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Cheryl Rothstein
Smithology Inc.

Richard T. Watson
Terry College of Business, University of Georgia, rwatson@uga.edu

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Communications of the **I**nformation **S**ystems
Association for **I**nformation **S**ystems

NETBANK: THE CONSERVATIVE INTERNET ENTREPRENEURS

Cheryl Rothstein
Smithology Inc.

Richard T. Watson
Terry College of Business
The University of Georgia
rwatson@terry.uga.edu

ABSTRACT

NetBank is a successful Internet startup. In late 2001 it was the only Internet Bank that really succeeded in the U.S. By the end of 2001, Netbank operated nation wide with nearly a quarter of a million customers. The number of accounts grew at 275 percent per annum compounded since incorporation. This case describes the development of NetBank and addresses the issues it faced in handling rapid growth as it implemented Internet banking.

Keywords: banking, electronic banks, growth, entrepreneurship

Editor's note: A teaching note is available to faculty who are listed in the MISRC-ISWorld Faculty Directory (<http://www.isfacdir.org/>). Contact the second author at rwatson@terry.uga.edu

I. INTRODUCTION

Grabbing some cash for dinner, depositing a weekly paycheck, paying your monthly mortgage payment: most people come in contact with banks and the banking industry on a regular basis. Known for years for the constancy of its branch system, customer service, and lending processes, the banking industry in the late 1990s began to see a change in what customers wanted. Technology, driven by a changing lifestyle, offers new models on which banks can operate. Where there is a need and a new idea, there is the potential for a profitable business.

In 1995, small Atlanta-based Security First Network Bank ([SFNB](#)) made the first attempt to meet this need. It built the first platform for online banking, a service that would cater to increasing numbers of avid Internet users across the United States. Not everyone felt that consumers were ready for online banking, however. Security concerns and conservative viewpoints abounded. This skepticism made it difficult for SFNB to sell its software. Having faith that its creation was indeed the future of banking, it decided to incorporate the service into its existing organization to provide a demonstration of the viability of the technology. While SFNB attracted a number of early adopters and generated a high level of interest in Internet banking, it struggled with how it could transform banking to the Internet age.

Since the 1960s, the banking industry struggled with the issue of how to disseminate information and reduce the costs of the expensive branch system permeating the industry (Figure 1). Although as many of those costs as possible were passed onto customers, the highly competitive

banking industry was changing. In 2002, service fees made up close to half of a typical bank's revenues, up from just 15 percent 20 years before. It was clear that serious cost containment was going to be necessary in the near future.

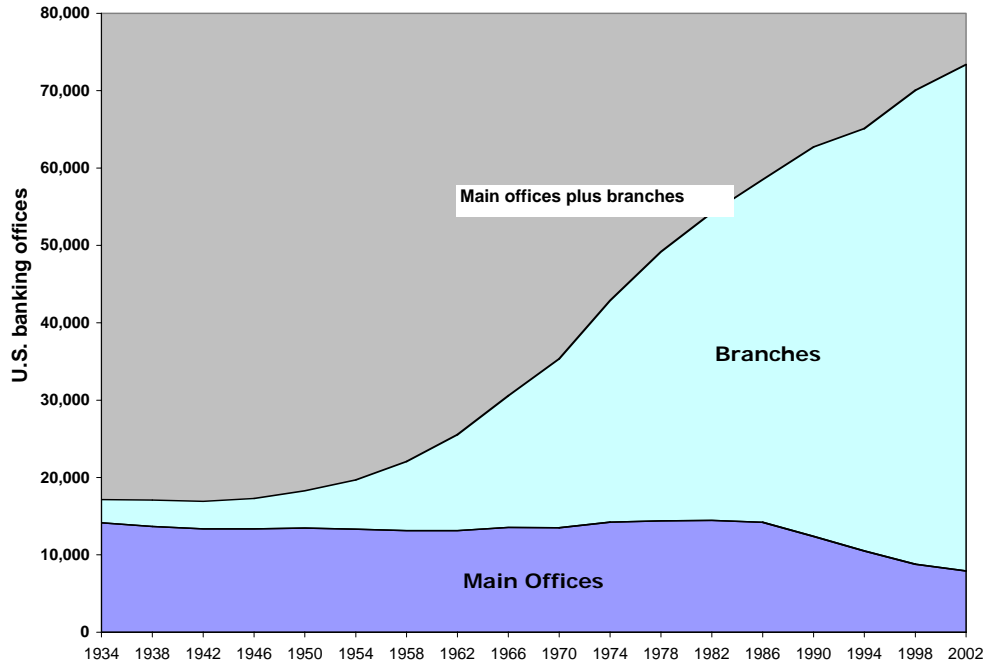


Figure 1: Number of Insured Commercial Banks and Branches in U.S. 1934-2003

II. THE BIRTH OF NETBANK

T. Stephen Johnson, Chairman of TSJ & Associates, an Atlanta based bank consulting company, believed that the Internet would soon be a major delivery vehicle for banking. Johnson worked with associates in investment banking and with the fast growing Carolina First Bank to organize a bank, which he named NetBank, that could run on the Internet, without any branches, tellers, or paper. The beauty of this scheme was that it would allow the bank to offer extremely competitive interest on its certificates of deposits¹ (CDs), and accounts and still be profitable (Table 1). In October 1996, Johnson brought D.R. Grimes on board as a consultant to Atlanta-based NetBank. Three months later, Grimes became CEO.



"I've seen the business that would make the Internet successful."
D.R. Grimes

D. R. Grimes

¹ Definitions of banking terms can be found at <http://www.ms-bank.com/bankdefs.htm> , a web-site of Merchants & Southern Bank.

Table 1: Average Banking Transaction Costs in 1997

Channel	Cost per transaction in US dollars
Internet	.13
ATM	.27
Telephone	.54
Branch	1.08

Source:Booz Allen & Hamilton, consultancy²

NetBank's mission was:

"to profitably provide a broad range of banking and financial services to the growing number of Internet users." Netbank Mission Statement³

1997

In 1997⁴, few if any Internet success stories existed, and none in banking. NetBank serviced 300-400 accounts in early 1997, but wanted at least 2,000 by the end of the year. The company was capitalized with about \$2 million from angel investors. Carolina First Bank lent NetBank services worth approximately \$8 million. NetBank's initial goal was customer acquisition rather than profitability, but it had hurdles to overcome in order to achieve account growth targets. Early on, Grimes hired a CFO, Robert E. Bowers, to help him, and they worked together to attack the problems.

Hurdles

Grimes and Bowers faced three hurdles:

1. Organizational and mindset: NetBank needed to change its structure and outlook from that of a traditional bank to an entrepreneurial firm in banking. What was necessary to build a successful bank and what was required to build a successful Internet start-up were skills not often found in the same people. What NetBank needed seemed to be an oxymoron: a group of conservative risk takers, people who knew how to start a bank and how to keep it afloat.

2. Finding the appropriate way to market its accounts and services. NetBank's marketing began simply. It placed tables at [CompUSA](http://www.compusa.com/)⁵ stores in Atlanta and handed out t-shirts and floppy disks containing AT&T's Internet browser. This form of promotion was a failure because CompUSA customers were mostly first-time computer users who,

"Started calling the bank and asking how to put their computer together."
D.R. Grimes

NetBank then paid \$20,000 to advertise on [Yahoo](http://www.yahoo.com/).⁶ Again, it found its money was not well spent. People went to Yahoo to search, not to read advertisements. The third tactic,

² Booz Allen's Internet Banking Survey Revealed a Huge Perception Gap <<http://www.boozallen.com>>

³ NetBank 1998 Annual Report <<http://www.netbank.com/annlrpt98/index.htm>>

⁴ The timeline for this case is shown in the shaded boxes in the right hand margin. A timeline for the entire case is presented in Figure 3 at the end of Section VII.

⁵ <http://www.compusa.com/>

⁶ <http://www.yahoo.com/>

a small amount of newspaper advertising in local newspapers such as the [Atlanta Journal-Constitution](#), also failed to catch the attention of the customer base NetBank was seeking.

3. Its product offerings. Like most banks, NetBank offered [tiered account rates](#),⁷ flexible interest rates dependent on the balance of the account. Tiered accounts were problematic because newspapers and other publications like [Bank Rate Monitor](#),⁸ published only the lowest interest rates for banks issuing [money market](#)⁹ accounts and CDs. Thus, NetBank's rates looked similar to conventional banks and Bank Rate Monitor did not report the better-than-average rates offered as amounts on deposit increased. NetBank decided, therefore, to eliminate tiered accounts. Immediately, the higher published rates began bringing in additional business.

Grimes believed that it was critical for NetBank to determine quickly and quantitatively which methods of marketing would attract profitable customers. NetBank decided to modify its marketing strategy by advertising on banking and financial Web sites, where it believed potential customers would be more likely not only to see the advertisements, but to take the time to click through and visit the NetBank site. NetBank used a variety of measurement services to determine which sites provided the best results at the lowest cost per new customer. Customers began to find their way to NetBank through advertisements on [Yahoo!Finance](#),¹⁰ for example, in far greater numbers than from the initial Yahoo homepage ads.

To this point, however, growth remained steady but relatively low. NetBank had started by offering checking and money market accounts. When NetBank introduced CDs, however,

"All of a sudden, the dam broke." D. R. Grimes

NetBank's operations people began to worry about increasing volume, although volume rather than building a repeat customer base was the current goal.

Gaining a Charter

NetBank commenced business as the electronic banking arm of Carolina First, but the goal was to establish NetBank as a separate entity. Thus, the larger worry in early 1977 was the continuing struggle to obtain a bank charter for NetBank from the [Office of Thrift Supervision](#)¹¹ (OTS). OTS remembered its prior experience with SFNB. Instead of the traditional savings and loan model that allows banks to make a little money every day on every dollar, SFNB's revenue and cash model looked more like that of a software company, with high up-front development expenses recovered over time as software licenses were sold. The regulators worried that NetBank's business model was similar to SFNB's.

"Regulators get very nervous when a bank is not making money. Regulators want to preserve the capital in the company to protect the depositors rather than see it paid out in salaries to developers." D. R. Grimes

Grimes needed to clear up the confusion:

"I said wait a minute. We're not developing software. We have acquired licenses and we are using software and technology as a tool to operate our business more efficiently. We are a bank. We're not an Internet software or technology company. We will make money."

⁷ <http://www.ajc.com/>

⁸ <http://www.bankrate.com/>

⁹ <http://www.ms-bank.com/bankdefs.htm>

¹⁰ http://dir.yahoo.com/Business_and_Economy/Finance_and_Investment/

¹¹ <http://www.ots.treas.gov/>

Johnson and Grimes went to Washington, where they sat down with the Head of OTS to lobby NetBank's case, trying to convince the regulators that NetBank learned from the initial troubles at SFNB and that its business model that would be profitable and keep deposits secure. While it took months to convince the Office of Thrift Supervision of the soundness of its plan, NetBank eventually received a charter.¹²

U.S. banking regulations stipulated that banks could not be sold during the first five years of their life. Furthermore, organizers cannot receive stock at a value different from that of the initial public offering (IPO). These regulations are designed to discourage entrepreneurial investors from entering banking for short-term gains. Grimes urged the OTS regulators to understand that NetBank differed from other banks, because the founders' equity was really in the service company that was becoming a bank. OTS relented and allowed NetBank to skirt the stock value regulation. It did, however, require shareholders to hold NetBank shares for three years following the IPO, significantly longer than the six-month average for other companies.

Raising Capital

In July 1997, Grimes and Johnson went on the road to sell over \$40 million in NetBank stock. After deducting the costs of the stock offering and other organizational expenses, NetBank's capital base was approximately \$35 million. NetBank used the interest it earned on those funds to finance its operations and an aggressive online marketing campaign.

By August 1997, NetBank's staff included six Consumer Banking Associates, online banking's version of tellers, who entered all new account information and did all customer service work. In late 1997, new accounts were growing so rapidly that account entry and customer service were too much for only a half dozen workers. NetBank also hired a lending officer, whose job it was to buy loans and pooled mortgages so that NetBank could earn revenue on its deposits.

III. PROFITABILITY ATTAINED

By the end of 1997, after approximately six months as a public company, NetBank was, with assets of over \$90 million, the size of a five-year old traditional community bank. It served 11,000 customers by March 1998, its first quarter of profitability. NetBank now faced the problem of what to do with the money that was flooding in at a breakneck pace. NetBank decided that the costs of the infrastructure to enter lending itself were too high. It would rather give up some of the possible loan business it could gain to avoid the infrastructure costs and additional required managerial talent. NetBank decided to concentrate mortgages, which are relatively low risk compared to other type of loans.

NetBank partnered with [First Mortgage Network](#)¹³ to give customers quotes on interest rates and to allow them to apply for home loans. NetBank would use its cash inflow to buy mortgages from First Mortgage. At the same time, it decided to introduce a securities brokerage service. While brokerage and other partnerships created a more robust product line, NetBank continued to invest primarily in large pools of mortgages available in the secondary market. This strategy allowed NetBank to continue at its current level of growth without spending thousands on additional infrastructure to support lending.

Grimes continued to meet quarterly with regulators in Atlanta, building a relationship of trust. NetBank shared quarterly results, problems, opportunities, and information in order to keep the regulators fully informed of the development of the fast-growing bank and to allow the regulators to help NetBank foresee problems. These meetings became a learning environment, both for the regulators and for NetBank. The regulators cautiously watched NetBank's performance as a test of the online banking model. With no charters being granted, new Internet banking charter applications slowed down. The regulators seemed intent on seeing proof of the profitability of

¹² For a description of how to get a charter to start a bank, see <http://money.howstuffworks.com/bank9.htm>

¹³ <http://www.netbank.com/annlrpt98/5aservice.htm>

online banking before granting other charters. The banking regulators' conservatism aided NetBank since it was one of the few chartered Internet banks. The desire to keep regulators and investors from seeing online banking fail was so great that NetBank offered to acquire the banking component of SFNB, which continued to show poor performance. [Royal Bank of Canada](#),¹⁴ however, stepped in and bought SFNB in an effort to become NetBank's U.S. competitor.

IV. HANDLING RAPID GROWTH

1998

NetBank encountered problems of its own in 1998. Although it was still growing at rates between 300-400 percent annually, NetBank needed more retained earnings to sustain capital growth. It also encountered hiring issues, as growth forced it to continue hiring more customer service and operational employees. NetBank began planning to add additional capital by 1999, but the market collapse in the second half of 1998 forced the bank to hold off until December 1998 to file for its secondary offering.

The other question plaguing NetBank during the summer of 1998 was whether to forgo revenues earned through the current \$3 per month checking account fee in favor of free checking. Analysts felt that the company could stimulate even higher growth levels through free checking, but the potential change involved significant ramifications. NetBank believed that if it eliminated its service charge it would be difficult to reinstate it at a later time. The bank was wrestling with the problem of being too driven by CDs. Because CD customers are so price-sensitive, it was hard to develop loyalty. NetBank wanted to increase the number of checking account customers but was concerned that profitability would suffer because of the higher costs associated with checking accounts. Because new clients are significantly less profitable¹⁵ than returning ones, a high growth rate would hurt profit margins.

NetBank decided to "test-drive" free checking in the fall of 1998. Within 72 hours, checking account applications tripled. It took more work to establish checking accounts due to the verification process required, but NetBank found the retention rate on its checking account customers to be five times higher than with CDs. It discovered that:

"The word 'free' meant more to customers than high interest rates." D.R. Grimes

NetBank knew, however, that it must shift its focus. A transition began from leading with money market rates to leading with free checking accounts. This change also meant developing a greater focus on building customer relationships and growing a loyal customer base.

Meanwhile, Carolina First Bank, NetBank's first "home," was worried about the 20 percent interest it still owned in NetBank. Banking regulations state that if a company owns more than 10 percent of a bank, the company must step in before the [Federal Deposit Insurance Corporation](#)¹⁶ (FDIC) to save a bank in the event of bankruptcy. If NetBank failed, Carolina First realized it could also suffer significant financial losses. Carolina First and NetBank went to the regulators to explain the problem. Regulators decided to allow Carolina First to sell its shareholding down to just below 10 percent to resolve the concerns. The change did not affect NetBank and its continued growth.

While the market remained down in the fall of 1998, a secondary offering was prepared and the bank waited for the market to turn around. By mid December it appeared that it had. The application was submitted and quickly approved by the [Securities Exchange Commission](#)¹⁷

¹⁴ <http://www.royalbank.com/>

¹⁵ A NetBank study at the time estimated they were around 1/15th as profitable in the first six months.

¹⁶ <http://www.fdic.gov/>

¹⁷ <http://www.sec.gov/>

(SEC). Grimes believes the quick turnaround was essential to the success of the NetBank offering, allowing it to hit the ground running the first week of January. After a whirlwind 73 presentations in 23 cities in 13 days, NetBank raised \$100 million, double what it had hoped.

"We were the first ones out the door in '99. These are people that haven't seen anybody looking for money in three months...we're the first deal they see, and they are eager to invest money." D.R. Grimes

With four quarters of profitability, NetBank stood apart from other Internet startups, many of whom were far from going into the black. NetBank achieved the promise of profitability it gave to the Office of Thrift Supervision two years previously. NetBank was perceived by investors as a less risky investment than other Internet-related businesses. As a result, NetBank paid a lower cost for capital than others seeking funds at that time.

Growth problems, however, quickly manifested themselves in the area of new account acquisition. Despite its high-tech online interface, NetBank was still processing all new accounts manually through customer service representatives. The stress and strain on customer service employees, who were 50 percent of NetBank's employees, to enter new account information and to handle routine service calls were driving caller wait times as high as 40 minutes. NetBank decided to implement two new initiatives.

1. It developed an automated interface for new accounts that connected directly to credit bureaus and other banking information services.

2. It made a decision to outsource first-level customer service calls to another company. Those calling with simple questions would no longer tie up NetBank's service lines, leaving them open for more complex calls from customers requiring more proficient customer service representatives.

Customer service lines were open only during normal business hours and a few hours on Saturday because NetBank found the majority of its customers did their banking while at work. Until it became necessary, NetBank elected to forgo 24/7 customer service support.

V. GROWING AND MAINTAINING THE CUSTOMER BASE

NetBank continued to experiment with other forms of advertising. While targeted radio ads brought in twice the customers in the selected markets, the expense per account was five times as high. NetBank decided to focus marketing efforts solely on acquisition through Internet marketing because it lowered new account costs. Netbank also decided to increase its marketing budget significantly as soon as possible, again using the interest earned on the \$100 million raised to fund its efforts.

Part of improving customer loyalty included gaining users through already loyal bank members and giving consumers more options for how they wanted to deal with their accounts. NetBank began its *Tell a Friend* program in 1999. A marketing effort advertised solely through its Web site, *Tell a Friend* gave current customers money for referring their friends. It also entered into an agreement with Yahoo to offer the option of allowing NetBank customers to view their account information on [MyYahoo](http://my.yahoo.com).¹⁸ The expansion of rewards and options is credited with increasing NetBank's new account growth for 1999 to 279 percent.

NetBank's improved customer service initiatives increased customer loyalty. NetBank expanded its own call center from six to twelve employees. As a result of the outsourcing and hiring efforts, the wait time before speaking to a customer service representative decreased to less than 15 seconds. NetBank also installed new enterprise servers and completed two platform upgrades to accelerate site access and reliability.

¹⁸ <http://www.sec.gov/>

1999

NetBank also worked harder at expanding its product offering. It brought in Michael Fitzgerald as President because of his successful efforts in product development with the Internet service at another traditional bank. In 1999, NetBank added [30/7 home equity loans](#)¹⁹ and [Visa cards](#)²⁰ to its offerings. It also created the world's first [virtual safe deposit box](#),²¹ a secure place for electronic documents and other electronic items.

In terms of IS strategy, NetBank's philosophy was:

"Focus on what we do best and partner where it makes the most sense." D.R. Grimes

NetBank decided that the best approach was to find products in the market and customize them, developing internally only when it felt restricted by the "cookie cutter" approach of the available offerings. This decision led NetBank to look to other sources for innovative products like the virtual safe deposit box, enabling NetBank to remain cutting edge while keeping its development costs at a minimum. This philosophy had served NetBank well throughout the previous three years (1996-98) and would remain a staple of the NetBank decision-making process.

While NetBank's capital was sufficient to grow for some time, the market for fundraising remained strong through the spring of 1999. Another offering would set up the company for years. The opportunity came in May 1999. The day the road trip began, the market started falling. NetBank was able to raise \$100 million in common and \$100 million in preferred stock before the market collapsed. Grimes recalls NetBank's incredible good fortune in 1999,

"We were the first and the last ones out in 1999."

As the market began a long decline in the second half of 1999, NetBank used the opportunity to buy back the convertible debt at seventy-five cents on the dollar, record it as capital gains and use that money to finance marketing for 2000.

In November 1999, however, NetBank experienced a blow to its credibility. A customer [reported to the press](#)²² that he received access to another customer's account, social security number, and other personal information. He recounted that it took five calls to NetBank to get the problem resolved. In fact, it was a mailing error, and had nothing to do with Internet, yet the press treated it as symptomatic of security issues surrounding Internet commerce. Some questioned whether NetBank's high rate of growth was the cause. The mini furor blew over when NetBank, admitting the error, was able to convince people that the problem did not affect growth or the Internet.

2000

NetBank's business model and rapid growth was now attracting national attention.

"... you need to understand that the branch system makes up about 50 percent of the expenses in a traditional bank, yet delivers less than 10 percent of the transaction. So, by not having a branch infrastructure, we really have a significant edge over traditional bricks and mortar banks." D.R. Grimes in a TV interview with CNNfn,²³ in April 2000

¹⁹ As the NetBank Web site states "You'll get a decision in 30 seconds and your money in as few as 7 days."

²⁰ http://www.netbank.com/loans_creditcard.htm

²¹ <http://www.bankrate.com/brm/news/ob/20000526.asp?prodtype=bank>

²² http://www.technologyevaluation.com/Registration/TEC.asp?url=/Research/ResearchHighlights/Security/1999/11/news_analysis/NA_ST_LPT_11_15_99_1.asp

(As reported in *Technology Evaluation*, which requires free registration to read the full article)

²³ *Before Hours*, 8am April 25, 2000.

VI. THE DRIVE FOR PROFITABILITY

By the summer of 2000, NetBank was still experiencing annual growth of 145 percent and extremely successful customer retention. This growth, however, was dragging down NetBank's profitability, because few accounts were nowhere near as profitable as longer-term customers. Grimes felt it important to focus on return on investment (ROI) and increase profitability by slowing growth.

NetBank also felt it was losing out on valuable fee income. Traditional banks generated 40 percent of their income from fees, while NetBank's fee income remained in the single digits. To increase fee income, NetBank began charging for labor-intensive, non-Internet services. For example, the bank began charging for additional check orders, which originally were free. NetBank believed it could convince more customers to use its online bill payment system instead of regular checks. Online bill processing was much cheaper for NetBank than paper checks. It also contemplated charging for account inactivity. The strategy to increase fees successfully caused NetBank's fee income to increase four-fold in the next year.

NetBank continued its online marketing efforts by engaging in two new affinity alliances. A partnership with [Ameritrade](#)²⁴ allowed customers to use Ameritrade for brokerage services while using NetBank for banking. NetBank also developed a partnership with personal financial software vendor [Intuit](#).²⁵ Intuit added an icon to its lead product, Quicken, that links interested customers to NetBank's Web site. NetBank began using an industry standard data exchange language, [Open Financial Exchange](#)²⁶ (OFX), to allow its customers to download their account information to Microsoft's Money or Intuit's Quicken. These enhancements cost little in added marketing expenses but provided NetBank with constant exposure through two other major financial media.

These efforts were just part of NetBank's strategy to convert its efficiency into profitability. NetBank embarked, in 2000, on a three-year plan to bring its financial measures (e.g., ROA, ROE) to comparable levels with other banks.

The first approach was to begin purchasing asset-generating firms. NetBank began acquiring mortgage companies. It did not matter to Grimes whether the majority of the transactions of the acquired businesses were Internet-based, as long as they were profitable. NetBank did make an effort, however, to concentrate on investing in single-family residential loans with adjustable rates to manage the interest rate risks. The past due rates on these types of mortgages were one-tenth the industry average, appropriate for NetBank's conservative strategy. NetBank's first such acquisition was Market Street Mortgage, a retail mortgage lender that enabled the bank to originate over \$3 billion in loans annually. Market Street contributed positively to NetBank's earnings the first quarter after the acquisition, validating the concept.

VII. ALLIANCES AND ACQUISITIONS

2001

NetBank also continued to extend its strategic alliances. In February, 2001, it announced a five-year agreement to outsource its check imaging services to NCR Corporation. NCR already hosted NetBank's banking site using NCR's [Common Platform Strategy](#).²⁷ NetBank reduced expenses by developing the capability to capture check images while providing customers with a service to encourage them not to use the costly process of receiving copies of paper checks.

²⁴ <http://www.ameritrade.com/>

²⁵ <http://www.intuit.com/>

²⁶ http://www.ofx.net/ofx/ab_main.asp

²⁷ http://www.ncr.com/media_information/2001/feb/pr021301b.htm

In spring 2001, NetBank was approached about the possibility of acquiring another Internet bank that was close to failing. Though online marketing efforts were still drawing large numbers of customers, NetBank saw this offer as an opportunity to increase its customer base significantly and quickly without a large increase in marketing efforts or service offerings. As a result, NetBank agreed to buy CompuBank's deposit accounts. Almost immediately, [problems](#)²⁸ emerged. CompuBank's fraud prevention technology was weak. Hence it served many suspect accounts. NetBank identified accounts that required updated or valid information and asked CompuBank to contact those customers to resolve any outstanding issues. CompuBank was nearing bankruptcy; however, and elected not to communicate with these account holders. As a result, a small number of CompuBank's customers were unable to use their ATM cards for a short period of time while NetBank attempted to verify their account information. These customers believed they were being denied access to their money. Customer service lines were flooded with calls. When customers were able to get through, they were frequently on hold for extended periods. Within a few days, the account and customer service problems were resolved. Although most people did not encounter trouble, those who did were vocal. Concerns emerged about the reliability of Internet banking with NetBank.

While handling the problems caused by the CompuBank acquisition, NetBank added some new products to its service offerings, as a part of its strategy to offer greater product depth. Through customer segmentation, NetBank worked to identify its most profitable customers and the options those customers would like to see from their online bank. New 2001 product options, therefore, included [foreign currency sale](#),²⁹ travelers' checks, and VISA travel money.

By the end of 2001, NetBank reported nearly a quarter of a million accounts, net income of \$6.6 million, and total deposits of \$1.5 billion. The number of accounts grew at an annual compound rate of 275 percent since the end of 1997, when there were not quite 5,000 accounts. In other words, the number of accounts doubled roughly every six months during the first five years.

*"Internet-only banks have failed to get much of a foothold (the only one that is really dug in is Netbank in the US)." The Financial Times,*³⁰ commenting on online banking,

The growth is shown in Figure 2.

2002

The next step was to find a way to increase the mortgage-lending capabilities significantly while minimizing the costs involved with infrastructure creation. After careful consideration, in early 2002, NetBank merged with [Resource Bancshares Mortgage Group, Inc.](#)³¹ (RBMG). RBMG's nationwide network of correspondents and brokers generated close to \$12 billion in mortgages annually. An already-developed proprietary origination system combined with the established national network gave NetBank added substantial new mortgage capabilities.

²⁸ <http://www.bankrate.com/brm/news/ob/20010521a.asp>

²⁹ <http://memphis.bizjournals.com/atlanta/stories/2001/08/27/daily21.html>

³⁰ November 30, 2001, p. 15.

³¹ <http://www.rbm.com/>

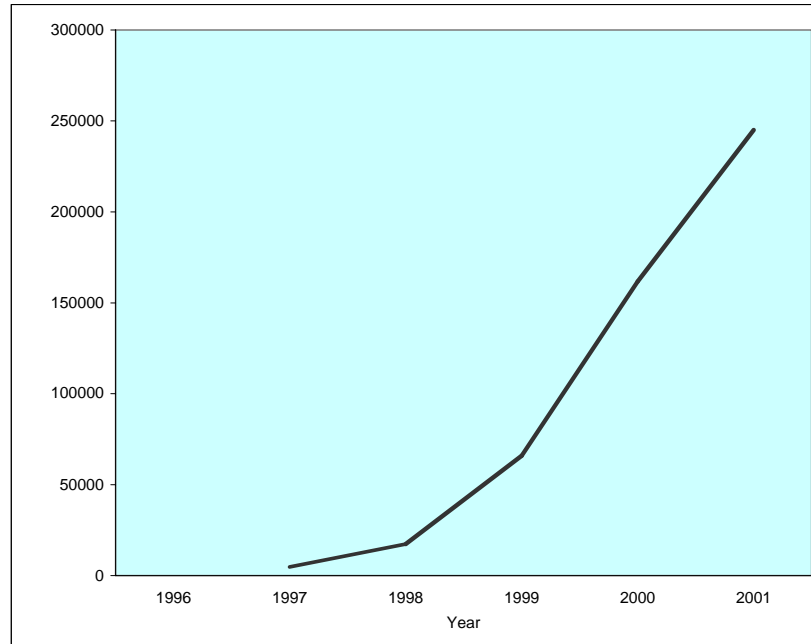


Figure 2. Account Growth at NetBank 1997-2001

VIII. FUTURE DIRECTIONS?

When Grimes departed NetBank in early 2002, he attributed NetBank's success to: product depth, world-class customer service, customer segmentation, and strategic alliances. As Grimes exited the profitable online bank he had helped to build, [Douglas K. Freeman](#),³² a veteran banker, was appointed the new CEO.

Much had happened in the short life of NetBank, as illustrated by the timeline in Figure 3.

QUESTIONS

Should Freeman try to maintain the same high rate of growth, and, if so, how would he do so?

Would the strategy that worked over the past few years be just as successful in the next five years?

Netbank was already the second largest Atlanta based bank. Should NetBank grow to be one of the major U.S. banks?

Why are banks still opening branches, when Internet banking has obvious cost advantages?

With all the current competition, does NetBank still sustain a first mover advantage?

Is NetBank missing something?

How could NetBank obtain the greatest value from its expertise in Internet banking?

³² http://www.nasdaq.com/reference/market_open_081502.stm

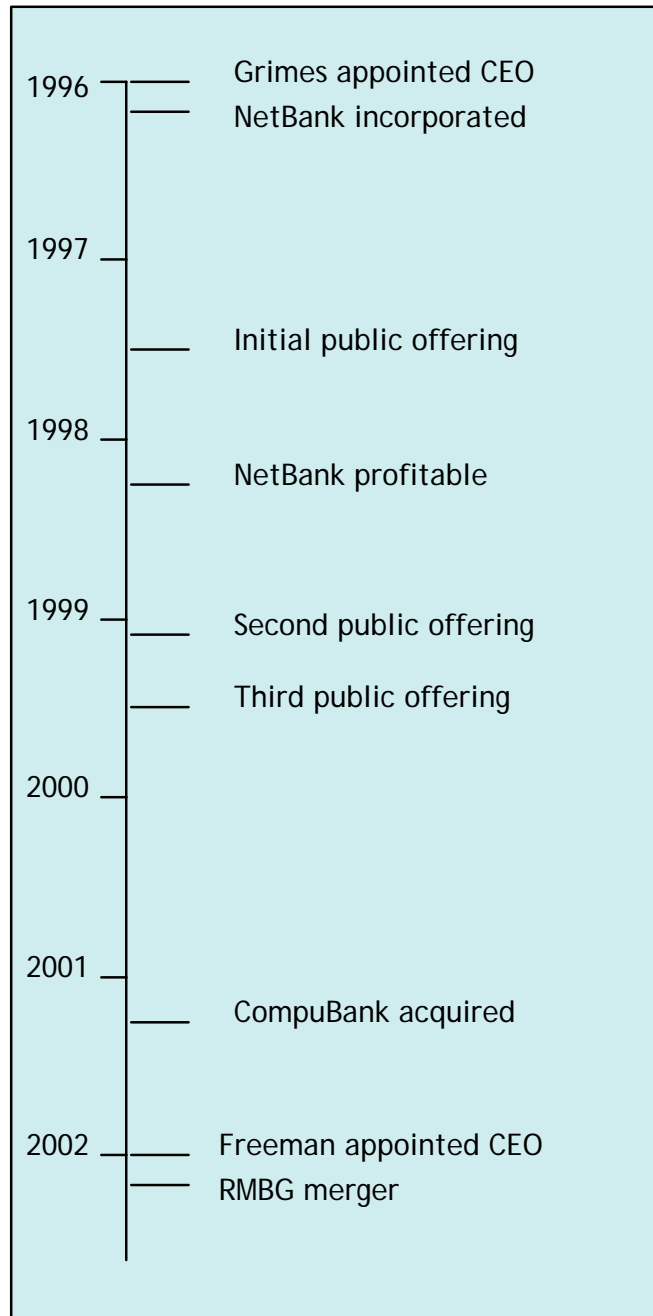


Figure 3. Major Events in NetBank's Short History

ACKNOWLEDGEMENT

The authors thank D. R. Grimes for his considerable help in preparing this case.

Note: This case was prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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ADDITIONAL RESOURCES

EDITOR'S NOTE: The following reference list contains the address of World Wide Web pages. Readers who have the ability to access the Web directly from their computer or are reading the paper on the Web, can gain direct access to these references. Readers are warned, however, that

1. these links existed as of the date of publication but are not guaranteed to be working thereafter.
2. the contents of Web pages may change over time. Where version information is provided in the References, different versions may not contain the information or the conclusions referenced.
3. the authors of the Web pages, not CAIS, are responsible for the accuracy of their content.
4. the author of this article, not CAIS, is responsible for the accuracy of the URL and version information.

The Internet Will Shake Banking's Medieval Foundations

<http://www.arraydev.com/commerce/JIBC/9702-01.htm>

1998 NetBank Annual Report <http://www.netbank.com/annlrpt98/index.htm>

1999 NetBank Annual Report <http://www.netbank.com/annlrpt99/index.html>

2000 NetBank Annual Report http://www.netbank.com/annlrpt00/00_contents.html

2001 NetBank Annual Report <http://www.netbank.com/annlrpt01/01-cover.html>

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ABOUT THE AUTHORS

Cheryl Rothstein is the Director of Sales and Production for Smithology, Inc., a marketing services firm. She completed her MBA at the University of Georgia's Terry College of Business in 2004 with concentrations in marketing, operations and organizational development. In addition to her concentrations, she conducted extensive directed research in Human Behavior within the Corporate IT Change Process under Prof. Robert Bostrom. Cheryl also acted as the Georgia Coordinator for Generation Dean, the young adult movement of Howard Dean's presidential campaign. Prior to returning to graduate school, Cheryl worked in marketing communications for a large manufacturing firm and DVD content creation for an award-winning Hollywood entertainment company.

Richard Watson is the J. Rex Fuqua Distinguished Chair for Internet Strategy and Director of the Center for Information Systems Leadership in the Terry College of Business, the University of Georgia. His publications appear in leading journals in several fields. He is the author of books on data management and electronic commerce. His current research focuses primarily on electronic commerce and IS leadership. He has given invited seminars in more than 20 countries for companies and universities. He is President of AIS, a visiting professor at Agder University College, Norway, and a consulting editor to John Wiley & Sons.

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