Top Drawer Or Bargain Basement

by Steve Brown

No matter your playing skills, everyone loves a piano. Although the number of pianos in homes has declined over the years (downsizing, foreclosures, digital interests, etc.), there are still enough around that kids of all ages can usually find one to play. But let's talk about the top level in the piano world, specifically, those brands found in concert halls. For many, the piano that epitomizes excellence is Steinway and it is favored by players ranging in style from Harry Connick Jr to Lang Lang. Unfortunately, after years of financial trouble, Steinway was recently sold to a hedge fund manager. The number of piano manufacturers worldwide has dwindled from more than 300 in the first half of the 20th century to only 9 and now there is one fewer. Similarly, Pleyel, the world's oldest piano maker who made instruments favored by Chopin and Stravinsky said it too will close its workshop in France after more than 200Ys.

As in so many industries, the forces at work here are varied. Chinese manufacturers can produce a piano far cheaper, digital versions abound, they are difficult to carry around and people seem more interested in playing games it appears than learning how to play. Despite these headwinds, there is always a market for top quality products, so that fact alone shouldn't alter the economics entirely. In fact, the best pianos are eye-openingly expensive - a handmade concert grand piano by either Pleyel or Steinway costs north of $125k. Consumer versions are available as low as $2k and like every other industry, one can go digital for far cheaper with electronic keyboards running $100.

As we circle back to banking, consider that Steinway and Pleyel took two approaches but both ended up in trouble. Steinway still builds grand pianos for concert halls at its plants in New York City and in Germany and they offer piano lessons to the super-wealthy to build on their high-end market. Meanwhile, Pleyel also maintained its focus on the high end market and made only tailor made instruments for concert halls and connoisseurs. Despite a similar focus, Steinway survives yet Pleyel did not adapt and is now closing their doors.

When consulting with banks, we spend quite a bit of time talking about the 80/20 rule (20% of customers generate 80% of the earnings in a bank). The piano story above was provided to remind community banks they cannot hold onto the past too long if things are changing around you, so be nimble. Do not rely on only one part of the market, even if it is the most profitable. This concentration is risky over time because markets and customer preferences change.

There is no issue having a specific market focus like commercial banking or business lending. After all, the expertise of personnel already in the bank likely has a business focus. The key is to segment customers to truly assess where money is made in the bank and take action to reduce concentrations if at all possible over time. Focus on specialties and strengths, but be agile, adaptable and sensitive to customer preferences.

It's not practical to change your geographic location, but be sure to keep up with economic, demographic and other changes within that geographic footprint. A bank always has a choice on where to focus its efforts, so focus on your strengths, but keep your eyes open for change and opportunity to succeed.

We sincerely hope for the best for Steinway and its new ownership, but this serves as a reminder. As with every industry, the piano makers illustrate that one must continually adapt and change or eventually face the music.

BANK NEWS

M&A

BancorpSouth Bank ($12.9B, MS) will acquire Ouachita Independent Bank ($664mm, LA) for $99mm to $112mm in cash & stock (depending on certain adjustments).

M&A

Tristate Capital Bank ($2.2B, PA) will acquire investment management firm Chartwell Investment Partners for about $60mm. Chartwell provides investment advisory services to 150 institutional clients and manages about $7.5B in assets.

M&A

Sonabank ($708mm, VA) will acquire Prince George's FSB (MD) for $11.5mm in cash (50%) and stock (50%).

M&A

Old National Bank ($9.5B, IN) will acquire United Bank & Trust ($918mm, MI) for $173mm in cash and stock.

M&A Cancelled

US Century Bank (FL) said a group of investors that planned to inject $50mm have pulled out.

M&A

Community Choice Credit Union ($389mm, IA) will acquire Ace Community CU ($35mm, IA) for undisclosed terms.

Less M&A

A healing industry may actually slow M&A activity again this year, despite building hype, as equity investors increasingly expect an improving economy to boost lending opportunities and bank returns. NIM should bottom out in Q1 or Q2, rates are expected to climb as the Fed tapers, capital is strong and credit quality continues to improve. As such, sellers may wait to see how things go and push for higher prices.

Industry M&A

SNL Financial reports 228 bank deals in 2013 vs. 223 in 2012 (a 2% increase). That compares to 150, 181 and 109 in 2011, 2010 and 2009 respectively.

Cutting Costs

First Niagara Bank ($37B, NY) said it will fire 170 employees and close 10 branches as it looks to "match evolving customer preferences" in response to increasing customer adoption of mobile and online banking.

Job Cuts

BBVA Compass Bank ($70B, AL) said it will fire 600 employees in the US in the next 2Ys, as it outsources back office and real estate lending functions.