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**Firms and Markets**
**Mini-Case**

# Scale and Scope at Citigroup

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Citigroup Chairman and CEO Sanford "Sandy" Weill reflected on a long, successful career in which he built one of the built one of the largest and most profitable financial service companies in the world. His strategy had always been growth through acquisition, consistently increasing his firm's size, product scope, and geographic range. But now he wondered: Should he continue to expand, or should he follow the lead of many of his competitors and focus on Citigroup's most successful businesses?

## Citigroup and Its Precursors

Citigroup, with its coveted single-letter ticker symbol C, is the result of the 1998 merger of Citicorp and the Travelers Group. The merger broke new ground in combining commercial banking, investment banking, and insurance under one roof for the first time in the US since federal legislation forced their separation in the 1930s.

Citicorp was incorporated as the City Bank of New York in 1812, became National City Bank of New York in 1865, and was renamed Citicorp in 1974. At the dawn of the twentieth century, the bank followed its corporate customers abroad, opening branches in Europe (London in 1902, Genoa in 1916, Petrograd in 1917!), South America (Buenos Aires in 1914, Rio de Janeiro and Montevideo in 1915), and Asia (Shanghai and Singapore in 1902). The result was the most extensive international branch network of any American bank at the time. The bank's president wrote to the chairman at the close of 1915: "We are really becoming a world bank in a very broad sense, and I am perfectly confident that the way is open to us to become the most powerful, the most serviceable, the most far-reaching financial institution that there has ever been" (Cleveland and Huertas, *Citibank 1812-1970*, p 88).

This vision was fleshed out during the 1920s, when the bank built what historians Cleveland and Huertas termed a "financial department store" (*Citibank 1812-1970*, chs 7 and 8). It offered retail bank branches, corporate underwriting and lending, retail brokerage services, international banking, and trust administration. The plan unraveled, however, in the 1934, when new financial regulations in the US forced the liquidation of the bank's underwriting and securities distribution affiliate, the City Company.

Travelers Group was the holding company for Weill's financial services conglomerate at the time of the Citigroup merger. Weill had built retail brokerage firm Shearson Loeb Rhoades before selling it to American Express in 1981. After leaving American Express, he facilitated Control Data's 1986 spinoff of its Commercial Credit consumer finance subsidiary. With Weill in charge, Commercial Credit purchased Primerica in 1988, taking the latter's name. Among Primerica's assets were a mutual fund company, an insurance company, and Smith Barney, a mid-sized brokerage firm with a strong brand name. (The brand was based in part on a striking series of television commercials starring John Housman: "We make money the old-fashioned way. We earn it.") In 1993, Weill repurchased his Shearson brokerage unit from American Express, creating in Shearson Smith Barney a retail brokerage business comparable in size to market leader Merrill Lynch. In 1993, he purchased Travelers Corp, a Hartford-based insurance company. Travelers had struggled during the 1980s, but like Smith Barney had a strong brand (the red umbrella). In 1995, Travelers Group (as the firm was now called) purchased property and casualty insurance businesses from Aetna, which planned to focus on healthcare. The 1997 purchase of Salomon Brothers gave the group a substantial presence in investment banking and greater international reach. In 1997, Travelers invested $1.6b in a joint venture with Nikko Securities, Japan's third-largest brokerage firm, giving it access to major Japanese corporate clients.

**The Merger**

The motivation for the Citigroup merger was one-stop shopping: The combined entities of Citigroup would offer a wide range of products and services to the same retail and corporate customers. From a customer's perspective, there was potential for greater convenience, since more products would be available from a single source. From the firm's perspective, there were potential cost advantages, since the cost of maintaining customer relationships could be spread over more products. Both Weill and Citicorp CEO John Reed stressed these potential gains, citing "convenience" and "cross-selling" in public statements. Some observers predicted that the advantages would increase in the future, at least on the retail side, when consumers realized that reductions around the world in government-funded retirement benefits demanded more sophisticated financial services than most banks currently provide.

Others were less sanguine. Skeptics noted that the "financial supermarket" was hardly a new idea, and had not been notable for its success in the past. European universal banks, including Deutsche Bank and BNP Paribas, have generally been less profitable than their specialized counterparts, despite the alleged advantages of offering a wide range of products and services. Conversely, Lloyds TSB and MBNA have been highly successful focusing narrowly on retail banking and credit cards, respectively.

Still others noted the complexity of managing such a giant effectively. Historian Ron Chernow compared Citigroup to "an elephant with tiny wings" and suggested that it could easily become "big, bland, and bureaucratic" (*Wall Street Journal*, April 9, 1998) while competing against more nimble, specialized firms. He also suggested that an antiquated regulatory structure, with different financial services regulated by different agencies, might make integration harder. Strategy guru Gary Hamel suggested, in addition, that customers might be wary of vendors selling their own products. In his words, they "want independent advice, and 'vendor-neutral' distribution channels" (*Financial Times*, April 15, 1998).

## Major Businesses

The merger was announced in April 1998 and effectively completed over the next two years under a waiver from the Federal Reserve while Congress passed legislation to allow combinations of commercial banking, investment banking, and insurance. In early 2002, Citigroup reported activity for 2001 in three major lines of business covering the complete range of financial services: Global Consumer, Global Corporate, and Global Investment Management & Private Banking. Exhibit 1 summarizes the contribution of each to 2001 "core income."

*Global Consumer* contributed half of 2001 core income. It includes credit cards, retail banking services, mortgages, and life insurance. The credit card unit has a dominant 18% market share in the US (Exhibit 2) and generated 15% of core income in 2001. Card penetration is lower outside North America, but Citigroup has a strong presence in Europe, Japan, and the emerging markets (>10% market shares in Argentina and Brazil, >20% in India and Indonesia, and >30% in Poland). Citigroup's retail banking business is smaller, although it has strong positions in some markets. For example, it has 2.7% of US deposits (Exhibit 3), but 12.8% of the New York/New Jersey/Connecticut region. Similarly, the 2001 Banamex acquisition makes it the largest bank in Mexico.

Citigroup reports that it has the largest consumer finance business globally. CitiFinancial is the leading sub-prime lender in the US, and Citigroup has substantial and growing consumer finance businesses in Japan, Europe, and the emerging markets. Citigroup is also a substantial player, but not a dominant one, in the US retail insurance market through Primerica Financial Services (primarily term life) and Personal Lines (property and casualty for individuals).

*Global Corporate* contributed 40% of 2001 core income, two-thirds from the Corporate and Investment Bank (see Exhibit 4). It covers the complete range of investment banking services: debt and equity underwriting, mergers and acquisitions advisory, brokerage, leasing, syndicated lending, structured products, trading, foreign exchange, and so on. In the years since the merger, there has been substantial progress in mainstream investment banking, with market share increasing from about 7% in 1998 to over 10% in 2001. The 2001 global league tables are reported in Exhibit 5. The brokerage network is the second largest in the US, with 13,000 "financial consultants" in more than 500 offices. Global Transactions Services facilitates international trade and processes transactions for corporate clients worldwide. Commercial Lines, the last line item under Global Corporate, is a commercial property and casualty insurance business.

*Global Investment Management & Private Banking* contributed 10% of 2001 core income. Travelers Life & Annuity underwrites life insurance and annuities, which are sold through several of Citigroup's distribution channels. The private bank provides financial services to high net worth customers worldwide. In the US, Citigroup ranked 11th, well behind market leader Merrill Lynch (Exhibit 6). The asset management groups manage mutual funds, managed accounts, unit trusts, annuities, and other products.

At the end of 2001, the strategy remained similar to that announced at the merger (large scale, broad scope), with perhaps greater emphasis on distribution. Weill's letter to shareholders in the 2001 Annual Report comments: "We have played a lead role in defining the concept of a fully diversified financial services firm. … We have built distribution channels to every consumer wealth segment. … In a world where value is migrating from manufacturing to distribution, and where open architecture is becoming mainstream, our strategy has positioned us favorably to provide multiple services to customers around the world." There was even some evidence of successful cross-selling, with the company reporting a doubling of cross-marketing revenues between 1998 and 2001. In addition to the scale and scope of its distribution network, the company stressed expense discipline, acquisitions expertise, and risk management.

Nevertheless, some skeptics remained. Morgan Stanley analysts Henry McVey and Scott Patrick commented (April 2002): "We think that management should continue to simplify the story into one that is predicated on Citi's dominating a few global businesses versus diversifying and cross-selling. … We are not convinced that cross-selling alone moves the earnings dial."

**Update: August 2002**

Since late 2001, Citigroup has reported a number of acquisitions and spinoffs. Among the highlights:

- December 9, 2001: Citigroup announced it would spin off its property and casualty business. The Travelers Property Casualty Corp IPO raised $3.7b in March.
- May 21, 2002: Citigroup announced the purchase of Golden State Bancorp, the second largest thrift institution in the US. The deal would add 352 branches, 1.5m customers, and $25b in deposits in California and Nevada.

**Questions for Analysis**

(a) What are Citigroup's major businesses? Does large scale help it in some businesses? Does small scale hurt in others? In what businesses has a broad range of products been helpful?
(b) Has Citigroup's success to date reflected economies of scale and scope or some other kind of "Sandy magic"?
(c) If economies of scale and scope are important in this industry, why haven't more firms followed Citigroup's strategy?
(d) Do you see a clear advantage to focusing on distribution, as Weill's letter to shareholders suggests? If so, how would you follow through?
(e) Bottom line: Would you suggest to Sandy Weill that Citigroup expand, contract, or simply fine-tune its range of products and services? Be specific.

## Additional Information Sources

- Citigroup web site: http://www.citigroup.com/
- Harold Cleveland and Thomas Huertas, *Citibank, 1812-1970*, Harvard University Press, 1986.
- Roy Smith, "Citigroup," NYU Salomon Center Case C74.
- David Rogers, *The Future of American Banking*, McGraw-Hill, 1992.
- Salomon Smith Barney CEO Michael Carpenter's remarks at the November 2000 NYU Stern Graduate Finance Association conference (15 minutes):
  http://sterntv.stern.nyu.edu:8080/ramgen/faculty/cabral/Carpenter.rm

## Notes

*Mariagiovanna Baccara, David Backus, and Luís Cabral prepared this case for the purpose of class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The authors thank Dave Rogers, George Smith, Roy Smith, and Ingo Walter for useful comments and advice. The musings attributed to Mr Weill are fictitious, as far as we know.* 

**Exhibit 1**
**Citigroup 2001 Financial Highlights** (millions of US dollars)

| Segment and Other Income | 2001 | 2000 |
|---|---|---|
| **Global Consumer** | | |
| Banking/lending | 4,217 | 3,390 |
| Insurance | 720 | 799 |
| Western Europe and Japan | 1,411 | 1,113 |
| Emerging Markets | 1,166 | 906 |
| e-Consumer and Other | (148) | (204) |
| Total | 7,366 | 6,004 |
| **Global Corporate** | | |
| Corporate & Investment Bank | 3,509 | 3,670 |
| Emerging Markets Corporate and Global Transactions | 1,644 | 1,403 |
| Commercial Lines Insurance | 691 | 1,093 |
| Total | 5,844 | 6,166 |
| **Global Investment Management** | | |
| Travelers Life & Annuity | 821 | 777 |
| Citigroup Private Bank | 378 | 323 |
| Citigroup Asset Management | 336 | 345 |
| Total | 1,535 | 1,445 |
| Investment Activities | 530 | 1,383 |
| Other Income | (706) | (858) |
| **Core Income** | 14,569 | 14,140 |

Source: 2001 Annual Report.

**Exhibit 2**
**Credit Card Market Shares**

| Issuer | Share of Receivables |
|---|---|
| Citigroup | 18.0% |
| MBNA America | 13.5% |
| First USA/Bank One | 12.3% |
| American Express | 9.3% |
| Discover | 8.7% |
| Chase | 7.4% |
| Providian | 5.9% |
| Capital One | 5.8% |
| Bank of America | 5.1% |
| Household Bank | 2.9% |

Source: Mayo, "Citigroup," Prudential Financial, March 21, 2002.

**Exhibit 3**
**US Deposit Shares**

| Financial Institution | Share of Deposits |
|---|---|
| Bank of America | 7.5% |
| Wells Fargo | 4.2% |
| Wachovia | 4.0% |
| JP Morgan Chase | 3.6% |
| Bank One | 3.4% |
| Citigroup | 2.7% |
| FleetBoston | 2.5% |
| US Bancorp | 2.5% |
| Washington Mutual | 2.4% |
| Merrill Lynch | 1.6% |

Source: Mayo, "Citigroup," Prudential Financial, March 21, 2002.

**Exhibit 4**
**Citigroup: Corporate & Investment Bank** (millions of US dollars)

| **Revenues and Expenses** | **2001** | **2000** |
|---|---|---|
| **Revenues** | | |
| Commissions & Fees | 3,702 | 4,471 |
| Asset Management and Admin Fees | 2,035 | 2,169 |
| Investment Banking | 4,519 | 4,098 |
| Principal Transactions | 3,284 | 4,238 |
| Other Income | 893 | 969 |
| Total Non-Interest Revenues | 14,397 | 15,945 |
| Net Interest and Dividends | 5,009 | 3,801 |
| Total Revenues, Net of Interest Expense | 19,406 | 19,746 |
| **Non-Interest Expenses** | | |
| Compensation and Benefits | 9,424 | 9,544 |
| Communications | 884 | 872 |
| Occupancy and Equipment | 669 | 654 |
| Floor Brokerage and Other Production | 706 | 661 |
| Other Operating and Admin Expenses | 1,163 | 1,537 |
| Total Non-Interest Expenses | 12,846 | 13,268 |
| Provision for Credit Losses | 1,117 | 755 |
| Core Income Before Taxes | 5,443 | 5,723 |
| Income Taxes and Minority Interest | 1,934 | 2,053 |
| **Core Income** | 3,509 | 3,670 |

Source: Company reports.

**Exhibit 5**
**Investment Banking League Tables (Global Market Shares)**

| Bank | Total Fees | Equity | Debt | M&A |
|---|---|---|---|---|
| Goldman Sachs | 14% | 18% | 5% | 20% |
| Morgan Stanley | 11% | 12% | 9% | 14% |
| Merrill Lynch | 11% | 14% | 8% | 14% |
| Citigroup (SSB) | 10% | 12% | 14% | 11% |
| CSFB | 10% | 11% | 9% | 11% |
| JP Morgan | 7% | 3% | -- | 10% |
| UBS Warburg | 5% | 5% | 5% | 5% |
| Lehman Brothers | 4% | 5% | 5% | 4% |
| Deutsche Bank | 3% | 3% | 6% | -- |
| Dresdner Kleinwort | 3% | -- | -- | 8% |

Source: Mayo, "Citigroup," Prudential Financial, March 21, 2002. Markets shares are based, respectively, on total investment banking fees (income from equity and debt underwriting plus merger and acquisition advisory services), fees from equity underwriting, fees from debt underwriting, and total value of completed mergers and acquisitions. Missing values (denoted --) indicate that the firm was not in the top 10 in this category.

**Exhibit 6**
**US Private Banking Leaders**

| Financial Institution | Assets Under Management |
|---|---|
| Merrill Lynch | $900b |
| Fidelity Investments | $369b |
| JP Morgan Chase | $225b |
| Goldman Sachs | $200b |
| Bank of America | $119b |
| Morgan Stanley | $100b |
| Wells Fargo | $76b |
| Mellon Financial | $76b |
| US Trust (Schwab) | $60b |
| CSFB | $60b |
| Citigroup | $59b |

Source: Mayo, "Citigroup," Prudential Financial, March 21, 2002.