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MARKETS

The $10 Billion Tussle Over Walmart's Credit Cards

Retailer's breakup with Synchrony comes as banks feel pressure to remold strategies on plastic

Synchrony Financial is the biggest issuer of store credit cards in the U.S., and Walmart recently accounted for 19%, or roughly $10 billion, of its retail-card balances. PHOTO: NYSE

By AnnaMaria Andriotis

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For nearly two decades, Synchrony Financial SYF **-3.45%** ▼ was the exclusive issuer of Walmart Inc. WMT **-0.25%** ▼ credit cards. The Connecticut-based bank stationed dozens of employees in Walmart's headquarters city of Bentonville, Ark., some of its executives lived in the same gated community as their Walmart counterparts, and employees would hit the same golf course and hunt quail together.

That came crashing down in July, when Walmart told Synchrony it was switching to Capital One Financial Corp. Walmart executives had grown irritated because, among other issues, they wanted Synchrony to share more of the cards' revenue and approve more applicants, according to people familiar with the situation.

The breakup was the latest reminder of how the once-pervasive business of store credit cards is changing and forcing issuers like Synchrony and Citigroup Inc. to rewrite their playbooks. Store cards were already slumping as many traditional mall retail businesses, like J.C. Penney Co. Inc. and Macy's Inc., lose popularity. Sears Holdings Corp. , which filed for bankruptcy protection last week, was one of the first department stores to roll out its own credit card decades ago.

As those retailers shrink, banks are scrambling to compete for card agreements with a handful of big, successful merchants like Amazon.com Inc. and Costco Wholesale Corp. And those companies, like Walmart, are finding they can demand bigger concessions from card companies.

Costco, for example, in 2016 ended a yearslong partnership with American Express Co. Amazon has been advocating for lower interchange fees, which merchants pay when customers shop with credit cards.

Another challenge: Large banks have ramped up rewards programs for other cards, siphoning off potential customers for store cards.

It is a dramatic turn for an industry that gave birth to credit cards. Store cards, which can be used only at specific retailers, were one of the first credit cards in the U.S. After they were introduced around the 1930s, they gained popularity as a way to shop at department stores. Until the 1960s, they accounted for the majority of credit-card purchase volume; last year, they accounted for less than 5%, according to trade publication the Nilson Report.

Few other banks are as intertwined with a merchant as Synchrony has been with Walmart. Synchrony is the biggest issuer of store credit cards in the U.S., and as of June, Walmart accounted for roughly $10 billion, or 19%, of Synchrony's retail card balances. That includes store cards that can be used only at Walmart and so-called co-branded cards, which carry a store's logo but can be used almost anywhere.

Synchrony said it "worked very hard" during discussions with Walmart and "negotiated in good faith." The bank said it "continues to diversify into growth areas," noting a recent deal with PayPal Holdings Inc. and other partnerships.

"While we always want to renew our relationships and the loss of the Walmart program is unfortunate, we view the situation as an outlier," a spokeswoman said.

Walmart declined to comment on its relationship with Synchrony but said it is focused "on delivering great value to our customers."

When Synchrony approached Walmart last fall to renew its contract, Walmart executives balked, according to people familiar with the matter. Synchrony revised its offer, but Walmart issued a formal request for other bids late last year, the people said. It was the first time Walmart had done so, they said.

There had already been warning signs Walmart was displeased.

Walmart had expected to get more revenue from the deal in previous years,

Walmart was said to be disappointed in Synchrony because it wanted the bank to share more of the cards' revenue and approve more applicants. PHOTO: TIMOTHY FADEK/BLOOMBERG NEWS

but loan losses cut into the amount the retailer was receiving, according to people familiar with the matter. Losses stood at roughly 9% of outstanding balances on Walmart cards this spring, one of the people said.

Last year, Walmart began offering loans from financial technology firm Affirm Inc. to some shoppers as an alternative to Synchrony cards. That occurred after Walmart told Synchrony it should approve more applicants, a person familiar with the matter said. Walmart also introduced Synchrony to fintech firm ZestFinance, whose software helps lenders approve consumers they would have otherwise denied.

As Walmart was leaning toward a breakup, Synchrony Chief Executive Margaret Keane told investors at a conference in June that "Walmart is a good partner."

In mid-July Ms. Keane summoned more than a dozen employees to an emergency meeting at Synchrony's Stamford headquarters—a final attempt to save the relationship, according to people familiar with the meeting. Employees presented options to improve revenue for Walmart that included raising interest rates on the cards and spending more on ads, one of the people said.

But by the time Synchrony submitted another new offer, it was too late. Walmart had already told Capital One it wanted the bank to be its new issuer, people familiar with the matter said.

Synchrony has been rejiggering. It is continuing to build partnerships with online merchants and is expected to announce soon that it will issue cards for ride-sharing service Lyft Inc., according to a person familiar with the matter. The bank is also continuing to expand medical loans for procedures like dental work and fertility treatments, and this year it began issuing general-purpose credit cards after a long hiatus.

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Behind the scenes, other changes are playing out. Jeff

Trowbridge, who was recently in charge of the Walmart account, has left Synchrony, people familiar with the matter said. Mr. Trowbridge couldn't be reached. Synchrony in September began offering voluntary buyouts to U.S. employees, according to an email reviewed by The Wall Street Journal.

Walmart's card-issuing relationship with Synchrony will end next summer. Sam's Club, a Walmart unit, is still one of Synchrony's top five retail card partners. That partnership expires in about three years, people familiar with the matter said.

Walmart has told Capital One it looks forward to discussing Sam's Club, a person familiar with the matter said.

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