PART 2 OF 3 Â– DIFFERENTIATION AND STEEL

by Steve Brown

In yesterday's edition, we presented a strong case that commoditized products (such as steel) and a paradigm shift in the way national banks view small business banking (profitable and low risk), have left community banks struggling to find a defensible long-term strategy. Today we will discuss how businesses faced with an industry sea-change can retrench and use classic strategic marketing tools to reposition themselves to compete effectively in their new environment. The first thing to do is to ask "what do our customers need?" While many bankers may have some insight, the best first step is to ask customers directly. Bankers can do this inexpensively and quickly through surveys, or simply by having a good, old-fashioned conversation. Customers will appreciate being asked and they may surprise you with what their priorities are. Once customer needs have been established it is time for a SWOT analysis. By listing bank strengths, weaknesses, opportunities and threats (both internal and external), executives gain a good sense where best to compete against a $500Bn bank with operations in every state (and 125 products). Part of this process should also include a classic "Five Forces" analysis of the industry. These would include: buyers (customers), suppliers, competitors, substitutes and barriers to entry. Especially for commercial lenders, understanding who the competition is today is a critical step in differentiating products and services for the long-term. For example, failure to include large national banks as direct competitors ignores banks that control over 70% of the domestic loan market. At a minimum, doing so greatly skews strategic marketing analysis. Finally, banks must perform a customer segmentation analysis, to understand not only which customers need what, but also which customers the bank really wants to serve. Banks also need to develop products and positioning that cuts through the clutter and really speaks to target customers. Through this process, a bank may discover that some of its customers are neither profitable nor desirable. The bank must be willing to let some customer relationships languish in order to utilize resources more efficiently on more profitable relationships. Given the framework outlined above, a bank can develop products and positioning that makes it unique within a geographic area. One helpful tool in this process is to put together a positioning statement. This is not a catchy marketing statement, but rather is a statement of unique business identity that everyone at the bank can use to get on the same strategic page. A classic positioning statement takes this form: For [target customer] who [compelling reason to buy / The Need], we [bank] are an [industry] that provides [unique benefit]. Unlike [main competitor(s)], we [bank] [key differentiation]. As an example: For community banks who want to dramatically increase ROE and grow asset size, Pacific Coast Bankers' Bancshares is the financial services company that provides community banks with unique products and services to achieve their goals. Unlike other financial services firms, PCBB offers the tools and the know-how to let community banks compete successfully against rivals. Tune in Tuesday as we build on this platform and provide some examples of how banks have translated their defendable long-term competitive strategies into differentiated and successful products and services that are as strong as steel.

BANK NEWS

M&A

It is finally official. Royal Bank of Scotland has won the biggest takeover in the history of the financial industry with its acquisition of ABN Amro. Royal won after Barclays withdrew its takeover offer and will acquire ABN for $99.9B.

M&A

1st Unted Bancorp ($350mm, FL) will acquire Equitable Financial Group ($188mm, FL) for $55.6mm, or 2.55x book value. The purchase will expand 1st United's footprint to 13 branches in the state.

Homebuilders

The latest study finds the 15 largest homebuilders in the country have $7.79B in debt coming due between now and the end of 2009. At least 33% of those builders are trading at junk bond levels as they discount home prices as much as 40%.

Ugly Situation

Washington Mutual is reporting its 3Q net income tanked 75%, due to a weak housing market and disruptions in the credit market. WAMU said it will record a $975mm loan loss provision, the biggest one in its history.

Credit Lines Reduced

H&R Block said that over $2B in bank lines that were used to finance home loans at its lending unit, Option One Mortgage Corp, were terminated or reduced.

CRE

The OCC is recommending banks with a significant concentration of CRE loans should re-evaluate borrowers' strength in order to ID credit problems at an early stage.