

PRODUCT COMMITTEES

by [Steve Brown](#)

Thank god it is Tax Day tomorrow. We were getting sick and tired of excess money just sitting around collecting interest. This is money that we would probably just blow on things like food and gas, instead of giving it to Congress that can put it to really good use (in such projects like the \$2mm Charles B. Rangel "monument to me" or the \$1.2mm Mormon cricket project. Regardless, with Tax Day coming around, hopefully your bank has products and marketing centered on taxes that were developed by a product committee). Even more basic, hopefully your bank has a Product Committee.

Less than 30% of banks we speak with have a formalized committee on new products and services and we think this is a mistake. Meeting once a quarter, a cross-disciplined group should be looking at how to increase product profitability and better enhance the customer experience. Half creative and half quantitative, the committee should involve senior management, marketing and a heavy dose of operational talent.

The classic example in recent years is the debate between offering free checking or a high yield checking account? The two are starkly different in profitability, targeted demographic and overhead cost. It is the product committee's job to not only come up with the product, but decide on constraints. These might include: requiring a direct deposit, min/max balances, number of debit card transactions required and the default rate of interest if accounts do not meet these requirements.

In 2008, the most common item product committees at community banks are working on is the bundling and pricing of product "sets," in order to reward the complete customer relationship. A recent BAI study found that 52% of bank customers view special treatment or relationship-based pricing as "vital" to the customer experience. Despite that statistic, only 12% of customers receive such treatment. Bankers need to at least offer an incentive to tie cash management, deposits and loans together, in an effort to differentiate their bundle. Product committees that have successfully implemented such a system last year, have shown an improvement in credit/debit card usage (around 15%+), greater account growth (approx. 18%+) and overall profitability (30%+). Despite the success, tying products, services and silos together is always a challenge and requires collaborative work.

For larger banks, product committees are now in the process of rolling out various forms of money market accounts that have a rate that is fixed for 3 months. These accounts are marketed on the basis that they give "certainty in an uncertain market." Tactically, many of these banks are gambling on the fact that the next rate move is up, not down.

In addition to new products, new bundles and new pricing, the product committee should also set and review tiers. Depending on position and target demographic, some products work best when a "bottom tier set" is used (a tactic of clumping tiers together that are lower than the competition). Conversely, some work best with a "top tier set" (setting tiers tight and high often used when competing on rate). Still others employ the now popular "sandwich tier set" (setting a low tier with a low rate and then a high tier with a high rate). All told, most product committees juggle approximately 8 tier strategies.

It does not matter whether you are just making a marketing push this tax season or if you have a new cash management tool that lets households pay their taxes via debit card - constantly thinking about innovation is important to stay ahead of the competition and formalizing a committee structure may help. We could tell you more, but we have a cricket project to fund.

BANK NEWS

Wachovia Writedowns

The 4th largest U.S. bank, Wachovia, said it would cut its dividend 41%, lay off 500 people and raise \$7B in new capital, after reporting a surprising 1Q loss of \$350mm. The bank boosted loss reserve by \$2B due to valuation losses driven by a "precipitous decline in housing market conditions and unprecedented changes in consumer behavior," according to the bank.

Nat City Saga

The WSJ is reporting that Bank of Nova Scotia, Canada's 3rd largest bank, is interested in purchasing struggling National City Bank of Cleveland. Nat City put itself on the block after being hit hard by the subprime debacle that resulted in deterioration in its balance sheet.

Branch Purchase

Commercial finance company CapitalSource (MD) will acquire the retail branch network of Fremont General (about \$5.6B in deposits) for a 2% premium and an additional \$58mm. CapitalSource is a middle market commercial lender and asset manager with offices in 10 cities.

Closing Offices

Fireside Bank (\$1.5B, CA), one of the largest subprime auto lenders in CA, said it will close 18 of 25 branch offices after reporting its 1st unprofitable year in 25Ys. Fireside is a unit of Chicago insurance company Unitrin.

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