FINDING CUSTOMERS IN HAYSTACKS

by Steve Brown

While customers abound, finding good ones can be as difficult as locating a needle in a haystack. Because of that difficulty and because we want community bankers to win, we have done some research and analysis to help in this regard.

Email is a great way to start. About 50% of people check their email 4x per day and 20% check 10x times per day, so if you want to contact customers, this is very cost effective way to get in touch. Capture email addresses (and cell phone numbers) for all of your customers to ensure you have a ready-to-use database of contact information. Research shows bank email campaigns achieve open rates of over 40%, compared to about 1% to 3% for most snail mail campaigns. Email is an inexpensive, easy and effective way to market to customers.

It is also important to set up a process. A study by Javelin Research uncovered that 42% of people that open an account with a bank actually prefer to receive email communication from that bank, compared to 24% that wanted to get snail mail and 12% that wanted to get a personal phone call. No matter your structure, when you open a new account, calendaring follow up is critical because the first 45 days are all about making sure the new customer gets comfortable with the bank. This ties things up so you can follow with the cross-sell in days 60 and beyond.

Asking questions at the branch remains important. Many customers still find their bank based on geographic proximity and business owners wander into the branch from time to time. As such, it is important to train employees to assess new customer needs before making any recommendations. Nothing makes a business owner more frustrated than an off the cuff product suggestion without any context. Training is critical here, because while many banks may think their staff is doing just fine, studies find 20% of customer-facing representatives will only offer one option to the client, while another 16% simply provide a list without making any recommendations.

Timing and persistence matter. Studies show 30% to 40% of all new clients will leave the bank within a year. While some of this research is skewed as a result of banks running CD specials in an effort to raise quick deposits, the point is still a good one. Banks that have a clearly defined process to follow up and stick to it stand a better chance of beating out competitors and attracting even more new clients. Banks focused on a product sale to a given group of customers should know that it will take up to 12 contacts to get anyone to take action. On average, studies show 80% of most new sales occur after the 5th contact is made, so persistence and process are critical.

Build it and they will come. These days, studies show customers want to be able to do lots of things online. These include checking account balances (83%), monitoring recent transactions (55%), transferring funds (51%), paying bills (46%) and completing new account applications online (9%). Banks should still focus on enhancing online offerings.

A little preparation goes a long way. One of the most effective ways we have seen banks capture new customers is to spend a little time preparing in advance. Start by building a profile of the most profitable current customers of the bank. Then, find existing customers that like your bank and ask them if they know anyone who might be a good fit. Incent the customer to drive in new business to you and focus on those that are advocates of your bank (they have been shown to provide about 12x as many leads as other customers). Clearly focus your promotions to capture only those clients in industries you want to bank. Capital is scarce, so a focused approach is critically important. Tie all that in with free seminars, plugging into community groups, supporting community events and forming strategic alliances and your bank is well on its way. Finding that good customer within a stack of marginal ones can be difficult, but it can be done. Staying focused, planning and moving forward diligently gives banks a good chance of finding that needle in the haystack.

BANK NEWS

Banks 2Q

FDIC insured institutions took a $3.7B net loss. Earnings were hit by $3.6B in ABS CP writedowns, higher loan provisions (totaled $66.9B) and the special assessment (cost $5.5B). Chargeoffs rose to $48.9B, with noncurrent loans totaling $332B or 4.35% of loans (a 26Y high). Overall, 28% of banks had a net loss, up from 18% in 2Q 2008.

DIF

The fund shrank by $2.6B to $10.4B at the end of the 2Q (lowest level since 1933) with the deposit ratio falling 5bp to 22bp. The FDIC has set aside $32B, up from $28.5B in the 1Q, for potential failures. In a comment about another special assessment yesterday, FDIC Chair Bair said "we're not there yet," but added it will be determined after looking at 3Q data. We say 5bp is highly likely for 4Q.

Problem List

In the 2Q, the number of problem banks on the FDIC's list (not available to the public) rose 36% to 416, with assets totaling nearly $300B.

Housing Inventory

The inventory of unsold homes that reached 14.3 months in Jan. has fallen to 9.4 months in July.