is rollover credit as the cardholder may choose to pay any amount over the minimum required and is charged interest on the outstanding balance. In a *debit card* payment is linked to a customer's current account. There is no credit facility unless it is a feature of the underlying bank account.

merchants. As illustrated in Exhibit 1, payment associations have no direct contractual contact with customers or merchants. Instead, they provide all the mechanisms that enable card transactions. Moreover, payment associations are not directly exposed to card fraud as it is the issuing bank that bears the incidence of the misused cost of fraud. The growth of payment associations thus relied on advances in the technology to settle payments and on the growth of their members' customer and merchant base.

EXHIBIT 1 HERE

Barclays was the first UK bank to recognise the potential of credit cards. After evaluating the operations of BankAmericard in the US, Barclays Bank negotiated a franchise from Bank of America at the end of 1965. A small team was set up to plan a UK launch under the *Barclaycard* brand. After six months 30,000 retailers were signed up. Early promises to retailers to publish the name and address of every shop accepting Barclaycard led to what is still believed to be one of the largest ever press advertisements. It appeared in the *Daily Mail* on 29 June 1966 extending over eight pages and carrying all the 30,000 names and addresses of participating retailers. Successful acceptance of Barclaycard by the British adult population meant that by the end of 1966 Barclays Bank had passed the milestone of 1 million Barclaycard holders.

INFORMATION TECHNOLOGY

During the 1980s and 1990s, Barclaycard continued to benefit from being the ‘first mover’ in many aspects of the banking business including:

- issuing the first credit card in the UK,
- being the first credit card company to have an institutional presence on the Internet,
- starting the first loyalty scheme in the UK,
- being the first bank to enable credit card payments over the Internet.

Clearly, the use of IT applications and computer technology in particular were critical for implementing Barclaycard's strategy. Excluding marketing costs, the initial investment of Barclays in the Bank of America franchise was low. Barclaycard’s management team was able to migrate the entire operation from the US. This included Bank of America’s computer programs, and the terms and conditions of service to both retailers/merchants and cardholders. Only minor modifications required for the UK purposes as stated by a senior executive at Barclaycard:

> 'From Barclaycard’s viewpoint, it envisaged that the complexities of adopting a US system for UK use were for example integration with feeder systems for capturing voucher details, customer payments (as the US had a radically different banking system), authorization (which was then an intense manual process), Country Club Billing (where individual transaction slips were matched and sent out with the statement) and address formats/postcodes which were very different from the United States model.'

Although some customisation was required, the original system (like its paper or cardboard-based predecessors), relied primarily on carbonless duplicate paper vouchers imprinted with details embossed on the plastic card. Credit control was then managed using floor (merchant) limits combined with telephone authorisation. Growth in card usage convinced Barclaycard that automation through a fully computer-based transaction system was required. One was thus commissioned in 1974 to eliminate much of the paperwork, to speed up the authorisation process, and also to provide narrative statements for cardholders. The need to accelerate service delivery time eventually led to the formation of a platform for 'real time' operations: in other words, an array of IT applications that allowed automatic credit authorisation and speeded funds transfer from the merchant or retailer to the bank. This was achieved through a well-developed infrastructure developed by Visa and MasterCard. In particular, using extensive communications networks to link Visa's and Mastercard's electronic fund transfer protocols as well as their 24-hour-a-day and 7-day-a-week credit authorisation systems.

Alongside the developments in the credit cards market, banks also issued cash/cheque guarantee cards, and installed automated teller machine (ATM) networks to lower the costs of basic banking services. Barclays Bank led the world with the first operational ATM in 1967 while IBM introduced the first magnetic stripe plastic cards in 1969. Together these innovations marked the birth of electronic banking. Bank systems then developed to implement 'real time' transactions through ATMs.

Barclay's early adoption of ATMs was in parallel with the extended use of credit cards. Initially, the heavy investment required to build an ATM network was seen as a major source of competitive advantage for large banks, so interconnection was slow to develop. But after 30 years the absurdity of terminals connected to different networks and of ATMs located side by side was recognised only after terminal density had reached saturation point. This eventually resulted in a single interconnected UK network in 1999. Barclays then announced that it would charge non-customers for using its machines - a proposal that was withdrawn after being vilified in the press.

Given the slowness with which banks integrated their networks it was not surprising that standards developed within Visa and MasterCard were adopted for debit cards. In the UK, banks were again split between the Switch and Visa/Delta formats. Debit cards were a new source of growth for card issuing banks during the late 1980s to the extent that in 1991 MasterCard, with its European partner Europay International, launched their global online direct debit system to provide immediate (i.e. real-time) transfers from customers' accounts against transactions (branded *Maestro*). Shortly after that a system to support direct debit for ATM cash withdrawal (branded *Cirrus*) was developed worldwide.

In summary, developments in the 40 years that followed the launch of credit cards in the UK by Barclaycard were marked by the continuing improvement of the industry standards, interconnecting and interoperating hardware and software, and overlapping membership of the two technology platforms for payment systems (namely Visa International and MasterCard) as well as by almost identical functionality between cards. Barclaycard's achievement over this period was that it retained the advantage that was gained through early entry and remained as the market leader, not just with the basic credit card services but also in many aspects of card business. From scratch, Barclaycard grew to be the largest credit card business in the UK, with a presence in other European countries and also in parts of Africa.

TRANSACTION PROCESSING

The transition from paper to electronics introduced large scale economies in card processing. Due to dominant market share of Visa and MasterCard cards, processing of credit card transactions is determined by these two networks. Such processing is also characterised by relatively high one-off investments, such as setting up the interface with a global communications infrastructure. Software, equipment and operating staff are relatively independent of volume and therefore offer economies of scale. In order to take the advantage of such scale economies and as had been the case in other countries, Barclaycard used electronic processing heavily in its cards business to facilitate the transition from paper to electronic processing. In 2003, with 9 million cards issued in the UK alone, Barclaycard had 27 per cent of total credit market when its nearest rival, Lloyds TSB, only had 5 million cardholders.

Although outsourcing was favoured by small-scale issuers, Barclaycard rejected the potentially profitable opportunities of servicing other card issuers until 2003 and, thus, failed to take full advantage of scale economies. Rival issuers including Bank of Scotland, Royal Bank of Scotland and National Westmister provided card services on behalf of other institutions such as building societies and retailers. Outsourcing of card services including plastic card issuing, statement printing or even customer services became more favoured with the entrance of US 'mono-lines' in the UK market. For instance, MBNA had over 16 million cardholders in the US at the time of its entry into the UK market. MBNA, therefore, brought a good deal of experience in terms of managing a credit cards business and eventually became very active in providing its services to other potential issuers in the UK (such as department stores and retailers).

The strength of banks' links with their customers was increasingly being tested by other businesses, such as utility companies and petrol retail companies, who have frequent close contact with their customers and could offer direct incentives for customers to take their card rather than the banks' card. Barclaycard again found a way forward. By 2003 most retailers no longer dealt directly with card associations such as Visa. Rather an acquirer consolidated the electronic readings on the cards through their own multi-card reader, which would be rented to the merchant. The reader could be provided by Barclaycard or a third party such as Streamline (who in turned was owned by HSBC, another UK-based multinational bank). Thus instead of the need for the old system needing one reader for each card, the retailer accepted the acquirer provided these links through its own software. The system as portrayed in Exhibit 1 became more diffuse as card issuers knew of their own customers whilst the acquirer could know about the merchant's customer base. Barclaycard was the only bank card which was a card issuer as well as an acquirer and hence, was in a position to gather information about its own and merchants' customers.

Another technological development which affected card processing was the introduction of smart or chip cards. The initial benefit of chip was to reduce counterfeiting and to increase security for Internet and other remote transactions (see Exhibit 2). For instance, its introduction in France a decade earlier reduced card fraud by customers to a tiny fraction of previous levels. Smart cards can store a vast amount of transaction data without the need to access multiple networks as required by a typical credit card transaction. The on-board chip in smart cards can handle complex security features including biometrics, which reduces card delinquency for banks switching to the new technology.

EXHIBIT 2 HERE

The UK's nationwide roll-out for chip cards started in the late 2003. This move aimed to cut down credit card fraud by two-thirds. By the roll-out date, Visa member banks had already issued 23 million chip cards and were offering e-commerce transactions which were supported by Visa's Secure Electronic Transaction platform. At the same time, Mastercard had developed similar capabilities through its purchase of Mondex, the smart card based electronic wallet developed by National Westminster Bank.

The chip roll-out originally presented issuers, retailers and end consumers with technological and user educational challenges. In another technological twist, innovations in information technology also offered the potential for transactions between personal or commercial customers and retailers to be handled directly and securely without the need to contact their banks. For instance, mobile phone companies were experimenting with the use of bar codes (similar to those used in food wrapping) displayed on the handset's screen. Using systems such as those for text messaging (SMS) they effectively turned a mobile phone into a payment mechanism when interacting with a device (already in use by all supermarkets) that could scan and store transaction details.

CARD PROFITABILITY

Exhibit 3 summarises the revenue stream for card issuers. These comprise seven potential sources of income including: annual card fees charged to cardholders, cash withdrawal fees, income from interest charged on outstanding balances which are rolled over, income from proceeds emerging the use of card abroad, late payment charges, commissions received from acquiring banks (i.e. interchange income) and other sources of income (such as printing additional statements).

EXHIBIT 3 HERE

Despite being the initial and for a considerable period the only credit card issuer in the UK, Barclaycard made losses for the first decade of its operations as it built up its card and merchant volumes. As the market leader it consistently priced Barclaycard at a premium. As late as 2001 Barclaycard still charged a discretionary annual card fee as well as the highest interest rate on credit card debt (annual percentage rate or APR) in the market. The result of the pricing strategy, however, was a healthy financial contribution to the parent organisation as illustrated in the financial summary in Exhibit 4.

EXHIBIT 4 HERE

Cards have delivered a high proportion of non-interest income and are, therefore, attractive to banks which have to provide regulatory capital to back interest bearing assets. Actually, the growth of credit cards has been part of the reason why both international and British banks have been able to more than double the proportion of their income earned as fees and commissions over the last 30 years.

The decade to 2003 reflected a period when competition between UK card issuers intensified and characterised by extending activities and product development, thus vastly increasing the range of products and services available to final consumers. A plethora of competitors in the credit card market emerged on the back of the open membership policies of Visa and MasterCard. New competitors tried to develop market share through low rates (including a zero interest rate as introductory offer) on outstanding balance transferred from other providers.

Most of the new card entrants, however, experienced high level of customer disloyalty because once the introductory offer ended, customers switched to other issuers. But even with a flood of new entrants during the 1990s, Barclaycard kept its defection rates below 5 per cent per annum. Defection rates for established participants were low thanks to the inertia of bank customers, which was historically high. Even for credit cards, where the formalities of changing suppliers are minimal, customer retention rates were also high historically. For instance, according to some industry estimates the average adult Briton was four times more likely to divorce than to change credit card supplier.

Acquisition of new customers was a different story. By 1995 Barclaycard's share of new cards issued dropped down to 15 per cent of total new acquired customers: well below their ongoing market share of 30 per cent of the market. The drop in new acquired customers thus reflected how card processing specialists such as MBNA or Royal Bank of Scotland gained ground at the expense of participants which had grown organically and issued cards only to their own customer base. See Exhibit 5.

EXHIBIT 5 HERE

At the same time and in spite of customers at the turn of the millennium having access to credit far easier and more cheaply than ever before, the UK government considered that interest rates charged for outstanding credit card balances were still far higher than the level they deemed as acceptable. This led to a government enquiry that included chief executives of big card issuers. The aim was to establish why interest charges on UK credit cards had declined by only a third since 1992 when Bank of England had taken LIBOR (i.e. the main reference rate) to two-thirds of its 1992 value (and the lowest in the last forty years!). As a result of the enquiry, banks and credit card issuers agreed to make credit card charges more transparent and easier to understand and to introduce so called 'honesty tables'.[3]

With around £9.7 billion pounds of outstanding balances in 2003, Barclaycard was required to provide £480 million pounds of regulatory capital. So profits of £615 million in 2002 provided a return of close to 100 per cent on equity, a vivid contrast with a British bank's typical return on equity (ROE) of 15 per cent per annum. This was also an indicator that, despite claims of increased competition, credit cards remained a remarkably profitable component in a bank's portfolio. For example, the profitability of the card business within Citibank was such that it had been estimated to be worth 50 per cent more as a stand alone business than the entire value of the bank.

Another element in the profit equation is the average value of balances settled outside the 'free interest period'. If a customer pays off the outstanding balance in full, then the issuing bank earns only interchange income and commission fees. As seen in Exhibit 6, the percentage of interest bearing credit card balances was at around 75 per cent as of December 2001, which was much lower than 1998 and 1999 averages. This was due to introductory offers such as low or zero interest rates for balance transfers and reflected the widespread use of such offers by cardholders between 1998 and 2003.

EXHIBIT 6 HERE

In parallel to the industry average, Barclays aimed for its customers to have at least 70 per cent of interest earning balances outside the free interest period. Thus, card issuers provide medium term consumer finance. But to be able to grow credit card balances profitably issuers must entertain the possibilities under which credit risk might increase. For instance, in 2000 Barclaycard's transaction volume grew by 12 per cent while charges for bad and doubtful debts increased by 34 per cent. As the economy slowed down in 2002, however, transaction volume grew by 8 per cent while bad debt charges also grew by 8 per cent. Financial performance thus suggests that the aim of credit card managers is to find customers who need roll-over credit but will not default on repayments. Barclaycard's in-house skills in measuring and monitoring credit risk have, therefore, been crucial to their strategy.

[3] Called the Schumer box in the US, they draw together information traditionally in 'the small print' of an application into a single table, making loans and credit card offerings from different providers easier to understand and compare.

CHALLENGES TO BARCLAYCARD'S STRATEGY

Barclaycard's strategy aims to develop and maintain market leadership by differentiating its product range: for instance, designing a comprehensive benefits package to potential and existing cardholders as described in Exhibit 7. Products and services were sometimes introduced independently from those at the Barclays Group while, at the same time, not all offers were available to all cardholders: they were linked to the customer's banking relationship with Barclays (e.g. Barclaycard Open Plan). At the same time, other UK retail banks would tailor the marketing of their credit cards as bundled with other banking products.

EXHIBIT 7 HERE

Barclaycard’s strategy in the cards market has been associated with a number of major factors. The first is the continued growth of the credit card market as shown in Exhibits 8 and 9. Over the period of 1991 to 2001 the volume of credit card transactions grew by 9 per cent per annum, while debit cards transactions grew by 31 per cent. Outstanding balances, on the other hand, tripled between 1993 and 2001.

EXHIBIT 8 & 9 HERE

Despite increases in credit card and transaction numbers, the average number of annual transactions per credit card fell in 2000 whereas the average annual spend per credit cardholder went up. These trends sat alongside a switch in individual expenditure patterns moving from cash transactions to credit cards. Also, multiple card holding became an important feature of the UK cards industry, with over 50 per cent of all cardholders having two or more credit cards (and 5 per cent six or more!). However, there was still long way to go for the ‘cashless society’: for instance, only 4 per cent of all payments were made by credit cards in the UK, compared with 25 per cent in the US. Industry estimates elaborated by APACS projected that by 2011 half of the adult UK population (expected to be 26 million cardholders) would be regular credit card users, compared to 18 million regular users in 2001.

The use of debit and credit cards, however, showed significant differences between North America and Europe. The US accounted for 40 per cent of the cards issued and a massive £340 billion credit card spending in 1995 whereas the same figure in the UK and Italy was £44 billion and £6 billion respectively. The potential for growth in continental European markets was also highlighted by figures from the Credit Card Research Group showing that credit card payments in 1997 in the UK were equivalent to 8.5 per cent of GDP while in France, Germany and Italy the equivalent figure was 1 per cent.

Seeking to capitalise on that business opportunity, Barclaycard grew internationally. Barclaycard entered several new geographical markets including Germany, Greece, France, Italy and Spain. Cross-border growth resulted in an increase of 1.3 million credit cards by 2002. In spite of business in continental Europe growing by 10 per cent per annum, in 2002, as a business unit, continental Europe and Africa recorded an operating loss of £13 million, this followed a loss of £20 million in 2001. Peter Crook, the UK managing director, attributed such losses to the cost entailed in setting up businesses in new territories; noting that it takes 4 to 5 years for new entrants to reach the break even point in the mature UK market, and it would take even longer in more the challenging environment of less developed markets.

The next factor that allowed Barclaycard to remain the leader in the UK was linked to the growth of the Visa network, whose UK franchise was exclusively enjoyed by Barclaycard in the early years. By 2000, Visa secured its position as the world's most widely used plastic card accounting for US$1.9 billion of transaction volume or 60 per cent of the global market. Yet, Visa itself did not seem much satisfied with this outcome. A senior executive at Visa International expressed their ambition in this respect as: '*When I can go out of a hotel and tip the porter using a Visa card and he'll accept it, that's when we'll have succeeded.*'

Another factor was the ability of Barclaycard's managers to avoid price competition – that is until recently - by emphasising brand and product development. The introduction of gold cards represented a good example of how Barclaycard articulated their branding policy. Although MasterCard introduced their gold card in the US in 1981 and by 1992 there were similar offerings in the UK (such as those supplied by American Express or the Co-operative Bank), Barclaycard introduced its Barclaycard Gold until 1995 but immediately acquired 90,000 Gold customers. The launch pushed its market share to 30 per cent of total new credit cards issued. The gold card also aimed to segment its customer base and to customise card features. Apart from pricing, non-price features such as extended purchase warranties, purchase protection insurance and travel accident cover were also rearranged according to the customer segment. Exhibit 10 shows features of Barclaycard's *classic* and *gold* cards in comparison with those offered by other major issuers.

EXHIBIT 10 HERE

Alongside the emergence of gold cards affinity and co-branded cards also gained popularity in the UK as had been the case in the US. Loyalty schemes such as National Westminster Bank's air miles, HFC Bank's GM card and Barclaycard's ventures with Cellnet, Eastern Electricity and Natural Gas resulted in rapid growth of the customer base but also having to share revenues with participants in the affinity group.

Exhibit 11 summarises the major new players in the UK market during the last decade. The entrance of new players into the UK was followed by a change in Barclaycard's pricing policy. Historically, Barclaycard had been priced at a premium and Barclaycard managers had avoided confronting competitors through low price (or low interest rate) offerings. However, in late 2001 Barclaycard became one of the last traditional players in the market to scrap its annual fee, whereas its main rivals (such as National Westminster, Lloyds TSB and Bank of Scotland) had abolished annual fees as early as 1999.

EXHIBIT 11 HERE

Card issuers (and banks in particular) realised that the same technology that supported retail credit cards could also support business to business transactions. Europay estimated that in the 1990s European businesses spent £100 billion per year on routine business expenses, which were paid mostly by cash or cheque. Corporate cards offered a cost-effective alternative to such transactions as the technology was already in place to provide detailed reports and cost centre consolidation for travel and subsistence costs. The same was true for company procurement. American Express launched their Corporate Purchasing Card in the US in 1993 and in 1995 in the UK, while Visa International introduced their corporate purchasing system to the European market in 1994. Purchasing cards were attractive to business organisations by allowing paperless 'order to payment' purchasing, itemised transaction reports as well as consolidated reports by employee, supplier or purchase category.

In the late 1990s, Barclays introduced both company charge cards and purchasing cards under the Visa-marqued *Company Barclaycard*. In a relatively short period of time, Barclaycard gained market leadership in corporate charge cards in the UK. Four Barclaycard corporate cards, all Visa marqued, offered a combination of travel discounts and insurance, extended purchase warranties and supplier discounts as well as providing detailed reports. Again Visa marqued Company Barclaycard *Purchasing Card* allowed customers to nominate a monthly statement date and provided opportunities to extend credit as well as detailed reports. Barclaycard's leading position in this market was underlined by their success in securing the account for a Government Procurement Card with variants provided to the Ministry of Defence, Customs and Excise, the Ministry of Agriculture Fisheries and Food and the Environment Agency.

Marketing has traditionally been an area where the management team at Barclaycard invested heavily. Indeed, to sustain its position extensive advertising and promotion campaigns were launched. For example, in 1995 and 1996 Barclaycard spent over £12 million on advertising compared with National Westminster's £1.5 million and American Express's £3 million. As a result, Barclaycard was the most recognised financial brand in the UK. Shaun Powell, a commercial director of Barclaycard, was typically opposed to anything that would dilute Barclaycard's brand: '…*branding is a discipline, it is all about sustaining your premium price.*'

Few in the UK will not be familiar with the long-running television advertisement series featuring Rowan Atkinson (a.k.a. Mr Bean) playing the role of an accident prone diplomat, which even lead to a Hollywood movie! The message in the advertising encapsulated the essence of Barclaycard's strategy and how it planned to differentiate itself from competitors. The advertisements emphasised peace of mind - in case of an emergency such as losing the credit card or passport, experiencing medical problems while on holiday or losing goods purchased with Barclaycard. By 2003 marketing was directed into sponsorship which included six key areas, namely education, the disadvantaged, people with disabilities, the arts, the environment (through the Young People's Trust for the Environment) and a three year sponsorship of the English Football Association's Premiership League. Yet, as illustrated in Exhibit 12, Barclaycard was having difficulty in keeping a differentiated offering in the debit and credit card market: the four biggest card issuers accounted for nearly three quarters of the cardbase in 1993 while their share fell to 50 per cent in 2001, with Barclaycard falling from almost 30 per cent in 1993 to 18 per cent of the market share in 2001.

EXHIBIT 12 HERE

Until 2002 Barclaycard had developed its customer base through a combination of organic growth and alliances. These alliances included companies in telecommunications such as BT and Cellnet and food retailers such as Marks & Spencer and Sainsbury's. Managers of Barclaycard, however, abandoned plans to develop its own loyalty scheme when Barclaycard aimed to differentiate itself from its competitors by establishing *Nectar* in conjunction with Sainsbury (food retailer), Debenhams (department store) and BP (retail petrol) late in 2002. Within a year Nectar became the biggest loyalty scheme in the UK with over 12 million active users. New partners were quickly added such as Vodafone (mobile telephony), First Quench (retail wine merchants) and Adams (children clothes retailing).

Alliances, however, were unable to stop a significant dilution of Barclaycard's market share. Also in 2002, Barclaycard performed its first ever acquisition with the purchase of the UK operations of Providian (the 8th largest credit card provider in the US in terms of assets). The acquisition helped Barclaycard enter a new market segment (that of lower income customers) and brought with it half a million new customers with balances of around £400 million, that is, a 14 per cent increase in interest income, 6 per cent increase in provisions and 9 per cent increase in credit balances. Moreover, the newly acquired expertise in the low income segment encouraged Barclaycard to agree with Littlewoods Ltd (a leading retailer in the low income market) the supply of credit cards and other financial products to Littlewoods' customer base. After Providian, in May 2003 Barclaycard also acquired the point of sale business of Clydesdale Financial Services, further enhancing its merchant network.

WHITE PAPER OR WHITEWASH?

When the government introduced its 'white paper' on credit card borrowing in 2003, Barclaycard was criticised by the Office of Fair Trading after advertising a 'zero per cent forever' card deal which was nothing of the kind. Customers actually had to pay off existing balances first before they could get the offer. There was thus support for claims of a whitewash in the credit card industry: issuers included 'hidden' charges (levied for late payment or early repayment) that consumers were often not aware of.

This was worrying as consumer debt had mushroomed from £429 million in 1969 (equivalent to £5.25 billion in 2003) to £168 billion in 2003. A poll by Mori said that 76 per cent of people found consumer credit advertising confusing and 84 per cent found the language of the paperwork unintelligible. The poll also found the term APR, used by credit card providers and other loan companies to describe the rate of repayment, confusing (while 59 per cent would not describe APR as an annual percentage rate). At the same time, 83 percent of consumers would look at the APR when deciding which of the 1,300 credits cards in the UK to apply for.

Ministers ruled out any cap on interest rates for credit cards, relying on consumer pressure to reduce rates. Checks on companies applying for credit licenses were to be tightened up. New fines were introduced as well as new powers for regulators. Ministers were to pressure for a reduction in interchange fees and consultants at PricewaterhouseCoopers expected the move would cost to the industry over £450 million in lost revenue per year. Some feared this would lead to higher charges for credit card issuers and fewer reward programmes for consumers.

The same day the white paper was published, concerns for Barclaycard were also prompt in-house: John Varley, Finance Director of the Barclays Group and heir apparent to Matt Barrett, put investors on edge by warning of the risks further interest rate increases posed to Britain's debt-saddled consumers.

Developments in the UK were worrying for managers at Barclaycard, particularly as other European countries were contemplating regulatory changes along the lines of those in the UK. Managers wondered whether these developments might result in return to cash-only transactions and thus, would they be beheading of the king of plastic?