



WIB/AABD
Annual Directors Conference, November 2009
San Francisco, CA

Strategic Planning for a Changed Landscape

Geri Forehand
Director of Strategic Services

Agenda

This session focuses on :

- Changes in the models of strategic planning and effective planning sessions
- Customer interface and customer experience.
- New management frameworks that enable financial institutions to address the current complex business environment, and position the bank for success in this period of uncertainty.



What is today's environment?



800.929.2746  www.Brintech.com



Executive Summary

With bank earnings dramatically below peak operating levels, the market is currently focused on asset quality and balance sheet strength. In the public arena, banks with high levels of problem assets and impaired capital are deeply discounted as investors factor in the dilution from a presumed recapitalization of the company's valuation.

Executive Summary

The current environment is very similar to what occurred in the banking industry in the 1990-1993 cycle when the thrift crisis led to a dramatic decline in real estate pricing. Tighter regulations and oversight led to a credit contraction which severely weakened the economy and led to almost 750 bank / thrift failures in the United States.

Executive Summary



- According to a recent MSNBC declaration, 79 major markets in the U.S. are coming out of the recession – however;
- U. S. consumers remain under extreme pressure
 - Commodity prices rising
 - Unemployment, house price deflation and stock market declines have significantly impacted personal wealth
 - Personal income is not keeping pace
- Financial institutions are still under significant pressure, but easing capital markets are a welcome vote of confidence
 - The 2nd quarter saw \$91 billion being raised by the financial institutions industry (compared to \$15 billion in Q1)

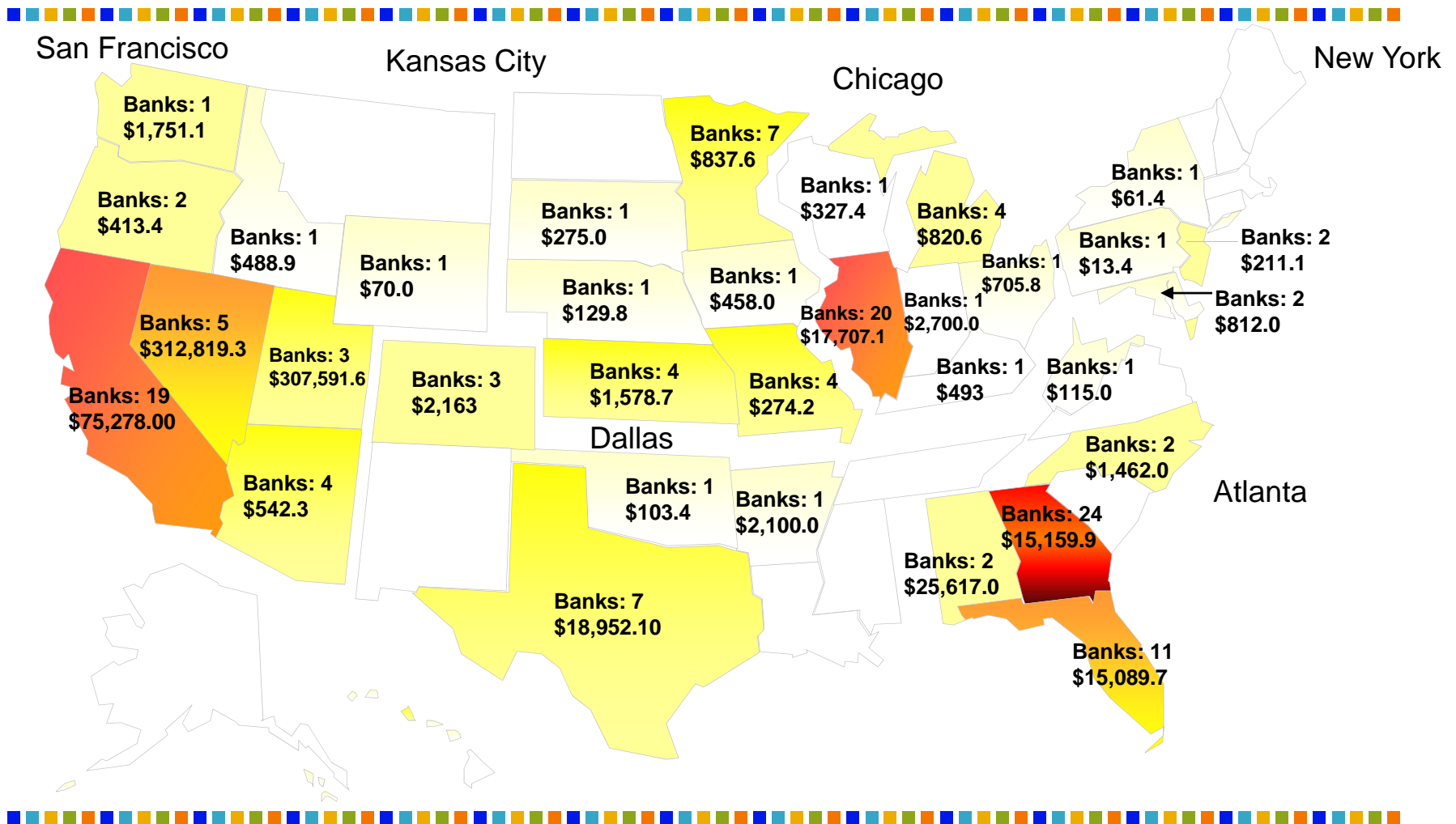


Executive Summary – Key Points

- Capital is of primary concern – either rebuilding or raising or maintaining what you have
- Credit is not yet under control – construction wave has largely played out, but CRE is looming
- Earnings have been severely depleted – cost of credit and operations up significantly
- There is a temporary improvement in the net interest margin, but it is not enough

Bank Failures 2008 –October 30, 2009

2008: 25 Banks / 2009: 115 Banks



800.929.2746  www.Brintech.com



The New Era of Banking


- A new era of governmental regulation
- Lower risk tolerance
- Deleveraging and debt aversion
- Increased savings rates
- Business focus on efficiency and profitability
- Renewed competition from the survivors
- Uncertain growth path provided by traditional lending
- Increased reliance on fee income
- Increased pressure on capital ratios

The New Era of Banking

- Health of CRE lending will define next 12 to 18 months
- Understand your risk threshold and do not dismiss the “worst case”, plan for it
- Build liquidity through increased core deposits – reduce dependency on borrowings/brokered funds
- Take advantage of the current market conditions
 - Price for risk on the credit side
 - Leverage your position of strength to attract new customers and talent
 - Carefully consider unique growth opportunities, but do not put the core franchise at risk

The Planning Process





“Remember that markets and industries are re-defined in times of shake ups, not in times of stability. The current crisis should actually have a positive impact on those who develop the right strategies and take the right action.”

Simon Kucher & Partners - June '09


“Simon Kucher & Partners is the worlds leading pricing consultancy”

- The Economist Magazine

The Essence of Strategic Planning

Strategic planning is the foundation for successful management action. It is the process management leaders follow to think through what they are going to accomplish and how they are going to do it. Goals and objectives define what they are going to do. Strategies and tactics specify how they are going to do it.

The Purpose of Strategic Planning



Strategic planning is the process that is designated to create a competitive advantage. A true strategy always consists of a plan of action that defines a competitive advantage and compounds it. Successful planning must be strategic planning in order to effectively address change and the competition.

The more rapid and pervasive the change, and the more intense and threatening the competition, the greater the need for strategic planning.

Competitive Advantage

A competitive advantage is the superior value a firm is able to create for its customers that exceeds the cost of creating it. Value is what customers are willing to pay for. Superior value is created by:

- a. offering special or unique benefits that more than offset a higher price or
- b. from offering lower prices than competitors for comparable benefits.

Planning

When we plan, we take the time to assess and consider the future, evaluate alternatives and options, and then make sound decisions.

We decide in advance:

- What we are going to do.
- Why we are going to do it.
- The conditions under which we will do it.
- How we will accomplish what we are committed to do.
- What will be required to achieve the results we want.

Forces of Change

Strategic planning focuses on identifying and developing specific measures to create, enhance, sustain and/or restore competitive advantage. The ability to do this is constantly being affected by the six forces of external change.

1. Competition
2. Legal and regulatory
3. Economic
4. Demographic
5. Political
6. Technology

The Strategic Planning Hierarchy





The Delta Model: Adaptive Management for a
Changing World

A Fresh Look At Strategy

Historical Perspective

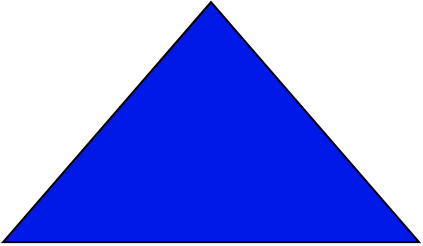
- Michael Porter
 - Low cost or differentiation
- Prahalad & Hamel
 - Core competencies
- Dr. Arnaldo Hax & Dean Wilde
 - The Delta Model

Business Segmentation

➔ Selecting and Planning the Organizational focus

System Lock-In

Total Customer Solutions



Best Products

➔ Choosing the strategic position

The Mission Statement

➔ Defining and communicating the firm's purpose

The Strategic Agenda

➔ Translating strategic Positioning into concrete Tasks

- Strategic thrusts
- Management accountability
- Business processes
- Performance metrics

Business Segmentation

- Are we a product driven organization or are we a market driven organization?
- If we are a market driven organization what are our strategic business units?
 - Commercial Real Estate
 - Customer segmentation = High rise developers, strip centers, modular office buildings

Which point on the triangle is most appropriate for your bank?

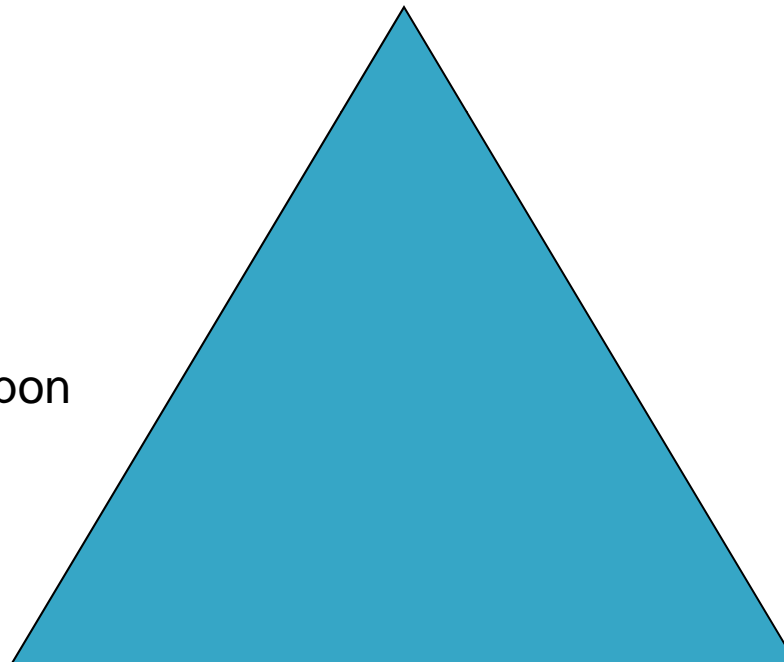


SYSTEM LOCK-IN

(Competition based upon system economics:
Complementor lock-in Competitor lock-out)

TOTAL CUSTOMER SOLUTION

(Competition based upon
Customer economics:
Reducing customer
costs or increasing
their profits)

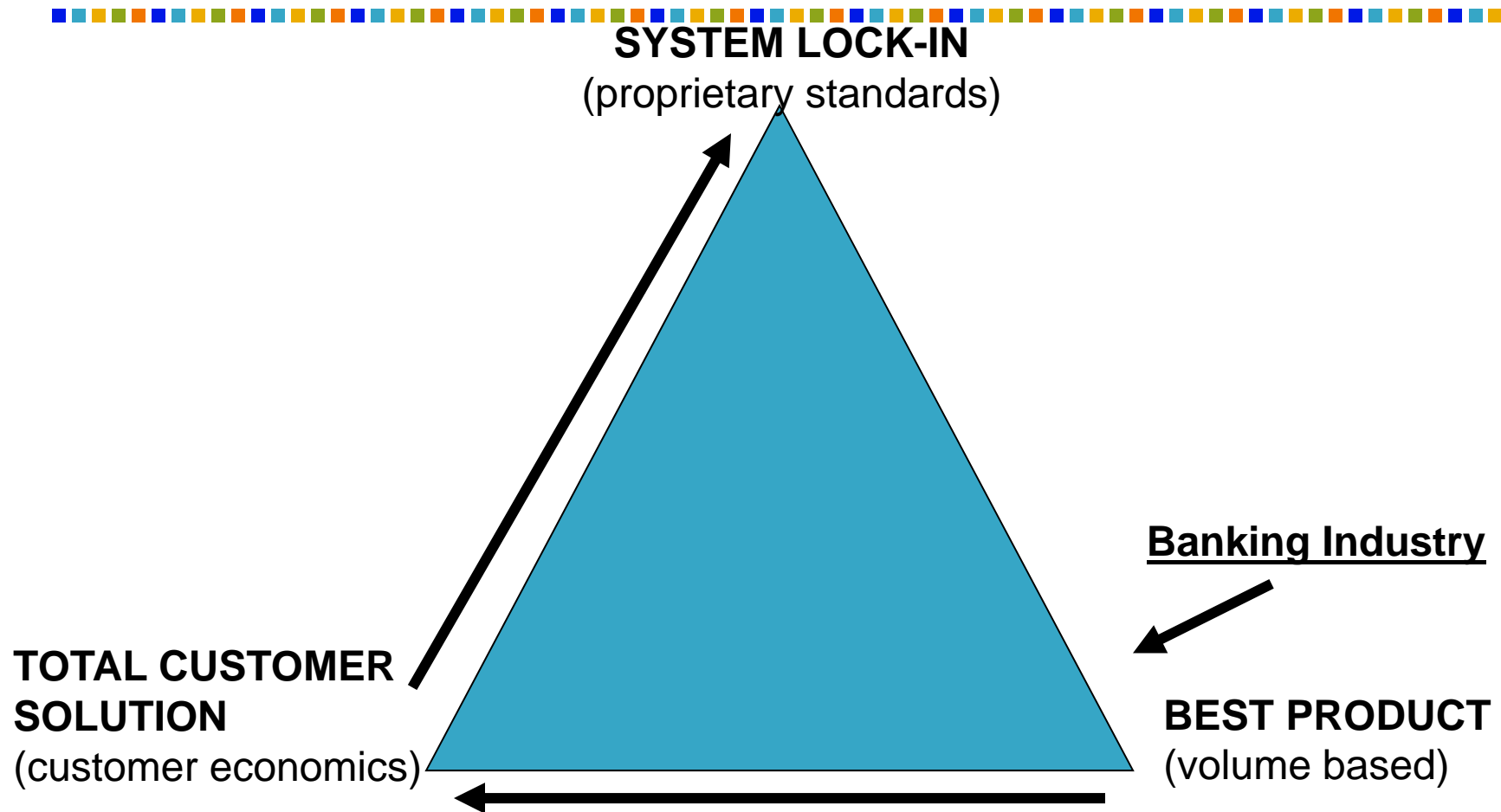


BEST PRODUCT

(competition based upon
Product economics:
Low cost or differentiation)



Which point on the triangle is most appropriate for your bank?



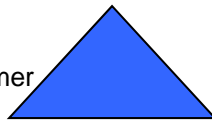
Business Processes Needed

- Delivering products to customers
 - (operational effectiveness)
- Managing customer relationships
 - (customer targeting)
- Developing products and services for the targeted customers
 - (Innovation)

System Lock-In

Total Customer Solutions

Best Products



Assessment

Financial	Marketing/Sales	Operations	Technology	Risk
------------------	------------------------	-------------------	-------------------	-------------

Conduct an assessment of each of these areas relative to their impact on the bank's ability to provide the Total Customer Solution

Level I Execution

Financial	Marketing/Sales	Operations	Technology	Risk
------------------	------------------------	-------------------	-------------------	-------------

- Customer profitability
- Peer analysis
- Key ratios

- Customer Segmentation
- Phase 1 Cross Sales Marketing and integration with marketing plan
- Cross Selling Training
- incentive and recognition structure
- Service measurement and training
- Culture Survey

- Account opening and customer facing processes
- CIP/BSA impact on account opening procedures
- incentive, referral info capture and reporting mechanisms

- CRM

- Risk Map

The Value Proposition



Enables companies to define their targeted customers






The core of any business strategy is the “value proposition”



The value proposition

- Describes the unique mix of
 - Product
 - Price
 - Service
 - Relationship
 - Image



Ultimately, we want to answer the following questions

The Cause and Effect Relationships of Strategy





Questions?