

GEOGRAPHIA & ADAPTING THE BUSINESS MODEL

by [Steve Brown](#)

Anyone who enjoys traveling to far away places owes something to astronomer Claudius Ptolemy. He wrote about cartography and compiled all that was known about world geography back in 150 AD and called his work Geographia or "The Geography." Ptolemy's work became one of the most famous written pieces on the art of map making. This is particularly interesting when you hear he wrote it all down on papyrus, which was certainly difficult when you consider he had to tell the world about coordinates, latitude, meridian, topographic lists and even provide captions. Speaking of traveling the world for ideas, we frequently get asked where we get the ideas for this publication. In short, they come from all over the place, including conferences, research, etc., but they mostly are the result of discussions with bankers just like you. We like to hear what is going on because we are always trying to improve ourselves, our products and our Company. We are also a very curious bunch, so we continually look for new and fresh ideas as we constantly ask bankers and regulators questions. We do so with an eye always on community banking because we love the business and we really enjoy seeing bankers get excited about something we have surfaced. Many of our customers tell us they are working to reinvent the business model, given the quantum shift in the industry. Opportunities to earn a decent return are scarce, regulatory workload remains exhausting and community bankers are tired. Over and over we are asked when the fun will return to the industry, why Washington seems to be so focused on driving community banks out of business and where other community bankers are finding success. There are no easy answers, so we won't pretend to tell you there are. This is a time in the industry of great strain and bankers are feeling pressure from all sides. Since most of you already have first hand experience in all of the issues we have just mentioned, we go further. Margins are contracting, small business owners are paralyzed and loan competition is extreme. Those things are likely to continue for the next few years, so the question is what can you do about it? First, our advice is to build your bank to operate effectively on about a 3% margin. The industry is heading there fast, so steps should be taken now to prepare. Difficult decisions will still have to be made, as the very structure of some banks will be deeply changed. Technology will have to be leveraged even further. Next, take steps to ramp up sales training right away. Forget about trying to figure out which training program is the perfect one or even who should be trained. Instead, send customer facing staff to sales training sessions offered by major players like FranklinCovey, etc. Focus on companies that offer needs- based selling classes, send your teams and once the training concludes, let nature take its course. Those employees who have a knack for it will thrive and those who do not will wash out. It may sound a bit harsh, but you cannot afford to wait any longer and your sales teams will have to pound the pavement to get the business, so put the most effective ones on the road quickly. As part of this process, send the senior management to get trained so you know what your sales teams will be facing and how to manage them better. The industry is changing rapidly and community bankers must change with it. That takes time, so the sooner you start, the better your results and the faster you can improve and adapt. As you do so and tinker with your business model, try a few different things if you aren't totally sure what might work and refine it as you go. Finally, we have a favor to ask. Please move the plant in the conference room to the middle of the table and stop watering it so much. It is very difficult for us to hear what you are saying and the listening devices we planted keep

shorting out. Have a great day, keep learning and keep making a difference in your own geographic community.

BANK NEWS

3Q Earnings

Citigroup reported a surprise profit of \$468mm, despite a \$2.9B write-down on its Smith Barney brokerage. Citi had strong trading revenue and continued to cut jobs and dispose of unwanted assets.

Major Competition

Google has launched a new financial services division in the U.K. focused on credit cards and business lines of credit. Products reportedly will allow users to pay for advertising on its site using a Google AdWords business credit card in collaboration with Barclaycard. The cards have no annual fees, initial interest rates of 8.99%, can be used for advertising purchases and can only be applied for with an invitation. Businesses can also take out a line of credit of between \$200 and \$10,000 to spend on AdWords. Google reportedly plans to offer the program in the U.S. and U.K., before rolling it out across the globe.

Elevated Cyber Risk

Defense Secretary Leon Panetta warns the U.S. faces the possibility of a "cyber-Pearl Harbor." He said foreign hackers could shut down the power grid, derail trains filled with chemicals, contaminate city water supplies, disrupt financial networks and damage government systems.

Data Breach

TD Bank reported it lost unencrypted backup tapes in March that contained account information, social security and driver's license numbers and birth dates of up to 267,000 customers nationwide. TD said it is not aware the information has been misused to date.

Big Balance Sheet

At the end of 2013, it is projected the Fed's balance sheet will increase from \$2.8T now to \$4.0T overall. Recall it was \$1.0T prior to the crisis.

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