



## TKG Perspective

### Watch for Us Speaking Engagements

**Financial Managers Society**  
*East Coast Regional Conference*  
Baltimore, MD      **September 20-22**  
“How Profitable are Your Financial  
Institution’s Lines-of-Business,  
Branches and Products?”

**New Jersey Banker’s Association**  
*Senior Management Conference*  
Absecon, NJ      **September 23-25**  
“Root Causes of the Financial Crisis  
and the Path Forward”

**North Carolina Bankers Association**  
*Management Team Conference*  
Pinehurst, NC      **October 18-20**  
“How Profitable are Your Banks Products?”

**Greenleaf Financial Group**  
*Portfolio Company Seminar*  
Lancaster, PA      **October 28-29**  
“De Novo Bank Outlook ”

**Pennsylvania Bankers Association**  
*Wealth Management and Trust Conference*  
Hershey, PA      **October 28-30**  
“Financial Crisis: Root Cause and Path Forward”

**Pennsylvania Bankers Association**  
*CFO Conference*  
Hershey, PA      **November 4**  
“Risk Management and Financial Systems”

**Greenleaf Financial Group**  
*Portfolio Company Seminar*  
Nashville TN      **November 4 -5**  
“De Novo Bank Outlook ”

**New York Bankers Association**  
*Financial Services Forum*  
New York, NY      **November 11-13**  
“Developing a Technology Strategy to  
Fit Tomorrow’s Needs”

**FMS**  
*Philadelphia Chapter*  
Philadelphia, PA      **January 13**  
“Roundtable Discussion”

### Conferences/Conventions and Events

**AMIFs**  
*Annual Conference*  
Atlanta, GA      **September 10-11**

**New York Bankers Association**  
*Financial Services Forum*  
New York, NY      **November 11-13**

## Are you Steering by the Screws?

By Jeff Marsico



This past year I was invited to join the faculty of the ABA School of Bank Marketing and Management (SBMM). At first, I was a bit skeptical. I always believed myself to be a left brain thinker, one that processes information in an analytical and sequential way. Marketers, on the other hand, are thought to be right brain thinkers, looking first at the whole picture and then winnowing down to the details.

What I discovered is these stereotypical classifications are not so pure. At the school I taught, among other things, Profitability and Strategic Issues. My students, I thought, would be interested in the latter and bored with the former. I was pleasantly surprised when they were interested in both.

As is common in professional development schools, students often teach the teacher. What I learned is that bank marketing managers were clearly interested in developing a competitive advantage that resulted in greater profitability. Now, if they could only convince their financial institution to share their interest.

The Roman philosopher Seneca once said, “If one does not know to which port one is sailing, no wind is favorable.” Yet so many financial institutions set sail without any discernable destination.

It reminds me of my Navy days, when my ship, the USS Biddle, lost its rudder in the Red Sea. The captain tried to navigate north through the Suez Canal using only the propellers, or “screws” as we called them, to steer. It proved difficult, and we had to pull off to the side to let others pass us by. So many financial institutions continue to steer by the screws.

Part of the reason is culture, banks never had to set strategic direction, as regulators dictated products, pricing, competition, locations, etc. Although it is disturbing how regulators are moving back to this highly regulated model, at this writing banks must still find and determine their own way.

Another reason banks choose to not distinguish themselves is fear of alienating one line of business over another or one customer over another. Ask yourself if your strategic focus is on small businesses, medium sized businesses, large businesses, the wealthy, the mass affluent, the mass market, etc. It is not uncommon for a banker to answer yes to all. Therefore, priorities are set to pursue all, and banks end-up excelling at none.

Thirdly, there are scores of consultants, as well as bankers that think strategy is bunk. I was recently at a conference where a consultant, the keynote speaker nonetheless, said something to the effect that bankers should forget about strategy and vision, liquidity should be your concern. Imagine trying to land your next customer with the pitch, “we’re highly liquid”!

I recently attended the FMS Forum in Keystone, Colorado, where a presenter stated that bank senior executives spend less than one hour per month on strategy. I immediately thought, "I wonder how much time they spend on budgets?" In my experience, much more time is dedicated to budgeting than strategy development and execution. What is your experience? This singular focus on budgets to the detriment of strategy is a key contributor to why one financial institution is barely distinguishable from another.

One bank that puts an emphasis on strategy is Flushing Financial Corp. in New York City. New York is quite possibly the most competitive banking marketplace in the world, and Flushing dedicates the time to determine how to build a long-term sustainable business model and then to execute on that strategy.

The result: Flushing was recently cited as the best performing of the top 100 thrifts nationwide in 2008 by SNL Financial. Here is a bank that sets strategy and the budget results from the estimated impact of strategy execution, not the other way around.

Budgeting season (odd that we describe it as a "season") is quickly approaching. Soon department heads will be figuring out personnel costs, supplies expense, etc. for 2010. But will they be figuring out why customers should bank with them?

First Manhattan Consulting Group (FMCG) performs mystery shops at retail bank branches. Researchers would ask bankers "why should I choose your bank over the competition?" FMCG CEO James McCormick stated that two-thirds of the time the banker has no answer or they simply make something up. Do you have an answer and does your bank live that answer every day and with every decision?

Getting back to my SBMM class, I asked how many of the students' financial institutions had a vision and of those that said yes, is it clear and understandable? The results are in the accompanying chart. Only 20% of students' financial institutions had a clear and understandable vision. The rest had either no vision or some generic representation of one.

Vision haters may be rolling their eyes, thinking of smarmy Kumbaya sessions that result in no tangible progress. But a good vision is constantly pointing to the type of bank you want to be. It is a rallying cry from the board room to the teller window on what the bank strives to be, where it intends to go, and in some cases how to get there. It is the tip of the spear of your strategy. Generic, sterile, satisfy-all-constituent vision statements won't do.

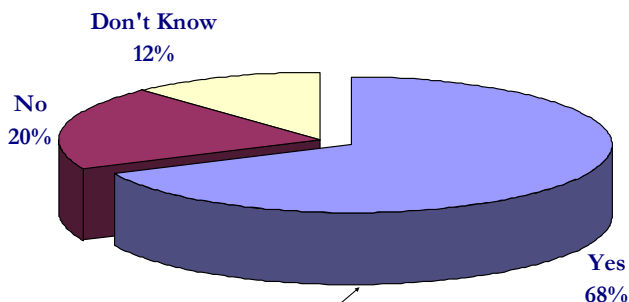
Keith McFarland, author of "The Breakthrough Company", states "When companies lose their way strategically, it is usually because of two management traps: myopia and inertia." I would add one other, hubris. So many banks believe they are distinguishing themselves due to "great service". But when challenged, bankers are hard pressed to define great service or what measurement technique they use to determine that their service is great.

Opportunity in banking is greater now than in any other time since the early 1990's. Large financial institutions and investment banks are tarnished by excessive risk taking and astonishing losses. Although reputations of all financial institutions were somewhat bruised, community financial institutions remain perceived as conservatively managed depositories for businesses and individuals. The recent inflow of deposits supports this perception.

What should you do? As a senior executive of a community financial institution, you must assess your situation, and adopt a strategy that gives you the greatest chance for success. Bring together senior executives and board members to determine and adopt a clear, targeted strategy to develop a sustainable competitive advantage that distinguishes your institution from competitors by some means other than price.

The Kafafian Group has helped hundreds of community financial institution develop strategy, identify the tactics necessary to execute on strategy, and the financial goals to measure results. If you would like to learn more on how we can help you develop a strategy that leads to results, contact me at 973-299-0300 x120.

### Does your bank have a vision?



20% stated the vision is clear and understandable  
20% stated the vision was unclear or generic  
28% are unsure what the vision is

TKG, as part of our strategic planning engagements, periodically evaluates our industry, its trends, successes, and challenges. We are pleased to share our thoughts with you, our valued clients, in the form of this periodic newsletter. If you would like to discuss strategy further, or learn more about our performance measurement, strategic planning, profit/process improvement, or financial advisory services, please call us at (973) 299-0300 or visit us at [www.kafafiangroup.com](http://www.kafafiangroup.com).