Strategic Planning or Proctology Exam?
by Charles Wendel

Few banks have adopted a rigorous strategic planning process as part of their culture. That approach would be one in which bankers challenge day-to-day operating assumptions and consider disruptions that could do to banking what Uber did to the taxi business. I commented to a friend that some (male) bankers would prefer going to a proctologist versus dealing with a strategic planning process. He agreed and mentioned that "At least the proctologist gives you drugs."

Of course, a consultant favors banks developing strategic plans and, yes, it is in my own best interest to do so. And the fact is that banks often need an outsider to encourage them to "think different" and to provide them with insights and examples about what other bank and non-bank competitors are doing. Today, more than ever, bankers *must* (not should) consider the potential impact and partnering value of Fintechs and the competitive inroads being made by what many consider totally unexpected rivals.

Examples:

- TMobile just announced it will offer a deposit account that features 3% interest payments. Initiatives like that could be game changers.
- Other "newcos" like Aspiration.com offer Green Banking services aimed at peeling away those customers who are particularly socially aware and place little value on traditional banks.
- Fintechs like OnDeck and Upstart can either be competitors or partners to reduce expenses and increase revenues.
- More well known, since 2012, Amazon has been lending to its vendors. PayPal, Square, Amex have similar initiatives and lever off their customer relationships, knowledge of the customer's financial wellbeing and sales proactivity. But few banks have considered what these and similar initiatives could mean to consumer and business relationships.

Similarly, few banks and credit unions are dealing effectively with the digital revolution. In many cases, no one or the wrong person is in charge of the digital effort. Some banks have six-eight people with the word "Digital" in their titles. But who is in charge of transitioning the bank to providing a digital customer experience and achieving the cost savings that a digital environment can help to capture? Even if someone is "in charge", does that person have the authority? We know banks (big and small) where the infighting and silo defending takes precedence over providing a great customer experience. When that exists, bank leadership needs to intervene.

Lack of a coherent multi-year strategy often results in piecemeal rather than a coherent approach to digital as well as other areas. Yes, a digital application is important, but it is just a stop gap, "a finger in the dike." Emergency actions like that are understandable, but if that initiative is a one-off, banks are deluding themselves; they are failing to address a major expense and revenue opportunity. Other banks operate as if allowing each business unit to address “digital” for themselves is the right approach. Each line and support unit should be focusing on that issue, but their initiatives need to fit into a larger corporate approach.

Bankers may view their budgets as, in effect, their strategy statements. Nope. Of course, building a budget is important, but it needs to be built in the context of the strategic actions that will get you there. Oftentimes, the budget process has become long and painful, a big time sink for managers. In fact, an onerous budget process is one reason some banks avoid strategic planning, viewing it as yet another activity that eats up time and keeps their bankers away from their clients. Some bankers see strategic planning chaining them to their desks and, based on past experience, view planning with skepticism: “This Too Shall Pass.”

An effective strategic planning process requires senior management commitment that business, support and corporate planning becomes part of the culture. It can result in:

- An opportunity to question current activities and/or the way those activities are performed, for example, compliance.
- A way to organize around critical areas such as deposits.
- A unified approach for vetting and encouraging the use of third-party partners.
- A way to set clear IT priorities and how those priorities can be addressed. This also includes an internal focus on partnering effectively. I just read an interview with a Florida bank exec that provides a great example of a likely bad decision. He stated his $30B bank “is in the process of building its own online and mobile banking platform…developing our own platform gives us more control.” Given the abundance of quality vendors, the quick changing IT and customer experience environment, the difficulty banks have in retaining top flight IT staff, the likely cost of build versus buy, for most $30B banks (and likely for his) that is a strategic mistake, one that will be expensive to fix and could even threaten the bank’s survival.
- A planning approach that anticipates the dread some bankers will feel about planning and streamlines the planning process. It should include clear communication that the strategy process will be conducted at least every other year and “topped up” annually. Each unit's plans should include metrics that allow for tracking and review…and management must track and review in order for a forward-thinking plan to become part of the culture.
- A document banks can provide regulators, investors, and others.

If a plan is a one off or something done to check off a box, then don’t bother. It is a waste of time.

All companies base most of their business decisions on greed or fear: fear of regulators, compliance requirements, capital and risk issues. A strategic plan should include a focus on those fears and how to mitigate them as well as new cost reduction and revenue opportunities.

Management should consider whether it is doing a disservice to its bank by not ensuring it is operating with a clear strategy that focuses both on near- and longer-term issues.