Wineries Show the Way to Smart M&A

by Steve Brown

At a recent banker's conference there was quite a lot of discussion of wine. That made sense since everyone was drinking it and seemed in a jovial mood. When it comes to wine, bankers know it is an important industry and there are many widely regarded growers. The business is expensive, requires art and skill and a lot of equipment. One winery that surfaced in the discussion was Chateau Ste. Michelle and it has some parallels to community banking.

Chateau Ste. Michelle from the beginning of its existence in the 1930s used old world expertise in conjunction with modern techniques. The winery combined all of this to build an efficient business model that produced large quantities of wine at a number of price points. As community bankers know, large is not necessarily associated with quality, but here we have to say the wine seemed to taste just fine. As for the winery itself, Chateau Ste. Michelle wanted to be involved in smaller, elite level projects that could produce wines for collectors and connoisseurs. Rather than develop this area from scratch, they made some targeted acquisitions and took on selective partnerships with existing smaller wine makers. After the acquisitions, the smaller wineries continued to produce wines in the name of the original growers, building on the brand recognition and existing customer base. The economies of scale of the larger organization helped the boutique wineries with marketing and equipment.

The parallels for community banks are many, but the first is that most people associate quality with smaller, focused banks that provide services to meet the requirements of a targeted group of customers. The largest banks on the other hand are not regularly associated with quality or customer service.

If your bank is considering a merger or an acquisition, branding, quality and especially communication with customers are important. A study by Deloitte found 17% of bank customers switched an account to another institution and almost 67% of those made that change in the first month after the announcement of the deal. Another 31% said they were at least somewhat likely to switch their account in the following year. The primary driver of customer departures are multiple negative changes to service experienced as a result of the merger.

Another study by JD Power found fewer than 50% of customers at an acquired bank felt they had received adequate information about the merger. Customers were particularly dissatisfied if they heard about the change from outside sources rather than by communication from the bank. Competitors may lure customers away as well, but most departures were a result of missteps within the newly-merged bank.

If your bank is considering acquiring someone, be sure to have an action plan on communication with customers to reduce defections. Make sure service levels are maintained in the image of the original institution to maximize your customer retention so the event doesn't lead to an exodus. Do these things and your customers will be far more likely to remain satisfied and therefore with your bank before, during and after any M&A event.

Wine fanatics may speak of waiting lists to get the next year's production of select wineries, but bankers can only dream of a world where potential customers wait on lists for bank products. That said, it is certainly within the realm of possibility to take such good care of your customers they will tell friends over a rare glass of fine wine - and even invite their banker to partake.

BANK NEWS

M&A

Banner Corp ($4.2B, WA) will buy Home Federal Bank ($1.0B, ID) for $197mm in cash (45%) and stock (55%) or about 1.15x tangible book.

Wealthy Customers

Banks should note research by Spectrem Group finds there are about 1.1mm households with a net worth of $5mm or more. Keep searching to land a few as customers.

Customer Capture

Research by MIT and Deloitte looked at a pilot program by Morgan Stanley financial advisors. Overall, some 40% of the advisors that used LinkedIn & Twitter brought in new business and acquired new clients using these tools.

Global Industry Change

The Economist reports the top 5 banks globally by Tier 1 capital have changed sharply from 2007 (pre-crisis) to 2012 as follows: (HSBC was #1, now #4), Citigroup (#2 to #6), RBS (#3 to out of top 10), JPMorgan (#4 to #2) and Bank of America (#5 to #3). Leading the pack in 2012 is ICBC (up from #8) and at #5 is China Construction Bank (not in top 10 in 2007). How things change.

Enterprise Risk

A Deloitte Global risk management survey finds 62% of institutions that participated say they have an enterprise risk management (ERM) program and another 21% are currently implementing one (total of 83% vs. 52% in 2010).

Retirement

The OECD reports the average length of time spent in retirement is 18.5Ys for men and 23.0Ys for women. Help your customers plan to deepen current relationships.

Management

A BlessingWhite survey finds 74% of engaged workers say they trust their manager vs. only 14% for workers that say they are disengaged

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