DISBAND MARKETING

by Steve Brown

The other day we had to fill out a marketing survey for a well known bank trade association. The survey asked about promotions, pricing strategy, television spending, radio placements and direct mail. It talked about measuring brand performance by market share and aggregate sales. The questions probed about the broad segmentation of customer groups such as women, Hispanics and 20-somethings. In short, the survey was stuck in the era of Mad Men.

It is no longer 1960. Banks now have powerful technology to tailor their products, pricing and marketing directly to the customer. We have the ability to accurately tell that a car dealership is multiple times more profitable than a florist and a plastic surgeon is 2x more profitable than a veterinarian. We have the data and methodology to deduce interest rate sensitivities in order to come up with a strategy that allows for different pricing by customer in order to build lower cost, higher balance and less sensitive depositors. Never before seen tools are at our disposal that not only allow us to reach a wide, targeted customer set, but to interact with them. As an industry, we must forget about mass marketing and become customer-centric. We need to redesign marketing.

In 1980, if bankers wanted to market, they would blanket a huge swath of customers simultaneously using a one-way medium like radio or newspapers. Their response rate was measured in tenths of a percent and their ROI, if they even measured it, was negative. In 2010, banks can now purchase geo-coded "Ad words" on a search engine for about $750 (depending on area and word) that puts the bank on top if a person in their local area searches for "Business Checking." Response rates are now in the 20% range and ROI is easily in double digits. However, that is nothing compared to a campaign of going after your own customers through your profitability system to cross market a goal-oriented savings program for high interest sensitive customers in an attempt to lower funding cost. That response rate is usually close to 60%, with ROI measured in the triple digits.

As an industry, we need to stop thinking in terms of products and reorient ourselves to viewing solutions through the customer's eyes. The mind set of "we need to build loan volume" or "let's cross-sell checking" drives banks to think in terms of products. Contrast this with the thought of "ABC Doctor's group has a buildup of cash and we might suggest purchasing their own building given lower real estate values," which starts sales and marketing groups to think in terms of the customer. The internal mindset change is critical into really believing the bank exists to service the customer instead of just building a loan portfolio or gathering deposits.

This customer-centric mindset has really only become possible in the last several years. The rise of the Smartphone, online banking and the expansion of technology now allows community banks to service their customers on par with any large national bank. Social media is relatively free and allows never before access based on one-to-many interactive communication to select micro-segments of customers. Banks can (and do) have Linkedin communities for small businesses, sites for women-owned businesses and Facebook pages for professionals interested in finance. Each allows a bank to gather exactly the customers they want by a positive self-selection process and then interact with them on a daily basis.

Marketing at banks needs to be disbanded and redesigned to stop thinking about "brand value" and start thinking about "relationship value." New metrics need to be tracked and a top-down focus around the customer needs must be instilled in the organization. However daunting this seems, the shift to long-term relationship profitability and micro-segmentation is inevitable. This shift has already occurred for the credit card operations of many banks and will soon be the only competitive way to serve the broader customer base. This is an initiative that needs to be considered for this year's strategic planning session.

BANK NEWS

Thrifts 1Q

The industry posted a $1.82B profit, more than quadrupling 4Q earnings. Thrifts carried $31B in problem loans, with 5.15% in noncurrent 1-4 family loans, 14.42% in noncurrent construction/land loans and a marginally less 2.66% in noncurrent commercial loans. The problem thrift list grew to 50 in 1Q, up from the previous high of 43 in 1993.

SBA

The $375mm program that increased guarantees and cut fees will be out of funds this week. However, Congress is expected to extend this program a 5th time.

Small Biz

The White House pressed Congress to pass a proposal providing $30B to community banks for small business lending. The draft stipulates the banks receiving funding will be paid based upon a sliding-scale from 1% to 9%. The scale compares to whether small business lending had increased or declined from 2009.