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Marketing Series Concludes

Simple exercise identifies bank's 'core' product areas

The following is the final article in a four-part series about customer-oriented bank marketing. This installment focuses on viewing a bank's core products in relation to their bottom-line contributions and acting on that perspective in marketing efforts.

Customer-Oriented MARKETING
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By now, you may agree with much of what has been suggested in this series about how you can begin organizing your operation to preempt competition rather than react to it. However, you are the president or CEO and you need a place to begin because none of what has been suggested in this series is in place in your bank yet. In this last feature you will find an exercise for bank leadership to gain a better understanding about what to concentrate on in leveraging its strongest product areas with multiple locations (or only one).

We have mentioned the importance of matching "core" product areas with customer segments because that translates into your most significant revenue streams. This is important because once this comparison is made you can see what product area strengths exist in the context of customers. This also gives you the nucleus for comparing your bank operation to what competitors are doing in the context of your own customers. However, if you cannot yet view the business this way, then you need another method that can be used to provide similar answers.

Consider this same comparative premise with a set of information that you do have in place. If you cannot view core products by customers or segments, then view your product mix by the revenue contribution each product area makes to the operation's profitability. Banking is unique to other categories in that revenues can be generated from both asset and liability based accounts.

Years ago, Market**Motion**™ developed this simple exercise for clients to work through as a starting point in determining where "core" revenue contributions originate. Refer to Table A for a simplified version of this model. You can make the model as detailed as is appropriate for your operation, but the idea is too refrain from including revenue sources that contribute less than 5 percent (out of 100 percent) to company-wide profitability. You probably have less than a half dozen lines of business that are genuinely "core."

List your primary revenue contributors and separate them into *asset* **or** *liability* product columns. *Now assign the percentage of profitability that each product area contributes to the operation's annual profit.* The line items below are a few traditional examples; add or delete product areas as it is appropriate for your organization.
The total of your product revenue contributions will give you a sum total somewhere between 85 percent and 100 percent. Remember, for now at least, you are only concerning yourself with product areas that are significant sources of revenue.

Many evaluations become more clear as you simplify the business to this level. One observation you will quickly make is whether your operation is weighted with products that are asset based or liability based, or has balance. This exercise also allows you to make numerous comparisons based on what you know about competitors and the environment in which you are competing.

If you have one or two product areas that represent most of your revenue, then you may want to look closer at the offerings within those lines of business to determine what has made them key producers. By doing this you identify the product areas of revenue contribution that you can affect or control, and you have the capacity to build operations around the areas in which you already excel.

If you find your "core" product areas are difficult to control, then it is best to be able to minimize your exposure. It is best to have "core" product areas that you can affect or control.

Table A: Product Revenue Contribution Model

Asset	Liability
___% Commercial Loans	___% DDA
___% Retail Loans	___% Savings
___% Investment Portfolio (Internal)	___% Trusts
___% Service Fees	___% Retail Investments (CD,IRA,etc.)

Leveraging the resources of your marketing discipline among multiple locations (on in one location) becomes a matter of concentrating on improving the areas that represent "core" product areas in every way possible.

Most people understand (and regularly work toward) the activities of consolidating similar systems, the economies of centralized procurement, the efficiency of standardized training, and the advantages of consistent communication by developing a distinguishing brand. Unfortunately, most leaders attempt to accomplish this within the framework of continuing to provide all of the products and perform all of the services that have been delivered in the past.

"Make whatever you are already doing well your 'core' products, and support those lines because you will have a better chance of succeeding."

It is still common to see a banking operation with less than $500 million in assets generate 30 percent to 60 percent of "core" revenues from commercial loans and dedicate three-fourths of its marketing budget to retail consumers. Asked how much is budgeted annually for customer service and sales training, advertising/promotion, and the technology and systems to manage the information for attracting and monitoring commercial loans, many will explain that there is not much formal support. The point here is not to make commercial loans a "core" product. Make whatever you are already doing well your "core" products, **and support those lines** because you will have a better chance of succeeding!

How dominant could an operation's commercial lending department be and how far could the business be expanded if the people and resources were put behind an organization that has already made commercial lending a "core" source of revenue? What would that dedicated effort produce?

Think about how strong your people and pricing could be if you have simplified your operations to a few lines of business. You can be as flexible as any alternative because your people are expert in the few areas you concentrate on. Competitors cannot mobilize quickly enough because they only show up in your "core" areas when an opportunity seems to present itself. You have more credibility. In fact, by concentrating on these few areas you are growing to the point that you can even consider testing and expanding into a new area next year, if you decide it fits your product mix.

It is considerably more difficult to get company leadership to commit to the few elements that are genuinely contributing revenue because it is perceived to be riskier. Today, the effectiveness of "relationship" banking as it has been practiced even within the last 10 years is going to become more competitive as technology erodes the value of locations. Many traditional lines of the banking business have taken a beating and now are handled by non-traditional providers.

Some of this is out of management's control, but what can be controlled is the degree to which banks start viewing where their "core" revenue can continue to be developed and how those areas are supported. In a competitive environment that is predicated by change this would seem to be the least risky lever.

To reach MarketMotion™ and request this four-part series in its entirety, call 214/321-MRKT or by requesting it online at: mktmotion@aol.com

A sample budget template with a checklist of cost considerations for annual planning is also available on disk from Market**Motion**™.

***ABOUT THE AUTHOR** — Mark Masters established MarketMotion, a Dallas-based marketing planning practice serving various industries, in 1991. Previously, he worked as a vice president in client services and business development in the advertising and promotion industry. He holds a BBA degree with a concentration in marketing from North Texas State University and teaches a college-level marketing course.*

This ISSUE

Reg Relief/Glass Steagall Bill Draws Opposition

In his *Executive News* column on page 2, OBA President Roger Beverage reports on the mounting opposition to H.R. 2520, the pending regulatory relief bill which has undergone some disappointing changes.

Marketing Expert Offers Insights

Turn to page 14 to read an article by marketing consultant Mark Masters about identifying and supporting your bank's core products. The article is the final installment in a four-part series.

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