OFFENSE OR DEFENSE Ã¢Â€" POST RECESSION PLANNING

by Steve Brown

Now that major league baseball is underway, baseball managers everywhere must constantly make the decision how best to position their team between offense and defense. Carry too many hitters on the roster and you may give up runs on defense. Invest in a high quality pitching staff and some great fielders and you may not have the offensive power to put the game away. In baseball, as in banking, there is an elusive balance between offense and defense that eludes all but the top teams.

While last year, many banks were all defense, signs of economic life, stabilization in CRE portfolios and the potential for higher rates in the near future now have bank mangers asking Ã¢Â€" "What is the best strategy coming out of a recession?" A recent Harvard Business School study looked at corporate performance for 4,700 public companies and analyzed how strategic decisions during a downturn impacted performance 3Ys after the downturn for the past 3 recessions ('80 to '92, '90 to '91 and '00 to '02). Their findings are startling and have implications to how community bankers set a course for the next several years.

For starters, 17% of analyzed companies didn't survive a recession. They were either acquired, taken private or went bankrupt. Almost all the rest didn't regain sales or profits at the end of the 3Ys of study. However, the sole exception was a small 9% of the companies flourished after a recession and did better than prior to the recession. What is better, these companies out performed their rivals by an average of 10% in terms of sales and profit growth.

To understand how these firms did it, the study placed companies in 4 categories and then looked at the correlation of those measures on performance. These companies and their performance broke down to the following, in order of effectiveness: - companies that just cut costs across the board (these firms did the worst with only 21% of the companies producing above average industry performance), companies that solely took advantage of opportunities (26% of these companies became industry leaders), companies that combined both cost cutting and looked for opportunities (29% outperformed the industry average) and companies that cut selected cost and went after strategically important opportunities (37% outperformed).

The last group of top performers did the best when in came to defense by improving operational efficiency. Instead of slashing employees, these companies targeted expense reductions that resulted in long run, not temporary, improvement of margins. Selective cuts in overstaffed areas (these companies cut the fewest staff positions), investment in technology and redesigning process were all hallmark management decisions of the 9% that outperformed their peers. In addition, these companies just didn't go on acquisition binges to buy cheap assets, but chose the downturn to purchase assets that increased capabilities or expanded market share. Common offensive moves of these top performers included new product design, increased marketing (almost all top performance increased marketing expenses), expanded sales resources in core and profitable markets and acquisitions. Asset purchases by this group usually always were in areas where the company's lower cost structure and core competency could be leveraged.

Pursuing a dual strategy that includes both expense reduction and strategic investments is never easy. Banks that take steps now to bring their efficiency ratio below 65%, while looking for assets and opportunities that are attractive for other reasons that go beyond just price should show the best sales and cash flow after this recession. In fact, the study predicts that if banks can pull that off, they should be able to generate 13% annualized growth in sales and a 12% growth in cash flow Ã¢Â€" numbers that could keep you in pennant contention in almost any league.

BANK NEWS

Vacancy

Office vacancy rate rose to 17.2% percent, a level unseen since 1994.

No Contact Visa

Visa announced that it will expand its "No Signature Required" Program for magnetic strip transactions that are less than $25. This Program now covers about 98% of all card merchants and is a defense against other "contactless" competitors.

Not Enough

A report from the Employee Benefit Research Institute finds 27% of workers say they have saved less than $1,000 for retirement (not including value of primary residence or defined-benefit plans).

NIM Around the World

Net interest margin for 4Q for the top banks in each country show the following: Brazil (7.9%), Russia (6.7%), US (3.4%), India (3.1%), China (2.4%), UK (1.6%), Germany (1.2%) and Japan (1.2%).

Glitch Rich

Resulting from a technical error at SunTrust Bank, a customer's checking account balance ballooned to $88,888,888,888.88. A similar error occurred with several other customers, though was corrected within 5hrs.