The Discipline of Growth

BY TOM LONG

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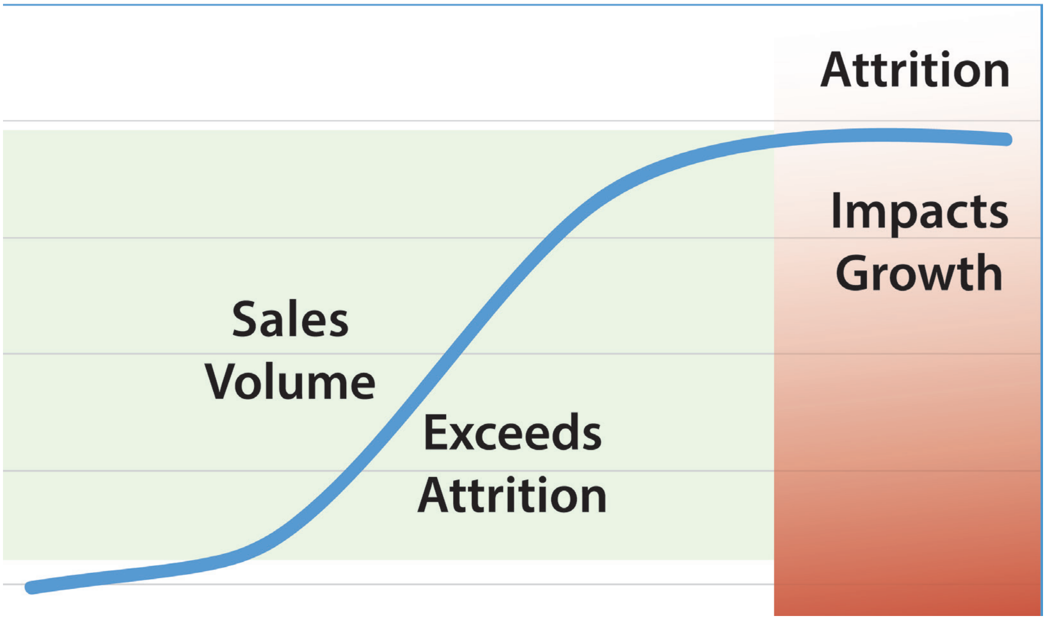
The Growth Curve



Creating operating leverage or growing revenue faster than expenses is the essence of business. With compressed margins the new normal, lifting or accelerating the growth trajectory is an economic necessity. In a thin margin business, stimulating top line revenue growth is a priority for every financial institution.

The Law of Diminishing Returns

An organization's ability to grow is impacted by two factors, sales volume and attrition. Consider that there is a sales and attrition dynamic within each product line determining not only the composition of the balance sheet but its growth rate as well. Furthermore, every product line and market that the bank competes for business can be plotted on a growth curve. Uncovering benchmark statistics will allow the financial institution to anticipate the challenge.

Generally, as each product line portfolio grows, should the attrition rate remain unchanged, the absolute volume of business that is required to be replaced expands. This attrition volume will eventually approach or exceed annual sales volume, compromising growth. Stagnation arises when attrition equals sales volume while contraction occurs when attrition exceeds sales volume.

The Growth Paradigm

The core activities to ensure growth include improving the stability of the account base, competing in new product lines, or entering new markets to leverage the existing product set. For the last 24 years, The Long Group has been surveying both consumers and businesses regarding financial service usage (ownership) and behavior (the access and maintenance of their relationship), capturing evolving trends. Here is what the proprietary database suggests as financial institution priorities.

The Advantage of Focus: Improving Retention

At the typical financial institution, four months of the year are spent on growth. The sales volume acquired over the remaining eight months of the year is invested in replacing business lost through attrition. Reducing attrition is a quantifiable exercise. Specifically, customers that maintain a one or two account relationship generate churn. Therefore, the average size of a client relationship determines longevity with client tenure expanding by 50 percent among those households that maintain three or more

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balance sheet account relationships with the institution. While automating sales production has strategic benefits, the typical financial institution remains in search of an executable plan to expand share of wallet.

Improving Market Penetration

The branch is rapidly morphing from a transaction center to a sales center with many financial institutions unprepared for this opportunity. Often financial institutions operate within specific branch markets without the knowledge of focus. Knowing the product lines that will contribute to each branch's growth is essential. Establishing feasible, realistic and appropriate product line sales volume frames expectations. In addition, creating a plan to capture the identified opportunity produces accountability. It starts with the knowledge necessary to generate the strategy and focus required to launch impactful business development activities on a branch-by-branch basis.

Entering New Markets

Branching today represents a significant investment and as such requires a disciplined approach to making decisions. To sustain growth necessitates a thoughtful process to evaluate potential new markets each of which are competing for capital. Once de novo branch market priorities are established, discovering a specific site with the locational advantages to successfully penetrate the market reveals a means of entry. However, branching momentum is determined pragmatically by quantifying the profit and loss impact of the branching decision. New markets, successfully identified, accelerate top line revenue growth and drive financial performance. The benefits to branching are great. So are the consequences. Manage the risks with an analytical approach to branch expansion.

Think Strategically

Growth requires discipline and discipline requires focus. Thinking strategically will allow the financial institution to behave tactically. Examine whether or not the institution has a solution to expand customer relationships. Create a mechanism to understand, evaluate and capture the incremental product line opportunities available within each existing branch market. Construct a profitable branch expansion blueprint. Plan for success by closing the knowledge gap to improve performance. BNE