THE POWER OF A GOOD STRATEGIC PLAN

by Steve Brown

While we talk often about what makes a good strategic plan, there are a few things that quickly reveal a bad strategic plan. A poor plan is vague, states the obvious or just provides a set of objectives. In contrast, a good plan recognizes a difficulty and creates a vision of how to overcome the challenge. One obvious way to address strategic planning is not to have a plan at all. Next to having a good plan, having no plan is the next best option. Without a plan, at least the bank isn't spending needless resources on strategic direction. While the regulators might not like it, from an economic standpoint, not having a plan is in fact a plan. You are simply saying you are going to keep on doing what you are doing. If management believes that the current mode of operation can work in the future, then there is really no need to change. However, given the environment is changing so rapidly, nearly all banks can probably benefit from a good plan of action. Another hallmark of a bad plan is one that uses objectives in place of a strategy. "We are going to grow loans by 10%" is not a strategic plan, but an objective. This is analogous to someone telling you to be in southern China on Thursday - you may have a goal, but it is vague and they didn't tell you how to get there (or what constraints you have). Objectives tell you an endpoint, but they are not a plan in and of themselves. Another example of a bad plan is one that is unclear or states the obvious. One of our favorites is "Our fundamental strategy is one of customer-centric intermediation." Yes, this bank is "customer-centric" in that they provide good service to their customers. Yes, they want to "intermediate" their customers (make loans and take deposits). The problem is that essentially, the plan was an MBA-way of saying the fundamental strategy was to be a community bank. A plan that states the obvious, such as "we want to growth the bank for our shareholders, while pleasing our customers" will likely do anything but. A good plan is more than words Ã¢Â€" it is a coherent strategy on how to drive more value at certain key points of the organization. From a high level, a good strategic plan tells you clearly how you are going to gain and/or exploit a competitive advantage to better your competition. A plan is not a laundry list of what you would like to get done over the next 3Ys, but a map of how to get from point A to point B. It is a diagram of how your bank will focus resources on a select number of areas that can be positively exploited. A good plan indentifies the nature of the challenge and then creates a path to overcome the set of obstacles. A great plan will do this by creating a strategy that will set it apart from the competition in the marketplace. Let's say your bank senses that the economy will be stalled for the next 5Ys and wants to re-architect itself to compete on loans with a sub-3% margin. A good plan will discuss how to indentify quality customers that are worthy of the lower margin, while identifying how the bank will more efficiently produce loans at a lower cost of credit than peers. This plan might include enhanced technology to help in underwriting, monitoring profitability or credit management, in order to bring production costs down. The plan could also include a way to hedge or manage fixed rate loans, so competition is reduced. In addition, the plan could discuss how fee income lines, such as insurance or additional add-on services, could supplement lost margin. Blockbuster Video is a good example of a company that failed to indentify challenges brought on by technology. Netflix in contrast updated their plan to acknowledge the increasing power of technology. While it may seem difficult to pull top management away from their daily duties to sit in a room and plan, we can tell you that there are few other better endeavors in which to make a long term difference. At this year's strategic planning session, challenge yourself to make sure your plan isn't at a crossroads.

BANK NEWS

Bank of America

The FDIC has filed an objection to the Bank's proposed $8.5B settlement related to mortgage bonds sold by Countrywide, saying it doesn't have enough information to evaluate the proposal. In other news, the Bank sold about 50% of its 10% stake in China Construction Bank to a group of sovereign wealth funds and institutions for $8.3B. Finally, the Bank is also reportedly finishing work on a restructuring of its consumer units that could cut 10k jobs.

CU Assessment

In an effort to help cover corporate credit union losses, the NCUA has approved a temporary assessment of 25bp of insured shares (deposits) that will raise about $2B. NCUA analysis indicates the assessment will reduce industry ROA by 21bp, push 811 credit unions from a profit to a loss and drop 81 credit unions below well capitalized.

2Q Earnings

A closer look at industry earnings for the 2Q finds that while banks earned $28.8B in the quarter, revenue fell 4.4%, about the level of 2005. Some analysts now project revenue could fall another 5% through 2012, which is one reason large banks have already launched cost control programs and announced layoffs.

Bill Pay Promotion

We are looking for data on any bank that has tried a sweepstakes in order to get customers to use bill pay. For example, we have heard banks doing a prize drawing where each customer gets one entry per bill pay (up to 30 per customer) over a 3 month period. A bank would give away $6k for 1st prize, $1k for 2nd and $500 for 3rd. We are interested in reviewing data to determine profitability for any banks that have run such promotions.