

SELLING TRASHY NOVELS AND BANKING

by [Steve Brown](#)

A funny thing happened on the way to the internet. During the early 90's, it was a commonly held belief that the internet would bring greater price competition and reduce margins to the absolute minimum. Perfect information, lower transaction costs, shopping "bots" were all supposed to commoditize even the most illiquid product. The funny thing is – it is simply not true. Take Amazon.com. for example. Their prices are oftentimes the lowest in the industry, yet they enjoy some of the widest margins. Further, if you look at the amount of competition (judged by the number of online booksellers that offer a particular book) and price, there is very little correlation. Often, books that are bestsellers that have the most competition have the widest standard deviation in price. Take one of our favorites, Danielle Steel's new trashy novel, Bungalow 2, about a San Francisco housewife that spreads her wanton desires all over Hollywood and wins an Academy Award in the process. A quick internet search shows that book priced between \$17.11 and \$27.00 for a 58% difference. That is more of a difference that we find in physical bookstores in downtown San Francisco that had prices between \$17.82 and \$20.96 for an 18% difference. The takeaway here is simple – stop complaining about loan and deposit pricing and do something about it. O.K. this, seems a little harsh, and maybe we need a weekend to relax, but we are serious about this. Booksellers, we would argue, face more competition than banks, yet they enjoy a less homogenous price spectrum. This occurs because online booksellers have successfully differentiated themselves (because they had to) in order to garner better margins. Some booksellers choose to be low cost providers, while others pride themselves on service, selection and delivery. For that matter, others, such as Barnes & Noble.com, have a pricing strategy that places them in the middle of the pack, but they differentiate themselves by spending more on marketing and advertising. The most successful booksellers have chosen to pick a limited group of titles (usually the top 10 bestsellers) to discount and compete on price. From there, they market these books, in order to hook the buyer and then spend their marketing budget trying to cross-sell into higher margin books. Customer segmentation, reward clubs, online profiling and one-click purchasing all help to deliver in grabbing that price sensitive buyer and attempt to convert them to service. Purchase a book from Amazon and it often comes within 24hours. The service is fantastic. The reality is that, despite the marketing hype on the site, Amazon is not the lowest priced provider and very few of their selections are pitched on price. The other category of successful booksellers is those that go after a niche market. Pet owners, minorities, Republicans, firemen, car enthusiasts and ham radio operators all have specialty booksellers that maintain high margins that cater to a particular clientele. The same principals that booksellers use also work in banking. As an industry, we need to do a better job at marketing, sales, pricing and execution in order to deliver a superior value proposition. That is enough ranting from us, we are going to take some time off and catch up on our mind-candy of a novel.

BANK NEWS

M&A

Anchor Bancorp Wisconsin, Inc. (\$4.4B, WI) announced that it would acquire S&C Bank (\$332mm, WI) for an undisclosed amount.

M&A

The Dutch Supreme Court approved ABN Amro's sale of LaSalle Bank to Bank of America Corp., removing the last obstacle to Barclay Plc's acquisition of the Dutch bank for \$87B. The merger will make Barclays the world's 6th largest bank in terms of asset size.

Electronic Processing

Payment software provider Pay Simple will offer nonprofit organizations a customized version of its electronic processing software designed to collect donations and other payments. Why can't financial institutions partner up to offer this application to their non-profit clients?

SLMA vs. Congress

The House voted to reduce subsidies for student lenders by \$19B over the next five years, a move that could cause investors to withdraw their \$25B buyout bid for Sallie Mae. .

Regulation

The top regulator for the SEC indicates two hedge funds that almost collapsed at Bear Stearns will be unwound in an "orderly fashion with limited impact on the broader market." The near-meltdown raised concern with investors, who felt billions of dollars in securities might have to be sold at fire sale prices.

Subprime Legislation

Tired of waiting for Congressional action, legislators in 30 states have proposed laws that would protect mortgage borrowers from deceptive-lending practices, foreclosures, fraud and other abuses.

Overdraft Fee Permssion

The House Financial Services committee is reviewing legislation that would require banks to notify customers before charging overdraft fees and then disclose those fees in real time on debit and ATM transactions.

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