WHAT YOU CAN LEARN FROM A CUPCAKE ATM

by Steve Brown

In Los Angeles, there is the Sprinkles' ATM. Instead of dispensing cash, this ATM automatically pumps out darn good cupcakes in 7 flavors, 24 hours per day. This is serious business, as oftentimes there is a line up to 50 people deep. Sprinkle's sells 700+ cupcakes from the machine per day. No surprise, the longest lines occur between 11pm and 3am, when patrons seem to develop acute munchies after a night on the town. Next door is the Sprinkle's store that sells the same cupcakes and in more varieties. What is interesting is that customers prefer the ATM during business hours. In fact, according to the manager, many clients would rather wait 10 minutes to use the ATM than walk into the store. Now, granted a cupcake-dispensing ATM is a novelty and worth waiting in line to use, but part of our point is that if you can create something innovative and fun, people prefer automation to traditional face-to-face service. More to the point, not only is the cost of delivery cheaper, but the customer also gets the service whenever they want. We are not here to tell you that the branch is dead only that the traditional branch is dead. Sprinkle's, it turns out, represents the vanguard in banking. While the Company was innovative enough to be the first to sell cupcakes on a standalone basis, cupcakes are now a commodity. The store has stayed ahead of the competition by continuing to innovate with customized cupcakes, overnight delivery and the ATM. They have kept costs in line by keeping their stores simple and small. Their growth pattern has been to find good people, in key demographically-affluent areas and build a store around them. They have 10 locations nationwide and if you ever think small business is unsophisticated, consider that these locations were quantitatively chosen. It is no coincidence that 9 of their 10 locations happen to also be in some of the best markets for deposits. They exhibit strong growth, low price sensitivity, positive household formation and high income (only their AZ location doesn't match with branch profitability). Like community banks, Sprinkles goes out of its way to create ties to their community, having a substantial ($3mm) investment and donation program. They have also rolled out several forward-thinking marketing programs (like getting a TV show built around them), including a strong social media push (300k+ followers) and a complete online ordering application. To top it off, they have a mobile app for both the Android and iPhone platforms. If a small cupcake chain can handle this type of innovation in a commoditized product worth $3.50, then every community bank can. The roadmap to the platform for community banks is similar to Sprinkles - find good people, in a good location and instead of building a full branch, develop a series of what are essentially loan production offices. Keep the footprint small and simple, put big signage in front and connect the business development office with an imaged ATM or virtual teller to handle deposits, check cashing and transfers. Staff up with lenders and RMs that are close to the customer and you have a branch delivery channel that is about 40% cheaper than a traditional branch. Take that savings and plow it back into electronic delivery and increase your coverage even more. Sprinkles has a lower profit margin than the average bank, fewer employees, faces intense competition, has a limited number of customers to spread costs, does not have the ability to use leverage and has few barriers to entry. Yet, despite all these shortcomings, Sprinkle's manages to produce profitable double digit growth in each of their 7Ys of operation and has created a near-cult following of customers that wait in line for an hour to get a cupcake. The next time you hear an internal rationalization of why your bank can't innovate, market, branch or leverage technology; buy them a cupcake using Sprinkle's mobile app.

Related Links:
PCBB 2012 Executive Management Conference

BANK NEWS

M&A

Umpqua Holdings ($11.6B, OR) will buy American Perspective Bank ($259mm, CA) for about $45mm or roughly 1x book, as it seeks to expand in CA.

M&A

Alloya Corporate FCU ($4B, IL) will acquire Central Corporate CU ($1.5B, MI) and create the largest corporate credit union in the country serving 1,400 credit unions. Alloya is the former Members United and Constitution Corporate FCU's and reduces the corporate credit union network to 14.

Cuts

Capital One Bank ($204.6B, VA) said it has eliminated about 490 assistant branch manager positions nationwide, as it seeks to streamline its distribution structure.

Lending Slowdown

The Fed reports loans at the top 25 U.S. chartered commercial banks rose 0.4% in 1Q, slowing from 1.0% in the 4Q.

Booming Multifamily

Bloomberg is reporting that FNMA, FHLMC and GNMA sold $13.5B of securities backed by multifamily loans in 1Q 2012, an 81% increase YOY and the highest quarterly issuance since records began in 1993.

Fraud Count

So far, the SEC has charged 101 people with fraud tied to the financial crisis.