Margins: Squeezing Vs. Getting Squeezed

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"Until you change your metrics, you haven't really changed your strategy."

Peter Drucker

Today many bank executives are on edge about margin squeeze. Our conversations quickly migrate to the pressure exerted on their interest income spreads. They are well aware that even if they do a really good job this year of selling products, retaining customers, and providing good service (all very difficult things to do) they could still end up at the end of the year with less revenue and lower earnings than they have promised.

These are smart folks, so if there were an easy answer to this obvious problem, it would have been solved long ago. If they could solve for the margin squeeze, they would have.

But in my experience, intractable problems like this are more often not the problem, but symptoms of the real problem. Rather than solving for margin squeeze, a more meaningful question is: Can your organization respond quickly when market risk and opportunity change? Your model can, but can your organization? More precisely, do you have a scalable way to redirect sales and service resources when market conditions change? When, like today, for example, you find your earnings beset by fierce margin pressure?

To answer in the affirmative, you need three crucial components firmly in place:

1. The first component is a set of metrics that allows you to set, then change, and ultimately monitor your deployment of sales and service resources according to your strategy and associated priorities. Call it an 'early warning system' alerting you to urgent capacity redeployment imperatives.

   For example, let's say you are convinced you must increase fee income and core deposits in certain less rate-sensitive segments in order to mitigate your interest rate margin risk. Do you have metrics that illuminate how you are currently deploying your sales and service capacity in that regard?

   Specifically, can you identify how many outbound proactive customer calls and inbound 'proactive discussions' represent full capacity for your enterprise – branch, call center, sales offices – per day, per month, per year? What proportion of that 'proactive' capacity is targeted to the precise customer segments, value propositions, and employee competencies that you already know align with your strategy of reducing margin risk?

   Virtually all organizations have enterprise metrics for tracking loans, deposits, and fees. Some have enterprise metrics for sales and service capacity such as number of calls, profiles, and the like. But few track enterprise sales and service activity by segment, value proposition, and employee competence tied to changing risk and opportunity – and even fewer relate how these variables influence a key priority like margin risk.

2. The second component is goals. Do you have a way to set activity and results goals at each local unit and at central units, so that when you must, you can update and refine the goals consistent with your strategy and priorities. Today, that would mean goals that align sales and service capacity with margin targets.

   And not just goals for the overall enterprise, but by local market. The best opportunities will vary by market. If you are deploying sales and service capacity in the same way in every market, then you are mis-deployed in most of your markets. If your goals are not opportunity-based and if they lack local input and buy-in, you are suboptimizing deployment of your local market capacity, probably demoralizing the local work force and possibly alienating customers.

3. The third component is a codified way of actually allocating sales and service resources, based on the goals, to specific target groups, with specific tactics and value propositions, supported by weekly plans and coaching, and reporting.

   Most organizations have a formalized sales management process and the ability to generate target lists. But that is far from a manageable process for re-redeploying capacity. Too often the lists are only for outbound calls and thus fail to address walk-in/call-in customers. Or they ignore vagaries of local market potential, are product focused, do not enable or energize local teams for the task at hand, and are mis-aligned with strategic initiatives like, 'margin risk.'

To gingerly paraphrase: "Until you change your metrics, goals and deployment process, you haven't really changed your strategy for managing margin squeeze."

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