Financial service firms have long sought synergies from combining retail banking, investment banking, brokerage, asset management, and even insurance under the same corporate umbrella. In the US, government regulation had made this difficult, but during the 1980s and 1990s the regulatory environment became substantially more flexible. Nevertheless, a series of ill-fated attempts to build “financial supermarkets,” including American Express’s move into brokerage and investment banking, shifted Wall Street opinion the other way. In a 1988 article in the Wall Street Journal, reporters Steve Swartz and Beatrice Garcia put it this way:

The merger of Commercial Credit Group Inc. and Primerica Corp. has many in the financial-services industry wondering if Sanford I. Weill knows something they don't.

Mr. Weill's announcement Monday that he was merging his consumer-credit company, Commercial Credit, with insurance and securities purveyor Primerica flies in the face of a recent trend that has seen financial-services concerns shedding operations. At the start of the 1980s, many such companies were falling over themselves trying to diversify. Insurance firms had to have brokerage units, brokerage firms had to offer mortgages -- or even homes.

The results generally have been less than gratifying, leading some in the industry to question Mr. Weill's move to create a new concern that will keep the Primerica name.

Why, they ask, do these companies belong together? Does Mr. Weill really plan on keeping all he has acquired? "The financial-services industry in general has found that there are no inherent advantages in being in all these different businesses," says John Kneen, a consultant at Cresap, McCormick & Paget.

Mr. Weill says the theory behind the combination is developing multiple means of selling similar products. Other companies are applying this strategy with varying degrees of success, but none have been completely happy with the results. Mr. Weill's alma mater, American Express Co., has sold off most of its insurance businesses and 40% of its securities unit, Shearson Lehman Hutton Inc.

Mr. Weill isn't fazed. "People are the reasons for success," not business theories, he says. "I think we have people who are committed to make this work."
On November 10, 2000, Salomon Smith Barney CEO Michael Carpenter brought us up to date. His remarks at the NYU Stern Graduate Finance Association’s conference, “Consolidation of the Financial Services Industry,” are available at:

http://sterntv.stern.nyu.edu:8080/ramgen/faculty/cabral/Carpenter.rm

Questions for Analysis

(a) What are the sources of scale economies in the industry?
(b) Were there any other synergies accruing from the merger of Citibank and Travellers (the parent of Salomon Smith Barney)?
(c) Why is financial services a market share game?
(d) Would you expect to see additional consolidation in the industry?

Additional Information Sources

SalomonSmithBarney web site: http://www.salomonsmithbarney.com/
Citigroup web site: http://www.citigroup.com/

Notes

David Backus and Luis Cabral prepared this case for the purpose of class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. © 2001 David Backus and Luis Cabral.