MID-CONTINENT BANKER

(ISSN 0026-296X)

NORTHERN EDITION

APRIL, 1985

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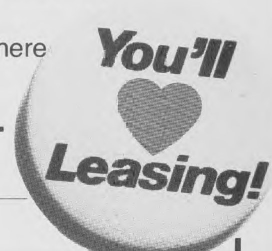

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CONVENTION CALENDAR

April 30-May 3: Bank Administration Institute Accounting/Finance Conference, San Francisco, Hyatt Regency San Francisco.

May 1-3: Texas Bankers Association Centennial Convention, Austin.

May 5-7: Consumer Bankers Association Bank Consumer Leasing Conference, St. Louis, Marriott Pavilion.

May 5-8: ABA National Conference on Real Estate Finance, Phoenix, Hyatt Regency Phoenix.

May 9-11: Oklahoma Bankers Association Annual Convention, Tulsa, Civic Center/Williams Plaza Hotel.

May 12-14: Bank Marketing Association CEO Workshop, Hilton Head Island, S. C., Sea Pines Plantation.

May 12-15: Alabama Bankers Association Annual Convention, Hilton Head, S. C., Hyatt on Hilton Head Island.

May 12-17: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.

May 15-17: Bank Administration Institute Bank Tax Conference, Washington, D. C., Hyatt Regency Washington.

May 15-17: Kansas Bankers Association Annual Convention, Salina, Bicentennial Center.

May 16-19: Mississippi Bankers Association Annual Convention, Biloxi, Hilton/Broadwater Beach hotels.

May 19-21: ABA World Forum of Consumer Financial Services, New York City, Vista International Hotel.

May 19-22: Tennessee Bankers Association Annual Convention, Memphis, Peabody Hotel.

May 22-24: Missouri & Kansas Bankers Associations Mokan Trust Conference, Kansas City, Alameda Plaza Hotel.

May 26-31: Bank Marketing Association School of Trust/Personal Financial Services/Sales/Marketing, Boulder, Colo., University of Colorado.

May 26-31: Bank Marketing Association Essentials of Bank Marketing School, Boulder, Colo., University of Colorado.

MID-CONTINENT BANKER

(Incorporating MID-WESTERN BANKER)

IN THIS ISSUE

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WHO TO SELL?

WHAT TO SELL?

HOW TO SELL?

Don't Ask ME . . . I Wasn't Hired to SELL!

By ROBERT W. KLOCKARS
Senior Vice President
Financial Shares Corp., Chicago

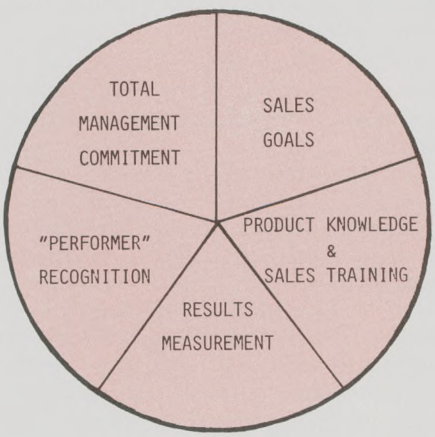
IT WASN'T long ago that I was sitting in front of an old NCR 20-pocket proof machine, separating debits and credits. It seemed like the best way to learn the banking business. It worked, because I learned the business from the ground up. Everything, that is, except how to "sell" my bank's services and products.

The industry has changed since my early days in banking, not only in terms of technology, but also in terms of the public's perception of the financial-services industry. We've heard enough about deregulation to make our heads spin, but its impact is real, and the commitment to an internal and external sales program is a necessary element in every bank's survival and profit plan.

Before we can develop a sales culture, we first have to dismiss the traditional belief that "bankers aren't salesmen." The environment of my first banking job provided a "comfortable" level of customer contact, because the contact was on *my* terms and in *my* office. My responsibility was only to "react" to the customers' needs, not to be "proactive" in the marketplace.

Today, banking is on the threshold of its most exciting era. Because of the changes in banking regulations and the industry's structure, the business is more competitive than ever. Only the strongest and most innovative organizations will survive, and sales are providing the momentum for today's banks to be profitable.

Historically, most bank marketing efforts have focused on two communications segments: advertising and public relations. Banks across the country have virtually subsidized local newspapers with their advertising dollars, and on the public relations side, often have distributed an endless supply of pens and matches to promote their existence.



Many of today's most successful banks spend less on matches and pens and allocate more of their budget and time resources to other marketing strategic efforts. They are conducting research studies, developing product and pricing techniques and implementing communications, sales and training programs.

Banks now need to know *who* their audiences are, *what* products and services will satisfy needs and will sell at a profit in their market and *how* to best and most cost-efficiently deliver the bank's message to these audiences.

After determining who the audiences are (research) the products that can be sold to these audiences at a profit (product development and pricing) and the best communication alternatives available (advertising and public relations), bank management is ready to develop the last — and most often overlooked — segment of the marketing mix: the sales program.

Steps for Sales Effectiveness

In order to maximize the effectiveness of a sales program five steps must be taken:

• **Total Commitment of Management.** The number one reason many traditional sales programs have failed goes back to a lack of commitment by the senior-management team. In order to succeed, banks must have the total commitment of their boards and senior officers. Unless management endorses and supports the program, results will be non-existent or, at best, mediocre.

The ultimate goals of a sales program are to (1.) generate profits through keeping the relationships strong and intact; (2.) develop new business from existing accounts through cross-selling efforts; and (3.) open doors to new business from leads and non-customers.

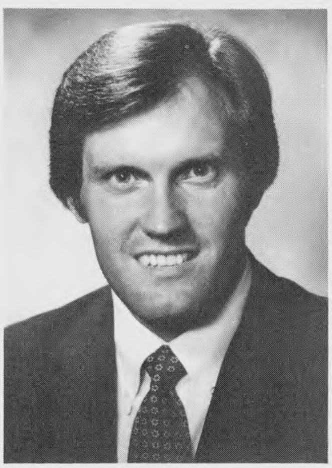
• **Establish Short- and Long-Term Sales Goals.** Short-and long-term goals should be determined through brainstorming sessions, where key bank players have the opportunity to contribute to the sales-program strategy. This process generates ideas and philosophies, and gives partici-

Financial Shares Performance Measurement System

EMPLOYEES BY EMPLOYEE #

SERVICE SOLD	TOTAL FOR SERVICE BALANCES	#	#(%)	751 BALANCES	#	#(%)	1034 BALANCES	#	#(%)	1047 BALANCES	#	#(%)
CHECKING	4000	6	20.00				3300	4	66.66	500	1	16.66
NOW	11500	3	10.00				4000	1	33.33	7500	2	66.66
SUPER NOW	2500	1	3.33				2500	1	100.00			
SAVINGS	1500	2	6.66	500	1	50.00				1000	1	50.00
INSTALLMENT LOAN	(20000)	2	6.66							(20000)	2	100.00
CREDIT LINE	(1500)	2	6.66							(1500)	2	100.00
CREDIT CARD	(16000)	5	16.66	(2500)	1	20.00	(8500)	3	60.00			
IRA	13500	5	16.66				2000	1	20.00	7500	2	40.00
DISCOUNT BROKERAGE	1000	1	3.33	1000	1	100.00						
CREDIT LIFE		3	10.00				0	1	33.33	0	2	66.66
TOTALS:		30			3	10.00		11	36.66		12	40.00

SUMMARY	VSI TOTAL	VSI NEW	VSI CUR	VSI REF	VSI BON	# CUSTOMERS TOTAL	# CUSTOMERS NEW	# CUSTOMERS CUR	OPENING DEPOSITS TOTAL	OPENING DEPOSITS NEW	OPENING DEPOSITS CURRENT	CREDIT BALANCES TOTAL	CREDIT BALANCES NEW	CREDIT BALANCES CURRENT
PERSONAL BANKING	1.07	1.08	1.05	4	0	16	9	7	34000	18000	16000	37500	11000	26500
1ST NATIONAL BANK	1.08	1.08	1.07	4	0	17	9	8	40000	18000	22000	37500	11000	26500
APEX FINANCIAL INC	1.63	1.61	1.66	12	0	69	39	30	190400	112100	78300	113000	39000	74000



THE AUTHOR is a former Kansas banker, having served 14 years with banks in McPherson and Lindsborg. For two years he served as one of 21 banking advisors for the ABA, traveling throughout the country as an official spokesperson for the banking industry. Mr. Klockars currently spends his time speaking and training in the sales and management areas, with special emphasis on outside business development and retail sales.

pants an opportunity to develop a sense of "ownership" and commitment to the sales program.

When goal setting, ask yourself a few questions regarding your market and how to most efficiently reach that market.

In your commercial effort, once a year do you call on (1.) all commercial customers with an average of $25,000 or more; and/or (2.) all time and savings accounts of $50,000 or more; and/or (3.) all commercial loans over $50,000? Some banks even direct their calling efforts toward companies with certain dollar amounts of sales per year, which is particularly effective for leads and cold calls.

On the retail side, are you able to effectively cross-sell services to new and existing accounts? Do you take the time and effort to call customers with CDs about to mature and keep that business as well as uncover other financial needs?

- **Sales and Product Knowledge Training.** It is critical that all participants receive proper training, both in regard to product knowledge and sales-skills training.

Product-knowledge training should focus on customer benefits to be derived through the use of bank products and services. The features of a bank product may describe what the product is, but the benefits describe what the product will do for the customer in terms of saving time, energy and money. For example, FDIC insurance is a feature. Safety is the customer benefit.

TRACKING SALES RESULTS can be done manually or through software programs such as the Financial Shares' SALES PULSE™ sales-measurement program. Program can track employees by department, branch, new accounts, service representatives, etc.

Sales training is equally important to the sales program. Historically, commercial lenders were told to get out on the street and start making sales calls and front-line personnel were instructed to simply persuade customers to take advantage of other bank products. Because they were good bankers and had an in-depth technical knowledge of their product, it was assumed they could sell.

Experience shows otherwise. Because of today's deregulated environment and competition from nontraditional financial institutions, personal communication, the ability to uncover customer needs and selling skills are now more important than ever. Even new-accounts representatives should be trained to uncover other customer needs and have a goal of selling at least two accounts to each customer seen.

• **Measure Results.** Once you have established your criterion for customer and non-customer calls, set-up a method to track the results of your calling efforts. Tracking can be done manually or through software programs such as Financial Shares' Sales Pulse™ sales-measurement program which is designed for new accounts or financial-service representatives. Feedback from a well-designed computerized or manual sales-tracking system provides important marketing information and can enhance the results of your sales effort.

• **Recognize Sales Performers Who Make Calls and Bring in New Business.** In order to recognize those individuals who meet calling goals and produce new business, a cash-incentive program can be effective. The incentive program should be fair and relatively simple. It should complement, not replace, the bank's present salary structure and should be designed to reward all levels of calling personnel.

Profitability Due to Sales

The successful and profitable banks of the 1980s will be the ones that seriously address the need to develop a sales culture. The development of an effective sales program takes time, money and a commitment from senior management.

As each bank's sales program continues and performance is measured on a regular basis, sales and profit results will justify the bank-wide program. • •

Sales-Quotient Audit

The series of questions below will help in assessing the present sales sophistication of an organization. Readers will want to rate their own organization on each of the following questions from one ("Not True of My Bank") to five ("True of My Bank").

	Not True of My Bank				True of My Bank
1. The organization emphasizes the importance of selling from top to bottom. The majority of staff members recognizes the importance of sales to the future of the organization.	1	2	3	4	5
2. Senior officers of line divisions (i.e., lending, retail, corporate, correspondent, trust, etc.) are accountable for sales results.	1	2	3	4	5
3. Within the organization, there is a department responsible for developing and implementing sales strategy.	1	2	3	4	5
4. Every customer-contact person has a sales or customer relations statement as part of his/her job description.	1	2	3	4	5
5. Commercial-lending officers, branch managers, trust officers and others are involved in a sales-call program on prospects as well as customers. The program is producing meaningful results.	1	2	3	4	5
6. The organization has an on-going sales-training program.	1	2	3	4	5
7. The organization has developed a program for selling upscale, high-income customers (e.g., a personal or executive banking department). These personnel, through aggressive selling techniques, are calling on attorneys, physicians and other centers of influence.	1	2	3	4	5
8. The organization is developing a product line, priced and packaged competitively, to meet customers' needs in the 1980s.	1	2	3	4	5
9. The organization is taking specific steps to provide sales support to line personnel (e.g., the development of a central-information file, packaging of products, creative pricing, sales brochures, etc.)	1	2	3	4	5
10. Cash bonuses and incentives are used regularly as a means of recognition for personnel who achieve sales quotas.	1	2	3	4	5
11. Outstanding sales performance is an important criterion for promotion to higher levels.	1	2	3	4	5
12. Primary customer-contact personnel, such as tellers and new-accounts representatives, are trained in sales and customer relations, and are measured regularly in these areas.	1	2	3	4	5

▶

A perfect score would be 60 points ($12 \times 5 = 60$). If the results measured 50-60 points, the organization probably has a well-developed sales culture. There may be areas in need of attention, but for the most part, the organization is moving in the right direction. A score of 40-50 points indicates there is some movement toward the sales culture, but no doubt many areas need immediate attention. The organization is most probably not seriously committed at the senior level. Unless change takes place soon, the organization may have problems in the marketplace in the next five years. A score of below 40 points reflects a bank unprepared for the challenging times ahead. There is little if any sales commitment at the senior level, and even the most basic sales programs have not been started or are operating below acceptable levels. This organization will likely not be a winner in the marketplace unless there is dramatic change soon.

The BANK LOBBY

A Potential Gold Mine for Professional Selling

By Ben C. Foster

MANY years ago when England was home to me, I used to search for the summer sun along the Spanish Costa Brava coastline. Tourism there was expanding rapidly and high-rise hotels under construction were a common sight.

Construction methods were highly unusual. First a rather shaky framework would be constructed. The floors then would be finished, starting from the top down toward the foundation. My conviction that this was not the best building technique was reinforced by the periodic disasters which occurred.

In the era of banking decontrol, the traditional banking and thrift institutions have been thrust unceremoniously into an environment of burgeoning competition.

In the era of banking decontrol, the traditional banking and thrift institutions have been thrust unceremoniously into an environment of burgeoning competition. The needs of the customer suddenly assumed a much larger significance in strategy planning and "marketing" became the key to survival.

The author is national sales manager of Berman Technologies, Inc., based in Charlottesville, Va. The corporation specializes in providing tools for business development to the financial community, including the use of videotape training programs on consultative selling techniques and state-of-the-art, microcomputer software for bank lobbies.

Perhaps because of the rapid pace of the changes which were occurring, coupled with inexperience in the realm of sales and marketing (not to mention the bankers' instinctive distaste for "commercialism"), the architects of these new marketing-oriented banking structures often have been less than methodical and logical in approaching their task. Like the Spanish builders, they have been too eager to fill in the top floor in their haste to complete the job before completing the supporting structure.

The purpose of this article is to develop a blueprint to enable a bank to create a marketing structure from the ground up instead of from the top down.

Perhaps we need to state two basic precepts:

1. A deregulated financial institution operates in the same basic fashion as any other nonregulated commercial enterprise.

2. Radical changes are necessary when a highly regulated enterprise becomes deregulated and enters the competitive arena — the most fundamental change being in the area of marketing. If we can agree on these premises, we not only have pinpointed *where* the main changes need to occur but we can also establish *how* to make them happen. We can simply use the tried and tested *management-by-objectives* technique.

Since this article is not concerned with the theory of market research, let's start by assuming we already have decided on which segment of the market on which we are concentrating, the type of financial services we plan to offer to that segment and that we already have an operational place of business. In other words, we have an existing customer base plus new prospects walking into our lobby. Our objective is:

To maximize the sales of our financial products with the least expense.

Looking at how other businesses deliver their goods and services to their customers, we can see there are three main delivery methods:

1. Self service.
2. Clerical-assistance sales.
3. Professional-assistance sales.

Radical changes are necessary when a highly regulated enterprise becomes deregulated and enters the competitive arena — the most fundamental being in marketing.

It is important to recognize the kinds of operations that fall into each category. For instance:

1. Self service includes all vending-machine sales.

2. Clerical-assistance sales include supermarkets, most department stores, most banks.

3. Professional-assistance sales include specialty stores, doctors, insurance agents.

Obviously, these categories are not mutually exclusive; insurance, for instance, can be and is sold by vending machines as well as by agents.

Generally speaking, most of today's bankers believe they should be moving out of category #2 (where new-account clerks provide clerical functions necessary to open accounts) and moving into category #3 (some are

Guess what's happened to mo

They've been swallowed up. In fact, over the past two years, more than 50 of Florida's banks have been merged or acquired.

Just as easily, you, too, could fall prey to a merger or acquisition. But there is an alternative that can afford you a way not only to survive, but to thrive.

That alternative is a franchise with First Interstate Bancorp.

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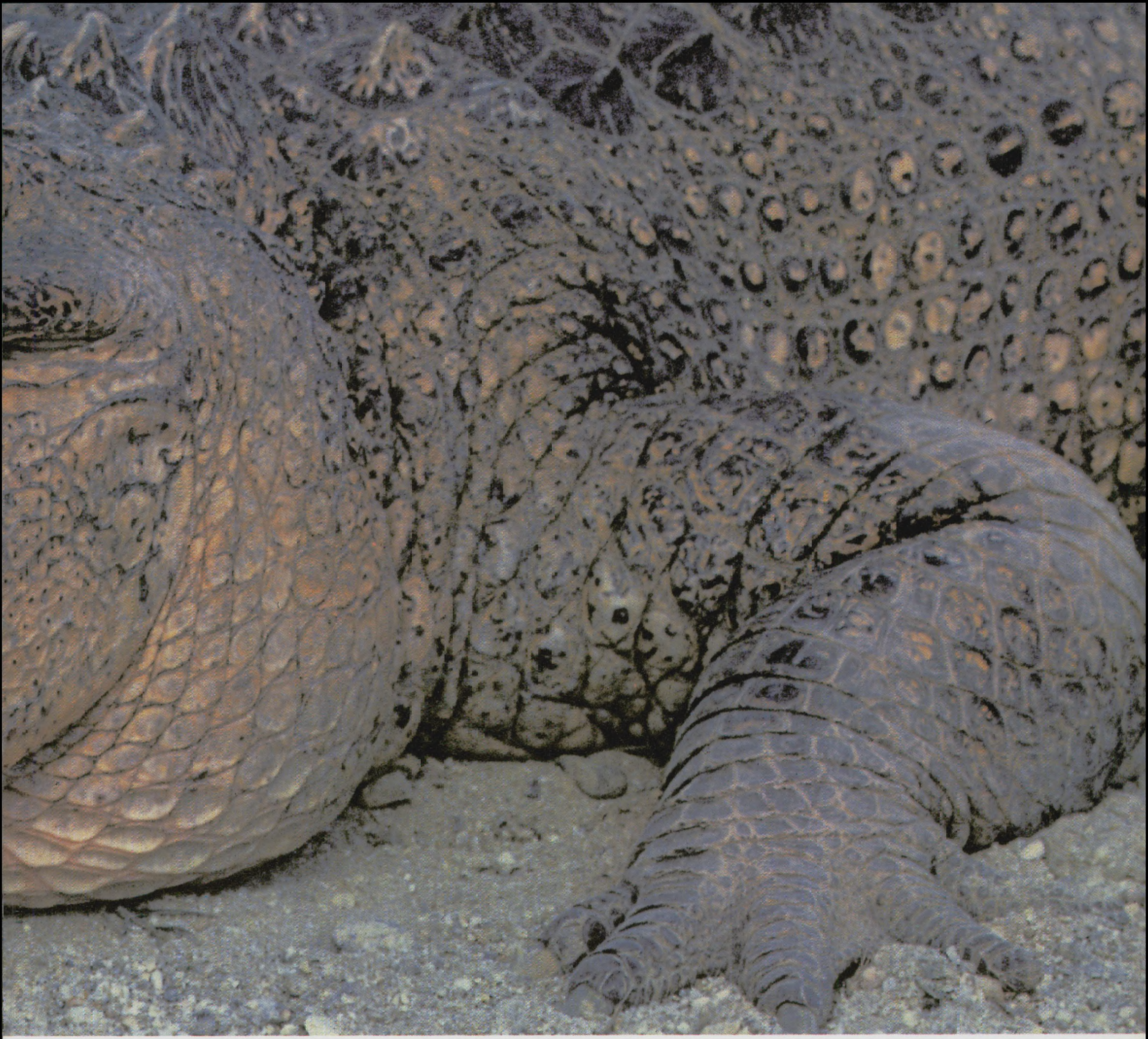
As a franchisee of First Interstate Bancorp, you'll have access to the resources of the 8th largest banking organization in the nation with assets of over $45 billion. Together with our franchisees, we have over 1,100 full-service banking offices in 14 states, making us one of the largest retail banking systems in the country.

In addition to size and strength, you'll gain benefits that only a large bank can offer. For example, you'll be able to realize savings on a wide range of items, from forms and checks to computer hardware and software. Plus, you'll have access to specialized services such as mortgage banking, discount brokerage, international trading, and data processing.



re than 50 of Florida's banks.

Most importantly, you'll still retain local ownership, management independence, and control of your bank.

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<u>the proven alternative</u>.

Our success in the marketplace has been proven time and time again. Currently, First Interstate Bancorp has franchise agreements in 8 states, including Colorado, Hawaii, Alaska, Montana, Wyoming, Wisconsin, New Mexico and Iowa.

Operations in these states represent a total of 41 banks with 116 offices. In 1985, their combined assets will total $4 billion.

Find out more about how you can become part of the First Interstate Bancorp's successful franchise program by calling John Dean, President, First Interstate System, Inc. (213) 614-3043.

Consider franchising. It could make your tomorrow a whole lot easier.

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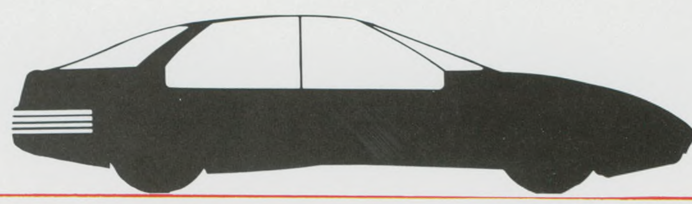

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MCB-4/85

moving toward a combination of #1 and #3). This move toward a "professional assistance sale" represents a considerable change in philosophy and demands a radical change in the physical and operational environment. It is this change which is proving to be so difficult to accomplish. We need to find out why.

Because it is always easier to be objective when advising others, perhaps we should look for a parallel situation in a field other than banking. In this way, our advice can be unclouded by prejudice or established practice.

Let's consider the following scenario: The owner of a pharmacy, where the majority of the sales are "over the counter" non-prescription items, wishes to convert the pharmacy to a full medical clinic. The clinic will not be selling "over the counter" items so there will be no need for counter clerks. However, the owner would like to utilize the existing facility and maintain the existing clerks by offering them staff-nurse positions in the new clinic. Our task is to advise the owner how to make the transition.

Banks are moving toward a "professional assistance sale," which represents a considerable change in philosophy and demands a radical change in the bank's physical and operational environment.

We might tell him that he can accomplish the transformation merely by removing the pharmacy counters and instructing the counter clerks: "Your job title is still 'clerk' but instead of selling items over the counter, I want you to carry out the functions of staff nurses." Not being quite sure what this involves, we might advise him to give the staff nurses some brochures about the clinic's services, which they can hand out to the patients. Although we know that nurses perform limited physical examinations, we are not going to propose the purchase of any additional equipment.

We might advise him to stress to his staff nurses the need to convince the patients of the staff's competence and desire to cure all the patients' ailments; a total medical relationship is the objective.

We might also recommend that the staff nurses should act as receptionists, bookkeepers, typists, coffee makers and trash emptiers, in addition to their nursing duties.

Of course, such advice would be unthinkable and yet this is the way we are attempting to convert our banking supermarket operations (the new-accounts clerk operating the checkout register) into the more professional atmosphere of consultative selling. Before we try to decide whether the analogy is valid, let's see if we can give our hypothetical pharmacy owner some advice on how to create his new clinic structure from the ground upward:

1. The physical arrangements need to be changed. Examination rooms must be provided to respect the patients' need for privacy. A pleasant waiting area also will be necessary.

2. If the former counter clerks are expected to perform the totally different function of staff nurses, they will need to be individually evaluated to determine whether they have the temperament, the intellectual capability *and the desire* to make the change. To make such a determination, it is necessary to decide exactly what the staff nurse's duties and responsibilities are. Generalizations such as "perform physical examinations" are not good enough. Management must specify exactly *what sort of examinations are to be made, of what parts of the body, for what purpose, in what form the results will be presented and what use will be made of the results*. The same detail must be applied to describe all the nurses' duties.

(This detailed job description not only allows management to determine the needed personal characteristics of the staff nurses but, in the absence of a standard professional qualification, highlights the areas in which the former counter clerks would need further training.)

3. Retrain those clerks *who have the desire to become staff nurses* and who meet the required personal qualifications and characteristics of a staff nurse.

4. Since staff nurses will perform completely different functions from counter clerks, they should, in the future, come under the direction of the clinic's professional management, instead of reporting through administrative management as they once did.

5. However capable and well trained staff nurses are, they cannot be expected to function efficiently without the proper tools of the trade. At the very least, they will need clinical thermometers, blood-pressure-test kits, stethoscopes, etc.

6. Obviously, it will be important for patients to have confidence in the clinic staff's ability to cure their ailments. Since first impressions are most important, that initial confidence must be created by the environment, by a courteous reception and the professionalism of the staff nurse who will perform the preliminary examination before the doctor ever becomes involved. Confidence in the professional capability of the staff nurse will result from:

a. Self confidence of the staff nurse.

b. Knowledge and competence displayed in performing the job.

c. Respect accorded the staff nurse by doctors and other staff.

"O.K.," you say, "those recommendations may be fine for the conversion of the pharmacy, but we haven't yet determined their relevance to the changes that need to take place in the lobby of a bank."

Banks need to determine exactly what is the proper role of the new-account staff in the "deregulated" lobby. In short: what does the bank really expect of the new-account staff today?

To assess the validity of the analogy, we should start at the same point as in the pharmacy example: We need to determine exactly what is the proper role of our new-account staff in our deregulated bank lobby. We then can determine whether the change in the role is as radical as the change from counter clerk in the pharmacy to staff nurse in the clinic.

Before deregulation, in 90% of all banks, the new-account staff created the paperwork necessary to open an account. *Can we define exactly what we expect of these new-account people today?*

Sell? Cross-sell? Open accounts? Establish financial relationships?

Fine. But these objectives are about as meaningful as telling the potential staff nurses they are expected to "perform physical examinations." At one end of the scale this might mean a hand on the forehead feeling for signs of fever. At the other end it might mean a week in the hospital for extensive examination and observation.

Our job definition for the new-account staff must be precise. Maybe it would be something like this:

1. For a prospective new customer.
Examine the prospect's economic and domestic circumstances. Determine what financial services this person currently uses.

Objective: Convince him it will be to his advantage to transfer all of his current services (where possible) to this institution.
In the light of the knowledge of the customer's financial and domestic situation, determine what services the customer does not have but might value.

Objective: Provide such additional services to the mutual benefit of the customer and this institution.

2. For an existing customer.
Be aware of the customer's domestic and economic circumstances. Be aware of the financial services already used by this customer and potential need for additional services. Create opportunities to offer such additional services.

Objective: Convince the customer of the bank's professional interest in his financial needs and the desire and capability to serve those needs efficiently. This will facilitate the sale of additional services and enhance customer loyalty.

If the former role of the new-account clerks (vis-a-vis customers) was to open accounts and the new function is envisaged to be anything like the above description, the change required to accomplish the transformation in the lobby is every bit as radical as the change from a pharmacy to a medical clinic.

For instance, since the titles "new-account clerk" or "customer-service representative" clearly give no indication of the scope of this position, we had better devise a name that more accurately describes the professional nature of the function performed. "Counseling" is clearly a fundamental part of the job and therefore the word "counselor" might logically be included in the title.

Since the counselor would no longer be primarily a clerical person, there would be an obvious need to change the reporting structure for counselors.

Examining a customer's economic and domestic circumstances so as to understand his financial needs, requires professional expertise. Since the clerically oriented "new-accounts clerk" did not have this expertise, the need to train this person is just as critical as the need to train the pharmacy counter clerk who wishes to become a staff nurse. The kind of examination also imposes similar demands for privacy as a physical examination.

The customer's need to have confidence in the professional capabilities of his counselor is no different from the patient's need to have confidence in the capability of the staff nurse in the medical clinic. Creating that confidence requires a methodology identical to that described in our pharmacy analogy.

Clearly, a counselor is going to give financial advice by determining the customers' needs and exploring the options available. Just as the nurse cannot perform even simple physical examinations without the basic medical tools, the financial counselor cannot investigate the suitability of a variety of relatively complex financial alternatives with just a pencil and a legal pad. If the counselor is to keep track of the financial relationships the institution has with its customers, a card-index file is not the most efficient method available.

In many banks, microcomputers are miserably under-utilized. The selling area of the lobby is one location where microcomputers can assist in making

(Continued on page 38)

At Central Bank, Lexington, Ky.

Management-Employee Cooperation Makes for a Sales-Oriented Bank

WHAT'S one of the most-often-asked questions in bustling Lexington, Ky., a city where competition among financial institutions is keen?

Here it is: "Do you bank at Central Bank?"

This question — and others of a similar nature — netted Central Bank \$5.1 million in new deposits in the first eight weeks of a year-long sales promotion!

Central Bank Pres. Wayne L. Smith tells employees at bank's sales-promotion kickoff event (l. photo) that \$15,000 auto he drove into hotel ballroom that evening (r. photo) is top prize in bank's year-long sales effort. At far l. is Pamela Papka, dir. of sales training at bank and coordinator of promotion. Promotion netted bank \$5.1 million in new deposits in first eight weeks.

What's the bank's secret of success? It's employees, led by enlightened management that is sales-culture oriented!

A more enthusiastic group of individuals would be difficult to find anywhere. Consider these examples of employee dedication to sales:

- A customer-service specialist received a phone call from a newcomer to town who was interested in CD rates. The employee supplied the information along with a friendly welcome to Lexington. She then suggested that the individual deposit her funds at a Central Bank branch in her neighborhood. A few days later, the employee learned that the individual had deposited \$200,000 at the branch and had told the new-accounts desk to credit the "sale" to the customer-service specialist who had helped her. That sale earned the specialist the prestigious "golden apple" award. This traveling award is given to a different employee every 10 days and it's brought to the employee's work station personally by bank President Wayne L. Smith.
- The payroll clerk in the bank's personnel office noted that the auditors were in the bank for a few days' work. Before they finished their job, each auditor had opened an account with Central because the clerk had approached them and suggested they move their personal accounts to the bank.

This same employee — who currently is the bank's top salesperson — convinced the gentleman who supplies the bank's sales awards to open an account. Earlier, this employee had escorted an individual to a competing bank and stood outside while the individual closed an account. She then escorted the individual to Central Bank and helped the person open a new account there!

- An assistant branch manager knew her father had a good sized account at a competing bank, but she always had been reluctant to ask him to change banks. He often had said he was very pleased with the service he received from the competitor. When Central's sales program started, she approached him and he said, "I was wondering when you'd ask me to switch banks!" He closed his account at the competing bank — an account he had maintained for 26 years — to take his money to Central.

There's little doubt that Central Bank is one of the most sales-oriented financial institutions in the nation. But such wasn't always the case, according to Mr. Smith, Central's president.

Calls coming into the bank's customer-relations department had been monitored for some time. The nature of the communications revealed the bank's strengths and weaknesses regarding customer perceptions of the institution. Other information also was analyzed.

Mr. Smith was struck by the need to make Central Bank a sales-and-customer-oriented instititution. He asked his senior-management committee to come up with some concepts about how to achieve his goal.

Over a period of two months last summer, a sales-promotion was developed internally. Stress was placed on these "musts": top-management support and making the program as much fun as possible, with no intent to force employees to participate.

It also was evident that employees needed incentives to encourage them to participate: sales training, product knowledge, prizes and a resounding kickoff to get the program off to a roaring start.

Named coordinator of the effort was Pamela Papka, assistant vice president/marketing and director of sales training. Ms. Papka formulated a program that took bank employees out of the "order-taker" culture and placed them in a "sales representative" culture.

She organized a "teaser" publicity campaign about the sales promotion that was designed to capture employee interest without telling them everything about the promotion. She felt it was important to keep employees guessing so their interest would remain keen.

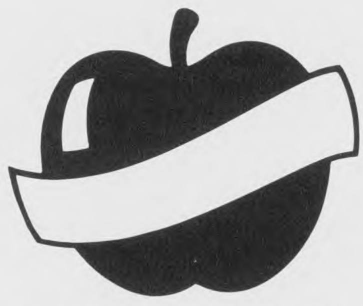
A promotion theme — "Polishing Your Apple" — was selected and posters and other publicity materials were prepared. Each employee was furnished with an attractive poster that features a photo of two apples — one red, one gold. Cardboard boxes were manufactured bearing the apple theme. When these boxes were distributed to employees, each one contained a real apple and a polishing cloth that carried out the promotion theme of turning red apples into gold ones.

Prior to the kickoff, bank-wide meetings were held at which President Smith gave motivational talks to employees. Each meeting had a sales theme. One dealt with personal-presentation ability, another featured an insurance executive who provided sales tips.

The kickoff meeting was a real happening, according to Ms. Papka. Practically every one of the bank's 260 employees was present — a fact that testified to the willingness of employees to participate enthusiastically.

The kickoff was the culmination of all that had been building up during the previous months. The meeting place (a hotel ballroom) was decorated with balloons and apples and there were clowns, music, food and drink. Mr. Smith entered the hall driving a red convertible which he later announced would be the grand prize to the top salesperson during a year-long sales promotion.

A highlight of the kickoff was a slide show, the major portion of which featured bank employees (what better way to attract employee attention!). The show's theme was how employees could turn red apples into gold ones during the sales promotion. The sound track stressed the fact that employees could pull off an effective sales campaign. The show ended with the slogan "Let It Shine!"



Symbol of Central Bank's sales-promotion apple-polishing theme was developed by bank's advertising agency and ties in with apple posters appearing throughout bank. Customer-contact people wear large buttons bearing this symbol, which shows apple and polishing cloth.

"This meeting cemented management's commitment to employees that a change in culture was going on at the bank," Ms. Papka says.

Prior to the kickoff, a variety of training programs were going on and the skeleton for future training was emerging. Employees were divided into 24 sales teams, each with a captain who was either a contact or non-contact employee (some were officers, some were not). Each group of three teams was assigned a senior officer to serve as "cheerleader," all of whom worked under Mr. Smith, who was designated "head cheerleader."

Team captains participated in two-day sales-training sessions with outside trainers. Customer-service reps and head tellers attended one-day customer-relations seminars outside the bank. A bank executive officer conducted four in-house sessions for all non-contact employees. In addition, team captains received a continuous flow of information from Ms. Papka for use at weekly sales meetings that started in November.

An important part of the information was a "product profile" manual that was distributed to each employee. The manual includes a synopsis of each service the bank offers, including its features, benefits to bank and customer and an individual to turn to for additional information. Ms. Papka edited the manual from material submitted by department heads.

An incentive system was set up that rewards employees for services sold and a software-tracking program was purchased to keep accurate records and provide reports.

A contact officer selling a regular checking account with a $1,500 minimum balance receives 1,000 points. A contact employee or non-contact officer selling the same product receives 2,000 points; and a non-contact employee receives 4,000 points. Referral cards enable credit to be posted to the employee involved in each sale.

Points are exchangeable for merchandise at the end of the promotion. Merchandise catalogs were mailed to the home of each employee. Tabulations of employees' point accumulations are posted periodically.

To add spice to the promotion, quizzes are distributed to employees periodically. Answers to the questions can be found in the product manual and employees can earn extra points by completing the quizzes correctly. At given times, certain bank products are treated as "specials," which means employees can earn double points for selling these services.

At the end of April, the promotion will reach its first plateau and cash for points accrued and prizes will be awarded. These prizes include an all-expense trip for two to the Big Apple — New York City. At the end of 1985, other big prizes will be awarded, including the $15,000 auto. Top prizes are determined by drawings from names of employees who have achieved a certain point level. Gifts are tax free.

Mr. Smith sends a personally signed thank-you letter to each new customer. Included in the letter is a questionnaire asking for the name of the employee involved in the new account. It also asks the customer to rate the employee concerning his/her product awareness, courtesy and level of service. All replies go to Mr. Smith for personal examination.

Mr. Smith likes to recount success stories associated with the bank's new

UNION BRINGS A DISTINGUISHED STATISTIC HOME TO ARKANSAS.

American Banker

The Daily Financial Services Newspaper

VOL. CXLIX NO. 204 | Tuesday, October 16, 1984 | 149th Year

Top 100 Commercial Banks In Servicing of Permanent Mortgages(a)

Compiled by American Banker Copyright 1984

Servicing Rank 6/30/84		Mortgages Serviced for Investors (b) Total Dollar Volume 6/30/84	No. of Mortgages 6/30/84	No. of Investors 6/30/84 Excluding GNMA Pools	GNMA Pools	Servicing Rank 6/30/83	Gain in Rank	Total Mortgages Serviced (c) in Dollars 6/30/84	Mortgages Owned by Bank in Dollars 6/30/84
1	Bank of America NT&SA, San Francisco	2,210,000,000	51,322	212	47	1		17,069,000,000	14,859,000,000
2	Union National Bank, Little Rock, Ark.	1,134,009,045	43,153	229	269	3	+ 1	1,193,639,197	59,630,152
3	Hibernia Bank, San Francisco	1,100,000,000	27,000	46	182	2		N.A.	N.A.
4	First National Bank, Anchorage, Alaska	839,923,519	11,061	23	0	6	+ 2	839,923,519	73,906,776
5	Continental Illinois National Bank & Trust Co., Chicago	753,024,888	15,427	44	4	12	+ 7	971,969,817	218,944,929
6	National Bank of Alaska, Anchorage	749,545,434	8,600	56	2	5		860,898,190	34,152,437
7	Citizens Fidelity Bank & Trust Co., Louisville, Ky. (d)	745,000,000	17,500	79	122	7		833,000,000	88,000,000
8	Security Pacific National Bank, Los Angeles	714,354,465	20,158	68	48	4		4,942,102,130	4,227,747,666
9	Bank of Hawaii, Honolulu	631,731,861	13,760	87	11	8		947,152,556	310,423,575
10	First Tennessee Bank NA, Memphis	587,349,882	15,122	54	127	9R		675,204,668	87,854,786
11	Continental Bank, Phoenix, Ariz.	567,365,407	11,621	53	31	11		638,827,467	71,462,059
12	Alaska Mutual Bank, Anchorage	542,736,617	5,534	33	0	...		608,993,055	52,082,604
13	Michigan National Bank, Detroit	522,000,000	15,666	51	0	68	+ 55	769,000,000	284,000,000
14	Union Planters National Bank, Memphis, Tenn.	501,771,578	15,401	135	114	10r		536,954,267	35,182,689
15	Equibank, Pittsburgh	414,800,000	11,924	116	1	13		476,890,480	168,741,821
16	First Hawaiian Bank, Honolulu	395,197,111	7,943	114	0	16		958,381,010	563,183,899
17	United Jersey Bank, Hackensack, N.J.	374,406,430	7,723	0	0	...		711,955,629	337,549,199
18	Michigan National Bank, Lansing	336,974,808	15,719	105	0	41	+ 23	482,359,180	169,498,000
19	National State Bank, Elizabeth, N.J.	331,148,803	11,047	43	140	15		440,762,238	109,613,435
20	California First Bank, San Francisco	330,967,746	6,560	48	34	14		997,706,454	660,066,706

The American Bankers Association has announced that Union National ranks second in the nation among all commercial banks servicing mortgage loans.

The bank originated more than $400 million in loans in 1983 alone. Total mortgage loans being serviced by Union now stands at $1.2 billion, of which 95% are home loans.

Union is the largest mortgage servicing company in Arkansas—three times larger than any competitor. Union services mortgages in 40 states for more than 44,000 customers.

Union's second place ranking is a remarkable statistic for a Little Rock bank. Union has become something very important for Arkansas:

One of America's leading banks.

Union National Bank
OF LITTLE ROCK
MEMBER FDIC

sales-customer-orientation culture. When the program was announced in a news story in the local paper, Mr. Smith (who answers his own phone) received a call from a local businesswoman who told him that, on the basis of the bank's effort to change its culture, she was going to take all her business and personal accounts to Central Bank.

He believes the public is responding to the sales efforts of bank employees in a positive manner because these same employees are in the forefront of community-service activities. For instance, the bank recently adopted a children's home that was struggling to keep going. Employees chipped in to clean up the premises and to purchase a new range for the kitchen (the bank paid half the cost). Employees also recently participated in a bowling tournament that benefitted the local Big Brothers/Sisters organization. They were responsible for 10% of the total funds raised in the city-wide tournament.

Central's employees are not shy in assessing the sales program. "It has done more for us than anything else," says Margie Asseff, assistant vice president at the Nicholasville Road Banking Center. She's one of the team captains and says employees on her team are eager to earn points. "This promotion is putting the bank's money where its mouth is," she says.

She likes the fact that her branch's employees are assigned to two different teams, which heightens competition. Teams meet every two weeks and captains discuss sales procedures and the product manual's contents. She adds that employee enthusiasm is holding up well. One reason for employees' success in sales is that they aren't seen as sales people by customers, but as people customers can trust. Once employees realize that making sales is not a negative or scary thing, they become interested in cross selling, she adds.

Margaret McCracken at the same branch says friends of employees are the best source of new business. She finds that many of her younger friends have no bank accounts and welcome her explanations of how bank services can help them make their finances more orderly. She also finds that many people maintain accounts at banks that pay lower interest rates than Central does and these people welcome the suggestion to move their accounts to Central.

"The interaction and high morale the sales promotion has generated among employees would be a sufficient bonus for the bank, even if we didn't sell a dime of new business," says Barbara Anderson, executive vice president over the operations group. There was a time when bank employees didn't care about improving the institution's image. "If we come as far in the next few years as we have in the past few, we don't need to be afraid of Sears or anybody," she adds.

Ms. Papka and Ms. Anderson agree that the bank's new sales culture is not the result of deregulation. "But it's a fortunate coincidence for Central Bank," they say! **— Jim Fabian, senior editor.**

Cross-Sell Training/Incentive Program Boosts Employee Professionalism

A SUCCESSFUL cross-sell training/incentive program that provides bank employees with a systematic approach to selling and rewards them based on measurable performance standards is the goal of many bank managers.

This goal has been achieved at Hamilton Bank of Upper East Tennessee, Johnson City, according to President David B. Ramsay.

The goal established for customer-sales representatives and tellers by the bank was the sale of 1.8 average additional accounts per customer during the first year of the program, according to C. Clifford Andes, senior vice president/business development and marketing.

A training program was furnished by the bank's parent, Third National, Nashville. It consists of six 90-minute sessions.

Prior to the first session, a pre-program questionnaire was distributed to participating employees. Purpose of the questionnaire was to assess, on an anonymous basis, the level of product and skill knowledge of employees. The questionnaire also measured cross-sell attitudes.

Tabulation indicated a general lack of knowledge about bank products. Furthermore, employees considered cross selling to be an extra task, one they were not fitted to perform because they weren't sales-oriented individuals.

The training sessions are designed to overcome these deficiencies, Mr. Andes says. They include a customer-perception exercise that establishes the fact that customers are receptive to cross selling efforts and that employees can have a positive influence over customer choices regarding new bank services.

Another exercise alerted employees to the nature of obstacles that would tend to interfere with or prevent them from cross selling effectively. A product-knowledge session upgraded employees' knowledge of bank services.

Another training session addressed the cross-selling process and the skills involved. Employees were taught to understand what steps to take to close a sale and how to identify customer needs so the correct service could be recommended.

Other sessions helped employees distinguish the features and benefits of products. Tellers were instructed how to refer customers to customer-sales representatives to open new accounts.

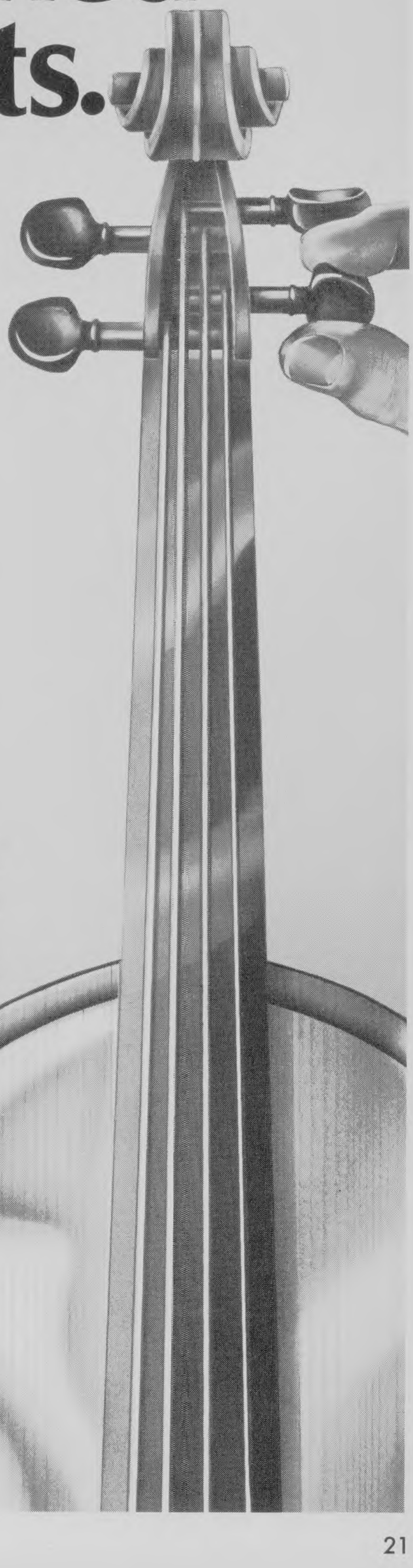
A post-progress questionnaire was administered at the end of the training sessions to measure the increased product knowledge of employees. Ninety-five percent of the questions were answered correctly, versus 71% on the pre-training questionnaire.

Training prepared employees to cross sell, but an incentive aspect of the program motivated them to work at it! A dollar value was established for each type of product sold by customer-service representatives. For instance: a super-NOW checking account is worth \$1, an insured money-market account is worth \$3 and a safety-deposit-box sale brings \$5. Tellers receive \$1.50 per new account opened as the result of their cross-selling efforts.

Tellers fill out customer-referral slips when a customer is sent to the new-accounts desk. Customer sales representatives fill out new-service information sheets each time an account is opened. All forms are sent to an individual in the bank's retail division who forwards them to a firm that tabulates the figures and issues a monthly report to the bank indicating which of the 13 offices are doing the best selling jobs.

Seven branches have managed to maintain or exceed the 1.8 average additional-account goal for the past several months, Mr. Andes says.

A total of 9,475 new accounts was opened during the first year of the program, according to Mr. Andes. ● ●



Effective SELLING Through Incentive Planning

By Bob L. Sellers
Chairman, Banking Consultants of America
Memphis

PERHAPS no greater challenge will face banking in the coming months than that of structuring and installing *effective sales programs*.

The rapidly increasing interest in these programs by commercial banks across the country accurately reflects current pressure being placed on increased productivity and enhanced earnings.

For larger institutions, finding and hiring qualified and experienced sales personnel may require a competitive salary, but for many smaller institutions salary alone may not be enough to attract the right people. In many cases, even a commissioned salary may not be enough to motivate experienced salesmen in the long run. Additional benefits must be created that will tie critical employees more firmly to the institution.

First and foremost, bank management must be committed to the idea of rewarding performance, even if it means that certain sales positions eventually might earn more than many traditional executive positions — a fact that will not set easily with everyone. Development of an effective sales organization within the traditional management of most banks calls for dramatic changes in philosophy, recruitment, training and personnel administration.

The issue clearly is larger than just salary. The structuring of compensation and benefit plans and effective organizational frameworks must be combined. Benefits must be packaged to create the incentives necessary to attract, keep, and reward top-flight sales people. In addition, building the proper management system to reinforce this new commitment to sales and to guide the sales effort will be difficult for most banks, given the historical lack of sales-management experience in the whole industry. The product mix is changing; marketing objectives are changing; customer segmentation is more complex; and advertising must finally be recognized as SALES SUPPORT instead of a SALES SUBSTITUTE.

The development of an effective sales organization calls for dramatic changes in philosophy, recruitment training and personnel administration.

In light of these changes, management must find access to the vital expertise needed to make the transition from an advertising-oriented culture to that of a sales-oriented culture. A wise approach likely will entail using the talents of a qualified consultant — one with both the background and track record of accomplishment in incentive-based plans. The decision to use a consultant will allow institutions of all sizes to better understand the essentials and better organize their efforts.

No sales organization likely will be successful without a comprehensive package of benefits and incentives. Bank executives as well as directors can be included along with calling officers in the incentive structure of a bank-wide sales effort, since they all should play an important role in the referral and sales process.

In its role as consultants to bankers across the country, Banking Consultants of America has assisted a number of institutions in designing, implementing, and administering executive incentive compensation programs through use of employee stock ownership plans (ESOPs), directors deferred income plans (DDI), executive supplemental income plans (ESI) and job evaluation and salary administration plans (JESAP). While these programs may not have been originally designed as incentives, encouraging new legislation favorable to the formation of these plans enables them to play a key role in attracting, rewarding and retaining key sales people.

Bankers and businessmen retain consultants because through them they find the track record, experience and specialization needed to solve complex problems. The right consultant can bring a higher concentration of expertise to bear on specific problems than is feasible for the client to provide "in house." The increasing complexity of the financial-services industry demands more precision in many areas. It is no wonder, then, that experienced consultants are in heavy demand. They have seen most problems before and have the right background to solve them.

Questions to our clients are often:

- What do you really want to do?
- Why do you want to do it?
- What are you doing now?
- Why do you do it that way?

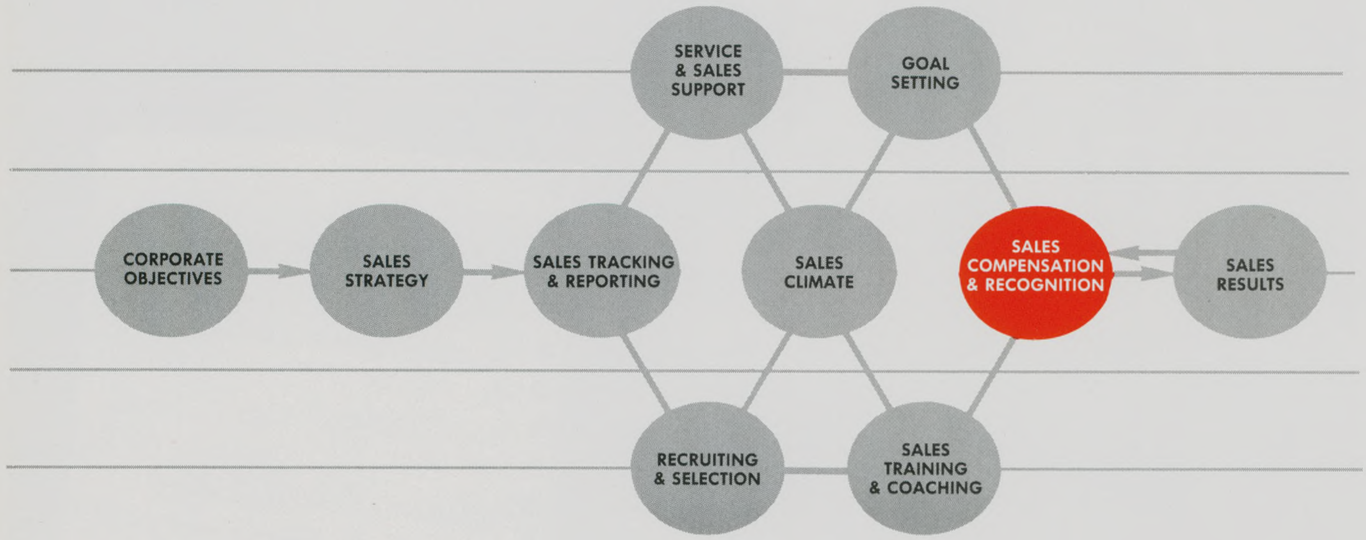
(Continued on page 57)

The author is chairman and CEO of Banking Consultants of America and chairman of First Southern Trust Co. These firms specialize in the design, implementation and administration of employee stock ownership plans, executive supplemental income plans, earnings-improvement analysis, pension- and profit-sharing programs, HC formation and general banking services.

$ELLING FOR DOLLAR$

The Magic and Myth of Sales Compensation

By Jim Schneider



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ONE OF THE hottest topics in financial industry sales management today is *pay for performance*.

The drive for better earnings and for a sales culture to replace the service culture of the past has led reluctant financial institutions of all sizes to "lunch with the devil." For the first time, financial-industry employees are *selling for dollars*. And the simple idea of rewarding people in proportion to their performance is *working*.

The greatest myth about incentive compensation always has been that it isn't cost effective, that people shouldn't be paid to do what they're already paid to do. Now that financial institutions can measure sales productivity more precisely, the numbers are *proving* that incentive compensation is extremely cost-effective in generating *incremental* sales from existing resources.

For example, a $1 billion-dollar bank in New Jersey increased its total products cross-sold by over 300% in 18 months with the consistent use of sales incentives. Other organizations have expanded commercial and real-estate loan volume, increased key-account retention and changed mix of products sold at minimal expense with incentive compensation.

The magic of incentive compensation is that you *pay only for what you get*. The reward system directs the sales force toward whatever objectives you select. There's also magic in its impact on sales-force *motivation*.

The key issue in financial-industry sales management today is the *willingness* of the sales force to sell. The sales forces of most financial institutions still consist largely of employees who were not hired as salespeople.

Most financial-industry salespeople know what they need to do to get results in selling. But the rewards for selling aren't great enough to overcome their fears about customer reaction to the aggressive selling behavior necessary to get results. They are concerned about being viewed as a salesperson rather than as an executive and they are uncomfortable about a performance-appraisal system that pays more for sales effort than for traditional banking expertise.

The entire reward system in financial institutions says selling is *not* important. That's why incentives are so powerful in changing sales behavior quickly.

Incentive compensation changes the context in which employees view their jobs. Suddenly, they're *salespeople*.

With incentives, there's *reason* for selling that outweighs the risk, a clear message that selling is important. The sales force can set goals, keep score and be noticed and rewarded *immediately* for what it does. Very simply, incentives increase the *willing-*

The author is president of Jim Schneider Group, a sales-management and sales-training consulting firm headquartered in Oak Brook, Ill. He also is author of a soon-to-be-released book on selling: *The Feel of Success in Selling*.

ness to sell.

The Myth

Today the greatest myth about sales compensation is that it works for everyone. It *doesn't*.

A sales-compensation plan is only as good as the objectives and sales climate it serves. There's no one "right" sales-compensation system that works for every organization.

As the diagram on page 24 shows, sales compensation is part of a larger web of sales-management activity. Used properly, sales compensation is an extension of your corporate objectives, reflecting your priorities for sales volume, product or customer mix and sales strategy. These objectives and the resulting compensation priorities will be different for every organization.

When a sales-compensation plan doesn't work, it's almost always because it's executed in isolation from the other factors in sales management. Often, sales compensation is used as a short-term "drug" to mask the need for deeper changes in an organization.

The most frequent complaints I hear about incentive compensation are that it brings in the *wrong* kind of business or that it's *volume* oriented rather than profit oriented. These criticisms are most frequently mentioned in connection with lending, where bank managers are especially sensitive to the risks of selling bad loans.

Actually, these aren't criticisms of incentive compensation. They're criticisms of the *management* of incentive-compensation programs.

Whether you're concerned that the *right* deposit products get sold or that the *right* loans get made, you can control sales-force priorities by controlling what you pay for and by providing strong sales supervision and random audits of what's sold.

Missteps in sales compensation can be costly. Encouraging employees to sell the wrong products can cost thousands of dollars, and paying the sales force too much or too little can destroy the credibility of your entire sales effort.

A bank shouldn't even consider incentives until management knows what it wants the sales force to accomplish and until it has in place an integrated sales climate that will support the sales force.

Sales Tracking and Reporting

You can't reward your best sales people if you don't know who they are. You can't accurately pay for *incremental* sales results or estimate the financial impact of a sales-compensation program if you don't know what the sales force is selling *now*.

Sales tracking and reporting is the *first* step in implementing a sales-compensation system.

Measurements are critical to the sales climate because they're the basis on which all major decisions of sales management are made, from sales-personnel decisions to sales-strategy decisions. They're also the basis for the reward- and goal-setting systems which provide the motivational drive to the sales climate.

Why is a *reliable* measurement system always the *last* investment financial institutions are willing to make in their sales-management system? Without credible sales data, you don't have a credible sales climate.

Most financial institutions extend sales measurement to the branch- and commercial-division level. It has to go *deeper*, extending to every salesperson, with each salesperson having his/her own report.

A sales-compensation plan is only as good as the objectives and sales climate it serves. There's no one "right" sales compensation-system that works for every organization.

Before you launch a continuing sales-compensation program, you should have at least three months of sales data on individual sales employees and several months of data with a pilot compensation program. The stakes are too high not to do it right.

Recruiting, Sales Training and Sales Coaching

If you have the wrong sales people — or untrained sales people — in key sales positions, the motivational impact of incentive compensation is *energized incompetence*.

Recruiting and training peak-performance salespeople is the major responsibility of most sales managers. Without a strong sales force, the marginal impact of an incentive-compensation program on sales is far less than the impact of incentives on a strong sales force.

In some ways, the financial industry's high turnover is an opportunity to upgrade its sales force.

A strong sales-compensation system will attract a different kind of sales force, — a sales force *willing* to sell. But be careful not to increase the proportion of sales incentive to total compensation so fast that you undercut the financial planning of the good salespeople who are already with you. You could lose them.

Study the top performers on the sales-tracking system and develop a recruiting and selection process that correlates sales results with personal attributes, personality, selling style and "fit" with the organization. "Superstar" salespeople from commissioned sales positions in other industries may not fit with your organization's sales climate at this stage of development.

Even good salespeople can't be motivated to sell until they've *learned* how to sell. Selling for dollars won't overcome selling with fear.

My experience is that no amount of sales incentive will increase sales results to peak performance levels until salespeople have worked through their fears and their problems in selling in classroom sales training or in field-coaching opportunities. We've had tremendous success in designing sales training around what peak performers are doing right in each bank's unique sales environment.

In the presence of strong sales supervision, incentive compensation *can* motivate salespeople to learn how to sell.

Strong sales supervisors can use incentive dollars as a consistent motivating force by reminding salespeople of their successes and their goals. These are the reasons sales-driven companies hold sales meetings.

In recent years most service organizations have cut back their front-line supervision, thinking they're increasing their profit potential. But your biggest marketing expense is the money you *lose* when your sales force doesn't sell. Without strong sales supervision, a sales force doesn't sell.

Make the most of your sales-compensation dollars by recruiting a sales force that can sell and then give it the support it needs to succeed.

Goal Setting

Every salesperson participating in incentive compensation should also set

(Continued on page 54)

Credit Line for Up-Scale Customers Worth the Effort for Sovran Bank

By Kenneth F. Matthews Jr., Vice President, Sovran Bank, Richmond, Va.

PRIVATE Line is a line of credit offered by Sovran Bank to individuals for their personal use. It is accessed by special checks furnished to the customer separate and distinct from any other account held at the bank. Once the account is approved, the owner may withdraw funds anywhere, anytime, for any purpose by writing and negotiating one of these checks.

A statement is rendered monthly, showing the line, amount outstanding, minimum payment, etc. Line limits run from a minimum of $2,000 to an unsecured maximum of $30,000. When secured by home equity, a line can run as much as $100,000.

Accounts are priced at a rate equal to Sovran Bank's prime rate plus 1½%. The rate varies quarterly, allowing both bank and customer to enjoy equally the rise and fall of interest rates. We also charge an annual fee of $15.

We have offered lines of credit to individuals since 1977 and have enjoyed reasonable success with the service. Our first effort to promote the service was in 1982 with a direct-mail campaign to a half dozen "selected" mailing lists. Although the response was not overwhelming percentage-wise, it gave us the account base we were seeking and then some. In fact, we opened so many accounts during those first few months that we were hard pressed to cope with the paperwork and had to hire a room full of temporaries to set them up.

During the past two years, we have not advertised the account publicly. Our credit standards are high, and we felt general advertising would solicit too many applications from unqualified prospects.

We have, however, successfully obtained new business from two other sources. One was from our own bank offices. Through an employee sales campaign and normal word of mouth, we acquired more accounts throughout the balance of 1982 than we did with the original direct-mail campaign.

The second source of new business that has proved fruitful in numbers of accounts is our relationship with American Express Travel & Related Services Co. People applying for AMEX Gold Cards are simultaneously applying for credit lines with a bank. AMEX sends these applications to banks offering a credit line that are located near the applicant or with whom the applicant has a relationship.

When we saw that our product was well accepted and easily sold, we instituted an annual fee to raise the profit margin to a level more in line with management goals. Customer defections resulting from this change have so far been offset by increased yield potential. To our surprise, both active (line with a balance) and inactive accounts objected equally to the annual fee. We had believed or hoped that only inactive accounts would object to the imposition of a fee strongly enough to close out. Even so, defections because of the fee have been relatively few.

Our experience with Private Line has been quite gratifying. We recovered our start-up expenses sooner than expected and showed a profit earlier than projected. Now that a base is established, we will attempt to expand our market share with what we consider an attractive product reasonably priced to produce both profit for us and satisfaction for customers.

Mr. Matthews is officer in charge of Private Line and is responsible for product development and enhancements, credit approvals and reviews, product marketing and coordination with other bank departments in the delivery of Private Line to customers.

In the months to come, we will conduct a direct-mail campaign measured to analyze results. We will also run, for the first time, an experimental media advertisement to measure results. As in any product, improved methods and customer service will be evaluated and re-evaluated.

The real trick to a successful line of credit is not simple by any means. Complex factors affect the product itself, as well as how it is perceived and received by the public.

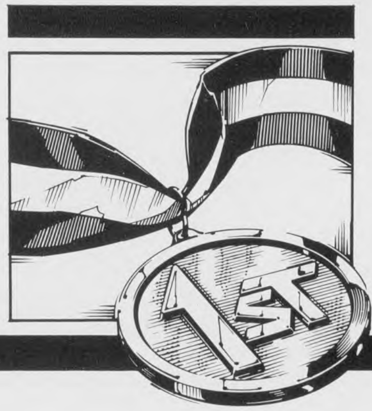
The primary factor would be the acquisition of a computer system on which to run the product. In addition to the hardware and the program, competent and dedicated maintenance resources must be available. No matter how well planned at start-up, reasons for change are legion: legislative bodies, federal regulators, bank management, public taste, economic conditions and competition, to name a few. All of these forces compel mid-course correction from time to time. Flexibility in the program running the product and programmer/analysts dedicated to the service of that product are mandatory.

Management's policy toward volume and quality of the loan portfolio desired from this service also is an important consideration. We began aiming the product at high-value professionals and the "captains of industry." Our experience, however, led us to broaden our customer base later, while still maintaining high-quality credits.

With a system and a philosophy in place, the product must be molded into a marketable package. Decisions must be made on rates, terms, limits and so forth.

Another facet is the documentation used in establishing loans. Knowledge of market-area lending laws and federal regulations come into play, and these factors may force modification of the product if not considered throughout the preparation of the service.

Finally, selling the product comes up. When we first opened the service in 1977, there were few competitors. It



Mike Beck, Kelly Mason, Jim Stanley, and Lauren Kingry.

See you at the KBA Convention

The First Team will be traveling to the KBA Convention in Salina May 15, 16, & 17. We look forward to this meeting where we can answer your questions and discuss how our correspondent services can fit into your bank's profit-oriented strategies. See you there!

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rapidly became evident that this was *the way* to lend money to certain individuals, and more and more lenders began to offer open-ended credit lines, both secured and unsecured.

We have conducted rather extensive training of our staff and loan officers because we find they are an excellent referral source for strong applicants. It does no good to interest someone in the product and then inform the individual that he or she has been declined. Selective selling has been important to us. We have attempted to portray the service as one for those who are established — not overly affluent, but up-scale.

Several pitfalls must be avoided in order to maintain a successful and profitable line of credit for individuals.

If management sets unreasonable goals for product growth, or wants growth in the secured or the unsecured side beyond that which is naturally attainable from the trade area proscribed, one might tend to put on credits that don't measure up to original standards.

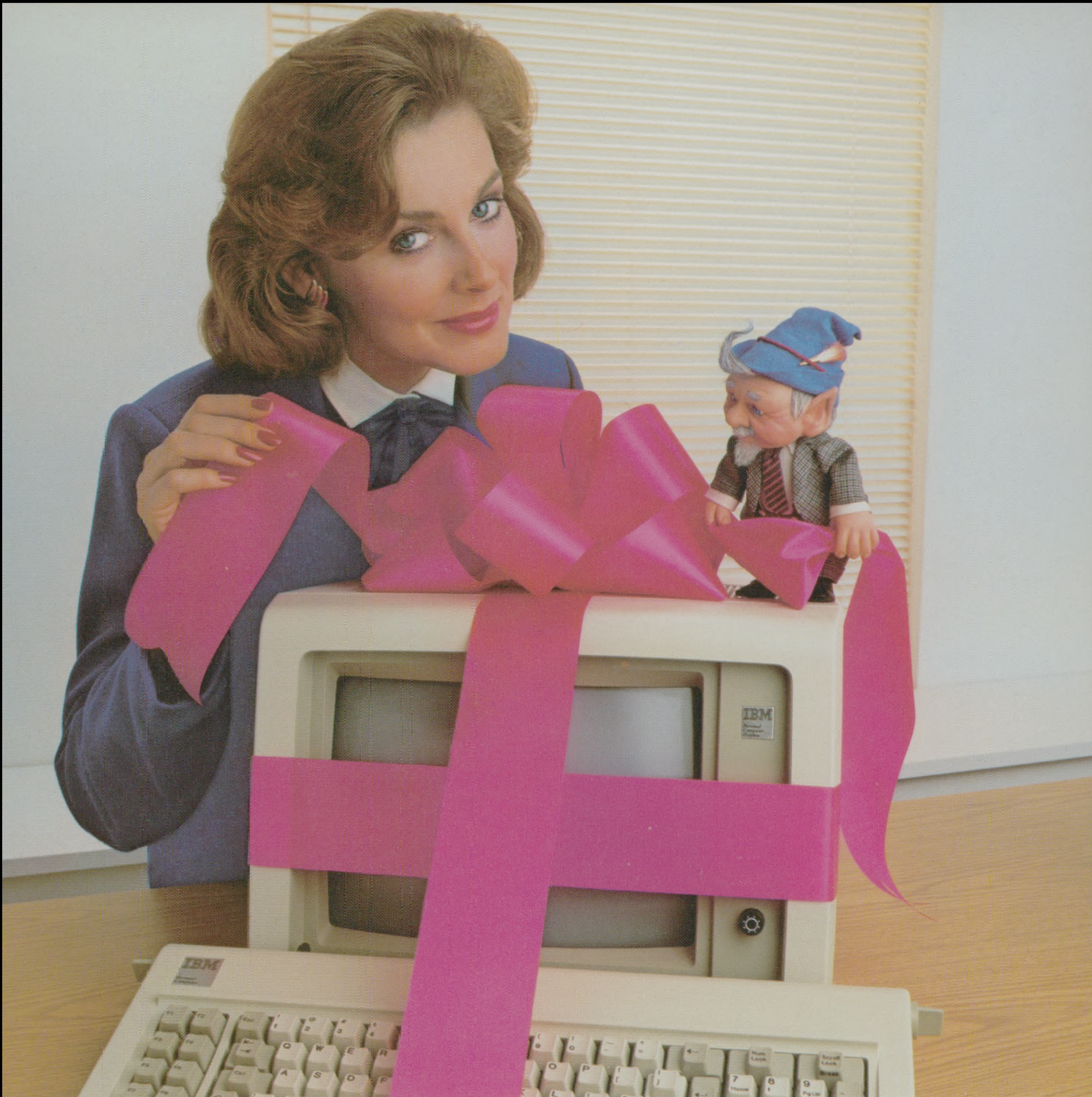
Also, thought should be given to the technical side of the line to allow for expansion. It is natural to foresee growth and to plan for those increases. But consideration must be given to the possibility of merger and absorption of another bank's accounts into your system.

There always will be a small percentage of persons in this world who are out to defraud a lender. All one can do to avoid these people is to investigate each application as thoroughly as cost effectiveness permits. This same investigation also is still the best defense against those who would hand you a big loss even if unintentional.

Despite the current trend to open personal lines, numerous lenders have experienced less than total joy in the personal line of credit. Being locked into low rates while market rates soared was the most common malady suffered by early entrants into the personal-line field. Following closely behind on the list of woes is the specter of charge-offs. Lines don't pay down when in the hands of those who cannot discipline their spending. Careless extension of open-end credit to meet a budgeted figure, as mentioned before, has caused big grief to more than one lender.

Personal lines of credit provide one of the most efficient means of consumer lending. The customer writes his own loans from his approved commitment. This obviates renewal and redisclosure of notes and reapplication for each new extension of credit. If the lender recognizes well in advance that this is not a service for everyone and covers as many contingencies as possible, the personal line of credit will no doubt carry an ever-increasing share of consumer credit in the future. ● ●

● **First Bank Minneapolis** has promoted C. Kirby Scroggins, vice president, to head the retail-banking department and named Timothy D. Johnson vice president/risk-evaluation-division head. Mr. Scroggins joined the bank in 1950 and had been branch-administration manager. Mr. Johnson comes to the bank from Morgan Guaranty Trust, New York City, where he was vice president/project-finance department.



How to wrap up big deals without using paper.

Recently the gnomes of Freddie Mac completed a 54 million dollar mortgage transaction in just nine minutes by eliminating practically all paper work. How'd they do it? By using an exclusive Freddie Mac computerized system called MIDANET® (Mortgage Information Direct Access Network). ■ This free customer service cuts down errors, saves time and trouble and reduces paper work. ■ Paper's fine for wrapping up birthday gifts, but for mortgage transactions, nothing's finer than MIDANET.

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• Long-Range Strategic Planning • Standardizing
• Simplifying IRA Programs • Targeting Markets

Strategic Planning Will Produce Long-Range Benefits to Bank

STRATEGIC planning is a process that most banks are implementing today, many with the help of a consulting firm. Defining missions and goals and developing a strategy to implement these goals is the procedure involved, according to one consulting firm, J. S. Barefoot & Associates, Columbus, O.

A typical client of this firm might be an \$80-\$150 million bank, in either a rural or urban market. This bank probably has little formal planning or budgeting expertise. On the other hand, it might have a sound annual planning and budgeting process, but believes it lacks the "big picture."

Or a typical client might have a strategic plan — on paper — but has not successfully implemented that plan.

"We begin," says Jo Ann Barefoot, president of the firm, "by putting together a planning team of top management and other players, such as the technology and human-resources directors." This team, Ms. Barefoot says, should include key people who might obstruct or undermine implementation if they do not fully support final decisions.

This group works through a series of meetings to assess the bank's external and internal situation. It then builds the foundation for the bank's competitive strategy. This foundation is a single idea that will drive everything else the bank does. For example, the needs of a certain, targeted market might drive the bank's products, branching strategy, technology, marketing and so forth. Or, the bank might have a strong product around which it should develop markets, distribution and support systems. The secret is to choose *one* starting point from which all other decisions will flow.

With this foundation in place, the bank then defines its target markets and products. Then, goals are set for size, growth and profits.

At this point, says Ms. Barefoot, the bank holds an off-site planning retreat where team members propose specific goals and strategies for each key function of the bank: marketing/product design, distribution, sales, technology, financial management, human resources, image and "culture."

Culture is most important, according to Ms. Barefoot. It is often the single best tool for implementing strategy. Culture refers to the bank's basic values and goals. All successful organizations define the simple, fundamental qualities that make them special and consciously instill these in their employees. These explicit efforts, says Ms. Barefoot, to build a sense of identity and pride — a sense that the bank is better than others — can replace vast quantities of paperwork and controls in getting personnel to carry out the bank's strategy.

Throughout the strategy-development process, the role of the consulting firm is to provide background information, lead discussions and write up meeting results. This is followed with a written strategic plan and implementation procedure that is communicated to all employees *and the board*.

This is followed with an operational planning process, seminars for managers, planning kits for each unit of the bank, tying strategic goals into a framework so that each bank unit can

(Continued on page BG/6)

IRAs Made Simpler Is The Goal of Minnesota Consultant

COMPLIANCE with regulations can be a problem, as most bankers know. One consulting specialist in retirement products — IRAs, Simplified Employee Pension plans (SEP) and Keogh plans — has found a specific need for banks to update their IRA plans.

Universal Pensions, Brainerd, Minn., conducts compliance reviews for its bank clients, sending in one of its professional staff — an attorney, CPA or consultant. The reviewer examines forms and procedures used in the bank's IRA program. The bank's program is analyzed and a written report is provided to management noting any deficiencies and recommending any changes needed to bring the bank into compliance with regulations, improve operations and decrease costs.

During one recent review, says a spokesman for Universal, "we found that a bank was using outdated legal forms to establish IRAs, failed to give a proper disclosure statement to IRA customers and did not file proper re-

EDITOR'S NOTE — On these pages the reader will find several examples of cases where the financial consulting firm has been able to assist a bank with a specific problem. These "case histories" came to us as a result of a query extended by this publication.

For A Wide Range of "Problems"

Operations • Researching Branch Closings

• Maximizing Values for Shareholders

ports to the Internal Revenue Service. The IRS, the Universal spokesman noted, does have the authority to levy substantial fines against a bank for deficiencies in an IRA program.

Universal states that many banks use as many as 10 forms to open IRAs, making the process a time-consuming one. By suggesting the use of a single document that consolidates all necessary forms, Universal has helped these banks reduce "paper costs" and clerical time in opening accounts.

Many banks now using this system will recognize Universal's "IRA Simplifier II," a procedure originated by the firm several years ago. • •

Maximizing Values For Shareholders During an Acquisition

STATEWIDE banking had been debated in Louisiana for many years but, as 1984 approached, it appeared that the legislature would finally pass a bill allowing bank holding companies to acquire banks statewide. Historically, expansion by banking organizations in the state had been confined to a single parish (the Louisiana equivalent of a county).

As passage of the bill became imminent, bankers scrambled to position themselves for the new environment. A key geographic area was New Orleans. The "downtown" banks, confined to Orleans Parish, were anticipating expansion into the suburban parishes of Jefferson, St. Tammany and St. Bernard. Therefore, banking organizations in these parishes were considered prime acquisition targets.

It was against this background that Golembe Associates, Inc., a nationally known economic and financial consulting firm, was retained by NBC Bancshares, the $380-million parent company of National Bank of Commerce in Jefferson Parish. Golembe was asked to assist and advise senior management of the HC in determining the value of the institution, particularly with respect to maximizing the sale price in the event of an acquisition. The process of financial valuation is an important diagnostic technique. It is critical in assisting management to identify strengths and weaknesses, position the organization and maximize shareholder values.

Golembe Associates has developed and refined a variety of valuation techniques. In NBC Bancshares' case, three methods were employed: A capital-asset valuation based on expected dividend performance; an investment valuation based on comparative peer-group acquisition ratios; and a net-asset valuation that recognized both the current market value of tangible assets and the value associated with intangibles such as core-deposit relationships.

In analyzing the results of the three valuation techniques, Golembe was able to identify areas of possible earnings improvements. This had two key results: first, Golembe Associates was able to assist management in implementing a formal, long-range strategic-planning process that would serve to further focus the organization's growth and development; and, second, certain sectors of the organization were pinpointed as possible turnaround areas in which an acquirer could apply its expertise and efficiencies to increase earnings.

As a result of both the valuation results and considerable strategic planning, the bank's management and Golembe's representatives were able to enter the negotiation process with a clear idea of their objectives and bargaining strengths. In August, 1984, NBC Bancshares agreed to be acquired by the Whitney Holding Corp., New Orleans, at a multiple of over two times book value, the highest multiple paid to date for a Louisiana banking organization. • •

Up-Scale Banking: A Popular Target That Needs Careful Aim

TARGETING the up-scale banking market appears to be one of the marketing goals of many banks today. A year-end survey by this publication, for example, indicated that 23% of those responding planned to offer services to the up-scale market in 1985. An additional 27% indicated they already offered this service.

But how to reach this market, what products to offer, how to price these products appear to be questions that need to be asked *and answered*. This was the assignment given to Strategic Solutions Co., Golden, Colo., by one of its mid-size banking clients. Some interesting facts were revealed in its study, according to Diane R. Sauter, senior partner.

In order to research the market, Strategic Solutions utilized confidential, in-depth, one-on-one interviews with customers and prospects. The groups interviewed: business owners and managers, physicians, attorneys and CPAs. The consultant, on behalf of its client, looked for answers to these two questions:

1. What financial-service providers are currently being used and what is

the overall satisfaction level with each?

2. What is the reaction to the bank's proposed up-scale service approach — specifically, relationship management and staffing, product line, pricing, location and positioning?

The results of this questioning were eye openers! The consultant found that the majority of these professional people looked *elsewhere* than the bank or savings association for their primary financial services. The reason for this attitude: Respondents had longer-term personal relationships with other financial-service players — primarily their attorney or CPA.

These professional people perceived that personnel at the bank change too often for them to feel comfortable discussing a broad range of financial services. They viewed their primary relationship with the bank as one based on loan needs, which, of course, represents only a narrow portion of the up-scale market.

Moreover, with banks offering an ever-wider mix of products and services, the target audience was suspicious that a single individual at the bank would have the expertise necessary to help make all the critical recommendations needed by people in the up-scale group.

The consultant also studied product lines that would find a level of success, as well as the importance of the physical location and positioning of the up-scale department.

While the up-scale consumer represents a potentially profitable market segment for the bank, the consultant's study indicated that reaching that market involves more than "just offering a fancy office and opening the doors." Therefore, the consultant recommended a number of changes in a concept that already had been planned by the bank. The following approaches were suggested:

1. Maintain the commercial lender as relationship manager. Use specialists with other training as backups to customer-contact staff. The bank had been planning to merge trust and retail banking and cross-train every staff member to serve as an expert relationship manager.

2. Concentrate on stabilizing and strengthening current relationships. Use these relationships to assist in new referrals.

3. Emphasize traditional deposit, loan and trust banking products, paying particular attention to accuracy and quality of service. The bank had planned to introduce new products, including financial planning and investment management.

4. House the up-scale department in the mezzanine area of the bank, close to everyday lending and deposit functions, where current clients are accustomed to going and where convenience is offered to new customers. The bank had planned to use the 10th floor trust department until distinctive new offices could be built.

5. Put systems in place to allow the option of combining all services used into a bundled relationship price, but offer clear prices for each service used.

6. Position as a totally new resource, rather than a substitute for or a supplement to current financial resources.

These approaches would, the consultant recommended (and the bank agreed), help build a successful and profitable up-scale consumer market relationship. ● ●

Mississippi Bank Standardizes Operations After Rapid Growth

RAPID growth of existing facilities, de novo expansion and strong loan demand created "growing pains" for Great Southern National, Jackson, Mississippi. The need, according to James T. Speed, chairman, was to standardize operations and "fine tune" the bank's organizational and reporting structure. In addition: define operational improvements which could lead to increased profitability.

The assignment was given to consultants Patten, McCarthy & Associates, Denver, a firm comprised of experienced bankers, who understand day-to-day management and operational issues facing banks today.

Great Southern, founded in Quitman in 1902, but now domiciled in Jackson, was operating seven full-service branches in central, eastern and southern Mississippi. In early 1984, the bank also was in the process of consolidating five banks it had acquired or established since early 1976. During that period the bank's size had ballooned from $27 million to $205 million, creating the problems outlined in the foregoing paragraph.

Patten, McCarthy quickly identified three needed tasks to accomplish the objectives of Chairman Speed.

1. A task perceived as having the most immediate benefit was implementation of organizational structure changes that would eliminate the overlap in responsibilities that had evolved as the bank experienced its rapid growth. This, coupled with recommendations for centralizing certain operations areas, resulted in the bank realizing measurable annual savings in excess of $250,000.

2. A need was identified for timely and meaningful management information. Delays had been experienced in implementing a new data-processing system with its service-bureau vendor. Targets and responsibilities were defined and the efficiency of the "conversion effort" was improved.

3. A third recommendation was to restructure the bank's traditional accounting system to generate both performance-measurement information and net-profitability information on an individual-service basis. This was accomplished by developing an enhanced chart of accounts which previously had been created by the bank.

While Patten, McCarthy does not claim full credit for earnings achieved in 1984 (after all, the bank was growing), it points with pride to significant results in 1984: after-tax earnings up 57% over 1983. In addition, net income for January, 1985, increased by 120% over that realized for January, 1984. ● ●

Strategic Planning

(Continued from page BG/4)

prepare strategies, action steps, deadlines and estimates of resources needed to accomplish goals. Numerical targets are set for production-oriented units of the bank.

Once all units prepare operating plans, a coordination and review process is organized. Budgeting then is considered. "The world's best strategic plan," says Ms. Barefoot, "will be ignored if budget priorities conflict with the plan."

As the plan is implemented, the bank usually experiences growing pains and other "side effects" of changes it undertakes. These are evaluated and strategies are reconsidered as major problems are identified.

Strategic planning, if followed, can be successful, says Ms. Barefoot, as she points to one community bank whose CEO was a strong individual planner. The problem: his plans and strategies were in his own mind and had not been communicated to bank personnel. It was important, therefore, to create a "shared view" of the bank's future throughout the organization, plus an excitement about the changes the bank was undergoing.

These were the major benefits of a strategic plan for this bank. In addition, the bank has greatly exceeded previous earnings and volume records in every area.

Another "success story" involved a $150-million savings bank that has transformed itself from a limited-service thrift into a multiple-product retail bank that serves an affluent market with high personal service and high technology. Employee turnover has been reduced, productivity increased, and the institution has grown from $150 million to $230 million in 18 months, while maintaining a 6% capital ratio.

Barefoot & Associates offers other consulting services, as do most consultants; but they, too, are excited about a new sales-training program they soon will be offering to banks. ● ●

Training Guide Offered

The ABA is offering a new Audio Visual Resource Guide that's described as a "one-stop directory to help bankers locate the right AV products for their particular training needs."

Products include films, slides, video, audio cassettes and computer-aided instruction.

The guide includes ABA programs, products from other producers and distributors and a list of associations and publications that deal with AV materials. Entries cover general banking and finance, bankruptcy, collection techniques and law, customer information and customer services.

Also included are training materials on foreclosures, management development, marketing/sales, security, supervisory training and teller training.

Each entry provides information about the product's content, audience, time required, format, cost and ordering information.

Price of the guide is $35, but ABA members can get it for $20. Request catalog number 297200 from ABA Order Processing, 44-B Industrial Park Circle, Waldorf, MD 20601.

A Delivery-System Problem Solved

Candidates for Branch Closings Identified by Consulting Firm

FINANCIAL INSTITUTIONS have retained the services of K. H. Thomas Associates, a Philadelphia consulting firm specializing in delivery system planning, for both *individual* and *systemwide* branch/ATM projects.

Typical individual branch and ATM consulting projects, says Dr. Kenneth H. Thomas, the company's president, include feasibility analyses, location studies, applications/hearings, performance evaluations and closing analyses. Oftentimes performance appraisals are conducted on the offices of an acquisition candidate or on those offices that have been proposed to be purchased or swapped to aid management in its decision making.

The firm's *systemwide* study is known as BRANCHPLAN® System. BRANCHPLAN System is the firm's trademarked name for a two-phased analysis of a financial institution's overall existing and proposed delivery system. The term "branch" in BRANCHPLAN is broadly defined to include all traditional and electronic delivery-system vehicles.

BRANCHPLAN System is a modular approach and contains two major subsystems:

1. Subsystem I — The Branch Performance-Evaluation Model, and
2. Subsystem II — The Optimal Branch-Location Model.

The first subsystem pertains to a financial institution's existing delivery system and the second is concerned with possible additions to it. These two subsystems can be applied individually or simultaneously.

The purpose of BRANCHPLAN Subsystem I is to analyze the past, present and projected performance of all existing delivery-system facilities and make recommendations that will lead to the maximization of their profitability. Those offices that have been identified as existing or potential "problem" or "serious-problem" branches are singled out for special examination.

Many alternative strategies for enhancing the branch performance of a particular problem branch, according to Dr. Thomas, are examined in the context of this study. These range from the maintenance of the *status quo* to the possible closing, sale, or swapping of a facility. Other alternative strategies potentially include the modification of a branch marketing plan; improving existing facilities; the addition of electronic or other facilities; scaling down a full-service branch to a mini-branch; or relocating the branch to a different site in the immediate area or to a different immediate area in the primary service area.

The objective of BRANCHPLAN Subsystem II is to maximize a financial institution's return on invested capital on any planned delivery-system additions. Specific recommendations as to the optimal location, type and characteristics of proposed *de novo* branches, proprietary and shared ATMs, possible merger and branch purchase candidates, etc., are provided in this study for a five-year planning period in a designated "study area."

A case study of a BRANCHPLAN Subsystem I and II study completed a few years ago by K. H. Thomas Associates for an approximately $600-million institution with 33 offices is summarized below.

The BRANCHPLAN Subsystem I analysis of the existing office network in this particular case study demonstrates the point that problem and serious-problem branches have no standard profile that would be useful for delivery-system planners. The only common thread to these branches is their past, present and projected unprofitability.

(Continued on page BG/20)

INCREASED PRODUCTIVITY —

The Banker's Goal In Long-Range Planning

By William D. Miller
Marshall and Stevens, Inc.
St. Louis

SUCCESSFUL banks of the future will be those that can deliver their services in the most efficient and cost-effective manner possible. A bank's operations and systems — and consequently its productivity — will be of critical importance.

To effectively compete and thrive in the coming years, a bank must strategically address and plan the various elements of its operations. A "piecemeal" approach will not be effective in meeting long-range productivity needs. The future operational requirements of a fully integrated financial-services provider must be examined at a strategic level.

As a consultant, I am aware of the importance progressive banks are placing on increased productivity and development of a long-range productivity plan. Several forces are acting on banks and creating the need for long-range productivity planning:

- Technological advances are coming rapidly and bankers need to be in a position to anticipate the technology's use, not just react to the changes.
- The rapid rise of low-cost, non-bank competitors is putting pressure on traditional financial institutions to compete more aggressively.
- Deregulation is allowing banks to offer more services, but they must be offered at a profitable price, thereby necessitating productive operations.
- Salaries and related personnel costs are among the fastest rising expense items. Therefore, efficient use of the staff is essential to long-range profitability.
- Non-credit services are becoming increasingly important sources of revenues, but must be competitively priced to be successful and efficiently delivered to be profitable.

Productivity planning should address operational weaknesses and also make full use of new operating technologies.

A recent consulting assignment that I managed was designed to address the long-range productivity needs of a \$500-million, two-bank holding company. The result of this assignment was the development of an action plan for the bank's management to follow over the next three years to address operational weaknesses and position it for making full use of new technologies.

A few of the areas in which we found weaknesses and recommended changes were as follows:

1. Production Performance and Process Management.

We found that performance standards did not exist and tracking quantity or quality was not possible. What little data were gathered was done so manually and infrequently.

Because performance standards were lacking, product cost estimates were inaccurate. Moreover, it was not possible to assess the cost/benefit ratios of investments in automation equipment.

We recommended the installation of a production quantity and quality tracking system.

2. Workflow.

We uncovered numerous instances of duplications of work and rework due to errors. In the lending departments, we recommended changes to loan set-up procedures that could effectively allow each clerk to set up 15% to 20% more loans. We also recommended form changes in construction loans to greatly reduce paperwork for minor changes and renewals.

3. Automation of Manual Tasks.

Numerous tasks were being performed that could easily be accomplished on a microcomputer. We recommended automating safe-deposit-box selling, loan-form preparation, loan-check preparation, accounts payable, officer-call reporting and supplies inventory.

4. Facilities.

Due to rapid growth, work groups were separated into four buildings. No plans had been developed to forecast staff, equipment and space needs. We recommended that a long-range-facilities plan be prepared.

The author is director of M&S's Financial Industry Group, whose main function is to serve the unique interests of financial institutions. The group specializes in strategic business plans, operations improvement, valuations and appraisals.

5. Organization.

We found numerous instances of unclear lines of authority, multiple reporting relationships, excessive spans of control and a general lack of communications. We recommended realignment of several areas to address these problems.

6. Training.

We found training of any type to be non-existent. Our primary recommendation was user training to make use of available computer services. There were significant gaps between the capabilities of the computer and the use of it by operational and managerial staff.

7. Documentation.

Written procedures did not exist. As a result, we found identical tasks being performed several ways in the same department. We recommended the development of procedures documentation (after operational procedures were established) in key areas such as loan processing, trust operations and computer/user interface.

8. EDP Planning.

We found that EDP was not considering user needs. We made recommendations for an EDP Users Task Force, a system to set EDP project priorities, and identification of project leaders.

We also recommended that a long-range EDP plan be prepared that considers new products, capacity, control, custom versus stock software and staffing.

9. EDP Operations.

We found that hardware performance was not monitored and problems were difficult to trace. A system was recommended to track and report systems problems. Other recommendations addressed problems we uncovered in data-center security, hardware locations, maintenance, microfilming, teller-terminal response times and new uses for existing operating and applications systems.

The major value of the assignment was the identification of problems that were impacting the client's current productivity, as well as those that would adversely affect long-range productivity. By putting the problems into focus, the bank was able to act on these problems before it was too late. ●●

SITUATION ANALYSIS

A FIRST STEP IN STRATEGIC PLANNING

By Douglas V. Austin and Mark S. Mandula

INTRODUCTION: The authors explain that Situation Analysis is a technique they use to assist clients in determining the strengths and weaknesses of an organization. It is used, they say, in order for management to determine the strengths and weaknesses of the bank (or any type of business) in order to assist in long-term strategic planning. This article outlines how situation analysis operates, how it can apply to any bank and what kind of results can be expected.

THE FIRST step in a *situation analysis* is to review the organizational chart and the job descriptions of the bank. Many banks do not have current job descriptions nor do they have an organizational chart. The first step, then, is to analyze job descriptions and to compile accurate job descriptions of the staff *and the management*.

Furthermore, an organizational chart should be developed. This may not be the chart the bank thought it had nor the organizational chart it wants; but it is the first step in determining the current situation.

The next phase is to develop a series of questions which will be utilized in interviewing members of the board, senior management and selected staff members in order to determine current weaknesses and strengths of the organization. These questions must be tailor made to the institution. They are utilized to draw from interviewees information on the strengths, weaknesses and objectives of the organization.

Areas to be covered by the interviews are extremely important to the evaluation of the bank's current position. They are:

1. The bank's public image.
2. The expertise of the functional areas.
3. The strengths and weaknesses of management and staff.
4. The direction of the board of directors.
5. The goals and objectives of the bank.
6. The marketing and advertising effectiveness of the bank.
7. The leadership of senior management and the board.

Interviews also are utilized to determine communication efficiency among staff members and the degree of communication between management and the board. In addition, analysis should be made of the committee structure used by management and the board and its *perceived* degree of efficiency.

Finally, this interview process also will determine the perception by management and the board of the prospect for successful operation in the future and any financial aspects that might promote or deter profitable operations.

Interviews should take place in a confidential manner. This can be the most difficult stage of the situation analysis. Management may wish to have interviews done by an outside consulting group in order to ensure confidentiality, but at the same time encourage full disclosure by interviewees.

Interviews are designed to emphasize the functional areas of the organization and to probe for its strengths and weaknesses. They should not center on personalities and/or individuals. Nonetheless, personal individual situations will arise. Therefore, it is best to use outside objective consultants to assist in this stage of the analysis in order to obtain the best information with the least possible "political" cost.

Every effort should be made to keep office politics and personal conflicts out of the interviews. Interviewees should be informed that any comments they make will not be listed in the final report under their names. It should be emphasized that all recommendations will be a consensus of those interviewed. Individual comments will not be pinpointed. This is done, of course, to protect interviewees and to encourage a full flow of information.

Interviews are designed to emphasize the functional areas of the organization and to probe for strengths and weaknesses.

As the interview consensus develops, apparent and latent strengths and weaknesses of the bank will begin to appear to the interviewers. These will be transmitted to the board and senior management through a final situation report, accompanied by recommendations.

It should be noted that an efficiency rating of each department head, supervisor or officer will be a by-product of the analysis. Not only will individuals in charge of functional areas respond to their own strengths or weaknesses, but at the same time they will offer similar comments on other department heads, senior management and board mem-

Dr. Douglas V. Austin is professor of finance, College of Business Administration, University of Toledo. He also is president of Douglas Austin & Association, a Toledo financial consulting firm. Mark S. Mandula, a vice president of the firm, has specific expertise in strategic planning, valuation and banking research.

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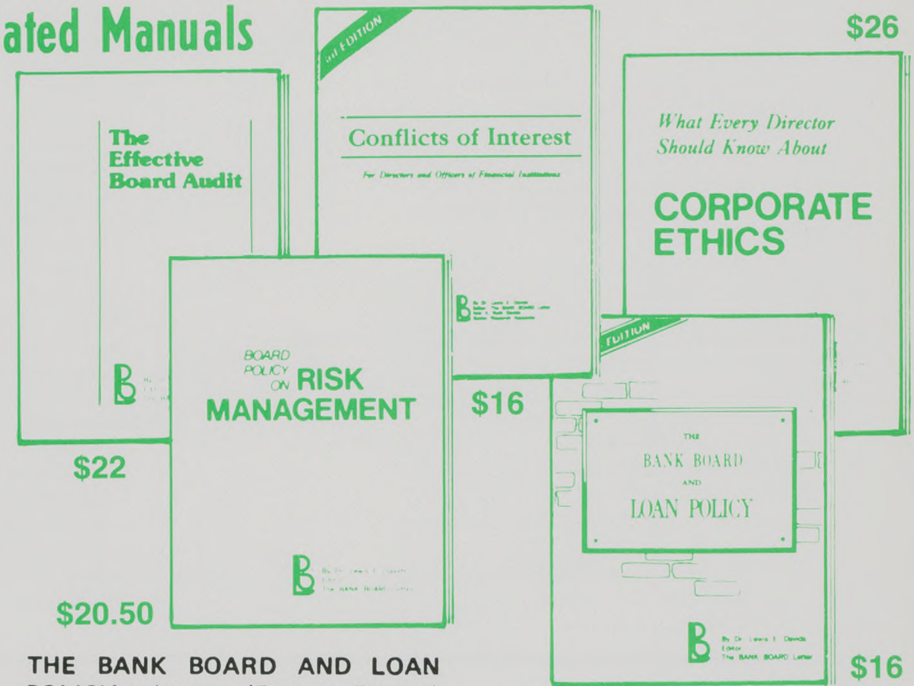

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Situation Analysis Report

1. Executive Summary
2. Introduction
3. Methodology
   - A. Review of Financial Information
   - B. Interview Questionnaires
   - C. Interview Process
   - D. Other Materials
4. Perception of Public Image
   - A. Management and Board of Directors
   - B. Staff
   - C. Customers
   - D. Shareholders
   - E. Public
5. Comparison of Bank with Bank- and Depository-Institution Competitors
6. Marketing and Advertising Appraisal
   - A. Advertising Comparisons
   - B. Marketing Efforts
   - C. Market Research
   - D. Perception by Public
7. Functional Areas of the Banks Appraised
   - A. Lending
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     4. Other Lending Activities
     5. Compliance
     6. Collections
     7. Branch Lending
     8. Credit Analysis and Review
   - B. Deposit Taking Activities
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     2. Customer Oriented Services
   - C. Trust Department
     1. Operations
     2. Customer Solicitation
     3. Administration
   - D. Personnel
   - E. Branch Administration
   - F. Bank Operations
   - G. Senior Management
   - H. Board of Directors
   - I. Accounting
   - J. Auditing
   - K. Special Services, such as discount brokerage
   - L. Committee Structure and Effectiveness
8. Strengths of Bank, Rank by Priority
9. Weakness of Bank, Rank by Priority
10. Communication Strengths and Weaknesses
11. Recommendations — Explicit and Specific
12. Conclusions

bers. The purpose of this cross-fertilization regarding management efficiency is to give senior management and the board an objective appraisal of the bank and to assist in determining where weaknesses can be remedied.

The final phase of the analysis is the report itself. The report — prepared either internally or on a consulting basis — will bring forth a consensus of the positive and negative aspects of the bank. It will make recommendations relating to improvement of the weakest areas, but it also will point to existing excellence in certain functional areas or by certain individuals.

This report is designed to assist the board and senior management as part of the overall strategic-planning process. It will help management understand strengths and weaknesses and to recognize changes that should be made in order to improve the bank's operation.

Keep in mind that it is the final responsibility of the board to determine *what* changes must be made. It has been our experience that in certain analyses some of the major changes proposed concerned senior management. On more than one occasion, key members of senior management have been identified as one of the bank's major weaknesses. Thus, there is a two-edged sword to the analysis: since it does uncover incompetent and/or weak individuals, it becomes a threat to some members of management. Therefore, the board should be aware of the risks as well as rewards of the situation analysis.

The accompanying chart (Situation Analysis Report) shows the format of a recommended analysis report. Each bank will want to vary this report form, but it does serve as an ideal format which can be submitted to the board.

Obviously, the situation analysis is not a panacea. It does, however, provide the board and management with an objective appraisal of the bank's strengths and weaknesses and thus permits more effective strategic planning. The author has utilized this approach as a means of gaining a better understanding of the bank and recommends the procedure highly. In the long run, the situation analysis can save time and money by pin-pointing both strengths and weaknesses. This can assist management in making immediate changes that will improve the overall operation of the bank. ● ●

BONUS BANKING

Denver S&L Nets $88 Million in CDs in 10-Month "Relationship" Program!

BONUS BANKING. A bonus for the customer and a bonus for the financial institution: What could be better?

Silverado Banking — a Denver-based savings and loan — launched a deposit-building program in September, 1983. It ran for 10 months, pulled in $88 million in deposits (69% new money), and was so successful the program had to be abandoned(!) — at least, temporarily.

Bonus Banking represented the first attempt — at least in that marketplace — to cross-sell at the time an account was opened by offering additional amounts of interest (basis points) when a customer added other services to his account; e.g., a fully-funded IRA, checking, debit card, automatic loan payments, etc.

According to marketing representatives of Silverado, Bonus Banking was quite simple. It was a certificate-of-deposit program that rewarded customers not only for larger deposits, but also for additional relationships.

So why was the program discontinued? It fell because of its own success. The program was started without adequate tracking capabilities by data processing. Each account took unusual amounts of time, not only to open but to track later as some customers added to their original deposits.

But John Lohmeyer, senior vice president/marketing, is quoted as saying: "We're going to come back. It's obvious you can't do it (Bonus Banking) without an automated system."

As explained to S&L marketing executives gathered recently in Phoenix, the Bonus Banking plan was rather simple in its concept. Customers were offered a tiered-interest-rate structure for larger deposits as well as "bonus basis points" when they added relationships.

At the time, Silverado offered three six-month CD selections — $1,000 (9½%), $10,000 (9.72%) and $25,000 (9.95%). The customer would earn additional interest (up to 1% for each CD) by being awarded basis points for each additional service added to his CD. For example:

25 pts. — a fully-funded IRA
20 pts. — a money-market account
15 pts. — money market checking
5 pts. — debit card
5 pts. — ATM access card
10 pts. — direct deposit
10 pts. — automatic loan payments
10 pts. — safe deposit
100 basis points

Silverado promoted this program in the usual manner: mass media, direct mail, statement stuffers, some telemarketing by its various branches, customer/handouts, employee buttons and press releases. Television was omitted because of its cost.

And the results, said Dee Ann Betts, assistant vice president, were encouraging, even though the program

	Deposit $1,000 to 9,999	Deposit $10,000 to 24,999	Deposit $25,000 and more
Base Interest	9.50%*/9.96%** Rate Annual Yield	9.72%*/10.21%** Rate Annual Yield	9.95%*/10.46%** Rate Annual Yield
Bonus Interest	up to 1.0%	up to 1.0%	up to 1.0%
Maximum Interest	10.50%/11.07% Rate Annual Yield	10.72%/11.31% Rate Annual Yield	10.95%/11.57% Rate Annual Yield
6-Month Bonus Banking Investment			

Earn Bonus Interest when you establish the following:

Fully Funded IRA	+.25%
Minimum initial deposit to a SLIF or SIMF account	+.20%
Minimum initial deposit to a Money Market Checking account	+.15%
Silverado Banking Card	+.05%
MINIBANK™ Card	+.05%
ACH Direct Deposits	+.10%
Automatic Loan Payment Plan	+.10%
Safe Deposit Box	+.10%
TOTAL AVAILABLE BONUS INTEREST	+1.00%

OPEN A CD and earn additional interest when you open other accounts was the theme of the Silverado Banking campaign. Explanatory chart (r.) appeared in all advertising. Cross-selling was made "understandable" to employees under this program, according to Silverado's marketing people.

was cancelled after 10 months, as explained above.

In the first 30 days, Silverado opened 545 CD accounts; in 90 days, 1,899; and in 10 months, 4,902!

Deposits in the first 30 days totaled \$8 million; in 90 days, \$33 million; and in 10 months, \$88.7 million. This was done from a deposit base of \$218 million as of September, 1983.

Although Silverado was rolling certificates into this program, the percentage of new money attracted was equally encouraging: in 30 days, 52%; in 90 days, 66%; and after 10 months, 69%.

Also encouraging was the number of new relationships started: After 30 days, Silverado had 136 new customers and after 10 months, 933.

The program had several positive aspects, in spite of its being discontinued:

- It made "sense" to banking personnel. For the first time Silverado's contact people really understood the concept of cross-selling and the value of establishing additional relationships.
- It welded the S&L's staff into a better tuned sales force. (The program, incidentally, was augmented with an employee-incentive campaign and as each week of the program went by, increased sales efforts became more obvious.)
- It also forced Silverado to examine its account-opening procedure. Previously, each service had its own application card. This was cumbersome if, for example, a customer wished to enroll in ALL of the services offered. Writing his own name, address, etc, eight or nine times simply exasperated the customer.
- It also forced Silverado to examine its data-processing procedures and CIF (central-information file). Data processing was being handled by a service bureau and it is conceivable, according to Mr. Lohmeyer, that inhouse processing could have solved the program's "tracking problems."

As Miss Betts explained in Phoenix, "We forgot the KISS principle — 'keep it simple, stupid.' "

Silverado probably had too many elements in the "bonus" category. Since customers, on opening a new account, were allowed to return within 30 days to add additional services, those "bonus" accounts had to be tracked manually (without a data-processing plan) and this caused the program to bog down.

Also, Silverado marketing people believe they may have been overzealous in promoting electronic banking — ATMs, direct deposit and automatic loan payments — without a proper data-processing backup.

But promoting relationship banking was proper, according to marketing director John Lohmeyer. "The greater number of accounts a customer has with your institution simply ties him more closely to that institution, and that was our goal," he said. Cross selling on previous occasions may have been a difficult concept to get across to Silverado employees, but this program helped them understand the process more fully.

And as Mr. Lohmeyer stated: "We're going to get back." (We'll watch for the next round.) — **Ralph B. Cox, publisher.**

Before Launching Sales Program, Plan and Prepare Your Staff

ALTHOUGH sales programs are hot in banking circles currently, bankers should resist the temptation to rush into new programs without adequate planning and preparation, says William B. Brady, a Little Rock-based marketing consultant to financial institutions.

A bank's selling efforts must be coordinated with the institution's overall marketing plan and potential personnel problems associated with converting into a sales-driven organization must be anticipated, Mr. Brady says.

"Bankers are no different from anyone else in that they have a natural fear of selling," says Mr. Brady, a partner in the firm of Brady/Reinhardt & Associates. "Everyone has a built-in fear of having to ask for someone's business. This is a new skill for banking. Now, due to deregulation, bank personnel have to be able to ask people, 'Can I be your banker? And if I can't be your primary banker, can I be your secondary banker?' "

To Mr. Brady, a former senior vice president-marketing for FirstSouth, one of Arkansas's largest financial institutions, selling is the primary means banks have for differentiating themselves in today's business climate.

"Ninety percent of the people in this country have never been asked for their banking business," says Mr. Brady. "They are banking where they are for convenience or for a number of other wrong reasons. No one has ever approached them and asked to be their banker."

But if a sales program is to work, it cannot be imposed on an unreceptive staff, Mr. Brady emphasizes. People are the most important ingredient in any selling program, and a bank has to be able to orient its staff so everyone knows that selling is an important element of their jobs.

"Job descriptions have to be changed so that everyone is aware of the sales orientation when they are hired," he says. "They also must be made aware that their productivity will be measured and that their compensation will be at least partially based on how much new business they bring in."

Any selling program must be structured so that high producers are rewarded and relatively unproductive personnel go unrewarded, according to Mr. Brady. The potential rewards must be sufficient to make a significant difference in the lifestyles of the personnel involved. Otherwise, the staff will see the low incentives as a sign of management's lack of commitment to the sales program.

Mr. Brady adds that the system must be set up so that sales can be qualified as well as quantified.

"Anyone can sell a CD if the rates are high enough," says Mr. Brady. "But if you can sell a three-month CD that's 60 basis points off the market rate, you've done a good job of selling. Bankers have to be able to identify and reward new additions to core deposits rather than money that's going to leave as soon as the interest rate changes."

Bankers may find, for example, that a sales person who brings \$2,000 IRAs into the bank may ultimately be dong more to aid bank profitability than the sales representative who brings in a \$10,000 CD that may be gone in a few months. In fact, Mr. Brady says that bankers should "turn on and turn off" a sales incentive just the way they would a water spigot, depending on the assets the institution has coming on stream.

"If you find that you have \$10 million in 10-year, variable-rate money coming on the books," he says, "you could structure sales incentives so you draw in 10-year, variable-rate money. Then when you find that your (\$10 million) bucket is filled and you have enough money to match against that asset, you can turn the spigot off." — **John Cleveland, assistant to the publisher.**

How to Reduce Expense on Real-Estate-Owned Insurance

By DAVE DUFFY

A RECENT MBA survey announced startling statistics on lender foreclosure losses. It was found mortgage lenders lose between $1,000 to $2,500 on individual foreclosure actions. A major expense, often more than $1,000 alone, is insurance.

Once a property becomes an REO/ORE (Real Estate Owned/Owned Real Estate), generally *the lender's insurance problems begin*. Due to the severity and frequency of loss, most carriers want nothing to do with these properties. We've had them vandalized, burned to the ground, bulldozed, and yes, even stolen!

So from a lender's standpoint, insurance can be just another annoyance in the REO paperwork-and-expense-dilemma. There are ways, however, to reduce REO and abandoned-property insurance expenses:

1. *Avoid buying annual policies*. Generally, rates are relatively high on vacant property. Therefore, to conserve cash flow, utilize a monthly reporting form. This enables you to pay only a pro-rata premium per month rather than expend an entire year of premium up-front. Ninety-day policies and reporting forms have similar benefits.

2. *Incorporate REO insurance into your corporate fire-and-liability package or loan-servicing-forced-order program*. This enables you to leverage less desirable property against a more attractive insurance risk. Stand-alone REO insurance programs typically are more expensive and fall into the surplus-lines-insurance market.

The author is senior vice president of Transamerica Financial Systems and Concepts, Orange, Calif. Mr. Duffy is in charge of marketing National Hazard Insurance programs.

3. *Avoid carriers requiring "boarding" as a warranty in the policy*. Boarding can be as expensive as the insurance itself and coverage in most cases, is no longer contingent on this requirement. Boarding typically makes the property show poorly and detracts from the appearance of the neighborhood.

Avoid buying annual policies . . . Avoid carriers requiring "boarding" . . . Consider a property manager . . . Consider higher deductibles.

There are, however, circumstances to use boarding consistent with good judgment and preserving rates. It is a fact of life that economically distressed areas produce the greatest vandalism exposure and losses. The likelihood of loss compared to your deductible, versus cost of boarding, should be considered in high-risk areas.

4. *Consider a property manager on "high-value" REO*. High-value REO can be difficult and expensive to insure. A property manager or caretaker can convert the property's rating basis from vacant to tenant occupied. For those exception cases, we all know highly responsible college students or family members of fellow employees looking to reduce personal expenses on a temporary basis.

This alternative is not feasible nor advisable for all REO, however. High-risk property, as opposed to high-value property, should be professionally guarded or boarded to reduce premiums. Consult your agent regarding the impact of Workers Compensation if a property manager is utilized.

5. *Get the neighbors on your team*. Well-kept properties not only show better but enable you to enlist the support of neighbors to keep an eye on the property. Real estate agents, appraisers and property managers should be urged to get the neighbors "involved." The sooner the police or fire department is called, the smaller is your expense, both direct and indirect.

6. *Require vandalism and malicious mischief (V&MM)* be endorsed to your dwelling fire coverage. After 30 days of vacancy, the perils of vandalism, theft, and glass are suspended. Make sure your fire policy adds at least V&MM. The most severe losses we see are definitely vandalism and fire. Commercial forms have similar restrictions, but the forms applicable are different. Consult your agent or forced-order specialist.

7. *Analyze your need for water-damage coverage*. Water-damage losses also can be significant. Common dwelling fire insurance forms are DP1 or DP3 (basic perils or all risk) to insure REO. The DP1 form does not provide water-damage coverage. Typical losses are from a pipe breaking or dishwasher overflowing, ruining the carpet and baseboards. The DP3 form provides water damage coverage but requires you to leave the heat on in the building (to avoid pipe freezing) or shut off and drain the water supply if the property is vacant. Both of these warranties are especially good advice if you are self-insuring water damage under a DP1 form.

8. *Consider higher deductibles*. Typically, the higher the deductible, the lower the rate. The premium savings should be weighed by the increased self-insured retention.

Also, consider split deductibles. Some programs provide a higher vandalism deductible ($500-$1,000) and a lower all-other-perils deductible.

9. *Don't forget liability coverage*. Fire insurance to cover the loan balance is generally foremost on our minds. However, REOs often are classified as an "attractive nuisance," inviting children to explore, play, and even beat security systems. In spite of trespass violation, you can be held liable if a person is hurt on your property.

Stand-alone REO liability coverage, owners, landlords and tenants (OL&T) is available for around $65 per home, per year, for $1,000,000 combined single limits.

Comparable coverage may be obtainable by adding the REO schedule to your institution's fire and liability package. Make sure you have comprehensive general liability and report the schedule of REO at inception of the policy. Payment and reporting methods differ, but many carriers will allow you to report new REO monthly, quarterly, or on an "audit basis" at the end of the year. Consult your agent.

10. *For the next two years, depend solely on quality insurance carriers*. The insurance industry is extremely cyclical. High interest rates open the underwriting floodgates to generate more cash flow. Interest rates inevitably go down, carriers start losing money (claims and expenses outweigh premium and investment income). Reinsurance markets tighten. Many carriers are forced to cancel higher risk business (REO, bankers blanket bonds, directors and officers liability, etc.) to conserve surplus or face financial difficulties.

The insurance industry now is addressing the aftermath of a uniquely long cash-flow cycle. *The year 1984 was the worst financial year in the entire history of insurance*. Losses after investment income are estimated at *$21 billion!* We will see carrier insolvencies in 1985.

A. M. Best Company publishes "Best's Key Rating Guide" each year to provide financial data and ratings on every major insurance carrier. Loan servicing departments require a minimum carrier rating of their borrower's hazard insurance carrier, typically B X or better. The alpha rating denotes the carrier's grade based on financial, operational and managerial factors, compared to other insurance companies. The Roman numeral designates the capital category of the carrier. A. M. Best's optimum rating is A + XV.

Absolutely avoid carriers with no rating or less than a "B+" rating. Each cycle produces insolvencies and these carriers have the greatest odds of suffering from financial instability. REO is much too risky and you may discover you are actually self-insuring or coinsuring with a weak carrier. Also, consult your agent to make sure "carrier insolvency" coverage is added to your loan service errors and omissions or mortgage impairment policy to protect your main portfolio.

11. *Consult a specialist*. Financial-institution insurance is a field unto itself. Your insurance needs are unique and seldom coincide with standard insurance products.

There are several reputable REO and forced-order specialists throughout the country. The specialist can provide not only the lowest realistic rates on REO but offer manual and automated options designed to simplify your control over these properties. ● ●

Manual Pinpoints Products

A new product-and-service manual is credited with eliminating guesswork on the part of bank employees about product details at First Newton (Ia.) National.

The manual also makes it possible for bank personnel to give faster service, since they can lay their hands on product information quickly. Each employee has a manual at his/her workstation.

When a bank has numerous types of accounts, all with differing regulations and charges, it's difficult to keep them straight, says President E. James Karlin.

The manual was produced by Diane Plumb, customer-service supervisor. She designed it for a small-ring binder with removable pages encased in plastic. The format provides for durability and easy page changing when alterations are in order.

The manual begins with a list of bank officers, directors, branch locations and business hours. Products are listed in groups: checking accounts, savings accounts, retirement accounts, loans and other services.

● The ABA has scheduled its first Western Regional Conference for Consumer Credit for April 28-May 1 in Seattle. It will run concurrently with the 13th annual Western Regional Conference for Bank Card Managers. Both meetings will feature peer-group and concurrent sessions on industry topics, as well as joint sessions for those attending both conferences. For information, contact Debralee Nelson at the ABA, 202/467-4057.

Bank Sales Culture Meeting Planned for June by BMA

A Bank Marketing Colloquium will be held June 23-28 at the University of Colorado, Boulder, by the Bank Marketing Association.

Topic is "Establishing a Sales Culture in Your Bank." The program will include case studies and sessions will be devoted to what a sales culture is, why it's needed and how to create one, bank marketing and sales planning and the job of bank sales management.

Other topics: "Recruiting and Hiring and Matching People and Tasks," "Are Incentives Necessary in Building a Bank Sales Environment?" and "MBO — Joint Goal Setting and Individual Planning for Results."

The colloquium is a first for the BMA. In future years, it will deal with other timely issues facing bankers, the BMA says.

● **"Financial Futures,"** a workshop sponsored by Robert Morris Associates, is scheduled for May 15-17 at the Palmer House, Chicago. It's designed to instruct senior commercial lenders and loan managers how to use financial futures to control and manage financial risks in commercial lending and expand their options for accommodating customers. Information is available from RMA Registrar Jacki Winans, at 215/665-2850.

How to Create "Ties" For The Bank With Influential Young People

By John Donald Wright

ABOUT 15 years ago, Lakewood Bank (now Allied Lakewood) in Dallas recognized the need to establish ties with the young men and women in the community before they became strongly — perhaps irrevocably — attached to another bank. How could the bank gain their interest, utilize their expertise and, at the same time, give them something of value that would justify their commitment to the bank?

Colonel R. G. Storey, chairman at the time, who also was dean of the law school at Southern Methodist University, one of the nation's premier attorneys, a writer and adviser to U. S. presidents, mentioned the successful use universities have made of development boards. These generally have been composed of young, influential graduates. This idea was the beginning of what was originally called the development council.

Nearly every community has influential young men and women who have not been in business long enough to have acquired the stature that would recommend them to be members of a bank's board. Most of these young people are labeled "comers"; yet many will fail for one reason or another to achieve their full potential. This is one of the hazards of naming young and unproved men and women to the board.

Also, while a bank may recognize the need for young people on its board, whenever a vacancy occurs, generally there are several older, more experienced individuals to consider. When getting down to measuring qualifications, it is seldom that a person in his/her 30s can be said to be at that moment the equal in judgment and influence of a middle-aged business or professional person who has achieved a position of success in his work and influence in the community. Consequently, few young people are added to bank boards, because the immediate return is not as great, and the risk is higher than that of naming an established person.

Among the young "comers" in a community are people who, in just a few years, will be the mayors, civic leaders, heads of businesses, etc. They often can make a great contribution to a bank.

Yet among the young "comers" are people who, in just a few years, will be the mayors, civic leaders, heads of businesses, people with political, social and cultural influence and entrepreneurs who often can make a great contribution to a bank.

The first development board consisted of six persons. They were handpicked from among the most promising young people with whom the bank had customer contact — although by no means were they exclusive customers. One of the first things management sought to do in the development board was to spread the bank's geographic representation and influence.

> This article is taken from the book, "The Effective Bank Director," by John Donald "Don" Wright, Pres., Don Wright Associates, Inc., Dallas-based bank-consulting firm.
>
> "The Effective Bank Director" (R1565-2, cloth, $29.95) is available from Reston Publishing Co., 11480 Sunset Hills Rd., Reston, Va. (800/336-0338).

We were careful to structure this group so that its contributions to the bank would be worthwhile in themselves. If some of its most oustanding members later were named bank directors, so much the better. However, the bank should not in any way be limited in choosing new directors. So it was important that no one look on the development board as a training ground. Otherwise great disappointments would occur. The development board was and is its own thing, separate and important in its own right. But how could the development board be made something of real stature, valuable to its members as well as to the bank?

Bank's Contribution. We felt that we must do our part first. These young men and women are promised an insight into the operation of a financial institution and, through that, into financial aspects of the economy. At regular monthly meetings, we set out to provide an overall view of what the bank did for its community, customers, employees and stockholders and how it was done. We regularly gave an analysis of the current economic situation as we saw it and how this influenced what we were doing in the lending and bond portfolio areas.

Most of these young people seized this opportunity eagerly as something that would benefit them in their business and professional lives. It also gave them added stature in the community. This was augmented when we gave each a wall plaque that could become a source of conversation and recognition between development-board members and their clients, customers and friends. These plaques provided an opportunity for board members to talk about the advantages of banking at Lakewood.

Board's Contribution. We always were candid in saying the main objective of the development group was to help generate business for our bank by recommending the bank whenever a member had an appropriate opportunity. On many occasions, we also called on members who had particular expertise in such areas as mortgage banking, real estate or investment banking to advise us on what course the bank should take.

They serve to help us in contact with our community. We also have asked the development board to give us candid input. How is the bank perceived? What should it be doing that it is not? Generally, the development board will be more openly critical than directors would be under the same circumstances.

Development-board members are paid a small fee for their attendance at meetings and, during the year, provided social activities, which have been happy times for both members and staff. Over the history of the development board, half a dozen directors have come to the senior board from that group. Each was a known quantity when elected.

Board Term. From the beginning, it seemed desirable to let the development board chart its own course. The name itself, development board, was changed from development council at the board's suggestion. Establishing time and length of meetings, procedure for election of officers, creation of committees (when they were needed) and especially setting a suggested tenure were done on recommendation of members. A person joining the board is asked to serve two years, with officers staying for a third year. This time frame gives good exposure to what we are doing, provides us with an opportunity to bind ourselves to members and their future and to utilize their influence, but does not wear them out. Earlier, we found that development-board members who served year after year tended to lose interest because they started going back over the same ground. It was important to have an established term as a way to recognize that enough is plenty without hurting any feelings.

Members of the development board have helped us in contacts with the community. We also have asked the board to give us candid input. . . . How is the bank perceived? . . . What should it be doing that it is not?

The development board is one of the most productive ideas to come our way. Not only current members, but "graduates" feel a kinship for the bank. Generally, we have their loyalty and their business for many years. Their effectiveness depends on selection of outstanding prospects and the amount of attention paid to the members after they are appointed. Certified public accountants and other professional people have been among the best members. Many members have become among our best customers and have opened opportunities for the bank in their industries.

But not all who are selected will work or be effective. Probably 25% have not. Those not interested tend to disengage of their own accord, and little harm is done. The proportion of success has increased dramatically with more careful selection.

In community affairs, where the bank needs support and influence, it has not always been easy to get help from directors, who already are engaged in all they can handle. The development-board member, on the other hand, is eager to make new contacts and will attend luncheons and other affairs when the bank needs representation. In some relations with local governments, a development-board member can be effective. This is because the development board is correctly perceived as broadly representative of the whole community.

But, all in all, the name is *development* board. At a dinner of outgoing and incoming members, an accountant who had served on the group for three years said: "I am responsible for 27% of the trust department's corporate pension and profit-sharing plans." What could be a stronger example of what these young people have meant to us?

Like any other bank activity, it is good to continue to ask, "Is this worthwhile?" If just a few members of the development board produce some good business, the board will have more than paid its way. But more than a few should be productive. It is constantly necessary to cultivate the development board as a source of prospects, referrals and influence. Some good officer or officers should work with members to keep their interest high. Feedback on board productivity and individual members will help. But many peripheral benefits can be obtained as well.

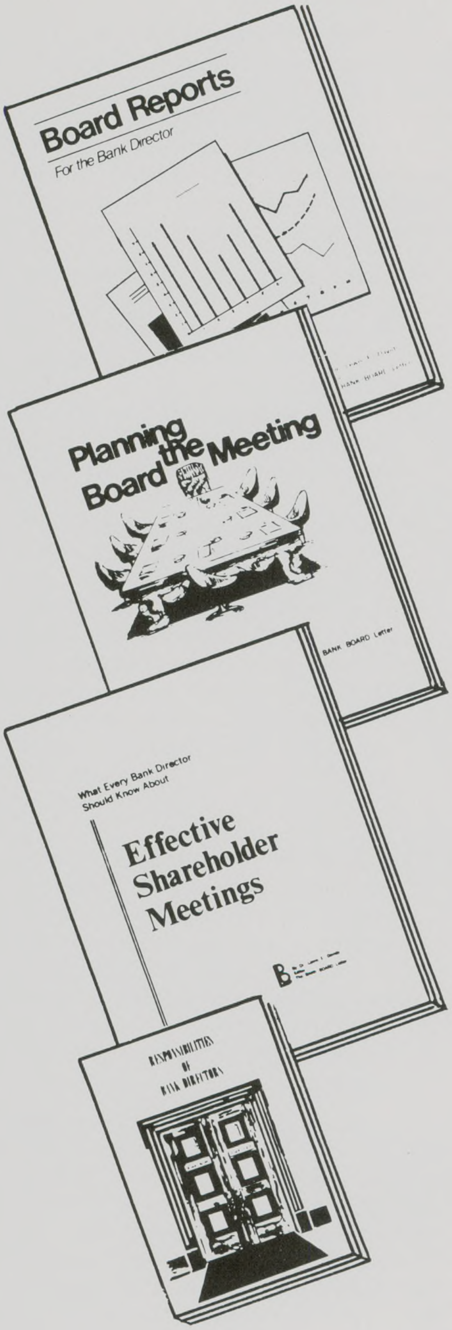
Some banks have used development boards to sponsor special activities, such as a monthly luncheon bringing prospects to the bank. And, as one CEO pointed out, it is necessary to keep some productivity reports so the member can answer the question, "How am I doing?" To do this, the member should know what is expected of him.

A development board will be productive for the bank and its board members in proportion to the amount of effort put into it. ● ●

● **The Missouri Valley Chapter** of Robert Morris Associates will hold its Spring Conference May 2-3 at the Alameda Plaza Hotel, Kansas City. Bankers from a seven-state area are expected to attend the conference, which will be hosted by the Kansas City Group, one of six in the Missouri Valley Chapter. Chapter president is Robert C. Matthews Jr., senior vice president, Commerce Bank, Kansas City.

Four Fact-Filled Manuals for The Bank Director

Every Director Should Have a Copy of Each One



BOARD REPORTS . . . for The Bank Director **$26.00**

More effective board meetings begin with effective reports. This 200-page manual will help you determine the "quantity and quality" of monthly reports needed by directors so they (and management) can make proper decisions. Included are examples of reports most needed by directors who want to create policies that lead to prudent management. Contains information on many topics such as effective reporting. . . reports to shareholders. . . report of examination. . . bank liquidity and capital analysis. Manual illustrates various formats board reports can take. . . from oral to detailed graphic presentation. Author: Dr. Lewis E. Davids.

PLANNING THE BOARD MEETING **$10.00**

This 64-page booklet provides some workable agenda, suggestions for advance planning and also lists types of reports a board should receive monthly and periodically. It emphasizes the need for informing the board as *quickly* and concisely as possible. Contains a chapter outlining a "workable" board meeting, another on visual aids for the board meeting. Also contains a model for minutes of the board, plus sample forms to communicate status of bank to the board. An excellent "companion" to **BOARD REPORTS.** Author: Dr. Lewis E. Davids.

EFFECTIVE SHAREHOLDER MEETINGS **$16.00**

Before your next shareholder meeting, get ready for gadflies, activists and others who may be planning to disrupt your program. Here's how to anticipate damaging incidents, prepare tested countermeasures, turn potential disasters into a plus for your bank. Details include handling of unusual actions (such as replacing a CEO) – political contributions, laws and regulations directors may unwittingly break, stock purchases, sales and disclosures, proxy provisions, etc. A checklist of meeting details. Promoting attendance. Stockholder proposals. Materials to mail. Agenda and procedural rules. This book is a tested "how-to" of Annual Meetings from inception to final reports, including personnel responsible for each step. 96 pages of "must" reading for chairmen, directors and officers involved.

RESPONSIBILITIES OF BANK DIRECTORS **$11.00**

This book is "right" for today's banking problems. Due to the economic influence banks have on their communities, the rapid growth of HCs and the ever-growing "consumer" movement, directors must know what is expected of them and their bank in terms of responsibilities to depositors, shareholders and the public. This manual examines recent court decisions, investment return, continuity of management, long-range planning, effects of structural changes on competition, and more. Author: Raymond Van Houtte, president, Tompkins County Trust Co., Ithica, NY.

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(Please send check with order. In Missouri, add 4.6% tax.)

Personal-Banker Enhancement Aim of Centerre Sales Thrust

AN INTENSIVE sales-training program to enhance its personal-banker program is a major thrust in the sales area for Centerre Bancorp., St. Louis, for 1985. The program will be system-wide throughout Missouri.

The personal-banker program was established at Centerre more than a decade ago, according to Terence G. McCarthy, vice-president/director of affiliate marketing at the HC. The program is designed to "meet the complete banking needs of each retail customer."

Mr. McCarthy says the personal-banker program is more important than ever because banking faces increased competition from a variety of sales-oriented financial institutions.

Centerre is developing a standard training program for personal bankers in each of its 19 affiliate banks. Goal of the program is to provide retail banking staffs with product knowledge and sales skills that will allow them to determine and meet the banking needs of retail customers.

Goals of the program include:

- Development of a comprehensive and consistent sales-training system designed to meet the needs of Centerre and its customers.
- To increase individual productivity and professionalism by ensuring that personal bankers have the information and skills to use Centerre's resources to satisfy customer needs and to develop customer relationships to their full potential.
- To develop a sales-management system in which line managers develop the feedback, monitoring, reinforcement and team-building skills necessary to integrate selling skills into daily business practices and activities.

Maritz Communications Group conducted in-depth interviews with Centerre staff members in six affiliate banks that represent the demographic and geographic markets served by the HC's affiliates, Mr. McCarthy says. Interviews ranged from new-account clerks and customer-service representatives to supervisors and senior management. An analysis of the interviews provided Centerre with baseline information about the HC's present approach to the retail market as well as guidance on how to better meet customer/market needs.

"We also visited other banks with national reputations for leadership in personal banking," he says, "to determine the best methods to incorporate selected aspects of their approaches to our program."

The result of the research was a personal-banker training model designed to determine what participants know and have experienced and to shape this information by adding, deleting or refining it so participants have a framework of quality and consistency against which to measure their skills and performance.

The model consists of a problem-solving exercise, presentation of a model for the required skill, practice in using the model, coaching and application of the skill throughout the program, Mr. McCarthy says. Role playing also is utilized.

Three levels of personal banker will be established as the new approach is implemented:

- Junior personal bankers to perform basic customer service, under supervision by personal bankers.
- Personal bankers to provide the spectrum of deposit-gathering and consumer-lending services.
- Personal financial counselors to specialize in new-business development. These individuals are assigned a balance of lending and deposit-gathering responsibilities and work toward predetermined sales objectives. They are trained as financial planners.

Personal-banking trainers have been appointed and are developing a curriculum and are selecting a sales-training organization. Training is expected to begin in the third quarter and will involve about 100 staff members in the first nine-month course. Advanced courses will be offered to cover business development, consumer lending and financial planning.

"We anticipate that our network of personal bankers, providing one-stop, personal relationship banking, will ensure the continuing strength of our statewide retail banking system," Mr. McCarthy says. ● ●

● **Tom Horgan** has joined Littlewood, Shain & Co., Wayne, Pa., as a senior vice president/regional sales manager serving the upper Midwest and New England. He formerly was with Mastercard International. Harry Miller, Richard Young and Donald Van Slochem have been elected senior vice presidents.

Candidates

(Continued from page BG/7)

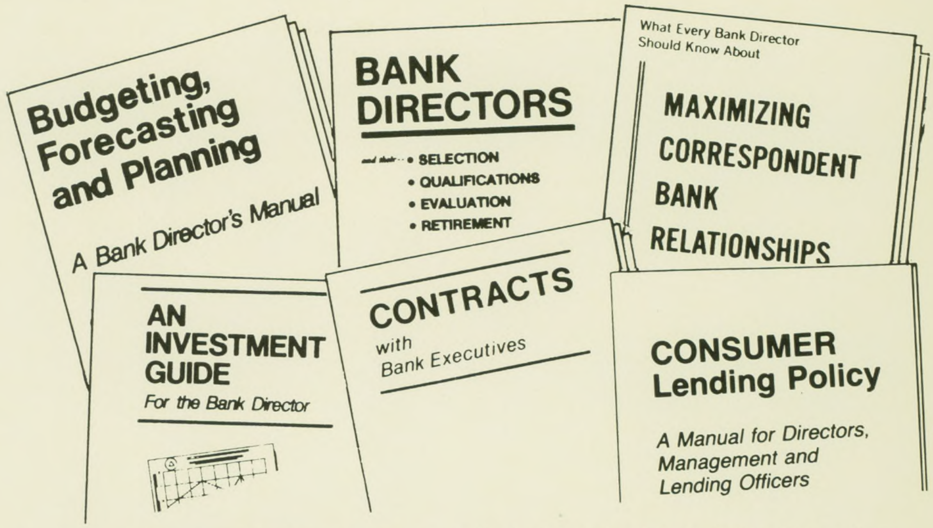
The final performance ranking of the 33 offices in this formal analysis concluded that, while seven (or 21%) of them were problem branches, five (or 15%) were in the "serious problem" category, requiring a closing. There was no common profile for the five offices recommended for closing:

- Three of the five offices were leased and two were owned;
- Three were opened during the 1960s, and one each during the 1950s and 1970s;
- Total deposits ranged from $5 million to $11 million at each branch, for a combined level of $38 million;
- The number of employees in each ranged from four to 11, with a total of 33;
- The five full-service offices varied in size from 1,400 to 2,900 square feet, for an average of 2,200;
- Direct annual operating expenses for salary and benefits, net occupancy and other expenses ranged from $117,000 to $240,000 for the branches, for a grand total of $828,000; and,
- One of the five offices was in an inner-city area, one was near an inner-city area and the remaining branches were in middle- or upper-income areas. Several of that institution's other offices in or near inner-city areas were not in the problem or serious-problem category.

Because there was no common profile for the five "serious problem" branches, some of the initial feelings and "gut reactions" of senior management proved to be incorrect, says Dr. Thomas. For example, many branches that they felt were in this category were not; other non-locational branch performance determinants needed modification. Conversely, some of the branches that senior management thought were "average" performers turned out to be branch-closing candidates.

"Our client acted upon our advice," Dr. Thomas states, "and disposed of those five offices in accordance with our 'branch closing plan.' Now, with approximately two years of experience with those five closed branches, that institution is reporting a good overall deposit retention rate of approximately 75%, well in excess of our conserva-

FOR YOUR DIRECTORS — TO HELP THEM HELP YOU



No. 51 BUDGETING, FORECASTING and PLANNING

Every bank must know WHERE it is going and HOW to get there! Management should "map the course," but directors should play a role in establishing goals.

This manual supplies directors with tools they need to steer bank policy in the best direction. Chapters help directors establish "missions" statements, trace stages of a planning process. Details HOW to perform financial planning, how to plan for new services . . . how to "forecast."

Techniques used by successful banks are included, along with sources of information and a bibliography of references.

Price — $31.00

2-5 copies $27.50 ea. 6-10 copies $26.00 ea.

No. 101 DIRECTORS . . . Selection Qualifications, Evaluation and Retirement.

This 42- page manual answers key questions concerning director selection, retention and retirement. Special section: the prospective director and how he should be expected to contribute to the bank's success. Includes a rating chart.

Manual also contains a section posing questions that a prospective director should ask himself before he accepts a bank board post.

Another section deals with the sensitive nature of director retirement. Age can be a guide but not an overriding factor in this decision.

Price — $10.00

2-5 copies $8.00 ea. 6-10 copies $7.50 ea.

No. 210 MAXIMIZING CORRESPONDENT BANK RELATIONSHIPS

Directors aren't "born correspondent experts, but you can help them catch up in a hurry, and it's profitable for you to do so. This 100-page manual covers all facets of correspondent banking. Clearings and float analysis . . . loan participations . . . lines of credit . . . foreign exchange, etc. This manual also helps directors APPRAISE correspondent services — to make certain you receive maximum service at a competitive price.

The manual also discusses several federal regulations, including the constraints imposed on "insider" bank lending by FIRA. A MUST for every bank director.

Price — $16.00

2-5 copies $13.00 ea. 6-10 copies $10.00 ea.

No. 220 — AN INVESTMENT GUIDE For the Bank Director

This 192-page manual discusses the merits of directors paying closer attention to investment policies.

Poorly thought-out-and-executed investment policies can place a bank's capital in jeopardy, particularly during a period of rising interest rates.

Should the board "intrude" upon management prerogatives of the CEO in the administration of the investment portfolio? No, says the author, However, a written policy, structured around the bank's deposit and loan "mix," can be comforting during rising or falling interest rates.

As an aid to management and the board, the author presents numerous investment policy statements presently in use by recognized well-run banks.

Price — $26.00

2-5 copies $23.00 ea. 6-10 copies $20.00 ea.

No. 230 — CONTRACTS WITH BANK EXECUTIVES

In many banks, salaries, bonuses and fringe benefits of top management are covered by contracts. Since many contracts extend for periods of five years they call for careful consideration.

This 48-page manual discusses the role of the board's Compensation Committee in determining the nature of such contracts. The author suggests that "performance" can and should be the key in rewarding the executive. Charts and worksheets are included to help the committee arrive at "fair and equitable" prerequisites as motivating factors for the bank executive.

An aid to writing a NEW contract or in REVIEWING existing contracts.

Price — $12.00

2-5 copies $9.00 ea. 6-10 copies $8.50 ea.

No. 240 — CONSUMER LENDING POLICY

Bank directors don't get involved in lending, but they do help formulate consumer-lending policy. Therefore, they must be familiar with the dramatic increases in personal bankruptcies and new policies called for.

This 208-page manual includes an array of consumer loan policies in force at various-sized banks; provides checklists of topics on installment-credit policy, procedures and policy components; model application forms; Federal Reserve regulations; cost analysis of consumer operations, plus a bibliography of reference materials.

Price $26.00

2-5 copies $22.00 ea. 6-10 copies $20.00 ea.

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tively estimated rate of about 50%."

The bottom-line impact of those five closings is quite obvious, Dr. Thomas explains. The five closed branches represented 15% of all of that institution's 33 offices, but only 7% of all deposits. With these closings, that institution has eliminated 100% of its $828,000 direct annual operating expenses associated with those offices and their 33 employees, but still retains 75% of the deposit benefits of those offices.

The BRANCHPLAN Subsystem II study that was simultaneously conducted for this institution contained various recommendations for proposed branch and ATM additions of different types, and many of these have been and continue to be implemented.

"We believe that this comprehensive delivery system planning study," says Dr. Thomas, "has had something to do with the fact that this institution has had at least a 1% return on assets for the last several years." ● ●

Shareholders' Queries Booklet Offered by Peat Marwick

Questions likely to be asked by shareholders are outlined in the 1985 edition of "Shareholders' Questions," published by Peat, Marwick, Mitchell & Co.

The booklet includes 314 likely questions, including the following: Are there any specific plans for acquisitions in the near future? Is the company a target for a takeover? What is the company doing to identify such attempts? What are the plans to prevent unfriendly takeovers?

Peat Marwick has been publishing shareholders' questions booklets for 11 years to assist corporate management and directors anticipate questions that might be asked by shareholders at annual meetings.

A spokesman said the CPA firm expects questions to focus on the increasing possibility of mergers/acquisitions, the effect of the current economic outlook on company operations and corporate safety procedures as well as the quality and timeliness of information given to shareholders.

Copies are available from any Peat Marwick office.

● **Bunce Corp.** Dennis Kopp has joined this firm's corporate operation in St. Louis as a senior estimator. He previously was with Kozeny-Wagner, Inc., Bank Building Corp. and Fruin-Colnon Corp., all in the St. Louis area.

NEW PRODUCTS

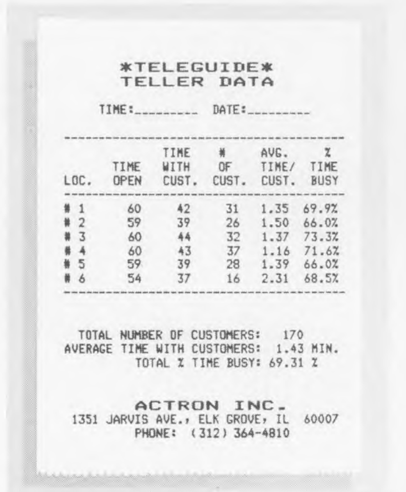
● **A. Rifkin Co.** Courier sacs with clear vinyl side panels are available from this firm. See-through panels permit users to assure that all material has been removed or to show clearly that the sac is not transporting cash. Sacs are avail-

able in two sizes and materials. Other styles include fire-shielded and non-lock designs. Write: A. Rifkin Co., 1400 Sans Souci Parkway, P. O. Box 878, Wilkes-Barre, PA 18703 or phone 800/358-7300.

● **Security Engineered Machinery.** This firm has introduced a crosscut departmental or general-office shredder that permits users to attach an external

bag for tabletop or high-volume shredding or use an optional cabinet for internal shred collection. Up to 20 sheets of paper can be destroyed at a time. Write: Security Engineered Machinery, 5 Walkup Drive, Westboro, MA 01581.

● **Actron, Inc.** This firm offers a new management-information printout that provides a bank with data about its teller line. It provides individual teller totals, such as number of customers served, average time spent with each customer and percentage of time open that tellers were busy with customers. It also gives totals for the entire teller



TELEGUIDE
TELLER DATA

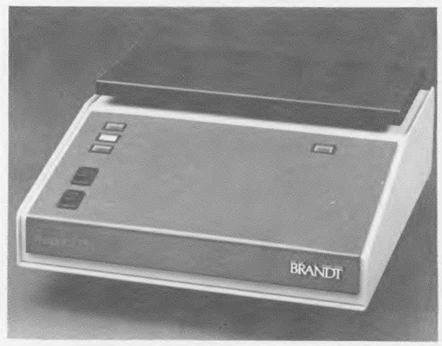
TIME:________ DATE:________

LOC.	TIME OPEN	TIME WITH CUST.	# OF CUST.	AVG. TIME/ CUST.	% TIME BUSY
# 1	60	42	31	1.35	69.9%
# 2	59	39	26	1.50	66.0%
# 3	60	44	32	1.37	73.3%
# 4	60	43	37	1.16	71.6%
# 5	59	39	28	1.39	66.0%
# 6	54	37	16	2.31	68.5%

TOTAL NUMBER OF CUSTOMERS: 170
AVERAGE TIME WITH CUSTOMERS: 1.43 MIN.
TOTAL % TIME BUSY: 69.31 %

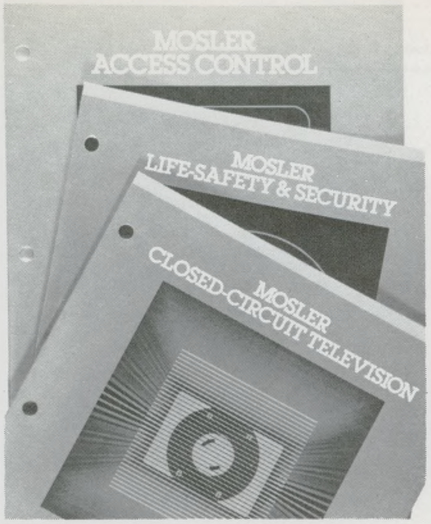
ACTRON INC.
1351 JARVIS AVE., ELK GROVE, IL 60007
PHONE: (312) 364-4810

line. Printer information is based on time spent with customers rather than number of transactions completed, enabling managers/supervisors to arrange teller staffing to meet customer traffic patterns. It also helps in evaluating individual teller efficiency. Write: Actron, Inc., 1351 Jarvis Ave., Elk Grove Village, IL 60007.



● **Brandt, Inc.** The Model 2751 currency scale now is available. It's a compact unit capable of verifying strapped currency without removing the strap. Suspect straps are identified by "over" and "under" signals. Write: Brandt, Inc., P. O. Box 200, Watertown, WI 53094.

● **Mosler.** Three new electronic security brochures have been published by this firm. One is entitled "Mosler Access Control" and describes the system that admits employees, excludes intruders and grants or denies access to sensitive areas. "Mosler Closed-Circuit Television" identifies elements that may be used in a CCTV system and shows how security specialists can combine these elements to create a CCTV system that solves security problems. The third brochure, "Mosler Life-Safety and Security," illustrates the firm's proprietary security communications systems. Based on a



"building-block" concept, the systems may tie together several security subsystems, providing early warning alarms against fire, theft, unauthorized entry and other situations. Write: Mosler, 1561 Grand Blvd., Hamilton, OH 45012.

• **Cummins-Allison Corp.** A new particle-cut paper shredder is available from this firm — the model CA-38. The unit meets government security specifications by producing a particle size of 1/32″ × 1/2″. Table top in size, it weighs 74 pounds and is portable when placed on an optional stand. It's designed for low-to-medium-volume applications. A CA-48 shredder is available for heavier volumes. Write: Cummins-Allison Corp., 891 Feehanville Dr., Mt. Prospect, IL 60056.

• **Automation Papers Co., Inc.** A Tyvek® envelope called "Save-A-Card" designed to protect bank customers' ATM cards has been added to this firm's line of paper-supply products. Envelopes can be custom imprinted with a bank's logo or message to correspond to ATM cards and receipts. Write: Automation Papers Co., Inc., 6700 Guion Rd., Indianapolis, IN 46268.

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NEWS
About Banks & Bankers

ILLINOIS

New board members at Continental Illinois Corp. and Continental Bank, Chicago, are Archie R. Boe, John H. Johnson and Leonard H. Lavin. Mr. Boe is former chairman, Allstate Insurance Co., and former president, Sears, Roebuck & Co.; Mr. Johnson is president/publisher, Johnson Publishing Co., Inc.; and Mr. Lavin is chairman/CEO/president, Alberto-Culver Co.

Marine Bank, Springfield, has appointed R. David Bray to vice president/trust officer, Judith A. Eyres to assistant vice president and Ronald D. Winings to comptroller. Mr. Bray formerly was with a law firm in Indiana; Ms. Eyres joined the bank in 1982; and Mr. Winings has been acting comptroller since February, 1984.

Elmhurst National has promoted Donald G. Adams, Debra A. Arenson, Donna M. Peltzer and Mary A. Sucherman to assistant vice presidents. They joined the bank in 1983, 1980, 1976 and 1977, respectively.

Drovers Bank, Chicago, has appointed Howard H. Elliott vice president/controller and promoted David Green to vice president/general counsel. Mr. Green previously was associate general counsel and has been succeeded by Carol A. Gloor, who is new to the bank.

Barry F. Sullivan, chairman/CEO, First Chicago Corp. and First National, Chicago, has been elected to the board of the Chicago Fed as a Class A director. His term runs through 1987.

INDIANA

James M. O'Dwyer has joined Irwin Union, Columbus, as vice president/trust officer and Jay A. Beaman has been promoted to assistant vice president. Mr. O'Dwyer formerly was with Purdue National, Lafayette, and Mr. Beaman joined Irwin Union in 1977.

Gary L. Lindenmayer has been promoted to senior vice president/marketing director at National Bank, Greenwood. He joined the bank in 1969. Also promoted were Wesley R. Klutts to vice president/investment officer and F. Robert Alford and Laura J. Catt to assistant vice presidents.

CommerceAmerica Banking Co., Jeffersonville, has opened its first new banking location since the firm was formed recently following the merger of Citizens Bank and Clark County State. The new banking center is in a redevelopment area of Jeffersonville at 14th and Spring streets known as the Commons.

IOWA

Community Savings Bank, Edgewood, has promoted Steven A. Brady from vice president/cashier to senior vice president/director, Tim Brown from assistant vice president to vice president/agricultural-loan officer and Jacqueline Johnson from assistant cashier to cashier/data-processing coordinator.

Dennis R. Wood has been appointed executive vice president, Bankers Trust Co., Des Moines. He formerly was president, Packers National, Omaha, Neb., and, before that, president/director, Hawkeye Bank, Eldora. He is a former president, Omaha Bankers Association.

Valley National, Des Moines, has elected H. Peter De Rosier vice president/correspondent banking division and M. Erwin Jansma vice president/lending division. Mr. De Rosier formerly was vice president/correspondent head at National Boulevard Bank, Chicago, and Mr. Jansma formerly was with the Small Business Administration.

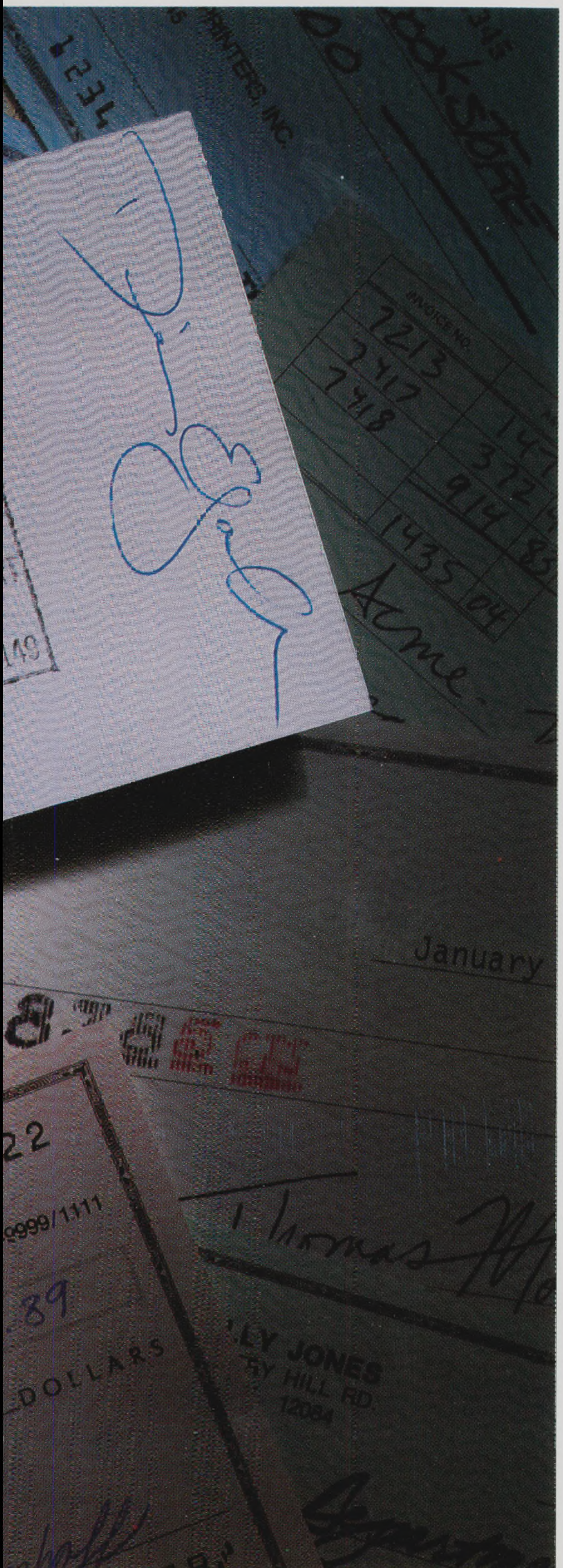
MICHIGAN

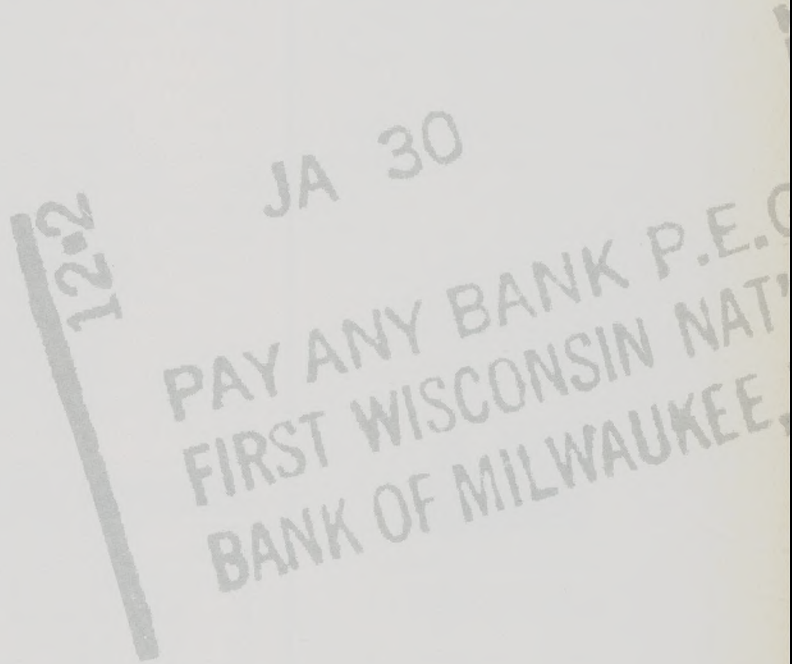
John A. Simonson has been appointed executive vice president/chief financial officer at Comerica, Inc., and Comerica Bank-Detroit. He has been with the corporation since 1969, most recently as senior vice president/treasurer. In other action, David A. Houle and Eliot R. Stark have been appointed first vice presidents of the HC, and Robert R. Hebard and James

ACCELERATED CHECK COLLECTION

Dan Heine
President and
Chief Executive Officer
State Bank of Freeport
Freeport, Illinois

FIRST WISCONSIN





Side by Side. When your bank clears two million checks a year, top-quality check collection is vital. Dan Heine, president and chief executive officer of the State Bank of Freeport, found the services his bank needed at First Wisconsin.

Our accelerated collection dramatically improved availability for the State Bank. And our pricing brings them savings on every item we process.

"Working with First Wisconsin has helped us improve profitability," Dan says.

For impressive check collection, come to First Wisconsin. Call us at (414) 765-4459 to find out how our experts can help you streamline operations and increase profitability.

You'll want our stamp next to yours.

WHEN PERFORMANCE COUNTS.

E. Lake were named vice presidents. Promotions at the bank included Robert B. Kipp, first vice president, and Harry Marchand, vice president. Gregory E. Hooks was named president, Comerica Bank-Kentwood.

Tony Thompson has been elected assistant vice president at First of America Bank-Michigan, Kalamazoo. He joined the bank in 1978.

MINNESOTA

Beth R. Taylor has been elevated to assistant vice president/investments at Independent State Bank of Minnesota, Minneapolis. She joined the bank in 1983.

Jacquelyn A. Brown has been promoted to marketing officer at Western State, St. Paul. She has been with the bank since 1981 and joined the marketing department in 1982.

Edward O. Hanson Jr. has been named vice president/cashier at Marquette Bank of Columbia Heights. He formerly was audit officer at F&M Marquette National, Minneapolis.

Lloyd P. Johnson has been elected president/CEO/director of Norwest Corp., Minneapolis. John W. Morrison continues as chairman. Mr. Johnson comes to Norwest from Security Pacific National and Security Pacific Corp., Los Angeles, where he was vice chairman and member of the office of the chief executive. He is a past president of the California Bankers Association and the San Francisco Clearing House. He is a Minneapolis native.

OHIO

David A. Daberko has been elected president BancOhio National, Columbus. He continues as executive vice president, National City Corp. He joined National City Bank, Cleveland, in 1968 and has been executive vice president/corporate banking for both that bank and the HC since 1982.

Robert J. Morgan has been elected senior vice president/trust investments and chief economist at Toledo Trust. He previously was with First Source Bank, South Bend, Ind.

Roger L. Ricker has been elected senior operations officer at Central Trust of Northeastern Ohio, Canton. He formerly was operations officer and joined Central Trust in 1978.

Dennis M. Lott has been named president of BancOhio National Bank Washington Court House/Greenfield Area. He entered banking in 1969 and has been an area president since 1981.

WISCONSIN

Steven H. Smith has been promoted to senior vice president, First Interstate Corp. of Wisconsin, and First Interstate Bank, Sheboygan. He manages investment portfolios for all First Interstate banks and is responsible for money-market and fund-acquisition activities and asset/liability management. He joined the firm in 1983.

Marine Corp., Milwaukee, has promoted operations department division managers Grace M. Larsen, Thomas K. Schober and A. Donald Shadid to vice presidents. They joined the bank in 1958, 1950 and 1979, respectively.

Gregory M. Marx, vice president, F&M Bank Menomonee, has been appointed to a new position as manager, commercial-business development. The position was created to provide more control and direction of marketing commercial loans and services. Mr. Marx joined the bank in 1983.

First Wisconsin National, Eau Claire, has promoted President Lloyd O. Johnson to chairman/CEO and Executive Vice President Richard A. Hansen to president/chief administrative officer. Mr. Johnson joined the bank in 1942 and Mr. Hansen has been with the bank since 1977.

Valley Bank, Appleton, has promoted David J. Gitter to senior vice president/lending. He joined the firm in 1975 and administers the bank's commercial, real-estate and consumer-loan portfolios.

Valley Bancorp., Appleton, has named Charmaine Moraga vice president/corporate marketing. She has been with the firm for seven years and is responsible for development, implementation and review of corporate-wide marketing programs and strategies.

SALES MANAGER:

A New Title That Reflects Managements' Awareness of Importance of Banks Becoming Sales Driven

SALES MANAGER. That's a relatively new title in banks. And it's been appearing in bank directories in greater numbers in recent months.

What is a sales manager? Usually an individual with a strong background in salesmanship who has been placed in charge of coordinating, monitoring and evaluating sales efforts in a banking organization.

But the title stands for much more — an increasing awareness of the fact that banks must sell their services to the corporate and retail sectors. Banks no longer can be content to have the business come to them, they must go out after it.

In many banks, the concept is so new and startling that the dust hasn't yet settled sufficiently to make a judgment on its success. Other banks have had their programs in place long enough to have gained a clear view of what they're doing and where their program is headed.

Several bank programs are discussed in this article.

* * *

Hawkeye Bancorp., headquartered in Des Moines, Ia., is a veteran when it comes to a well-planned sales effort. One reason its program is going so well is that it's operating in a friendly climate — at least, as far as state banking statutes are concerned. Iowa law permits state-chartered banks to have full-line insurance and real-estate agencies.

Hawkeye Bancorp has established what it calls "Investor Centers" in 30 of its 36 banks. The centers are modular structures in bank lobbies that offer investment and insurance services. The centers are manned by specially trained personnel hired by each individual bank.

Each of the banks has its own sales manager charged with coordinating all sales activity in the bank, including those carried out by Investor-Center personnel.

"The job of the sales manager is to coordinate the sales efforts of the various departments located in the bank. A formalized marketing plan, including cross selling and sales-tracking systems, is a key ingredient to success," says Stephan L. Jones, senior vice president/corporate development, Hawkeye Bancorp. Each Hawkeye bank offers a wide array of services to customers, including discount brokerage, mutual funds, sweep accounts, universal life insurance, IRAs, municipal bonds, property/casualty insurance and real-estate sales. He describes the Investor Center as the closest possible alternative to a stock broker right in the bank's lobby.

Investor Centers like this one are in place in 30 of 36 Hawkeye banks in Iowa. Centers offer investment, insurance and real-estate services to customers.

The sales manager in each bank is charged with formulating sales goals for his bank. These goals are not dictated by the HC, but are tailored to meet the needs of each bank's market.

But Hawkeye does maintain a formal sales training program at the HC level. The program features a full-time trainer and was developed completely in-house, Mr. Jones says. It takes all employees at all Hawkeye banks through a training curriculum that alternates group class sessions and seminars with role playing at the HC with individual self-study courses that are done at the local banks.

Employee sales training programs are coordinated by sales trainers in the individual banks and Hawkeye maintains a library that circulates video-training aids to employees.

Sales training actually seldom ends for Hawkeye employees, Mr. Jones says. As new products become available, the HC develops training aids to equip employees with the know-how to sell the products.

Mr. Jones says it hasn't been easy to make salespeople out of bankers, but resistance is overcome by such things as sales commissions and quality training.

Hawkeye's commission policy varies by bank. Some of the larger banks have their entire staffs participating in incentive programs to boost sales. Investor Center personnel can earn the most significant incentive pay, Mr. Jones says. At some point in the future, these individuals may be placed on a 100% commission basis.

Hawkeye is pleased with the results of its sales and training efforts, Mr. Jones says. For instance: sweep accounts are posting excellent returns and discount brokerage, which was expected to be a loss leader, is profitable. Referrals and cross selling among Hawkeye's various departments and divisions have increased substantially as a result of the sales-management concept.

* * *

The position of sales-development officer was established at Fourth National, Wichita, on January 1, according to Kurt D. Watson, vice president/director of marketing.

Fourth National, like most banks of its size, had long been an operations-driven institution. With assets of $1.3 billion, it is Kansas' largest bank.

In recent years, there had been more and more discussions among long-range-planning team members about the need to shift emphasis in order to keep the bank competitive in a deregulated environment. While several other steps also were taken to respond to sales needs, Mr. Watson emphasized that the appointment of a sales manager was the most visible expression of the bank's change in corporate attitude.

Mr. Watson did not have to look far to find the sales-development officer. He existed among the business development personnel on Mr. Watson's own staff, in the person of Brent Thompson. Mr. Thompson previously had been employed as a sales representative with IBM. In that capacity, he had received extensive sales training and had gained valuable sales experience, including the achievement of new divisional sales records.

The sales-development officer's job description calls for Mr. Thompson to insure effective, efficient use of all resources of the bank in sales efforts; to create and facilitate an overall sales attitude in the bank; to provide management direction for all sales efforts in a coordinated, strategic framework; and to plan, coordinate, monitor and evaluate all sales functions. He works with the training, planning, product management, advertising and personnel departments to create a sales-oriented bank.

Mr. Thompson currently is identifying the needs of each division, determining what sales tools are needed. He's learning the strengths and weaknesses of each area of the bank, determining if personnel need product training, knowledge of motivation techniques and/or updated job descriptions. Each department will be provided with a structured sales program.

Mr. Watson says that bank managements increasingly will be looking to their marketing departments for direction in the future because the marketing function is essential to a bank's growth.

He adds that a program like Fourth National's, on a scaled-down basis, is feasible for smaller banks.

"It's a step all banks will have to face in the deregulated environment," he says. "It's a big job and is breaking new ground, but bankers must realize that the new competitors — the Sears-

Who Is Sales Manager at Small Banks? Who Else But the Chief Executive!

SMALLER banks have had sales managers for years, but they often hold the title of president/CEO! Who is in a better position to monitor sales activities at their banks?

"We have an on-going training program within each department and a combined training session for our entire staff," says James R. Fitzhugh, president, Bank of Ripley, Tenn. "Cross selling is stressed in all our training sessions."

Mr. Fitzhugh says incentive programs work well at his bank and the bank has an on-going officer-call program. Each officer is responsible for calling on 3% of present and prospective customers a month. Reports on these calls are made at monthly meetings.

Buford Hartzell, president, First National, Mitchell, Ind., makes good use of his training as a school teacher when it comes to getting his people to sell bank services.

He takes advantage of training aids such as videotapes from banking associations, including the Bank Administration Institute and the American Institute of Banking. His officer-call program is sales oriented and all customers are contacted, not just the largest business firms. Each officer is responsible for one call per week.

The bank has an insurance agency that is doing well selling property/casualty coverage. A discount-brokerage service also is doing well, Mr. Hartzell says.

The biggest sales thrust at the bank is prior to Christmas when employees can earn cash awards for cross selling bank services to customers opening Christmas club accounts.

Security Bank, Mt. Vernon, Ill., has adapted its hiring policies in order to hire sales-oriented people, says Gilbert E. Coleman, chairman/CEO.

His bank recently completed an incentive program pushing credit-life insurance on installment loans. After an eight-month period, commissions were double those of the previous year! Trips and prizes were awarded to staff people who generated the most income.

First National, Fayetteville, Ark., has found that incentives have had a dramatic result on its officer-call program. Russell D. Kelley, vice president/marketing director, reports that monetary awards and vacation trips now are used as incentives.

The bank's effort to train some employees as personal bankers has resulted in a better self-image on the part of employees about their ability to sell savings instruments and consumer loans.

"We feel strongly that banks in the 1980s will have to compete with other sales-oriented staffs," Mr. Kelley says.

"When hiring customer-contact people, we look for the outgoing self-starter who can recognize a selling situation and is enthusiastic enough to do something about it," says Thomas G. Brown, executive vice president, Tri City National, Brown Deer, Wis.

"We impress on these people that the competitiveness of financial institutions is increasing and the survivors will be the banks who hire self-motivated people who are able to sell the many services banks offer their customers," he says. Reading and attendance at seminars constitute a vital part of the educational process and training program at Tri City National.

Bank officers are encouraged to call on other department heads to learn more about the services they are selling when they make calls, Mr. Brown says. They also are encouraged to make use of directors as "door openers" to prospective customers.

"By using the specific bank expert, the calling officer lends credibility to himself and depth of management to the bank," he says. Use of a director is two-fold: it gives the director a better appreciation of the calling officer's ability and gives the calling officer a natural entree to the otherwise difficult-to-see decision-making prospective customer.

Mr. Brown says he believes in sales contests to encourage a competitive attitude and develop pride among employees. He sees his role as CEO as one of sales manager as well as cheerleader. — **Jim Fabian, senior editor.**

Dean Witter and Shearson-American Expresses — already are sales oriented, by virtue of their long-time retailing experience. Banks must break through the anti-sales mind set they've been operating under for such a long time."

* * *

Commercial National, Tiffin, O., has established an excellent marketing track record. Its sales programs have won grand prize awards from the Ohio Bankers Association's Buckeye Marketing Awards competition.

But, during the early part of 1984, management realized someone was needed to devote the major part of his/her time to managing the bank's sales force.

A merger later in the year brought an individual to the bank who had 15 years of sales experience with a major data-processing manufacturer, according to Peggy A. Wagner, vice president. That individual was appointed sales manager at year end.

The sales manager's job description reads as follows: "Has responsibility for direction of activities to promote the growth of the company and to accomplish management's marketing objectives of attracting new business and expanding the acceptance and influence of the bank. Has responsibility for public relations and advertising program. Participates in product development and pricing."

His responsibilities include formulating and implementing a program for business development and sales promotion from within the bank; studying and evaluating new activities, policies, programs, services, markets, etc., relating to the functions of business development; planning, creating and administering the bank's advertising program; and developing and maintaining a favorable public-relations climate with the community, the press and stockholders.

The sales manager currently is updating the bank's product manual. Each employee of the bank will be given a copy of the manual for use as a reference guide and a self-education tool, Ms. Wagner says.

* * *

The position of vice president of planning and sales recently was created at First of America Bank-Ann Arbor, Mich. The individual holding this position is a seasoned retail banker and serves on the bank's asset/liability committee and the liability-pricing subcommittee, says Douglas D. Freeth, executive vice president.

Primary responsibilities of this individual include serving as bank-planning coordinator, which involves establishing goals and strategies, maintaining a timetable for their completion and serving as chairman of the planning and steering committees.

He also is sales manager for bank-wide calling, which involves establishing goals and objectives for a calling program and tracking its effectiveness. The calling program includes retail, commercial and institutional customers.

Other duties include coordinating retail sales and employee recognition.

"This is a new position in our bank and we will be interested in measuring its effect on our organization through the year," Mr. Freeth says. "We are convinced, however, that more effective sales and marketing programs . . . will be the keys to our continued growth and profitability in the future." — **Jim Fabian, senior editor.**

'Market-Driven' Call Program Started

A "MARKET-DRIVEN" officer-call program is being implemented at Liberty National, Oklahoma City, that's designed to increase market penetration through the acquisition of new commercial and personal banking relationships, according to Willis J. Wheat, executive vice president.

Other objectives of the program include improving cross-departmental cooperation and referral in terms of developing the maximum potential business for new and existing customers; including centrally assigned and prioritized prospects; permitting participation for officers who have consistently demonstrated their sales ability; and assigning officers to teams consistent with the market segments in which they have been successful in developing various kinds of new business.

Mr. Wheat says incentives are based on team production and incentive payments are made to teams on a monthly basis based on new-business performance.

The bank's existing directors' "Contributors" program has been structured in support of the new program to permit directors to assist with specific prospective customers and in making calls. Directors receive points for business brought in through their efforts.

The program is based on a team concept related to specific market segments, Mr. Wheat says. Teams consist of from six to 10 members, with each team assigned a specific market segment.

Theme of the program is "The Sky Is the Limit." Team names suggest "those bright and powerful phenomena that are at home in the sky;" namely, stars and heavenly bodies. Team names also relate to specific market segments.

"The Big Dippers" team calls on large commercial corporations; "The Titans" deal with correspondent banks and other financial institutions; "The Stars & Stripes" call on government and non-profit organizations; "The Meteors" deal with middle market firms; "The Pro-Stars" contact small businesses; and "The Shooting Stars" deal with affluent individuals.

Bank Lobby

(Continued from page 16)

dramatic improvements in productivity almost every hour of every day.

The change from a financial supermarket operation to an environment where sophisticated financial products and services are sold in a professional fashion is every bit as radical as the changeover from a pharmacy to a medical clinic. To ensure that the new marketing structure safely reaches the final completion stage, it is vital that we start with a sound foundation and build upward from there. The intent of this article was to assist in the creation of that foundation.

Our customers are a gold mine and the excavation takes place in the lobby. While we seem to be content to sweep up whatever dust may be lying on the surface, other more enterprising gold-diggers are tunneling into our mine without our knowledge and making off with a fortune in gold nuggets that we have not bothered to dig for. • •

• **Christmas Club a Corp.** Lorraine McPeek and Gary Jordan have joined the firm as account executives in the telemarketing department.

Merger/Acquisition Seminar Stresses Practical Approach

THE MERGER and acquisition fever rampant in the financial institutions marketplace in 1984 will be even more prevalent in 1985.

That's the message presented recently to participants in the third annual "Bank Merger & Acquisition Seminar: A Practical Approach," provided for industry members by Memphis State University and Borod & Huggins. Borod & Huggins is a Memphis and Washington, D.C., based law firm that specializes in representation of financial institutions.

The seminar drew industry leaders from across the Mid-South and the nation to hear CPAs, attorneys, a valuation expert and a personnel manager delve into the structures and procedures necessary for financial-institution survival in the 1980s.

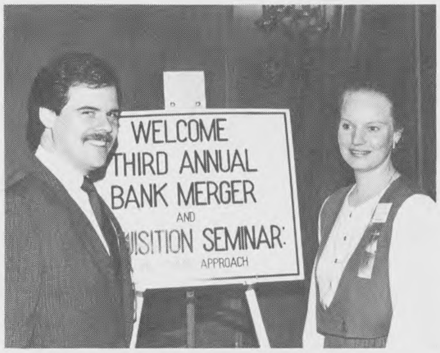
People, regulations and negotiations were the major themes covered in the seminar.

Stanley M. Huggins, partner, Borod & Huggins, said, "In 1984, merger activity as a whole was up 51% during the first six months of the year compared to the same six months of 1983. Over the last three years, financial-services corporations were the most active of the merger sector of the economy."

Mr. Huggins cited a study that indicates that in 1983, 20% of all new dollars gathered by larger financial institutions were the result of merger or acquisition activity. He says it is estimated that by 1990, 41% of all financial institutions under $100 million in assets will have sold out to larger institutions.

"There's a one-in-two chance that your institution will be part of an acquisition or merger activity," Mr. Huggins said.

He told those participating in the seminar that in the period following deregulation of the financial services industry, each competitor must make strategic moves to reach new competitive positions because the environment in which the institution is operating has changed. Making those changes will require a shift to positions



Jeffrey C. Gerrish and Ann W. Langston, Borod & Huggins partners, spoke at merger/acquisition seminar.

that allow them to be more competitive.

The shifts will occur, according to Mr. Huggins, because of the heavily fragmented nature of the financial-services industry, lack of sufficient numbers of qualified seniors managers and dissatisfactions of present owners.

"Acquisition activity will continue for many years and will be stimulated by banking and by non-banking firms," he said.

John L. LeCave, first vice president/director of personnel, National Bank of Commerce, Memphis, emphasized the importance of the "people" aspect in an acquisition or merger situation.

"Boards put together deals, but the people involved in the deals are asking, 'How will it affect us?' That's why the first thing to go sour in any deal to purchase a bank or financial institution is the 'people' part of the deal," he said.

He compared the employee part of the purchase process to a blind date. A marriage after a blind date is an "iffy" process at best. And a deal to purchase assets that depend on people can be just as "iffy" when the people side of the deal is ignored, he said.

Some employees are terrified at the thought of mergers or acquisitions ending their careers. As an example of the reality of this terror, Mr. LeCave identified a senior-management employee, who, rather than deal with the effects of a merger on his career, took his own life. He left behind a family and a note detailing his reasons.

How does an institution avoid losing its shirt or ruining a deal because the people who are part of the deal are unhappy? Communication and planning are the important factors, according to Mr. LeCave.

"Communication holds the deal together," he says.

Personnel issues in mergers and acquisitions include: size of the two organizations involved, benefits packages of each institution, executive compensation and personnel operations.

Mr. LeCave offered items like an "acquisition profile" to assist the acquiring institution in analyzing the personnel side of the acquisition/merger process.

The acquisition profile asks for information of the merger candidate that includes number of branches and employees involved; number of officers; retirement plans; lists of medical, dental and other insurance programs; and formal personnel policies of each organization.

Mr. LeCave said employee handbooks and personnel manuals must be as easily obtained and studied by the parties to the deal as are 10-Ks and annual reports.

After a merger, the first to move in

In 1984, merger activity as a whole was up 51% during the first six months of the year compared to the same six months of 1983. Over the last three years, financial-services corporations were the most active of the merger sector of the economy.

The average price paid for a bank in 1984 was 1.38 times its value, a decline from the higher yields during the earlier waves of merger and acquisition activity in 1982 through 1983.

are the headhunters, he said. Acquiring companies should get with new employees early-on in the process.

"You must find your good people and keep them in order to make the merger work. They are the individuals who have made your acquisition as valuable as it is. Get with all your employees. Be honest. Treat them like adults," Mr. LeCave said.

The new environment will require every institution to have a strategy for expansion. According to Mr. Huggins, there will be only three positions available to institutions: they must be an acquirer, an acquiree or be prepared to remain independent.

Independence, Mr. Huggins warned, does not mean "a do-nothing attitude."

"The independent status has its pitfalls due to the maturing of potential markets and the increase in competition," he said.

A decision to remain independent must be based on the institution's ability to expand its profit margins and its customer base and add new profit centers without acquiring another institution.

At the heart of any strategy, Mr. Huggins said, there must be a plan that allows the institution to cope with the marketplace in an organized format. He warned that too many institutions are devising plans motivated by fear.

"This fear arises from problems of deregulation, such as the higher costs of funds, the fear of competition from other institutions invading home turf, a lack of high-quality innovative management, record bank failures and an underlying weak trade base," he said.

In developing a plan void of fear as a motivator, management must examine the issue of "control," he added.

"Control is the equitable and efficient balancing of the interest and rights of all shareholders in an institution."

In examining the issue of control, management must ask these questions as a guide to planning its strategy:

- Do shareholders have a liquid market for their investment?
- What are the advantages of a common-stock repurchase by the holding company?
- What about an Employee Stock Ownership Plan (ESOP)? It could provide for liquidity and a major benefit to management and employees.
- Would it benefit all shareholders or stockholders to have a comprehensive anti-takeover plan to avoid unwanted suitors?
- Would sale of the institution in the first wave of mergers be the best way to go for all concerned?
- Is there an incentive plan for senior management that encourages them to consider the best interests of shareholders rather than just the long-term interests of senior management?

John S. Seabold (r.), Borod & Huggins partner, chats with seminar attendee Craig Heath, dir., First Nat'l, Newton, Ill.

In addition to control, an institution must be able to raise capital in order to remain competitive and bring the best price as a merger or acquisition candidate.

"Deregulation and acquisition programs have intensified the need for capital resources, but sources of capital and the generation of internal capital have declined," he said. "According to most experts, the markets cannot accommodate widespread issuance of new shares of common stock. Thus institutions must look to other instruments as sources of capital."

Traditional methods of capital acquisition are still useful, he added, but they must be supplemented in many cases by new variations on old themes. These variations include items such as adjustable preferred stock, capital notes, options, warrants and stock or debt swaps.

In the future, Mr. Huggins said, the value of financial institutions will no longer depend on any type of intrinsic value.

"Just as with any nonregulated company, the performance of that institution will be the determining factor of its value. The institution will be exactly what management and the other stockholders make it," he said.

The average price paid for a bank in 1984 was 1.38 times its value, a decline from the higher yields during the earlier waves of merger and acquisition activity in 1982 through 1983.

The major reason for this decline, according to Mr. Huggins, is the limited capital of larger institutions.

He says other institutions also are able to get into a marketplace without buying a competitor. He says in some cases it is easier to start a bank than it is to buy one.

However, acquisitions or mergers still will be the primary way more competitors will enter the marketplace or expand geographic boundaries.

Ann Wooten Langston, partner, Borod & Huggins, spoke of three major considerations when looking for an acquisition candidate: "Know the players, know yourself and create the best climate."

Creating the climate for negotiations, according to Ms. Langston, means "being reasonable."

"The person who is least reasonable is the one who comes out on the short end of the stick," she said.

In addition, Ms. Langston observed that proper documentation of the steps to a merger can be critical to its success. Documentation should begin early-on in the acquisition process.

Once a decision has been made to enter into negotiations, a preliminary agreement should be put in writing.

"The preliminary document should set forth the fundamental issues that require further negotiation and clarification," she added.

The preliminary agreement will serve to highlight any irreconcilable differences surrounding the transaction, will prevent unnecessary expenditures of time and money, she said.

Other things to consider in a letter of agreement include:

- Timing of events surrounding the transaction.
- A confidentiality agreement to protect all parties in the event the transaction should fail.
- Definitive terms regarding who is to pay expenses in connection with the transaction.

"A written document gives substance and validity to a proposed transaction and a sense of commitment while not creating a binding obligation of the parties," Ms. Langston said.

As an example of the steps in conducting merger or acquisition negotiations, Ms. Langston and Jeffrey C. Gerrish, partner, Borod & Huggins, acted out a series of mock negotiating sessions for seminar participants.

Emphasized during the negotiations was the need by each party to disclose as much information as was necessary to their part in the transaction. For the target institution, disclosure included providing material at its location for unsupervised analysis by the acquiring institution's professionals.

Items an acquiring institution may want to be on the lookout for that arose during the negotiations included a sweetheart-lease arrangement between a board member of the target institution and his organization and a preferred customer of the target institution and his organization and a preferred customer of the target institution with a loan that had little chance of being collected. In addition, golden-parachute arrangements between senior management of the target institution and its board can be an expensive item to an acquirer.

Ms. Langston emphasized during the negotiations that the management team that made the target institution successful should be enticed to stay on.

At each step of the negotiating process, professionals should be brought in to represent the best interests of both parties. These professionals include CPAs, attorneys, economic consultants, appraisers and brokers. • •

Personal Financial Planning Study in Progress at BAI

Successful and profitable entry into the growing market for personal financial planning services is the subject of a new research study being conducted by the Bank Administration Institute and Arthur D. Little, Inc., consulting firm.

The study will serve as a planning/analytical guide for banks and thrifts interested in offering personal financial planning (PFP) to customers. It's designed to assist financial institutions in identifying PFP opportunities and in developing effective strategies to offer PFP as a profitable line of business.

Areas to be addressed by the study include levels and types of personal financial planning services and products that can be offered profitably by financial institutions, critical factors for successful entry into the market and implementation strategies to help ensure successful market entry and position PFP with existing services.

Study results will be released in June.

Study Tells How to Smooth Out Merger/Acquisition Proceedings

DEFINING goals, communicating and addressing differences in corporate cultures are basic but often overlooked issues involved in successfully merging financial institutions, according to a new study.

The study was conducted for the ABA by Ernst & Whinney (E&W) and is titled *Implementing Mergers and Acquisitions in the Financial Services Industry*. It's available from the ABA.

The study is based on interviews with more than 80 executives whose institutions have been involved in mergers or acquisitions. It serves as a guide to design effective implementation programs to ensure that mergers meet objectives established by those involved.

"People negotiating a merger tend to become so involved in the 'thrilling' issues that they sometimes unintentionally ignore the less glamorous but still important implementation issues," said George J. Beck, E&W partner and national director of financial services industries. "In the deal-making process, executives tend to become carried away by the excitement and assume that basic people concerns will 'fall into place.' " he added.

Included in the book are approaches for the implementation framework, planning to achieve merger goals, corporate culture, human resource systems and management, service delivery and support systems, and financial management.

A significant finding of the project, according to Mr. Beck, is that many mergers are implemented poorly because executives involved become overly concerned about details and, in so doing, often lose sight of the strategic reasons for merging. These include expanding product capabilities and supplementing human or technological resources. Executives who implement most successfully base their approach on such driving forces. Mr. Beck emphasized, "Mergers that achieve their goals have a well-thought-out plan from the very beginning and keep those goals in perspective throughout implementation."

The book reveals how various implementation problems have resulted when an acquiring bank's management failed to communicate — or miscommunicated — merger-implementation objectives. "For instance," Mr. Beck continued, "telling employees of an acquired bank not to worry — that everything will remain the same after the merger — may mean different things to the acquiring and the acquired. In reality, 'keeping everything the same' rarely happens, and executives can place themselves in the position of later reversing their statements.

"Our discussions with executives were very frank," said Mr. Beck. "The executives' advice and the experience of our consultants were supplemented by thorough research to supply the major foundation for the book."

"Three types of mergers and acquisitions were examined for the project: bank/bank, bank/nonbank and nonbank/bank. The categories were further subdivided into mergers of equals, acquisitions of small banks by larger banks or bank holding companies, acquisitions of troubled institutions and unfriendly acquisitions. The book explains how each type of merger affects the implementation process. It also includes examples of checklists and questionnaires that can be tailored to help institutions apply techniques developed from the study.

Copies of the book are available by contacting the ABA, Order Processing Department, 44-B Industrial Park Drive, Waldorf, MD 20601. The telephone number is 202/467-4118. • •

Accounting System Guide Published by BAI

A new, eight-volume edition of the *Financial Information System for Community Banks* has been released by the Bank Administration Institute. The system provides step-by-step instruction for implementing a contemporary basic accounting system that can be tailored to the needs of any community bank, accommodating future expansion and changes, the BAI says.

The system utilizes and adapts a bank's present data files and can be installed by in-house staff. Practical help is provided, including worksheets, models, sample reports and graphs, definitions, checklists and detailed procedures.

The eight volumes deal with the following topics: a chart of accounts, financial reporting, management reporting, cost accounting, budgeting and profit planning, responsibility accounting, asset/liability management and the community banker's guide to micro-computers.

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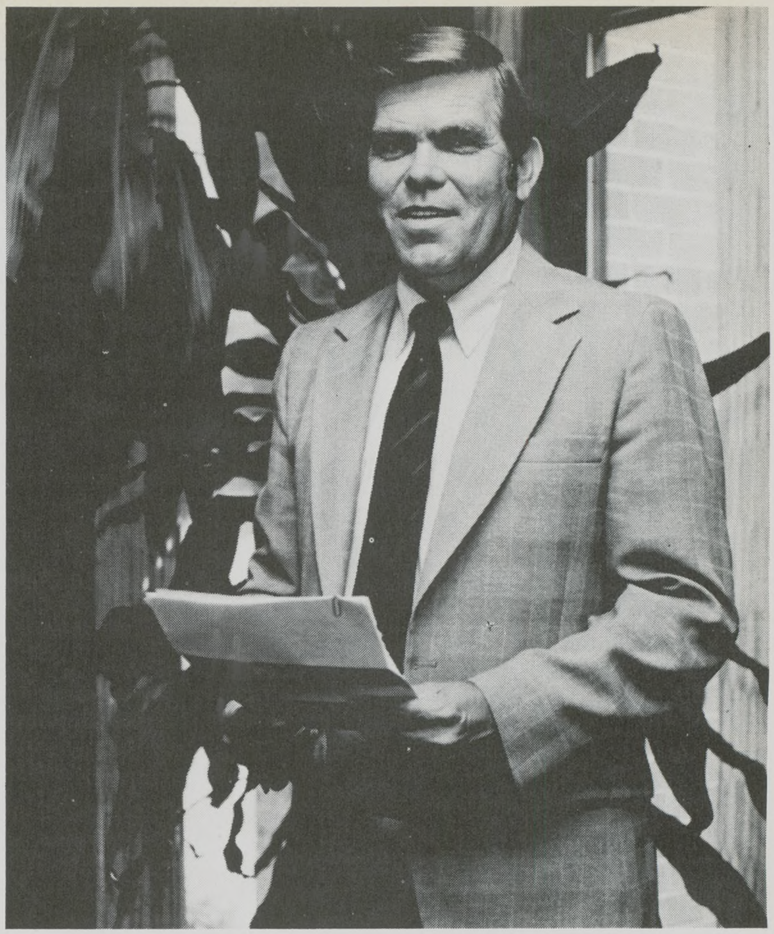

"The Horizons 60 Club is the best program we have ever undertaken in our bank over our 36-year history."

Gordon M. White, Vice-President—Marketing
Merchants & Farmers Bank
West Helena, Arkansas

"It is the best public relations program we have ever conducted," continues Mr. White, "and as a result, has helped not only retain those deposits that we had, but also has helped to substantially increase our present deposits.

"We realize that we could have developed our own Senior Citizens program, but after one full year we are extremely thankful that we chose to become a part of HORIZONS 60. Your expertise, support and guidance have been instrumental in our success.

"The benefits we have received as part of HORIZONS 60 far outweigh the cost. We wholeheartedly recommend this course of action to anyone who is considering a Senior Citizens program in their bank."

HORIZONS 60 thanks Mr. White for these kind words. And if you would like details on how the HORIZONS 60 program can help your bank, too, attract the fast-growing 60+ market, write or phone us today.

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At Pittsburgh National—

Making Loan Process Easier for Consumers Boosts Bank's Business

By James V. Ficco

PITTSBURGH NATIONAL had a problem in 1983. Widely swinging interest rates began to stabilize just when Pennsylvania was raising its low usury ceilings — two factors that combined to reverse the bank's prevailing passiveness toward direct consumer lending. The bank responded by developing a new product, home-equity loans, with a supporting ad program to build up its consumer-loan business. But this effort fell far short of the mark.

One year later, the problem was solved, because Pittsburgh National got to the root of it. Together with Ketchum Advertising, the bank undertook a unique marketing program that began with a study of consumer perceptions.

What we found is this: Consumers are uncomfortable about borrowing, because they lack information and they're confused. The two firms proceeded with a strategy of providing consumers with straightforward information and guidance to make them more comfortable during the loan-application process. The result: consumer-loan growth not only met its 1984 objective, but exceeded it by 100%.

The bank's 1984 objective was to increase its January-June loan business 30% over the same period in 1983. But management qualified the marketing effort with a number of strategic decisions: Credit standards would remain high to maintain Pittsburgh National's 1983 record of having the lowest ratio of nonperforming consumer loans of any Pennsylvania bank, and while interest rates would remain competitive, healthy return on assets would remain the abiding objective. So, rather than compete on superior credit ease and pricing, another advantage had to be found.

"When we looked at improvements we could make in how we talk about loans, we found our competitive opportunity," says Robert Bernardini, advertising manager.

Pittsburgh National and Ketchum started the marketing effort by establishing research objectives:

- To identify consumer appeals and inhibitors associated with borrowing and identify attitudes toward the application process and various lending institutions.
- To obtain consumer reaction to alternative advertising positions for loans.
- To obtain this information quickly.

The focus-group-market-research technique was chosen because it could provide information fast. We conducted three groups — two groups of home owners over 25 years of age, with household incomes over $25,000, and a third group also having second mortgages. From their discussions, we made several important discoveries about consumer attitudes:

Looking at newspaper ads about Pittsburgh Nat'l's retail-loan program are (l. to r.): Robert Bernardini, v.p./adv. mgr. of bank; Frederick J. Eisenreich, bank's v.p./asst. mgr., consumer loan administration; and James V. Ficco, author of accompanying article and v.p./account supervisor, Ketchum Advertising/Pittsburgh.

- Consumers view loans simply as the means to purchase something they can't afford with available cash. The implication: The bank could not hope to increase demand for loans through marketing efforts. It would have to try for a larger share of the existing loan market at the expense of competitors.
- Most consumers are uncomfortable with one or more aspects of the loan-application process. Infrequent borrowers are intimidated, especially by the prospect of rejection, and even frequent, successful applicants resent a loan office sitting in judgment over them. All believe criteria used to evaluate their applications are secret and arbitrary. They're uncertain about a loan's cost and how much they can afford to borrow. Many are confused about what kind of loan is best for their needs.
- Many consumers, even frequent borrowers, are uncomfortable with the whole idea of borrowing. They feel it's necessary to justify borrowing in terms of satisfying needs rather than wants. Many who resent a loan officer's judgment of credit-worthiness value that judgment as a controlling influence that saves them from excessive debt. While banks are perceived as having tougher credit standards than other financial institutions, sometimes these high standards are viewed positively.
- Much consumer discomfort with borrowing is rooted in lack of information about the application process, borrowing cost and borrowing options. Consumers believe this information is unavailable in one place for review at their leisure before they go in to apply for a loan.

To capitalize on these consumer attitudes, a communications position was developed. "Pittsburgh National is the bank that helps consumers feel more comfortable during the process of applying for a loan." But before communicating with consumers to address confusion and lack of knowledge about borrowing, the bank began communicating with its own loan officers.

"For years making loans had not been a top priority," says Mr. Bernardini. "Now we were asking them to become loan-information experts. So we had to make the marketing objectives clear and refresh officers' skills. We had to help *them* feel more comfortable."

A multi-step program was developed. Branch-sales quotas were established and incentives provided for outstanding efforts. To kick off the marketing effort, Ned Randall, senior vice president, community banking, outlined the bank's consumer-loan objectives and reviewed branch quotas and incentives at a branch-manager meeting.

Then branch managers received a letter from Tom O'Brien, bank chairman, which reaffirmed the importance of consumer lending. With the letter was an information kit that contained tools to help platform people accomplish their sales objectives: a detailed review of loan products and lending policies; guidelines for recommending the best loan option for the borrower's need; common consumer questions and fears with guidelines for addressing them; a copy of the newspaper and media schedule to demonstrate the scope of communications support; and a wool scarf embroidered with the bank's logo to emphasize the bank's commitment to making branch people feel comfortable about making loans.

This incentive and information program was unusually successful, according to Fred Eisenreich, product manager, consumer lending.

"The acid test is the program's ability to motivate branch loan officers to take an entreprenurial attitude," he says. "Quite a few of the branches developed their own mini-incentive programs and customer-solicitation campaigns."

Once platform people had been prepared, consumer communications could begin. A four-page, full-sized, preprinted newspaper insert was placed in the Pittsburgh metro newspaper and in nine suburban newspapers. While a multi-page insert is common for retailers, it was unprecedented for banking in the Pittsburgh market.

"We wanted to do something dramatic, something that established our position quickly and preempted the competition," says Mr. Bernardini.

While retail advertising inserts serve as a product listing, "How to feel more comfortable with the uncomfortable process of applying for a loan" serves as a consumer guide.

The first section, "Know the unknowns," described Pittsburgh National's credit-application-evaluation criteria, including indentifying a maximum debt/income ratio and a worksheet to help prospective borrowers figure out their own ratios.

Section two, "When you meet with our loan officer, expect a pleasant surprise," addressed consumer resentment or fear that loan officers needlessly ask tough, personal or embarrassing questions, advising readers that Pittsburgh National officers ask questions to help determine what kind of loan best suits their needs.

The final section, "Why you shouldn't choose a loan alone," described the kinds of loans available at the bank, including their features, interest rates, benefits and a chart to help readers estimate monthly payments for various loan amounts, and reaffirmed the need to review borrowing options with a Pittsburgh National banker.

Community-banking personnel worried that consumer interest in loans was too low to warrant this kind of in-depth informative advertising, but not for long.

"At first, we were afraid no one would bother to read all this," says Mr. Eisenreich. "But when branch people told me customers were walking in with the insert tucked under their arms and opening check-credit accounts, I knew a lot of people were reading every word."

"Other positive response to the insert was even more unexpected," adds Mr. Bernardini. "An accountant called and asked for 50 copies to give to his clients as an information source."

After the newspaper ad ran a number of times over a two-month period, a 12-page four-color insert version appeared in local editions of national magazines, including *Reader's Digest* and *TV Guide*. The magazine inserts were bound into the publication with a perforated strip to permit easy removal and encourage saving for future reference.

"The insert really stood out," says Mr. Bernardini. "No way you could pick up an issue without seeing it. We think people will hold onto our insert for months, like they did with Shell Answer books that provided safe-driving tips."

Fractional-page newspaper and full-page magazine ads maintained the program's informational tone with headlines like "How a Loan Can Help You Build for Your Future" and "A Short Course in Financing an Education." Each ad briefly reviews borrowing options available and reaffirms the advantages of seeing a Pittsburgh National banker in choosing the best one. Radio commercials were developed to support the strategy.

While the marketing program exceeded its consumer-loan-growth objectives, it produced other tangible results as well.

"We succeeded not only in selling more loans, but also in better meeting our customers' needs," says Mr. Eisenreich. "We were able to direct a lot of people toward open-ended credit. That's better for us, of course, but customers were really enthusiastic about getting into it."

There are no formulas for marketing success in retail banking. But success does require many of the elements present in this campaign:

• Identifying a relevant and motivating communications position that addresses the consumer's real needs. That means realistically assessing your product—its price, availability, delivery mechanisms and features — from your market's point of view as well as the bank's. Only by questioning consumers about their perceptions can you gain confidence in your assessment. Focus-group testing, albeit an imperfect tool for gauging consumer attitudes, was invaluable for developing this program's communications position.

• Making sure your position is supportable. In this case, that required giving branch people tools to contribute to and fulfill our communications promise and developing an integrated communications package that addressed branch-personnel needs.

• Developing unique, powerful communications that make a strong impression on your audience. You can't take your audience's attention for granted. Once you've identified your position, you must establish it with something that breaks through communications clutter. In this program, the insert format for advertising and the three-dimensional information kit for the branch manager performed well.

• Having a healthy respect for the intelligence and taste of your market and making a commitment to discover exciting ways to relate product features to that market's needs.

This is the most fundamental element, because it's the source of all the activities that make a marketing effort successful. • •

• **National Bank of Detroit** has appointed Bruce E. Nyberg and Thomas A. Ethier first vice presidents in the western metropolitan region and midwest banking divisions, respectively. Vincent A. Vatalaro was appointed vice president/information-processing.

Industry Investment Needs Topic of AmeriTrust Study

AmeriTrust Corp., Cleveland, has commissioned a study of the investment needs of the Mid-American economy over the next decade. The study also will explore how these needs can be met.

The study is expected to provide a detailed analysis of financing required by both mature and emerging industries to enable them to compete successfully in national and world markets. It will be conducted by SRI International, Inc.

In addition, the study will evaluate the capability of currently available financing sources and recommend actions required in both private and public sectors to satisfy the region's capital needs.

A late summer completion date has been set.

Financial-Services Supermarket Takes Shape in Kentucky Town

MOST BANKERS dream of their institution achieving the goal of becoming the "financial supermarket" of its trade area. They see what non-bank retailers have done and yearn to be able to compete on an equal footing.

Since deregulation of the financial-services industry hasn't yet arrived at the point where bankers' dreams are realities, it's necessary for them to use their imaginations to devise arrangements that enable their institutions to be as competitive as possible, given current restrictions.

Few bankers have used their imaginations as effectively as Robert M. Duncan, president/CEO at $55-million-asset Inez (Ky.) Deposit Bank. Mr. Duncan's dreams are taking tangible form in his bank's Community Financial Center.

The center is located just a few doors down Main Street from the bank in the small mountain community (population: 600) in eastern Kentucky. The center houses services the bank can't offer under its own roof at this time, including real estate and tax preparation. It also offers services the bank formerly offered under its own roof: insurance and discount brokerage. The insurance agency was moved to the center to eliminate any appearance of coercion a loan customer might feel about purchasing insurance from the bank as a qualifier for obtaining a loan.

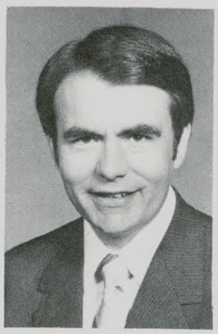
Few, if any, towns the size of Inez have financial centers. The Community Financial Center reflects Mr. Duncan's vision of banking of the future. This vision of full-service banking is so broad that he would like to add a credit union and a small loan office in the future.

His vision springs from his view of banking today as being in the same position the horse-drawn carriage industry was when autos were invented. He doesn't want his bank to become obsolete by not taking advantage of new opportunities as they come along.

Since becoming CEO of the bank in 1981, Mr. Duncan has seen the institution's assets grow steadily. He sees assets of $100 million by 1990 if the rate of growth continues.

Until last year, Kentucky banking laws prohibited HC formations. After the law was changed, Mr. Duncan lost little time in making application to establish Community Holding Company, which acquired Inez Deposit Bank and now has an application pending with the Fed to acquire 40% of nearby First National, Louisa, Ky.

Mr. Duncan has high expectations for continued growth of the HC. He's looking forward to the day regulations will permit the HC to acquire the Community Financial Center, so he'll have his financial supermarket under one roof.



Robert M. Duncan, pres./CEO, Inez (Ky.) Deposit Bank, is seeing his dream of bank becoming financial supermarket coming true.

He has high expectations for continued deregulation of the financial-services industry. He expects authorization for banks to offer insurance and real-estate services as deregulation continues.

"I'd rather things were left alone," he says. "They're not going to be and we recognize that. That's why we're trying to adapt to the changes."

In one sense, insurance and real estate services aren't new to Inez Deposit Bank. Insurance services have been offered by the bank's loan department for some time and the bank also had served as an informal broker of real estate because it was a central gathering place for buyers and sellers.

But Mr. Duncan sees the Community Financial Center as taking financial services a step further. The real-estate agency is a small operation at present, but it has met its 1984 sales goals and has one principal broker and four sales agents. The only other real-estate agency in the county has increased its advertising and taken a defensive position.

The insurance agency is the cornerstone of the center and accounts for most walk-in traffic. About a quarter of the agency's 1,800 customers prefer to pay their premiums in person, providing ample opportunity for cross selling of services, such as income-tax preparation.

The center is connected to the bank only in that Mr. Duncan and other bank officers have positions in both the bank and the center. The bank also owns the building in which the center is located. The bank's marketing director handles the discount-brokerage service and the bank's treasurer handles the tax-preparation service.

Mr. Duncan says his concept of the Community Financial Center could inspire other small-town banks to take steps to prepare themselves for the new financial market the industry is about to enter. —**Jim Fabian, senior editor.**

Benefits of Equipment Leasing: Another Tool to Bring in Business!

EQUIPMENT leasing is viewed as "another alternative or tool to allow us to structure an optimum solution to the individual customer's needs" by Dan J. Fehrenbach, vice president, Bank of Western Indiana, Covington.

By offering leasing, the bank is proving to its customers that it is honing its financial-services skills, he says. Leasing shows that the bank is investing whatever time and money it takes to stay current about the latest developments that can impact the financial situations of customers.

Mr. Fehrenbach also cites the benefits of the tax-sheltering aspect of leasing. Most banks utilize municipal bonds, economic-development bonds or industrial-revenue bonds for a large part of their tax planning, he says. This has been extremely difficult for his bank because it's a fairly new institution (founded in 1976), which makes it subject to greater earnings fluctuations than more established banks.

"Leasing helps us greatly because the tax benefits wear off or decline after 30 to 36 months," he says. "Also, we frequently receive better rates of return from leases than from municipals. By utilizing both vehicles, we don't have all our eggs in one basket."

The bank also benefits from profits from residual assumptions on leased equipment. That's providing the bank is selective about the types of leases it enters into and avoids the type of equipment that's likely to depreciate rapidly and doesn't have a good secondary market, Mr. Fehrenbach says.

He is pleased with the 3% to 4% differential leases yield over normal commercial-loan rates. Because of the bank's tax structure, it's better able to utilize investment-tax credit and depreciation to receive a better value or return than would the firm or farmer leasing the equipment.

"Another invaluable benefit of leasing is the greater awareness it creates in the mind of the lender regarding all aspects of a transaction," Mr. Fehrenbach says. When he's involved with a lease, he must be aware of money costs, the amount and effect of the investment-tax credit and who will be receiving it, the amount and effect of depreciation, timing of payment of the goods and any residual value assumption being set.

"Leasing has caused me to become aware of the need to explore the use to which the equipment will be put and the tremendous impact this has on the equipment's value," he says.

For example: If a tractor is being purchased by a farmer to be used on 500 acres he owns and he will be the only operator, the tractor's value at the end of five years will differ greatly from that of a similar tractor purchased by a business entity that uses it to farm 1,800 acres per year on a custom basis and has three hired men operating it.

Leasing also makes Mr. Fehrenbach question the environment in which equipment will be used. A tractor with a loader used to load fertilizer will wear out faster than one not so used, a factor that affects its value at the end of the lease.

"We have been able to approach agri-businesses and farmers regarding the benefits leasing provides in the area of increased cash flow. The result has been several new customers."

He says this increased awareness has helped refine the skills of the bank's commercial-lending officers, causing them to adopt more realistic attitudes about collateral value on equipment taken for loans and leases.

Leasing has brought new customers to the bank because other banks in the area don't offer the service.

The bank recently entered into an agreement with a medical facility that preferred to lease its equipment rather than buy it because it didn't want to get into a dispute with federal agencies regarding reimbursement formulas and depreciation treatment on owned equipment. Leasing enabled the facility to establish a true cost, thereby avoiding any dispute.

"We have been able to approach agri-businesses and farmers regarding the benefits leasing provides in the area of increased cash flow," Mr. Fehrenbach says. "The result has been several new customers."

Statement stuffers and point-of-sale advertisements in the loan department and lobby have spread the word about the leasing service. When customers become aware of the service, they conclude that the bank is able to handle more of their financial needs, Mr. Fehrenbach says. Leasing has enabled the bank to prevent split credits, because it permits farmers to finance both their operation lines and their equipment at the bank. Formerly, they leased equipment from dealers.

"Leasing's primary attraction to the agriculture sector is its low cost," Mr. Fehrenbach says. "Because of low commodity prices and high interest rates, the strong dollar and the weak export market, farmers no longer have the gigantic tax appetites they once did. By trading off the investment-tax credit and depreciation to the bank, farmers can receive lower-cost funding and can conserve cash — yet still benefit from improved technology of new equipment.

"Virtually all farmers are looking for ways to improve their cash flows and they see leasing as a major way to do it. Sale of existing equipment usually provides sufficient funds to make the initial lease payment and still inject funds back into their operation, allowing them to borrow less and reduce interest costs."

The $52-million-asset bank has offered leasing for a little more than three years. In early March, 21 leases were on the books with a dollar value of $1.2 million. Leasing volume is expected to increase as the service becomes better known.

The bank uses the services of First Lease & Equipment Consulting Corp., Louisville, and expects to continue its relationship for the foreseeable future.

"We'd have to increase our volume from 10 to 15 times before we could go it alone," Mr. Fehrenbach says. — **Jim Fabian, senior editor.**

• **Manufacturers National,** Detroit, has named Robert C. Klann vice president/national division. He joined the bank in 1976.

Stern Named President Of Minneapolis Fed

Gary H. Stern is the new president of the Minneapolis Fed, succeeding Gerald Corrigan, who left the position to become president of the New York Fed on January 1.

Mr. Stern formerly was senior vice president/director of research at the Minneapolis Fed and joined the bank in January, 1982. He also served as chief financial officer, senior officer for public-information and personnel functions and as chairman of the agricultural-issues council.

He's a member of the Minnesota governor's council of economic advisers, has served on the board of the Minnesota Economics Association and was a member of the governor's commission on wood products.

He has served on a number of Fed System subcommittees and task forces, including several dealing with pricing-policy issues, and as chairman of the task force on payment-system risk.

Prior to joining the Minneapolis Fed, he was senior economist and account manager for A. Gary Shilling & Co., New York City. He also held positions in the research department at the New York Fed.

Independents Support Ag Relief, Loophole Closing at Convention

A FREEZE on federal spending, urgent support for the agricultural sector, a defence of the Douglas amendment and closing of the nonbank loophole were called for by bankers attending the annual convention of the Independent Bankers Association of America (IBAA) last month in San Antonio.

These topics were among 45 policy positions taken by delegates at the convention. Further views on the issues were provided by Washington notables such as Fed Chairman Paul Volcker; House Majority Leader James C. Wright (D.,Tex.); U. S. Senator Thad Cochran (R.,Miss.); Representative Charles Roemer (D.,La.); Representative Morris K. Udall (D.,Ariz.); and Montana Governor Ted Schwinden.

While recognizing that the business of banking is becoming more complex and competitive, independent bankers in attendance approached the association's new policy agenda with optimism. The IBAA had its largest convention turnout in several years, with about 2,300 registrants. The association also has reached a record high in members, with 7,700 member banks in 49 states, a net increase of more than 700 banks in the past year.

Chairman Volcker again supported the IBAA's continuing efforts to close the nonbank loophole by stating that the door must be closed to such unintentional loopholes "that undercut the safety and soundness of the banking industry." He also called for an end to non-thrifts.

"Our concern is steadily intensifying," Mr. Volcker said, referring to the nonbank loophole. "What we need is a new and fresh statement of congressional policies. We're reluctant to see interstate banking through the exploitation of a loophole."

Representative Roemer said he was optimistic Congress will act to close the loophole. "We might approach the loophole closing with an eye to getting it done," he said. "I think we will."

Mr. Volcker's appearance coincided with an announcement by the Fed of a two-part modification of its seasonal credit program. The measure would provide further assurance that small- and medium-sized agricultural banks can meet temporary liquidity requirements that might arise in accommodating the needs of their farm borrowers over the forthcoming planting and production cycle.

Mr. Volcker said the great bulk of these banks are not faced with serious liquidity problems at this time, but the stop-gap measure is there in case they need it.

Chairman Volcker again supported the IBAA's continuing efforts to close the nonbank loophole by stating that the door must be closed to such unintentional loopholes "that undercut the safety and soundness of the banking industry."

Concern about the agricultural situation occupied a significant portion of the association's agenda, with the IBAA moving away from the Reagan Administration's free-market agricultural policies. A convention resolution warned that "unless corrective action is taken, this growing farm crisis threatens to engulf not only tens of thousands of efficient farm producers, but also hundreds of agricultural banks, the Farm Credit System, agribusiness and other 'main street' businesses in hundreds of rural communities. . . ."

Outgoing IBAA President Jack King said the association will continue its lobbying efforts for agricultural legislation focusing on medium-sized commercial farms and including federal price supports for basic commodities. The price supports are needed to shore up sagging farm collateral values, which continue to hinder farmers' debt repayment abilities. Mr. King is chairman, First Security Bank, Kalispell, Mont.

Representative Wright said farmers should be helped by the government. For Continental Bank and Chrysler Corp., "We threw the lifeline out," he

New IBAA officers pose in front of Alamo in San Antonio: (from l.) Charles L. VanArsdale, treas.; Thomas H. Olson, v.p.; A. J. King, ch.; B. F. Backlund, pres.; Charles T. Doyle, pres.-elect; and Kenneth A. Guenther, e.v.p.

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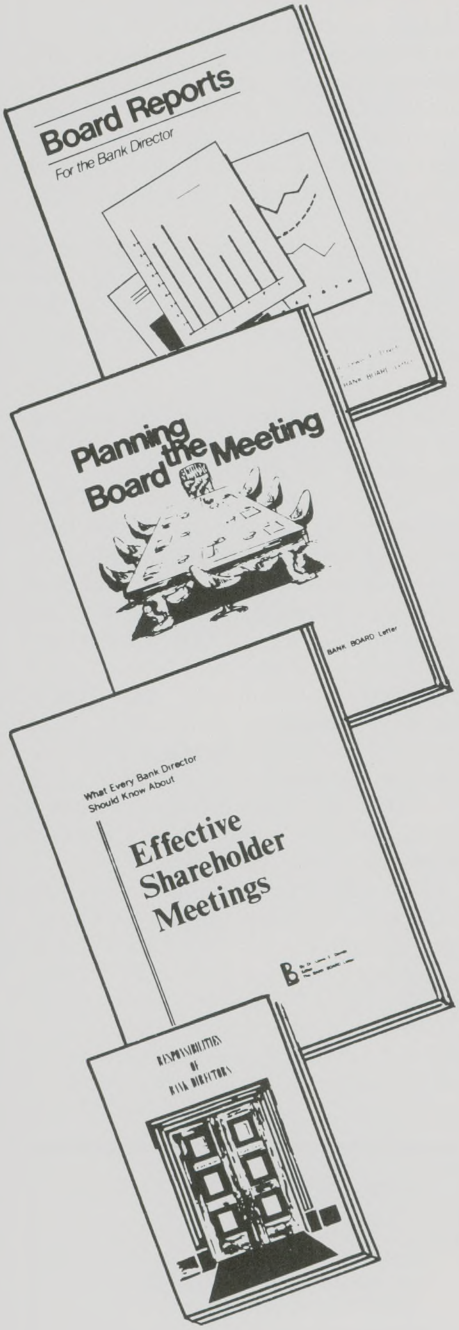

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More effective board meetings begin with effective reports. This 200-page manual will help you determine the "quantity and quality" of monthly reports needed by directors so they (and management) can make proper decisions. Included are examples of reports most needed by directors who want to create policies that lead to prudent management. Contains information on many topics such as effective reporting. . . reports to shareholders. . . report of examination. . . bank liquidity and capital analysis. Manual illustrates various formats board reports can take. . . from oral to detailed graphic presentation. Author: Dr. Lewis E. Davids.

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This 64-page booklet provides some workable agenda, suggestions for advance planning and also lists types of reports a board should receive monthly and periodically. It emphasizes the need for informing the board as *quickly* and concisely as possible. Contains a chapter outlining a "workable" board meeting, another on visual aids for the board meeting. Also contains a model for minutes of the board, plus sample forms to communicate status of bank to the board. An excellent "companion" to **BOARD REPORTS.** Author: Dr. Lewis E. Davids.

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RESPONSIBILITIES OF BANK DIRECTORS — $11.00

This book is "right" for today's banking problems. Due to the economic influence banks have on their communities, the rapid growth of HCs and the ever-growing "consumer" movement, directors must know what is expected of them and their bank in terms of responsibilities to depositors, shareholders and the public. This manual examines recent court decisions, investment return, continuity of management, long-range planning, effects of structural changes on competition, and more. Author: Raymond Van Houtte, president, Tompkins County Trust Co., Ithica, NY.

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said. "I think the same thing ought to apply to the family farm."

Senator Cochran said Congress is not going to "rubber stamp" the Reagan Administration's farm legislation. He also said he favors basic commodity supports.

"I believe in some degree of basic commodity supports and income protection," Mr. Cochran said. "I think we can provide this help without an open-ended program provided by the federal government."

Governor Schwinden predicted dire results if the Reagan Administration's farm program is approved by Congress. The Reagan plan "would put rural America on a steep glide path toward disaster." He added the government should be willing and able to help the farm economy.

"Financially, it is in the best interest of America to help," Mr. Schwinden said.

The IBAA took strong exceptions to the policy of the American Bankers Association, which "inextricably linked" closing of the nonbank loophole with geographic expansion. The IBAA condemned the ABA proposal that would automatically trigger nationwide banking for those states opting for regional banking.

Delegates to the convention also pressed for action on the federal budget deficit by calling for an immediate spending freeze followed by a reduction in the deficit. The association's resolution said the deficit has led to high real interest rates that have been disastrous for two of the most productive sectors of the U. S. economy — small business and agriculture.

Mr. Volcker said the federal budget deficit must be brought under control to stabilize the U. S. economy and assure long-term growth. Representative Udall chided the Reagan Administration's deficit-reduction techniques. The president, he said, simply won't allow most items in the budget to be cut.

For example, military spending is off limits for potential spending cuts. "You're left with about 25% of the budget that's up for grabs to cut," Mr. Udall said.

Mr. Volcker asked the independent bankers to contact their legislators in Washington, since Congress is the key to battling the deficit problem.

Turning to the trade association's internal business, the IBAA's bylaws were revised at the convention to conform more to corporate organizational structure. Along with the revision, the number and size of the association's committees were increased. A new marketing committee and bank-services committee were added and a major new advertising campaign for independent banks was unveiled.

A rule also was changed to allow a state with five member independent banks to elect a state director.

New officers elected at the convention are: president, B. F. Backlund, president, Bartonville (Ill.) Bank; president-elect, Charles T. Doyle, CEO, Gulf National, Texas City, Texas; vice president, Thomas H. Olson, president, Lisco (Neb.) State; and treasurer, Charles L. VanArsdale, president, Bank of Castile, New York.

Software Guarantee Offered

A six-month money-back-satisfaction guarantee has been announced by Berman Technologies for its Cross-Sell Manager sales automation software/training products.

The guarantee is believed to be the first of its kind in the financial-software industry.

Cross-Sell Manager includes sales skills training for platform personnel, PC software for services selling and customized financial projections, prospect records for followup and sales measurement with management reporting.

The Charlottesville, Va., firm also offers on-site assistance for institutions implementing the system.

For information, call 800-4-BERMAN.

FOR YOUR DIRECTORS — TO HELP THEM HELP YOU

No. 51 BUDGETING, FORECASTING and PLANNING

Every bank must know WHERE it is going and HOW to get there! Management should "map the course," but directors should play a role in establishing goals.

This manual supplies directors with tools they need to steer bank policy in the best direction. Chapters help directors establish "missions" statements, trace stages of a planning process. Details HOW to perform financial planning, how to plan for new services . . . how to "forecast."

Techniques used by successful banks are included, along with sources of information and a bibliography of references.

Price — $31.00

2-5 copies $27.50 ea. 6-10 copies $26.00 ea.

No. 101 DIRECTORS . . . Selection Qualifications, Evaluation and Retirement.

This 42- page manual answers key questions concerning director selection, retention and retirement. Special section: the prospective director and how he should be expected to contribute to the bank's success. Includes a rating chart.

Manual also contains a section posing questions that a prospective director should ask himself before he accepts a bank board post.

Another section deals with the sensitive nature of director retirement. Age can be a guide but not an overriding factor in this decision.

Price — $10.00

2-5 copies $8.00 ea. 6-10 copies $7.50 ea.

No. 210 MAXIMIZING CORRESPONDENT BANK RELATIONSHIPS

Directors aren't "born correspondent experts, but you can help them catch up in a hurry, and it's profitable for you to do so. This 100-page manual covers all facets of correspondent banking. Clearings and float analysis . . . loan participations . . . lines of credit . . . foreign exchange, etc. This manual also helps directors APPRAISE correspondent services — to make certain you receive maximum service at a competitive price.

The manual also discusses several federal regulations, including the constraints imposed on "insider" bank lending by FIRA. A MUST for every bank director.

Price — $16.00

2-5 copies $13.00 ea. 6-10 copies $10.00 ea.

No. 220 — AN INVESTMENT GUIDE For the Bank Director

This 192-page manual discusses the merits of directors paying closer attention to investment policies.

Poorly thought-out-and-executed investment policies can place a bank's capital in jeopardy, particularly during a period of rising interest rates.

Should the board "intrude" upon management prerogatives of the CEO in the administration of the investment portfolio? No, says the author, However, a written policy, structured around the bank's deposit and loan "mix," can be comforting during rising or falling interest rates.

As an aid to management and the board, the author presents numerous investment policy statements presently in use by recognized well-run banks.

Price — $26.00

2-5 copies $23.00 ea. 6-10 copies $20.00 ea.

No. 230 — CONTRACTS WITH BANK EXECUTIVES

In many banks, salaries, bonuses and fringe benefits of top management are covered by contracts. Since many contracts extend for periods of five years they call for careful consideration.

This 48-page manual discusses the role of the board's Compensation Committee in determining the nature of such contracts. The author suggests that "performance" can and should be the key in rewarding the executive. Charts and worksheets are included to help the committee arrive at "fair and equitable" prerequisites as motivating factors for the bank executive.

An aid to writing a NEW contract or in REVIEWING existing contracts.

Price — $12.00

2-5 copies $9.00 ea. 6-10 copies $8.50 ea.

No. 240 — CONSUMER LENDING POLICY

Bank directors don't get involved in lending, but they do help formulate consumer-lending policy. Therefore, they must be familiar with the dramatic increases in personal bankruptcies and new policies called for.

This 208-page manual includes an array of consumer loan policies in force at various-sized banks; provides checklists of topics on installment-credit policy, procedures and policy components; model application forms; Federal Reserve regulations; cost analysis of consumer operations, plus a bibliography of reference materials.

Price $26.00

2-5 copies $22.00 ea. 6-10 copies $20.00 ea.

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Selling for Dollars

(Continued from page 26)

negotiated sales goals with his/her supervisor. To be motivating, these goals can't be the same for everyone.

Annual sales goals are not immediate enough to be motivating. Break them down into manageable, bite-size goals that most employees can achieve. Salespeople lose motivation if their goals seem unreachable or if they seem too easy.

Too often goals are set only on total deposits and loans, both of which are strongly affected by factors outside the salesperson's control, such as changes in interest rates, competition or promotional support. We strongly recommend that you also set goals on issues that are *sales specific*, such as average number of products sold per sale, referrals or portfolio growth.

One bank which has had exceptional success with sales incentives pays its branch staff $1 for each product sold, $2 for each product sold if the salesperson sells two or more products and $3 per product sold if the salesperson also meets his negotiated sales goals for the month.

Managing the Reward System

Another myth in sales compensation is that money is the *only* reward in the sales-compensation program. Money is the driving force, but money that's paid out also is a symbol of recognition and achievement.

In many well managed sales-compensation programs, actual dollars paid out are surprisingly small. The *recognition* aspects of reward programs account for the balance of the impact.

Before you design your reward system, *first* ask your sales force what *it* believes are significant rewards. I guarantee you'll be surprised by the answers.

Here are a few things we've learned that make sales-compensation systems more powerful:

- Follow the experience of sales-driven companies such as IBM and Mary Kay Cosmetics and structure your program so *everyone* in the sales force can earn something, but in smaller proportion compared to the best performers.
- See that your high performers are rewarded *extra* for stretching themselves to exceptional performance. They produce most of your results.
- Your primary incentives must be *individual* incentives, with team incentives as a supplement.
- Compensate sales supervisors with sales overrides to motivate them to do what you want them to do — *coach* their sales force to better results.
- Make your payouts *frequent* enough to be motivating, monthly if possible.
- Base your system on *dollars*, not points.
- Use spot rewards to reward outstanding sales results that fall outside the basic structure of the program (e.g., a million-dollar deposit).
- If you can't find the dollars to fund a sales-compensation program, *create* an incentive pool from a share of projected salary increases and reallocate those dollars on the basis of *performance*.

Selling for dollars is here to stay. Incentive compensation for salespeople *works*. But not every financial institution will have a good return on its investment.

The organizations that will convert selling for dollars into increases in net income are the ones that will drive their sales-compensation system with corporate objectives and create an integrated sales climate that supports their sales force.

As you put your sales system in place, I wish you the feel of success!

- **National City Corp.**, Cleveland, has appointed Willis L. Else and Patrick D. Walsh senior vice presidents. Mr. Else is responsible for operations at National City Bank, Cleveland, and BancOhio National, Columbus, and Mr. Walsh has similar responsibility for data processing in both cities.

Freedom Classic Sponsored

First of America Bank Corp., Kalamazoo, is sponsoring the "First of America Freedom Classic," a national sporting event that combines bicycle touring and criterium bicycle racing.

Criterium bicycle races will be held in Kalamazoo on June 30 and Detroit on July 4, sanctioned by the U. S. Cycling Federation. The purse totals more than $22,000 and teams and racers from throughout the nation are expected to participate.

A statewide bike tour will begin June 17 in Sault Ste. Marie and end July 4 in Detroit.

Objective of the event is to promote the HC and Michigan's tourist opportunities, says William F. Smith, First of America vice president/marketing director.

Attention Bank CEOs:

How Does Your Bank "Introduce" the New Director To His New Job?

THE NEWLY ELECTED bank director probably seems overwhelmed with the responsibilities of his new job and the complexities of the banking system. So, you'll want to acquaint him with his "new chair" as quickly and as "gently" as possible.

Your bank undoubtedly has a portfolio of material to hand to the new director. Our instructional folder, entitled "*Briefing the New Bank Director*," can be a useful addition to your introductory material. It is written by Dr. Lewis E. Davids, editor of The BANK BOARD Letter.

"*Briefing the New Bank Director*" provides the recipient with an overview of the director's job and responsibilities and also offers suggestions on "homework" and "reading" assignments that will bring him quickly up-to-date in his job.

This 8-page folder concludes with what the author has termed the "20 Commandments for Bank Directors" starting with "Thou shalt not attempt to usurp prerogatives of management," and ending with "Thou shalt submit thy resignation gracefully and with dignity when no longer making a positive contribution to the bank."

For a FREE copy of this folder, fill in the coupon below. You'll receive this plus other information concerning the bank director's job that can be useful to him and, of course, to the bank.

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Please send me a FREE copy of "Briefing the New Bank Director" along with other information about The BANK BOARD Letter.

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Reciprocal Interstate Banking Supported by Indiana Bankers

Reciprocal interstate banking is overwhelmingly supported by Indiana bankers, according to a survey by Coopers & Lybrand and the Chicago Corp.

Seventy-three percent of survey participants support reciprocal banking with neighboring states, one provision of banking legislation being considered by the Indiana legislature. Forty-four percent of Indiana banks participated in the survey; 95% of respondents were CEOs.

Some restrictions for out-of-state banks entering the Indiana market are favored by half of those polled. Restricting deposit totals and limiting the number of banks that could be acquired were provisions most often cited by respondents.

Half of those responding indicated they expect to acquire or be acquired if legislation passes allowing statewide multibank HCs and reciprocal interstate banking.

The typical CEO expects to sell control of his organization for 1.37 times book, but expects to buy for 1.13 times book, a price range that's in line with other mid-western states.

More than 25% of the respondents indicated they have taken steps to align their institutions with other in-state banks in anticipation of passage of enabling legislation. Slightly more than 25% have taken defensive measures, indicating they expect acquisition activity to increase and want to retain control of their negotiating positions, whether they ultimately become buyers or sellers.

Six percent of responding bankers indicated that out-of-state banks already have approached them.

Davids

(Continued from page 58)

the steps these federal agencies should take.

There is a chart in one of the major federal regulatory agencies headed "DI" (days to insolvency). While the calculation isn't perfect, it's a good forecaster of financial institutions that will be taken over within a certain period of time. There's no reason why regulators couldn't advertise in the business media for candidates to help work out unnamed situations that aren't mergeable and that insurance corporations expect to nationalize. I'm not sure that I would like the agencies themselves to pick the executives, because of their prior politicization. Selection probably could be handled by a nonpartisan blue-ribbon panel of qualified individuals. It would be in the public interest to maintain a databank of financial executives who could be tapped for situations requiring immediate infusions of sound managerial talent.

The sad situation is that often both the banking and thrift industries tend to lose sight of the greatest good for the greatest number by bickering among themselves rather than supporting a move to get federal regulators out of the commercial end of the finance industry.

A bank board official has said: "The government has too large an investment there (in Talman) to give up total control at this point." The official didn't say, however, that in a democracy there historically has been a strong aversion to government control of not only financial institutions but other types of business.

Ask yourself: If Talman has to go to the FSLIC or the FHLBB for emergency help, will it receive exactly the same treatment as a financial institution that isn't nationalized? • •

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Financial Buyers Guide Index

Effective Selling

(Continued from page 22)

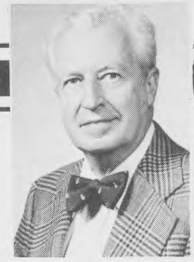
As Peter Drucker often says, "We in management, charged with the responsibility for directing our institutions, must continue to ask ourselves two questions:

- Are we doing things right?
- Are we doing the right things?"

Solutions derived from these answers often are complex, sometimes even innovative, but always the result of a cooperative effort to meet a specific corporate need.

The whole thrust of our approach is to concentrate on the future, not the past; on strengths, not weaknesses; and on people, not systems. We emphasize objectives, strategies and contributions. The right questions often are simple to ask, and yet the solutions difficult to face. We work on the assumption that in most cases the answers are already there. Only the execution needs to be refined. ● ●

● **F&M Marquette National,** Minneapolis, has appointed Patrick L. Stotesbery to head its newly created trust-services group. He continues as senior vice president in charge of strategic planning. Albert J. Colianni Jr. has been named vice president and head of the newly created financial group. He manages the controllership division of the bank and of banks affiliated with the parent, Bank Shares, Inc. Mr. Colianni formerly was with United Consulting Corp., Minneapolis.



By Dr. LEWIS E. DAVIDS
Professor of Finance
Southern Illinois University, Carbondale

Selecting Management of 'Nationalized' Institutions

THE FEDERAL Savings & Loan Insurance Corp. (FSLIC) recently announced that it was replacing top management at the largest government-operated thrift, the troubled Talman Home Federal Savings & Loan Association of Chicago.

It's not news to learn that many troubled banks and S&Ls are getting new top managements. However, it is newsworthy when the FSLIC announces removal of an individual it placed as chairman of the institution just two years before. The selection apparently was not a good one. Rather than a clean separation, however, the former chairman has been appointed special adviser to the association's board and new top management.

A spokesman for the Federal Home Loan Bank Board (FHLBB) said the board's feeling was not one of dissatisfaction with the association's chairman but that "nothing much was happening" under his leadership that would restore Talman to a more stable financial footing.

The question can be raised that, if nothing was happening, why should the individual be retained in what obviously is a high-paying position at the S&L?

Talman's new chairman formerly was chairman of the Illinois Commerce Commission and special counsel to the governor of Illinois. The new president/CEO most recently was president of the Federal Reserve Bank of St. Louis. So far as I have been able to determine, there has been no publicity about how the FHLBB and the FSLIC arrived at their selection decisions and how many candidates were considered for the two positions.

It's natural and normal for situations such as this to become politicized. For example, the track record of judicial appointments of trustees in bankruptcies tends to show that individuals selected by regulators to replace existing managements have certain characteristics: Either they are attorneys or are active in the political party in power at the time of the selection.

Furthermore, although we can create the devices to get to the moon and have done so within a decade, many bankruptcies are lasting an inordinately long time. Many suspect this is because trustees are quite comfortable with their remuneration and fringe benefits, although often they have very little background in the industry of which their troubled firm is a part.

The track record of judicial appointments of trustees in bankruptcies tends to show that individuals selected by regulators to replace existing managements have certain characteristics: Either they are attorneys or are active in the political party in power at the time of the selection.

The "nationalization" of Continental Bank, Chicago, probably is not the last time an insured financial institution will be taken over by either the FSLIC or the FDIC.

New managerial appointees may be respected attorneys and former high government officials, but the way they should be appointed should be more in the public domain.

To illustrate: It's the practice in academia that if a position is not to be filled internally, equal opportunity will be presented for candidates for the position. So, we advertise for candidates in the business press.

Part of this trend in academia was initiated by the federal government through rules promulgated by the Office of Equal Opportunity.

I have no knowledge of the number of individuals considered by the FSLIC as candidates for top management at Talman, but I am convinced that there are hundreds of financial executives with the capability to handle that position.

It doesn't appear that the FSLIC conducted the type of objective and disinterested search that the government itself tries to force on corporations and academic institutions.

The cynical reader will say, "That's politics." Politics influence many decisions, but that doesn't mean there isn't a less political way of dealing with a growing problem.

Recent court decisions support the right of federal insuring agencies to issue cease-and-desist orders and orders of removal of officers and directors from financial institutions. I agree with this right where there is evidence of unsound banking practices on the part of these individuals. But I am continually amazed to learn of the number of bank officers who have been found guilty and served sentences, yet have wound up in influential positions in financial institutions. One glaring example: individuals who were indicted for unsound banking practices relevant to the Butcher financial empire collapse in Tennessee who previously were found guilty of similar actions in other institutions.

On the positive side, executives of both the FDIC and FSLIC have indicated their desire to get out of the conflict-of-interest position of being both regulator and determinator of top management of nationalized institutions. If I were in their place, I would feel the same way. Isn't there a better way of handling the situation of political influence in determining who serves on the boards of broken financial institutions? I think there is and I propose in broad brush strokes some of

(Continued on page 56)

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