



See also the video of this assignment at <https://youtu.be/W4qphzrv10>

1st Mariner Bank is the largest independent bank headquartered in Baltimore. The Bank has approximately \$1 billion in assets, 400 employees and 15 bank branches in Baltimore, Anne Arundel, Harford, and Howard counties in Maryland, and the City of Baltimore along with and access to over 24,000 surcharge-free ATMs nationwide. 1st Mariner also operates 14 mortgage offices in Central Maryland, the Eastern Shore of Maryland, and portions of Northern Virginia. 1st Mariner was founded in 1995 and continues to deliver on its mission to provide banking services in a personalized fashion, leveraging relationships to position the bank as Baltimore's community bank.

### **The Situation**

Retail business in general has changed over the years given the preference of consuming with eCommerce sites both of traditional retailers and new entrants such as Amazon. Retail banking is no different as many consumers choose to interact through online and mobile banking channels and new entrants such as Ally and Simple have made new client acquisition more challenging. Given the shift to digital banking, in-branch transactions are down and banks now have significantly less customers walking through the branch on a monthly basis, which represents fewer opportunities to give financial advice and to upsell/cross sell customers through this channel. While many banks are exiting the brick and mortar bank branch strategy, 1st Mariner is investing in new, state of the art facilities. We feel that as an organization focused on customer service and community-style relationship banking, it is important for us to both maintain yet refocus our delivery to both drive traffic into the branches but also to maximize the income opportunities available through the traditional bank branch model. We feel this is a strategic maneuver to protect and exploit our competitive advantage.

This case requires an in-depth study of current trends in the macro and micro environment. With this assessment, create a strategic plan that leverages the branch network as a competitive advantage. Specifically, your team will select one of three bank branches to take ownership of for this case. We want you to act like owners of the branch. Evaluate the opportunity, create a strategy to capture it, and demonstrate your team's ability to project a 1-year growth plan that quantifies the lifetime value associated with the business acquired. The deliverable is a 15 minute presentation addressing the strategic plan for the branch that your team has selected considering the following:

- Assess the market for the bank branch you've selected. Explain the market characteristics including the market type, demographics, product mix and demand, income and wealth opportunity, and the bank's market position. Demonstrate your ability identify and to gain market share.

- Consider the bank's current market position and opportunity to steal market share.
  - Think about the consumer and commercial demographics and what opportunities exist to grow these relationships over the lifetime of the accounts.
  - What is the bank's current wallet share as indicated by the cross sell ratio? What is the target and what opportunity does this represent for increased wallet share for the current customer base? *Note, the cross sell ratios are included in the Bank Intelligence Software.*
  - What is the business mix in the market? Are these businesses obtainable by the bank? Are there other opportunities available when onboarding a business, like employee banking, and if so, how does this manifest?
- Evaluate the resources needed to capture the market demands. What types of products will the market require and what are the skills needed from the staff to best capture these opportunities. Demonstrate the impact on revenue considering the branch's ability to sell to new customers through product placement.
    - What products will be sold and in what volumes? Using given assumptions, quantify this growth to show incremental revenue growth.
    - Consider the strategy for getting customers in the door and the opportunity for the sales team to cross sell additional products. What does this represent in the lifetime value?
    - What resources/strategies are needed to increase wallet share?
- Consider the physical design of the bank branch. Evaluate how the space should be configured to both drive traffic into the branch and maximize the selling opportunities using this space. When designing the space, consider the target market to ensure the usage meets their anticipated needs.
    - Should the space be open and dynamic or traditional and private?
    - Would a lounge style lobby encourage people to stick around providing opportunities to sell through consultation?
    - Would office space/conference room access for business clients drive commercial customers into our space more often? Would this provide opportunities to sell through consultation?
    - Do seminars (first time homebuyers, understanding your credit report, etc...) drive prospects to our branch? How would we incorporate this and how would this impact revenue?

**The three prospective branch locations are:**

Cockeysville: 9840 York Road  
 Severna Park: 366A Ritchie Hwy  
 Annapolis: 161A Jennifer Road

## **The Evaluation Criteria**

The deliverable of this case is to create a presentation to articulate and demonstrate the strategy for leveraging the brick and mortar delivery as a competitive advantage. This should be demonstrated by considering the shift in branch activity from transactional to consultative and to incorporate a strategy for creating opportunities to build relationships. This should be quantified by considering an increase in wallet share and market share. Branch usage and design is an important concept to address to help us visualize and understand how your team feels we can best use our space to drive traffic and grow relationships. Furthermore, it will be important that your team quantifies this transformation by identifying the revenue estimates that tie back to the proposed plan. Revenue estimates should be broken out per product line (checking, savings, CDs, loans, and wealth management) and all assumptions must be logical, clearly defined, and in line with the specific market statistics.

Other considerations will be given to the presentation itself. Presentations must be professional, logical, and inclusive of all team members. Presentations should last no longer than 15 minutes plus an additional 5 minutes for a question and answer session.

## **Revenue Assumptions**

- Checking and Money Market accounts drive on average 1.95% revenue per year and have an average lifetime of 3 years (increase to 8 years with online banking penetration).
  - Online banking penetration is 40%. Efforts to increase this adoption rate will increase the value of checking accounts
    - \$10,000 checking account is worth \$585 ( $\$10,000 \times 1.95\% \times 3$  years) or \$1,560 with online banking ( $\$10,000 \times 1.95\% \times 8$  years).
- Savings accounts drive on average 1.75% revenue per year and have an average lifetime of 5 years (increase to 10 years with online banking penetration).
  - Online banking penetration is 40%. Efforts to increase this adoption rate will increase the value of savings accounts
    - \$10,000 savings account is worth \$875 ( $\$10,000 \times 1.75\% \times 5$  years) or \$1,750 ( $\$10,000 \times 1.75\% \times 10$  years).
- CD accounts earn the bank average revenue of 1% per year and have an average term of 3 years.
  - \$10,000 CD is worth \$300 ( $\$10,000 \times 1\% \times 3$  years)
- Loans generate average revenue of 2% of the loan amount for the life of the loan.
  - \$250,000 loan is worth \$5,000 in revenue for the bank.
- Wealth Management products generate average of 3% revenue on the face value of the investment/brokerage service.
  - \$250,000 investment is worth \$7,500 in revenue for the bank.

## Special Mentions

- Generation X represents the most profitable sector of our banking segment today. Millennials and Gen Z represent the greatest opportunity and are historically the most difficult consumers to capture in a traditional retail bank space, thus we must focus our purpose and design in a way to capture this audience.
- Closely held companies represent the greatest opportunity to acquire commercial loans and commercial deposits. Closely held companies also represent the greatest opportunity to provide retail accounts to both executives and employees of the companies.
- Checking accounts are the most desired bank product to engage a customer because a customer who actively uses a bank's checking account considers that their primary bank and will likely turn to this bank for additional banking needs.
- Online banking, mobile banking, and other electronic services (Bill Pay, Mobile Deposit, Person-to-Person Payments) create a sticky relationship, whereby it is more difficult for a customer to leave once these services are established and are used regularly.
- CDs and Savings products are not considered sticky but are desired as they usually provide the bank larger deposits than would typically be found in a checking account.
- Consumer loans represent a good opportunity to target new retail client acquisition. Auto financing is difficult to acquire and to make a profitable given dealer financing options but home equity loans and home equity lines of credit represent a good opportunity to attract clients with solid jobs, significant household income, and children who represent future opportunities.
- Mortgage loans and investment accounts represent a great opportunity for fee income and ways to further engage a banking relationship.
- Banking can be a boring conversation though financial literacy is an important factor to creating and maintaining wealth. Many adults aren't financially literate but they likely don't want to admit this as not to be embarrassed. If designed properly, this could represent an opportunity to engage with customers and to provide informational resources that could lead to future banking opportunities.
  - 1st Mariner has a pretty active blog where we strive to be viewed as a financial resource for our current and potential customers. Topics range from "The Benefits of a HELOC" to "How to Plan a Wedding on a Budget."

## Glossary of Terms

- The **cross sell ratio** is a number of products/services sold to a customer. This ratio is given by the bank intelligence software. For example, the software might indicate that in a particular market the average house hold (HH) has 8 products per HH and 1<sup>st</sup> Mariner has 2 products/services per HH. This simply tells us that 1<sup>st</sup> Mariner has 25% of that HH wallet share.
- **Wallet Share** is the amount of the customer's wallet 1<sup>st</sup> Mariner has acquired. In the above example, we've only captured 25% of the wallet share. Wallet share is similar to market share but it is specific to the customer or HH.
- **Onboarding** a business is simply moving a business relationship to 1<sup>st</sup> Mariner. It is the tactical

task of setting up accounts, obtaining necessary signatures and documentation, etc... This is a high touch event and often times allows for opportunities to sell additional products/services.

- In determining the **account value** that an account has to 1<sup>st</sup> Mariner, we need to estimate how long the account will stay with the bank. Per product type, we run migration analysis to know that on average X account type will stay with the bank for Y number of years. With that, we can estimate the value that account is worth to the bank assuming we know the average balance that will be maintained.
- **Worth**, simply speaking in terms of revenue is defined by the spread between the interest rate paid versus the interest rate return we are able to gain by using the money for lending, investments or other banking services. For this case we have given the revenue assessments in the examples. To calculate the **lifetime value**, we use the revenue percentage (given in the example as 1.95% for checking) times the average life of the account (given in the example as 3 years for checking) times the amount of deposits raised (which will need to be determined by each individual team).
- The meaning of **revenue** is defined in the above bullet point as worth.

Also, the online banking % is an industry average. 1<sup>st</sup> Mariner actually runs about 42% but the statistic given is simply a study of online banking adoption against the universe of checking accounts. In other words, it is almost a given that without much effort, 4 out of 10 checking accounts will choose to have online banking.