Bauerle's Bank Notes

Cool Beans

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"I'd walk a mile for a Camel," was the most successful sales pitch ever for R.J. Reynolds Company's Camel brand cigarettes. Used for decades, the slogan came to mind as 27 year-old Philip Bauerle recently explained why he and his peers go out of their way to consume coffee at Starbucks retail locations. He said, in so many words, attractive young women don't drink $0.05 per cup Folgers coffee like his parents do.

To bolster its street cred, Starbucks last week announced it will fund employee tuition for on-line bachelor's degree courses at Arizona State University. The company's CEO, Howard Schultz, wrapped the move in the American flag. "In the last few years, we have seen the fracturing of the American dream," Schultz said in a statement. "There's no doubt, the inequality within the country has created a situation where many Americans are being left behind. The question for all of us is, should we accept that, or should we try and do something about it?" Only a cynic would suggest that Starbucks' decision is intended to divert attention from a hefty price increase that takes effect tomorrow.

Like cigarette makers, Starbucks is a consumer marketing juggernaut. Coffee resembles tobacco as an addictive commodity with wide appeal. In each case, one company's product is indistinguishable from another's without deft marketing to create the perception of uniquely desirable attributes in the consumer's mind's eye. Banking arguably is no different. So what successful practices of the master coffee purveyor can bankers emulate?

1. <u>Get 'Em When They Are Young</u>. Cigarette makers shamelessly targeted teenagers for decades. Starbucks locations are devoid of septuagenarian baristas. So why is it that no bank marketing campaign targets the hearts, minds and wallets of America's teenagers? And why is there no serious, sustained educational campaign to teach them how to manage their finances? In an era of truly national banks, e.g., Bank of America, for their attention to the youngest customers, those institutions earn a mark of D.
2. <u>Cloak the Product in Preferred Social Characteristics</u>. Smoking was a badge of sophistication in the 1920's (before it was acceptable to market sex-

appeal overtly), manliness in the 1950's (Marlboro, Camel), and women's liberation in the 1970's (Virginia Slims). Starbucks' higher education gambit positions the company as a good corporate citizen and its products as socially responsible consumer expenditures. Ironically, if young people applied their Starbucks spending toward the cost of higher education, they would be better off. They don't have to give up coffee, or the opposite sex for that matter; just save the $2.00 per cup difference and use it for tuition.

Most bank marketing applies the preferred social characteristics strategy. Yet campaigns are cliché-filled, and most do little to distinguish one bank from another. So we have older couples sailing aboard yachts, young families playing together in front of an attractive home, families on vacation seeing the USA in their Chevrolet and so forth. None of the campaigns, however, make their sponsor's corporate identity synonymous with banking the way Starbucks is with coffee. Grade this effort a Gentlemen's C.

3. <u>Create Clients, Not Products or Services</u>. Starbucks created the category of stratospherically priced coffee for the masses. Plenty of others, including McDonald's, have followed. As Henry Ford said, "If I asked people what they wanted, they would have said, 'Faster horses.'" The "create clients" dictum is the lifeblood of entrepreneurial businesses. It has sustained our law firm since 1988. Entrepreneurially-minded banks live it too. Together with an emerging breed of unregulated financial services providers, they are winning the race, as a matter of both attitude and earnings per share. For those who walk this talk, grade them A.

4. <u>Keep 'Em Coming Back</u>. Every December, Starbucks sells $25 plastic mugs whose purchasers are entitled to as much coffee as they can drink during January. Philip Bauerle buys one every year. For him, it is a price break on his preferred mode of splurge spending. For Starbucks, it is a way to salt the mine for the year ahead and attract business when winter weather and post-holiday consumer spending declines depress sales anyway.

Many banks offer bundled consumer accounts that reward concentration of types and volume of business. But few bank loyalty programs reward customer relationship longevity. Bankers know the cost of acquiring customers exceeds that of retaining profitable accounts. Reams of published research compute the cost differential to the penny. In our bank consulting work, we often help institutions document actual (as opposed to contractual) deposit account duration. This analysis permits prudent lending for longer durations at better margins.

Customers, for their part, are often suckers for teaser rates. A New England lawyer recently complained she had been turned down for a teaser-rate commercial loan despite her >800 FICO score. When I suggested her self-proclaimed extreme rate shopping behavior might have influenced the bank's decision, she was aghast. It was unthinkable that her account churning made her unattractive (and unprofitable) as a customer. On this count, banks deserve a B, since consumer behavior is equally a source of banks' lackluster performance in this category.

William Faulkner, America's most original fiction writer after Mark Twain, said, "Great writers never borrow; they always steal." I believe he meant that we observe what works well for others and incorporate it into our own practice, whatever our occupational calling. Thus, bankers can do well by studying the grand masters of consumer marketing, including Starbucks. For the final irony of the Starbucks tuition program is that most banks offer employees tuition reimbursement with relatively few strings attached. It is a benefit that banks seldom advertise but should, and that most employees take for granted but should not. In that way, perhaps it is Starbucks that has stolen a chapter from the banks' book.

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