# WHAT WELLS FARGO CAN DO WITH YOUR CUSTOMERS

by Steve Brown

A recent interview with Wells Fargo's CEO Dick Kovacevich on the Bank's M&A strategy should serve notice to independent banks. For 2007, Wells believes that it can gain more value in purchasing independent banks within their footprint than purchasing a regional bank. The reason for this is twofold. One, Wells believes that it can purchase an independent bank at a lower multiple than what a regional bank would trade for. Two, by leveraging its current sales platform and customer profitability model, it can increase revenues more than 30%. It does this by increasing products sales from 1.4 (the current average at independent banks) to 7.4 (Wells' current average). Put another way, Wells is going to capitalize on independent bank's hard earned customers and use the Wells' banking platform to pay for the acquisition. This burns us up because it doesn't have to be this way. For less than $20k per year, banks can use our Relationship Profitability model (if you don't have one already) to increase bank value well in excess of such a small investment. While many senior management teams have a frenzied awareness of how to solve this profitability conundrum, their solution can often be counterproductive, due to the lack of detailed information about profitable products and customers. This is where the customer commitment falls apart. Often, what is requested, measured and rewarded by management is not what is best for the customer or the shareholders. Like loans, deposits and branches, customers are an asset and must be managed on a portfolio basis. Like a portfolio, management teams need to look at return, as well as volume. This is a problem for many banks that just lay out asset growth goals or revenue targets. While easy to understand, these simplistic approaches don't accomplish what Wells understands - long-term success depends on organically growing profitable customers. Doing so starts with knowing the right information. After working with hundreds of profitable banks, we have distilled the essence of profitability down to being able to answer 5 important questions. We tested these questions against Wells' regional and branch managers as validation, and sure enough, they could answer all 5 quickly. Here are our questions: 1) Do you know which customers and products are your most profitable? 2) Are line personnel rewarded for profitability goals instead of volume? 3) Do you know and track why you lose or retain customers? 4) What is the plan for increasing the profitability of 2nd tier customers? 5) Does your customer and community referral program thank those that pass on referrals? Answering these 5 questions correctly can make the difference between an average return and an above average one. Getting the systems and process in place to answer these questions can propel an organization forward, while helping boost awareness over the value of a customer. These questions work because they help clear the clutter away from how to utilize customer profitability. If a bank's management team can stay focused on the answers to these questions, the institution cannot help but improve earnings efficiency. Customers are an investment. Independent banks should take the time to invest in their customers because Wells certainly is doing so.

## BANK NEWS

**M&A**

The holding company of Community Bank NA ($4.4B, NY) will acquire the parent company of Tupper Lake National Bank ($104mm, NY) for $17.6mm in cash, or about 2.1x book.

**M&A**

First Guaranty Bank ($740mm, LA) will acquire the parent company of Homestead Bank ($132mm, LA) for $13mm in cash, or about 1.26x book.

**ILC Extension**

Representative Paul Gillmor, co-sponsor of the ILC legislation, has asked the FDIC to extend the freeze to give Congress more time to pass legislation restricting such institutions. The ban would stall plans from Wal-Mart, Home Depot, DaimlerChrysler and about 9 other companies from opening industrial banks.

**FOMC Speech**

Vice Chairman Donald Kohn said in a speech that a "gradual decline" in inflation continues to be "the most likely outcome," but stopped short of saying it was guaranteed. He also expects below trend economic growth mainly due to housing and auto sector weakness. Finally, Kohn said the flatness of the yield curve was most likely attributable to "special factors" such as pension fund buying.

**Competition**

Bank of America has inked a deal that will allow its branch locations to appear on automobile navigation systems, as well as mobile and wireless positioning devices.

**Pressure**

Challenger, Gray & Christmas said companies in the U.S. fired their CEOs at the fastest pace since they began tracking data in 1999. A weak economy, performance pressure, retirement, options backdating and increased compliance were all cited as reasons for the surge. Through November, more than 1,347 executives have been let go.

**Consumer**

Given that consumer spending supports some 70% of the economy, it is interesting to note that credit card late payments increased in 3Q to 4.57% (4% above 2Q).