WINNING THE CUSTOMER GAME

by Steve Brown

We enjoy sports of all kinds. Whether it is the thrill of the competition, or the euphoria that accompanies winning, sports are some of our most enjoyable activities. When it comes to customer relationships, bankers may want to begin thinking of the process as though they were involved in a competitive sport. Whether charging the net, coming across the middle for a pass, or chipping in off the rough, winning in banking these days takes passion, drive, desire and a willingness to modify the game plan as needed to succeed. Everyone knows customers expect banks to safeguard their personal information, protect their money and be accurate. After all, these have been underlying tenets of the banking industry for eons. Community bankers that pride themselves on service and knowing the customer, however, may not be aware that studies show only 33% of customers want a deep "relationship" with their primary bank. While that may be startling to some, the good news is that these same studies show the 33% group that does want such a relationship are loyal, satisfied with their primary bank and would happily recommend it to friends and family. It sounds like all a bank needs to do to be successful then is find this group from within all of its current customers, cultivate these relationships and then stand back and let things take their course. As one can imagine, that is only partially true, because one main problem with this group is that they also tend to be higher cost customers. In general, relationship customers generally prefer to use the branch network (increasing costs) and to have a personal relationship with employees (often ask to talk to senior management). On the positive side of things, these customers are also more than happy to consolidate their loan and deposit balances with their primary bank Â– if they are asked. Therefore, banks should expend effort and resources to find and capture those customers within this segment that also stand to deliver it the highest value. Knowing the habits of this customer segment, bankers can begin monitoring branch employee and customer interactions, comparing it to ATM and online banking usage. The lower the usage, the more the customer uses the branch and the more likely they are to fall into this category. From this data, banks can create a list of possible targets. This list can then be cross-checked against bank or outside information (such as D&B) to find whether or not specific customers within this segment also operate small businesses (if that is a segment the bank is targeting). Once the data is refined, a calling list can be created. This list can then be augmented with focused resources and specialty marketing programs to convert these customers and help them transition over their entire relationship. Given that only 33% of customers are interested in having a complete relationship with their bank, identifying the right ones, creating targeted collateral material, pre-populating switch kits (with customer information) and training branch staff (to identify such customers) are all critical aspects to any successful customer acquisition and retention program. With that said, we offer one final note that bankers should consider as they play this game - nearly 30% of frontline branch staff does not feel they have the proper training to sell. To win, banks will have to address this if they are going to launch any serious effort aimed at acquiring such a branch-heavy customer group.

BANK NEWS

1031 Exchange

Citywide Banks of Colorado ($739mm, CO) has formed a 1031 exchange subsidiary called Citywide

Loan Sell-Off

First State Bancorporation ($2.5B, NM) announced that it will sell $37.9mm of loans that were included in its acquisition of Front Range Capital Corp to an unnamed third-party investor. Of the total amount, $14.8mm were non-accrual loans and about $8.8mm were potential problem loans.

Longer-Term Issue

A report by credit rating agency Moody's predicts the housing slump will continue through next year, as more than 1.2mm mortgages default this year and another 1.3mm follow in 2008. These levels are about 40% above those of last year.

Costly SOX

A new study by AMR Research finds U.S. public companies will have spent more than $26B by the end of this year in an effort to comply with Sarbanes-Oxley legislation.

Housing Foreclosure

A new report from RealtyTrac finds home foreclosures climbed 58% in the first half of this year compared to the same period last year and 30% higher than the prior 6 month period. If the current pace continues, foreclosures will exceed 2mm by year-end, a 65% year over year increase.

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