

TARGETED MARKETING

by [Steve Brown](#)

In case you doubt the power of marketing, we present the "hot wing." Through most of history, people threw out chicken wings because, when you get down to it, this part of the chicken is inedible - nothing more than bones, ligaments and skin. However, with a little chili rub, marketing and the concept that beer drinkers will eat anything; you have a cottage industry. It is Hooter's number one selling food item, and at \$6.95 to \$24.95, produces a healthy 84% direct margin. Now if you conclude that even if you put a bunch of salted shoestrings in front of beer drinkers watching Monday Night Football, they would snork them up, that is exactly our point. The hot wing exists because some shrewd NY restaurant owner segmented customers, developed a marketing plan and was able to extract a premium price. Banks that are serious about margins, do this with great success. Instead of a generic product that competes on price, these high performing banks have created loan, deposit and service products that fill a particular need for a customer type. As one banker told us, "Any time you can identify specific characteristics which, in aggregate, potentially comprise 3% or more of your customer base, it is worth having a specialty product." 10-years ago, it was enough to divide customer segments by generic type, such as small business, retirees, students or homeowners. Marketing is now much more specific. Laser-focused banks now divide groups into such categories as professional small businesses, active travelers or university students. It is also no longer about offering a single product, but a product bundle with checking, savings, working capital lines, cash management and term loans all rolled into one offering. While pricing, tiering, fees and attributes all need to be in-line, banks can go far with just a little creativity. One innovative bank has had success with their "Culinary Delights Account." In addition to savings and checking, users get a discounted restaurant card (purchased from a 3rd party, but branded with the banks logo), specials on wine purchases, a recipe-of-the-month and themed checks. The program costs about \$55k to administer, including a part-time employee, but with an average rate of 1.71% for the money (as of last week), the bank is able to save more than \$90k on \$4mm+ of balances versus competing bank's rate-based offerings. More important than cost, these are generally less interest rate sensitive customers. In today's environment, this is vitally important. Success comes in a variety of packages and is only limited by imagination. Just as a bank might have a strategic planning retreat, having a marketing retreat, may help brainstorm several target markets and associated products. Banks can offer the same generic products and compete on price, or it can innovate and protect margins. Who knows, with a little thought, you might figure out a way to capture that whole beer drinking space.

FOMC MEETING

The Fed raised its target rate 25bp for the 17th consecutive time, issuing a surprisingly market friendly statement. While nothing new, the statement put the kibosh on some that thought the Fed was going to be more hawkish on inflation. The Fed acknowledged that while the economy is growing at a moderate pace, inflation is contained. This sentiment runs counter to recent inflationary data and recent talk by Fed officials, but this new Fed may truly be more data-dependent. Interestingly, the Fed took this meeting to finally remove its forward-looking language ("...the Committee judges that some further policy firming may yet be needed..") after 3 years of usage. Our interpretation is that the Fed is looking for maximum flexibility, may very well pause and may tolerate a little more inflation than the market has anticipated. That said, we still believe that core inflation will push above

0.3% and the Fed will have to move 1, if not 2 more times in 2006. The probability of a future rate hike has decreased with the market starting to price in a drop in Funds past July of 2007.

BANK NEWS

Customer Protection

According to Visa USA and the U.S. Chamber of Commerce, almost 66% of small retail businesses have taken measures to protect consumers' personal information, including credit and debit card data.

Larger Focus

A recent study of independent banks found that nearly 33% have begun focusing on larger companies to sell loans and deposits than they did 2Y ago.

Conversions

State regulators in Texas are changing rules for credit unions to convert to mutual savings banks. Credit unions in the state will now have to notify members by mail or email 30 days prior to the board voting on such action.

Online

At the end of 2005, there were 40mm people banking online, an increase of 27% from the prior year.

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