

ASK A KID - EVERYTHING IS BETTER WITH KETCHUP

by [Steve Brown](#)

One outcome of the economic doldrums of the last few years, is that there have been very few large mergers or acquisitions of the size to make the equity markets take notice. There have been a few recent exceptions like Office Depot and Office Max and now Warren Buffet is acquiring Heinz. There is no doubt that Heinz is the dominant brand in the world of ketchup and if you don't believe it, take a moment and try to think of another one. We wonder if there is really room to grow a mature business like ketchup because after all, they give it away for free in tiny packets at fast food restaurants. Buffet doesn't usually make mistakes, so we dug a bit more to find out what is really going on here. Sure, ketchup is a slow growth, mature market in the US, but it turns out significant growth opportunities lie outside this market. It appears Berkshire also went about this acquisition in a different manner than usual. In order to add another level of expertise in finance, foreign markets and geographic diversity, Buffett took on a partner from Brazil. That firm, known as 3G, had this expertise already and they were an eager investor alongside the Oracle of Omaha. There is a lesson here for community banks of course. Community banks pride themselves on rugged individuality, which often translates into doing a lot of things internally. The world has changed over the years, regulatory complexity is extreme and bankers are rethinking their business model. Right now, it certainly makes sense to outsource mundane functions that unnecessarily tie up limited internal resources. Management can still get the results and reports it requires, but freeing up key people so they can focus energy on retooling the business model or maximize customer retention are critical right now. One such area to consider (and we can help) is by outsourcing your asset-liability management report generation and analysis. Such a technical and time consuming function does not have to be done by your staff and freeing them up to do other things, while ensuring you get the support, expertise and help you need is critical right now. To see what else you can outsource, ask your management team to come up with a list of specific items that if they no longer had to do them would save 20% to 30% of their time. Then sit down with each one, challenge the assumptions, figure out how time is being spent and start moving down the road toward outsourcing. Embrace it to get faster acceleration, offload technical jobs and cut costs. Waiting only costs time and money, so get some urgency if you really want to see change. Without it, people are very comfortable in the status quo, so you are likely to wake up at the end of the year looking much like you did at the beginning. To force change to occur, someone be a champion of the cause, so take that job on yourself and support anyone who joins the team of change to get things moving. To explore business opportunities, you might need expertise and outsourcing to free up time is one way to get there. Consultants can help move the bank down the road as they don't carry political baggage, as will hiring key employees with expertise or even capturing a team from a competitor. There are a number of ways to go about it, so consider what works best for your bank and get moving. We hope Mr. Buffett takes good care of such an iconic American brand as Heinz as he brings ketchup to the tables of the world. Interestingly, another holding of 3G's is Burger King, so we would guess Whoppers will be served with abundant ketchup in the near future.

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BANK NEWS

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The NCUA said it will allow Landmark Credit Union (\$2.1B, WI) to buy Hartford Savings Bank (\$187mm, WI) for an undisclosed sum. The FDIC now must approve the transaction to make it official.

M&A

Data by SNL Financial shows the number of bank and thrift transactions announced has climbed from about 140 in late 2011 to around 220 now.

Recovery

The Fed reports household wealth reached \$66.1T at the end of 2012, about 98% of the pre-recession high water mark. That news, combined with a surge in equities and rising home prices, has analysts projecting Americans finally recaptured everything they lost during the recession.

Housing

Bloomberg reports Bank of America is predicting housing prices will increase 8% this year, while JPMorgan Chase forecasts prices will increase 7% this year and rise to 14% by 2015.

More Cuts

HSBC (UK) will reportedly cut a total of 10,000 employees, as it seeks \$2.5B to \$3.5B of sustainable annual savings by 2013.

Still Spooky

The IMF has released a report indicating European banks remain fragile and the European Union has a lot more work to do to stabilize them. The IMF said European banks are still struggling to get funding for everyday operations and investors are wary of the debt load amid weak economic growth in the region.

Cleaning Up

The CFTC and other regulators are reportedly investigating whether high-frequency traders are washing trades and distorting equity markets by illegally acting as buyer and seller in the same transactions, according to the WSJ.

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