Company Analysis

JP Morgan Chase & Co.

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Executive Summary

As a consultant to JP Morgan Chase, I made the following discoveries while investigating the firms overall well-being. First, the firm has had major financial distress over the uncertainty in the American economy, credit default swaps, and restrictions imposed by the federal government. The firm has managed to maintain its market share by acquiring other firms in financial distress, and becoming a market leader in mobile banking. In order to understand the firm's business operations, I conducted an external and internal analysis on the firm and its environment. The biggest financial issue I discovered was the firm's overdependence on the American market. Finally, I also included some recommendations on how JP Morgan can mitigate that strategic issue.

Introduction

JP Morgan is one of the oldest financial firms in the United States. The firm's business history extends over 200 years (Chernow, R). JP Morgan has assets totaling $2.4 million, currently employs 260,000 people worldwide, and does business in over 60 countries. The firm is a leader in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management and private equity (About Us, 2014). JP Morgan was led by CEO Jamie Dimon from late 2005 to early 2014. JP Morgan is one of the "Big Four" Banks. JP Morgan Chase shares this prestigious title with financial institutions such as: Bank of America, Citigroup and Wells Fargo.

The economic recession created an uncertain environment for financial institutions; however, JP Morgan has managed to overcome those obstacles and has remained profitable and relevant in the financial services industry. There is an important caveat that we must consider: financial gains do not necessarily mean success, a firm can be financially successful during certain periods, but smart business strategies are what can make or break a business. External and internal factors also play a huge part in measuring the success of a firm's goals. Investigating factors related to the firm's internal and external qualities will help us determine whether the firm's current strategy is beneficial to business operations.

External Analysis

When I conducted research on the firm, I lead an extensive investigation on the external aspects of JP Morgan's business operations. The investigation includes aspects of the firm's environment as well as an evaluation of how Porter's 5 forces apply to the firm's business environment. Below are my findings

Political/Legal factors have heavily affected JP Morgan's business operations. As the government continues to implement harsher regulations on the financial industry, JP Morgan has encountered significant financial backlash. In order to offset the financial losses, JP Morgan has applied more stringent restrictions to consumer accounts. A perfect example of this is exemplified with the housing bubble catastrophe; lenders have placed astringent restrictions on the qualifications borrowers must meet before they can initiate a loan.

JP Morgan is distancing itself from the free consumer banking industry and refocusing their business strategy onto a digital platform. The reason behind the digital platform is that it is said to drive engagement between the consumer and financial firm. The change is justified because technology is the primary point of interaction between the firm and consumers (Market Line, 2014). One of the technological changes that JP Morgan was an early adopter of was the QuickDeposit feature for mobile devices. The QuickDeposit feature helps the consumer make a check deposit from a mobile device.

Demographics play a key role in JP Morgan's business operations. Two important factors that are prevailing in developed countries are the increasing number in elderly individuals as well as the increasing number of women professionals (Dess, 2012). JP Morgan has an excellent marketing team that could very easily cater to those demographics domestically and abroad. As we discuss business overseas, the International Monetary Fund's Economic Outlook for 2013 states that China and India currently make up 42% of the emerging markets. Personally, I believe that the firm should consider more financial ventures outside of the U.S. and North America because it will give the firm the opportunity to diversify business operation further.

Global factors that affect JP Morgan's business operations are the ability to enter new markets. According to Dess, a key factor in the global economy is the rapid rise of the middle class in emerging countries. JP Morgan can benefit from Global expansion by taking the opportunity to conduct business in an emerging country. If JP Morgan makes an advantageous move, the firm can gain a competitive edge though the first-mover advantage.

Economic Factors that affect JP Morgan's profit margin include, but is not limited to: the financial losses from the hosing bubble of 2008. In recent years, the housing market has become a buyers' market because interest rates are extremely low, in comparison to previous years. Unemployment rates have started to decline, which JP Morgan can hopefully generate business from the improving economy and potentially create more opportunities for employment.

Porter's Five Forces

As one of the top financial institutions in the U.S., JP Morgan has had to take extreme measures to keep their position, which is why the intensity of rivalry among existing competitors is relatively high. JP Morgan kept its position as one of the world's top financial institutions by consolidating. The firm acquired Bank One and Washington Mutual when the infrastructure for those financial institutions collapsed (History of Our Firm, 2014). What did these mergers/takeovers mean for other players in the financial industry? JP Morgan's ability to purchase failing financial institutions meant that the firm can increase their market share and take out a competitor. The elimination of those competitors, created equally balanced competition in the financial services industry. The economic downtown played also played a significant role on rivalry among competitors because there was a much lower consumer market. A smaller consumer market has made conditions among rival extremely volatile and therefore encouraging financial institutions to fight for market share. However; the firm's only options will be to either gain new customers (from a small market of new consumers) and/or steal customers from their competitors.

The threat of substitutes is moderate because of the increasing amount of firms who are competing against JP Morgan in the financial service industry is relatively low. However; when technology is added to the mix, it ends up bring a huge contributor to the threat of substitutes. In JP Morgan's case, the firm has expressed interest in wanting to take advantage of the mobile market. The firm started off on the right foot, as it was an early adopter of mobile banking applications for smartphones (San Francisco Business Times, 2012). JP Morgan had a competitive advantage over other firms, however; as time passed, competitors gained the knowledge and resources to provide similar or substitute products.

The bargaining power of buyers is relatively high because of the intensity of the competition among competitors in the financial services industry. A perfect example of the bargaining power of consumers is exemplified when financial institutions provide incentives for new potential customers. Another important trend to consider is the increasing dependability of internet resources. Consumers have become more reliant on technology to make investing decisions, and thus use their research information to leverage their bargaining power (Dess, 2012).

Threat of new entrants is increasing in the financial services industry. The barriers to enter into the finance industry are relatively low; however, most new entrants fail because they are not financially stable to keep up with the rivalry among competitors in this industry. In recent years, firms that are not predominantly involved in financial services have started themselves in this market. Some of those firms include, but are not limited to Wal-Mart, GE, and GM (Bloomberg Business Week, 2005). One of the biggest threats for JP Morgan is the loss of market share to Wal-Mart and their low cost strategy.

JP Morgan does not typically have many suppliers because they are in the consumer services market. Suppliers in the financial services market are the credit market and depositors. In this industry, the suppliers have a relatively moderate level of bargaining power. The financial institutions set the terms, and consumers make the decision to accept or reject those terms, based on research they collect from a specific firm and their competitors. JP Morgan's suppliers do; however, play an important role in business operations. The firm seems to genuinely value their suppliers' business, which is why suppliers are held to Anti-Corruption and Code of Conduct Policies (JPM, 2014).

Internal Analysis

Financial Analysis

Over the past three years JP Morgan's Net Income has been stagnant. The firm's net income increased in 2012 from 2011, and then decreased again in 2013. So what happened between fiscal year 2012 and 2013? The firm reported $18 million in profit, which is significantly lower than the $21 million profit the firm reported in 2012. The loss is attributed to JP Morgan's legal expenses related to the default credit swaps of 2008. Aside from legal expenses, the firm had a decent year and their stock price continued to increase. In 2014; however, the firm's stock price declined as Jamie Dimon resigned from his position as CEO (Investors Business Daily, 2014). JP Morgan's competitor Wells Fargo recently reported an increase in earnings as they beat industry expectations. As a consequence Wells Fargo saw a 1% increase in their stock price, however; analysts say that this trend is not going to last for long. The consensus on JP Morgan's earnings stated that the firm did not meet industry standards at the beginning of 2014, which provided disastrous results for the firm's stock price. Finally, the firm's legal issues have scared risk adverse investors.

Value Chain Analysis

JP Morgan's value creating activities fall into two main categories: primary and support activities. What's the difference? Primary activities contribute to the physical creation of the product or service, its sale and transfer to the buyer, and its service after the sale. Support activities on the other hand, add value by themselves or add value through important relationship with both primary activities and other support activities (Dess). Primary activities at JP Morgan involve customer service, marketing and sales, as well as inbound and outbound logistics.

Support activities that are relevant to JP Morgan's operations are procurement, technology, human resource management, and general administration.

SWOT Analysis

According research and findings provided by Market Line, one of JP Morgan's strengths is the firm's diversified revenue streams. The firm generates revenues from business operations in: consumer and community banking, corporate and investment banking, asset management, commercial banking, and corporate/private equity interest and non-interest income. The fact that JP Morgan keeps a well-balanced portfolio makes the firm less risk adverse. Diversified revenue streams are providing the company with income visibility across business and economic cycles (Market Line, 2013).

JP Morgan's biggest weakness is the firm's over dependence on the North American market. When comparing JP Morgan to its competitors, the firm has one very clear weakness: 72% of their business operations heavily rely on business from North America (Market Line, 2013). The firm can help minimize the over dependence on the North American market by seeking capital ventures in developing countries. Otherwise, the firm could face disastrous financial losses if the economic cycle results unfavorable.

An opportunity that JP Morgan should take advantage of is the mobile banking market. Mobile banking is expected to continue growing exponentially regardless of any future economic global recession (Market Line, 2013). The mobile banking industry can help keep operations costs relatively low because consumers will still be able to conduct business without having to place a burden on operation costs.

One of the biggest threats to the financial services industry is the uncertainty of economic growth in the U.S. According to the International Monetary Fund (IMF) World Economic Outlook April 2013, the US economy was estimated to grow at around 1.9% in 2013. Slow economic growth creates uncertainty in the market place and thus makes consumers more conservative about business decisions. As a consequence, JP Morgan could potentially lose many business opportunities if economic growth does not improve at a favorable rate.

RBV Analysis

A resource based view analysis (RBV) combines the internal analysis within a company and the external analysis of the industry as well as its competitive environments. RBV takes us beyond the traditional SWOT analysis and allows us to view how the firm can continue to remain relevant with the resources they possess.

Tangible Resources

As one of the biggest financial firms in the country, JP Morgan has an immense amount of tangible sources, from assets totaling $2.4 trillion to organizational resources, and technological resources (Reuters). The firm's cash and receivables are usually reinvested in the firm through capital budgeting, in hopes of creating more revenues in the future. In the technological aspect, most firms today train their employees through computer based training to reduce cost and develop more effective employees. Finally, the firm uses their tangible resources to retain human capital.

Intangible Resources

JP Morgan's intangible resources are truly invaluable because they depend on human capital, innovation and creativity, and the firm's reputation. The hiring process at JP Morgan is selective, which gives the firm the opportunity to hire the individuals they believe are competent. For example: before anyone can be employed by JP Morgan, an initial background check must be processed to determine if an employee is bondable. The firm has a reputation to protect and if a candidate is not bondable or trustworthy, then there's no room for that person at JP Morgan.

Organization Capabilities

JP Morgan has excellent organization capabilities. The firm hires bright and smart individual, and works on retaining their human capital by offering their employees competitive benefits. JP Morgan also has excellent product development capabilities and a phenomenal marketing team that can help increase revenue while promoting those products.

Strategy identification

The firm's financial losses over the past 4-5 years have played a crucial role on their current business strategies. The addition of more government regulations led to substantial reduction in income for financial firms. JP Morgan's current strategy is to scale back on physical branch locations and continue to ramp up their online and mobile platform (Chaudhuri, 2014). Since business operations increased in the mobile market, the firm has decided to cut between 3000-4000 branch positions by the end of 2014.

Recommendations

As discussed before, JP Morgan is one of the biggest financial institutions in the world. The firm has achieved great success by diversifying the services they offer. The firm currently does business in over 60 countries, but that does not change the fact that the firm heavily relies on the North American market for a majority of its revenues. Some suggestions I have to help mitigate JP Morgan's over reliance on this market are to provide a business focus strategy, diversification of current products, and global expansion.

JP Morgan is currently working on a focus strategy. The firm has rolled out a new product called Chase Private Client. The firm is catering to a group of wealthy individuals in the west coast, particularly Oregon and Southern Washington. Their goal is to attract affluent individuals who have an estimated net worth between $500,000 and $5 million. JP Morgan estimates that there are 30,000 individuals who meet that criterion (Portland Business Journal, 2013). The focus strategy could very well bring in many potential clients in that underserved market segment.

I would also suggest that JP Morgan diversifies its current products by teaming up with other firms. Historically JP Morgan has been innovative, but with the passage of time, their competitive advance declines because those products and services could be easily imitated. Considering Chase's biggest strategic move is to continue expanding on the mobile market, the firm should consider teaming up with a development firm to keep their competitive advantage. JP Morgan was able to keep a competitive advantage for almost 2 years before competitors imitated the Quick Deposit Feature (San Francisco Business Times, 2012).

Third, JP Morgan must be willing to explore other business opportunities. Global expansion would be the way to do so. How? The firm already depends on North America for most of the business revenue that they generate. Goldman Sachs only relies on 59% of their revenues from the North American Market, while JP Morgan has 72% of their business operations in North America. What better way to overcome a potential economic fallout than to do business in countries that are have the potential for growth and expansion? The firm can achieve success of global expansion through first-mover advantage. Potential pitfalls linked to International expansion are political, economic, currency, and management risks (Dess, 2012).

As a personal choice, I would recommend that JP Morgan continues to expand their business operations globally so that the firm is less dependent on the North American Market. The extensive research I did on the firm showed the poor investing decisions are the main reason why the company is facing any financial distress. Joint ventures, and focus strategies are excellent suggestions because they add value to the firm from new and current business operations taking place predominantly in North America. However; these suggestions fail to address JP Morgan's overdependence on the American market.

JP Morgan already conducts business in other countries. However, in order to implement a successful business strategy, the firm must have a clear set of goals and objectives. We want to conduct business in emerging markets? Which ones? What demographics are we going to target? In order for the firm to execute the plan to do business in emerging markets, then they must look at positive and negative aspects of doing business in the country they are trying to conduct additional business operations. JP Morgan has enough experience in investment management, but firms should always plan for resource constraints, as well as unforeseen economic catastrophes. JP Morgan may be tempted to imitate what other competitors are doing in emerging markets; however, the firm should focus on their own services and ideas. Goldman Sachs may have created a wonderful market for "x" service, as a competitor, JP Morgan can improve that product or service. JP Morgan must also allocate their resources for a global business venture in an educated and resourceful manner. Before doing business in another country, the firm must do extensive research and take into consideration the barriers of entry, prospects for economic growth, demographics, and political challenges. JP Morgan is multibillion dollar firm that can significantly benefit from global expansion. Perhaps implementing a global strategy can help turn around the firm’s investing losses, and the backlash associated with those losses.

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