

Effective and Efficient Strategic Planning: What's Your Value Proposition?

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By

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Strategic Planning

Why strategic thinking and leadership – and not just planning?

- Because, if you can't *think* strategically, you can't *plan* strategically.
- And, if you can't *lead* strategically, even the best strategic plan is of little value!

Strategic Planning

- The critical need for strategic thinking, planning, and leadership is driven by two things:

CHANGE ... and COMPETITION!

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- The more pervasive and life-threatening the change – and the more aggressive and capable the competition – the greater the need for true strategic planning.

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- Are the changes facing our industry more challenging and life-threatening than in the past?
- Are your competitors more aggressive and capable?

Strategic Planning

- It's not just about your strengths and weaknesses – it's about your strengths and weaknesses *vis-à-vis those of your direct competitors!*

Strategic Planning

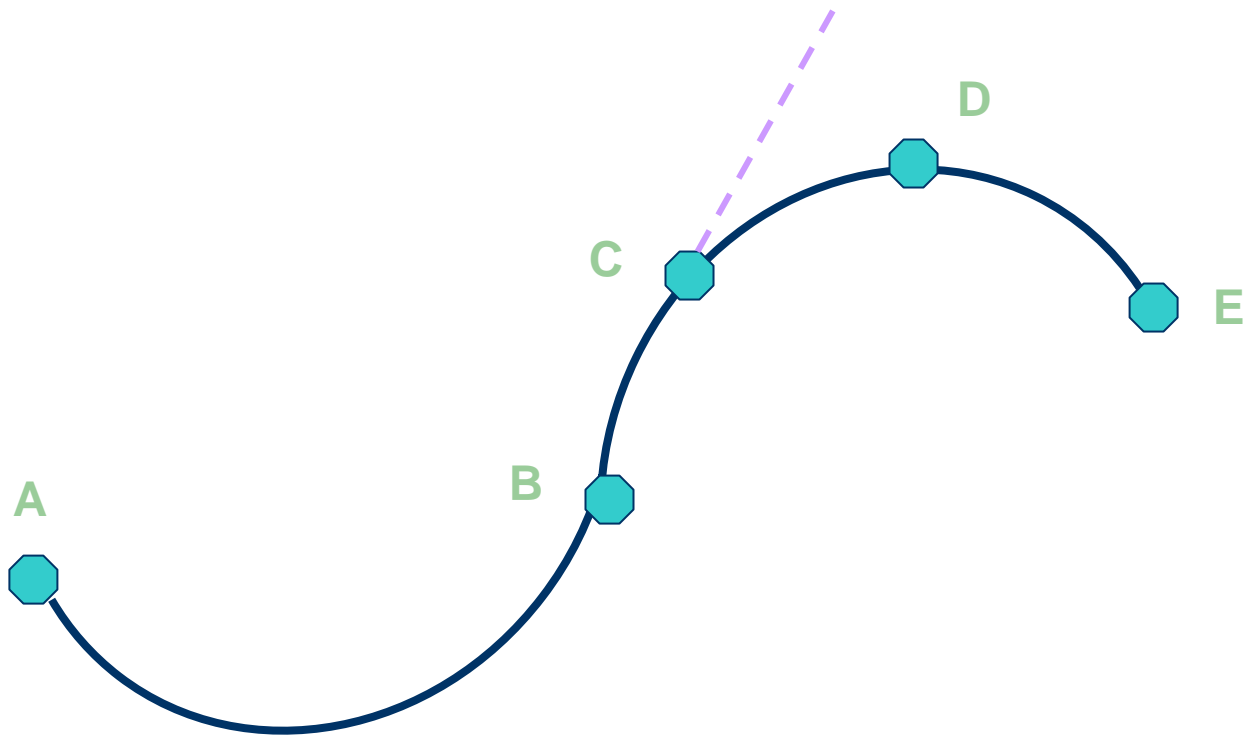
“What business strategy is all about – what distinguishes it from all other kinds of planning – is, in a word *competitive advantage*, for the sole purpose of strategic planning is to gain *as efficiently as possible*, a sustainable edge over its competitors. *Corporate strategy thus implies an attempt to alter a company’s strength relative to that of its competitors in the most efficient way.*”

Kenichi Ohmae

[The Mind Of The Strategist](#)

Strategic Planning

The Sigmoid Curve



Strategic Planning

Drivers of Change and Competitive Advantage

1. Technology
2. Legal/Regulatory/Political/Environment
3. Demographics
4. Macro-economics
5. Geopolitics
6. Environmental/Biological
7. COMPETITION

The Sigmoid Curve



Strategic Planning

“Competitive advantage grows fundamentally out of *value* a firm is able to create for its buyers that exceeds the firm’s cost of creating it. *Value* is what buyers are willing to pay, and *superior value* stems from offering *lower prices* than competitors for equivalent benefits or providing *unique benefits* that more than offset a higher price.

There are two basic types of competitive advantage; cost leadership and differentiation.”

Michael E. Porter
Competitive Advantage

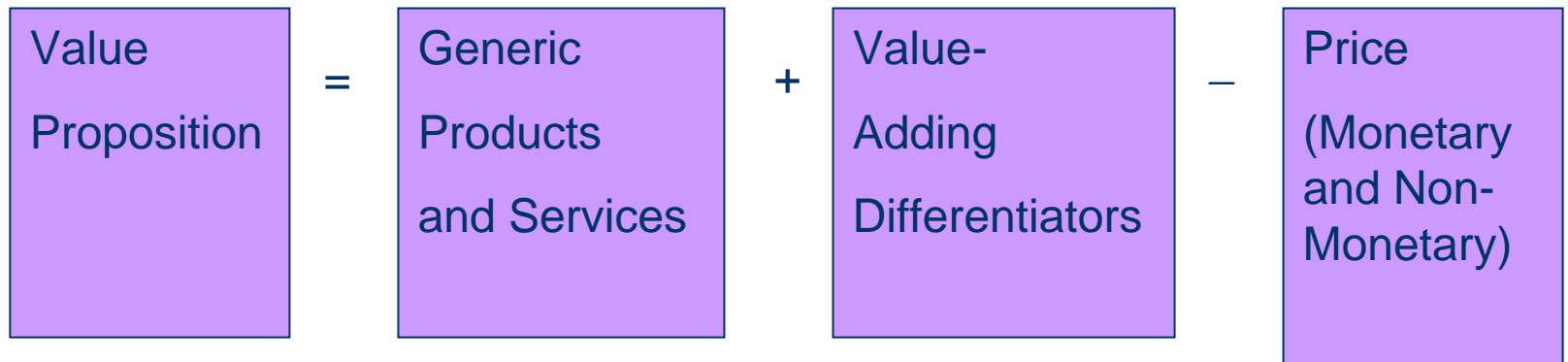
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- FED-EX

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- Lexus vs. Mercedes Benz
- Southwest vs. Delta
- Ritz-Carlton vs. Marriott vs. Fairfield Inn

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The fundamental Question: “What are you really selling?”

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How Companies Go Over The Edge

1. Leaders fail to understand and monitor the seven drivers of change and competitive advantage – *and their strategic implications!*
2. One or more alert and savvy competitors exploits change to a) reduce per unit costs and/or b) create value-adding benefits/differentiators, thereby creating competitive advantage.
3. The company's value proposition(s) is/are perceived as inferior to those offered by one or more competitors by one or more key customer and/or customer prospect segments.

(Continued)

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4. 'Sales'/gross revenues decline
5. The company cuts prices; the sales decline continues or moderates temporarily; *profits – and stock price – decline!*
6. The company reduces staff; training; marketing; and benefits.

(Continued)

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7. All too often, financial reports are fabricated to deceive the investment community (e.g. Enron).
8. The best employees leave; the worst stay – *and are promoted!*
9. New leadership – one way or the other!

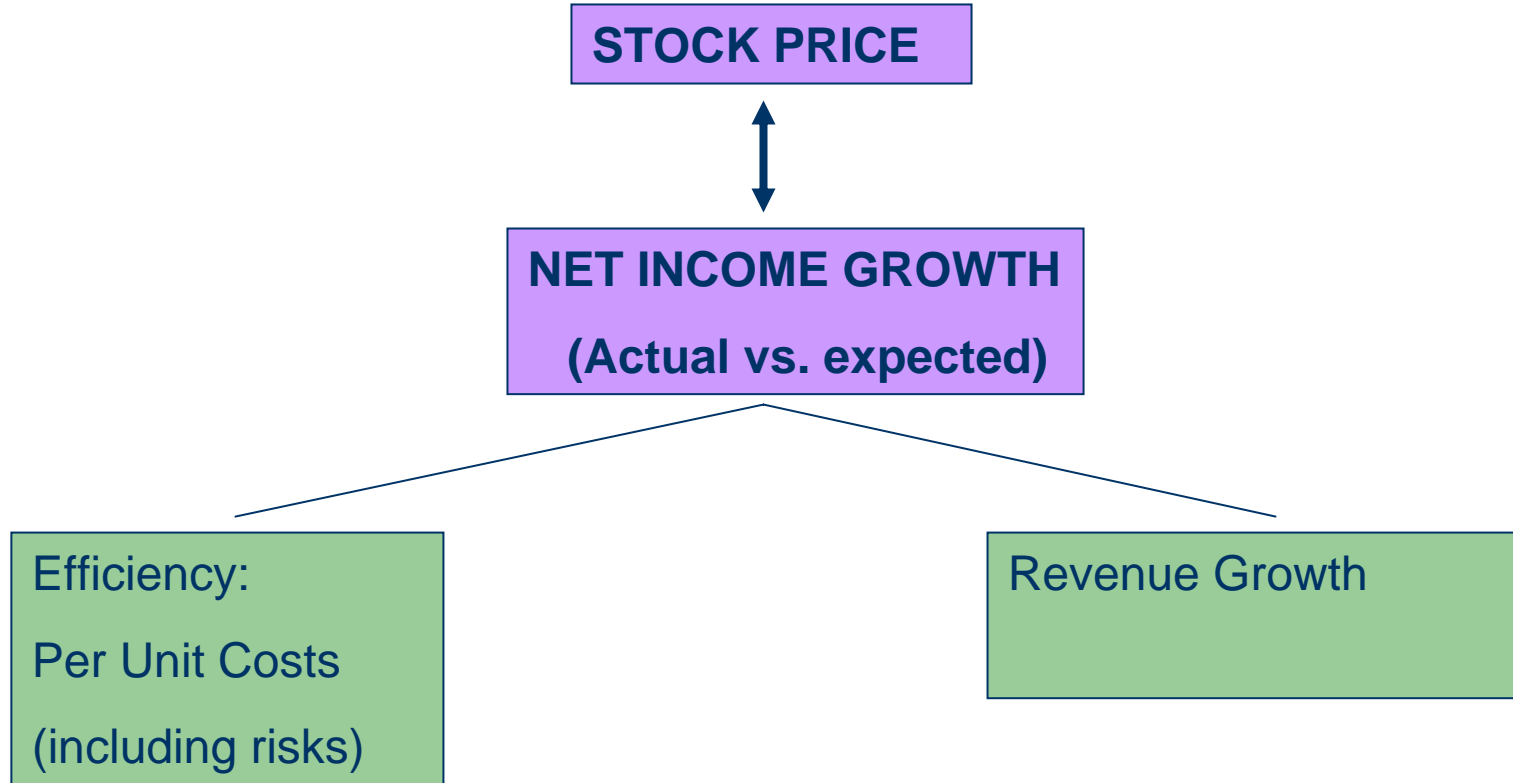
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- If you look closely enough, you will see much of this happening to many community banks all across the country – some in your own backyard!
- The real problem is not what's happening out there ... it's what's not happening inside the bank!

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- Where should boards and executive teams be focused?

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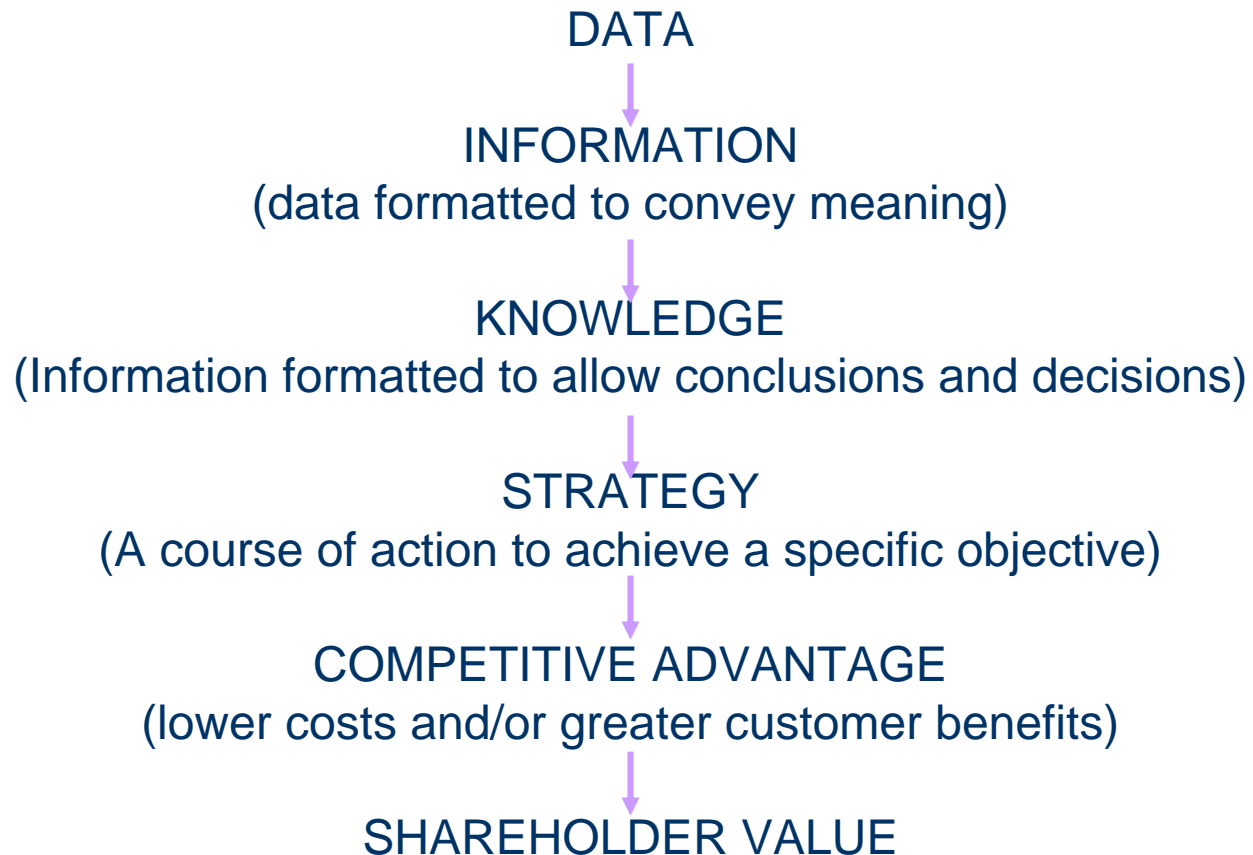


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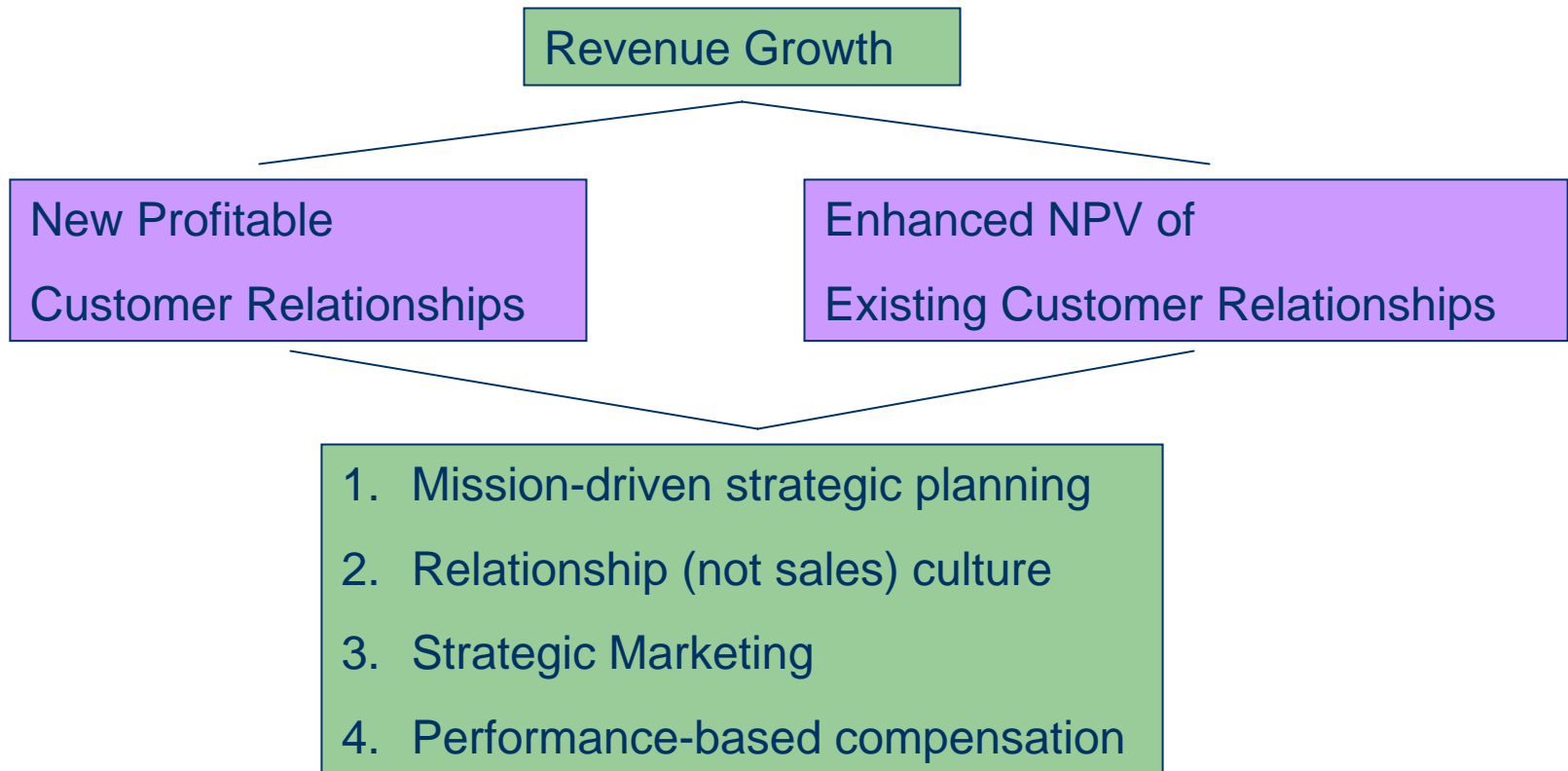
Efficiency: Per Unit Costs
(including risks)

1. Mission-driven strategic planning
2. Allocation and management of capital
3. Leadership and culture
4. Core Values
5. Organization structure design (and redesign)
6. Work process engineering (and reengineering)
7. The strategic management of technology
8. Performance-based compensation
9. Enterprise Risk Management
10. Bench Marketing

The Technology Continuum



Strategic Planning



Strategic Planning

The Hedgehog Concept (Good to Great)

1. What drives your economic engine?
2. What must you be passionate about?
3. What must you be better at than anyone in your world?

The Eight *Essential* Components of Strategic Marketing

1. Strategic focus; what specific customers do we want?
2. Research
3. Value proposition design
4. Promotion/perceptions management: advertising and branding
5. Promotion/perceptions management: public relations
6. HR support
7. Sales and sales management; internal and external
8. Customer relationship management
 - a. Profitability
 - b. Loyalty

Strategic Planning

Most “strategic planning” is little more than a numbers-oriented budgeting exercise that accepts and extends past perceptions of reality – and existing strategies – into the future. It actually impedes – rather than facilitates – required strategic change and perpetuates the status quo.

Strategic Planning

Remember

- Reality drives strategy.
- Reality is what it is – not what it once was or what we wish it were.
- Strategy is what we must do – not what we want to do or what makes us “comfortable.”
- When the rules change – you better change the way you play the game!
- All strategic change is costly – and involves risk.

Mission-Driven Strategic Planning

Mission-Driven Strategic Planning is a continuous process (not an annual event) by which the organization's leaders – including directors:

- A. Define clearly the company's performance expectations based on a thorough understanding of the shareholder value equation;

Mission-Driven Strategic Planning

The Shareholder Value Equation

ROE	=	ROA	x	EM	E/A
16	=	1.12	x	14.28	7
16	=	1.28	x	12.50	8
16	=	1.44	x	11.11	9
16	=	1.60	x	10.00	10

Mission-Driven Strategic Planning

Mission-Driven Strategic Planning is a continuous process (not an annual event) by which the organization's leaders – including directors:

- A. Define clearly the company's performance expectations based on the shareholder value equation;
- B. Anticipate, understand, and define the strategic implications of external change, especially those that impact the organization's ability to grow revenues; and

Mission-Driven Strategic Planning

- A. Define clearly the company's performance expectations based on the shareholder value equation;
- B. Anticipate, understand, and define the strategic implications of external change; and *especially those that impact the organization's ability to grow revenues; and*
- C. *Initiate proactively required internal strategic change – regardless of how uncomfortable it may be – in order to adapt to new realities – and to create, enhance or maintain competitive advantages which produce required revenue growth_ and enhance the organization's ability to honor its mission statement commitments*

Mission-Driven Strategic Planning

Exercise: Board and Executive Team

1. List the three most powerful changes impacting your ability to grow revenues and/or to enhance efficiency.
2. Detail your specific strategies for dealing with each.

Mission-Driven Strategic Planning

1. Identify the constituents/stakeholders to which you are obligated, e.g.:
 - Shareholders
 - Customers
 - Employees
 - Communities

Mission-Driven Strategic Planning

2. Define clearly the nature of the commitment you are prepared to honor, e.g.:

- We will produce consistent, predictable, revenue growth which will create superior long-term value for our *shareholders*

Or

- We will foster a relationship culture focused on building measurably loyal and mutually-beneficial relationships with specific customer segments.

Mission-Driven Strategic Planning

- The Mission Statement is not a public relations gimmick – it is the foundation for the strategic plan.

Mission-Driven Strategic Planning

3. Combine the commitments to form a Mission Statement.

Mission-Driven Strategic Planning

4. For each commitment, define clearly:
 - The KPIs (key performance indicators)
 - The specific required measurable outcomes (objectives) for each KPI
 - The key drivers of those outcomes

Mission-Driven Strategic Planning

- Example: The Shareholder Commitment

<u>KPI</u>	<u>Objective</u>
ROE	17.5%
Equity Multiplier	13.33
ROA	1.40
Efficiency Ratio	55%
Net Income per employee	\$35,000
Etc.	

Mission-Driven Strategic Planning

ROA Drivers

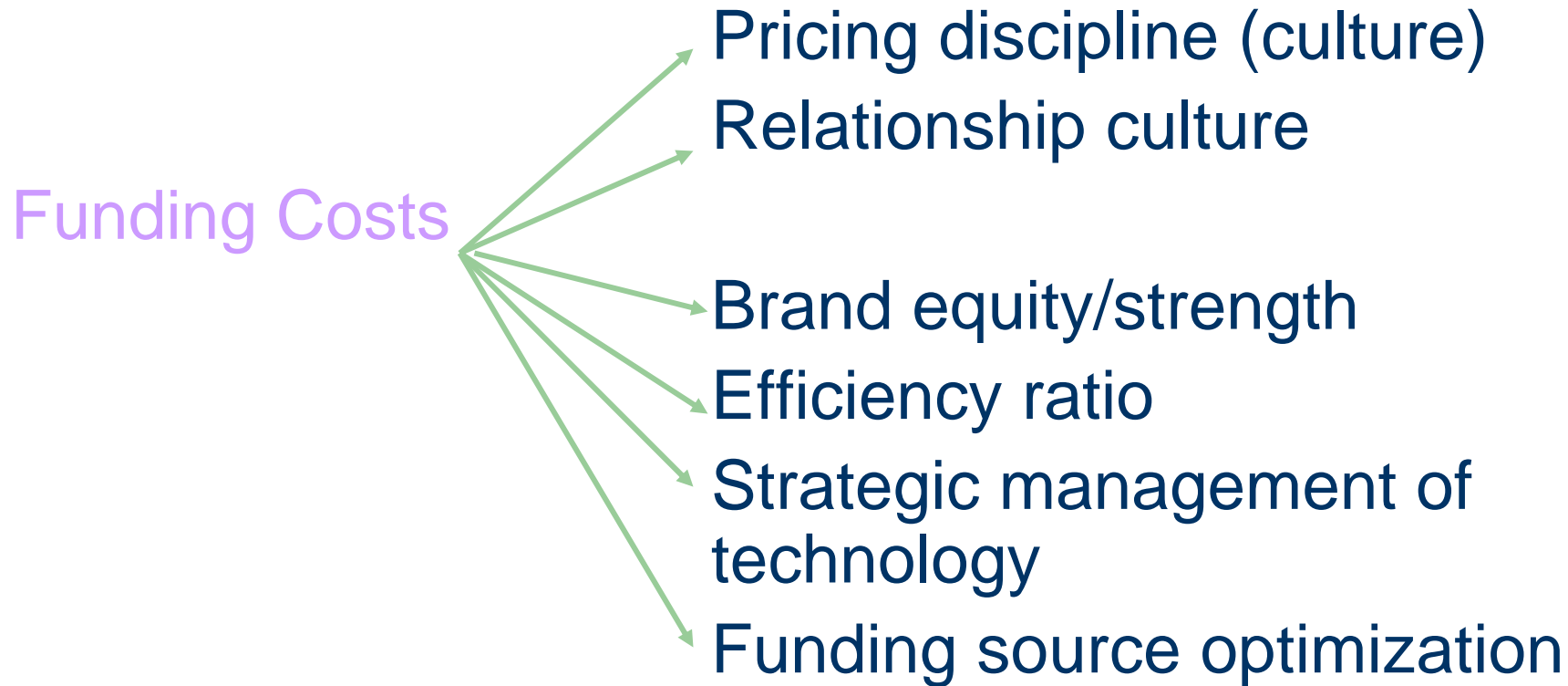
1. Interest income/avg. assets
2. Interest expense/avg. assets/
NIM
3. Provision/avg. assets/
RANIM
4. Noninterest income
5. Overhead expense
6. Taxes (all categories)

Mission-Driven Strategic Planning

Interest Expense Drivers



Mission-Driven Strategic Planning



Mission-Driven Strategic Planning

Example:	<u>Funding Costs</u>
Branch #5	
Deposits	\$10,000,000
Overhead Expense	\$375,000
Int. Funding Costs	3.25%
Non-Int. Funding Cost	3.75%
Total Funding Cost	7.00%

Mission-Driven Strategic Planning

4. For each commitment, define clearly:
 - The specific required measurable outcomes (objectives).
 - The key drivers of those outcomes.
 - The *current realities* affecting each driver.
 - the alternative strategies available for addressing current realities to better manage the key drivers.
 - The strategies of choice – and the justification for each.
 - The execution plan (strategic action plans) including team leader and specific timetable.

Mission-Driven Strategic Planning

- Remember:

Reality drives strategy!

Mission-Driven Strategic Planning

- Funding is not a problem; funding costs – *especially non-interest funding costs* - are;
- Substantially higher funding costs is a permanent reality;
 - Depositors are better informed, have more choices and are more accessible to competitors
 - Many competitors have much lower operating costs – and can operate profitably with lower margins
- Higher funding costs and lower margins can only be offset with a) higher non-interest income and/or b) lower per-unit operating costs;
- Approved fee-income businesses for banks are, for the most part, low profit-margin businesses requiring a) substantial volumes and b) exceptional efficiency. Most banks can achieve neither;
- The traditional business model will not produce superior ROE's in today's environment.

Mission-Driven Strategic Planning

Employee Commitment: To foster a team-oriented, high-performance relationship culture which attracts, develops continuously, and retains the very best financial service professionals in the markets in which we operate.

Strategies:

- A. Conduct annual corporate culture surveys/audits.
- B. Mandatory, continuous leadership development for *all* leaders.
- C. Annual 360 Degree Leadership “Evaluations and individualized Professional Development Planning.
- D. Performance-based compensation (team and individual).

Mission-Driven Strategic Planning

5. Actual performance results and strategy execution must be monitored monthly by management and at least quarterly by the board.

All team leaders must be held accountable for execution and results.

It sends a powerful message when you do ... and an even more powerful message when you don't!

Mission-Driven Strategic Planning

Final Thoughts:

While most strategic plans will include numerous strategic action plans/tactics, the number of core strategies will typically not exceed 10-12.

Mission-Driven Strategic Planning

- Strategies That Must Be In Every Strategic Plan
 1. Protect and enhance the most valuable customer relationships (top 10 percent); *measure and manage results!*
 2. Aggressively target customer prospects who mirror the top 10 percent; *measure and manage results!*
 3. Enhance the NPV of existing customer relationships at each point of sale; *measure and manage results!*
 4. Develop continuously *leaders* ... not just managers ... at all levels of the organization; *measure and manage results!*
 5. Reduce per-unit costs/enhance efficiency throughout the entire organization; *measure and manage results!*
 6. Transition now for a world where 90 percent of all transactions and where the *traditional* branch will no longer be cost effective. *Benchmark your online competition!*