Ten Things Banks Should Do, But Generally Don't

Bankers who wish to differentiate their institutions in a fast changing industry should focus on 10 key strategies, such as defining their future, training for appropriate skills and eliminating redundant processes. BY JEFF MARSICO

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For those who have been in the banking industry for a while, the pace of change has picked up noticeably. Previously, change happened so slowly that minor modifications to how we did business, implemented through the budgeting process, were sufficient to keep our bank relevant.

Those days are long gone. Gone are the rigid regulatory restrictions on competition. Gone is the need to visit your local branch often. Going are the customers who used to march into your bank to get their passbooks stamped. And going are the days when incremental improvements to business as usual is sufficient to move us forward.

Below are 10 ideas bankers can utilize to prepare their corporate cultures to be more adaptable to change and build a more sustainable future. These are not my ideas; they have been implemented, to varying degrees, by a few financial institutions that I have been fortunate enough to know. If implemented in total they could really make a material impact on a bank's competitive position in this fast-changing financial services arena.

Aspire. James D. Murphy, a former Air Force fighter pilot, in his book *Flawless Execution*, taught us the phrase "Future Picture," defined as a high-definition picture that shows in great detail the future as you want it to be. Few banks identify their Future Picture; many think they already *are* the bank they want to be. This is known as hubris that leads to self-adulation, surrounding yourself with yes-men, and the eventual sale of your bank because you are no longer relevant.

Develop people. "Our difference is our people" is a cliché I hear nearly as often as, "We offer superior service." Experience tells me that most banks develop people in a haphazard way. Systems and compliance training happen regularly, mainly out of necessity. But I rarely see a training curriculum by functional position built to improve the likelihood the employee can successfully execute the bank's strategy, or rise to the next organizational level. I recently wrote an industry article entitled "*Why Training Should Report to Marketing*" because I had noticed that most of the capabilities and skills we want employees to have involve marketing the bank. I can't recall one bank that does this; but that doesn't mean it shouldn't be done.

Kill processes. Bank processes are like government programs: they rarely die. I once sat side-by-side with a deposit operations specialist and watched her manually calculating the minimum required distributions for IRA customers older than 70 1/2. I asked why. Her response: the system didn't do it right. Well, I called the "system," and no, this job did not have to be done manually. This is one example of the many, many processes that I have witnessed occurring at banks that make no sense. They are happening at your bank, usually protected by long-term employees, and soaking up your resources. I guarantee it.

Know your strategy gap. The strategy gap is the difference between the present value of your bank's strategy and what you can reasonably expect to achieve with a strategic alternative, such as a sale. Since most banks sell for a premium to their current trading price, senior management often chooses not to calculate this number for fear of the answer jumping off the page. But if the present value of your bank's strategy equates to $13 per-share, and you can reasonably sell for $16 per-share, you have a gap that must be bridged through strategic action such as internal improvements to revenue generation or cost structure, or external actions like an acquisition. Ignoring the number precludes the bank from knowing they must take action. As a Navy captain once told me, bad news does not get better with age.

Identify a competitive advantage. To be fair, most banks don't have one. That doesn't mean bankers don't believe they have one. The number one strength I hear mentioned in strategic planning sessions is customer service. Everybody is apparently superior at customer service and this is their competitive advantage, so the conventional wisdom goes. But this implies that there are service standards such as loan decision turnaround time, etc. that are measured and people are held accountable. Competitive advantage, if we recall Michael Porter, is either a cost or differentiation advantage. Choose one and build a strategy to distinguish your bank from the one across the street and in the Cloud.

Specify strategic priorities. Strategy was easy when competition was limited to the other bank in town and the regulatory scheme kept additional competitors out. But now, there are bank branches all over town, and in homes and businesses via desktop and mobile apps, and non-bank competitors whittling away at our financial market share. The age-old strategy of serving everyone in town, over many towns, is thinning out resources to the point of ineffectiveness. Now, to keep up with technology and to position banks for the future, bankers must choose where to invest and for the benefit of what particular customer group or product segment. But that kind of thinking is not part of most banks' DNA.

Know your customer base. This is a follow-on to the above. Prior to strategic planning sessions, my firm asks clients to send us an analysis of their customer base. The number of banks that have this at their fingertips is very low, in my experience. Without such data, which exists within bank core or ancillary systems, we rely on anecdotes as to who bank customers are, and what segments are growing or shrinking. One would think this is pretty important information to know when setting strategy, developing products and targeting prospects.

Use marketing effectively. When I informally asked marketing executives at the ABA School of Bank Marketing Management how many of them participated in bank strategic planning, the response was about 50%. The trend was good, but the number was disheartening. Marketing is much more than running the ad budget. When I went to college, I learned the four "P's" to be product, place, price and promotion. That touches far more than your spring home equity campaign ad. How about analyzing your customer base, focusing your outbound sales efforts, training staff on superior service, building well priced product packages and positioning the bank as a consultative financial resource? Marketers can be much more dynamic and effective at executing key components of your strategy if you enlist them.

Align accountability with strategy. The CEO of a bank that pursued a "relationship" strategy rebuffed my suggestion that success should come down to some spreadsheet measurement. After some discussion, we came up with tangible metrics that should result if the bank was succeeding in its endeavor, such as number of products or services sold per retail and business household. But don't walk out of your strategy session with a laser-focused strategy only to go back to measuring lender production in dollars and branch production in widgets. If you do, don't be surprised if your strategy fails.

Consider operating expenses as strategic investments. A hypothetical $1 billion-asset bank has $30 million in operating expenses. If you could blink, in *I Dream of Jeannie* fashion, and have a clean slate to spend the $30 million, how would you do it? Instead of 20 branches with six full-time equivalent employees, some platform, some teller, perhaps you would reduce to 17 branches with four highly capable relationship-building employees. But no, banks tend to take last year's budget and add 3%.

This above list is not exhaustive. It is limited to those things that can have the greatest impact on your bank's culture, strategic thinking, and future viability in a rapidly changing industry.

What would you add to the list?

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