# PROTECTING THE BRAND AS YOU EVOLVE THE BIZ

by Steve Brown

If you want to see how much reputational risk can result from significant changes to a business model, look no further than JC Penney. Some time ago, the venerable retailer was concerned about losing market share in a changing world of retail sales, so they brought in a new CEO. They hired former Apple Stores leader Ron Johnson who promised to give Penney's a younger, hipper image. Johnson made big changes but unfortunately took a tone deaf approach to the store's core customers. Marketing shifted, discount coupons were eliminated and new pricing showed up on merchandise. The results were catastrophic as customers stopped coming in, sales tanked and Johnson was eventually fired. In his place, the board brought back a former Penney's CEO, who has been apologizing in the media and asking customers to come back ever since.

To armchair quarterback what happened, it doesn't seem like changing the look and feel of the stores or even pricing were the primary culprits. It seems more likely that management just didn't understand what made customers shop there, what they liked about the store and what they didn't like.

Community banks are facing a similar dilemma to department store retailers, as the landscape of business changes. This publication regularly extols the virtues and even necessity of having the technology and modern trappings to attract and keep sophisticated customers, but there is a balance. While striving to update and be relevant in the technology-driven world, community banks must never forget their core customers. Take the time to understand what is most important to those customers and be absolutely certain to maintain the qualities that drive them to your bank.

The data shows fewer bank customers are coming into branches and more are using the internet and/or mobile applications to do some of their banking. That said, customers still come into branches, primarily to do more complex business, so carefully analyze any moves before plunging into what could be very cold water indeed with major changes. Many of the largest banks still have a broad branch network, but there are often very few people in those branches and the staff is unqualified or unable to make many decisions. We wonder if the customer seeking to do more complex business that comes into the branch is getting the sort of service they are seeking. No wonder customers look online for solutions.

For community bankers, things aren't quite that out of control just yet. The community bank model is built around strong customer service and that is at the very core of what drives customers to do business with you. No matter the twists and turns of technology, be sure your branches have qualified, empowered people to take care of your customers and augment that with services to keep you relevant. Sure, people may come into the branch these days with a different viewpoint than they had 10Ys ago, but there are many more twists and turns yet to come before the branch totally goes away.

As JC Penney learned the hard way, building a solid reputation takes a long time, but tearing it down can occur quickly. Our advice is to be unafraid of change and embrace it, as you tinker with things and slowly evolve the business over time (rather than switching everything all at once). Your culture is your brand, so protect it, as you continue moving toward a changing future.

## BANK NEWS

**Warning**

An astute regulator reminds us that yesterday's article on targeting women with a program supported by financial advice should have included a reminder that gender is a protected class under all fair lending laws and fair treatment guidelines so be sure to consult with your compliance or legal staff on any new programs to avoid issues with discrimination.

**Rate Risk**

The Financial Times reports many of the top US universities have cut back endowment holdings of US Treasuries from as much as 30% in 2008 to as low as 0% in some cases. Endowment managers say they took the action because they are worried about the impact of rising rates.

**Lending Pressure**

JPMorgan reports junk bond yields have fallen below 5% for the first time ever as more and more investors chase yield. While not directly related, this pressure is also translating into the lending arena of community banks, with many telling us they are trying to hold the 4% level on longer term CRE loans, but seeing the largest banks dip in on some relationships with pricing as low as 3% now.

**Foreclosures**

RealtyTrac reports foreclosure activity in Apr. hit the lowest level in 74 months, as the housing sector gets better.

**Mobile**

The latest research by the Wireless Industry Association finds 34% of US households as of 2011 only use wireless phones, as land lines go the way of the dinosaur.

**Mobile**

Cisco reports that as of early 2012, the percentage of people in this country who owned a smartphone passed the 50% level.

**Capital**

Reuters reports more companies are raising capital by issuing shares "at the market." This term refers to selling stock on the open market, at the current price, usually in small amounts and over weeks or months (vs. selling a bigger chunk all at once). The cost to issue these sorts of offerings are reportedly 2% of money raised vs. 4% to 5% for more traditional methods. If you are seeking capital and have enough liquidity in your stock, you might want to consider this method as a less expensive option (even Bank of America did this recently).

**Location Aware Marketing**

In the world of mobile technology offerings, banks should note this term refers to the process of delivering online content (such as targeted marketing data based on proximity to a business) to users based on their physical location (leveraging phone GPS technology).