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Corporate strategy in the UK credit card market: The case of Barclaycard

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ABSTRACT

The case study is concerned with 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.

INTRODUCTION

At the turn of the millennium, Barclaycard was operating in a sophisticated and highly competitive industry. The company, a wholly owned subsidiary of the Barclays Plc, aimed to provide the plastic card infrastructure for Barclays Bank and was responsible for producing, issuing and replacing all Barclay's plastic cards. It also managed directly all customer relationships for Barclay's plastic card services in the UK (a range of services which is described below). Through its Global Services Division, Barclaycard had a commitment to extending the Barclaycard brand and services across the world providing card acceptance services to many countries, predominantly on the African continent, Middle East, Caribbean and in a few countries in South America.

By 1999 Barclaycard had over 9 million customers and employed over 5,000 people at three locations around the country and its Northampton headquarters. Barclaycard was accepted at over 400,000 places in the UK and more than 12 million worldwide. In what follows the case describes the milestones in the growth of the credit card market, including developments which associate with new information technology (IT) applications. As a result readers should be able to tell whether and how Barclaycard can stay ahead.

THE ORIGINS OF CREDIT CARDS AND BARCLAYCARD

Credit cards emerged in the first half of the 20th Century and initially cards were used as a way to simplify the process of identification and confirmation of customers when tellers required authorisation for account purchases in retail stores. The process developed and in the 1940's a number of US banks allowed customers to charge purchases against their monthly bank charge account rather than to a store account. In 1950 Diners Club launched a Travel and Entertainment (T&E) card, an innovation that which also led to the establishment of American Express and, separately, Carte Blanche. The issuer of the T&E card would settle the bills from hotels, restaurants or airlines and reclaim payment from the member. The T&E card, therefore, provided settlement in arrears but no rollover credit while additional revenue for the issuer generated from annual fees from customers and charging a commission on sales to the merchant.

It was around this time when the Franklin National Bank (based in New York) developed what is recognised as the originator of the first real credit card. This innovation considered offering rollover credit up to an authorised credit limit. Furthermore, managers at Franklin National Bank also recognised the competitive potential of credit cards by being the first to issue credit cards to customers of other banks. However, the localised nature of branch banking in the US meant cards were only useful in the limited area served by the issuing bank, an inconvenience to an increasingly mobile population. Nevertheless, a franchising system developed under which banks acquired the right to issue branded cards in a particular city that customers could use with both collaborating merchants locally and out of state. In 1958 Bank of America, with the advantage of its huge West Coast network, launched the blue, white and gold *BankAmericard*. By 1965 Bank of America was realising the brand value of its heavily promoted card by actively franchising other banks to issue its card and recruit merchants. In this way the network provided BankAmericard cardholders with a national (and eventually international) network of service points which was to provide the foundation for the future Visa network.

Barclays Bank was the first UK bank to recognise the potential of the credit card. After evaluating BankAmericard's operations in the US they negotiated a franchise from BankAmerica at the end of 1965. A small team was set up to plan a UK launch six months later under the brand *Barclaycard* and by launch date 30,000 retailers had been 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, extended over eight pages and carried all the 30,000 names and addresses of retailers. Successful acceptance by the British adult population meant that by the end of 1966 Barclays Bank had passed the milestone of 1 million Barclaycard holders.

THE DEVELOPMENT OF COMPETITION

Early contenders to both Visa and Barclaycard emerged from their closest competitors. In 1966, prompted by the success of the BankAmericard network members of competing franchises formed the Interbank Card Association (ICA), later to become MasterCard

International. ICA differed from BankAmericard in being an association controlled by member banks which took responsibility for promoting the MasterCard brand and for setting standards for security and authorisation, clearing and settlement systems between members. ICA went international in 1968 with an association with Banamex (Mexico's biggest bank in terms of assets), an alliance in Europe with Eurocard, and the recruitment of member banks from Japan. A comparable organisation, National BankAmericard, Inc. was formed by US banks issuing BankAmericards in 1970. Later on, what was to become Visa International was formed by Bank of America's international licensees while, in parallel, ICA rebranded as MasterCard International and then as Mastercard. At this point the two card systems that between them would preside over the world credit card market for the following thirty years were in place. As open membership organisations they provided a common framework giving banks (and in due course non-banks) access to what turned out to be easily the most profitable and fastest growing product in the portfolio of most retail banks.

Along side the creation of two international networks and conscious of the strong position Barclaycard had created in the fast growing UK card market, the other major UK commercial banks decided they would collaborate to reduce the risks of launching a rival card. In 1972, National Westminster (NatWest), Lloyds, Midland and the Royal Bank of Scotland/Williams & Glyn's Group established the Joint Credit Card Company Limited (JCCC). Trading began using the *Access* brand and after merchants had been recruited, a computer programme purchased from the US (which was extensively rewritten for Access purposes) and IBM equipment had been installed to process payments. At the same time, Access was aligned with the network of banks that would eventually become Mastercard in the UK.

Unlike the T&E card, bank credit card usage expanded rapidly in the UK and elsewhere. For instance, between September 1967 and January 1972 growth in the US resulted in an increase of 680% in the number of banks with credit card facilities. In the UK, within a year of launching the Access group had 3.3 million cardholders and 65,000 retail or merchant outlets. That same year, Barclaycard had 1.7 million cardholders and was accepted in 60,000 merchant outlets (but this growth took place while Barclays acted as sole card-issuer and sole merchant-acquirer for its network). In comparison and in spite of the T&E card having been introduced earlier than the bank credit card, the combination of Diners Club and American Express had only 550,000 cardholders in 1979.

During the late 1960s and 1970s, therefore, a period of intense competition between Visa and Mastercard and between individual holders of each franchise to sign up merchants ensued, this against a background of an annual increase in credit card ownership of more than 20%. Apart from grocery chains and other outlets where purchase values were low, acceptance of both Barclaycard/Visa and Access/Mastercard became universal, in part reflecting banks' reluctance to increase cheque guarantees above £50 pounds.

In subsequent years the demand for credit cards exploded. At the same time outlets (merchants) were recruited by both networks, merchants began accepting American Express and Diners Club cards, while the right to issue Visa cards extended to an increasing range of bank and non-bank competitors. Moreover, duality whereby banks could join both Visa and Mastercard networks became possible in 1988 with the banks able to issue both cards. But bylaws of each group prevented their members from issuing the cards of third parties such as American Express or Discover, a practice that was challenged in the US by both the Federal government and a powerful group of retailers at the end of the 1990s. In any event, duality further enhanced the potential for scale economies since banks could process all the Visa and MasterCard transactions of their merchants.

During the 1980s and 1990s, Barclays responded using heavy promotion and branding to retain the position of Barclaycard as market leader. This position of advantage in the UK was maintained with success and represented servicing around 9 million credit card customers in 1999.

INFORMATION TECHNOLOGY

Excluding marketing costs Barclays initial investment in the Bank of America franchise was low. Managers at Barclaycard were able to migrate the entire operation from the US, including computer programs, terms and conditions of service to both retailers and cardholders. However, minor modifications to the Bank of America computer programme were required for UK purposes. Says 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 customer's 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 and one was commissioned in 1974 to eliminate much of the paperwork, speed up the authorisation process and provide narrative statements for cardholders. This 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 funds transfer to the merchant's bank 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 development in credit card markets, one could find that banks had been issuing cash card/cheque guarantee cards to their customers and installing networks of automated teller machines (ATM) to lower the costs of delivering basic bank services. Barclays Bank led the world with the first operational ATM in 1967 while IBM introduced the 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 ATM's and these were equivalent to the transactions required to transfer funds from the credit balances of credit cardholders to transacting merchants.

Barclay's early adoption of ATM's was no coincidence because cash withdrawal through ATMs is a major use for credit cards. Initially, the heavy investment required to build an

ATM's 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 located side by side and long after terminal density had reached saturation point, eventually resulted in a single interconnected network in 1999 for the UK. Competitive to the end, Barclays then announced that it would charge non-customers heavily for using its machines, a proposal it had to withdraw after being vilified in the press.

Given the slowness with which banks integrated their networks it was not surprising that Visa and Mastercard standards were adopted for debit cards. Debit cards provide instantaneous transfer of funds from the cardholder's account to the transacting merchant or cash issuing bank and in the UK banks were again split between the Switch and Delta formats (Visa Delta was re-branded in due course as Visa Debit). Debit cards were a new source of growth for card issuing banks during the late-1980s to the extent that in 1991 MasterCard, with partner Europay International, launched their global online direct debit system to provide immediate transfers from customers' accounts against transactions (Maestro). Shortly after that a system to support direct debit for ATM cash withdrawal world wide (MasterCard/Cirrus network) was developed.

In summary, developments in the 35 years that followed the launch of credit cards in the UK by Barclaycard have been marked by a continuing move to industry standards, interconnecting and interoperating hardware and software, and overlapping membership of the two technology platforms (i.e. 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 gained through early entry and remained as market leader, not just with the basic credit cards but in most of the segments that evolved in the market. From scratch Barclaycard grew to be the largest credit card business in Europe, with a presence in UK and elsewhere, including Germany, France and Spain.

CARD PROFITABILITY

Figure 1 summarises the revenue streams from cards and these comprise four potential sources of income:

Annual fees charged to cardholders.

Interest charges on customer balances outstanding beyond the free credit period.

Merchant commissions and handling charges.

Processing charges recovered through contracts to non-processing card issuers.

[Insert figure 1 around 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, charging an annual card fee as well as the highest interest rate on credit card debt (annual percentage rate or APR) in the market. To sustain this position management invested heavily in marketing to the point at which Barclaycard was the most recognised financial brand in the UK. Shaun Powell, a commercial director of Barclaycard until 1997 was typically opposed to anything that would dilute Barclaycard's brand:

> '…branding is a discipline, it is all about sustaining your premium price.'

The financial summary for the performance of Barclaycard during 18 months of trading is summarised in table 1. These figures illustrate that cards deliver a high proportion of non-interest income and are therefore attractive to banks who 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.

Table 1: Barclaycard Financial Results

	Half-year ended		
	30.6.00	**31.12.99**	**30.6.99**
Net interest income	£269m	£247m	£241m

Net fees and commissions	£254m	£249m	£231m
Total Income	£523m	£496m	£472m
Total costs	(£218m)	(£202m)	(£195m)
Provisions for bad and doubtful debts	(£110m)	(£88m)	(£82m)
Operating profit	£195m	£206m	£195m

Source Barclays Plc Interim Statement 2000

With around £4.8 billion pounds of credit card receivables in 1999, Barclaycard is required to provide £480 million pounds of regulatory capital. So profits of £400 million a year provide a return of close to 100% on equity, a vivid contrast with a British bank's typical return on equity (ROE) of 15% per annum. This is also an indication that, despite claims of increased competition, credit cards remain a remarkably profitable component in a bank's portfolio. For instance, the profitability of the card business within Citibank, the world's card market leader, is such that it has been estimated to be worth 50% 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 settles early then the issuing bank will only earn commission and fees (see table 2). This provided an incentive for issuers to have customers observing high interest earning balances outside the free interest period and indeed, Barclays aims for individual customers to have at least 70% of interest earning balances outside the free interest period. So in effect, 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% while charges for bad and doubtful debts increased by 34%. Financial performance thus suggests that the job for Barclaycard managers is finding customers who need roll over credit but will not default on payments. Barclaycards in house skills in measuring and monitoring credit risk are, therefore, crucial to their strategy.

Table 2: Credit Card Competitors (January 2001)

Issuer	Type	Fee P.A.	Interest Free days	Interest, % APR Debt	Interest, % APR Transfers days [1]	Insurance Purchase	Insurance Travel	Loyalty Scheme [2]
Credit Cards								

Barclaycard	V,M	£10	56	19.4%	9.9%	60	100 days	£50k	Rewards
RBS Advanta	V,M	£0	56	17.9%	1.9%	365	0	£50k	none
Goldfish	V,M	£0	52	18.9%	4.9%	180	0	£50k	Goldfish
Egg	V	£0	45	11.9%	0.0%	180	30 days	none	Cashback
Tesco	V	£0	56	15.9%	3.9%	180	50 days	£50k	Clubcard
Smile	V	£0	46	12.9%	8.9%	365	0	£25k	none
LloydsTSB(Adv)	M	£0	0	13.9%	9.9%	α	0	none	none
MBNA	V,M	£0	59	16.9%	2.9%	180	100 days	none	none
HSBC	V,M	0	56	18.9%	7.9%	180	0	£50k	Choice
Amex blue	Amex	£12	56	19.5%	9.9%	α	90 days	£50k	Moneyback
GM	V,M	£0	52	19.9%	4.9%	180	0	£50k	Rebates
Gold Cards									
Barclaycard Gold	V	£10	56	19.4%	7.9%	60	100 days	£100k	Rewards
HSBC Gold	V	0	56	14.9%	7.9%	180	90 days	£100k	none

[1] The debt transfer rates and periods refer to the preferential rates offered to new customers with debt balances brought across from a different card issuer.

[2] Additional benefits such as purchase discounts, medical insurance, extended warranty and personal liability are not included for reasons of space.

Table 2 also portrays how at the end of the millennium competition in UK credit card markets has intensified and how customers encounter a wide ranging offer as compared to Barclaycard's premium priced cards. But a consequence of greater competition in retail financial markets (and the credit card business in particular) is that the best creditworthy customers have access to credit far more cheaply than the 20-25% charged by mainstream card issuers. Hence, greater competition could have made it ever more difficult for credit card transaction volumes to grow at high rates without issuers incurring in even higher provisioning for bad and doubtful debts.

COMPETITION IN PAYMENTS

Barclaycards strategy in the card market has been associated with three continuing elements. The first is the continued growth of the credit card market shown in table 3. Over the period 1989-1999 the volume of credit card transactions grew at 7.5%, while debit cards grew at 40%. The number of credit cards in use increased by 5% per annum and the value of a transaction increased by 5.5% p.a.

Table 3: Growth of transactions in the UK card market, 1989-1999

(Millions of Transactions per year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Debit Card	68	192	359	522	659	808	1004	1270	1503	1736	2062
Credit & Charge Cards	650	690	699	724	748	815	908	1025	1128	1224	1344
Store Cards	56	48	46	70	82	106	109	118	128	134	131
All Card Purchases	774	930	1104	1316	1488	1723	2023	2413	2759	3094	3537
Cash issues by card	918	1045	1112	1199	1277	1372	1512	1656	1809	1917	2025

Source www.apacs.com

The second factor is the relative success of Visa, whose UK franchise was exclusively enjoyed by Barclaycard in the early years. Over the years Visa secured a position as the world's most widely used card, by 1998 accounting for $1.4 trillion dollars of purchases or 55% of the global market. Although the competition between Visa and Mastercard was less clear cut in the UK, Barclaycards Visa cards had international acceptability with 16 million merchants worldwide. Table 4 suggests that although Barclaycard lost market share somewhat faster than the other major banks the strength of Visa's international position to some extent offset Barclaycards premium pricing.

Table 4: Cards issued by major banks and associated market shares

	1994	**%**	**1995**	**1996**	**1997**	**1998[e]**	**%**
Barclays	8,464	37.2	8,944	9,273	9,429	9,561	29.4
Lloyds TSB	4,775	21.0	5,256	5,619	5,801	5,923	18.1
NatWest	3,556	15.6	3,654	3,834	4,502	4,655	14.1
Midland/HSBC	3,296	14.5	3,620	4,089	4,534	4,489	13.6
Total bank credit cards	22,692		25,216	27,455	31,829	32,793	

Source : Key Note – Credit & Other Finance Cards 1999, pp. 38

The third factor is the ability to avoid price competition by branding and by use of new features supported by technology developments within the card networks. 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 made an attempt with Barclaycard Gold until 1995. Barclaycard acquired 90,000 Gold customers and the launch pushed its market share of new credit cards issued to over 30%. They also segmented their market, improving the retention of profitable high borrowers with smaller required repayments and reduced rates for high borrowings. Non-price features like extended purchase warranties and purchase insurance were also added to the package for some cards.

With more than 1 billion cards issued worldwide, credit cards were becoming an increasingly important form of payment in many countries. But the usage of debit and credit cards issued in North America and Europe showed significant differences. The US accounted for about 40% (400 million units) of the cards issued and a massive £340 billion credit card spending in 1995. This compared with the UK's £44 billion and Italy's £6 billion. While in some countries, such as France, debit cards and charge cards were dominant and the credit card market was underdeveloped.

Managers of Barclaycard then identified the unusually low penetration of credit cards in Germany as a business opportunity and by 2000 they had issued 1.1 million cards in Germany, France and Spain, with business growing at 10% per annum. The potential for continued growth in these markets is signalled by figures from the Credit Card Research Group showing that credit card payments in the UK were equivalent to 8.5% of GDP while in France, Germany and Italy the equivalent figure is 1%.

Barclaycard also moved quickly into e-Commerce as the first UK credit card to offer Internet account services with 250,000 cardholders registered to monitor their account status on the Barclaycard website.

However and in spite of some card issuers been quick to grasp opportunities opened by technological innovation, rather belatedly card issuers (and banks in particular) realised that the same technology that supported retail credit cards could also support business to business transactions. Europay is quoted as estimating that the European businesses spend an annual £100 billion pounds on routine business expenses, mostly by cash or cheque. Corporate cards, for travel and subsistence costs provide detailed reports and cost centre consolidation. With a typical cost for paper based order processing and payment of $50 dollars and 50% of total procurement spend on orders under $400 dollars purchasing cards provide a major opportunity to streamline purchasing procedures and save administration costs. American Express launched their Corporate Purchasing Card in the US in 1993 and in 1995 the UK, with Visa International introducing 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 and purchase category.

Barclays provided both company charge cards and purchasing cards under the brand Company Barclaycard and established UK market leadership in corporate charge cards. Their four corporate cards, all Visa based, offer a combination of travel discounts and insurance, extended purchase warranties and supplier discounts and provide reporting options and VAT reporting. The Visa based Company Barclaycard Purchasing card allows customers to nominate a monthly statement date and provides the option of extended credit as well a the reporting options of the Company Barclaycard corporate card. Barclays 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.

TRANSACTION PROCESSING

The transition from paper to electronics introduced large economies to scale in processing. This innovation, however, characterised by relatively high level one-off investments. The most expensive related to the linking of the point-of-sale system through leased lines and satellites, as well as with investments to develop packet-switching systems to carry and distribute messages across the network. Software, equipment and operating staff, were relatively independent of volume and so offered scale economies. Barclaycard implemented the transition from paper to electronic processing using Barclaycard Services for card issue, transaction processing and statement services. At the time Barcaycard’s share of total card transactions in the UK was 27% and emerged from 9 million issued cards. This as opposed to its nearest rival Lloyds-TSB which had 5 million cardholders.

However, Barclaycard rejected the potentially profitable opportunity of servicing other card issuers through Barclaycard Services. Although others, including Bank of Scotland, Royal Bank of Scotland and NatWest were active in supporting own brand cards. These cards were issued by retail chains, building societies and smaller banks who reasoned they could narrow their scale disadvantage by gaining incremental processing volume. The processing area was further complicated by the entry in the UK market of card issuers such as MBNA, whose 16 million cardholders in the US clearly out-scaled Barclays.

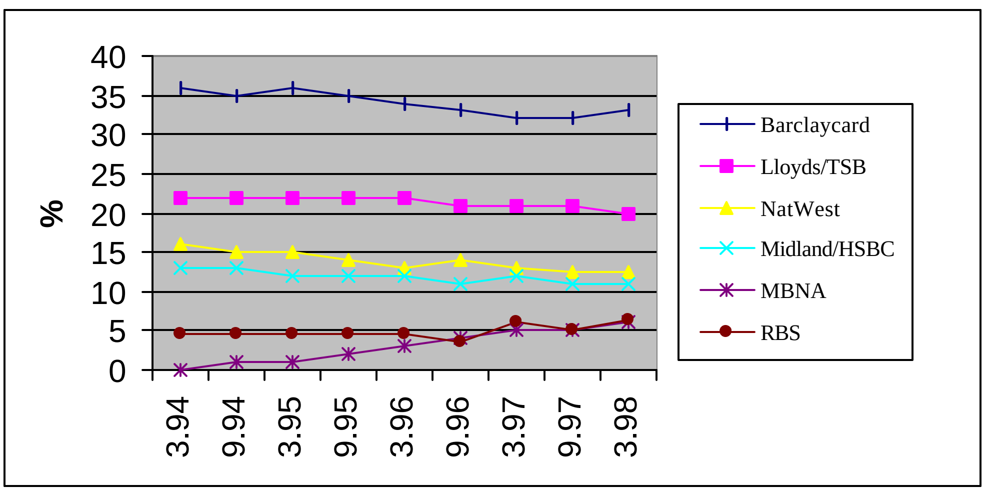
Increasingly, though, processing is determined by the two dominant card networks. Visa's network, VisaNet, has a peak throughput of 2,700 transactions while MasterCard used AT&T to replace its transaction network infrastructure with the industry's first virtual private network. Technology improvements provided new opportunities for Barclaycard to save costs and in 1998 a change programme identified ways to eliminate 1,100 jobs over the following 3 years. Results were already evident by 1999 when costs fell by 4% to $397 million dollars despite the continued expansion of Barclaycard activity in Europe and especially in Germany.

All card issuers though are faced with some major changes as magnetic stripe cards give way to smart or chip cards which can store transaction data without needing to access the complex networks required to handle credit cards. Visa member banks have already issued 23 million chip cards in the market today while e-commerce transactions are being supported by Visa's Secure Electronic Transaction platform. At the same time, Mastercard bought an interest in the Mondex, the smart card based electronic wallet developed by NatWest Bank.

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. But greater security allows credit transfers to be made direct to merchants over the telephone or Internet without the need for processing by either the cardholder's or merchant's bank. Furthermore, V-Sync, a Japanese digital content provider has developed a matchbox sized device, CoCyph, that turns a mobile phone into a payment mechanism by a device that can scan store and transaction details, then confirm payment from a digital account through a terminal at the supplier which at $200 dollars per unit costs one tenth of a conventional on-line terminal. This process deprives card processors and suppliers of the personal information they routinely obtain in a card based transaction. At the same time, chip cards will support multiple relationships. So the strength of banks links with their customers will be tested by many other business such as utility companies and petrol companies who have frequent contact with their customers and can offer direct incentives for customers to take their card rather than the banks' card.

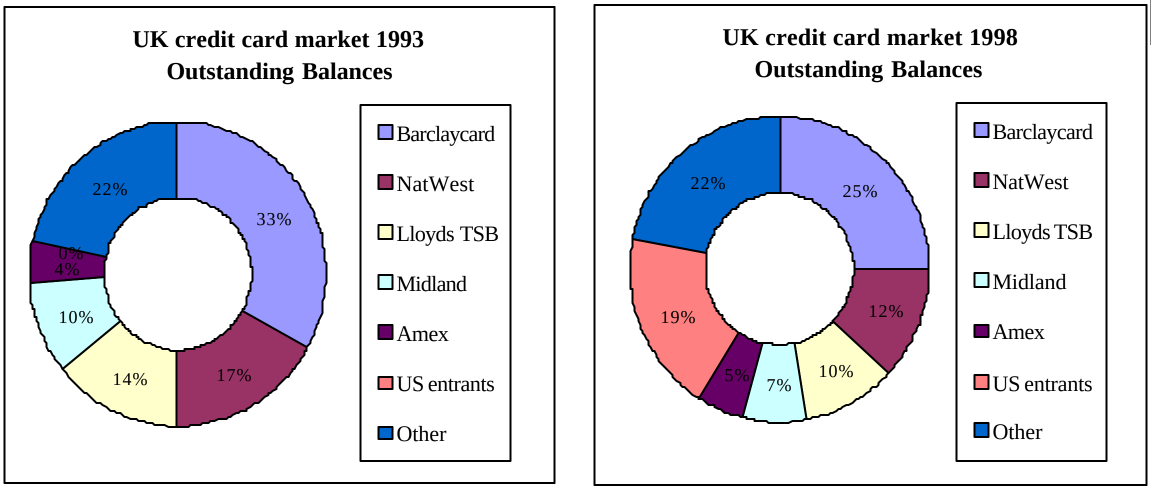
Technological change and the open nature of the main networks thus attracted a plethora of competitors into credit card markets. But even with a flood of new entrants in the mid-1990's Barclaycard kept defection rates below 5% per annum. Defection rates were low thanks to the inertia of bank customers which has been historically high. Even for credit cards where the formalities of changing suppliers are minimal customer retention rates have also been high historically. However, acquisition of new customers was a different story with Barclaycards share dropping to 15%, well below their ongoing market share of 30% of the market. Figure 2 further illustrates how processing specialists such as MBNA or Royal Bank of Scotland have gained ground at the expense of participants which had grown organically while issuing cards to their own customer base.

Figure 2: Market share estimates



Source: RBS Estimates, Chartered Banker October, 1998, p.56

Figure 3: Changes in outstanding balances in the UK credit card market



Source : Card Forum International, Jan/Feb 2000, pp. 51

Figure 3 depicts how competition intensified as a rash of new competitors, including non-bank issuers moved into the market, with variable success. But many of the new entrants found that customers acquired through intensive promotion of discount offers often move on once the offer ends. Nevertheless, free for life offers from the Co-operative Bank for its Gold Card or Halifax for a Platinum card offering purchase protection, travel insurance, help-line and a 2.9% APR on transferred balances offer large savings against even a standard Barclaycard. As a senior executive at one card issuer remarked,

> '…The main barrier for a new credit card providers is the fragmented nature of the business and the present focus on rate driven offers. Rates below the cost of funds are not sustainable but unless offers are competitive, it is difficult to achieve market share growth…'

Affinity and co-branded cards also entered the market. Arrangements such as NatWest's 'air miles' offer, HFC Bank's GM card and Barclaycards ventures with Cellnet, Eastern Electricity and Natural Gas involve revenue sharing between the affinity group and the card issuer. Nevertheless British Gas's Goldfish card (launched with HFC Bank in 1996) was picking up 7.5% of new cards (against Barclaycards 15%) within 2 years, while MBNA, after entering in 1994, won 5% of the national card base by 1998, on the back of a massive direct mail operation. Table 5 and figure 2 summarise the types of established and new participants in the market and their effect on Barclaycard's market share.

Table 5: New players in the UK credit card market in the 1990s

	Type of players	New Players in the UK market
1	Foreign entrants	American Express, Citibank, MBNA , HFC, Capital One, Bank One, Peoples Bank and The Associates
2	Non-financial institutions	Virgin, General Motors (GM) card, AT&T Universal Card
4	Specialist credit card issuers	MBNA, Capital One, and Household International
5	Retailers card and Store cards	Tesco and Sainsbury, Marks & Spencer (branded loyalty card products)
6	Internet based card suppliers	Egg , Marbles, Smile, Cahoot

The entry of non-banks into the card business has been helped by the technical support of established card processors. The cost of establishing banks like Sainsbury's Bank (Bank of Scotland), or Royal Bank of Scotland's Virgin and Tesco financial operations is less than £40 million pounds, with Prudential Insurance's Egg at £200 million the exception. Supporting customers through cards, call centres and the Internet allows these new entrants to offer cut throat rates on their products.

BARCLAYCARD'S STRATEGY

Barclaycard's strategy was to develop and maintain market leadership by differentiating its product using the comprehensive benefits package described in table 6. As its operated semi-autonomously within the Barclays group, managers of Barclaycard could also market its products as a unique service. This differentiated Barclaycard from other high street bank credit cards that were sold as another feature of the bank's service.

Barclaycard did not compete on price - its interest charges (APR) were not the lowest on offer. It had invested heavily in an energetic and sustained promotion/advertising campaign. Barclaycard's investment in advertising exceeded that of all other companies in the industry. For example, in 1995/6 it spent over £12 million compared with NatWest's £1.5 million and American Express's £3 million. Few in the UK will not be familiar with the long-running television advertisement series featuring Rowan Atkinson (a.k.a. Mr Bean). 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 your card or passport, medical problems on holiday or losing goods purchased with Barclaycard. It underlined the benefits package of support provided by Barclaycard. It also capitalised on its strong customer base by relationship marketing alliances with leading organisations in other service industries such as BT and Cellnet (telecommunications) and Marks and Spencer and J. Sainsbury (retailing).

Table 6: Barclaycard products and services, 1998

Credit cards	• *Standard credit cards:* Visa and MasterCard • *Special privilege cards:* Barclaycard Gold, Barclaycard Premier, Company Barclaycard • *Barclaycard Sense:* For consumers new to credit cards
Free user benefits	• *Barclaycard purchase cover:* 100 days of free insurance • *Barclaycard holiday club:* Discounts for over 80 tour operators; free travel accident insurance • *Barclaycard Profiles:* 'Reward points' to be collected for gifts or cash
Advice	• *International rescue:* Cash advances, advice or local doctors, etc. • *Barclaycard assist:* advice on legal, home or roadside assistance
On-line services	• *Barclaycard Call Service:* Direct debiting for calls worldwide • *Barclaycard Netlink:* On-line banking services (Internet)

In such a fast-moving and competitive industry there were many opportunities for all competitors to develop. It was important that Barclaycard was clear which of the various options it should itself pursue. In 1998 Barclaycard was the subject of an MBA student project at Cranfield School of Management in the UK. The results are described in exhibit 1 and should help you formulate, evaluate and compare a range of strategic options and to choose the best way forward for Barclaycard.

Exhibit 1: SWOT for BARCLAYCARD

In 1998 Barclaycard was the subject of an MBA student project at Cranfield School of Management in the UK. The student groups produced detailed analyses of Barclaycard's strategic position, summarised as a SWOT analysis.

The *strengths* of Barclaycard were:

- Market leadership with a market share of 34 per cent in terms of credit cards issued, and 27 per cent in terms of transaction value provided the company with a strong financial base.
- Low-cost production, resulting from accumulated experience as the first credit card issuer in the UK and economies of scale derived from its high market share. However, this was being rapidly eroded.
- Brand status, the Barclaycard name was almost a generic term for a credit card and was widely recognised by consumers.
- A well established distribution network, through Barclays Bank and other members of Barclays plc, other financial institutions and large retail organisations which made its product available to a wide range of potential customers.
- Information technology capability, which allowed Barcalycard to develop improved products through alliances with companies such as British Telecom and Cellnet.

However, Barclaycard had at least two *weaknesses:*

- The annual transaction value per card of £1,719 was low in comparison with NatWest's figure of £2,121.
- Its typical APR of 25% was twice or even three times larger than the interest rate offered by new competitors. Although defection rates were low, average transaction value was at risk of dropping further.

In the late 1990s there appeared to be a number of possible *opportunities* for Barclaycard:

- Spending on credit and debit cards amounted to 43 per cent of total retail sales, leaving scope for further development.
- Only 54% of UK adults owned credit cards, leaving room for increased market penetration.
- Technological developments and new products would improve security and flexibility of payment by plastic systems.
- Company branded cards and store cards provided access to a base of new users and the opportunity to develop loyalty based ties. This could enable further marketing of discounts, new products, etc. Company cards also provided an opportunity to expand into the charge card market for business customers.
- The short-term macroeconomic situation in the UK was encouraging, with real income increasing, low inflation and strong economic growth. The expansion in the credit card industry was expected to continue in the foreseeable future.

However there appeared to be a number of *threats*:

- New entrants such as building societiesand non-bank providers offering similar products.
- Low APR cards were being offered by some new entrants. This included some American banks that were used to operating in a home market where APR had been driven down by 'no frills' operators who had continued to gain market share.
- The cannibalisation of the credit card market by debit cards and electronic purse (smart) cards.
- Increased availability of other forms of credit, e.g. point-of-sale interest-free credit.
- Increased opportunities for potential card fraud.
- Reliance on electronic communications - the effect of a major breakdown in national communications (e.g. a strike at British Telecom) could be catastrophic.

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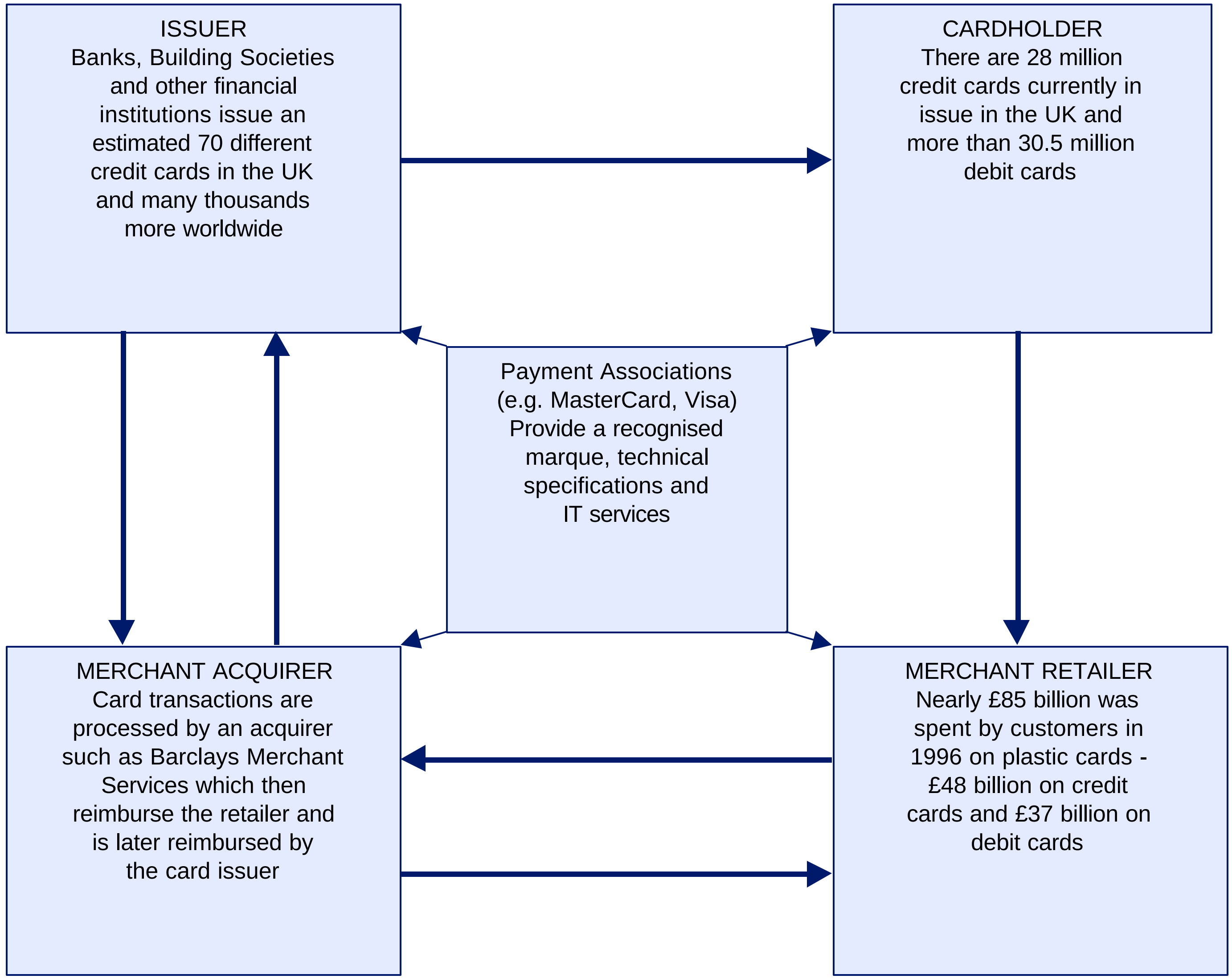
D I S C L A I M E R

This case aims to foster class discussion rather than illustrate good or bad management. It was originally prepared by Kevan Scholes based on projects of MBA students at Cranfield Business School (1997/98). The usual caveats apply.

Figure 1: The five players in the plastic card game



Source: Adapted from *The 1997 Guide to Barclays Merchant Services*