

Unconventional wisdom to grow core deposits



SEAN C. PAYANT, PH.D.
Chief Consulting Officer,
Haberfeld

HEAR MORE FROM PAYANT

Sean C. Payant, Ph.D. is one of the featured speakers at Young Bankers Division's Leadership Convention, April 5-7 at the Hutton Hotel in Nashville. His session will teach attendees how to get, keep, and build relationships with customers.

Register for the conference at TNBankers.org/leadership.

Community bankers face many challenges: intense deposit and credit competition, changing demographics, complicated technology, and regulatory obligations, to name just a few.

One of the most daunting challenges, however, is one that is often overlooked: conventional wisdom.

Conventional wisdom is our adherence to accepted norms and common practices. On the surface, it appears to promise safe, dependable direction when we're confronted with difficult questions and complicated options.

However, a reliance on conventional wisdom often discourages critical thinking and diminishes creative energy. This is especially true for businesses, and particularly true for community banks.

Today, bankers who seek to profitably grow their branch networks and successfully serve the broader community around them are critically evaluating and creatively employing new solutions.

Unfortunately, part of life involves the loss of our loved ones. After recently experiencing the loss of my father-in-law and grandmother, I was reminded that finding a competently-staffed, conveniently-located funeral home is crucial to the grieving process. In both cases, we were very fortunate; however, I have had friends and business associates in similar situations report that customer service was indifferent. Product knowledge was subpar.

This being said, I was surprised to observe several striking similarities between a mortician's business model and that of a community bank.

Many morticians report that their businesses aren't at capacity—a large, expensive, funeral home can hold as few as 29 funeral services per year. The team and the facility have the capacity to hold more funeral services—perhaps twice as many annually—and doing so would not materially increase the fixed costs of the business. Moreover, holding more services per year would dramatically increase the revenue the funeral home generated each year and would significantly improve the overall profitability of the business.

The description of the mortician's business model is straightforward and correct. Interestingly, the fundamentals directly apply to the basic structure of banking: (1) banking is a business of high fixed costs; (2) there are low marginal costs for the next customer, and high marginal revenue relative to the costs on average; (3) most banks have tremendous capacity to conduct more business; and (4) attracting more customers is profitable.

If the previous is true, why don't all banks focus on attracting as many customers as possible? Could it be, "conventional wisdom?"

Because of conventional wisdom, many banks embrace a fully allocated cost model which estimates each customer costs the bank approximately \$200-500 per year.

Accepting this cost model requires that a cascade of flawed decisions follow:

1. Marketing—the bank must seek the perfect customer
2. Products—only profitable customers are welcome at the bank
3. Fees—an aggressive fee structure is required to offset costs.

Sadly, this conventional wisdom is hindering the growth of community banks and limiting their capacity to fully serve customers.

Critically evaluating and employing new solutions allows the majority of community banks to DOUBLE new customer acquisition if we understand two important things:

1. The true value of each primary financial institution relationship is between \$300 - \$500 per year—including deposits, loans and non-interest income; and
2. the marginal (you aren't building any new branches) costs of each customer is between \$30 - \$50 per year—issuing a debit card, mailing a statement, data processing, and potential write-offs from overdrafts on some.

Your bank has the capacity to serve many more customers—customers that look just like the customers you already serve.

It's time we throw out conventional wisdom and start using an omni-channel marketing approach to blend big data with new digital technology and proven funda-

mentals. The result is new customers who live near your branches and own businesses near your branches, in addition to those who work, shop, dine, and drive by your network of locations.

Our industry must bury its reliance on “conventional wisdom;” we must abandon our dependence on out-of-date “banker think.” When banks begin executing an omni-channel approach to marketing—big data, digital solutions, geographic relevancy—and align people, products, policies and procedures—results follow: doubling customer acquisition and increasing profitability.

Retail banking is not dead! While the mortician's model bears similarities to our banking model, the primary point is this: Community banking is alive and well... but could be doing much better. 📱

