

THE

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AUSTIN LETTER

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Dear Client:

If you listen carefully, you can hear massive sighs of relief. Finally, the campaign-season-that-seems-to-have-gone-on-forever is coming to an end.

If you're looking for a prediction on whether your former neighbor will be re-elected to the highest office in the land, look no further. **President George W. Bush will win re-election.** There. But is this prediction worth anything? Not much, because it has no basis in fact. We could just as easily predict Senator **John Kerry** will be elected president. There are simply too many variables, too many conflicting polls, too many opinions as we near Tuesday's vote.

But there are some things to look for Election Night that may help you sift through the results as they flash across your TV screen. First of all, you can "**expect a few surprises outside of the so-called battleground states,**" according to longtime political adviser **Jack Martin**, the founder/head of the well-respected national firm Public Strategies (headquartered here in Austin).

He says this for the same reason he says you can "throw away all conventional wisdom as you try to predict the outcome of this election." He points out there are **so many factors the pundits can't account for**, including the impact of the millions and millions of dollars being spent by the highly-partisan (on both sides) so-called 527 groups. This is the first election where they have been a factor.

There are other unique elements this time around: 1) increased voter registration efforts by both parties, 2) cell-phone only households not captured by random-digit dialing pollsters and 3) **the intensity of the voters outside the swing states.**

As you listen to the analysts Tuesday night, see if they pick up on these points when they explain how certain states voted that might have differed from the "conventional wisdom." Oh sure, they will **fall back on the old methods of analysis** (how did the votes break out by gender, by minorities, by regions, by religion, by age, etc.?). But the most incisive observations will come from those who are able to get a handle on the new factors mentioned above.

Finally, it's not the size of the turnout, it's who turns out. As Butch Cassidy and The Sundance Kid commented in the classic movie, just before they were gunned down, "Who *are* these people?" The losing candidate may be asking the same question Tuesday night.

Is that another bank going up there? What about over there? There's another one! These could be comments made by anyone driving around the growing Austin area. But are more branches the answer for most banks?

For some time now, we've seen the mega-banks gobbling up other huge financial institutions and slapping their signs on branches all over the area. Banking experts will tell you the big banks believe they can **be a better bank, make more money and operate more efficiently the bigger they become**, as they add location after location.

But it's not just the big banks that are caught up in this expansion spree. The smaller banks – they like to call themselves “community banks” — are inflicted with the same philosophy. In fact, according to a recent poll of 125 community bank leaders, most see **branch building as the next big step in strategic development**. Even though the smaller banks are vastly different from the national banking powerhouses, they're traveling down the same competitive road.

This caused one community banker, when asked his biggest concern regarding future marketing trends, to say “that the big banks will once again change their focus and we will be forced to follow, i.e. **branching is now in vogue.**”

However, branching by itself is not the answer for community banks, according to NewGround, the company that conducted the survey. “The current frenzy of branch-building is running ahead of some banks' strategies for customer acquisition and retention,” noted **Charlene Stern**, a NewGround spokeswoman. “**You cannot just believe ‘if you build it, they will come.’** The smart bankers are redefining their retail delivery strategy before a shovel ever hits the ground.”

Even though the mega-banks seem to be setting the expansion pace, **55% of community bankers see other local banks as their biggest competitors**. “Retail banking is a block-to-block fight right now,” Stern observed. “I find it fascinating that most community bankers (77%) feel their brand image is reflective of their community, yet this image appears to yield no competitive advantage since the community bank across the street is doing the same communication. So community banks are tempted to ‘out-community’ the competition.”

Her solution? She feels that instead of “engaging in this ‘me too’ branding battle,” the **community banks need to build a retail message that connects with customers** – instead of trying to put up a bigger sign than the banker across the street.

Meanwhile, the battle to build new bank buildings is barreling ahead in Austin – with no sign of a let-up – and the building pace appears faster than the growth of the area. It'll be interesting to watch if **Austin area banks are as aggressive about getting your business as they are about putting up another new branch**. If so, the community bank customer, as well as the mega-bank customer, will benefit.

Oil and gas, cotton and cattle, were the industries of the past in Texas. What are the industries of Texas' future – the ones where a major effort will be put forth to ensure success?

As you plan your business and economic future, it might be helpful to know where resources will be placed to help secure the future economic success of Texas. **Obviously there are a number of economic areas that will prosper in the future.** Retail comes to mind – especially in such a dynamic growth area as Austin and the state as a whole. There are plenty of others. But those who pursue Texas economic development initiatives have narrowed the list down to a half-dozen areas where, as the governor put it, “we have the greatest growth potential.”

To come up with such a list, the Texas Workforce Commission – working in conjunction with Harvard economist **Michael Porter** and Texas economist **Ray Perryman** – identified six industry clusters as having unlimited potential for the state's future:

- Advanced technologies and manufacturing;
- Biotechnology and life sciences;
- Information and computer technology;
- Aerospace and defense;
- Petroleum refining and chemical products;
- Energy.

“Cluster” has become an economic development buzzword. Governor **Rick Perry** says “clusters rely on an abundance of ideas and talent. In a cluster, an employer has access to professional colleagues, suppliers, customers, skilled labor, research and development institutions and industry leaders **all in close geographic proximity.**” The six clusters will now become the focus of efforts by state and local leaders to work toward future prosperity.

“The cluster initiative is important because for the first time in the history of this state, we will have a **coordinated, market-driven economic development strategy** that focuses on areas where we have the greatest growth potential and focuses on fostering that potential,” said the governor.

This effort will get a head of steam soon. Industry representatives, members of the academic community, economic development leaders and trade association members will be asked to help **develop recommendations on economic industry clusters for the 2005 Texas legislative session that convenes in Austin in about two months.** Perry said “this effort is about much more than competing with neighboring states for jobs, it is about putting Texas at the forefront of the global marketplace.” Incidentally, you may not realize **Texas is the nation's largest exporting state.** It surpassed California in that area last year and exports to Mexico were up 22% in the first quarter of this year.

Austin has a place at the head of the Texas table on the first three of the above six clusters. Our leaders are working with state officials and should have continued success in these areas.

Remember our UT Austin philosophy/computer science double-major, whose goal in life is to drink coffee in every Starbucks store in the world? Well, his goal just got greater.

As we told you in our 7/16/04 edition, John “Winter” Smith has spent the past 12 years pursuing his passion: “I’m going to drink coffee in every Starbucks store in the world!” You’ll recall we reported he was well on his way to his goal, having already sipped caffeinated – yes, **caffeinated – coffee in more than 4,000 locations.**

The actual total he had visited when we reported on it for you was 4,122 stores in North America, 114 in Great Britain and 53 in Japan. He was doing really well because Starbucks was operating 4,025 stores in the US and 846 internationally. **(He only buys a Cup of Joe in company-owned stores, not the 3,000 or so located in grocery stores and airports.)**

Well, Winter – as everyone calls him – now has a much bigger task. As the CEO of Starbucks jokingly said recently (at least, we hope it was “jokingly”), **there are so few Starbucks stores in the world that customers are sometimes forced to journey more than two blocks to find one.** He said this when he announced the company now plans to have more than 30,000 outlets worldwide.

Poor, jittery Winter. He may not have known about this huge, new expansion plan when he said “The best I can hope for is to keep up. I can’t foresee myself stopping.” He went on to say **“I can always visit them faster than they can build them. That’s just a numerical fact.”**

It may be a numerical fact. But the UT Austin ex has only visited less than 5,000 stores in 12 years. **You can do the math and see the 32-year-old is going to have to pick up his pace.** Imagine how wired this guy is going to be for the rest of his life (if you can call it a life!).

As the Tuesday election approaches, **Dr. Louis Overholster** observed that keeping up with the candidates’ promises is like reading *Playboy* magazine while your wife turns the pages!

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