

FALL 2019 Business Case Analysis Competition

Company Background

Headquartered in Baltimore, Maryland, Howard Bank operates the region's largest independently owned banking business with approximately \$2.2 billion consolidated assets through its 15 branches located throughout the Greater Baltimore Metropolitan Area.

Howard Bank's mission is to help build enduring legacies for its customers, employees, and community. It will achieve this by combining expertise with experience, staying committed to its values, and dedicating to building lasting relationships with the people it serves.

Howard is a commercial bank aimed at supporting the community's small to medium size businesses, business owners and their families, and the next generation of business owners/entrepreneurs. At the same time, Howard bank resonates with a "community bank". It is agile enough, unlike other regional and national competitors, to be extremely invested in the local communities that it serves.

Since the bank is founded mostly on serving businesses, it has divided its commercial targets into three categories based on servicing needs relative to the size and loan requirements of the businesses (see the table below).

Channel	Revenue Size	Loan Size
Branch Business Banking	Revenues up to \$1,000,000	Loan commitments up to \$250,000
Small Business Banking	Revenues between \$1,000,000 - \$5,000,000	Loan commitments between \$250,000 - \$1,000,000
Commercial Business Banking	Revenues in excess of \$3,000,000	Loan commitments in excess of \$1,000,000

Additional details on Howard Bank's background are provided on its website

<https://www.howardbank.com/banking-with-us/about>

The Challenge

Digital transformation – keeping up or surpassing customer expectations when it comes to digital offerings – has become a survival strategy for banks today. Retail banks in the United States are investing heavily in new technologies and staff as part of a larger push for digital initiatives. U.S. banking digital transformation spending is estimated to grow at an annual rate of 22.5% by 2020, with most of the established banks allocating nearly 40% of their IT budget to meet the goals of this digital transformation.

With companies such as Amazon, Uber, and Venmo becoming an everyday necessity, consumer preferences and expectations are also shifting. Banks are responding to this shift in behavior by increasing the investment in digital channels. Taking it a step further, some banks are forming separate digital-only banking units, where all the banking services are delivered through mobile devices and the web. Historically, Howard Bank has been behind the times when it comes to its own digital offering. Thus, the bank is currently considering the need to develop a strategy and product and service offering that other banks and companies are already providing (i.e. Online Account Opening, Superior Mobile Apps & Online Banking, P2P Payments – Zelle etc.) to meet more sophisticated customer expectations.

Another reason Howard Bank considers opening a digital branch is the opportunity to enter and raise low cost deposits in markets (both geographically and product wise (i.e. Health Savings Accounts)) that businesses and individuals otherwise would not have access to.

Given the reasons discussed above, the main research questions for the Live Case Analysis is the following:

How viable is developing a digital-only banking unit strategy for Howard Bank? Why or why not is a digital-only* banking unit strategy viable for Howard Bank? Provide a thorough analysis explaining your answers to these two questions and an appropriate comprehensive digital-only* banking unit strategy for Howard Bank.*

Budget: \$500,000 for startup and operations expense for three years

Target Return: expected deposits of \$50MM by the end of year 3

* Digital-only banking implies a brand and offering separate from the existing brand. While it might be branded “powered by Howard Bank”, these offerings will not be available within Howard Bank branches or HowardBank.com to avoid cannibalization the existing business or customer base.

Considerations/Focus Areas

External Analysis:

- Provide industry statistics on the online bank industry (e.g. size, maturity, market share, growth potential, etc.).
- Who are the main competitors? Conduct a competitive landscape analysis. Apply the Five-Forces Model analysis of industry competition.
- Discuss the barriers to entry into the industry.
- Other external strategic analysis tools covered in the course: general environment, industry success factors, industry evolution.

Internal Analysis:

- What is Howard Bank's competitive advantage or disadvantage over rivals in the marketplace?
- Apply internal strategic tools covered in the course: value chain, resource based view, financial analyses, vision-mission-objectives, core competencies, transitory rather than sustained competitive advantage.
- With reference to the value chain, identify the key activities and interrelationships that Howard Bank needs to exploit to develop the digital-only banking unit.

Marketing

- Identify the target market.
- Which brand name the digital-only banking unit should use: Howard or a white label (an alternative name to brand the initiative)?
- Develop a go-to market strategy (think about value proposition, how to reach the target market, etc.).
- Product Offerings – CDs, Money Markets, Savings, Health Savings Accounts
 - Savings & Money Market Accounts:
Personal - <https://www.howardbank.com/personal/savings-money-markets>
Business - <https://www.howardbank.com/personal/cds/fixed-rate>
 - HSAs - <https://www.howardbank.com/personal/savings-money-markets/health-savings-account-hsa>
 - CDs - <https://www.howardbank.com/personal/cds/fixed-rate>
- Develop a high-level concept of what the target audience would like to see in terms of site functionality, information, and services (Note: Howard Bank does not expect you to create or provide direction for the actual online banking portion of the site).
 - For example: what functionality/information should it have – calculators, rate comparisons, an extensive educational section/blog. Should it's just be "brochureware" where it's just information or should it have more engaging capabilities?

IT/Security

- Should Howard Bank use existing platforms to utilize or develop a proprietary system in-house?
- Cybersecurity protections

Financial Analysis

- Provide revenue projections for 3 years.

- Estimate the cost to develop and operate the digital-only banking unit.
- Provide projected income statements combining revenue and cost projections from the previous two bullets.

Miscellaneous

- The digital-only banking unit would operate very differently from the current banking operation. It's going to take a different mind-set and level of comfort from the existing employee base at Howard Bank that may not be comfortable from numerous perspectives i.e. compliance, processes, operations and security etc. How should Howard bank address these concerns? Should it look at allocating different resources to this project or change behavior/perceptions of the existing resources?
- Should Howard Bank allocate internal resources or bring in new resources?
- Discuss the possibility of cannibalization of the existing products