STRATEGIC PLANNING FOR COMMUNITY BANKS

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If you don't know where you are going,
you'll end up someplace else.”

— Yogi Berra

Introduction

Smart bankers are recognizing that strategic planning is a critical activity for their bank. This is the process where senior executives, shareholders, and board members discuss the current state of affairs and lay out a road map for the future of the bank.

While regulators are increasingly demanding that community banks have a strategic plan, it also makes good business sense to have such a plan. It is the foundation for the future planning of the bank. It serves to create a unified vision for the bank's goals and is an excellent tool to help communicate these goals to staff.

Community banks usually involve the board of directors in their strategic planning process. They realize that the directors are a vital resource that need to be fully involved in setting the direction of the bank.

Some community banks have board members who are also bank employees, and some have boards comprised mainly of outside directors. Outside board members are generally prominent business people with significant ties to the community and have a wealth of business experience. They can often provide valuable insights into the local economy, market trends, and consumer attitudes, and help set direction for the future of the bank. In either case, the discussion at the board level is overall direction and focus over a longer time horizon.

CEOs are sometimes unsure of the best way to involve the board in the strategic planning process and board members sometimes are not certain what their role should be. Therefore, many banks do not effectively utilize the board in the strategic planning process.

The strategic planning process should go beyond the "day-to-day" issues that are the focus of most board of director's meetings. Strategic planning gives the board and senior management an opportunity for "forward thinking." Rather than concentrating on current results, strategic planning provides an opportunity for directors and management to evaluate the current landscape, review possible scenarios, and assess future challenges and opportunities.

Strategic planning will set direction in terms of asset size, types of products, profitability and a number of other items. The following outlines the process and where the board could be involved.

The Essentials:

First, it is necessary to take a look around and see what is happening in the environment in which the bank is operating. Strategic planning is an opportunity to examine and understand the current environment related to:

- The local and national economy
- Competitive factors
- Customer demands
- Current asset size
- Bank profitability
- Product mix
- Organization and staffing
- Customer demographics
- Industry trends
- Strengths, weaknesses, opportunities and threats

This planning then allows the group to make high-level decisions about:

- Growth
- Markets
- New products
- Staff skills
- Competitive advantages
- Areas of concern
- Shareholder expectations
- Organizational needs

Discussion Topics:

Below are some questions that strategic planning may help discover the answers to, as the board seeks to set the direction for the next three years:

- What are the shareholder expectations?
- What is the economic environment going to be like?
- What does our competition do better than we do?
- What will the impact of technology be over the next three years?
- What staff skills will we need to face the future?
- What are our growth projections?
- Is our growth going to be achieved organically, or through new branches or acquisitions?
- How is a prospect going to find out about our bank?
- Why will a potential customer choose our bank?
- How important is efficiency?
- Are there products that we don't have that we should have?
- How can we make sure we retain the key staff that we have?
- What will the impact of new laws and regulations have on us over the next 3 – 5 years?

Of course, there are many more questions that can be addressed. But this shows the nature of the subjects that should be discussed.

Phases of Planning:

Planning a community bank's future, especially in the current economic environment, is a complex process. It is important to understand how a bank's management team (board, CEO and senior management) can help the bank grow and maximize profitability in the future. Growth and profitability begin with the development of a strategic plan, and include profit planning, tactical planning and individual action plans that, when accomplished, will help the bank to achieve its strategic objectives.

The planning process begins with the board of directors and executive management working together to set direction and develop high-level tactics. Next, the bank's senior management team collaborate to develop more detailed tactics and plans to implement those tactics. Because the planning process has many facets, it can be confusing to the board, the CEO and the staff.

In order to better understand the strategic planning process, it is important to understand the stages of the process that move the bank from strategic planning to implementation of the plan:

Activity	Responsibility
Strategic Planning	CEO with the Board of Directors
Profit Planning	CEO and Management Team
Tactical Planning	CEO and Management Team
Work Plans	Individuals with their managers

This logical progression of activities, when combined with ongoing monitoring, measurement, and management, will help the bank to achieve superior results.

Strategic Planning Topics:

Because there are so many items that could be included for discussion, many banks find it hard to focus on the right items. There are several key topics that should be discussed at the board of director level. The following are the critical areas that should be the focus of the directors in the planning process.

1) Bank Financial Results:

To lay the foundation for the planning process, it is necessary to review the bank's financial results. This should include:

- Growth history
- Shareholder expectations for dividends
- Capital
- Earnings
- Business line profitability (or percentage of total balance sheet)
- Next year's budget
- Three year budget
- Stock value

2) Competitive Analysis:

It is also necessary to understand the competitive environment in which the bank operates. Issues that should be addressed include:

- Identify trade area
- Identify our competition
- Market share increase or decrease (by market and in total)
  Amount of market share increase or decrease
- List products our competition excels at (does better than us)
- Identify our niche products
- Identify competitive banks that have grown faster than our bank
- Has that growth been "smart growth," or has it caused financial problems?

3) Economy:

The bank's results, both in growth and profitability, are impacted by national and local economic conditions. Understanding the current economic conditions and identifying trends at the local and national levels are crucial to the planning process. Topics include:

- What is the impact of the national economy on the bank?
- How is the local economy doing?
- What is the health of the local economy compared to national?
- What is the forecast for the national economy?
- What is the forecast for the local economy?
- Identify opportunities that will result from these changes.
- Action the bank can take to best position itself to respond to anticipated changes in the market.

4) Our Bank's Future:

It is important for the group to determine where the bank sees itself in the future.

- How much growth would the bank like to realize in 10 years?
- What can we anticipate for market share?
- What ROA will we have?
- What will the value of our stock be?
- What is our best ownership structure?
- Are we going to prepare the bank for sale?
- Are we going to merge or buy a bank?

5) Industry Trends:

While there are many changes occurring in banks, there are five major factors that will be influencing the state of banking in the coming years:

- Organizational complexity associated with growth
- Impact of laws and regulations on operating process
- Dramatic shift to sales rather than order taking
- Technology as it affects customer access
- Technology as it affects operating efficiency

6) SWOT Analysis:

In order to determine if these high-level growth objectives are attainable, the group must analyze the capabilities of the bank. This is done by completing a SWOT analysis. This includes:

- Strengths
- Weaknesses
- Opportunities
- Threats

Understanding each of these components can help the bank determine where it can leverage its current strengths and what weaknesses need to be overcome in order to reach the 10 year growth and profitability objectives.

7) Growth:

Every community bank must determine how much it wants to grow and how it plans that growth. Growth levels are determined by capital, shareholder expectations and market potential. The types of growth are:

- “Organic” – growing within the bank’s current markets and branches
- “New Branches” – growing by adding new branch locations
- “Acquisition” – growing by purchasing another bank
- “Participations” – growing by purchasing loans from other banks

There are pros and cons to each of these growth strategies. These must be discussed and appropriate growth targets and means of growth determined.

8) Business Lines:

Discussion of what business lines the bank should be in. What is the importance of retail, private banking, agricultural lending, commercial, residential real estate, investments, insurance, trust and the like.

- What are our core business lines?
- What business does the bank excel at?
- What is the competition offering that we aren’t?
- What are we doing to attract young professionals?

9) Products:

The bank must examine their own products and determine what the competition is offering and what customers are demanding. In this current era of electronic access to accounts, the bank must always be concerned about what the customer expects the bank to provide.

- Does the bank have the electronic products that more and more customers are demanding?
- Are our products priced correctly?
- Does the bank understand what brings a customer into our bank?
- What role does our array of products contribute to attracting and retaining customers?

10) Technology – Customer:

There are two major aspects of technology. The first is that which customers use to access their accounts. Most bank customers are now very comfortable with technology. In fact, they demand electronic access to their accounts. Banks are finding that the number of lobby transactions continues to diminish, while electronic activity increases. This includes internet, debit cards, remote capture, mobile access and the like.

- Does the bank offer on-line account opening?
- Does the bank offer personal remote capture?
- Does the bank offer mobile banking?
- Does the bank understand electronic activity volumes compared to in-lobby volumes?

11) Technology – Operations:

The other aspect of technology is the ever-increasing use of electronic systems to support internal bank operations. The critical aspect is to make sure that the bank has the right systems and is using them to their fullest potential.

- Are we using the technology we own?
- Is there new technology we should have?
- Does the bank continue with manual processes that new technology could automate?
- Do our staff embrace technology?

12) Risk Tolerance:

With growth come certain risks. The bank must determine the level of risk that it is willing to take to reach its defined goals as well as what it can do to mitigate the risk.

- credit
- interest rate (margin)
- earnings
- dividend
- capital
- image

13) Organization and Staffing:

Ultimately, it is having the right staff doing the right things that enables the bank to achieve its goals.

- Does the bank have staff that understand their roles?
- Does the bank have staff that understand the importance of technology?
- Does staff use the technology the bank owns?
- Do all staff have, and use, smart phones?
- Do managers know how to set goals and manage performance?
- Do we have the right number of staff for our volumes?

14) Regulatory:

All banks face the increasing burden of laws and regulations. While it is important that banks comply with applicable laws and regulations, they must do so in an efficient manner.

- Does the bank take compliance seriously?
- Is there someone within the bank responsible for understanding changes to laws and regulations?
- Is there a program in place to train staff on applicable laws and regulations?

The Management Meeting – Developing Tactics

The ultimate purpose of strategic planning at the board of director level is to set overall direction for the bank over a broad time horizon. The board needs to be looking at the bank, the environment and the future of banking from the "40,000 foot level."

It is not up to the board to micromanage the bank activities, but to be involved in setting direction and monitoring progress.

The strategic planning meeting with the board should be followed by a senior management meeting that takes the board's vision and builds tactical plans to achieve the goals that have been set.

This is the next level of planning and should involve the bank's management team. It is at such a meeting that a more detailed, tactical plan is developed. This plan will identify the "who," "what," "when" and "how" to achieve the strategic goals that have been established.

At such a management meeting, specific goals for loan growth, fee income, efficiency, new products, market penetration, organizational changes, staffing needs and the like should be developed.

The outcome of this meeting will be an "action plan" with specific tactics to achieve results. Risk of plan failure increases without these "action steps."

The action plan needs to have a calendar that would outline the key initiatives and activities for successful implementation of the bank's strategic plan goals.

From the management meeting, the bank should then have departments develop their own individual goals.

These steps take the strategic plan from the high level and turn it into management plans that can be measured and achieved.

Tactics:

For any plan to have value, there must be an implementation plan:

"A plan without action is always just a plan."

To build a foundation for the tactical plan, it is necessary to identify some of the actions that must be taken in order to reach the bank's growth and profitability objectives. While many items have been discussed at the strategic planning meeting, which should have priority? That decision should be made based on the following:

1) Strategic Impact:

   Which items will help the bank achieve its most significant strategic items? An example might be "growth through acquisition." If that is a strategic goal, it should take precedence over a more minor objective.

2) Financial Impact:

   Which goals are going to help the bank achieve its growth or profitability strategies?

3) Ease of Implementation:

   Are there some objectives that are easier to implement? Even if they may not have the same impact as a larger goal, they might be easy to put in place. More immediate results can be good motivation.

4) Customer Impact:

   Which goals can help the bank attract and retain customers?

5) Competitive Advantage:

   Are there some goals that will best help the bank position itself for the future?

6) Cost / Benefit:

   Which goals have the optimal cost/benefit to the bank? Are some goals more expensive with a benefit that is a long way out?

Communication:

The bank must develop a communication plan to let all employees know the direction that the bank is going and what the next years' priorities will be.

The fundamental part of the communication would be the high-level strategic goals for the next three years, key actions, and the master calendar.

Staff will be more excited about helping the bank achieve its goals if they know what the direction is and what their role will be.

There are various ways that this communication can occur. One of the more effective is an all-staff meeting which can be a formal presentation to staff.

Another excellent way is for executive management, including the CEO or President, to complete presentations to individual departments and branches.

Progress throughout the year must be communicated to the board. Many banks are adding a "strategic plan update" to their board agenda. While many of the items will be reflected in financial results, several strategic initiatives may be longer-term and the bank may be less able to measure their immediate impact.

Summary

Strategic planning is a process. It is not a one-time event. It is meant to be a look-back at the accomplishments your bank has made as well as review areas of weakness.

It is a chance for all key players, the board of directors and senior management to review the current environment and set direction for the bank.

Of importance is the follow-up from the planning session itself. This is where senior managers have a major role in developing an action plan. The action plan will help assure that key strategic priorities are achieved.

It is also necessary to review the action plan with the board of directors on a periodic basis. The banking environment is constantly changing. It may be necessary to realign priorities based on the economy, new laws and regulations or an opportunity that unexpectedly presents itself.

The world of banking is exciting and constantly changing. A strategic planning process will help the bank develop a path for the future.