BANK MARKETING IN DEFLATIONARY TIMES

by Steve Brown

For the first time in 70Ys, prices for most goods are dropping in what amounts to a deflationary environment. Over the past 2 days we covered some micro and macro ideas to help a bank's bottom line. Today, we focus on positioning bank products to increase sales against a backdrop of recessionary deflation.

In an economic downturn with falling prices, aggregate demand shifts down, causing producers to cut prices. Banks have an advantage over other industries (such as autos and widget makers), in that banks do not use substantial material inputs and do not have to keep an inventory. Because banks deal in intangible sales, they can afford to be less price sensitive than other manufacturers. However, banks maintain a fairly high overhead structure and the human capital is not without cost. As a result, banks would further benefit from adjusting product fees and rates in order to attract greater demand.

In addition to lower price sensitivity for intangible products (since buyers never really know what price to put on safety, convenience or other features), such products also suffer from the problem of cannibalization. That is, when a household purchases an oven and that oven goes on sale 2 weeks later, most will not purchase another oven at that lower price. Depositors, by contrast, actively move funds to a product with lower fees or will bring over other funds if the opportunity is right. Because of these characteristics, banks must be very careful how they attract customers. Instead of lowering fees or changing rates, high performing banks often reframe the value proposition of a loan or deposit product. This allows a greater appeal to the customer, while limiting the cheapening of the brand and slowing cannibalization affects.

The best way to reframe the value proposition is to have products and services that are unique. In a deflationary environment, commoditized products get hurt the most, as price sensitive customers substitute one bank product for another (like checking accounts). Here it pays to have (and market) a set of unique characteristics around a product or bundle of services. One bank used the cell phone concept of a "Friends and Family" account. Here, each family member received reduced fees, special CD breakage features and a "private banker." While nothing unique, the combination of services and pricing structure, combined with quality marketing, made this bundle standout from the competition.

Another way top performing banks are increasing customer appeal is to transition accounts to a subscription model. Hertz rental car just employed this tactic with great success. While normally it takes 45 rentals per year to be part of the Company's "President's Circle," Hertz allowed customers with 20 or more rental days to join for an extra $250 per year. The move not only brought in extra revenue, but also highlighted which customers where not price sensitive (and thus a base for future promotions). Banks do the same thing by forming similar "President's Clubs," "Platinum Vault Customers," or "Gold Businesses." The trick is to extend a set of premium banking features to other customers that are willing to pay for the privilege (without having the necessary account or loan balances).

Another tactic is to get dirty. This one is always tough for genteel bankers, but we are talking about survival. Marketers call this "branding jujitsu" and it is the art of taking a branding point from the competition and using it against them. If you ever thought a competing bank was not offering the value that you do, now is the time to bash the competition. In tough times, the message resonates more and better aligns your institution with the feelings of the new economic reality. As the picture shows, McDonalds did this brilliantly last quarter when they called attention to Starbuck's pricing.

If reworking your pricing strategy was not already covered in your strategic planning session, jot the task on a whiteboard and get going. Your customers are waiting for a better deal.

BANK NEWS

Small Business Lending

SBA is reporting its 7(a) program loan origination tanked 57% in its fiscal 1Q of 2009, compared to the 1Q of 2008 (2009 was also down 62% from the 1Q of 2007). Finally, the dollar value of loans fell 40% compared to last year. Tighter lending parameters and lower loan demand were the primary catalysts.

Cost Cuts

A survey finds 79% of employees who travel say they have been pressured to cut costs. Companies are emphasizing meeting new clients and supporting existing clients; while cutting back on conferences, trade shows, training sessions and nonessential internal meetings.

Bankruptcy

Consumer bankruptcy filings climbed 33% in 2008 as the recession continued to expand.

Offices

Rent dropped in 65 of the 79 major office markets tracked by REIS, averaging 1.2% across the nation. Vacancy is up by 1.8% to 14.4% for 2008.

Housing Sector

An updated report finds home prices nationwide are down an average of 25% from the peak reached in mid 2006. Additionally, during 2008, US homes lost $2T in value compared to the prior year.