Spotlight

GALAPAGOS LLC

A sobering lesson on market share

"For those banks who basically 'Shut-up Shop,' market share dropped by as much as 4.9% from '08-'11."

When the most recent Summary of Deposits was released by the FDIC, we were intrigued to analyze the impact of several key factors on market share. We zeroed in on a market close to home, where we were familiar with the strategies of a large number of banks and credit unions featured in the report.

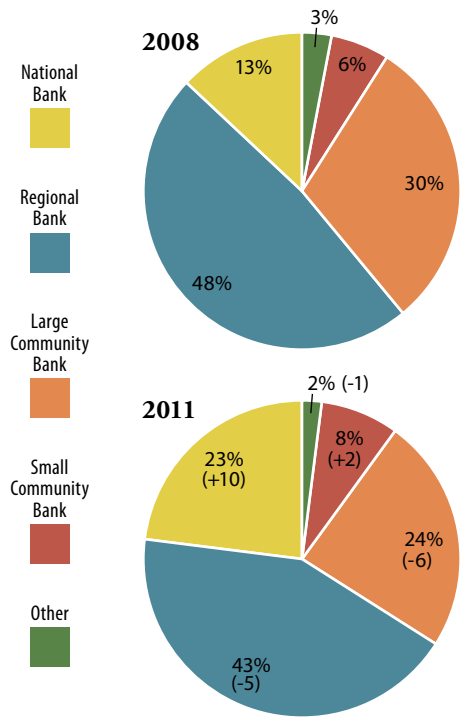
We were interested to see how the various strategies banks had employed during the recession had affected their performance, as reflected by gains or losses in market share. What we found was startling and, albeit based on a single, sample market of approximately one million households, a textbook example of marketing strategies at work.

Like the majority of markets across the United States, our sample contained several large, regional banks, a few mid-sized, local community banks, several small community banks, and a number of credit unions.

Competitors in this particular market have reacted very differently since the recession began in late 2007. Many were forced to stop marketing, having to focus, instead, on asset quality. Several, who had no immediate balance sheet issues, chose to ride out the recession with a comforting focus on expense reduction. A couple stayed the course with their current business focus and maintained approximately the same levels of marketing support. One competitor, which happened to be a large credit union, decided that the time was right to ramp up marketing efforts in order to take advantage of the void caused by competitor inaction.

For those banks – large and small – who basically "Shut-up Shop," slashed marketing, and chose to ride out the recession with a cost-reduction strategy, market share dropped by as much as 4.9% from 2008 to 2011.

Bank Deposit Market Share Change 2008 – 2011



Source: FDIC Survey of Deposits, June 2008, June 2009, June 2010, June 2011. Bank and Credit Union Annual Reports 2008, 2009, 2010, 2011.

"Attacking, even on a broad front, while competitors are weak is a winning strategy and will drive market share."

For one national bank competitor, who had established themselves in the market 10 years earlier with a laser-focused strategy of providing consultative services to the business and personal wealth management needs of middle-market businesses and business owners, market share has increased by nearly 10%. This bank's singular focus made it easier for them to adjust and adapt to changing market conditions. For customers in this segment who, during the recession, found themselves with very real financial issues and a pressing need for a bank that understood those issues well, the perceived value that comes from the bank's specialization has been a beacon.

For the credit union that seized the opportunity to fill the brand space evacuated by other competitors, market share has grown dramatically. (Certainly, anti-big bank sentiment could have helped, too.) Shortly after the recession began, the credit union increased its marketing activity aggressively, choosing to focus on a single brand message, applied across a number of lead products for which consumers have shown the propensity to switch institutions. Since 2008, their market share has grown 5%. In 2010-2011, alone, they grew $350 million in deposits, which is more than the combined net growth of 27 of the 28 competitors in the market.

Lessons? Staying clearly focused on a strong value proposition to a targeted group of customers pays long-term dividends. Attacking, even on a broad front, while competitors are weak is a winning strategy and will drive market share. A broad "All things to All People" market position is the most difficult to defend, the most difficult to differentiate, and the least likely to drive superior ROE. Sitting back, waiting for a return to status quo, and doing nothing, is not a strategy.

For more information on building an effective strategy to build market share, contact Jeremy Kane at (616) 608-7359 or jkane@galapagosmarketing.com