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Top Strategy Questions for 2019 *by Mary Beth Sullivan (202-337-7870)*

As management teams and directors look forward to 2019, CPG believes the following factors must be considered within strategic plans, and will have great influence on which companies outperform others in a very crowded financial services industry.

1. **Where will we win?** Top performing institutions are clear on the segments of the market and the lines of business in which they will dominate the competition and which will drive market share growth and profitability. Many high-performing institutions are exiting business lines that are not a part of this equation for them. Focus is a key strategy for 2019.
2. **Why should you bank with us?** Having a clear reason for why you are a better choice than your competition (for targeted segments) remains critical. If this cannot be easily answered (e.g., your value proposition(s) are not clear or strong enough), make this job #1 for 2019. Assuming you have addressed #1 above first.
3. **What strategies will enable us to win?** Insights into consumer/business behavior, technology developments, and the competitive strategies that will be required for success going forward will enable you to create a roadmap to ensure you win and keep winning the business of targeted segments.
4. **How do we make every day "Day 1"?** If you haven't read Jeff Bezos' letter to his shareholders about "Day 1", you should. There's a great synopsis of his Day 1 philosophy here. The point is: if you aren't changing and moving quickly, you're becoming obsolete. It may be happening slowly, but it is definitely happening. Every financial institution needs to adopt management approaches that drive faster and continuous improvement (in delivery, processes, etc.).
5. **What is our story?** A great strategy is a great story – easy to tell and easy to appreciate. It makes people want to do business with your company – buy from it, invest in it, work for it. And it's a story that is uniquely yours; no other financial institution could put its name on it. Do you have a great story?

CPG has well-tested and proven methodologies to help your team define a vision that is unique and build the strategies to execute effectively.

Time for a Marketing Budget Increase!

by Mark Gibson (508-322-8146) Excerpted from Mark Gibson's ABA Bank Marketing article: "Time for a Marketing Budget Increase!"

Marketing planning will be kicking into high gear in coming weeks. For many marketing directors, that means facing the annual struggle with competing objectives—and wondering how to accomplish every priority with the people and dollars they have.

Meanwhile, many CEOs and line-of-business executives don't see the connection between marketing activities and business results. The conclusion is to treat marketing as an expense to be managed, or worse yet, minimized.

How does a marketing director or CMO resolve this seemingly intractable problem? Even for marketing departments that have been adept at navigating change, senior management can still perceive the function as primarily a creative communication services organization. This calls for a re-education process within the entire organization, but particularly with executive management.

High performing marketing organizations have 5 things in common:

1. **They align the marketing plan with the business objectives of the organization.** For instance, if the number-one priority is growth in small business clients, align the majority of your marketing resources and attention to this objective.
2. **They are proactive.** Don't wait for line-of-business executives to come to you. Make sure you know what the priorities are for the

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Analytics for Effective Strategic Planning

by Claude Hanley (202-337-7875)

To help illuminate strategic issues, basic analytics should be performed as part of strategic plan development. These analytics do not require sophisticated algorithms nor place excessive burdens on IT resources. The data can be augmented with industry benchmarks and market demographics that can be readily obtained from third-party providers.

1. **Financial Performance Analytics.** Most financial institutions use peer group financial data to compare performance against peers, set high-level financial targets, and establish contribution targets for individual business strategies and investments. However, the comparison must go beyond high-level performance measures such as return on assets or net interest margin. To be most effective, comparisons must also include performance drivers, such as deposit mix and growth, the composition of earning assets, operational efficiency metrics, and other key performance indicators. A separate comparison should also be made to a group of high performing companies. Case studies of selected high-performing institutions can be developed to fully understand their business strategies, market focus, and operating environments.
2. **Customer Analytics.** Most institutions have a considerable amount of information on their current customer base. The challenge is to organize this data into metrics that can help identify customer acquisition, cross-selling and retention opportunities, and then to leverage the metrics to drive individual marketing

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Marketing Budget Increase (cont'd)

coming year, or what decisions are coming out of ALCO. Meet with your team and agency to brainstorm solutions, then proactively bring ideas to your internal clients to help them with their deposit, loan and customer growth challenges.

3. **They partner with sales and the lines of business.** Make sure you know what the sales and line-of-business priorities are. Then coordinate your campaigns and activities to support them. For instance, if the retail bank has large home equity goals in the spring, you should have a plan to drive customers and prospects to them.
4. **They quantify their impact.** If you are going to spend $100,000, what are you going to deliver? Try to avoid "vanity metrics" like clicks and views. Focus on metrics the sales team understands—like "warm leads delivered" or better yet, applications and booked products. If you haven't measured the correlation between marketing activities and sales before, that's okay. There's no time like the present.
5. **They measure, report and effectively communicate.** It's one thing for you to tie your marketing activities to business results. It's another for the executive management team to know you are doing it. Remember, it can take a while to change old perceptions about marketing. Build it into your plan and provide regular updates and reminders. Executives need to be constantly reminded that there is a positive correlation between marketing spend and sales results.

The marketing discipline is rapidly evolving. The good news is that most senior executives understand how important marketing is to the success of the organization and want it to succeed. While it's no cake walk, the door is wide open for enlightened, proactive marketers to demonstrate the value of marketing as a true revenue producing part of the organization, and command the resources to do the job properly.

Analytics (cont'd)

approaches, sales activities, and customer relationship management decisions.

3. **Market Analytics.** It is important to develop profiles of the geographic markets in which the institution competes to drive business strategies and identify growth opportunities and priorities. Ideally, the profile would include information on economic and demographic characteristics, projected growth, concentration of customers that fall within targeted segments, financial product usage behavior, and the type and intensity of competition within the market. This analysis highlights the markets, products and segments where the institution may be underpenetrated and can help to inform business strategies and establish priorities for customer acquisition, cross-sell and retention programs.
4. **Operational Analytics.** Most financial institutions have a considerable amount of existing data that can be collected, organized and analyzed to identify efficiency opportunities and track performance. This can be accomplished by calculating a limited number of metrics for each major support and customer/member-facing function and conducting a variance analysis to industry benchmarks. The goal of the analysis is to identify where the institution appears to have an unfavorable variance to industry norms.
5. **Channel and Sales Analytics.** It is not only possible but necessary to analyze the performance of individual channels (branches, online, etc.) and sales personnel and map to opportunity and benchmark metrics. This enables management to make informed decisions about the allocation of marketing spending, staffing levels, and where to close, open, or reconfigure offices.

These simple analytics are relatively easy to build and can help to inform strategies that drive sales and marketing efforts, inform productivity and efficiency improvements, and improve customer and employee experiences.

The Branch-Closing Conundrum: Our 2018 Ranking of Midtier Banks

Excerpted from American Banker by Andy Peters featuring Kevin Halsey (202-337-7873)

Our ranking of the top performing midtier banks show that there's some good news, and there's some bad news.

The good news. For banks in the $2 billion-to-$10 billion asset class, the positive trends last year included improved efficiency ratios, as some banks focused on core lines of business and rationalized their branch networks. The overall group of 237 banks that qualified for this ranking had a median efficiency ratio of 59.6%, an improvement of 211 basis points from a year earlier.

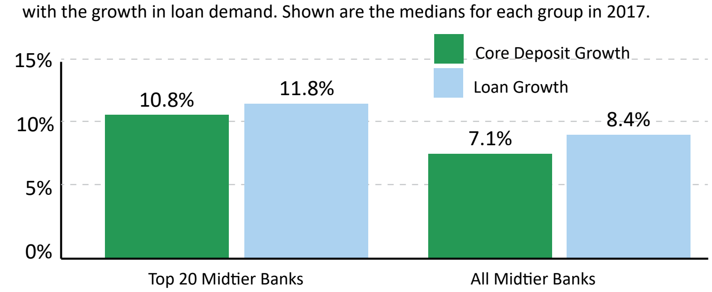
The bad news. The group's ratio of net loans to total deposits rose 150 basis points to a median of 93.2% in the same time period. Midtier banks aren't growing core deposits fast enough to keep up with loan demand.

Loan growth for the peer group was 8.4% in 2017, compared with core deposit growth of 7.1%. Core deposits offer the cheapest, most-stable source of funding for bank loans. This shows that these banks are running out of capacity to lend. The ability to keep adding loans is especially important to profitability dynamics in a rising rate environment.

A slowdown in core deposit growth can be tied at least in part to banks having fewer branches, and the midtier banks have accelerated the closure of larger branches (in terms of square feet). According

Less Capacity to Lend

Core deposits did not grow as quickly in 2017 as in previous years and did not keep up with the growth in loan demand. Shown are the medians for each group in 2017.



to our data, banks in this asset size range had 10% fewer branches at year-end than they did three years earlier. With efficiency being so important, banks will continue to close branches as customers go digital. The challenge with retail strategies today is that closing branches is great for cost control, but keeping them open is still key to attracting deposits.

To keep deposits from dropping, high performers will distinguish themselves by reallocating resources from low-growth to high-growth markets, deepening relationships with existing customers, and developing strong digital offerings.