jETBLUE AND ADAPTABILITY

by Steve Brown

To clear things up, in Origin of the Species, Charles Darwin's theory of natural selection is based not on the "survival of the fittest," for that was someone else's phrase interpreting Darwin's work. What Darwin said was - "In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment." In other words, it is about adaptability.

When CEO David Neeleman launched jetBlue Airways in Feb. of 2000, the airline landscape was littered with failed companies. Then 9/11 hit on the very day jetBlue was supposed to go public. Faced with empty routes, negative cash flow and general fear; he had to operate on pure instinct. Neeleman realized that if he played defense, he would never be able to grow sales fast enough to become profitable. He then made the decision that may be the playbook for many bank CEOs.

jetBlue decided to expand into routes where competitors cancelled flights in order to grab market share. To do that, he took $20mm of capital from the $5B airline bailout fund. Neeleman then promoted a unique marketing message. Instead of the common, "Let's get America moving again," jetBlue's message was, "We know you need time to heal. jetBlue will be here when you're ready to fly again." The message resonated. Finally, instead of cutting expenses, he expanded training with the hopes of increasing productivity of his employees. All moves proved successful.

While jetBlue's moves can serve as an apt playbook, we would like to especially underscore Neeleman's adaptability when it comes to retraining employees. Given lower loan growth, opportunity cost is such that now is the time to make a capital investment in bank employees. Taking them offline and working on improving customer service, sales skills, product knowledge and leadership is the key for long run success.

Take loan officers for instance. Many successful loan officers were experts at structuring transactions. They were deal driven. However, skills that are needed to negotiate and book a loan are very different than the skills needed to research, market, sell and bring in a complete banking relationship. Given lower growth, loan officers need to adapt and learn more about deposit products, be conversant in cash management, spend more time understanding the customer's line of business and manage a slower but more profitable sales cycle. The same can be said for branch personnel and executive management. Giving everyone a refresher in bank products and sales skills will pay off many times over in the future when business picks up.

They call it "dispositional flexibility," or the ability to adapt to a new situation. jetBlue did it back in 2001 and it remains embedded in their culture. This is why they are now the 6th largest US carrier and one of the few with a record of consistent profitability. As the economy show signs of life, banks should move quickly to set up for the future, increasing marketing, training and even corporate restructuring; in an effort to more nimbly grab profitable market share. There is no better investment a bank can make than in its own people. Those that are trained to adapt will ensure their bank remains the fittest in the market as they fly off into the sunset.

BANK NEWS

Closed (YTD #26):

The Bank of Commerce ($163mm, IL) was closed by the FDIC and sold to Advantage National Bank Group ($504mm, IL). Advantage captures 1 branch, paid a 0.10% premium for all deposits and entered into a loss-share transaction on 89% of assets

Higher Rates?

Philly Fed President Charles Plosser (voting), surprised the markets on Friday by saying the Fed should start raising interest rates from their current level of near zero to 2.5% within the next year.

Margins

According to FINRA, equity margin debt is ballooning and at last count weighed in at $350B, equivalent to 2.2% of total market cap, one of the highest percentages ever.

Back In the Game

Corporate executives are beginning to spend the record $940B in cash stockpiled after the credit crisis began, as M&A activity has mushroomed to $256B this quarter (the most since the Lehman collapse back in Sep '08). Meanwhile, companies in the S&P 500 have authorized 38% more in stock buybacks and are expected to increase spending on infrastructure by 22% this year (the most ever).

Housing Stress

At the end of last year, 23% of those with mortgages (11.1mm people) still had mortgages that were underwater, according to CoreLogic Inc.