Mom’s Funeral

• Called the local funeral home – told to call back
• Called the next closest
  – Set time for a meeting with Roy
  – Showed up and herded into a very cold room
  – Roy never showed
  – Receptionist said it was my fault
  – Met with Amanda…who clearly didn’t know her products
Talking “Death”
Is **CW** Etched in Stone at Your Bank?

Conventional Wisdom
A bold statement

- I believe 9 out of 10 participants at this LBA Retail Conference today can double the rate of retail customers acquired, and it can be done very profitably
Things we can learn from a Mortician
The Mortician’s business model

• A nice, big, expensive facility is required
• The facility is frequently empty (underutilized)
• His customers make an emotional decision
• He generally gets one shot to close the deal
• The service he offers is a commodity that is difficult to differentiate
• He thinks he differentiates on service, but no one can tell from the outside – they all look the same until you experience it.
A Funeral Home Business Plan

- “People remembering people”
- Average cost of a funeral: $5,884
- 75% of deaths result in a funeral
- 1st year projected: 29 funerals
  - About 1 every other week

Source: Funeral Home Business Plan, Evergreen Life Memorial Center
Banker Think

- ROA, ROE, NIM, NII, NIE, efficiency ratio – good global, macro measures
- We don’t tend to think about “same store sales”, “factory utilization”, etc.
- How much revenue do you get per widget?
- How much revenue will you get from selling one more widget?
- What does it cost you to process one more widget?
- How utilized are your factories?
Let’s dive into that

- Revenues per widget – what is an average core customer worth at your bank?
- Costs per marginal widget – differentiate marginal costs from fixed costs
- Do we have excess capacity in the factory?
Computing “value” – Haberfeld’s view

• We monetize core customers in 3 key ways:
  – Non-interest Income
  – Balances in checking
  – Cross-sells

• So…what is an average current customer “worth” at your Bank?
What are customers “worth”?

Average customer value:
   a recent analysis
Quick, high level math – fee income

- NSF income: $655,205
- Interchange income: $526,930
- Regular service charge income: $90,465
- TOTAL $1,272,600

Divided by 6,471 consumer and business checking accounts = $197/account average
Balances

- Total non-interest bearing deposits: ~$81MM
- Divided by 6,471 = $12,517 X some “rate” for value

- Haberfeld client averages (new accounts):
  - Consumer: $3,625
  - Business: $16,223

- Math we can debate: $5,000 x 2.0% = $100
## Consumer Portfolio Cross-Sell

<table>
<thead>
<tr>
<th>Account Group</th>
<th>Haberfeld Ratios</th>
<th>Haberfeld Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking</td>
<td>1.552</td>
<td>$4,798</td>
</tr>
<tr>
<td>Savings</td>
<td>0.520</td>
<td>5,403</td>
</tr>
<tr>
<td>Money Market</td>
<td>0.033</td>
<td>63,174</td>
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<tr>
<td>CD</td>
<td>0.091</td>
<td>26,766</td>
</tr>
<tr>
<td>IRA</td>
<td>0.037</td>
<td>17,937</td>
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<tr>
<td>HSA</td>
<td>0.017</td>
<td>1,947</td>
</tr>
<tr>
<td>Consumer Loan</td>
<td>0.065</td>
<td>9,427</td>
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<tr>
<td>Line of Credit</td>
<td>0.009</td>
<td>7,584</td>
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<tr>
<td>HELOC</td>
<td>0.036</td>
<td>31,972</td>
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<tr>
<td>Mortgage</td>
<td>0.062</td>
<td>124,106</td>
</tr>
<tr>
<td>Business Checking</td>
<td>0.113</td>
<td>14,702</td>
</tr>
</tbody>
</table>

Let’s debate this!

Deposit balances (not including checking): $9,691 x effective rate credit x 2.0% $194

Loan balances: $9,527 x effective rate credit x 2.0% $191

Total Relationships: 2.535

Total Deposits: $17,136

Total Loan Volume: $9,527
## Business Portfolio Cross Sell

<table>
<thead>
<tr>
<th>Account Group</th>
<th>Haberfeld Ratios</th>
<th>Haberfeld Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Checking</td>
<td>1.544</td>
<td>$23,676</td>
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<tr>
<td>Business Savings</td>
<td>0.079</td>
<td>$9,787</td>
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<tr>
<td>Business Money Market</td>
<td>0.049</td>
<td>$131,471</td>
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<tr>
<td>Business CD</td>
<td>0.024</td>
<td>$56,576</td>
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<tr>
<td>Business Loan</td>
<td>0.178</td>
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<tr>
<td>Business Line of Credit</td>
<td>0.066</td>
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<td>Business Real Estate</td>
<td>0.084</td>
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<tr>
<td>Retail Checking</td>
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<td>Retail Savings</td>
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<td>Retail Money Market</td>
<td>0.058</td>
<td>$92,336</td>
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<tr>
<td>Retail CD</td>
<td>0.075</td>
<td>$26,196</td>
</tr>
<tr>
<td>Retail IRA</td>
<td>0.038</td>
<td>$15,016</td>
</tr>
<tr>
<td>Retail HSA</td>
<td>0.023</td>
<td>$2,399</td>
</tr>
<tr>
<td>Retail Consumer Loan</td>
<td>0.050</td>
<td>$14,093</td>
</tr>
<tr>
<td>Retail Line of Credit</td>
<td>0.038</td>
<td>$4,399</td>
</tr>
<tr>
<td>Retail HELOC</td>
<td>0.037</td>
<td>$46,335</td>
</tr>
<tr>
<td>Retail Mortgage</td>
<td>0.083</td>
<td>$168,808</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Business Only</th>
<th>Business &amp; Retail</th>
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</thead>
<tbody>
<tr>
<td>Total Relationships:</td>
<td>2.02</td>
<td>3.72</td>
</tr>
<tr>
<td>Total Deposits:</td>
<td>$45,129</td>
<td>$63,341</td>
</tr>
<tr>
<td>Total Loan Volume:</td>
<td>$61,059</td>
<td>$77,656</td>
</tr>
</tbody>
</table>

Let’s debate this!

**Deposit balances (not including checking):**

- $8,573 x effective rate credit x 2.0% = $171

**Loan balances:**

- $61,059 x effective rate credit x 2.0% = $1,221
Let’s recap

• Fee Income: $197/customer/year
• Balances (checking): $100/customer/year
• Cross-sell (conservative): $200/customer/year
• Total $497/customer/year
And, they stay a long time!

- Haberfeld client average attrition: 12.22%
- Meaning average life is > 8 years!!!!!!
Costs: mostly fixed…

- Per their 12/31/14 Call Report:
  - FF&E $524,000
  - DP Expense: $445,000
  - TOTAL $969,000

- Questions:
  - How much does that go up if you add one customer?
  - How much does it go up if you add 5,000 customers?
But we haven't talked about people yet

• How many new hires if we get one more marginal customer?
• How many new hires if we get 5,000 more marginal customers (over a long period of time)?

• Let’s put this in context, though:
  – They are opening about 3/branch/week (total)
Decisions, decisions...

- $969,000 in costs over 6,471 customers
  - Average customer costs $150/year
- Analysis: we ONLY make money if customers give us more than $150/year on average.
- Conclusion: we must design products and activities to insure we ONLY get these types of customers.
- But...is that the right way to think?
- Good analysis...faulty conclusion.
What does the next customer cost?

• So you add one more PFI customer:
  – Issue a debit card ($5?)
  – Send a statement ($12?)
  – A little more data processing ($???)
  – Write off a little principal from overdrafts on some ($5?)
  – What else?

• Our clients report average direct marginal costs are about $30-$40/customer/year
Marginal profitability is key

- If we get one more core customer…
  - $500/year in revenue
  - $40/year in costs
  - They stay 8 years
- That looks VERY profitable to us!
Net Present Value of the Relationship

Retail: $2,730
Business: $9,321
Monetizing Customers

Today and Tomorrow
Non-interest Income is driven by *transaction* fees consumers willingly pay rather than “account” pricing.

For every $100k/year in regular service charge income, a typical bank makes > $800k in Interchange Income and NSF income.

Why don’t we double those, instead?

This could change in the future and we may all have to adapt!
Monetizing customers in new ways

• Regular monthly service charge?
  – If the CFPB whacks 50% or more of NSF’s, that is how we think the entire industry pivots
  – That doesn’t scare us: as long as the playing field is level, effective marketing and superior execution will still win

• Balances/Rates?
  – In a normal rate environment money will have value again

• New ways – we will discuss that in the next presentation

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Capacity

• Your branches and the big guy’s branches look the same to me.
• They service 6,000 customers per branch and the typical community bank services about 1,500.
• Question: Do you have excess capacity? Could you handle more customers?
Industry Backdrop

Big banks vs. Community banks
“Too Big To Fail”
Top 4 Banks vs. Rest of Financial Institutions

- Citibank: $1.36 Trillion
- Wells Fargo: $1.53 Trillion
- Bank of America: $1.57 Trillion
- JP Morgan Chase: $2.07 Trillion

$6.53 Trillion - Top 4 FI
$6.29 Trillion - FI > $10B
$3.95 Trillion - All Other FI

109 Institutions: 104 Banks, 5 CUs
$0 - $100M: 6,755
$100M - $1B: 5,248 Institutions
$1B - $10B: 804 Institutions
Top 30 Market Share
But Wait!
If you actively market for new PFI customers, you will get the dregs of society!
Actually…

- The new customers you get will look pretty much like the current customers you are getting.
- You can’t make them look much different.
- If you want a different looking customer…move your branch!
Unprofitable customers will clog our lobbies!!!

• First, your lobbies aren’t clogged – most of the time I could fire a cannon off and not hit a customer!
• There is no perfect filter…just get twice as many that look like (on average) the ones your getting today.
• You will get you a LOT more unprofitable customers…
• In about the same ratio that you are getting them today.
Conventional Wisdom

• Fully allocated cost model: Estimates in the $200-$300 per year range

• With that analysis firmly implanted, we start to make a lot of decisions without questioning the premise or the business model:
  – Marketing and Targeting: we have to get the perfect customer in order for them to be profitable
  – Products: we have to structure our products so that we can’t have an unprofitable customer
  – Fees: we have to raise them in order to cover all these huge costs
Can you imagine this?
What happens if he doubles?

• Say he moves from 29 funerals/yr. to 58?
• What happens to marginal costs vs. marginal revenues?
Fundamental structure in banking

• We think banking is a business of high fixed costs, low marginal costs (for the next core customer) and high marginal revenues relative to the cost, on average.
• We think you have TREMENDOUS excess capacity
• Getting more core customers is a very strategic, profitable undertaking (even with possible regulatory changes from the CFPB)
Business Models: Marginal Revenues vs. Marginal Costs

- There are many businesses like ours with high fixed costs and low marginal costs that monetize customers well at the margin
  - Movie Theaters
  - Convenience Stores
  - Paypal
  - Even funeral homes!
Doubling? Really?

- Understand the emotional dynamics of switching
- You can’t get anybody to switch…but you can get twice as many to pick you.
- Must do effective marketing.
- Have good product: good product is easier to sell then bad product.
- Close the business when it comes in.

- More to come on this…
His Customers make an emotional decision

- When do you become the PFI?
- When customers give your name in response to this question: “Where do you bank?”
- They are telling you where they have their primary operating checking account.
- The checking account is the beach head to “PFI-dom”
- How do prospective customers choose?
Getting New Customers in a Fixed Marketplace

The emotional dynamic
In every Market...

• In a given year, about 10% - 15% of the households “change banks”.
• When you start getting new customers, by definition, your competition is getting fewer.
• We call this system **net zero**—when FIs are trading households back and forth.
The good news!
Believe it or not…but it’s counter-intuitive

A fixed market is an infinite “pipeline” of opportunity
Approach and Message

• You can’t get anyone to switch, but you can do something profoundly different…
• You can get a lot more of them to pick you after they have already decided to switch!
“Changing Banks”

- Switching is really, really hard
- People only do it if they have to
- Certain events beyond our control create the opportunity, you rarely get people to switch, it’s just too hard
- Be there when they decide to switch
- Set the right conditions for them to notice and pick you!
Why do people change FIs?

- Mad at the old FI (70%)
- Moved
- Changed Jobs
- Got married
- Got divorced

- It is largely event driven
When do people change FIs?

• When they have money
• When do they have money?
  – When they get paid
• When do people get paid?
  – Weekly or bi-monthly
• About every 6 weeks you get a double-whammy payday
A Unique Point in History

Those emotional decisions are abundant...
Consumer Opinions
Consumer Opinions
Consumer Opinions

BIZARRO

By DAN PIRARO

I’d like to open an account.

Who cares?

INTEREST-FREE CHECKING

BIZARROComic.BLOGSPOT.COM
Effective Marketing
Concepts...

- “Bad at haiku”? What???
- How about a compelling offer.
- Delivered to the right prospect.
- Delivered at the right time – double whammy paydays.
- Designed to steal market share.
Why consumers specifically selected their new checking account

- Convenient locations: 34%
- Recalled an ad or promotion: 26%
- Relied on recommendations: 19%
- Low price: 27%

(Jan through Sept 2014. Multiple responses accepted.)
Marketing channel influence on new checking choice

- Direct mail: 32%
- All digital (online, mobile, online video): 31%
- TV: 21%
- Email: 18%
- Bank location/ATM: 14%
- Newspaper: 11%
- Radio: 10%
- Magazine: 9%
- While making a purchase: 9%
- Outdoor: 7%
- Mall: 6%
- ATM: 5%
- Elevator or gas station: 3%
- Cinema: 3%

Of consumers who cited ads/promotions as an influencer
Convenience Is Still #1 For Account Openings

The majority of new accounts come from closer proximity!
Annual primary bank switching rates

- 18-25: 18%
- 26-34: 19%
- 35-44: 13%
- 45-54: 7%
- 55-64: 4%
- 65+: 2%
- Overall: 10%

Source: AlixPartners © March 2014 The Financial Brand
Electronic Marketing

• In 2014, 68% of ad requests online included location-based data…
• …but few banks use that!
• Do you do any PPC? Map where you are already getting customers and do PPC there, not everywhere…

• I will talk more about this in the next session.
Product

Do you like to fish?
Most banks are afraid that you are only going to catch these...
...so they design their products to try to catch these...
But there are a lot of these out there! (and a lot of room in the tank)
Getting a lot more people in the door

• What do people want when they are changing banks?
• Simple, easy to understand products
• No cost
• Low hurdles (if any)

• Question: Can we make money delivering this?
It isn't what we don't know that gives us trouble, it's what we know that ain't so.

Will Rogers
He gets one shot to close the deal

• Do your policies recognize that?
  – “Does my wife need to be here?”
  – “What forms of ID do I need?”
• Do you pre-screen customers in order to qualify for an account?
• Do you have consistently applied questions that get the customer into the account that is right for them?
• Does your front line staff ask for the business every time?
## Is Screening effective?

<table>
<thead>
<tr>
<th>Category</th>
<th>ChexSystems Users</th>
<th>ChexSystems Non-Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSF Frequency</td>
<td>3.64</td>
<td>4.62</td>
</tr>
<tr>
<td>Principal Losses</td>
<td>$3.24</td>
<td>$4.69</td>
</tr>
<tr>
<td>Net Fee Revenue (after losses)</td>
<td></td>
<td>+ $28.29</td>
</tr>
<tr>
<td>Accounts Opened (per branch/yr)</td>
<td></td>
<td>+ 43</td>
</tr>
</tbody>
</table>
Is Screening effective?

<table>
<thead>
<tr>
<th>Category</th>
<th>ChexSystems Users</th>
<th>ChexSystems Non-Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-sell Ratio</td>
<td>2.58</td>
<td>2.57</td>
</tr>
<tr>
<td>Cross-sell Deposits</td>
<td>$ 18,425</td>
<td>$ 16,059</td>
</tr>
<tr>
<td>Cross-sell Loans</td>
<td>$ 5,060</td>
<td>$ 7,778</td>
</tr>
<tr>
<td>DC Take Rate</td>
<td>75%</td>
<td>80%</td>
</tr>
<tr>
<td>BP Take Rate</td>
<td>16%</td>
<td>36%</td>
</tr>
<tr>
<td>eStatement Take Rate</td>
<td>14%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Take the emotion out when they actually come in, too.

Open a checking account and get a FREE Gift today!

Three easy questions to help you decide which account is best for you.

1. "Are there be anyone 50 years or over living on this account?"
   - Yes: Will you always keep more than $1,500 in your checking account?
   - No: High Interest Checking

2. "Does anyone plan to have direct deposit or an automatic payment with this account?"
   - Yes: Will you always keep more than $1,500 in your checking account?
   - No: VIP Interest Checking

3. "Will you always keep more than $1,500 in your checking account?"
   - Yes: High Interest Checking
   - No: Totally Free Checking

Totally Free Checking
- A FREE account for everyone!
- No minimum balance
- No monthly service charge
- No per-check charge

50+ Interest Checking
- FREE for clients 50 and better!
- Competitive interest
- No minimum balance
- No monthly service charge
- No per-check charge

VIP Interest Checking
- FREE checking with the convenience of direct deposit or any automatic payment!
- Competitive interest
- No minimum balance
- No monthly service charge
- No per-check charge

High Interest Checking
- An account for those interested in higher interest!
- FREE personalized checks
- Higher interest rate with a balance of $1,500 or more
- Competitive interest if balance falls below $1,500
- No per-check charge
- Only $5 monthly charge if minimum balance falls below $1,500

Save time and money with these great products and services:

- **FREE Debit Card**
  - Enjoy everyday access to your funds at any ATM in the world and the convenience of making purchases without writing a check.

- **Direct Deposit & Automatic Payments**
  - Save yourself time with a convenient direct deposit or automatic payment. They take the hassle out of depositing paychecks or paying recurring bills.

- **FREE Online Banking & Bill Pay**
  - Don’t put up with lost mail and late payments when you can go online and simplify your life with a click of a button.

- **FREE Mobile Banking**
  - Bank anytime, anywhere from your mobile phone.

- **FREE eStatements**
  - Eliminate paper waste and enjoy secure online access to current and past statements by opting for electronic delivery.

- **Savings Plans**
  - Manage your money and enhance your earning power with one of our CDs, savings, or money market accounts.

- **FREE Business Checking**
  - Need a better account for your business or organization? Our Totally Free Business Checking is the perfect account for most businesses.

Every new personal checking account includes:
- **FREE Debit Card**
- **FREE Online Banking and Bill Pay**
- **FREE Mobile Banking**
- **FREE eStatements**
- **FREE Services**
  - FREE return of check images for easy record keeping
  - FREE easy-to-read monthly statement
  - FREE thank you gift
  - Buy back of your unused checks and debit card from another financial institution**

(For offer details, restrictions, limitations, and closing account fees, please see page 63 and page 64.)*

**For offer details, restrictions, limitations, and closing account fees, please see page 63 and page 64.**
The service he offers is a commodity

- You differentiate by giving better service, but…
- If they aren’t a customer, they haven’t experienced your service!
- You can make service a competitive advantage.

- How?
- Leverage your existing customers for referrals.
  - Well run banks can get 1/3 of new openings from customer referrals
Leverage Referrals

Completely Free Checking and a Free Gift!

Tell-A-Friend about Completely Free Checking and get a FREE gift!

Kalonik Coffee Maker

TRI CITY NATIONAL BANK

haberfeld associates
Conclusion

• There are at least a few similarities between the mortician’s business and ours. I hope you have enjoyed this whimsical comparison.
• We think community banking is alive and well.
• The “death” that needs to occur is that of “conventional wisdom”.
• With good marketing and effective execution, you can double your current results (well, most of you can)!
• And finally…