

Case: Charles Schwab: A Category of One
MGT 682 – Pr. Miesing
February 5, 2003

I. The Challenge:

- To design a strategic management process so Charles Schwab can remain a leader and sustain its competitive advantage.

II. The Problems:

- a. Full service firms offering investors the total package, all financial needs in one place
- b. Discount / Online brokerages offer trades at significantly lower fees
- c. Industry lines are starting to blur - full service firms have entered the online market, discount rivals are offering additional services
- d. Schwab relies heavily on trading income and lacks alternative revenue streams (see attachment A, excerpt 1 & Attachment B)

III. The Symptoms:

- a. 2001 revenues down 38% (See attachment A, excerpt 1)
- b. Loss of \$19M in second quarter of 2001 (See attachment A, excerpt 1)
- c. Workforce cut of 25% in 2001 (See attachment A, excerpts 1)

IV. The Environment:

- a. Lack of confidence in benefits promised by the Social Security System (See attachment A, excerpts 3 & 4)
- b. Lack of trust in the advice of commissioned brokers (See attachment A, excerpt 5)

V. The Customer:

- a. Taking control of their own financial future (See attachment A, excerpt 2)
- b. Retirement planning starts young and is a career-long process
- c. 36% of online traders are under age 35 (See Attachment C)
- d. 28% of online traders have an annual household income of \$50,000 or less (See Attachment C)
- e. In 2000, 37% of households earning less than \$35,000 annually own mutual funds (See attachment A, excerpt 2)

VI. The Recommendation:

- a. Educate investors on how to plan for retirement, equip investors with knowledge of how to "do it themselves" (Continue with principles identified in attachment A, excerpt 3)
 1. Offer seminars at branch locations
 2. Offer on-line tutorials
- b. Focus on households with annual income < \$50,000
- c. Offer retirement package services for small businesses
- d. Provide tools and services to support investors decisions without making the decisions for them
 1. Consolidated investor statements
 2. Real-time account information available on-line
 3. Continued access to independent analysts
 4. Research tools available from Schwab website

Attachment A

Excerpts from selected articles

1. "Can Schwab Get Its Mojo Back?"; Vogelstein, Fred; FORTUNE; September 5, 2001

"...Overall revenue was down 38%. And profits? Gone. Schwab made \$300 million in the first quarter of 2000. Excluding a one-time gain, the company actually lost money in the second quarter of 2001--\$19 million to be exact. You have to go back more than ten years to find the last time that happened."

"Schwab announced in late August that it would double the number of people it was cutting this year and take a \$225 million restructuring charge. By year-end, Schwab employees will number fewer than 20,000, down nearly 25% from the peak of 26,000 last year."

"Schwab, though, is getting hit much harder. Why? Partly it's because the firm lacks alternative revenue streams,"

"...an important strategic issue that's bedeviled Schwab for years: how to keep its most profitable clients--the ones who started with the company with a few thousand dollars years ago and are now worth more than \$500,000--from defecting to full-service firms. ...every major financial services company is going after the same group of customers with equal ferocity."

2. "Joe and Jane Investor Are Here to Stay"; Stone, Amy; Business Week; August 27, 2001

"By 1999, the percentage of U.S. households that own stocks either directly or through mutual funds or retirement accounts had increased to 48% from 19% in 1983, according to a study conducted by the securities and fund industry trade groups. In its most recent report on family finances, the Federal Reserve Board notes that direct stock ownership by individuals increased from 15.2% in 1995 to 19.2% in 1998. Among householding fund owners, those earning less than \$35,000 a year being the fastest-growing segment. The share of fund-owning households in that income range grew from 28% in 1998 to 37% in 2000."

3. "Householding the Schwab Way"; Innovative Systems, Inc.;
<http://www.innovativesystems.com/success/schwab.htm>

"Troubled by the decline of corporate pensions and the future uncertainty of the U.S. social security system, Schwab's founder and namesake says it is Schwab's mission to see that every American has a retirement plan. To reach this goal, Schwab employs customer service professionals whose jobs are to educate and help people make informed decisions about how to invest. Schwab's customer service representatives consult with customers, generate research reports, and discuss the ups and downs of various investment strategies based on an individual's financial circumstances and goals. But they won't recommend specific stocks or securities."

4. "Were you counting on Social Security?"; <http://www.socialsecurityreform.org/index.cfm>;
January 31, 2003

"Many concerned Americans and responsible lawmakers are starting to discuss openly the need for significant reforms in the Social Security retirement program. Their discussions reflect the rising level of concern across the country, especially among younger workers, that Social Security will not be able to provide them with promised benefits when they retire.

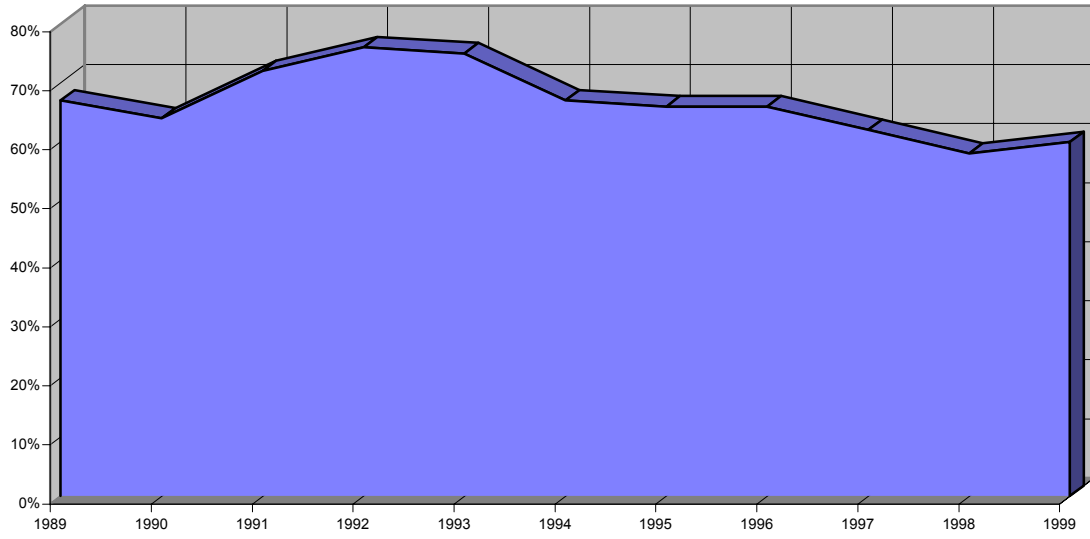
This public concern is well grounded; studies and official reports confirm that Social Security cannot be sustained in its current form and, even if its revenue and expenditures were in long-term balance, it is providing poorer and poorer retirement income security for the money contributed by today's workers."

5. “How Stock Brokers Can Regain Trust”;
<http://www.businessweek.com/@@LvtfzYQQzR3VCBAA/magazine/content/0132/b3744123.htm>; August 6, 2001

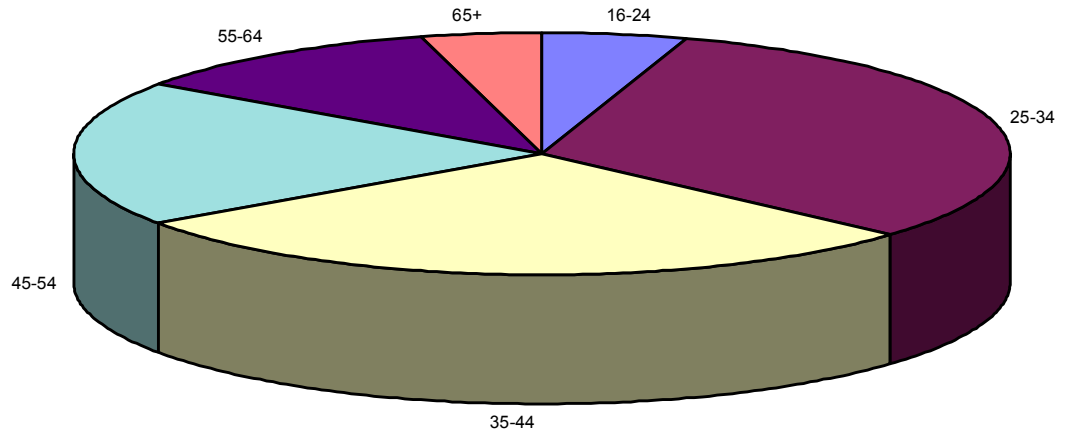
“Analysts in particular have seen their reputations trashed in this down market as their many conflicts of interest have come to light, infuriating investors.”

“Analysts already have skin in the game: their stockpicking performance over time. It's the very basis of their claim to professionalism and is far better than bias based on greed. Otherwise, how can investors know when analysts on TV honestly believe a company is good or are simply trying to bull the stock? Indeed, can analysts be sure of their own motivation if they own a stock they're touting?”

Trading Revenue as a Percent of Total Revenue



Online Traders by Age



Online Traders by Annual Household Income

