



Making More by Spending More

small business business customers industry update strategic planning

Summary: Top-performing financial institutions had higher expenses last year, but also higher revenues and profit, as well as more loan growth. While their frugal peers may have been better at holding down costs, the higher performers got more bang for their buck.

Lowering expenses is generally considered a good practice, but there are a handful of purchases where spending more is the better strategy. Take your mattress, for example. Investing more funds into a quality mattress is better for your health, as physicians agree that [a good mattress promotes better sleep and can lessen chronic pain](#).

Spend increase has also benefited community financial institutions (CFIs) in several different areas. CFIs face a perennial tug-of-war between controlling costs and spending enough on priorities. A new study comes down squarely on the latter as the more profitable strategy in the long run.

How increased spending affects performance. According to a new report on CFI performance by Capital Performance Group on behalf of American Banker, [top-performing financial institutions tended to have higher expenses](#) than their peers last year. Top performers also had better revenue and loan growth, as well as higher profits, that offset the higher costs.

The study used the average return on average equity from 2019 through 2021 to identify the group of top-performing CFIs. As part of the study occurred amid pandemic shutdowns and the subsequently restricted spending by both consumers and businesses, the results might be somewhat of a shock. CFIs that focused on cutting costs may not have fared as well as those that maintained enough spending to spur growth. While lavish spending isn't promoted as a winning strategy, the study did find that extra spending correlated with better performance.

If you're about to sit down with your board or your management team and plan out next year's budget, it's time to reassess if your CFI could benefit from some of the lessons learned by the top-performing financial institutions. Here are some **key areas to focus funding on** that are likely to increase performance:

- **Target marketing.** As a recent white paper by McKinsey & Co. noted, a modernized lending program paired with careful [target marketing and sales efforts can help banks grow their small business lending](#). This goes for both new and existing customers. A thorough understanding of the target market really is crucial, along with becoming well versed in the types of target businesses and their needs at various points in their development.
- **Technology.** High-performing CFIs tend to recognize the importance of banking technology and advance their ability to offer digital solutions — but they also realize their own tech limitations. Many of the high-profit institutions in the CPG study leaned into digital or third-party solutions, which often lowered branch operating costs.
- **Community awareness.** A people-centered approach also surfaced in [Independent Banker's 2021 top-ranked community banks](#). Top-performing CFIs stress the importance of the personal touch in dealing with

customers and staying connected to their communities. Engaging with communities through sponsoring or attending events can build goodwill.

- **Employee incentives.** In conversations with executives of these CFIs, Independent Banker's report noted many leaders extolled the value of cultivating and rewarding employee excellence. This strategy can lower turnover rates, increase engagement, and promote great customer service.

A North Dakota CFI, for example, gave every employee a \$10K bonus in 2021 — with half of it to be spent on family, friends, or for an organization in need of funding. In this case, leadership seeks to attract and retain top talent, who can then draw business to the institution. Thus, the employees are an essential ingredient to the CFI's success, and the bonuses represent an investment in the employees and a commitment to the CFI's core strategy.

Bottom line: Increasing spending wisely, and in the right areas, can boost profit for your CFI. Using this strategy with a focus on loan growth, targeted marketing, and fostering employee excellence has proven to be a winning formula for many CFIs.

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ECONOMY & RATES

Rates As Of: 09/15/2022 01:28PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	3.22	0.26	3.16
6M	3.78	0.46	3.59
1Y	3.98	0.48	3.60
2Y	3.86	0.36	3.12
5Y	3.66	0.31	2.40
10Y	3.45	0.25	1.93
30Y	3.47	0.18	1.57
FF Market	FF Disc	IORR	
2.33	2.50	2.40	
SOFR	Prime	OBER	
2.27	5.50	2.32	

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