

---

## TARGETED MARKETING

by [Steve Brown](#)

---

In case you doubt the power of marketing, we present the "hot wing." Through most of history, people threw out chicken wings because, when you get down to it, this part of the chicken is inedible - nothing more than bones, ligaments and skin. However, with a little chili rub, marketing and the concept that beer drinkers will eat anything; you have a cottage industry. It is Hooter's number one selling food item, and at \$6.95 to \$24.95, produces a healthy 84% direct margin. Now, if you conclude that if you put a bunch of salted lug nuts in front of beer drinkers watching Monday Night Football, they would scarf them up - that is exactly our point.

The hot wing exists because some shrewd NY restaurant owner segmented customers, developed a marketing plan and was able to extract a premium price. Banks that are serious about margins, do this with great success. Instead of a generic product that competes on price, these high performing banks have created loan, deposit and service products that fill a particular need for a customer type. As one banker told us, "Any time you can identify specific characteristics which, in aggregate, potentially comprise 3% or more of your customer base, it is worth having a specialty product."

10Ys ago, it was enough to divide customer segments by generic type, such as small business, retirees, students or homeowners. Marketing is now much more specific. Laser-focused banks now divide groups into such categories as professional small businesses, active travelers or university students. It is also no longer about offering a single product, but a product bundle with checking, savings, working capital lines, cash management and term loans all rolled into one offering. While pricing, tiering, fees and attributes all need to be in-line, banks can go far with just a little creativity.

One innovative bank has had success with their "Culinary Delights Account." In addition to savings and checking, users get a discounted restaurant card (purchased from a 3rd party, but branded with the bank's logo), specials on wine purchases, a recipe-of-the-month and themed checks. The program costs about \$55k to administer, including a part-time employee, but with an average rate of 1.00% for the money, the bank is able to save more than \$90k on \$4mm+ of balances versus competing bank's rate-based offerings. More important than cost, these are generally less interest rate sensitive customers. In today's environment, this is vitally important.

Success comes in a variety of packages and is only limited by imagination. Just as a bank might have a strategic planning retreat, having a marketing retreat, may help brainstorm several target markets and associated products. Banks can offer the same generic products and compete on price, or it can innovate and protect margins. Who knows, with a little thought, you might figure out a way to have a bank filled with profitable beer drinkers.

# BANK NEWS

## **Branching**

You have undoubtedly read the news about Starbucks closing 600 stores due to profitability. From our profitability data for 2007, we found that a full 20% of community bank branches were unprofitable. 13% of those actually lost money. In 2008, it looks like that number of unprofitable branches could be up to 32%. At your next strategic planning meeting, consider what branches you might want to close in order to boost profitability.

## **Home Equity**

Delinquencies in HELOC rose the most on record (record keeping started in 1987) with a 14bp increase for 1Q. This brings total 30-day past due accounts to 1.1%. Of interesting note, home equity defaults are a lagging indicator as they don't peak until late in a downturn. In related news, the FDIC issued guidance for banks looking to reduce or suspend home equity lines.

## **Other RE**

The FDIC issued guidance on how banks should be monitoring, accounting, managing, protecting and reporting "Other Real Estate" such as bank owned property.

## **Stop Order Lifted**

The FRB has lifted a 2Y "Cease and Desist" order against First BanCorp and the Bank of York. First BanCorp was ordered to revise mortgage portfolio results and could not receive payments from a subsidiary bank without regulatory approval.

## **Office Closing**

TierOne (\$3.4B, NE) is shifting efforts to bank branch lending in Iowa, Kansas and Nebraska, closing 9 loan production offices across the U.S. These offices issued loans for commercial and residential construction.

## **Credit Union**

In a trend that you will be hearing more of, the NCUA shut down Sterlent Credit Union (\$95mm, CA) due to credit issues.

## **Pulling Funds**

Depositors withdrew \$100mm in funds from IndyMac after NY Senator Schumer went public with his letter to federal regulators concerning the agency's ability to sustain an IndyMac failure.

*Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.*