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Finding Wedded Bliss

by Rich Weissman

Perhaps your CEO has made a lament similar to this: "First I hear from my marketing people, and they tell me what a great job they're doing because of the wonderful campaigns they have run and the fantastic production numbers they have generated. Account openings are up. New customer acquisitions are up. The balance sheet is growing with new deposits and loans. Things are great, we gotta do more.

"Then, I hear from my finance people, and they tell me how much money marketing is spending and the impact of these expenditures on noninterest expenses. Sure, they've seen the marketing reports, and production is up, but net income isn't. Things aren't great, we gotta cut back.

"How do I reconcile these two diametrically opposed points of view? How can such qualified people come to such different conclusions, and who is right and who is wrong?"

The root of the problem is that it's not that marketing or finance is right or wrong; it's the basis of the discussion that is out of whack. When you rethink the issue in a different light, you discover that there is a way for marketing and finance to work together in a mutually satisfying and beneficial relationship.

But, before you can begin to move to this point, you have to accept three unpalatable facts about banking:

Fact 1: Most bank customers are unprofitable.

Banks only generate positive income from a handful of customers, typically the top 10 percent. And, it's not the 80/20 rule. In fact, the top 10 percent of most banks' customers typically generate the equivalent of between 150 percent and 300 percent of all earnings! This is because the remaining 90 percent of customers are either nominal in the earnings they produce, or generate negative earnings. Most customers (typically 60 percent and more) fall into the negative earnings category, with a lot of them being highly unprofitable. This means that the top group of profitable customers has to more than make up for the losses.

Fact 2: A majority of banks sell the most unprofitable combinations of products nearly all of the time.

Yet another painful truth. The most frequent sales programs and sales incentives are actually geared to sell the most unprofitable combinations of products. The top combinations most frequently sold at banks are in fact highly unprofitable, and typically the vast majority of product combinations sold (well over 60 percent) produce negative earnings. This means that just a handful result in positive income for the bank.

Fact 3: Most bank marketing campaigns are unprofitable.

Right again. The campaigns may bring in volumes, but from a profitability perspective, they don't help the income statement. More frequently than not, they result in negative profitability and are actually detrimental to profitability growth. Frequently, the higher the production, the greater the negative impact on earnings.

But how can this be? How can banks be so offtrack in their marketing efforts? Is this some kind of a conspiracy among the marketing staff to undermine earnings? Of course not. Most bank

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Encouraging marketing and finance to cooperate is like counseling a married couple about how to get along better. Both parties need to learn how to align their goals in order to create a lasting, supportive relationship.

marketers are smart and qualified. They just haven't had the right kind of focus; they've been placed in a box that defines them as "soft" and communication-based, and they certainly don't have the right tools. Most importantly, they haven't been given the role of *managing for profitability*.

Taking the plunge

There are three steps that banks can take to reconcile the differences between marketing and finance. The process is similar that of building a successful marriage. Marketing and finance start out with "courtship and engagement" (getting to the altar), then the initial "marriage" itself and working through the initial ups-and-downs of married life. Finally they get to the point of a supportive and ongoing "partnership" that breeds success.

1. Bring marketing and finance together at the table. Both need to be active participants in the development of a profitability-focused sales culture, and both need to take ownership of understanding and utilizing profitability data as a marketing and sales tool. The bank needs to develop a marketing and sales customer database—with profitability measurement at its core. General ledger and financial analysis needs to be integrated into this marketing and sales system. By bringing the financial and customer data into a consolidated system, marketing and finance can operate under the same set of reporting rules.

2. Solidify the relationship through a systematic approach that both sides can agree on. This step consists of creating marketing and sales measurements based on profitability. Providing financial measurement tools for marketing and integrating marketing reporting with financial measures is critical. Measures such as profitability by customer and customer segments, profitability by product, profitability by officer, break-evens, return on investment (ROI), and other performance benchmarks become marketing's new measurement tools.

3. Keep the marriage intact—so that both partners can enjoy the fruits of the relationship. Marketing shifts from being a communication support unit of the bank focused on volume production to a profitability driver. This realignment occurs as marketing introduces profit-driven programs such as matrix marketing, product packaging, branch locations, incentive plans and others—all focused on increasing the bottom line. With profitability tools as the foundation and working hand-in-hand with finance, marketing is able to focus on and demonstrate results that impact earnings. Since finance always finds these results quite appealing, the marriage remains intact.

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A marriage case study

Placer Sierra Bank, headquartered in Sacramento, Calif., (with $1.8 billion in assets) is an example of this approach. In 2005, the bank worked with an outside company to revamp its incentive program. Previously, Placer Sierra had an incentive plan traditional in the industry, one focused on production volumes. Incentive payout pools were established and, quarterly, incentive payouts were given based on production levels. The bank and the outside company teamed to design an entirely different incentive plan, consisting of a balanced approach to rewarding officers for their performance. With the goal of moving from a volume-focused sales culture to a profitability-focused sales culture, a plan was developed that included a number of key measures.

Weighted most heavily were new-account profitability and increased profits from existing accounts. As part of the equation, retention, cross-sell, referrals and important service factors (shopping scores and customer satisfaction scores) were also added in. The objective was to have officers balance volumes with profitability by selling lots of profitable accounts and attending to quality cross-selling, retention and servicing.

Today, Placer Sierra officers need to think critically about new accounts they are opening—they may add to volume, but do they generate positive profitability? Officers also need to think about how they are spending their time on new-account acquisition and consider if that time takes away from up-selling, servicing and retaining current customers. These are important factors in balancing volumes with profitability. Of course, training officers in understanding profitability dynamics was critical.

In the last six months of 2005, the bank's earnings increased on average by over 2 percent each month. Clearly, this is not all attributable to the incentive program, but the program is an important element in building a profitability-focused sales culture where the bank has aligned marketing with finance.

What's important to understand is that although the marketing and finance disciplines bring different but critical perspectives, both can focus on the same thing—increasing earnings. Is this a right-brain/left-brain dichotomy? Traditionally, yes, but that should not be the case. Not if the goal is to significantly grow the bank's earnings. Done successfully, it is much more than a marriage of convenience, it's a marriage of necessity—and the bank will be the one enjoying the wedded bliss. ■

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