Wal-Mart n'est pas une banque

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Introduction

“Ceci n'est pas une pipe” (i.e., this is not a pipe) (Magritte, 1928-29) was a playful painting that represented an image of a pipe. In like manner, Wal-Mart in the U.S. was not a bank. Nevertheless, it has offered U.S. customers a large array of financial services for more than a decade. Moreover, Wal-Mart owned commercial banks in Mexico and Canada (Wal-Mart, 2014). How did Wal-Mart start offering financial services? What have been the differences in the offering of financial services between the US and other North-American markets? How did these services help Wal-Mart meet its strategic objectives? Rather than taking the trouble to establish financial services in a piece-meal fashion, why not just invite established banks to open small branches in its stores?

Financial services offered by Wal-Mart in the US market

Historically, Wal-Mart focused on providing value to its customers through cost-cutting, innovation, technology and widespread geographical presence. The company always targeted a customer-centric approach and provided a friendly shopping experience.

In fact, Wal-Mart stated (FORM 10-K Annual Report, 1 April 2015) that its value proposition was as follows:

Wal-Mart … helps people around the world save money and live better – anytime and anywhere – in retail stores or through our e-commerce and mobile capabilities. Through innovation, we are striving to create a customer-centric experience that seamlessly integrates digital and physical shopping. … Our strategy is to lead on price, invest to differentiate on access, be competitive on assortment and deliver a great experience.

The presence of a large group of potential customers at the margins of the financial services industry was very appealing for many corporations aiming to increase the number of customers. According to the FDIC (2014, p. 3, Executive Summary):
The existence of unbanked and underbanked households presents an opportunity for banks to expand access to their products and services and forge relationships with these underserved groups, ultimately increasing economic inclusion.

Such economic inclusion was crucial for a company like Wal-Mart to attract new shoppers and create new sources of revenue.

In the late 1990s, Wal-Mart started offering financial services in response to customer demand – especially from customers who did not have access to traditional banking products (Manning, 2010). Many consumers, rejected by traditional depository institutions (commercial banks and credit unions) or who were unhappy with the high costs of checking accounts, started turning toward Wal-Mart for basic financial transactions. The unbanked and under-banked, who represented twenty-two percent of U.S. consumers (Gross, Hogarth & Schmeiser, 2012), were usually individuals with limited financial means who could not afford traditional banking products. However, some were well-paid individuals considered as credit risks, according to credit bureaus like ChexSystems, Inc., 2014. The unbanked had no traditional bank accounts and, according to the FDIC, the under-banked were those that had accounts but also used alternative financial services outside of the banking system (FDIC, 2014).

Wal-Mart initially started offering check cashing and bill payments as ancillary customer services. Then, given the success of its initial foray into financial services, it opened in-store MoneyCenters where customers could benefit from a vast array of financial services like prepaid cards, debit cards, credit cards, and small business loans. Lately, Wal-Mart has strengthened its involvement in financial and banking services with the Wal-Mart2Wal-Mart funds transfer service (Berr, 2014) and the offering of a checking account in conjunction with Green Dot. The Wal-Mart2Wal-Mart money transfer service allowed clients to send or receive up to $900 at any US Wal-Mart store. The cost of the money transfer was below the cost of similar services provided by MoneyGram and Western Union (Wahaba, 2014).

The domestic money transfer service augmented the scope of financial services offered to low-income customers thereby increasing store traffic (Wahaba, 2014). Moreover, such services supplemented Wal-Mart’s offering of international fund transfers that targeted a share of the lucrative international remittances market. Interestingly, the new service Wal-Mart2Wal-Mart represented a competitive threat to the existing partnership between Wal-Mart and MoneyGram. In fact, MoneyGram expected to lose a significant share of their 27 percent revenue originated at retail chain stores. Wal-Mart shoppers used MoneyGram services only for domestic transfers above $900 or international transfers. Wal-Mart introduced the new GoBank checking account as an alternative to the more costly and complex traditional bank checking accounts (Tabuchi & Silver-Greenberg, 2014). The innovative checking account charged $8.95 in monthly fees that Wal-Mart waived if the client received monthly direct deposits of more than $500. The account did not charge any fees for overdrafts, bounced checks, and in-network ATM withdrawals. Practically anyone 18 years of age and over with an ID could open an account in minutes and the
Wal-Mart/Green Dot venture relied on proprietary models instead of the ChexSystems model. Wal-Mart targeted the service at people without bank accounts.

**Changing strategy for providing financial services in the U.S. market**

Wal-Mart followed a dual approach for the provision of financial services in the US market. On the one hand, it partnered with several financial intermediaries to structure and develop the financial products offered through its MoneyCenters. Wal-Mart decided to collaborate with different firms for individual products instead of selecting a unique financial counterparty. For instance, the giant retailer teamed up with American Express for the financial account Bluebird, Discover for a credit card, MoneyGram for domestic and international money transfers, a variety of insurers for auto insurance, Jackson Hewitt and Liberty Tax for tax preparation services. Wal-Mart’s offering of financial services to attract consumers into its stores was not unique; in fact such an approach has been a staple of the strategy for several other retailers. For example, Safeway (2014) collaborated with Western Union and Costco (2014) also partnered with various entities to offer an assortment of financial services. In contrast to several other retailers, Wal-Mart decided not to host branches of a specific bank within their stores (De La Cruz, 2012).

On the other hand, Wal-Mart tried to become a chartered depository institution and therefore transform itself into a retail and financial conglomerate. Following the US financial deregulation sanctioned by the Financial Services Modernization Act of 1999 (Gramm, Leach, Bliley [GLB] Act), Wal-Mart unsuccessfully attempted to own several depository institutions. First, Wal-Mart applied for the purchase of the Oklahoma savings and loan (S&L) company, Federal BankCentre (Leonhardt, 2006). Then in 2002, Wal-Mart applied to purchase an industrial loan company (ILC), the Franklin Bank of California. With both attempts, Wal-Mart found strong opposition from coalitions of unions, banking trade associations and politicians. Eventually, Wal-Mart’s efforts were defeated by newly introduced legislation preventing the giant retailer, or any commercial (non-financial) firm, from owning any thrifts or CA depository institutions. The most significant opposition was spurred in 2005 by the third and final unsuccessful attempt of Wal-Mart to own a depository institution. In fact, Wal-Mart tried to create a Utah-based ILC and applied for the necessary FDIC deposit coverage. Given the uproar created by Wal-Mart’s proposal for a new ILC, the FDIC took the unprecedented decision of imposing two consecutive six-month moratorium on any applications for federal insurance by ILCs and also scheduled three days of open hearings where almost all 70 witnesses opposed Wal-Mart’s plans (Johnson and Kaufman, 2007). The opposition to Wal-Mart’s foray into banking was motivated by following reasons encompassing financial soundness and efficiency as well as and the general character of the Bentonville-based retailer (ICBA, 2006; Nolan, 2006):

- **Adequacy of capital and risk to the payment system -** A Wal-Mart ILC could threaten the stability of the payments system by processing more than $170 billion a year in electronic transactions from Wal-Mart stores, which represents 1400 times the bank’s capital.
• **Risk to the Deposit Insurance Fund** – Wal-Mart’s failure would threaten the Deposit Insurance Fund due to the sheer size and global footprint of the giant retailer.

• **General character and fitness of Wal-Mart’s management** - Wal-Mart had a history of statutory and regulatory violations and allegedly engaged in gender-discrimination, child-labor and immigration violations.

• **Separation of commercial and financial firms** – The Separation of banking and commerce was a staple of the American economy preventing undue concentration of resources, promoting impartial allocation of resources and minimization of business conflicts of interest.

Wal-Mart’s decision to own an ILC generated such a strong reaction that the FDIC received nearly 14,000 written letters, 150 of which from members of Congress almost all opposing the application (Johnson and Kaufman, 2007). Finally, in March 2007, Wal-Mart decided to withdraw its FDIC application, ending its effort to own a depository institution in the U.S. The giant retailer always dismissed the idea that purchasing a depository institution would be the first step toward opening a network of branches and originating loans and/or taking deposits. Business efficiency motivation had always been behind Wal-Mart attempted acquisitions. As a financial institution, Wal-Mart could have captured a portion of the interchange fees originated by credit card charges from its in-store sales. By directly issuing credit cards and creating a payment network, Wal-Mart could have captured a larger share of the interchange fees and increase annual revenues approximately by $1.3B (Manning, 2010).

The capitulation of the retailer and its acknowledgement to never pursue a banking charter highlights how its reputation, business practices and public relations’ troubles impacted its corporate strategy and prevented it from entering the banking industry and engaging in additional cost-cutting efforts.

**International strategy for offering Wal-Mart: an international bank**

While abandoning the efforts to acquire a U.S. bank charter, Wal-Mart obtained in 2006 a license from Mexico’s Finance Ministry to organize and operate a retail bank. The following year, Banco Wal-Mart de Mexico opened its first branch and many more followed in subsequent years (Manning, 2010; Reuters, 2010). Banco Wal-Mart offered low-interest saving accounts, prepaid debit cards, combined checking/debit card accounts, higher-interest saving/investment accounts, unsecured proprietary store credit, and credit cards (Manning, 2010). Wal-Mart targeted all services to lower- and middle-income household, too often not well serves by other bank competitors. Banco Wal-Mart offered its product and services at both its independent branches and inside Wal-Mart de Mexico stores where customers could pay bills and deposit funds into saving accounts directly with Wal-Mart cashiers. The opportunity to use existing point of sales
in retail stores allowed Banco Wal-Mart to compete with financial institutions owning thousands of independent branches throughout Mexico.

It is noteworthy to point out that regulators and politicians in Mexico did not oppose Wal-Mart’s expansion into financial services. In fact, they considered Banco Wal-Mart as an institution that could improve competition in the banking industry and offer low-cost financial products to unbanked or marginalized Mexican consumers. Historically, banking services in Mexico have been mostly offered to high-income household where the low-risk of loans could compensate for the lack of credit evaluation databases and the uncertainty related to the enforcement of property rights (Manning, 2010). A few foreign-owned institutions dominated the Mexican banking industry (Citibank, BBVA, Santander and HSBC) and they were unable to develop the efficiency of the banking system to adequate levels. In fact, Mexico’s bank penetration, as measured by the ratio of private sector credit to GDP, and total domestic financing to the private sector are low even compared to nations of equivalent stage of economic development (Sanchez, 2014).

Wal-Mart’s foray into international banking and financial services has not been limited to Mexico. In 2010, Wal-Mart opened Wal-Mart Canada Bank, which offered credit cards and has hinted to an expansion into mortgage lending. Canadian shoppers could carry out many of the same financial transactions at Wal-Mart retail centers than at U.S. stores: check cashing, money transfer and bill payments. Finally, Wal-Mart offered loans and insurance products through Asda, a corporate partner in the U.K. (Engen, 2010).

**Should financial services continue to be a complementary service to retail strategy?**

In the U.S., Wal-Mart has been offering financial services (e.g., money orders, prepaid cards, wire transfers, check cashing and bill payment) for several years but they still made up less than one percent of its annual net sales (Wal-Mart, January 31, 2014, p. 7). It appeared that Wal-Mart’s intent in adding financial services was to attract shoppers who would then shop at Wal-Mart.

Though Wal-Mart had been dominant in retail, its stock price was flat in late 2014. It faced strong retail competition from dollar stores and online retailers. Providing financial services to those lacking bank accounts could be one way to attract new customers who would then shop in the stores of the Bentonville-headquartered retailer. In other financial institutions, poor people could pay significant fees for banking services, such as check cashing, purchasing money orders and the like. Wal-Mart, relaying on its size, efficiency and extended network of stores could offer the same products at very competitive prices and conditions. It was unknown whether Wal-Mart would continue to expand its financial services (Berr, 2014). Should Wal-Mart continue its foray into financial services? What other financial/banking services could they offer within their complementary strategy between financial services and other retail goods and services? Why not simply partner with a national bank to open small branch offices in Wal-Mart’s stores?
References


