

## CHEWING ON THINGS THAT IMPACT PROFITABILITY

by [Steve Brown](#)

We find it quite interesting that every year dogs consume more than 7B Milk-Bone dog biscuits. At 1.5 inches each in length, that is a lot of biscuits and if stretched end to end would circle the globe nearly 7x's. When you think of it that way, no wonder so many dogs have gleaming white teeth. What have biscuits, dogs and teeth got to do with banking you might wonder? Well, Kraft owns Milk-Bone - selling that many treats is quite profitable - some community bankers have dogs as pets and all community bankers are interested in profitability. So we just figured why not dump them all together as we focus on profitability.

A recent survey of thousands of corporate business leaders worldwide surfaces some interesting perspective community bankers may want to chew on when it comes to the top internal factors these captains of industry say most impact profitability.

Ranking right at the top of the list is operational efficiency, which edged out the impact of the management team. Given so much global stress, we probably shouldn't be surprised 81% of executives said improving efficiency is expected to deliver the biggest impact. For community bankers this does not come easy. Since the crisis began, few community banks have closed branches and staff cuts have been limited. This process is difficult for anyone, but when you compound it with an organization that is also closely tied to the local community, it becomes even more difficult.

Executives still expect management teams to have a significant impact on profitability, however. Cited by 74% of those surveyed, success is driven by a strong management team. Those that can adapt and manage costs, while expanding profitability can do wonders for community banks. Stress is everywhere and there is no time to delay; so bankers should move to identify unprofitable units, branches, products and services and discontinue them to improve overall profitability.

Pricing flexibility is another key factor in improving profitability. Cited by 58% of CEOs surveyed, modifying product pricing to meet ever-changing customer needs, but holding onto profitability is more important than ever. Decide what kind of bank you are, challenge your managers to focus on the bottom line, review customer value and modify pricing to support each area and you are well on your way to enhanced profitability. Move to understand why certain product pricing is structured the way it is, how it directly impacts customer behavior and what is gained or lost when that pricing shifts.

Customer loyalty was named by 52% of those surveyed as an important item impacting profitability. We couldn't agree more, as a happy customer tends to buy more services and community banks are great at delivering customer satisfaction. Here, we suggest bankers adopt consistent training, track employee performance and reward proper behavior to ensure what the community bank is known for never gets lost.

Finally, 48% of executives said compliance costs significantly impact profitability. Given all of the concern over excessive risk-taking, it is no wonder that risk management and board governance have increased in significance. Banks should focus on delivering quality risk management around a

standardized approach and then move to get plenty of management and board input (to make sure risk/reward are balanced across the bank).

Focusing efforts on each of the tricks outlined above will not only deliver outstanding performance to the bank, but ensure both employees and customers remain happy, as we all stand at the door and wait for industry conditions to turn around.

## **BANK NEWS**

### **Bernanke**

The Fed Chair said the economy should grow slightly next year, but "significant economic challenges remain." He also clarified his position on 'Too Big To Fail', saying "banks can still be systemically critical, even if they're somewhat smaller."

### **CMBS**

According to Fitch delinquencies in CMBS climbed 28bp in Oct. to 3.86%, as hotel delinquencies jumped to 6.81%. In the office sector rates bumped up to 2.29%, retail reached 3.55%, multifamily hit 6% and industrial was 3.09%.

### **Commercial**

A survey by PWC projects commercial property prices will hit bottom in 2010, after sinking 40% from their peak levels reached in 2007. Have you run that stress test yet?

### **Multifamily Trouble**

As of 3Q, there were 1,133 apartment communities in some form of default, foreclosure or bankruptcy for a total of \$17.7B. Apartments ranked just behind retail and construction in terms of troubled assets by sector.

### **Bankrupt**

Equifax reports small business bankruptcies soared 44% YOY as of the 3Q of 2009.

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