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Effective Strategic Planning

Working on the Right Things

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Regardless of the state of the economy, a performance constant is that the highest performing banks don't necessarily work any harder—they just work on the right things. Institutions must identify the "right things" and begin developing a strategy for their success. But, where do you start?

Your Primary Objective is Unchanged

Almost every institution cites maximizing shareholder or franchise value as their overriding objective, yet often strategic planning becomes a tactical budgeting exercise. Strategic planning is not budgeting; rather, it's the synthesis of information about your institution's core competencies and the external environment's variables to develop resourcing alternatives for maximizing value.

To maintain focus, we need to remember the key value drivers—your institution's ability to grow sustainable earnings, through profit enhancement and franchise growth, or risk mitigation of that developed stream. A sustainable earnings stream is always constructed on a sound foundation. As such, it's inevitable that earnings attributes, such as a low cost of funds from a strong core funding foundation, are always a focal point. After all, it was poor liquidity, not credit risk, which claimed the earliest victims of failure.

Financial Ratio Analysis is "Exception Analysis"

Well constructed ratio decomposition can accurately identify your opportunities for profitability enhancement. Profitability analysis is financial ratio analysis, which in turn is "exception analysis." That is, no ratio has meaning in and of itself. It's only when we compare those ratios to other institutions that we generate exceptions and form conclusions—and those conclusions are only as good as your peer group.

Traditional peer groups can often produce exceptions that misidentify performance opportunities. If your identification of the problem is inaccurate, then the solution won't produce results. Asset size or geography should not be the sole basis of peer selection. at the least, peer criteria must include your lending, funding and off-balance sheet composition. Choose true comparables and you'll generate valid exceptions and have a greater likelihood of working on the right things.

Listen to Your Footprint

Often the deficiencies we identify in profitability analysis are actually dictated by the characteristics of our footprint. For example, the confluence within a footprint of younger demographics in a principally commercial market with high competitive branch saturation can form the "perfect storm" for funding that exacerbates consumer funding costs. Every market, however, has niches than can deliver above average growth. Accurate identification of those opportunities is possible through structured market growth decomposition. Every footprint has a path of lesser resistance. You just have to find it.

Only by listening to your footprint, can you understand your potential customers and what products are likely to resonate. The synthesis of profitability and footprint analysis ultimately isolates which of your opportunities are controllable and therefore, most likely to produce return on solution investment.

Control your institution's strategic destiny.

Begin with the end in mind. Never let your planning detach from your primary objective of enhancing franchise value. Decomposition of that objective's primary drivers, profitability and franchise growth, can illuminate your unique path to high performance. You won't be working any harder. You'll just be working on the right things.