UNDERSTANDING CUSTOMERS & EMBRACING CHANGE

by Steve Brown

Some people spend money they just don't have. While tightening up a belt around their wallet may lead them to think about things a bit more, it isn't likely to change the behavior of this group. Change can be difficult and as we all saw with our prior discussion of the changes at retailer

JC Penney, it also serves as a lesson to bankers. After we wrote about the impact of the changes at JC Penney, we received some good comments from readers that prompted us to tighten up our discussion belts, as we explore this subject further.

To begin, we did not intend the takeaway message of our prior discussion to be to resist change or to only tinker with changes so small no one notices. Simply put, bankers by nature are slow to change, risk averse and traditional, so moving too quickly at anything is not likely to be an issue. Fortunately or unfortunately, change in the industry is accelerating and customer preferences are shifting. Analyzing the delivery of products and services is not just good business, it is required these days.

Let's revisit our discussion about JC Penney for a moment. We could speculate that their biggest problem was resisting change for too long and then making a drastic move to correct. Sales were declining and after already having lost market share, the board did the equivalent of a Hail Mary pass by giving carte blanche to a new CEO who changed everything at once. The board bet the whole company on a major shift, without doing nearly enough prior research on how the company's core customers would respond.

Historically, JC Penney issued discount coupons to attract customers. They learned the hard way that this was the primary thing that drove customers into the store. The new Penney's used value pricing, rather than marking up products and then allowing customers to get a better price with a coupon. Even though customers were perhaps paying a lower price overall with the value method, the coupons were what prompted large numbers of customers to visit the store. Without coupons, customers stopped coming into the store and sales tanked. Had JC Penney realized their primary driver was those coupons, they could have continued to issue them and kept customers from fleeing to competitors. Then they could have introduced value pricing alongside coupon specials with new product lines. This would have trained customers to look for bargains in a different way. Now, the old CEO has been fired, coupons are back and if you research JC Penney's difficulties on the major news sites, banner ads pop up with coupons. The damage done, however, means the brand may struggle to regain loyal customers.

Banks are struggling with similar issues and many are now competing over rate to generate scarce loan opportunities. In the world of community banking, the primary thing to sell is service and relationship, so it is very important to know exactly what aspect of that service drives customers to do business with your bank. Charging fees is more likely to be successful if the bank applies it to new products, like mobile deposits, or to bundled products like a business package. Lower lending rates can then be overcome by establishing a broader relationship that captures fee income from other products.

Our message is simple - embrace change, study it, test new things to find what customers want and then move forward with a plan to capture the most opportunity. Change isn't scary, it just is.

INTERESTING STUDY: MORE EXERCISE = MORE PAY

Research by Cleveland State University finds people who exercise at least 3x per week earn 6% to 9% more than those who do not.

BANK NEWS

Compensation

A new survey by Bank Director finds tying compensation to performance is the #1 issue for 69% of executives and board members at banks, followed by understanding and complying with regulatory issues (41%).

Branch Closures

The parent company of Old National Bank ($9.4B, IN) will close 10% of its branches as it seeks to improve efficiencies and adjust to changing customer behavior.

Housing

Zillow reports just over 25% of homeowners with a mortgage have negative equity and another 18% are on the bubble and do not have enough equity to move.

Industry Change

At the end of 2012, there were 7,083 banks in the US vs. 9,354 at the end of 2002 according to the FDIC (a decline of about 24% over the 10Y period). During the same period, cash balances jumped 70%, securities climbed 46% and loans increased 34%.

Oline Tools

Financial marketing teams asked by Aite Group to rank their top online tools said social media (76%), banner ads (68%), email marketing (68%), estatement advertising (66%) and search engine optimization (64%).

Hackers

The US embassy in Bucharest reports Romanian hackers stole about $1B from US bank accounts by skimming ATMs in 2012.

Smartphones

IDC reports shipments of smartphones will jump 65% worldwide in the next 4Ys, as adoption rates in China, India and Brazil surge.

Investors

A survey of affluent US investors by Legg Mason finds the factors that produce the most anxiety for this group are market volatility (59%), higher taxes (56%), inflation (55%) and low interest rates (52%).