Back in the Game
by Charles Wendel

Recently, I have been hearing from banks that say they are ready to move forward and focus on growth. Managers of these banks believe they have dealt with many of the issues that were constraining them: their portfolios are solid and regulatory and compliance issues have been addressed. So, where do they go from here?

Moving to a clear focus on sales and marketing from a defensive stance involves multiple challenges. In many cases a rigorous sales emphasis has been largely neglected and past years have also pushed operating expense numbers too high as banks hired IT, compliance, and other internally oriented staff without generating the growth to offset those costs.

Suggesting a "back to basics" approach may result in a big yawn on the part of managers who have heard this recommendation before. They may have heard it, but most have not acted on this concept; they need to. Banks need to consider at least eight basic questions if they are to move forward successfully.

What is your value added? The competitive environment continues to intensify as non-bank consumer and business lenders take more share and nontraditional payments companies jump into what has historically been the private turf of the banking industry. Many customers are totally comfortable with "alternative" lending and payments companies and now have a reduced need for bank services. How do banks respond?

Robert Altman's 1992 film *The Player* features an aspiring screenwriter who has 15 seconds to pitch his movie idea and describe how his film deserves investment dollars. How would you describe your bank, its uniqueness, and competitive advantage in 15 seconds? Increasingly, just saying you emphasize customer service or serve the local community is not going to cut it. Instead what expertise do you offer in certain industries, types of lending, investment performance, or other areas that will differentiate you from the pack?

We find that the best performing banks have developed areas of expertise, namely, a segmented focus that sets them apart.

How do you plan to grow? Some banks have long suffered from trying to be all things to all customers. Despite some banks still trying to do so, that approach is a dead end. Banks need to pick their spots. Is your primary emphasis the consumer or business? What type of consumer or business focus do you have? For example, many banks want to concentrate on high-income consumers, a group that is both demanding and highly sought after by others.

Banks need to select their targets based upon market opportunity and a frank assessment of their internal strengths; where can your bank best compete?

What are you going to do about the branches? Most banks now operate with too many branches. For years I have heard that as soon as rates go up by 100-200BPs, money-losing branches will turn profitable. Maybe. Given how dollars are draining out of many branches I am not sure that is true; what I am sure of is that it may be a long time before rates rise sufficiently to make many branches attractive; in the meantime many continue to be value destroyers

Yes, a physical space remains important to many customers, but at most banks economics demand fewer branches. Period. And to the extent possible a different type of branch.

How do you use data for better decision making? Excellent sales management demands the ability to manage data. Related to business banking, information now exists to allow targeted marketing based upon characteristics such as preferred industries, risk parameters, revenue range, and propensity to buy certain products, among other factors.

Applying data analytics can increase productivity, allowing banks to sell more with fewer resources. Banks not using these capabilities are at a competitive disadvantage.

How will you manage multi-channels? Customers want it all: branches plus mobile plus online plus TBD. Just as banks cannot be all things to all people, banks also need to select which channels to enhance and rely on. This is another factor that pushes banks away from the high fixed cost involved in branches.

Banks need to know the costs of each channel, each channel's potential for capturing revenue, and manage customers toward the optimal channel mix for the bank.

How about Gen X and Y? Banks grew along with the growth in Baby Boomer needs and wealth. Banks need to be concerned that as those customers' needs change and, inevitably, Baby Boomers disappear, they remain relevant to the new emerging customer sets. Gen X and Gen Y view banks differently than their parents and have a wealth of financial services choices available to them.

Many banks are giving lip service to Gen X and Gen Y without altering their services or delivery to meet the distinctive needs of this group. Banks risk losing many of these customers to non-bank competitors. Once gone, they are not coming back.

How can you exploit other's capabilities? Whether involving IT, alternative lenders, or other areas, banks are increasingly dependent upon the skill bases that third parties offer. Banks should emphasize working with third parties rather than oftentimes being reluctant partners. IT firms bring capabilities that most banks could never develop on their own; alternative lenders and payment companies can broaden a bank's revenue stream.

Banks should select some of their best people as partner developers, exploring how to work with third parties. Going forward, a bank's bias should be in favor of doing so rather than being hesitant.

How do you pivot? Pivoting involves taking stock of the present situation and, as appropriate, going in a different direction from that originally chosen. "Pivot" is a word I hear frequently from alternative finance players trying to adjust to market opportunities. It may involve admitting that a current approach has not worked and changing it to pursue a different path to success.

Banks needs to learn how to pivot rather than continuing to defend outmoded approaches. Defensiveness has to give way to greater frank self-assessment and the willingness to admit to failure in order to achieve greater long-term success.

Final thought. The increased energy that banks are now putting into sales and external marketing should result in an enhanced bottom line and improved operating ratios. However, as the above issues suggest, this effort requires management to focus on some fundamental issues to build a sustainable growth path.