CABLE VERSUS NETWORK TV

by Steve Brown

Consider the difference between network and cable TV. These are two seemingly similar mediums, but two completely different business models. The network model has the goal of getting you to tune in to specific programs such as House or CSI while collecting advertising dollars based on viewership. Premium cable, on the other hand, tries to capture your dollars by getting households to subscribe. Sporting events, True Blood, Jon and Kate Plus 8 and the Food Network give premium cable enough programs to make you want to pay the $65 per month in order to gain access. Once a household is hooked on cable, it becomes a valuable revenue stream, as retention rates (not counting households that move locations) are an astronomical 92%. Even in a recession, of the two models, network TV produces more profitable programming (American Idol is the post profitable show on TV), but cable is more valuable, due to the stability of the revenue stream.

In banking, this comparison is an important one, as many bankers are acting more like network TV executives and are still chasing transactional business. Like network programming, such business can be wildly profitable, but it is also more volatile. Meanwhile, banks that focus on relationship banking and provide services that generate interest income and fees on an ongoing basis, are proving to be a more profitable model. This is one reason why we love the cash management business, as it holds customers attention day in and day out.

In looking at 1Q data, a correlation continues to emerge between products per customer and profitability. Looking at a sample of 55 banks, we found 77% that have a product per customer ratio above 3, produced greater profitability in 1Q versus the 4Q. Comparing this group to banks that have less than 3 products per customer, we found those banks that increased earnings from 4Q go 1Q dropped to 38%. Granted, this is a small sample taken over a very limited time period, so drawing conclusions of any sort can be wide the mark. In addition, the definition of "product" is still developing and is not consistent among banks. Those issues and others aside, however, the data does seem to provide interesting insight.

If one takes a look at the micro-economics, things become even more interesting. Retention rates are more than 10x greater for banks that have more products per customer, giving them a stronger "hold' on their clients. Since marketing dollars for maintenance are far less than for new customer acquisition, banks that have higher products per customer can afford to devote more targeted resources to new customer acquisition. As a result, new customer conversion rates for banks with more products per customer are also 20% higher. These are all probably key reasons why Wells Fargo is such a believer in focusing on products per customer. For banks, developing higher margin products is critical, but so is the development of products that will build a subscription revenue stream (either in the form of fees or in the form of capturing greater deposit balances). At present, the development of cash management /savings tools is a huge push with many banks for just this reason.

While both the network and premium cable TV models have taken hits in the recession, the cable model has fared better. Viewers, it turns out, may downsize their cable package, but they are slow to do so and are very susceptible to "value marketing." The networks on the other hand, are at the whim of just a handful of major advertisers that are very price sensitive. As a result, the networks have had to reduce margins.

Our favorite show, Entourage is starting up in the next couple of weeks, so we are not about to cancel our cable subscription. As a result, cable TV, like relationship banking, is in a slightly better position to excel in a recessionary environment. Long live the couch potato and the community banker.

BANK NEWS

504 Refi

A permanent change to the SBA 504 program allows small businesses to refinance eligible debt to improve cashflow. Borrowers may refinance the debt if it was incurred to acquire land, construct a building or purchase equipment; is collateralized by fixed assets; was incurred for the benefit of the small business; is a substantial benefit to the borrower (after prepayment penalties, financing fees and other costs are taken into account) and the borrower has been current on all payments for at least a year.

CRE Values Lower

Moody's calculates property values fell 8.6% nationwide on commercial real estate in Apr, falling to levels last seen in 2004.

TARP Warrants

The Treasury is expected to provide guidance on how banks can price and sell TARP warrants within the next few weeks.

Love & Money

A survey conducted by Findlaw.com found that, due to the recession, 21% of couples are putting off marriage and almost 25% of respondents are delaying having children. The survey found an inverse relationship between income and such delays in life decisions.