LAUNCHING A NEW PRODUCT

by Steve Brown

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe." Â… Abraham Lincoln. It is Abraham Lincoln's birthday today and behind his many accomplishments, lays a man that was devoted to truth, equality, learning and preparation. Anybody that can achieve the Presidency, win a Civil War, abolish slavery, help start the Republican party and manage Grant, obviously has leadership qualities worth emulating. For bankers, it is the preparation that often gets overlooked when launching a new product. Over the past several months, we have researched what makes a successful introduction of a new product, service or branch. Whether it's Bank of America's Save a Penny program or Polk County Bank's new branch introduction, successful banks have a group of traits in common. In order to judge success, we used the yardstick that a bank had to have clearly stated goals for each new product and to achieve those goals within the planned time. We also looked at the financial performance of new products that were already developed, but not yet introduced to the marketplace. More than half all new introductions did not have stated objectives or any monitoring process Â– despite the fact that this appears to be the number one factor for success. Banks that took the time to lay out both financial and non-financial goals, were almost 3 times more likely to achieve "success" in the eyes of management. Having a written plan was also symptomatic of how banks approached a launch. Those that did not care enough to develop an introduction plan, most likely also did not devote enough resources to the product launch. This is interesting, as we reviewed many cases where a bank spent several hundred thousands to develop a product, only to freeze when it came to spending money on advertising or marketing to promote it. Next to marketing, proper internal training was the other area that seemed to be overlooked a majority of the time. Banks would launch a product and then stumble, as their line personnel and customer support functions did not know how to handle new problems that would invariably crop up. New product launches must be supported by resources in order to succeed. On that topic, another element of success was having a dedicated person or team devoted to the launch. Developing a plan, tracking, phase monitoring, purchasing advertising, training and coordinating all take a tremendous effort. Launching a new product also takes a modicum of expertise that comes from the experience of having launched a product before. Making at least one employee solely responsible for the launch increased "success" by more than 50%. Finally, banks that have a proven track record in launching a new product all said that they also tended to aggressively communicate. Customers, employees, analysts, vendors, shareholders and boards all received targeted messages and updates as to the effort of the new product introduction. By keeping everyone informed, product launch teams ensured that everyone at the bank was going in the same direction. Leading banks did not leave their new product introduction to chance. Those banks that repeatedly achieved targets all took a quantifiable approach to new product introduction, devoted resources to the launch and aligned the bank's resources for maximum impact. As margins continue to compress and competition increases, banks are going to have to rely more on product innovation to maintain performance. By taking advice from Lincoln and spending a significant portion of time in preparation, banks can increase their odds of a new product launch success.

BANK NEWS

M&A

Marshall & Ilsley ($56.2B, WI) will acquire Excel Bank Corp ($614mm, MN) for about $105mm or 1.80x book. As of the 3Q, Excel reported an ROA of 1.48%, ROE of 16.73%, an efficiency ratio of 55.52%, a LTD ratio of 107.5% and an overall cost of funds of 3.46%.

FRB

The FOMC has announced that Susan Bies (voter) has resigned effective March 30th. Bies' resignation comes 5Y earlier than her stated appointment date of 2012 and was offered without any reason as to her departure.

Housing Leverage

A new study sampling mortgage purchases made from the middle of 2005 to the middle of 2006 finds nearly 50% of first time buyers put no money down at all, opting to finance their entire purchase. Overall, the median down payment was only 2%. Interestingly, the same study found repeat buyers put down a median 16%.

Customers

Studies show about 60% to 80% of customers that dump their existing bank to go to a competitor describe themselves as "satisfied" or "very satisfied" before they leave. Interestingly, studies also show as much as 60% of customers leave because they perceive an employee doesn't care.

Lending

A recent SBA study finds about half of all banks do not use credit scoring for loans under $100k in size. The most often cited reason (given by 63% of respondents) was that they felt doing so did not produce any incremental increase in volume, so they avoided scoring. Amazingly, the cost to originate such loans was not even considered.

Customers

A new study finds 49% of people are interested in using a mobile banking application if it were offered by their bank.