What Are Your Segments?
by Charles B. Wendel

Banks continue to need to distinguish themselves from competitors.

For many customers it's no longer enough to position yourself as a local bank or to proclaim that you are more customer service oriented than the bank next door. Customers have more bank, credit union, and non-bank FinTech options than ever before. Many don't believe these types of assertions.

And, much worse, I still hear bankers say, "We are selling a commodity." That comment reveals a negative, loser mindset that, if unchecked likely provides the customer with a utility/DM -like experience. Not a winning approach. And I've heard others say, "We need to bank everyone." That's not true and even if it were you can focus on certain customer types over others. The increased dependence of banks on a handful of Core processors exacerbates the tendency toward commoditization and the need for banks to address it.

For decades I and many others have highlighted segmentation as a path to sustainable profitability. While this is hardly a new management concept, I have no hesitancy in reintroducing this important strategic tool. I'm not sure why, but to this day, many banks continue to overlook or underinvest in an approach that can fundamentally change a bank's competitive dynamics.

Segmentation means highlighting a bank's capabilities in a certain industry, products, loan types, or other areas. First, some bad news. Improper segmentation can result in problems that should be acknowledged and addressed. Let's start by highlighting a few examples of segmentation gone bad:

- Excess focus on the wrong loan type. Many banks are already overweight in commercial real estate loans. In other words, some bank portfolios may already be segmented with excess concentration on a problematic area.
- Excess focus on the wrong deposits. You all know the issue with crypto deposits.
- Excess focus on the wrong industries. SVB's collapse occurred in part due to its PE concentration. Years ago, other banks faced write-offs due to their loans for taxi medallions falling in value due to the rise of Uber. Currently, industries like trucking may be facing a similar crunch.

So, if segmentation can result in calamity, why bother to pursue this topic?

1. Segmentation can improve credit quality. Segmentation allows credit expertise in a certain area (whether it be funeral cars, dentists, churches, etc.) to increase and become more sophisticated. Of course, you can still make mistakes.
2. Segmentation allows a bank to focus on specific needs. Today, more banks need deposits and a focused effort on deposit generating personal and business segments can improve the efficiency of the deposit process.

3. It can reduce acquisition costs. As you develop a reputation in a segment, more of the customers in that segment and their centers of influence come to you. Again, increased efficiency in the sales process.
4. It can allow for regional or national marketing. Community banks often operate in low growth geographies. In some cases, these mature geographies have generated strong deposits but lack the growth and business diversity requiring loans. Banks can look to other geographies to build loan volume.

But to be clear, the credit and line need to review segments regularly, keep their pulse on events that impact them, and change internal limits accordingly. Segmentation involves a dynamic, not a static process. Thinking that you are "one and done" with segmentation is a recipe for disaster.

Next time we'll focus on how to pick segments and make a segmentation strategy succeed.

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