

A Grab Bag of Profit Ideas

By Jack R. Salvetti and Nancy D. Schell

Improving profitability is always a top priority for leaders of financial institutions, regardless of their size. Decision-makers have come to the realization that long-term, sustainable profit improvement cannot be had with slash and burn tactics that merely produce a short-term pop to earnings. An institution's approach to improving the earnings stream needs to be as unique as its core values, culture, and strategic plan. A one-size fits-all approach to profit improvement is impractical as all organizations differ in their practices and approaches to change. Finding your own distinctive way will produce the best sustainable results.

A proven profit improvement model, such as the one depicted in Diagram 1, incorporates these three key elements:

- **identifying** a primary financial goal (in this case, Superior Financial Performance);
- **designing** programs to improve operational efficiency and thus increase profit margins; and
- **enhancing** strategic customer value to increase the profits obtained from each.

Identifying a primary financial goal focuses attention on the relationship between the profit improvement process and operational strategies. Rather than shooting before aiming at a target, establishing a clear objective for improvement is necessary for a sure-shot profit strategy.

As shown in diagram 1, "operational efficiency" is a specific goal of performance modeling. Organizations that achieve operational efficiency will successfully integrate productivity factors, operating expenses, pricing, net interest margin, income sources, and asset growth. These factors are widely recognized by industry regulators as key measurements of the efficiency ratio.

Yet, the relationship between the internal operational concerns must be juxtaposed by the external forces, which can have significant impact on a bank's ability to achieve performance goals. *The Service Profit Chain*, by Heskett, Sasser and Schlesinger, describes the factors of quality, price, and cost to customers as central to achieving operational efficiency that, along with the need to address customer service issues, is necessary to produce realistic and long-term profit improvement. Ignoring the impact of customer perceptions (i.e., service) can create a serious blind spot in your strategic plan.

Profit Improvement Model

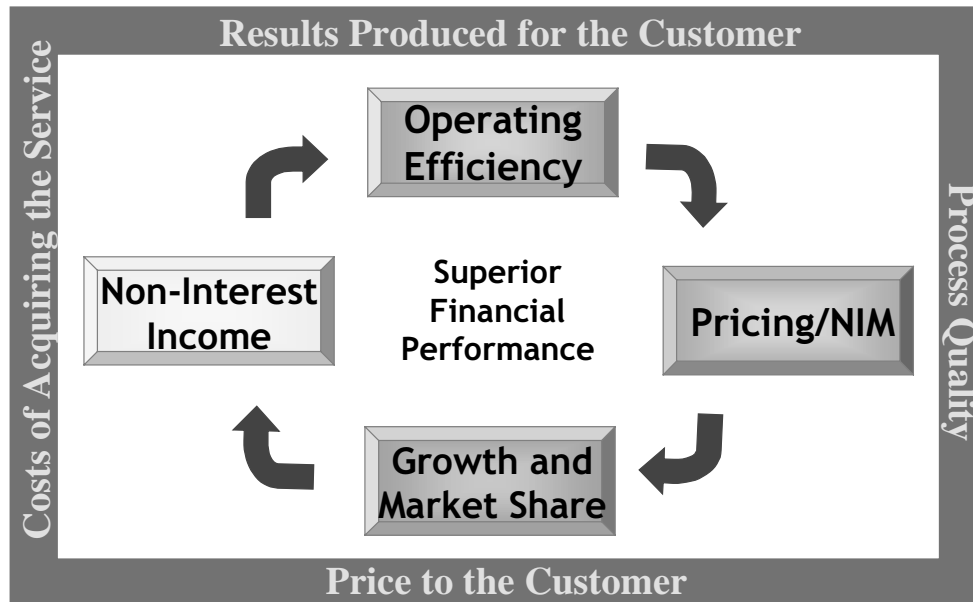


Diagram 1

Think of your work culture as the implementation and demonstration of the strategic plan in action. Does the customer experience mesh with the desired outcomes in the plan? For example, if customer retention is a goal, what steps are taken to communicate regularly with customers? We're not talking about account statements here either. Ask yourself, "What have we done to let customers know that we appreciate their business and that we want to keep them? What do we do to deepen the customer relationship?" If you don't know, find out and then modify the existing culture, if necessary, to foster the right environment needed to improve profit performance.

Remember, only by successfully weaving together your internal operational procedures with the demonstration of a superior service experience can your bank hope to sustain and improve performance. Here are a few examples of how organizations have successfully bridged the gap between strategic thinking and implementation.

1. Build a "Sticky" Campaign and Promote it Like Crazy

Build a marketing program to connect with your customers in a unique way. In his book, *The Tipping Point*, Malcolm Gladwell defines how a program can be "sticky," creating a win-win situation. Gladwell states that a sticky program must accomplish three things:

- be memorable,
- be able to create change, and
- be able to drive people to action.

In this book, Gladwell describes how a Madison Avenue firm once developed a landmark marketing campaign designed to motivate newspaper readers to take action to join a record club. Taking a cue from that example, a community bank offered a special short-term certificate of deposit rate to anyone who donated a gift to a local children's home. The response was overwhelming—providing gifts for the kids; a dandy CD rate for the customers; and satisfaction, publicity, and new customer relationships for the bank.

Other examples include:

- Empathize with customers. When postal rates increased yet again, Amazon.com responded by mailing ten, one-cent stamps to customers. They wanted their customers to know that the company shared their frustration over repeated postal increases.
- Show your customers that you really care. Another bank recently seized an opportunity to reach out to its community after a devastating flood hit the area. By quickly swinging into action, the bank waived customer loan payments, extended credit to flood victims, and helped rebuild the property and spirits of the community. This type of “sticky” program is the classic win-win situation that won't be soon forgotten.

2. Re-make Your Customer Experience

It's an all-too-common fallacy that bank customers want “products” and “services.” Successful banks have proven time and again that this is not true. Unfortunately, many organizations dwell on the intricacies of product features in an attempt to differentiate in the marketplace. Generally, this approach only increases complexity and makes selling bank services more difficult, which in turn makes doing business with a bank more difficult.

Instead, begin by viewing your bank from the customer's point of view. Each of the key activities of creating, producing, selling, and delivering a product or service should be examined closely and re-tooled if necessary to deliver top-notch service that will keep customers coming back.

- First, make it easy to bank. Simplify products to make it easy – and obvious – to customers that they should bank with you. If the product set is difficult to train or describe, imagine how it must seem to customers. For example, by offering just two checking accounts, rather than many confusing choices, you'll create a perception of simplicity and make your bank easy-to-use. Combining account information in a single statement (either on paper or a computer screen) is another example.

- Second, always communicate clearly. Many banks can fall into the trap of “bank speak.” If you find yourself citing “NSF charges,” rather than simply stating “insufficient funds charge,” it’s time to take off the banker hat and wear the customer’s. Don’t forget, too, that glitzy names of bank accounts require a much bigger – and more expensive – marketing effort to explain them. Everyone knows what “XBANK Checking” is right away, but “Prime Factor Account” can take some explaining.
- Third, in order to streamline products, communicate effectively, and demonstrate a superior service experience, it takes the cooperation of every bank team – from product managers and operations to sales, training, and marketing. Too often, traditional bank teams operate in a linear fashion. The key to success is to develop a cross-disciplined work culture that is challenged to think beyond their immediate roles and charged with achieving success based on a clear-cut performance model, which includes customer satisfaction and retention goals.

Consider how two different banks advertised their best home equity loan product. The first bank promoted their “special gold equity loan” but failed to describe its features, benefits, or costs. They had promoted the product from the banker’s point of view, having designed and named the product. They assumed the customer would make the necessary mental leap from their product to appreciating its need and how it could benefit the customer. The second bank promoted an ad campaign featuring, “\$95 per month provides \$10,000 to pay off those nagging bills.” This approach focused on how the product could help the customer, avoiding the “bank speak.

3. Deepen Existing Customer Relationships

Develop a successful program to contact your existing customers to expand their banking relationship with you rather than building de novo banking offices with their high building costs and the related operating losses incurred building a new customer base. The information gathering, training, and execution of such a program is far less expensive, and the results can be staggering. A well-planned and executed program can actually yield additional business from 50 percent of the customers contacted. The methods range from developing a direct mail program inviting the customer to a 30-minute consultation to limiting the message to a simple telephone solicitation. To answer the question, “who do you have available to make the telephone calls,” look no further than your teller staff. By charting their transaction flows you will identify slack time and discover an additional labor force to handle the solicitation. Remember that all employees are part of the sales team.

4. Break the Turnover Cycle

The high cost of employee turnover and its disruptive effects on staff performance and customer service is well documented. Turnover is the by-product of a complex “cycle of failure,” that follows a pattern of low wages, inadequate orientation and training, and the absence of emotional and technical support that leads to dissatisfaction. This situation

directly impacts your repetitive costs of recruiting, training, and introduction to customers.

Whether you focus on recruiting, training, support, wages, or a combination, the solution is to find a starting point to break this pattern. When you calculate the annual cost of turnover and consider the negative effects on loyal customers, who appreciate working with a consistent office staff, you may be shocked at the financial impact of this profit robber. You'll see that it may be well worth the expense of better training and support and/or better paid employees if turnover can be reduced as a result. Once the cycle is broken, add a targeted turnover ratio to your annual business or financial plan and monitor the results versus the plan.

5. Build a Tiered Pricing Model for Consumer Loans

Improving credit quality while increasing the portfolio yield seems contradictory, and yet that is precisely the result that can be achieved by implementing a consumer loan-pricing model based on credit scores.

By setting loan rates tiered to levels of credit bureau scores, your "A" tier loan customers are rewarded with a lower rate, as their exceptional credit standing deserves recognition. "B" tier customers are charged a slightly higher rate than without the tiered system, and marginal "C" credits pay a small premium rate.

An important distinction to remember is this is a method of determining the rate charged, **not** a tool for making underwriting decisions. In this example, the underwriting decision has already been made to approve the loan, now the question is, at what interest rate? The results we have seen are increased levels of "A" credits who are attracted to you because of the superior rate offer and acceptance by borrowers whose credit bureau scores fall below the "A" level as most customers know where they stand in terms of their credit-worthiness. After all, customer credit bureau scores are their scores, a fact that is totally out of your control. We have experienced acceptance by customers, auto dealers for indirect loans, and regulators across the board for this type of loan pricing.

6. Update Your Workflow Procedures

Many community banks have experienced rapid growth and change during the past five years. By periodically conducting an in-depth workflow analysis, inefficiencies, unnecessary re-work procedures, manual logs, and off-line reports can be eliminated. A workflow audit also allows the identification of opportunities to scale back or reorganize your staff size. This experience is not unlike rummaging through grandma's attic. You will find surprises, treasures, and lots of old practices that you thought were discarded long ago. Be watchful for the employees who will cling to "we've always done it this way" workflow defense. The results will be dramatic, and the measurable impact on bottom line profits will surprise you.

Each step in every major system's workflow should be evaluated from three perspectives. The first is its effectiveness or how does this workflow step impact the customer's experience at our bank? Second is its internal efficiency; that is, can this task be done more efficiently without negatively impacting upon the customer experience? Finally, assess the adaptability of the process—can this process adjust to changing customer needs?

Summary

These six profit initiatives demonstrate how profit improvement starts by enhancing customer service and value from both an internal and external perspective. These enhancements are the precursors of fees and pricing. Once you have provided a higher level of service you may find additional opportunities to share the cost of your outstanding service and convenience with highly satisfied and loyal customers. That's a vital part of profit improvement. If you are unable or unwilling to ask your customers to share in some level of that cost, then you are expecting your shareholders to bear the full burden through lower profits and returns on their investment.

Long-term superior financial performance will belong to those institutions that master both operational excellence and exceptional results for customers. Success is all about building a better bank by finding new ways of achieving customer and employee satisfaction and loyalty, while at the same time keeping operating costs in line.

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